Executive Summary - Informational

TO: **State Investment Board**

FROM: Dave Hunter

DATE: **October 16, 2020**

SUBJECT: **SIB Meeting Materials – October 23, 2020**

Our October SIB meeting will focus on in-state investment programs and board governance and include a high level review of recent interim investment results.

a) **In-State Investment Programs – RIO and Callan have invited four teams of subject matter experts to share their insight, background and experience in developing and implementing successful in-state or regional investment programs.** Callan will kick-off the discussion by providing an overview of the steps involved in evaluating and implementing in-state investment programs for U.S. public funds consistent with sound fiduciary practices. The four teams, including representatives from: 1) ND Commerce and Insurance agencies; 2) Barings; 3) Grosvenor; and 4) Hamilton Lane, will then share their own 15-minutes presentations on in-state or regional investment programs. RIO legal counsel will review a concise memo which provides a summary, analysis and conclusion on the SIB's ability to invest a portion of the Legacy Fund in economic development with a keen focus on the prudent investor rule and SIB's fiduciary responsibility to our clients. If the SIB desires to move-forward with conducting further due diligence to establish an in-state or regional investment program to complement the existing BND Match Loan Program, **RIO will recommend that Callan be formally engaged to conduct a comprehensive due diligence process in the next several months with a targeted completion date in the first quarter of 2021.**

b) **Annual Evaluation of RIO versus Ends –** SIB Governance Policy D-1 on Investment Ends states "The Retirement and Investment Office serves the SIB and 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." **RIO notes that over 94% of our SIB clients earned net investment returns that exceeded their respective Policy Benchmarks for the 5-years ended June 30, 2020, including the Legacy Fund, PERS and TFFR pension funds and WSI fund, which represent the four largest SIB clients based on assets under management.** RIO also notes that investment fees and expenses have declined materially in recent years. As example, Legacy Fund investment fees and expenses declined to 0.37% per annum in Fiscal 2020 versus 0.39% in Fiscal 2019, while overall SIB clients fees and expenses have declined to 0.47% in Fiscal 2020 versus 0.65% in Fiscal 2013. This 0.18% decline in investment fees translates into over $30 million of incremental income for our SIB clients (e.g. $17 billion x 0.18% = $30.6 million per year). RIO notes that Callan will present its Review of Investment Fees and Expenses to the SIB at our next SIB meeting. **RIO's Supervisor of Internal Audit will also review recent SIB client satisfaction survey results (of 3.4 on a 4.0 scale). RIO will request Board acceptance of the "Annual Evaluation of RIO versus Ends" report and SIB client satisfaction survey results.**

c) **Legacy Fund Investment Policy Statement – RIO will request the SIB to formally accept the current Legacy Fund investment policy statement** following recent actions by the Board to increase its commitment to the BND Match Loan Program by $100 million (up to a total commitment of $400 million) on September 25, 2020.

d) **Annual Governance Manual Review** – The SIB and RIO are conducting our annual governance manual review over the next two months. **A "first reading" in October will include sections: A) Executive Limitations; B) Governance Process; C) Board-Staff Relationship; and D) Ends.** RIO intends to highlight certain pages within each section to raise awareness of our fiduciary responsibility to adhere to these critically important governing standards. **RIO requests all SIB members and RIO investment, fiscal, audit and administrative professionals to review the SIB Governance Manual in advance of our next two Board meetings. At the conclusion of our monthly board discussions, the SIB may make a motion to accept recommended changes, if any, to our governance standards and policies.** RIO notes that governance manual changes require a "first reading" in one month followed by a "second reading" in a subsequent month prior to being formally approved and accepted.

e) **Continuing Board Education - RIO will request the SIB to approve the engagement of Mosaic Governance Advisors to provide a refresher course on best practices in public fund board governance at our next SIB meeting.** Amy McDuffee, CEO and Founder of Mosaic, last provided governance education to the SIB in July of 2019.

ND STATE INVESTMENT BOARD MEETING

Friday, October 23, 2020, 8:30 a.m.
State Capitol, Pioneer Room (Virtual)
600 E Boulevard Ave, Bismarck, ND

Teleconference 701-328-0950, Conference ID: 837 706 761#

Agenda

I. APPROVAL OF AGENDA

II. APPROVAL OF MINUTES (September 25, 2020)

III. INVESTMENTS

A. Asset and Performance Update - Mr. Hunter (8:35 to 8:40) *Informational*
B. In-State Investment Programs - *Informational*
   1. Callan Preview - Mr. Pete Keliuotis, Mr. Paul Erlendson, Mr. Alex Browning (8:40 to 8:55)
   2. ND Commerce - Mr. James Leiman, Mr. Jon Godfread (9:00 to 9:15)
   3. Barings - Mr. Jeff Stammen, Ms. Mina Pacheko Nazemi, Mr. Greg Long (9:20 to 9:35)
   4. Grosvenor - Mr. Bernard Yancovich, Mr. Mike Rose, Mr. Erik Hall (9:40 to 9:55)
   5. Hamilton Lane - Ms. Katie Moore, Mr. Dave Helgerson, Mr. John Brecker (10:00 to 10:15)
   6. RIO Legal Counsel - Assistant Attorney General Mr. Dean DePountis (10:20 to 10:30)
   7. Legacy Fund In-State Investment Proposal - Mr. Hunter *Informational*

================================ Break (10:45 to 11:00) ==============================

IV. GOVERNANCE (45 minutes)

A. Annual Evaluation of RIO versus Ends - Mr. Hunter **Board Acceptance**
B. SIB Client Satisfaction Survey - Ms. Sauter **Board Acceptance**
C. Legacy Fund Investment Policy Statement - Mr. Hunter **Board Acceptance**
D. SIB Governance Manual Review - Mr. Hunter
   1. Sections A to D - First Reading **Board Acceptance**
   2. Governance Education - Mr. Hunter **Board Action Requested**

V. OTHER

SIB Securities Litigation - November 5, 2020, 1:00 p.m.
Legacy and Budget Stabilization Advisory Board - November 12, 2020, 1:00 p.m.
SIB Audit Committee - November 12, 2020, 2:30 p.m.
SIB - November 20, 2020, 8:30 a.m.

VI. ADJOURNMENT

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

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
SEPTEMBER 25, 2020, BOARD MEETING

MEMBERS PRESENT:	Brent Sanford, Lt. Governor, Chair Rob Lech, TFFR Board, Vice Chair Troy Seibel, PERS Board, Parliamentarian Jon Godfread, Insurance Commissioner Toni Gumeringer, TFFR Board Keith Kempenich, Legacy/Budget Stab. Adv. Board Bryan Klipfel, Director of WSI Adam Miller, PERS Board Mel Olson, TFFR Board Kelly Schmidt, State Treasurer Jodi Smith, Commissioner of Trust Lands Yvonne Smith, PERS Board
STAFF PRESENT:	Eric Chin, Chief Risk Officer/Senior CIO Connie Flanagan, Chief Financial Officer Ann Griffin, Investment Accountant Bonnie Heit, Admin Svs Suprv David Hunter, Exec Dir/CIO Missy Kopp, Retirement Asst Jan Murtha, Dep Exec Dir/CRO Matt Posch, Investment/Compliance Officer Sara Sauter, Suprv of Internal Audit Darren Schulz, Dep CIO Dottie Thorsen, Internal Auditor Susan Walcker, Senior Financial Accountant
GUESTS:	Alex Browning, Callan LLC Dennis Chua, Dept. of Trust Lands Dean DePountis, Attorney General's Office Paul Erlendson, Callan LLC Andrew Feist, Governor's Office Eric Hardmeyer, BND Laura Helbling, Ins Dept. Rachel Kriege, Ins. Dept. James Leiman, Dept. of Commerce/Economic Director Adam Mathiak, Legislative Council Joe Morrissette, OMB Bryan Reinhardt, PERS Michael Shackelford, Dept. of Trust Lands Todd Steinwand, BND

CALL TO ORDER:

Lt. Governor Sanford, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, September 25, 2020. The meeting was held at the State Capitol, Pioneer Room (virtual host), 600 East Boulevard, Bismarck, ND.

Attendance was taken:

PRESENT: TREASURER SCHMIDT, MS. GUMERINGER, COMMISSIONER GODFREAD, MR. KLIPFEL, COMMISSIONER SMITH, MS. SMITH, DR. LECH, MR. MILLER, MR. SEIBEL, MR. OLSON, AND. LT. GOVERNOR SANFORD

<u>AGENDA</u>:

The Board considered the agenda for the September 25, 2020, meeting,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 25, 2020, MEETING.

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

<u>MINUTES</u>:

IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO APPROVE THE AUGUST 28, 2020, MINUTES AS DISTRIBUTED.

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

<u>INVESTMENTS</u>:

<u>Asset/Performance Overview</u> - Mr. Hunter reviewed fiscal year end results as of June 30, 2020.

SIB client assets under management (AUM) approached $16.3 billion at June 30, 2020, including the Pension Trust at $6 billion, Insurance Trust at $3 billion, and Legacy Fund at $7 billion. Despite highly volatile market conditions, SIB clients generated over $620 million of net investment income in fiscal year 2020 and Legacy Fund benefited from $596 million of deposits.

The Pension Trust posted a net return of +3.4% in fiscal 2020. The Pension Trust generated a net annualized return of 6.2% during the last 5-years exceeding the policy benchmark of 5.9%.

The Insurance Trust generated a net investment return of +5.0% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.5%, exceeding the performance benchmark of 4.8%.

The Legacy Fund generated a net investment return of +4.2% last year. During the last 5-years, Legacy Fund earned a net annualized return of 5.9%, exceeding the policy benchmark of 5.55%.

The U.S. economy and global capital markets were strong in 2019 with U.S. unemployment at record low levels and the U.S. equity markets posting record highs prior to the impact of the pandemic which caused a sharp and severe decline in the global economy including a 33% decline in U.S. Gross Domestic Product in quarter two of 2020 and the highest rate of U.S. unemployment since the Great Depression in 1933. Since March 31, 2020, the S&P 500 Index has materially recovered in part due to an unprecedented level of government intervention, although there is a major disparity of returns between mega-cap growth stocks and the broader market.

Fund Name	Market Values as of 6/30/20 [1]	Market Values as of 6/30/19 [2]
Pension Trust Fund		
Public Employees Retirement System (PERS)	3,212,113,496	3,152,930,087
Teachers' Fund for Retirement (TFFR)	2,612,716,499	2,573,622,554
City of Bismarck Employees Pension	106,946,867	104,517,247
City of Grand Forks Employees Pension	67,458,579	68,419,301
City of Bismarck Police Pension	42,552,004	41,862,976
Grand Forks Park District	7,406,214	7,176,427
Subtotal Pension Trust Fund	**6,049,193,658**	**5,948,528,592**
Insurance Trust Fund		
Workforce Safety & Insurance (WSI)	2,125,881,220	2,065,400,398
Budget Stabilization Fund	727,275,063	118,707,130
City of Fargo FargoDome Permanent Fund	43,550,868	44,840,633
PERS Group Insurance Account	31,495,987	31,067,120
State Fire and Tornado Fund	22,825,556	22,761,457
ND Association of Counties (NDACo) Fund	6,693,191	6,333,052
Petroleum Tank Release Compensation Fund	6,165,424	5,994,235
Insurance Regulatory Trust Fund	5,714,619	6,218,781
State Risk Management Workers Comp Fund	5,116,217	5,187,879
State Risk Management Fund	4,561,175	4,909,623
State Bonding Fund	3,787,526	3,609,422
ND Board of Medicine	2,470,787	2,362,384
Attorney General Settlement Fund	1,057,147	
Lewis & Clark Interpretive Center Endowment Fund	793,808	751,763
Bismarck Deferred Sick Leave Account	770,793	779,596
Cultural Endowment Fund	493,401	475,311
ND Veterans' Cemetary Trust Fund	312,782	
Subtotal Insurance Trust Fund	**2,988,965,565**	**2,319,398,784**
Legacy Trust Fund		
Legacy Fund	6,999,783,262	6,580,759,920
PERS Retiree Insurance Credit Fund	144,237,322	135,962,521
Job Service of North Dakota Pension	95,338,534	97,285,279
ND Tobacco Prevention and Control Trust Fund	7,589,354	9,300,127
Total Assets Under SIB Management	**16,285,107,695**	**15,091,235,223**

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

[2] *6/30/19 market values as stated in the Comprehensive Annual Financial Report.*

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. OLSON AND CARRIED BY A VOICE VOTE TO ACCEPT THE ANNUAL ASSET/PERFORMANCE OVERVIEW AS OF JUNE 30, 2020.

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

<u>Callan LLC Annual Review</u> – Callan representatives, Mr. Erlendson and Mr. Browning, reviewed performance of the Pension Trust, Insurance Trust, and Legacy Fund as of June 30, 2020, and also provided an analysis of current market conditions.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE CALLAN LLC ANNUAL INVESTMENT REVIEW OF THE PENSION TRUST, INSURANCE TRUST, AND LEGACY FUND FOR THE PERIOD ENDING JUNE 30, 2020.

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

Global Equity – Mr. Schulz provided an update on the restructuring of private equity. Retirement and Investment Office (RIO) Investment Personnel have been working with Callan LLC to analyze the public equity allocations across the three pools to identify and implement refinements to the allocations. RIO Investment Personnel will be looking at options to balance the equity allocations across the three pools, identify one to two managers for the Pension Pool's World Equity allocation, and will also be looking at options to optimize internal manager allocation targets. Future updates will be provided to the board.

BOARD EDUCATION & GOVERNANCE:

Callan Education – Mr. Hunter reviewed the Callan Institute's educational opportunities that are available to the board.

State Investment Programs – Mr. Hunter reviewed in-state investment programs implemented by other state investment funds similar to the SIB.

The Board recessed at 10:03 a.m. and reconvened at 10:19 a.m.

Discussion continued on in-state investment programs.

Mr. Hunter reviewed in-state presentations by three existing SIB managers; Adams Street Partners, Barings, and GCM Grosvenor.

Mr. Hunter will continue to reach out to other investment management firms, including those based in North Dakota or with significant operations in the state.

Bank of North Dakota (BND) – Mr. Hardmeyer reviewed the BND in-state investment program, BND Match Loan Certificate of Deposit (CD) Program. As of September 2020, the program has a funding of $300 million from the SIB (Legacy Fund) which includes $86,600,000 in outstanding loans and $102,000,000 in pending loans. There are an additional five projects with a total commitment of $375,000,000 - $395,000,000.

Discussion followed on the BND program and its benefits to the State of North Dakota.

BND and RIO Investment Personnel requested the SIB increase the BND Match Loan CD Program by up to $100 million for an overall commitment of $400 million.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO INCREASE THE BND MATCH LOAN CD PROGRAM BY $100 MILLION.

AYES: MS. GUMERINGER, COMMISSIONER SMITH, MS. SMITH, MR. KLIPFEL, TREASURER SCHMIDT, DR. LECH, COMMISSIONER GODFREAD, MR. OLSON, MR. SEIBEL, MR. MLLER, AND LT. GOVERNOR SANFORD
NAYS: NONE
MOTION CARRIED

Discussion followed on how best to communicate in-state investment programs to the public. The SIB will issue a press release regarding the additional commitment to the BND Match Loan CD Program.

Legacy Fund Investment Plan – Commissioner Godfread and Mr. Leiman reviewed a proposal to invest an additional 10% of the Legacy Fund's fund balance in economic development projects within the State of North Dakota.

Discussion followed.

RIO Investment Personnel, in conjunction with Callan LLC, will review the proposal and bring back their thoughts/recommendations at the October 23, 2020, meeting.

MONITORING:

The monitoring reports for the quarter ending June 30, 2020, were presented for the SIB's approval.

The Watch List was also included with a recommendation by RIO Investment Personnel to place Epoch Investment Partners on the manager watch list as a result of underperforming its benchmark since the strategy's inception.

Also included was a recommendation to review the Governance Manual over the next three months.

IT WAS MOVED BY COMMISSIONER SMITH AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE QUARTER ENDING JUNE 30, 2020.

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

The next regular meeting of the SIB has been scheduled for October 23, 2020, at 8:30 a.m. at the State Capitol, Pioneer Room (virtual).

The next regular meeting of the SIB Securities Litigation Committee is scheduled for November 5, 2020, at 1:00 p.m. at RIO (virtual).

The next regular meeting of the SIB Audit Committee is scheduled for November 12, 2020, at 2:30 p.m. at RIO (virtual).

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Sanford adjourned the meeting at 12:02 p.m.

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Lt. Governor Sanford, Chair
State Investment Board

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Bonnie Heit
Recorder

Agenda Item III. A.

Informational

Asset and Performance Update

As of August 31, 2020

October 16, 2020

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

Jan Murtha, Deputy Executive Director / Chief Retirement Officer

Connie Flanagan, Chief Financial Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

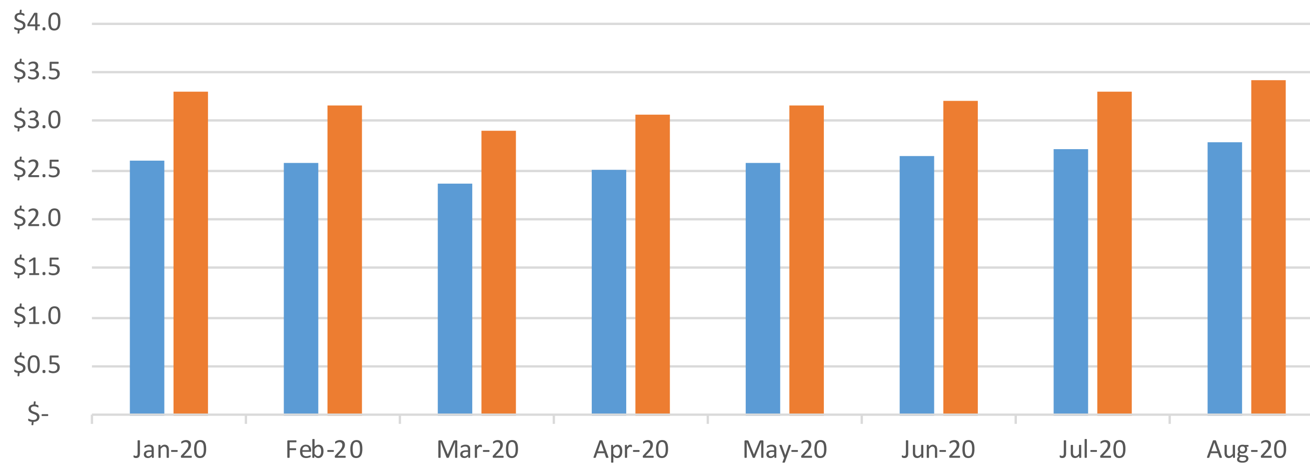
TFFR and PERS Plans Benefit from Capital Market Recovery in Mid-2020

TFFR and PERS benefitted from a major recovery in the capital markets in mid-2020. Due to the impact of the global pandemic, the TFFR pension plan declined from $2.6 billion in January down to $2.4 billion in March. Since March, however, the TFFR pension plan has fully recovered and valued at $2.8 billion in August. Similarly, the PERS pension plan declined from $3.3 billion in January down to $2.9 billion in March due to the global pandemic, prior to experiencing a full recovery in recent months, and valued at over $3.4 billion as of August 31, 2020.

Net Position of TFFR and PERS Pension Plans

January 31 to August 31 of 2020

($ in billions)

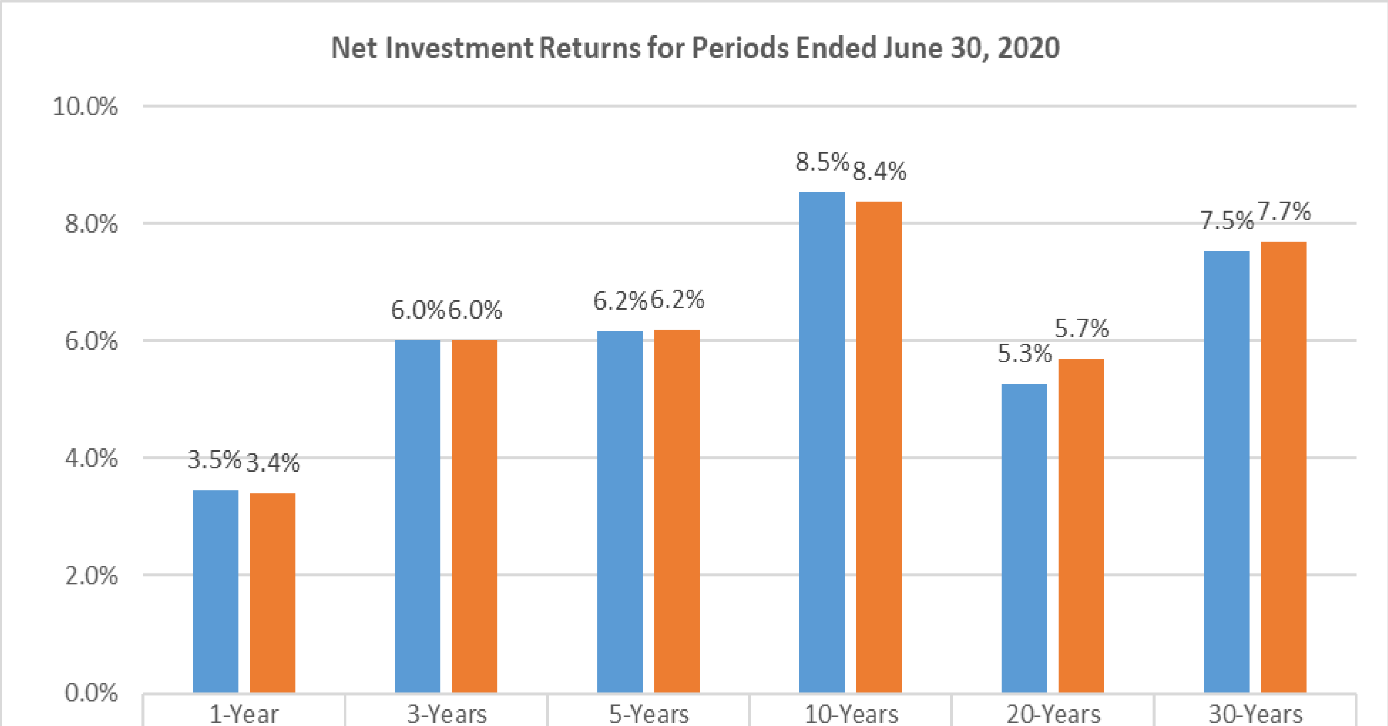


	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
TFFR	$2.6	$2.6	$2.4	$2.5	$2.6	$2.7	$2.7	$2.8
PERS	$3.3	$3.2	$2.9	$3.1	$3.2	$3.2	$3.3	$3.4

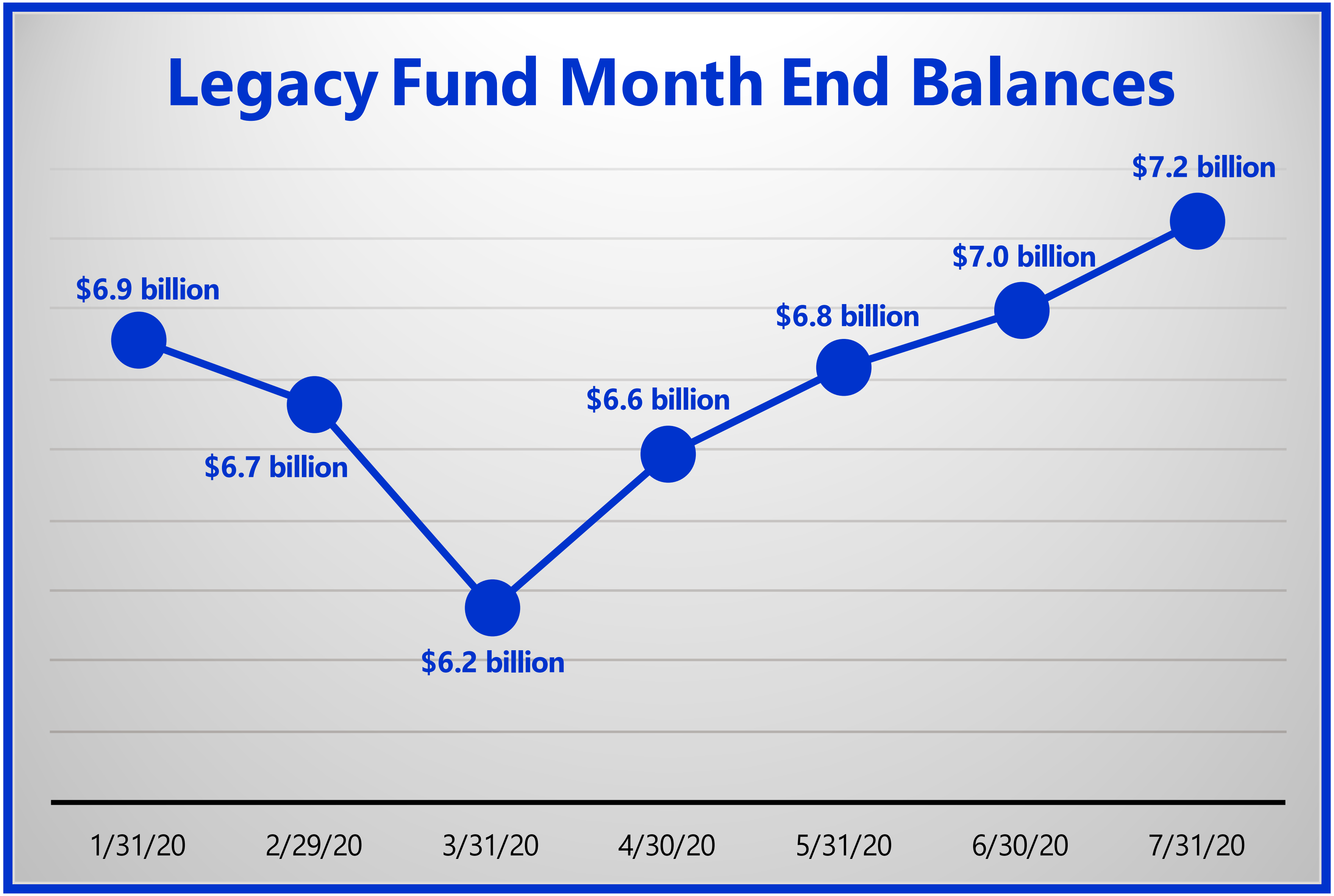
TFFR PERS

TFFR and PERS Net Returns Exceed 7.5% per annum the last 30 years

The global pandemic adversely impacted all SIB client results this past year. Despite the impact of COVID-19, TFFR and PERS earned net returns of over 3.4% for the 1-year ended June 30, 2020, which generally exceeded most other U.S. public plans. SIB pension pool returns, which include PERS and TFFR, were ranked in the top 25% of U.S. public plans over the last 10-years by exceeding 8.4% per year. **Over the last 30-years, TFFR and PERS have each earned over 7.5% per annum exceeding their respective long-term return assumptions of 7.25% for TFFR and 7% for PERS.**



	1-Year	3-Years	5-Years	10-Years	20-Years	30-Years
TFFR	3.5%	6.0%	6.2%	8.5%	5.3%	7.5%
PERS	3.4%	6.0%	6.2%	8.4%	5.7%	7.7%



The Legacy Fund approximated $7.5 billion as of August 31, 2020.

Note: Month End and Fiscal Year End data in FY 2020 and FY 2021 is preliminary, unaudited and subject to change.

North Dakota Retirement and Investment Office - Legacy Fund Website

https://www.rio.nd.gov/legacy-fund

Legacy Fund

The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. The State Investment Board (SIB) is responsible for the investment of the fund. The first Legacy Fund transfer was received by the SIB in September 2011. The ND Constitution also requires that all earnings accrued after June 30, 2017, must be transferred to the state's general fund at the end of each biennium.

Balances listed below as of August 31, 2020.

FUND VALUE

$7,497,244,234

INCEPTION-TO-DATE NET INCOME

$2,162,724,969

PRINCIPAL BALANCE

$6,226,622,153

CURRENT BIENNIUM-TO-DATE EARNINGS

(as defined by NDCC 21-10-12)

$407,290,474

EARNINGS TRANSFERRED TO GENERAL FUND

2017-19 Biennium **$455,263,216**

*****PLEASE NOTE: Monthly numbers are preliminary and subject to change.***

Financial Statements **Performance Reports**

Vested Interest (excerpts) – October 2020

Legacy Fund Inception to Date Net Investment Income Exceeds $2 billion

Since inception, the Legacy Fund has earned over $2 billion of net investment income as of August 31, 2020, noting the Fund was not fully invested in its current asset allocation of 50% global equity, 35% global debt and 15% global real assets until early-2015. Legacy Fund earnings (as defined by North Dakota Century Code) of over $455 million were transferred to the General Fund in mid-2019. Legacy Fund month-end valuations, investment results, and inception to date earnings are posted on RIO's website at: https://www.rio.nd.gov/legacy-fund

SIB Commits $400 million to Legacy Fund "In-State Investment Program"

The SIB raised its Legacy Fund "In-State Investing Commitment" to a record high of $400 million with a new $100 million funding commitment. The SIB dedicated an additional $100 million in Legacy Fund investments to provide cost-efficient financing to companies seeking to develop new businesses and infrastructure in North Dakota. Please see RIO's website for the full press release at: https://www.rio.nd.gov/news/sib-press-release-legacy-fund-investment-0

Recent Awards for Excellence in Financial Reporting and Transparency

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019. This marks the 22nd consecutive year that RIO has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The Sovereign Wealth Fund (SWF) Institute assigned the highest Transparency Index rating of 10 to the North Dakota Legacy Fund. The only other U.S. SWF with this rating is the Alaska Permanent Fund (although Norway's SWF is also assigned the highest Transparency Index rating of 10 out of 10). https://www.swfinstitute.org/research/linaburg-maduell-transparency-index

Interim SIB Update as of August 31, 2020: SIB client assets under management have increased by nearly $1 billion during the first two months of the current fiscal year from $16.3 billion at June 30, 2020 to nearly $17.3 billion at August 31, 2020, largely due to net investment income of nearly $1 billion including over $470 million in the Legacy Fund and $400 million in the Pension Pool (plus $80 million for WSI).

Fund Name	Market Values as of 8/31/2020	Market Values as of 6/30/2020
Pension Pool		
Teachers' Fund for Retirement (TFFR)	$ 2,773,832,001	$ 2,612,716,499
Public Employees Retirement System (PERS)	3,424,539,928	3,212,113,496
City of Bismarck Employees Pension	112,612,259	106,946,867
City of Bismarck Police Pension	44,977,019	42,552,004
City of Grand Forks Employees Pension	71,027,641	67,458,579
Park District of the City of Grand Forks Pension	7,880,633	7,406,214
Subtotal Pension Pool	**6,434,869,480**	**6,049,193,658**
Insurance Pool		
Workforce Safety & Insurance (WSI)	**2,199,874,706**	**2,125,881,220**
State Fire and Tornado Fund	19,600,488	22,825,556
State Bonding Fund	3,822,112	3,787,526
Petroleum Tank Release Compensation Fund	6,216,941	6,165,424
Insurance Regulatory Trust Fund	5,951,862	5,714,619
State Risk Management Fund	4,017,676	4,561,175
State Risk Management Workers Comp Fund	5,403,933	5,116,217
Cultural Endowment Fund	529,694	493,401
Budget Stabilization Fund	**737,062,186**	**727,275,063**
ND Association of Counties (NDACo) Fund	7,046,658	6,693,191
Bismarck Deferred Sick Leave Account	806,673	770,793
City of Fargo FargoDome Permanent Fund	46,494,368	43,550,868
State Board of Medicine Fund	2,576,509	2,470,787
PERS Group Insurance Account	31,789,534	31,495,987
Lewis & Clark Interpretive Center Endowment	835,289	793,808
Attorney General (AG) Settlement Fund	1,071,414	1,057,147
Veterans' Cemetery Trust Fund	334,192	312,782
Subtotal Insurance Pool	**3,073,434,234**	**2,988,965,565**
Individual Investment Accounts		
Legacy Fund	**7,501,671,928**	**6,999,783,262**
Job Service of North Dakota Pension	96,533,277	95,338,534
Tobacco Control and Prevention Fund	7,594,388	7,589,354
PERS Retiree Health Insurance Credit Fund	154,883,621	144,237,322
Total Assets Under SIB Management	**$ 17,268,986,930**	**$ 16,285,107,695**

Market values are unaudited and subject to change.

Interim Investment Update as of August 31, 2020

SIB Interim Investment Returns Fiscal Year to Date at August 31, 2020 SIB Five Largest Clients		
	July 1 to Aug. 31, 2020	Market Value Aug. 31, 2020
Legacy Fund	**6.7%**	**$ 7.5 billion**
- Policy Benchmark	*5.6%*	
PERS	**6.9%**	**$ 3.4 billion**
- Policy Benchmark	*6.1%*	
TFFR	**6.8%**	**$ 2.8 billion**
- Policy Benchmark	*6.2%*	
WSI	**3.91%**	**$ 2.2 billion**
- Policy Benchmark	*2.97%*	
	0.94%	
Budget Stabilization Fund	**1.35%**	**$ 737 million**
- Policy Benchmark	*0.22%*	

WSI net returns exceed Policy Benchmark by 0.94% from July 1 to Aug. 31, 2020.

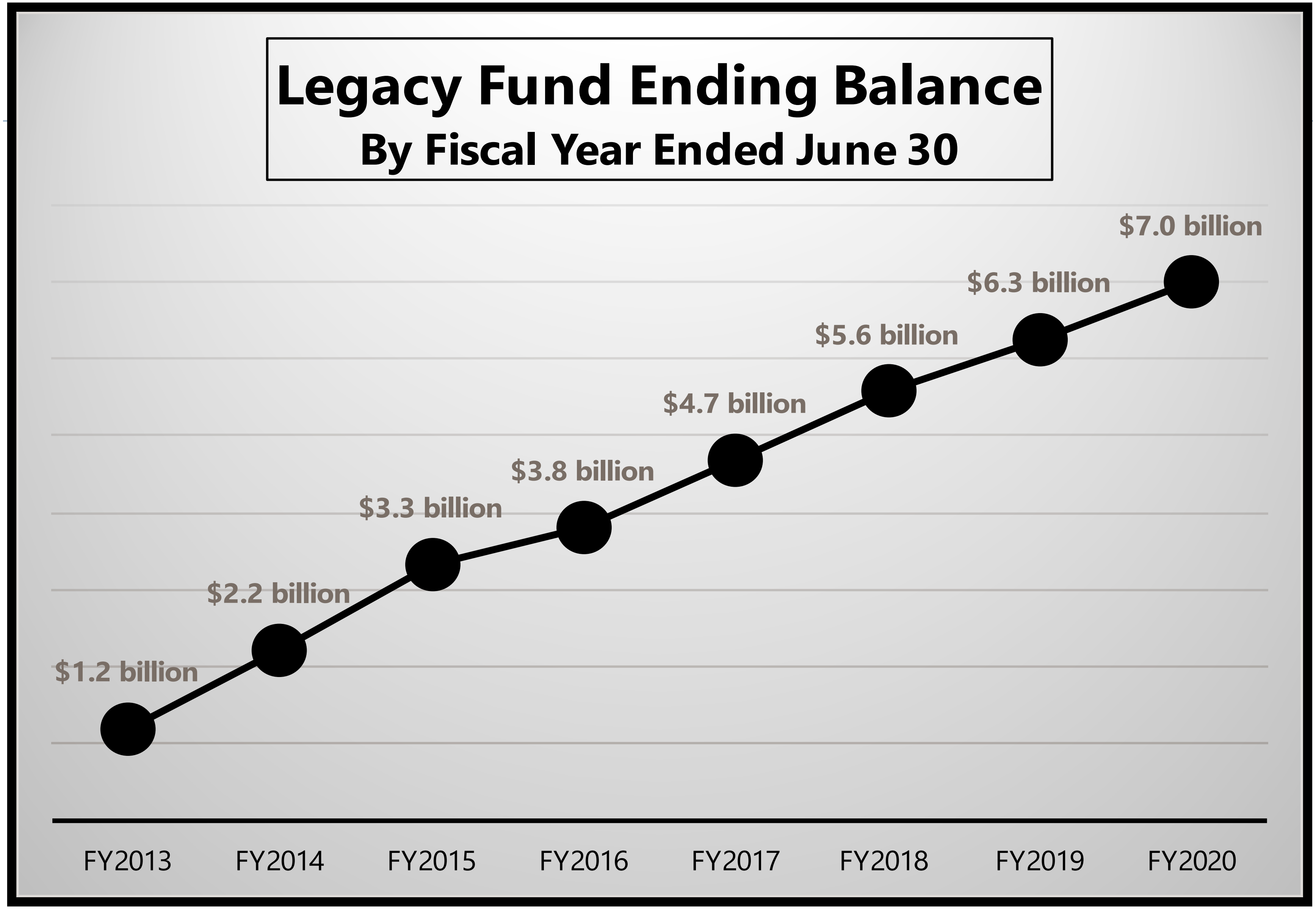
Note: Data is preliminary and subject to change.

1. **SIB client investments exceeded $17 billion as of August 31, 2020, and SIB client net investment income approached nearly $1 billion for the 2 months ended August 31, 2020, including the following amounts for our 5 largest clients:**

- Legacy	**$470 million**	**- PERS**	**$220 million**	**TFFR**	**$175 million**
- WSI	**$80 million**	**- BSF**	**$10 million**	**Other**	**$40 million**

2) **Net investment returns for the Legacy Fund, PERS, TFFR, WSI and BSF materially exceeded their respective *Policy Benchmarks* on a fiscal year to date basis as of August 31, 2020 (July 1 to August 31, 2020).**

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



The Legacy Fund approximated $7.5 billion as of August 31, 2020.

Note: FY 2020 is preliminary, unaudited and subject to change.

Callan

October 23, 2020

North Dakota State Investment Board

In-State Investment Programs: A Preview

Pete Keliuotis
Executive Vice President

Paul Erlendson
Senior Vice President

Alex Browning
Senior Vice President

A suggested agenda for consideration of an in-state investing program

Callan's three-phase proposal provides a process to evaluate and implement an in-state program consistent with sound fiduciary practice.

Step 1
Conduct Fiduciary Review

- Current position
- Regulatory environment
- Mission and objectives
- Governance
- Risk tolerance
- Performance objectives
- Cash flow considerations
- Liabilities

Step 2
Design Optimal Portfolio

- Identify desirable asset classes (private equity, infrastructure, etc.)
- Develop in-state program guidelines
- Determine best implementation options (fund investments, co-investments, etc.)
- Identify appropriate performance and risk metrics

Step 3
Formalize Investment Policy

- Document current governance
- Prepare a written investment policy statement (IPS) for in-state program
- Communicate the IPS to all applicable stakeholders

Step 4
Implement Program

- Hire program manager(s)
- Negotiate in-state fund terms and conditions
- Ensure proper alignment between manager(s) and SIB

Step 5
Monitor and Supervise

- Establish performance measurement and reporting procedures
- Monitor manager performance and guideline compliance
- Make needed refinements

Review

A suggested agenda for consideration of an in-state investing program

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PHASE 1

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- Current position
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PHASE 2

Step 2

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PHASE 3

Review

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Step 5

Monitor and Supervise

- Establish performance measurement and reporting procedures
- Monitor manager performance and guideline compliance
- Make needed refinements

3. Responsibilities and Discretion of the State Investment Board

Add to paragraph 4 – language in bold:

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in pools**. At the discretion of the SIB, up to 10% of the Fund's assets may be designated for investments in economic development projects within the State of North Dakota, notwithstanding any other provision of this investment policy statement.**

A North Dakota Investment Advisory Committee shall be appointed as a sub-committee to the State Investment Board to establish qualifying investment guidelines for North Dakota investment projects. Members of the Committee shall include:

1. **Chairperson of the North Dakota Investment Advisory Committee – Lieutenant Governor**
2. **The North Dakota Insurance Commissioner**
3. **The Treasurer for the State of North Dakota**
4. **The President of the Bank of North Dakota**

The North Dakota Investment Advisory Committee may partner with other advisory entities, either public or private to provide the subcommittee with technical assistance.

In determining whether to recommend an investment, the subcommittee shall at a minimum consider the extent to which the proposal will:

1. **Provide a market rate return on investment.**
2. **Have a clear, substantial economic impact and/or assist in the diversification of the economy of the state.**
3. **Lead to additional investment of capital from private sector entities in North Dakota.**
4. **Address funding gaps in capital markets in North Dakota.**

North Dakota Legacy Investments Strategic Vision Plan: North Dakota's 33rd Fund Manager

Goal: Bring needed liquidity to North Dakota using both debt and equity mechanisms, while driving positive ROI back to the Legacy Fund and to align the Legacy Fund Investments with the people of North Dakota.

Ideal Portfolio Mix: Initial Vetting

Private Equity:
Venture Capitol
Growth Equity
Buyouts

Private Debt:
Distress Investing
Secondaries
Rescue Financing

Real Estate:
Already employed as a strategy, this would be ND Specific

NORTH Dakota | Commerce
Be Legendary.™

Idea Flow

North Dakota LIFT Committee:

- Review Proposed Legacy Fund Investments
- Provide Recommendations that meet the ideal portfolio mix
- Members Include: Commerce Commissioner; Three members representing active venture capital firms, private entities, or angel capital funds; One member with finance-related experience, knowledge, or education; and Three members from the private sector with expertise in the diversification sectors.

Recommendations for Approval

North Dakota Investment Advisory Committee

Subcommittee of the State Investment Board

Chairperson: Lieutenant Governor

Insurance Commissioner

Treasurer

President of the Bank of North Dakota

Idea Flow

Investment Vetting Process

Successful Investments will:

Provide at least a market rate of return on investment

Have a clear, substantial impact and/or assist in the diversification of the economy of the state.

Lead to additional investment of capital in the state.

Address funding gaps in capital markets in North Dakota

Execution of Investment

NORTH Dakota | Commerce
Be Legendary.™

BND Bank of North Dakota

Report to State Investment Board

By: ND Investment Advisory Committee

Asset allocation

Performance of Investments

Strategic Investment Recommendations

Reports and Oversight

North Dakota State Investment Board

BARINGS

Barings Fund & Co-Investments

In-State Program

NORTH Dakota

September 2020

20-1336387

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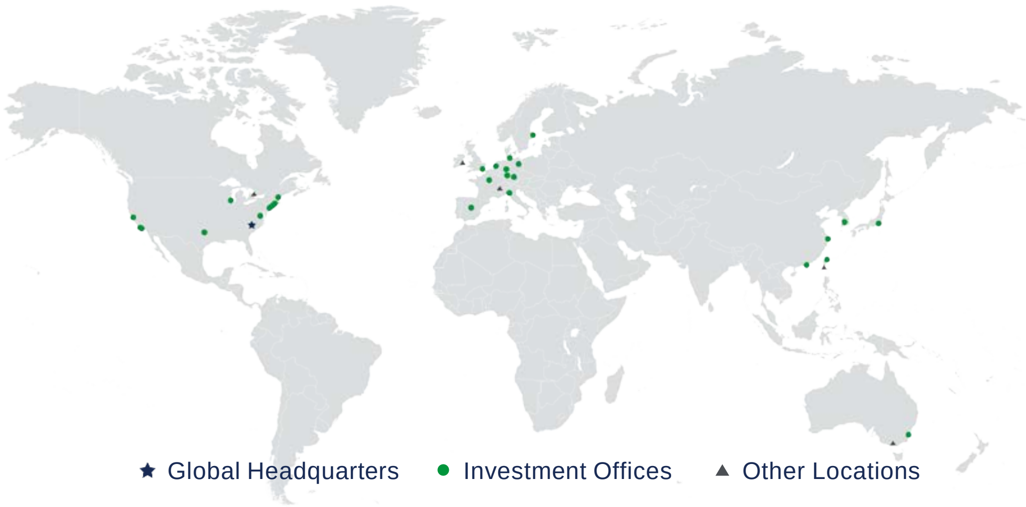
Section 1: Barings Capabilities

Barings Overview

- Barings is a **GLOBAL FINANCIAL SERVICES FIRM** dedicated to meeting the evolving investment and capital needs of our clients
- We provide **INNOVATIVE SOLUTIONS** and access to differentiated opportunities across public and private capital markets
- A subsidiary of **MASSMUTUAL**, we have the financial stability and flexibility to take a long-term approach
- Barings' **GLOBAL FOOTPRINT** gives us a broader perspective, access to a diverse set of opportunities and the ability to truly partner with our clients to invest across global markets



$346+ B

ASSETS UNDER MANAGEMENT

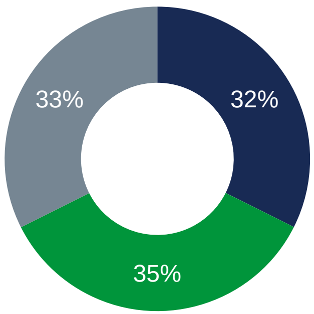
1,100+

EXTERNAL CLIENTS[1]

1,900+

PROFESSIONALS GLOBALLY

EXTERNAL AUM BY REGION[2]



1. Number of clients excludes structured funds and mutual funds.
2. Includes third party, external AUM only.

All figures are as of June 30, 2020 unless otherwise indicated. Assets shown are denominated in USD.

Global Investment Capabilities

Barings leverages its **DEPTH AND BREADTH OF EXPERTISE** across public and private markets to help meet our clients' evolving investment needs

PUBLIC

PUBLIC FIXED INCOME[1]

Provides access to strategies ranging from investment grade to high yield across developed and emerging markets

INVESTMENT GRADE
$131.7 B AUM

HIGH YIELD BONDS AND LOANS[3]
$53.9 B AUM

STRUCTURED CREDIT
$15.8 B AUM

DEVELOPED & EMERGING SOVEREIGN DEBT
$8.6 B AUM

PUBLIC EQUITIES & MULTI ASSET[2]

Aims to deliver superior risk-adjusted returns through fundamental analysis and high-conviction, high-active share solutions

GLOBAL EQUITIES
$2.8 B AUM

EMERGING MARKET EQUITIES
$6.3 B AUM

SMALL CAP EQUITIES
$2.6 B AUM

MULTI ASSET
$4.3 B AUM

PRIVATE

PRIVATE CREDIT

Offers a diverse range of private debt financing solutions by partnering with our broad industry network

GLOBAL PRIVATE FINANCE
$14.2 B AUM

INFRASTRUCTURE & PRIVATE PLACEMENTS
$40.1 B AUM

REAL ESTATE[4]

Provides a broad spectrum of solutions across private real estate debt and equity

REAL ESTATE DEBT[5]
$35.5 B AUM

REAL ESTATE EQUITY
$14.4 B AUM

PRIVATE EQUITY[4]

Leverages our global presence in an effort to identify unique risk-adjusted return opportunities

DIRECT PRIVATE EQUITY
$2.3 B AUM

FUNDS & CO-INVESTMENTS
$3.2 B AUM

MULTI STRATEGY

Utilize our expansive asset market coverage to offer solutions such as income, target return and absolute return

1. Excludes the Korean fixed income strategy and other fixed income, totaling $2.3 billion in AUM.
2. Excludes the Korean domestic equities strategy, which has $7.7 billion in AUM and other equities of $1.1 billion.
3. Includes the EM Corporate Debt strategy, which has $4.0 billion in AUM.
4. Projected AUM figures.
5. Includes real estate debt assets that are managed as part of affiliated fixed income portfolios.

All figures are as of June 30, 2020 unless otherwise indicated. Assets shown are denominated in USD.

Barings' Commitment to Sustainability

HOW WE THINK ABOUT SUSTAINABILITY: OUR THREE PILLARS

ESG INTEGRATION

Environmental, Social & Governance (ESG) is embedded within—rather than overlaid upon—the research and investment process across asset classes

CORPORATE SOCIAL RESPONSIBILITY

Barings Social Impact mobilizes private capital to achieve positive outcomes in underserved communities—**through four key pillars**:

(1) Diversity, Equity and Inclusion (2) Empowering Communities (3) Education and Financial Literacy and (4) Improving Health and Wellness

ACTIVE OWNERSHIP

We believe in **engaging constructively** with the companies in which we invest, and we **vote proxies** on behalf of our advisory clients

HOW WE GOVERN AND DEVELOP OUR SUSTAINABILITY FRAMEWORK

BUSINESS OVERSIGHT

Our **Executive Leadership Team** and regional leadership teams are regularly updated and actively engaged—which provides **oversight** and **accountability** at the highest levels of the organization

DEDICATED TEAM

Our platform is overseen by our **Director of Sustainability**, who works alongside our **ESG Working Group**—which represents an advisory group of 30+ professionals across the firm's business units

INDUSTRY PARTNERS

We are a **signatory to the UNPRI** (United Nations Principles for Responsible Investment)

We are a **member of the UNGC** (United Nations Global Compact)—and **work to implement the 17 UNSDGs** (United Nations Sustainable Development Goals)

For our global Charlotte headquarters, Barings achieved a **LEED GOLD CERTIFICATION** in addition to a **BREEAM EXCELLENT RATING** for our London office

Section 2: In-State Program

Developing In-State Investment Programs

Properly designed in-state investment programs can provide significant impact beyond financial returns

BARINGS

- CIO & Internal Staff
- Board & Trustees
- Plan Providers
- Plan Observers
- Local Companies
- Local Constituents
- Plan Beneficiaries

1. DELIVER MARKET RETURNS

- *Well designed programs with proper execution can potentially deliver market levels of return*

2. STRENGHTEN ECONOMIC BASE

- *Effective allocation of capital supports long-term job growth, helps produce quality jobs, can advance new technologies and can accelerate economic output within the state*

3. CREATE PROPER INVESTMENT ECOSYSTEM

- *Program awareness and visibility can bring public and private capital to the table to find creative solutions for in-state challenges*

4. ATTRACT ADDITIONAL CAPITAL AND TALENT

- *In-state programs can have a multiplier effect on attracting additional private market capital and attracting talent to lead enterprises*

5. ENHANCE THE STATE'S REPUTATION

- *Increased economic activity and proper transparency can build credibility with in-state constituents and out-of-state players*

In-State Program Considerations

In addition to maintaining integrity of a robust investment process, Barings FCI believes the following topics are critical to designing a successful in-state program

CLEARLY DEFINE MISSION & PROGRAM OBJECTIVES	CONTINUOUS MANAGER & STAFF COLLABORATION	GENERATE PROGRAM VISIBILITY & AWARENESS
MATCH INVESTMENT TARGETS & IN-STATE ECONOMIC LANDSCAPE	SIZE CAPITAL & PACING TO INVESTMENT OPPORTUNITY	UTILIZE DEEP GP NETWORKS & ATTRACT PARTNERS
FOLLOW INVESTMENT GUIDELINES & ALLOW CREATIVITY	EXECUTE & COMMUNICATE WITH IN-STATE CONSTITUENTS	CREATE MEASUREABLE REPORTING METRICS THAT ALIGN WITH OBJECTIVES

Barings Approach to Managing In-State Programs

Barings FCI builds on the standard market approach to managing in-state programs to offer a differentiated perspective

NEXUS TO THE STATE

TRADITIONAL APPROACH

- SOURCE OPPORTUNITIES FROM IN-STATE SPONSORS
- BUILD RELATIONSHIPS WITH LOCAL BROKER COMMUNITY
- CALLING EFFORT ACROSS GP NETWORK
- CREATE CLUSTERS OF INNOVATION

BARINGS INNOVATIVE APPROACH

- OFFER AN OPERATING PARTNER NETWORK
- SUPPORT INDEPENDENT SPONSORS AND PLEDGE FUNDS
- CALLING EFFORT TARGETING FAMILY BUSINESSES

VISIBILITY AND AWARENESS

TRADITIONAL APPROACH

- ESTABLISH PROGRAM WEBSITE
- ISSUE PRESS RELEASES
- ATTEND AND HOST STATE-WIDE EVENTS
- PROMOTE LOCAL ECONOMIC DEVELOPMENT INITIATIVES

BARINGS INNOVATIVE APPROACH

- ATTRACT HUMAN CAPITAL, BOTH LOCAL AND ABROAD
- EXPAND OUTREACH BEYOND THE STATE TO NATIONAL AND INTERNATIONAL MARKETS
- CATALYZE EMERGING MANAGERS AND INDEPENDENT SPONSORS

ALLOCATION OF CAPITAL

TRADITIONAL APPROACH

- LEVERAGED BUYOUTS
- GROWTH EQUITY
- VENTURE CAPITAL
- SBIC PROGRAMS

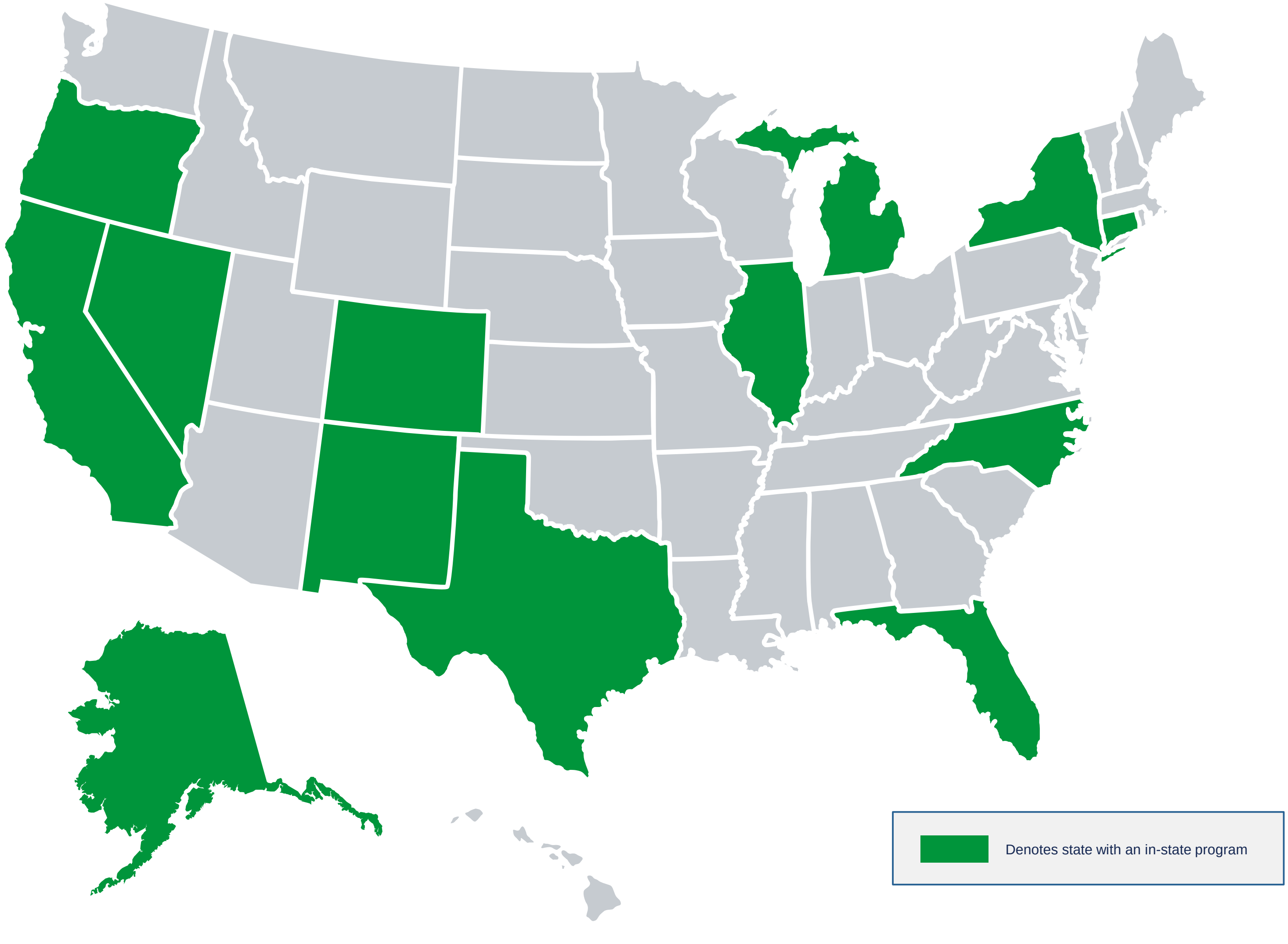
BARINGS INNOVATIVE APPROACH

- NATURAL RESOURCES
- INFRASTRUCTURE
- BARINGS IS UNIQUELY POSITIONED ACROSS MAJOR ASSET CLASSES, CAPITAL STRUCTURES AND AROUND THE GLOBE TO EVALUATE UNIQUE IN-STATE OPPORTUNITIES

BARINGS IS TARGETING A NEXT GENERATION APPROACH TO DEVELOPING AND MANAGING IN-STATE PROGRAMS

In-State Programs

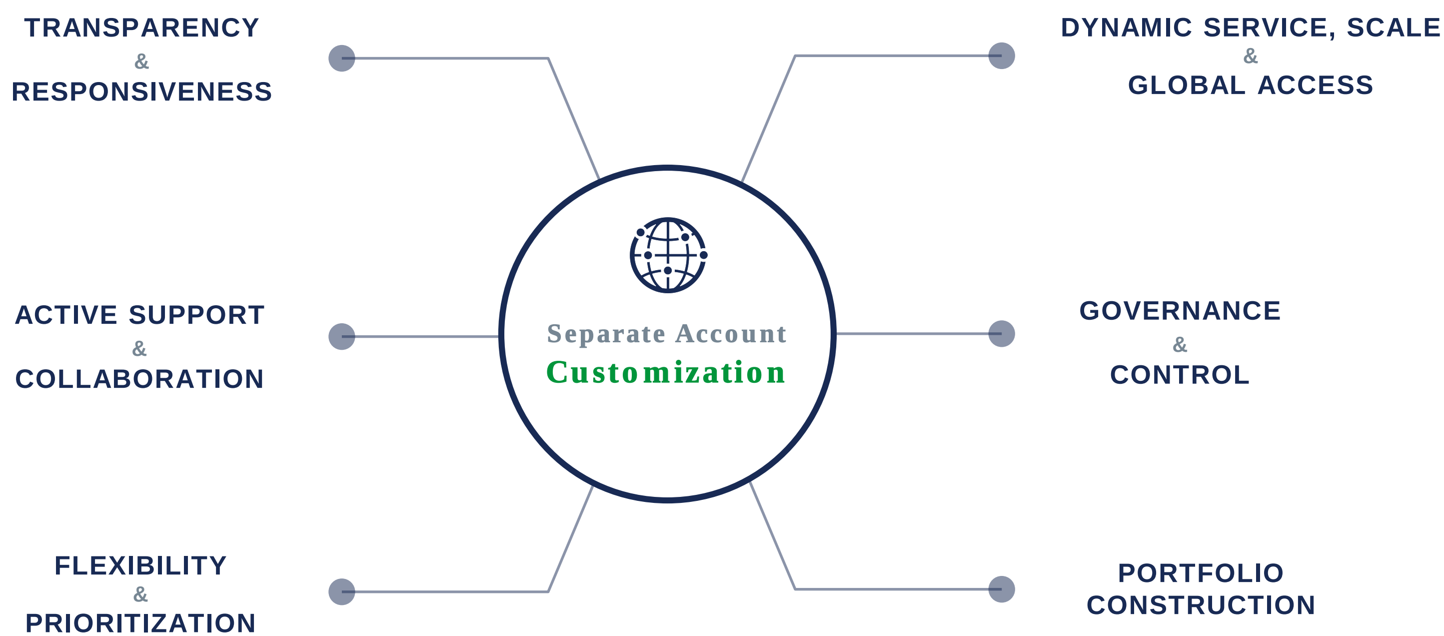
Barings FCI professionals have experience developing, managing and overseeing in-state programs, as well as serving as a resource to staff and board members to network with other states to understand how neighboring in-state programs are structured



FCI structures separate accounts designed to meet the robust needs of clients

PROVEN & SUCCESSFUL APPROACH

Funds & Co-Investment Platform



Highlights of Our Approach

TRACK RECORD
28 year track record of success across private markets as a professional limited partner

ADAPTABILITY
FCI refines and adjusts the program to help meet the client's evolving objectives

STRUCTURE
Program delivers access and economies of scale. Portfolios designed to optimize returns and/or mitigate risks

CLIENT EXPERIENCE
As an extension of staff, FCI continually supports clients to build capabilities and knowledge

CLIENT PARTNERSHIP
Collaboration on program design and implementation

OVERSIGHT
Flexible governance for appropriate client controls

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS
FOR ILLUSTRATIVE PURPOSES

Client Engagement & Working Relationship

FCI operates as an extension of staff in all aspects of its working relationships with clients

CLIENT ONBOARDING

- Develop scope of service to set roles/responsibilities
- Set goals & objectives of the in-state program (financial and impact)
- Set investment pacing expectations
- Establish frequency of formal interaction

CLIENT TRANSPARENCY

- Dedicate in-state team including senior investment professionals
- Welcome active involvement and offer discretion to the client
- Share pipelines and opportunity review
- Provide timely updates and feedback

OPEN-DOOR REFERRAL POLICY

- Efficiently review all opportunities presented
- Regularly track and review referral outcomes
- Manage politically sensitive opportunities
- Open forum to share opportunities

MONITORING AND REPORTING

- Measure investment consistency relative to guidelines
- Financial reporting including investment pacing, performance and exposure
- Custom Watchlists to measure risk
- Impact reporting including jobs, economic output and ESG factors

CONTINUAL ASSESSMENT

- Continuous assessment and reevaluation of program in conjunction with staff
- Nimble approach with ability to modify program
- In-depth knowledge of market dynamics that may affect initial strategy

INDUSTRY REPRESENTATION

- Actively represent clients at relevant industry events, within the state and abroad
- Present client success stories at leading industry events
- Invite client staff to speak at conferences as panel guests to promote the program

The views above represent Barings' views as of August 31, 2019 and are subject to change at any time without notice.

Section 6: Important Information

BARINGS

Important Information

Any forecasts in this document are based upon Barings opinion of the market at the date of preparation and are subject to change without notice, dependent upon many factors. Any prediction, projection or forecast is not necessarily indicative of the future or likely performance. Investment involves risk. The value of any investments and any income generated may go down as well as up and is not guaranteed. Past performance is no indication of current or future performance. **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.** Any investment results, portfolio compositions and or examples set forth in this document are provided for illustrative purposes only and are not indicative of any future investment results, future portfolio composition or investments. The composition, size of, and risks associated with an investment may differ substantially from any examples set forth in this document. No representation is made that an investment will be profitable or will not incur losses. Where appropriate, changes in the currency exchange rates may affect the value of investments. Prospective investors should read the offering documents, if applicable, for the details and specific risk factors of any Fund/Strategy discussed in this document.

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As of June 30, 2020.

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GCM GROSVENOR

Approaches and Considerations for Establishing an In-State / Regional Program

October 2020

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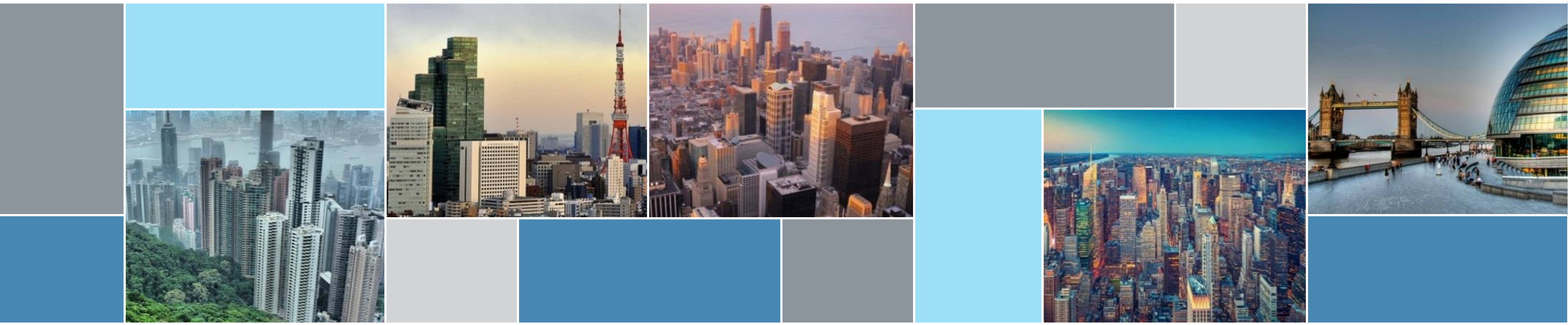

The Notes and Disclosures following this presentation are an integral part of this presentation and must be read in connection with your review of this presentation.

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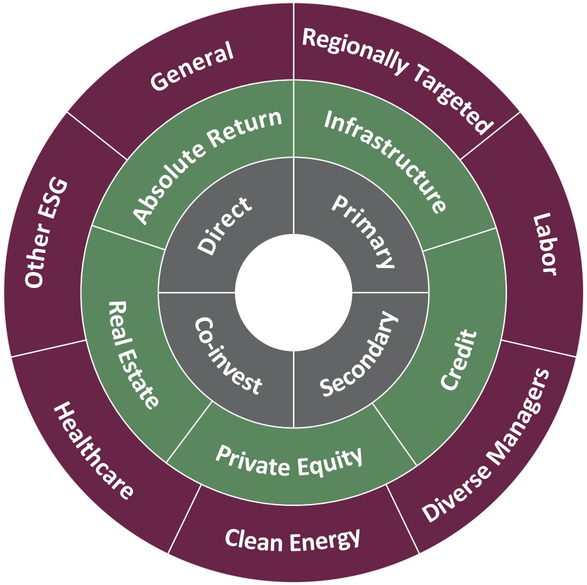
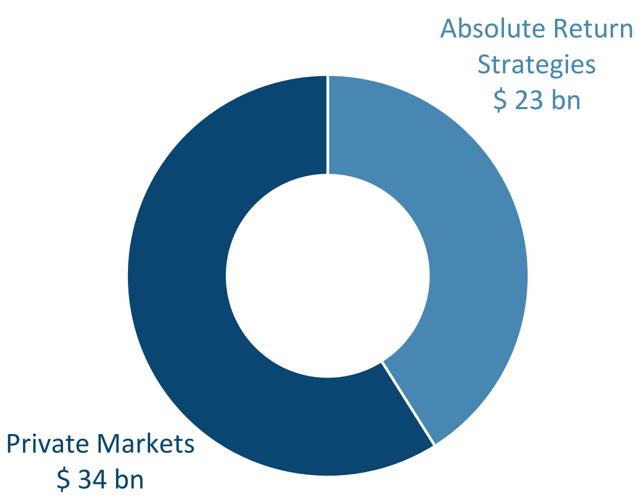
50 Years of Alternatives Investing

GCM Grosvenor is one of the world's largest and most diversified independent alternative asset management firms.

1971 First year of Investing	**77%** of AUM in customized separate accounts	**$57 bn** Assets under Management	**497** Employees	**171** Investment professionals





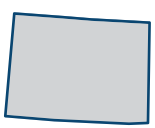
Employee data as of October 1, 2020. AUM data as of June 30, 2020. The Operational Due Diligence team is included in the Investment professionals count.

Representative Regionally-Targeted Investment Programs

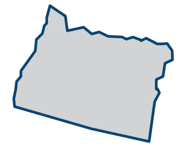
Each program varies in size, scope, investment objectives and strategies, program goals, implementation and measurement of impact

- Invest Michigan SBIC Fund
- Michigan 21st Century Investment Fund
- InvestMichigan! Growth Fund
- Venture Michigan Fund I
- Venture Michigan Fund II

- California Impact Fund
- California Mezzanine Investment Fund

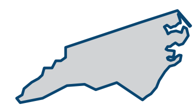


- Colorado Mile High Fund



- Oregon Investment Fund

- New York Co-Investment Program



- NC Innovation Fund

- Florida Opportunity Fund

- Strategic Credit Fund

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Key Questions to Address

Developing answers to the following key questions will help guide program evaluation and development when considering a potential in-state / regional program.

Strategy / Program Goals	▪ What are the program objectives? ▪ How is success defined for the program? ▪ Which investment asset classes are within scope (PE, RE, infrastructure) and which are excluded? ▪ Is the program focused solely on in-state investments or broader regional investments? ▪ What are the return expectations? ▪ Will the program pursue a place-based and or sector-based strategy? ▪ What are the key program milestones? ▪ What is the timeline for evaluating a program's success? ▪ Which metrics will be tracked to measure the program's progress? ▪ What is the expected program risk profile / appetite? ▪ Which clusters of in-state innovation / competitive advantage are expected to drive deal flow? ▪ Will the program have a broad / diversified focus or a more narrow/targeted focus on early stage company investments? ▪ What is the targeted number of investments?
Sizing / Investment Universe	▪ What is the minimum criteria for an investment to qualify as an in-state / regional deal? ▪ How much capital is targeted for deployment? ▪ Does the current in-state deal flow support the proposed capital deployment plan? ▪ Could the new program expand the investment universe? ▪ Which industries generate the most deal flow? ▪ Are existing investment opportunities failing to attract capital or are there few investment opportunities? ▪ Who are the most active GPs/investors in the state / region? ▪ Is the investment ecosystem / community in place to support the planned growth? ▪ What's the typical deal size of existing investments?
Capital Source(s)	▪ Will the program's capital be provided by a single LP or multiple LPs? ▪ Will all capital be committed upfront or after achievement of specific milestones?
Communications	▪ Who are the key stakeholders and how frequently will they require updates? ▪ What are the expectations for ongoing reporting of the program's progress?
Resources / Team	▪ Which governance model will be employed for the program? ▪ Who would be involved to manage the program? Only investment team members or a broader group of stakeholders? ▪ Will the program have an advisory board? ▪ Are internal resources sufficient to source, consummate and monitor investment? Are out-sourced resources required?

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Approaches to In-State Programs

Considerations for Achieving Various Potential Program Goals

Approach	Key Considerations
Support new company creation	▪ Develop early stage VC-focused program, with capital available to fund companies as they grow ▪ Consider investments in VC funds and direct investments in companies ▪ Help build a network between universities, labs, incubators, and others
Support growth of existing companies	▪ Nexus to the State is easily identified ▪ Establish diversified investment program with flexibility to invest debt and or equity in companies of varying maturity ▪ Include companies within the state / region and those growing into the area ▪ Include investments in funds and direct investments in companies ▪ Include flexibility to incentivize GPs to spend time in region sourcing deals
Grow investment community / ecosystem	▪ Target investments to attract existing GPs to establish offices / presence in state ▪ Focus on supporting establishment of new funds
Support IP transfer from Universities	▪ Build off of and utilize existing relationships with universities ▪ Include investments in funds and direct investments in companies ▪ Team with incubators and economic development agencies to foster entrepreneurial growth

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Potential Approaches to In-State Programs (cont'd)

Portfolio Construction Considerations When Developing Program Goals

Select risks include: *manager risk, macroeconomic risk, credit risk, interest rate risk, security selection risk, mark-to-market risk, jurisdiction risk, regulatory risk, capital markets risk, and inflation risk. Additional risks that result in losses may be present.*

Approach	Key Considerations
Fund Investments	▪ Matching high performing funds to program objectives is often difficult ▪ Diligence complexity / resource intensity for evaluating emerging manager investments ▪ Adherence to program objectives and fund in-state/regional nexus expectations ▪ Potentially longer time frame to assess success of fund investments
Co-Investments	▪ Nexus to the State is easily identified ▪ Potential to reduce J-curve for a program ▪ High quality sponsored opportunities are often limited ▪ Potential concentration in key industries most prominent/acquisitive within the state
Venture Capital/Growth Equity	▪ Very long investment cycle (extended J-curve) ▪ Typically lower job impact ▪ Technology expertise is critical in the fund
Private Equity	▪ Generally less volatile than venture or growth ▪ Typically greater in-state job impact ▪ Lends itself to co-investment opportunities
Real Estate	▪ Variety of potential strategies ▪ Cash flow generation and J-curve similar to private equity ▪ Job impact depends on project / investment scope
Infrastructure	▪ Cash yield potentially mitigates J-curve impact ▪ Longer investment horizon can provide recession resistance to the portfolio ▪ Can generate co-investment opportunities

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Measuring Impact

Sample metrics for assessing an in-state / regional program could include:

Metric	Key Considerations
Capital Deployment	▪ Dollars invested in region ▪ % of capital invested in region ▪ Other dollars from outside the program invested in the same investments ▪ Number of investments in region
Jobs and Infrastructure	▪ Number of jobs created or maintained in region ▪ Number of company headquarters in region ▪ Number of facilities in region
Impact	▪ Woman, indigenous, or minority-owned funds and companies ▪ Spending / payroll taxes / procurement by portfolio companies in region ▪ Track businesses in underserved and Low and Moderate Income ("LMI") areas
Quality of Jobs	▪ Percentage of companies providing benefits to employees including but not limited to: › Medical Insurance › Retirement Plan › Paid Sick leave › Paid Vacation › Company Stock › Other benefits including disability benefits

For illustrative purposes only. No assurance can be given that any investment will achieve its objectives or avoid losses.

Appendix

Additional Information

Experience Managing Regionally Targeted Programs

We have extensive experience developing and managing regionally targeted private equity investment programs.

- We have committed approximately **$2.0 billion** for regionally targeted programs
- Existing programs in California, Colorado, Florida, Michigan, New York, North Carolina and Oregon
- Our regionally targeted programs are managed for several public pension plans, state governments and corporations, all with a stated interest in both return generation and localized economic impacts
- The programs are administered by senior investment professionals who have substantial regional investment experience, both prior to and during their work with GCM Grosvenor

Data as of March 31, 2020.

No assurance can be given that any investment will achieve its objectives or avoid losses.

Regionally Targeted Program Experience

We have significant experience developing and managing innovative, regionally targeted private equity investment programs for public pension plans, corporations and governmental agencies.

Colorado Mile High Fund

- A $50 million regional co-investment focused program designed to invest in businesses with a nexus to the state

NC Innovation Fund

- $482 million Innovation Funds (two series) focused on achieving an attractive risk-adjusted rate of return by investing in businesses or in funds with a nexus to North Carolina
- Investments across a diverse array of industries with a goal of supporting positive economic impacts to the state by leveraging program capital with partners

Florida Opportunity Fund

- A $29.5 million regional private equity program jointly awarded to GCM Grosvenor Private Markets and Arsenal Venture Partners in June 2008 by Enterprise Florida Inc. that makes targeted investments in seed and early stage VC funds

New York Co- Investment Program

- A $225 million co-investment program developed for the New York State Common Retirement Fund that focuses on New York-based co-investment opportunities that we believe have the potential to generate attractive risk-adjusted returns
  - The program includes a $200 million re-up completed in 2007 that includes cleantech co-investments and seeks to create green-collar jobs in NY

For illustrative purposes only. The regionally targeted private equity investment programs presented above are in summary format and are not intended to provide complete disclosure regarding such programs. It should not be assumed that recommendations made by GCM Grosvenor in the future will achieve the outcomes of the programs described above. **No assurance can be given that any investment will achieve its objectives or avoid losses.** Use of clients' names above does not imply endorsement of GCM Grosvenor or its services.

Regionally Targeted Program Experience

Continued

InvestMichigan! Growth Fund

- A $450 million program that seeks to generate attractive returns for the State of Michigan Retirement Systems, while encouraging the growth of businesses and jobs in the state
- The fund invests directly into Michigan-based companies across a variety of industries and investment stages
- A $180 million re-up was completed in 2012
- A $100 million re-up was completed in 2016

Venture Michigan Fund

- A $215 million venture capital fund investment program formed under the Michigan Early Stage Venture Investment Act of 2003 that seeks to promote Michigan's economic health through the establishment of a fund of funds that invests in private equity managers making venture capital investments in Michigan
- The Michigan Department of Treasury agreed to provide investors with a guarantee of up to $450 million through the issuance of tax vouchers
  - The program size includes a $120 million re-up completed in 2010

Michigan 21st Century Investment Fund

- A $109 million private equity fund created in accordance with the provisions of Michigan Public Act 225 of 2005 to promote Michigan's economic health through the establishment of a fund of funds that invests in private equity managers making venture capital, buyout and mezzanine investments in Michigan
- The fund was fully committed in early 2010
- The portfolio companies have been successful in attracting over $193 million of total capital, nearly 5x the Michigan 21st Century Investment Fund managers' investment

Invest Michigan SBIC Fund

- A $150 million Impact Investing SBIC focused on mezzanine debt and other growth financing opportunities in economically distressed areas in Michigan
  - $50 million of private capital was leveraged with $80 million of Small Business Administration ("SBA") funds to create the program
- For the benefit of Michigan, we were able to utilize our relationship with the SBA to work closely with staff in creating the first Impact Investment program

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Regionally Targeted Program Experience

Continued

Oregon Investment Fund

- A $158 million regional private equity program that was established for the Oregon Public Employees Retirement Fund that focused on investing in private equity fund and select co-investment opportunities primarily within the State of Oregon and the Northwest region
  - The program includes a $52 million re-up that was completed in 2007

Californian Mezzanine Investment Fund

- A $80 million program designed for the California Public Employees' Retirement System, focused on mezzanine debt investments in companies with a strong nexus to California
- The fund is opportunistic in targeting attractive equity or equity-like investments alongside the mezzanine investments with a view to providing the potential for enhanced or differentiated returns
- Established in October 2014, the fund invests on a co-investment and direct basis across a variety of industries

California Impact Investment Fund

- Impact Investing SBIC is a $67 million program focused on making direct mezzanine debt investments in businesses with a California nexus and/or businesses with a positive economic, environmental and/or social value, including the education, cleantech, healthcare, and social enterprise sectors
- The fund employs a return-driven, capital preservation strategy focused on mezzanine debt investments with some exposure to equity securities for upside potential

Strategic Credit Fund

- A $200 million program designed for the United Auto Workers Retiree Medical Benefit Trust, equally split between private equity primaries and co-investments
- The private equity program targets investments in private equity funds located in the State of Michigan, and the co-investment program targets investments in companies located in, or with a nexus, to Michigan
- Both established in May 2019, the primaries fund is targeting being fully committed by May 2023, while the co-investments fund is targeting May 2024

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GCM Grosvenor

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Hamilton Lane

North Dakota State Investment Board

October 2020









We Enrich Lives & Safeguard Futures

- Do the right thing
- Integrity, candor and collaboration
- The pursuit of excellence
- A spirit of competition that inspires innovation
- Promoting equity and inclusion from within

Hamilton Lane Overview

A global leader in the private markets for 29 years

Market Leaders

$515.8B
Assets under management & supervision[1]

$33.7B+
Capital deployed in 2019[2]

Global

17
Offices globally

26
Languages spoken

400+
Employees

Aligned

~$374.4M
Invested alongside our clients

HLNE
Nasdaq listed

Significant
Employee ownership

48%
Women/Minority employees[3]

As of June 30, 2020

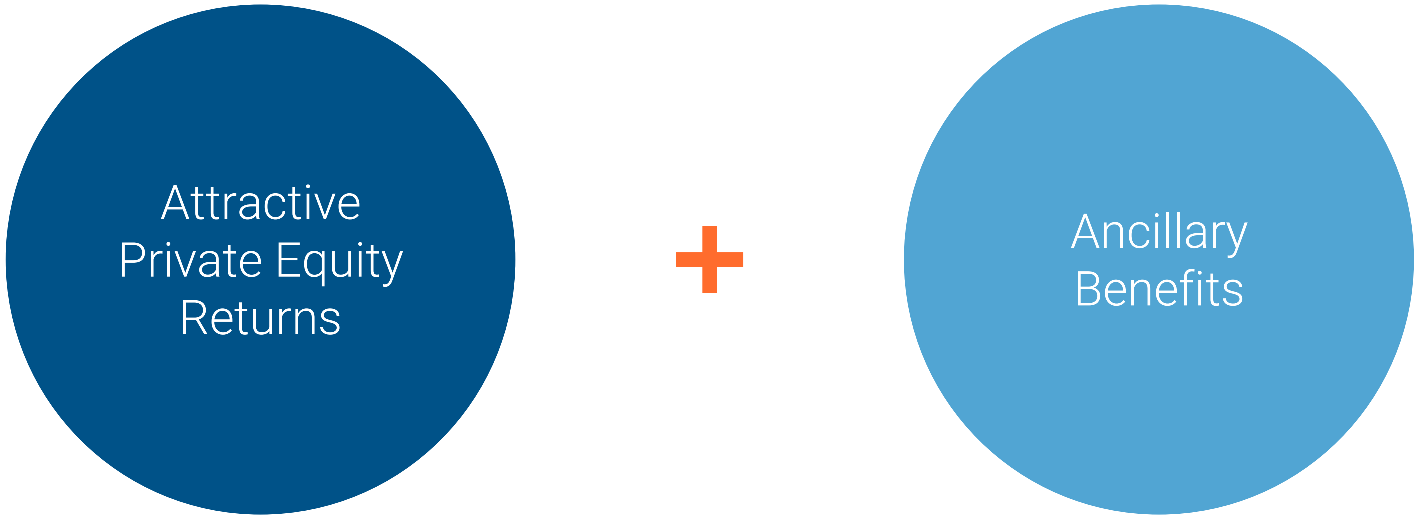
[1] Inclusive of $68.5B in assets under management and $447.3B in assets under supervision as of June 30, 2020.

[2] The 2019 capital invested includes all primary commitments that closed during the year 2019 for which Hamilton Lane retains a level of discretion as well as advisory client commitments for which Hamilton Lane performed due diligence and made an investment recommendation. Direct Investments includes all discretionary direct equity and direct credit investments that closed during 2019. Secondaries includes all discretionary secondary investments with a signing date during 2019.

[3] Diversity statistics representing minority employees include only employees in US offices.

Targeted Investment Programs

Private Market investment programs created to generate attractive returns as well as achieve specific ancillary goals that are of social or economic nature



- Cultivate local financial + economic resources
- Connect regional businesses + entrepreneurial community
- Deliver Hamilton Lane's experience + network

- Regional Job Creation
- Economic Activity + Diversification
- Development of Private Market Ecosystem

Also referred to as "Impact Investment Programs" or "Double Bottom Line Programs".

Key Opportunities

Investment Performance Benefits

- Track Record
- J-Curve Mitigation
- Take advantage of investment opportunities otherwise not a fit for the broader PE mandate

Economic and Social Benefits

- Employment + Wage Growth
- Increased Tax Base
- Help grow sustainable and appropriate industry sectors
- Facilitate and attract non-local investment

Public Relations Benefits

- Positive publicity for the Organization, Board and Staff
- Attract and encourage constituent participation
- Data to assist state policy makers

Core Portfolio Benefits

- Incubator for potential future core manager relationships
- Diversification tool that offers more control
- Flexibility of structure can help fulfill exposure and/or return considerations

Key Considerations

Due to their very nature, such programs require dedicated effort and investment discipline to execute successfully

Important factors to consider:

Clarity of Goals and Objectives	Matching Investment Landscape and Goals	Amount of Capital/ Size of Opportunity
Suitable Governance Structure	Manager Expertise/Platform	Flexible Investment Guidelines
Familiarity with PE/VC Culture	Benchmarking	Creating Measureable Ancillary Benefits

In-State Program Experience

History of developing place-based (or regionally targeted) investment programs globally

$1.4B	20	4	$2.0B
AUM[1]	Years	Programs[2]	Committed Capital[3]

Idaho	New York	California	Florida	Nevada
2001	2002	2006	2009	2012

Experience in Targeted Investment Programs

- Pioneered geographically focused private equity programs
- 20 years of Targeted Investment Programs experience with reputable institutional LPs
- Approximately 50% of capital in underserved regions

Proven Long-Term Performance

- Multi-faceted investment platform (Co-Investments, Primaries, Secondaries)
- Generated meaningful liquidity across more seasoned programs
- Over 20,000 new jobs created across programs[4]

As of June 30, 2020

[1] AUM equals assets under management for active accounts. AUM is equal to market value, unfunded, plus ANI. ANI is defined as the amount of money remaining that has been authorized to Hamilton Lane but not invested.

[2] Idaho is excluded from the figures at the top of the page as it is not a designated program. As part of its advisory relationship, Hamilton Lane works along side an Idaho-based public pension fund on a non-discretionary basis to commit to regional focused investment funds.

[3] Committed equals the total dollars committed to investments including liquidated investments.

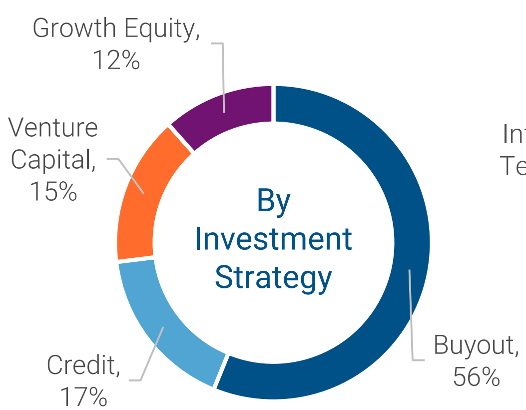
[4] Hamilton Lane collects economic development data from underlying managers annually.

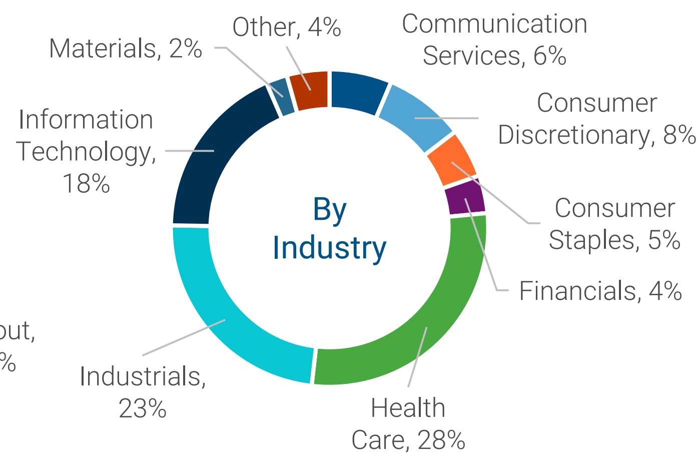
Case Study: Florida

Highlights

- Program launched in 2009 to generate attractive private equity returns and invest in technology and growth companies in the state of Florida
- Emphasis on growth, technology and healthcare industry sectors
- Committed to invest $777.1 million in 56 technology and growth companies and 40 private equity funds
- Over 19,200 new jobs created[1]
- Investments dispersed across 14 state counties
- Net Returns for the Florida program have exceeded market-based investment benchmarks

Diversification





Areas of Focus

- Gender Balance
- Engagement with GPs & Boards
- Measureable goals reported to investors
- Continued growth stimulated by creative investment ideas

As of June 30, 2020

[1] Hamilton Lane collects economic development data from underlying managers annually.

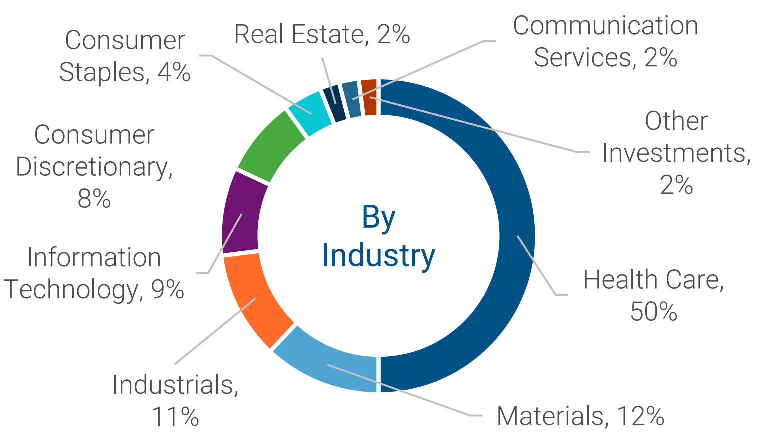
The information contained herein is based on the latest available information and Hamilton Lane's opinions as of the date of this presentation and subject to change at the Firm's discretion.

Case Study: Nevada

Highlights

- Program launched in 2012 to generate attractive returns by investing in private equity opportunities in Nevada, with a secondary objective to help economic activity and employment in the state
- $45 million committed in 7 companies and 7 private equity funds totaling 29 investments in to Nevada-based companies
- Over 950 new jobs created[1]
- Investments spread throughout the state

Diversification



Areas of Focus

PE Ecosystem:

- $2,392M of capital raised by SSOF portfolio companies (48x) multiplier
- Four offices opened by institutional investors in Nevada SSOF during investment period

Employment[2,3,4]:

- 2,393 Nevada employees supported by SSOF investments at peak
- $84k average wage for Nevada employee at SSOF companies as of June 30, 2020
- 78% higher than the 2017 Nevada average wage

As of June 30, 2020

[1] Hamilton Lane collects economic development data from underlying managers annually.

[2] Head count growth calculated based on number of full time employees as of 6/30/2020 compare to number of stabilized full time employees at portfolio companies as of the Silver State Opportunity Fund (SSOF) investments. Stabilization adjustments performed only for companies that were not long-term viable economic entities at the time of investment.

[3] Nevada employees on non-farm payroll growth from 6/30/2012 to 6/30/2020 according to the U.S. Bureau of Labor Statistics.

[4] Based on Bureau of Labor Statistics May 2019 average wage for all Nevada occupations.

North Dakota at a Glance

- Population: 762k; ~400k in the labor force
  - 19th largest state in area; 4th smallest by population
- Low unemployment rate of 5% up from 2.4% in Feb. 2019 (likely COVID-related)
- 79% of households estimated to have broadband internet
- 73,142 small businesses with 198,964 employees (~50% of labor force)
- Currently ranked 5th in the United States for economic performance
- Key Industries: Food & Ag, Farming & Natural Resources, Tourism, IT, Advance Manufacturing and Autonomous Systems
  - 2nd largest energy producing state in the nation
  - State's technology subsectors employ approximately 22,000 people across 3,000 businesses
  - 22 million annual visitors ~$3 billion in visitor spending each year
- 11 public colleges and universities, five tribal community colleges and four private schools
- US News & World Report ranked North Dakota #1 for quality of life in 2017
- In FY 2019 - the SBA approved 183 7(a) and 504 loans worth $76.1 million to North Dakota small businesses

Opportunities & Challenges exist in the region for creating an In-State Investment Program

The information contained herein is based on the latest available information and Hamilton Lane's opinions as of the date of this presentation and subject to change at the Firm's discretion.
References: U.S. Bureau of Labor Statistics (October 2020); U.S. Census Bureau (July 2019); Rich States, Poor States (2020); U.S. Small Business Administration (2019).

Roadmap for Developing an In-State Program

Hamilton Lane has significant experience building In-State programs, delivering outstanding investment results & bringing capital to communities across the United States

Returns & Diversification Focused

Ancillary Objectives

Staffing & Resources

Program Adaptability

✓ Determine size of opportunity / feasibility of execution

✓ Understand resources to execute: need of a local presence with experienced partner organization
- “Feet on the street”
- Alignment and strong governance
- Leverage global platform and resources

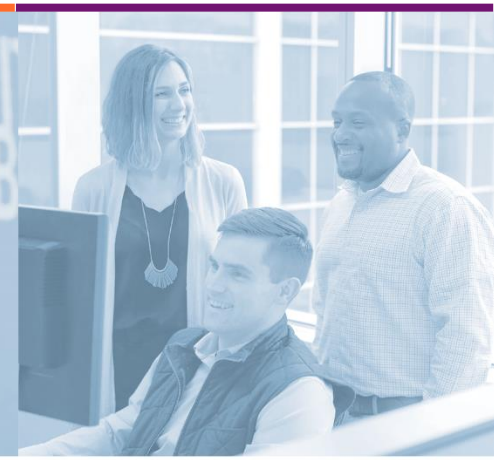
✓ Set Clear Objectives: Return-first focus
- Improve access to long-term capital in North Dakota
- Foster creation of high-quality companies and jobs

✓ Map out Portfolio Construction
- Expect a heavy Co-Investment element
- Flexible capital in multi-year or tranched approach for proof of concept
- Determine key focus areas in innovative sectors and companies but coupled with opportunities in the State’s areas of strengths/needs such as agriculture and infrastructure

✓ On-going communication with key constituents
- Enhance local investment ecosystem
- Seek to deliver liquidity and investment returns for beneficiaries

Living Our Mission

Our success as investors, as partners with our clients, as colleagues, and as members of a wider community, means we enrich the lives of our:

Communities	Beneficiaries	Investing Partners	Employees
			

Hamilton Lane Diversity & Inclusion

HLWell

Advancing Women Company Award

Pensions&Investments BEST PLACES TO WORK IN MONEY MANAGEMENT 2019 MULTIYEAR WINNER 2012 2013 2014 2015 2016 2017 2018

BEST PLACES to work in PA 2012 - 2019

HLinAction

HLWE WOMEN'S EXCHANGE

one:ten 100

47 MARIO GIANNINI CEO, HAMILTON LANE
If you haven't spent time with Mario in Philadelphia, you probably aren't in private equity at all

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The following hypothetical example illustrates the effect of fees on earned returns for both separate accounts and fund-of-funds investment vehicles. The example is solely for illustration purposes and is not intended as a guarantee or prediction of the actual returns that would be earned by similar investment vehicles having comparable features. The example is as follows: The hypothetical separate account or fund-of-funds consisted of $100 million in commitments with a fee structure of 1.0% on committed capital during the first four years of the term of the investment and then declining by 10% per year thereafter for the 12-year life of the account. The commitments were made during the first three years in relatively equal increments and the assumption of returns was based on cash flow assumptions derived from a historical database of actual private equity cash flows. Hamilton Lane modeled the impact of fees on four different return streams over a 12-year time period. In these examples, the effect of the fees reduced returns by approximately 2%. This does not include performance fees, since the performance of the account would determine the effect such fees would have on returns. Expenses also vary based on the particular investment vehicle and, therefore, were not included in this hypothetical example. Both performance fees and expenses would further decrease the return.

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The calculations contained in this document are made by Hamilton Lane based on information provided by the general partner (e.g. cash flows and valuations), and have not been prepared, reviewed or approved by the general partners.

As of October 15, 2020

Memorandum

To: Jon Godfread, Insurance Commissioner and State Investment Board Member;

Dave Hunter, Retirement and Investment Office Executive Director

From: Dean DePountis, Assistant Attorney General

Date: October 14, 2020

Re: Legacy Fund vis-a-vis Economic Development

Summary

During the September 25, 2020 regular board meeting, the State Investment Board (SIB) discussed investing a portion of the Legacy Fund in economic development. At discussion's end, Insurance Commissioner and SIB Member Jon Godfread, and RIO Executive Director Dave Hunter, requested counsel comment on SIB's authority to invest a portion of the Legacy Fund in economic development.

In my view, SIB may invest a portion of the Legacy Fund in economic development provided any such investment is accomplished in accordance with: 1) recommendations from the Legacy and Budget Stabilization Fund Advisory Board; and 2) the prudent investor rule.

Analysis

North Dakota's constitution provides "[t]he state investment board shall invest the principal of the North Dakota legacy fund."[1] Though undefined in the constitution, "invest" generally means to apply money for profit.[2] For the purpose of this analysis, and as inferred from the September 25 board meeting, the presumption is that the relevant definition of economic development is applying money locally with the expectation of a return proportionate to the risk.

Like other state agencies created by statute, SIB has only such authority or powers as are granted to it or necessarily implied from the grant.[3] One of those powers is investing the funds enumerated in N.D.C.C. 21-10-06, including the Legacy Fund.[4] When investing funds under its supervision, SIB "shall apply the prudent investor rule" and consider recommendations from each fund's advisory board.[5] 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

---

[1] North Dakota Constitution, Article X, Section 26.

[2] See N.D Op. Att'y Gen. L-05 (2011) (The word "invest" is not defined in N.D. Const. art. X, § 26, but its usage within the section does not imply something different than the ordinary definition for the word which could mean both the "laying out of money in a way intended to secure income or profit," and also the expenditure of funds to "purchase securities ... or to place money or property in business ventures or real estate ... so that it may produce revenue ...) (Internal citations omitted).

[3] N.D. Op. Att'y Gen. L-38 (1999) (citing *First Bank of Buffalo v. Conrad*, 350 N.W.2d 580, 584-585 (N.D. 1984)).

[4] N.D.C.C. 21-10-02, N.D.C.C. 21-10-06(l).

[5] N.D.C.C. 21-10-02, N.D.C.C. 21-10-07.

> permanent disposition of funds, considering probable safety of capital as well as probable income.[6]

Additionally, "[t]he asset allocation and any subsequent allocation changes for each fund must be approved by the governing body of that fund and the state investment board."[7] Germane here is the Legacy and Budget Stabilization Fund Advisory Board, whose "goal of investment for the legacy fund is principal preservation while maximizing total return."[8]

Summarizing the aforementioned language, SIB's investment decisions must be informed by the objectives of each fund – be those objectives codified or conveyed to SIB by each fund's advisory board – and the prudent investor rule.

To move forward, the following questions, with financial advisor involvement, are worth exploring:

1) What will be the stipulated definition of economic development;
2) Once economic development is defined, are the Legacy and Budget Stabilization Fund Advisory Board and SIB interested in considering an economic development dimension within the Legacy Fund's overall investment portfolio;
3) If the answer to question 2 yes, what is the projected investment risk of economic development; and
4) What size allocation of such projected investment risk lies within the contours of the prudent investor rule.

Should the board decide to proceed, the SIB Governance Manual, page E-8, provides guidance on procuring qualified investment managers in its policy titled: Implementation – Investment Manager Selection.

Conclusion

Although there is no legal obligation to do so, SIB may invest a portion of the Legacy Fund in economic development if, however ultimately defined, economic development can return a profit on the investment commensurate with its risk and the amount of the total portfolio allocated to that magnitude of risk is consistent with the prudent investor rule.

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[6] N.D.C.C. 21-10-07
[7] N.D.C.C. 21-10-02.1(2).
[8] N.D.C.C. 21-10-11

Agenda Item III.B.7.

Informational

TO: **State Investment Board**

FROM: **Dave Hunter and Darren Schulz**

DATE: **October 21, 2020**

SUBJECT: **Legacy Fund In-State Investment Proposal**

Overview:

Pursuant to NDCC 21-10-11, the Legacy and Budget Stabilization Advisory Board is created to develop recommendations for the investment of funds in the Legacy Fund and Budget Stabilization Fund. This point was also highlighted in Assistant Attorney General Dean DePountis memo on *Legacy Fund Economic Development* (dated 10/14/20).

Background:

In 2017, the SIB and Legacy Fund Advisory Board acknowledged the transfer of the BND In-State Investment Program from the Budget Stabilization Fund to the Legacy Fund. The SIB formally accepted the Legacy Fund Investment Policy Statement (IPS) as approved by the Advisory Board noting it stated "The BND CD investment will be limited to the lesser of $200 million or 5% of the Legacy Fund (and represent a sector allocation within fixed income.)" BND CD's are rated AA by S&P largely based on the financial strength of State of North Dakota. **BND CD's returned 2.82% in fiscal 2020 and 3.07% for the 3-years ended June 30, 2020 (with a $89 million balance at June 30, 2020). The SIB approved a $100 million increase in the BND In-State Investment Program on August 23, 2019, and a second $100 million increase on September 25, 2020, to raise the BND Match Loan CD Program commitment up to $400 million.**

BND Request:

Given significant future anticipated growth in the Match Loan CD Program, BND President Eric Hardmeyer requested the SIB to increase the size of the program by $100 million, which slightly exceeds the target asset allocation of 5% assumed by Callan when most recently confirming the Legacy Fund's overall asset allocation (of 50% equity, 35% fixed income and 15% real assets) in May of 2018. RIO shared this request with Callan, who confirmed that RIO should seek refreshed indicative pricing on BND CD's from its fixed income managers in order to determine the appropriate credit and liquidity spreads for the program.

Indicative Pricing Estimates: RIO reached out to our largest SIB fixed income managers to obtain indicative pricing for BND CD's issued at fixed rates for terms of up to 10 years.

Indicative pricing spreads widened (or increased) versus like term U.S. Treasuries (UST) at all tenors, but absolute rates declined sharply due to government intervention (triggered by the pandemic). **Based on this indicative pricing analysis, RIO seeks to confirm the refreshed pricing terms with BND in the near future:**

0.00% spread to UST for terms up to 5-years;
0.10% spread to UST for terms over 5-years, but no more than 5.5 years;
0.20% spread to UST for terms over 5.5-years, but no more than 6.5 years;
0.30% spread to UST for terms over 6.5 years, but no more than 7.5 years;
0.40% spread to UST for terms over 7.5 years, but no more than 8.5 years; and
0.50% spread to UST for terms over 8.5 years, but no more than 10 years.

BND will be requested to guarantee a minimum net investment return of 1.5%. The minimum return requirement will be periodically reviewed in connection with the Fund's overall asset allocation framework. **U.S. Treasury rates at 10-years and 30-years were at 0.82% and 1.64%, respectively, as of October 22, 2020 (at 11:27am CT).**

NDSIB Governance Policy: Bank of North Dakota Match Loan Program (E-12)

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 maturities up to 10 to 15 years, but not longer than 20 years, 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.

RIO Recommendation:

On or before November 12, 2020, RIO will request the Legacy and Budget Stabilization Fund Advisory Board ("Advisory Board") to accept a $100 million increase in the BND Match Loan CD Program to raise this In-State Investment Program Limit up from $300 million to $400 million noting that new pricing terms will be generally at or slightly above current market rates based on discussion with our leading fixed income managers in adherence with the "prudent investor rule". **RIO will also request the Advisory Board to advise if it desires to formally recommend the SIB consider expanding the existing in-state investment program to include other types of asset classes such as private equity, private debt and/or private real estate on or before November 12, 2020.**

Pursuant to NDCC 21-10-11, "the staff (RIO) and consultants of state retirement and investment office (Callan) shall advise the (Advisory) Board in developing asset allocation and investment policies".

<u>In-State Investment Program Proposal by ND Insurance Commissioner</u>:

On September 24, 2020, Insurance Commissioner Jon Godfread shared his "North Dakota Legacy Investments Strategic Vision Plan" with RIO including the following proposed changes to the Legacy Fund Investment Policy Statement.

NORTH DAKOTA LEGACY FUND
INVESTMENT POLICY STATEMENT
(Insurance Commissioner proposal for "ND Legacy Investments Strategic Vision Plan")

3. Responsibilities and Discretion of the State Investment Board

Add to paragraph 4 – language in bold:

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in pools**. At the discretion of the SIB, up to 10% of the Fund's assets may be designated for investments in economic development projects within the State of North Dakota, notwithstanding any other provision of this investment policy statement.**

A North Dakota Investment Advisory Committee shall be appointed as a sub-committee to the State Investment Board to establish qualifying investment guidelines for North Dakota investment projects. Members of the Committee shall include:

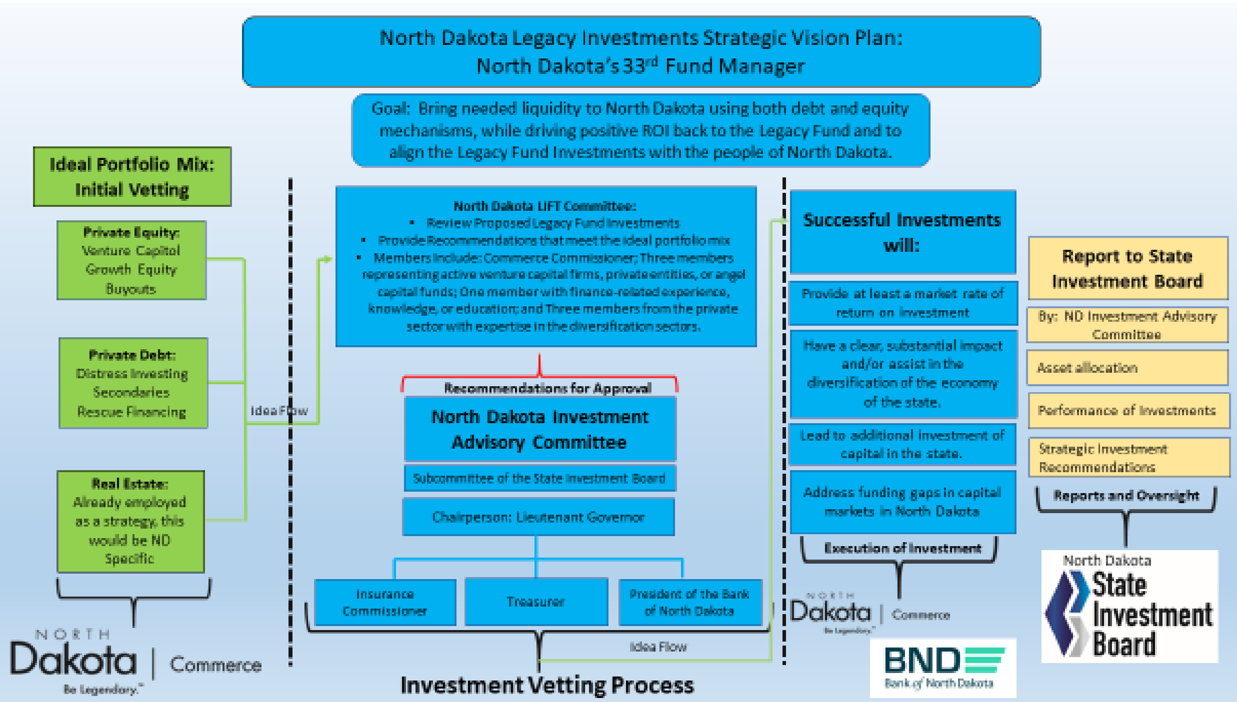
1. **Chairperson of the North Dakota Investment Advisory Committee – Lieutenant Governor**
2. **The North Dakota Insurance Commissioner**
3. **The Treasurer for the State of North Dakota**
4. **The President of the Bank of North Dakota**

The North Dakota Investment Advisory Committee may partner with other advisory entities, either public or private to provide the subcommittee with technical assistance.

In determining whether to recommend an investment, the subcommittee shall at a minimum consider the extent to which the proposal will:

1. **Provide a market rate return on investment.**
2. **Have a clear, substantial economic impact and/or assist in the diversification of the economy of the state.**
3. **Lead to additional investment of capital from private sector entities in North Dakota.**
4. **Address funding gaps in capital markets in North Dakota.**

RIO believes the proposed governance structure inherent in the "Investment Vetting Process" shown on the "ND Legacy Investments Strategic Vision Plan" (see next slide) is likely inconsistent with the SIB's current governance standards with regards to "Investment – Fiduciary Duties (E-1), Key Program Entities and Responsibilities (E-3), Investment Policy Development (E-4), and Investment Manager Selection (E-8)". **However, the "Ideal Portfolio Mix"** of private equity, private debt and real estate **highlights the asset classes under consideration for an expanded in-state investment program and the ND LIFT Committee could serve to identify investment opportunities for consideration by a third party investment manager(s)** selected by the SIB to implement the Legacy Investments Strategic Vision **after a comprehensive investment manager due diligence search process conducted by an SIB approved investment consultant and RIO staff**.



Alaska Permanent Fund Corporation (APFC) and North Dakota Legacy Fund

The Alaska Permanent Fund pairs an existing APFC approved manager with a local investment manager to run their "In-State Investment Program". The APFC has a total fund value of $65 billion as of June 30, 2020, and made "an initial allocation of $200 million" to the APFC in-state program last Fall (or a 0.31% target asset allocation).

APFC launches In-State Investment Program

September 2019 - The Alaska Permanent Fund Corporation is pleased to announce the launch of the **Alaska Investment Program**. Recognizing the opportunity to earn attractive returns by backing emerging private market fund managers and private market investment opportunities in Alaska, APFC's Board of Trustees, through Resolution 18-03, directed APFC staff to select external private market fund managers to execute an Alaska focused private markets investment program with an initial allocation of $200 million.

Consistent with the requirements of Alaska Statute 37.13.120(c), this strategic approach to identifying and supporting talented private market fund managers and investments within Alaska will target a rate of return and a risk profile consistent with similar investments outside of Alaska.

Following a competitive process, two external fund managers were selected to implement this strategy: McKinley Capital Management, LLC and Barings, LLC. At a presentation before Accelerate Alaska in Anchorage, CEO Angela Rodell noted "we are excited to get this program underway and look forward to working with these two managers to achieve competitive, market-based investment returns and capture investment potential right here in Alaska."

McKinley Capital Management, LLC ("McKinley") was founded in 1990 and today is the largest private financial services company in Alaska. McKinley currently manages approximately $5 billion worldwide for corporate and public pension funds, sovereign wealth funds, and other institutional investors.

Florida Growth Fund

The Florida Growth Fund initiative is a result of the Florida Technology and Growth Act of 2008. The act allows the SBA to invest up to 1.5% of fund assets in technology and growth enterprises that have significant presence in Florida.

Technology and growth investments include, but are not limited to, space technology, aerospace and aviation engineering, computer technology, renewable energy, and medical and life sciences.

The SBA developed a best-practices program that is true to our fiduciary requirements, and embeds a process that is accessible, consistent, transparent and fair. Requirements of the Florida Growth Fund are:

1. **The State Board of Administration (SBA), consistent with its fiduciary duties, may invest up to 1.5 percent of the net assets in technology and growth investments of businesses domiciled in this state or businesses whose principal address is in this state.**
2. **With no more, in the aggregate, than 10 percent of any fund in alternative investments (e.g., private equity, venture capital etc.), or in securities or investments that are not publicly traded and are not otherwise authorized.**
3. **The SBA may offer opportunities to small, state-based investment management firms to facilitate their development and growth.**

Other Regionally Targeted In-State Investment Program Sizes

State Investment Fund	Program Size	Fund Size	Target Allocation
Alaska Permanent Fund	$ 200 million	$ 65 billion	Less than 1%
CalPERS	80 million	415 billion	Less than 1%
Florida SBA	777 million	200 billion	Target up to 1.5%
New Mexico SIC	TBD	27 billion	TBD
New York State Common	225 million	200 billion	Less than 1%
Oregon PERS Fund	158 million	110 billion	Less than 1%
SWIB (Wisconsin)	TBD	121 billion	$103 million in fiscal 2019
			Over $1 billion last 5 years
			Wisconsin Private Debt
			Wisconsin Venture Capital
			Wisconsin CD Program
			Public Equity
			Public Fixed Income
			Real Estate (Indirect)

Note: The above information was accumulated by RIO based on discussion with plan sponsors, investment consultants and publicly available data, but is unaudited and subject to material change. If the SIB and Advisory Board elect to advance this opportunity, the approved investment consultant will be requested to review the reasonableness of this information for further consideration by the SIB, Advisory Board and RIO.

HB 1333 Transferred $15 million of Bank of North Dakota Earnings to establish the Innovation Loan Fund and support technology advancement in North Dakota

Sixty-sixth Legislative Assembly of North Dakota
In Regular Session Commencing Thursday, January 3, 2019

HOUSE BILL NO. 1333
(Representatives Nathe, Howe, Lefor, Mock, Sanford)
(Senators Bekkedahl, Cook)

AN ACT to create and enact a new chapter to title 6 of the North Dakota Century Code, relating to the creation of an innovation loan fund to support technology advancement committee and loan program; to provide a continuing appropriation; and to provide for a transfer.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. A new chapter to title 6 of the North Dakota Century Code is created and enacted as follows:

Definitions.

In this chapter, unless the context otherwise requires:

1. "Commissioner" means the commissioner of the department of commerce.
2. "Committee" means the innovation loan fund to support technology advancement committee.
3. "Diversification sectors" means the following industries:
   a. Advanced computing and data management;
   b. Agriculture technology;
   c. Autonomous and unmanned vehicles and related technologies;
   d. Energy;
   e. Health care;
   f. Value-added agriculture;
   g. Value-added energy; and
   h. Any industry or area specifically identified by the committee as an industry that will contribute to the diversification of the state's economy.

Innovation loan fund to support technology advancement committee - Membership - Meetings.

1. The innovation loan fund to support technology advancement committee consists of:
   a. The commissioner or the commissioner's designee who shall serve as the chairperson of the committee and is a nonvoting member of the committee;
   b. Three members representing active venture capital firms, private entities, or angel capital funds;
   c. One member with finance-related experience, knowledge, or education; and
   d. Three members from the private sector with expertise in the diversification sectors.

2. The commissioner, in consultation with the president of the Bank of North Dakota, shall appoint the members of the committee. The term of office of the appointed members of the committee is four years, and the terms must be staggered so that no more than one of the members' terms appointed under subdivisions b and c of subsection 1 expires each year, and so that no more than one of the members' terms appointed under subdivision d of subsection 1 expires each year. Each term of office commences on the first day of July. Members serve at the pleasure of the commissioner and may be reappointed for additional terms. Members of the committee may not invest or otherwise participate in applied research, experimentation, or operational testing associated with a loan awarded under this chapter. If a committee member appointed under subdivision b of subsection 1 ceases to represent an active venture capital firm, private entity, or angel capital fund, that individual's membership on the committee ceases immediately and the commissioner, in consultation with the president of the Bank of North Dakota, shall appoint a new member to the committee for the remainder of the term.

3. A committee member representing the private sector is eligible to receive compensation in an amount not exceeding one hundred thirty-five dollars per day and travel and expense reimbursement as provided by law for state officers for attending meetings of the committee.

4. The committee shall meet as necessary to make loan recommendations and provide ongoing review of research, development, and commercialization activities.

Innovation loan fund to support technology advancement - Innovation technology loan program.

The department of commerce shall administer the innovation technology loan program in consultation with the Bank of North Dakota to provide loans for activities identified in this chapter. The department of commerce shall provide administrative support for the program, including the drafting of application forms, receiving applications, reviewing applications for completeness and compliance with committee policy, and forwarding complete applications to the committee in accordance with the guidelines established by the committee. Program guidelines relating to ownership of intellectual property, inventions, and discoveries must address activities and issues unique to technologies, patents, and companies created as a result of a legacy innovation technology loan.

Innovation technology loans - Eligibility.

1. The committee shall establish guidelines for entities to qualify for an innovation technology loan under this section. The committee shall consider and process applications in a timely manner that does not jeopardize an applicant's opportunity to leverage other funds.

2. In determining whether to recommend approval of an application, the committee shall consider the extent to which the proposal will:

    a. Deliver applied research, experimentation, or operational testing in one or more of the diversification sectors to create information or data to enhance North Dakota companies or industries or companies making investments in North Dakota;

    b. Lead to the commercialization or patent of an innovation technology solution; or

    c. Result in the development of a new company or expansion of an existing company that will diversify the state's economy through new products, investment, or skilled jobs.

3. The Bank of North Dakota shall review the business plan, financial statements, and other information necessary for the Bank to determine which applications recommended for approval by the committee will be approved by the Bank for final loan approval. The terms of the loan must include:

    a. Zero percent interest for the first three years of the loan;

b. Two percent interest for the next two years of the loan; and

c. An interest rate equal to a standard Bank of North Dakota loan for all subsequent years.

4. To be eligible for a loan under this chapter, an entity shall agree to provide the Bank of North Dakota with information as requested by the Bank.

Innovation loan fund to support technology advancement - Continuing appropriation.

The innovation loan fund to support technology advancement is a special fund in the state treasury and must be administered by the department of commerce. All moneys in the fund are appropriated to the department of commerce on a continuing basis for the purpose of providing innovation technology loans and for administrative expenses. The department of commerce shall deposit in the innovation loan fund to support technology advancement all principal and interest paid on loans made from the fund. Interest earned on moneys in the fund must be credited to the fund.

Use of loan funds.

Loan recipients shall use innovation technology loan funds to enhance capacity and, to the extent possible, leverage state, federal, and private sources of funding. An entity receiving a loan under this chapter may not use the funds for capital or building investments or for research or other activities not identified in this chapter. The funds may not be used for academic or instructive programming, workforce training, administrative costs, or to supplant funding for regular operations of institutions of higher education. Unless otherwise approved by the committee, loan recipients may use funding only to conduct applied research, experimentation, or operational testing within the state. If an entity awarded a loan no longer conducts its activities in the state, the interest rate of the loan shall default to the rate of a standard Bank of North Dakota loan.

Innovation loan fund to support technology advancement - Postaward monitoring.

Upon completion of work performed from funding provided by a loan, the department of commerce shall provide an independent review of the results. Evaluation criteria may include:

1. How the work performed has contributed to the development of a company or the expansion of an existing company, has enhanced the ability of a company to make investments in the state, or otherwise enticed a company to invest or move to the state.

2. How the work performed has led to additional economic investment of capital from public and private sector entities within and outside North Dakota.

3. How the work performed has led to or may lead to a patent or research that is commercially viable.

SECTION 2. TRANSFER - BANK OF NORTH DAKOTA - INNOVATION LOAN FUND TO SUPPORT TECHNOLOGY ADVANCEMENT. The Bank of North Dakota shall transfer the sum of $15,000,000, or so much of the sum as may be necessary, from the Bank's current earnings and undivided profits to the innovation loan fund to support technology advancement for the purpose of providing innovation technology loans during the biennium beginning July 1, 2019, and ending June 30, 2021.

HB 1333 was established by the transfer or appropriation of $15 million of BND earnings in the 2019 legislative session and included below market interest rates of 0% for the first three years of the loan and 2% for the next two years of the loan.

NDCC 21-10-07 requires the SIB to adhere to the definition of "Legal Investments" when investing funds under its supervision and supply apply the "prudent investor rule" when making this determination.

21-10-07. Legal investments.

The state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

U.S. DEPARTMENT OF LABOR – JUNE 2020

WASHINGTON, DC – The U.S. Department of Labor today announced a proposed rule that would update and clarify the Department of Labor's investment duties regulation. The rule is intended to provide clear regulatory guideposts for plan fiduciaries in light of recent trends involving environmental, social and governance (ESG) investing.

Periodically over the last 30 years, the Department has been asked to consider the application of the fiduciary duties of prudence and exclusive purpose under section 404(a)(1)(A) and (B) of the Employee Retirement Income Security Act of 1974 (ERISA) to pension plan investments selected because of non-financial objectives, such as environment, social and public policy goals, that the investments may further. Different iterations of sub-regulatory guidance may have created confusion with respect to these investment issues. **The proposal is designed, in part, to make clear that ERISA plan fiduciaries may not invest in ESG vehicles when they understand an underlying investment strategy of the vehicle is to subordinate return or increase risk for the purpose of non-financial objectives.**

"Private employer-sponsored retirement plans are not vehicles for furthering social goals or policy objectives that are not in the financial interest of the plan," said Secretary of Labor Eugene Scalia. "Rather, ERISA plans should be managed with unwavering focus on a single, very important social goal: providing for the retirement security of American workers."

Acting Assistant Secretary of Labor for the Employee Benefits Security Administration Jeanne Klinefelter Wilson said, "Providing further clarity on fiduciaries' responsibilities in ESG investing will help safeguard the interests of participants and beneficiaries."

The proposal would make five core additions to the regulation:

- New regulatory text to codify the Department's longstanding position that ERISA requires plan fiduciaries to select investments and investment courses of action based on financial considerations relevant to the risk-adjusted economic value of a particular investment or investment course of action.
- An express regulatory provision stating that compliance with the exclusive-purpose (i.e., loyalty) duty in ERISA section 404(a)(1)(A) prohibits fiduciaries from subordinating the interests of plan

participants and beneficiaries in retirement income and financial benefits under the plan to non-pecuniary goals.

- A new provision that requires fiduciaries to consider other available investments to meet their prudence and loyalty duties under ERISA.
- The proposal acknowledges that ESG factors can be pecuniary factors, but only if they present economic risks or opportunities that qualified investment professionals would treat as material economic considerations under generally accepted investment theories. The proposal adds new regulatory text on required investment analysis and documentation requirements in the rare circumstances when fiduciaries are choosing among truly economically "indistinguishable" investments.
- A new provision on selecting designated investment alternatives for 401(k)-type plans. The proposal reiterates the Department's view that the prudence and loyalty standards set forth in ERISA apply to a fiduciary's selection of an investment alternative to be offered to plan participants and beneficiaries in an individual account plan (commonly referred to as a 401(k)-type plan). The proposal describes the requirements for selecting investment alternatives for such plans that purport to pursue one or more environmental, social, and corporate governance-oriented objectives in their investment mandates or that include such parameters in the fund name.

The Department's Employee Benefits Security Administration (EBSA) developed the proposed rule. EBSA's mission is to assure the security of the retirement, health and other workplace related benefits of America's workers and their families. EBSA accomplishes this mission by developing effective regulations; assisting and educating workers, plan sponsors, fiduciaries and service providers; and vigorously enforcing the law.

The mission of the Department of Labor is to foster, promote and develop the welfare of the wage earners, job seekers and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights.

SIB Governance Section D-1 - 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.

NDCC 21-10-07 Legal Investments - Prudent Investor Rule:

The **state investment board** shall apply **the prudent investor rule** in investing for funds under its supervision. The "**prudent investor rule**" **means** that in making investments **the fiduciaries** shall exercise the **judgment and care**, under the **circumstances then prevailing**, that an institutional investor of ordinary **prudence, discretion, and intelligence** exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, **considering probable safety of capital as well as probable income**. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

Legacy Fund Investment Policy Statement - Section 7

Investment Restrictions:

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

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.

c. No transaction may be made that would threaten the tax-exempt status of the legacy fund.

d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

e. No unhedged short sales or speculative margin purchases may be made.

f. Social investing is prohibited unless it meets the exclusive benefit rule, and it can be substantiated that the investment provides an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk. For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.

g. **Economically targeted investing is prohibited unless the investment meets the exclusive benefit rule.**

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

Also, for the purpose of this document, the **exclusive benefit rule** is met if the following four conditions are satisfied:

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

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

Board Approval Requested

State Investment Board

Annual Evaluation of RIO versus Policy Ends

October 23, 2020

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

Jan Murtha, Deputy Executive Director / Chief Retirement Officer

Connie Flanagan, Chief Financial Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Annual Board Planning Cycle – **October:** Annual Meeting for **Evaluation of RIO versus *Ends* Policies**

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ***ANNUAL BOARD PLANNING CYCLE***

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

1. A biennial calendar will be developed.

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

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

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

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

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

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

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

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

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

   C. September: Annual Review of Governance Manual.

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

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

SIB Governance Process B.7: Annual Board Planning Cycle

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

Background: **RIO's "Mission" is defined in SIB Governance Policy D-1 on "Ends".**

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

1. **SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule.** ***(Over 94% of our SIB clients earned net investment returns that exceeded their respective Policy Benchmarks for the 5-years ended June 30, 2020, including the Legacy Fund, PERS and TFFR pension funds and WSI fund.)***
2. **Potential SIB clients have access to information regarding the services provided by the SIB.** ***(New SIB clients include AG Settlement Fund and Veterans' Cemetery Trust Fund.)***
3. **TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.**
4. **TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.**
5. **SIB and TFFR clients receive satisfactory services from the boards and staff of the office.** ***(SIB client satisfaction survey ratings averaged 3.39 in 2020 versus 3.62 in 2019 and 3.67 in 2018 noting 4 = Excellent, 3 = Above Average and 2 = Average.)***

RIO's performance is prudently monitored by the SIB

Mission Accomplished

1) **The vast majority (94% on an AUM* basis) of our SIB clients generated net investment returns in excess of policy benchmarks for the 5-years ended June 30, 2020.** The four exceptions were Budget Stabilization Fund -0.14%, Retiree Health -0.19%, Job Service -0.42% and Group Insurance by -0.34%. Investment fees declined from 0.65% in fiscal 2013 to approximately 0.47% in fiscal 2020 (noting BlackRock private equity fees are being finalized).

2) **RIO substantially enhanced its website to enhance transparency and improve public access by adopting ND IT approved website formats and design.** RIO's IT team led by Rich Nagel and Len Wall launched the enhanced website in mid-2020. RIO worked with our ND IT team in developing our new website to include dedicated Legacy Fund reporting and hyperlinks for our governance manual, audit charter and meeting materials (including Callan's and RIO's quarterly reviews). **The Sovereign Wealth Fund Institute affirmed the highest transparency index rating (of 10) for the Legacy Fund in 2019 and 2018 (versus 8 out of 10 in prior years).**

3) **Internal Audit conducts reviews which provide reasonable assurance that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.**

4) **TFFR member surveys support RIO's belief that members have access to information which will allow them to become knowledgeable about retirement issues and processes.**

5) **SIB and TFFR client surveys confirm that the boards and staff provide satisfactory services with the SIB receiving a 3.4 score and TFFR earning a 3.8 score (on a 4.0 scale) in 2020.**

SIB Gov. Policy D-3 states that Investment Ends will be evaluated on a "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".

Key Point: The NDSIB Consolidated Pension Trust generated a Net Investment Return of 8.4% for the 10-years ended June 30, 2020, versus a Target Policy Benchmark Return of 7.94%. *Source: Callan Quarterly Pension Investment Report (page 36).*

SIB Pension Clients:

PERS and TFFR earned a net investment return of 3.4% for the year end June 30, 2020, which exceeded the Policy Benchmark by 0.20%.

For the 5-years ended June 30, 2020, PERS and TFFR earned a net investment return of 6.2% and 6.17%, respectively, exceeding Policy Benchmarks by 0.30%.

Job Service, a de-risked pension plan with a funded ratio in excess of 130%, failed to exceed Policy Benchmark Returns for the 1, 3 and 5 year periods ended June 30, 2020.

Over 98% of our SIB Pension clients earned net returns which exceeded their respective Policy Benchmarks for the 1, 3 and 5 years ended June 30, 2020 (based on AUM).

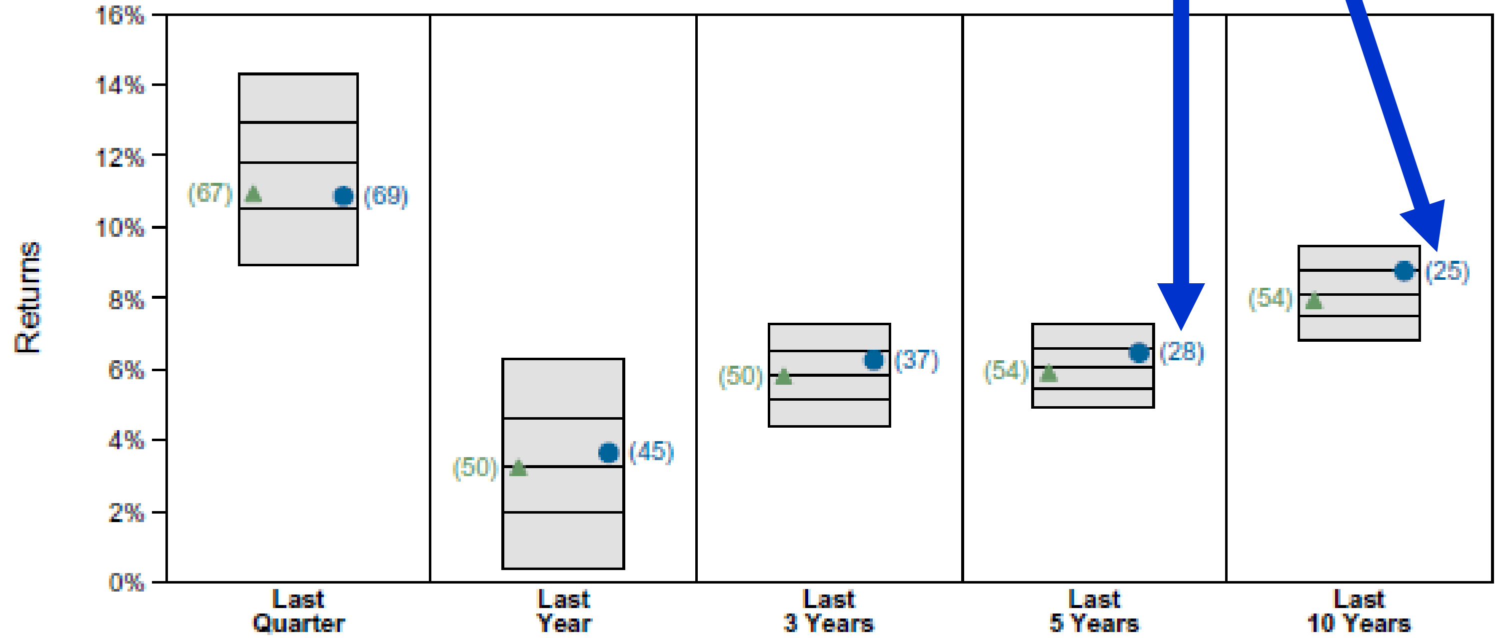
	1 Year Ended 6/30/2020	3 Yrs Ended 6/30/2020	5 Yrs Ended 6/30/2020	Risk 5 Yrs Ended 6/30/2020	Risk Adj Excess Return 5 Yrs Ended 6/30/2020
PERS $3.2 billion					
Total Fund Return - Net	3.41%	6.01%	6.20%	10.1%	0.09%
Policy Benchmark Return	3.21%	5.79%	5.90%	9.7%	
Total Relative Return	0.20%	0.23%	0.30%	104%	
TFFR $2.65 billion					
Total Fund Return - Net	3.45%	6.01%	6.17%	10.1%	0.20%
Policy Benchmark Return	3.19%	5.81%	5.87%	9.9%	
Total Relative Return	0.26%	0.21%	0.30%	102%	
Bismarck Employees $107 million					
Total Fund Return - Net	3.75%	5.84%	5.93%	8.4%	0.29%
Policy Benchmark Return	3.73%	5.56%	5.57%	8.3%	
Total Relative Return	0.02%	0.28%	0.36%	102%	
Bismarck Policy $43 million					
Total Fund Return - Net	3.41%	5.83%	5.94%	9.1%	0.29%
Policy Benchmark Return	3.28%	5.53%	5.62%	9.0%	
Total Relative Return	0.13%	0.30%	0.33%	101%	
Grand Forks Pension $67 million					
Total Fund Return - Net	4.02%	6.53%	6.44%	10.6%	0.27%
Policy Benchmark Return	3.61%	6.15%	6.15%	10.6%	
Total Relative Return	0.41%	0.38%	0.28%	100%	
Grand Forks Parks $7 million					
Total Fund Return - Net	3.78%	6.36%	6.37%	9.8%	0.06%
Policy Benchmark Return	3.56%	6.06%	6.04%	9.3%	
Total Relative Return	0.22%	0.30%	0.32%	105%	
Job Service $95 million					
Total Fund Return - Net	2.82%	4.26%	4.77%	4.7%	-0.79%
Policy Benchmark Return	5.04%	5.31%	5.18%	4.2%	
Total Relative Return	-2.21%	-1.06%	-0.42%	112%	

Note: Amounts are unaudited and subject to change.

Callan – SIB Pension Trust Fund Ranking

The **Callan** charts show the ranking of the **Total Fund** (SIB Pension Trust) performance relative to that of the Callan Public Fund Sponsor Database for periods ended June 30, 2020. **For the Last 5 Years and Last 10 Years ended June 30, 2020, the SIB Pension pool ranked in the 28th or 25th percentile.**

Callan Public Fund Sponsor Database



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	14.29	6.31	7.25	7.25	9.43
25th Percentile	12.92	4.59	6.54	6.56	8.76
Median	11.79	3.26	5.81	6.02	8.09
75th Percentile	10.54	1.99	5.14	5.43	7.48
90th Percentile	8.92	0.39	4.40	4.88	6.80
Total Fund ●	10.86	3.64	6.25	6.45	8.76
Policy Target ▲	10.94	3.23	5.80	5.90	7.94

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

SIB Non-Pension Clients:

WSI and Legacy Fund earned a net investment return of 6% and 4.2%, respectively, for the year end June 20, 2020, which trailed their respective Policy Benchmarks.

For the 5-years ended June 30, 2020, WSI and Legacy Fund earned a net investment return of 6% and 5.9%, respectively, exceeding their Policy Benchmarks by 0.80% for WSI and 0.37% for Legacy.

Budget Stabilization Fund returns failed to exceed Policy Benchmark Returns for the 1, 3 and 5 year periods ended June 30, 2020, but have materially improved since March 31.

Over 90% of Non-Pension clients earned net returns which exceeded their Policy Benchmarks over the last 5-years.

	1-Year Ended 6/30/2020	3 Yrs Ended 6/30/2020	5 Yrs Ended 6/30/2020	Risk 5 Yrs Ended 6/30/2020	Risk Adj Excess Return 5 Yrs Ended 6/30/2020
WSI - $2.1 billion					
Total Fund Return - Net	6.00%	6.07%	6.00%	5.99%	-0.42%
Policy Benchmark Return	6.62%	5.81%	5.20%	4.47%	
Total Relative Return	-0.63%	0.26%	0.80%		
Legacy Fund $7 billion					
Total Fund Return - Net	4.23%	5.58%	5.91%	10.47%	-0.16%
Policy Benchmark Return	4.38%	5.66%	5.55%	9.29%	
Total Relative Return	-0.15%	-0.08%	0.37%		
Budget Stab. $727 million					
Total Fund Return - Net	2.35%	2.38%	1.95%	2.79%	-0.59%
Policy Benchmark Return	4.17%	2.87%	2.09%	1.15%	
Total Relative Return	-1.82%	-0.49%	-0.14%		
Fire & Tornado $23 million					
Total Fund Return - Net	4.97%	5.57%	5.72%	8.33%	-0.43%
Policy Benchmark Return	5.96%	5.69%	5.22%	6.62%	
Total Relative Return	-1.00%	-0.12%	0.50%		
State Bonding $4 million					
Total Fund Return - Net	4.95%	3.93%	3.53%	2.22%	0.27%
Policy Benchmark Return	5.50%	3.73%	2.91%	1.88%	
Total Relative Return	-0.55%	0.20%	0.62%		
Insur.Reg.Trust. Fund $6 million					
Total Fund Return - Net	6.11%	5.22%	4.89%	6.00%	0.45%
Policy Benchmark Return	4.38%	4.60%	4.17%	5.56%	
Total Relative Return	1.74%	0.62%	0.72%		

Note: Amounts are unaudited and subject to change.

Elevated Risk:

The global pandemic triggered an unprecedented rise in global market volatility and a period of fixed income illiquidity in March which prompted the Fed to initiate the largest and most wide spread government stimulus package in history.

Due to the sharp and severe impact of the COVID-19 outbreak on the capital markets including even high quality fixed income securities, many of our SIB clients posted record high levels of volatility including the Budget Stabilization Fund, Job Service, the PERS Group Insurance Fund and PERS Retiree Health Insurance Credit Fund each of which failed to generate net investment returns in excess of Policy Benchmarks for the 5-years ended June 30, 2020.

	1-Year Ended 6/30/2020	3 Yrs Ended 6/30/2020	5 Yrs Ended 6/30/2020	Risk 5 Yrs Ended 6/30/2020	Risk Adj Excess Return 5 Yrs Ended 6/30/2020
Petrol.Tank Release $6 million					
Total Fund Return - Net	4.55%	3.70%	3.30%	2.00%	0.26%
Policy Benchmark Return	5.15%	3.55%	2.75%	1.73%	
Total Relative Return	-0.60%	0.15%	0.55%		
State Risk Mgmt $5 million					
Total Fund Return - Net	5.88%	6.22%	6.27%	7.70%	-0.69%
Policy Benchmark Return	7.55%	6.48%	5.83%	5.98%	
Total Relative Return	-1.67%	-0.26%	0.44%		
State Risk W/C $5 million					
Total Fund Return - Net	5.73%	6.43%	6.57%	8.91%	-0.69%
Policy Benchmark Return	7.42%	6.82%	6.25%	7.25%	
Total Relative Return	-1.69%	-0.38%	0.31%		
NDACo $6.7 million					
Total Fund Return - Net	5.67%	5.75%	5.65%	8.42%	-0.50%
Policy Benchmark Return	6.63%	5.87%	5.15%	6.54%	
Total Relative Return	-0.95%	-0.12%	0.50%		
Bismarck Def.Sick $771,000					
Total Fund Return - Net	5.43%	5.66%	5.80%	7.66%	-0.44%
Policy Benchmark Return	6.50%	5.67%	5.12%	5.78%	
Total Relative Return	-1.07%	-0.01%	0.68%		
FargoDome $44 million					
Total Fund Return - Net	3.78%	5.51%	5.94%	11.04%	-0.28%
Policy Benchmark Return	4.74%	5.78%	5.59%	9.58%	
Total Relative Return	-0.96%	-0.27%	0.35%		

Note: Amounts are unaudited and subject to change.

Key Takeaways:

1) Over 94% of our SIB clients earned net returns that exceeded Policy Benchmark for the 5-years ended June 30, 2020, thereby creating incremental income for the vast majority of our SIB clients.

2) All SIB Pension Pool clients generated net returns which exceeded their respective Policy Benchmarks for the 1, 3, and 5 year periods ended June 30, 2020.

3) The Pension Pool, which includes PERS and TFFR in addition to the Bismarck and Grand Forks pension plans, generated a net return of 8.4% for the 10 years ended June 30, 2020, exceeding the Policy Benchmark Return of 7.94% and actuarial long-term return assumption (of 7.00% for PERS and 7.25% for TFFR).

	1-Year Ended 6/30/2020	3 Yrs Ended 6/30/2020	5 Yrs Ended 6/30/2020	Risk 5 Yrs Ended 6/30/2020	Risk Adj Excess Return 5 Yrs Ended 6/30/2020
Cultur.Endow. $493,000					
Total Fund Return - Net	3.91%	6.05%	6.56%	11.66%	-0.58%
Policy Benchmark Return	5.28%	6.64%	6.53%	10.34%	
Total Relative Return	-1.37%	-0.59%	0.02%		
Board of Med. $2.5 million					
Total Fund Return - Net	5.54%	4.55%	4.10%	6.23%	-0.48%
Policy Benchmark Return	5.64%	4.55%	3.80%	4.54%	
Total Relative Return	-0.09%	0.00%	0.31%		
PERS Group Insur. $31.5 million					
Total Fund Return - Net	2.35%	2.31%	1.69%	1.08%	-0.41%
Policy Benchmark Return	4.02%	2.75%	2.03%	0.93%	
Total Relative Return	-1.67%	-0.44%	-0.34%		
Lewis & Clark $794,000					
Total Fund Return - Net	5.70%	N/A	N/A		
Policy Benchmark Return	6.36%	N/A	N/A		
Total Relative Return	-0.66%	N/A	N/A		
PERS Retiree Health $144 million					
Total Fund Return - Net	4.98%	6.21%	6.18%	12.07%	-0.69%
Policy Benchmark Return	5.25%	6.38%	6.37%	10.88%	
Total Relative Return	-0.27%	-0.17%	-0.19%		
Tobacco Prev $7.6 million					
Total Fund Return - Net	3.69%	3.26%	N/A		
Policy Benchmark Return	3.74%	3.26%	N/A		
Total Relative Return	-0.05%	0.00%			

Note: Amounts are unaudited and subject to change.

Employee Benefits Program Committee Presentation

September 9, 2020

Overview of SIB Client Investments

- **SIB client investments increased by over $1.2 billion in the last fiscal year to exceed $16.3 billion as of June 30, 2020:**

Legacy Fund $	**7.0 billion** *($6.995 billion)*
PERS	**3.2**
TFFR	**2.7**
Other	**3.4**

- **SIB client net investment income exceeded $620 million for the fiscal year ended June 30, 2020, including $277 million for the Legacy Fund, $104 million for PERS and $86 million for TFFR.**
- **For the 10-years ended June 30, 2020, PERS (main) plan earned a net investment return of 8.38% exceeding its performance benchmark of 7.94% by 0.44% and its long-term expected return assumption of 7.00%.**
- **For the 10-years ended June 30, 2020, TFFR earned a net investment return of 8.53% exceeding its performance benchmark of 7.90% by 0.63% and its long-term expected return assumption of 7.25%.**
- **SIB Pension Trust returns (including TFFR and PERS) ranked in the top 25% based on Callan's Public Fund Sponsor database for the 10-years ended June 30, 2020.**
- **In 2019, the SIB dedicated an additional $100 million in Legacy Fund investments to providing cost-efficient financing to companies seeking to develop new businesses and infrastructure in North Dakota.** The $100 million addition to the Bank of North Dakota's (BND) Match Loan Certificates of Deposit (CD) Investment Program increased the program's size to **$300 million**. BND requested the increase to support future anticipated growth in this economic development program.
- **The SIB is required to apply the prudent investor rule in investing funds under its supervision.** The **prudent investor rule requires the SIB, as a fiduciary, to exercise 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 the probable safety of capital as well as probable income.**
- **RIO's website was recently updated to improve overall transparency and reporting access for our interested users and clients** noting the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its CAFR for the fiscal year ended June 30, 2019 (for the 22nd consecutive year).

NOTE: SIB client investment values in 2020 are preliminary, unaudited and subject to change.

SIB Investments and SIB FTE (2010 to 2020)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
$ Billions	$4.8	$5.6	$6.0	$7.5	$8.8	$10.7	$11.3	$12.3	$13.7	$15.1	$17.0
SIB FTE	5	5	6	6	7	7	7	7	7	7	8

$ Billions SIB FTE

Impact of Potential Losses on Principal and Budgeting

As of July 31, 2020

Legacy Fund
Cumulative Transferrable Earnings
June 1, 2019 to July 31, 2020
NDCC 21-10-12 Earnings Definition

Month/Year	NDCC Earnings	% Change
Jun-19	$ 46,980,140	-
Jul-19	$ 84,674,975	80%
Aug-19	$ 94,468,378	12%
Sep-19	$ 126,735,617	34%
Oct-19	$ 159,116,218	26%
Nov-19	$ 192,972,958	21%
Dec-19	$ 239,758,018	24%
Jan-20	$ 262,515,510	9%
Feb-20	$ 231,653,888	-12%
Mar-20	$ 143,034,431	-38%
Apr-20	$ 198,253,302	39%
May-20	$ 249,967,702	26%
Jun-20	$ 300,703,906	20%
Jul-20	$ 338,852,982	13%

Question: How could investment losses impact fund principal and could earnings be used to offset losses to fund principal?

Response: Legacy Fund principal is impacted by losses and earnings. Since inception, Legacy Fund has earned over $1.9 billion of net investment income and over $1.2 billion of **NDCC 21-10-12** defined **"Earnings"** as of July 31, 2020. RIO understands that $436.8 million of **Earnings** prior to July 1, 2017, were capitalized into Principal (by statute), while $455.3 million of **Earnings** from the 2017-19 biennium were transferred to the General Fund. Current biennium to date **Earnings** are estimated at $388.8 million as of July 31, 2020, as summarized below:

Earnings pre-July 1, 2017	a	$ 436,839,672
Earnings transferred for 2017-19 biennium	b	$ 455,263,216
Earnings transferrable for 2019-21 biennium	c	$ 338,852,982
Total NDCC 21-10-12 Earnings since inception	d	$ 1,230,955,870

Earnings pre-July 1, 2017	a	$ 436,839,672
Earnings transferrable for 2019-21 biennium	c	$ 338,852,982
Earnings Not Transferred in 2017-19 biennium	e	$ 775,692,654

Total NDCC 21-10-12 Earnings since inception are $1.231 billion of which $455.3 million was transferred in the 2017-19 biennium.

Since inception, Legacy Fund net investment income (U.S. GAAP basis) is estimated at $1.9 billion as of July 31, 2020, including $240.7 million for the month ended July 31, 2020.

Note: Month End and Fiscal Year End data in FY 2019, 2020 and 2021 is preliminary, unaudited and subject to change.

Legacy Fund

Percent of Market Value ("POMV") Overview

The Percent of Market Value (or POMV) approach uses the average ending balance (or market value) of the Legacy Fund from the five prior fiscal year ends (June 30) to establish a historical investment baseline to develop a sustainable spending policy.

The POMV approach is commonly used by similar investment funds, including ***ND's Common Schools Trust Fund***, in developing a sustainable spending policy. It is widely accepted as a best practice by many endowments and foundations.

Example:
Step 1 – Determine the average ending balance of the Legacy Fund for the last 5 fiscal year ends = **$5.5 billion** as of 6/30/2020
Step 2 – Determine a sustainable spending policy to preserve the Legacy Fund's future purchasing power = **3% per year**
Step 3 – Multiply average ending balance of **$5.5 billion** times the sustainable rate of **3%** = **$165 million per year**
Step 4 – Multiply annual spending value of **$165 million** times **two** for the biennium spending amount = **$330 million / biennium**

Why do we want to adopt the POMV approach instead of current "earnings"? The current definition of earnings can vary greatly from quarter to quarter (and month to month) given the inherent volatility of stock and debt markets. As example, the Legacy Fund earned nearly $390 million in the last half of 2019 (7/1/19 to 12/31/19), prior to losing over $870 million in the 1st quarter of 2020 (1/1/20 to 3/31/20) and then recovering over $760 million in the 2nd quarter of 2020 (4/1/20 to 6/30/20).This earnings volatility makes it very difficult to budget in future years.

SIB Endorsements:

"This (POMV) approach seeks to eliminate undue risk when developing a sustainable spending policy for future state budgeting and reporting purposes."

"The Percent of Market Value approach increases transparency, is sustainable, and is a proven method that is used by other funds similar to the Legacy Fund."

How was the 4% amount determined to be a reasonable sustainable spending rate? Many similar investment funds, endowments and foundations use a **4% or 5%** annual spending rate (including ND's Common Schools Trust Fund which uses a **5%** annual spending rate). Given current market conditions and a conservative belief that future investment returns may be lower than historical returns, some investors belief a **3% or 4%** spending rate is more appropriate at this time. It is also important to note the Legacy Fund has a long-term expected return of **5.8%** based on its current asset allocation policy of 50% equity, 35% fixed income and 15% real assets. If we assume that inflation will average less than 2% to 3% in the future (or **1.8% to 2.8%**), a **3% or 4%** annual spending policy will preserve the real purchasing power of the Legacy Fund in the future (after inflationary impacts).

Market values are based on actual preliminary data which is unaudited and subject to material change.

Legacy Fund - Percent of Market Value ("POMV") Examples

Exact Dollar Amounts on Left Side | **Rounded Dollar Amounts on Right Side**

Last 5 Fiscal Years		Legacy Ending Market Value
June 30, 2016	$	3,809,485,184
June 30, 2017	$	4,687,963,730
June 30, 2018	$	5,577,319,113
June 30, 2019	$	6,580,759,928
June 30, 2020	$	6,999,783,262
5-Year Average		$ 5,531,062,243

Last 5 Fiscal Years		Legacy Ending Market Value	
June 30, 2016	$	3.8	billion
June 30, 2017	$	4.7	billion
June 30, 2018	$	5.6	billion
June 30, 2019	$	6.6	billion
June 30, 2020	$	7.0	billion
5-Year Average	$	5.5	billion

Spending Rate:		
1% per year	$	55,310,622
2% per biennium	$	110,621,245
2% per year	$	110,621,245
4% per biennium	$	221,242,490
3% per year	$	165,931,867
6% per biennium	$	331,863,735
4% per year	$	221,242,490
8% per biennium	$	442,484,980

Spending Rate:			
1% per year	$	55	million
2% per biennium	$	110	million
2% per year	$	110	million
4% per biennium	$	220	million
3% per year	$	165	million
6% per biennium	$	330	million
4% per year	$	220	million
8% per biennium	$	440	million

Market values are based on actual preliminary data which is unaudited and subject to material change.

Overview of Prudent Investor Rule

NDCC 21-10-07 Legal Investments - Prudent Investor Rule:

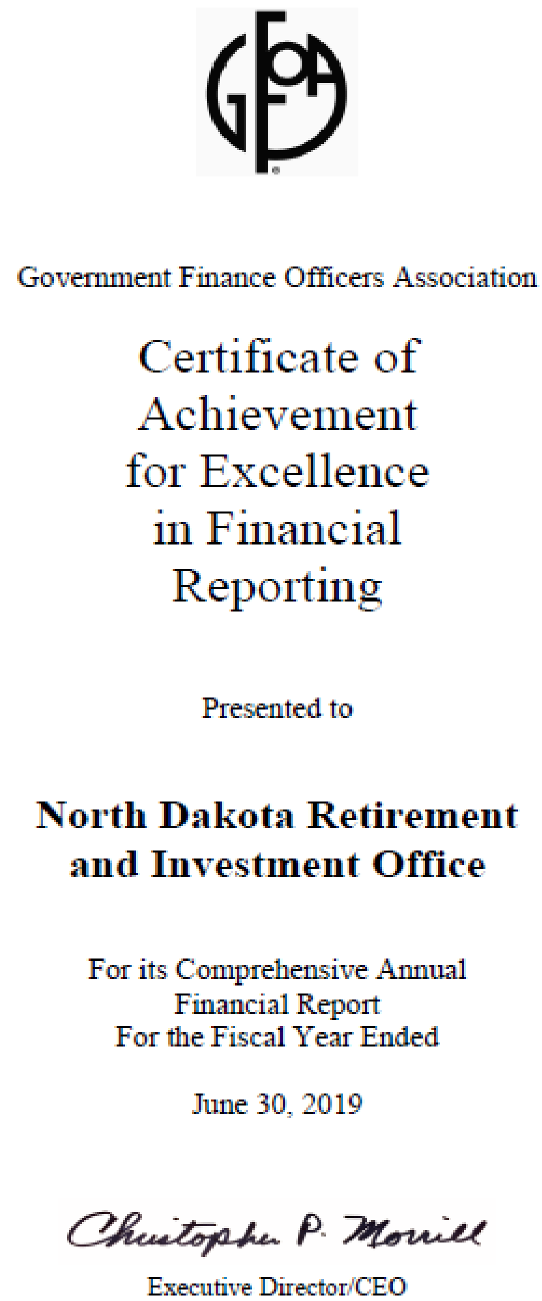
The **state investment board** shall apply **the prudent investor rule** in investing for funds under its supervision. The "**prudent investor rule**" **means** that in making investments **the fiduciaries** shall exercise the **judgment and care**, under the **circumstances then prevailing**, that an institutional investor of ordinary **prudence, discretion, and intelligence** exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, **considering probable safety of capital as well as probable income**. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

The SIB does not make individual investments in securities as all client portfolios are externally managed by approved investment firms using SIB client board approved investment policies and asset allocations.

Economically targeted investing is prohibited unless the investment meets the "exclusive benefit rule" and the following four conditions are satisfied:

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

RIO's website was recently updated to improve overall transparency and reporting access for our users and clients noting the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its CAFR for the fiscal year ended June 30, 2019 (for the 22nd consecutive year). →



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

North Dakota Retirement and Investment Office

For its Comprehensive Annual Financial Report For the Fiscal Year Ended

June 30, 2019

Christopher P. Morrill

Executive Director/CEO

21.0111.02000

SECOND DRAFT:
Prepared by the Legislative Council staff for the Legacy Fund Earnings Committee
September 2020

Sixty-seventh Legislative Assembly of North Dakota

Introduced by

A BILL for an Act to create and enact a new section to chapter 21-10 of the North Dakota Century Code, relating to a legacy earnings fund; and to amend and reenact subsection 1 of section 21-10-06 of the North Dakota Century Code, relating to funds invested by the state investment board.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Subsection 1 of section 21-10-06 of the North Dakota Century Code is amended and reenacted as follows:

1. Subject to the provisions of section 21-10-02, the board shall invest the following funds:
   - a. State bonding fund.
   - b. Teachers' fund for retirement.
   - c. State fire and tornado fund.
   - d. Workforce safety and insurance fund.
   - e. Public employees retirement system.
   - f. Insurance regulatory trust fund.
   - g. State risk management fund.
   - h. Budget stabilization fund.
   - i. Health care trust fund.
   - j. Cultural endowment fund.
   - k. Petroleum tank release compensation fund.
   - l. Legacy fund.
   - m. Legacy earnings fund.
   - n. A fund under contract with the board pursuant to subsection 3.

SECTION 2. A new section to chapter 21-10 of the North Dakota Century Code is created and enacted as follows:

Legacy earnings fund - State treasurer - Transfers - Reserve balance.

1. There is created in the state treasury the legacy earnings fund. The fund consists of all moneys transferred to the fund under subsection 2 and all interest and earnings upon moneys in the fund.
2. Any legacy fund earnings transferred to the general fund at the end of each biennium in accordance with section 26 of article X of the Constitution of North Dakota must be immediately transferred by the state treasurer to the legacy earnings fund.
3. Any amounts transferred under subsection 2 in excess of the amount available for appropriation under subsection 4 must be retained in the fund and designated as a reserve balance. The reserve balance may be used only to supplement legacy fund earnings in a biennium in which the amounts transferred under subsection 2 are less than the amount available for appropriation under subsection 4.
4. For each biennium subsequent to the biennium in which the legacy fund earnings are transferred under subsection 2, the amount available for appropriation from the legacy earnings fund is six percent of the five-year average value of the legacy fund assets as reported by the state investment board. The average value of the legacy fund assets must be calculated using the value of the assets at the end of each fiscal year for the five-year period ending with the most recently completed even-numbered fiscal year.

Key Takeaways: On Sep. 22, 2020, the Legacy Fund Earnings Committee approved draft legislation to:

1) **Amend NDCC 21-10-06 to include the "Legacy Earnings Fund" under the list of funds to be invested by the SIB;**

2) **Amend NDCC 21-10 to include a new section on the Legacy Earnings Fund using the SIB endorsed Percent of Market Value approach to determine the amount of Legacy earnings available for appropriation to "six percent of the five-year average value of the legacy fund assets as reported by the SIB"; and**

3) **"The average of the legacy fund assets at the end of each fiscal year for the five-year period ending with the most recently completed even-numbered fiscal year".**

RIO 2021-23 Strategic Investment Plan

Fundamental Investment Beliefs

Asset allocation decisions are the primary driver of investment returns, but the prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives. All investment decisions are driven by our desire to maximize risk adjusted returns based on our clients stated risk appetite and liquidity profile. **SIB clients generated $200 million of incremental income via the prudent use of active management for the 5-years ended June 30, 2020.**

Strategic Investment Plan

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

State Investment Board – Client Assets Under Management

- SIB client assets under management (AUM) approached **$16.3 billion** at June 30, 2020, including the Pension Trust at $6 billion, Insurance Trust at $3 billion and Legacy Fund at $7 billion. **Despite highly volatile market conditions, SIB clients generated over $620 million of net investment income in fiscal year 2020 and Legacy Fund benefitted from $596 million of deposits.**
- **The Pension Trust posted a net return of +3.4% in fiscal 2020.** The Pension Trust generated a net annualized return of 6.2% during the last 5-years exceeding the policy benchmark of 5.9%.
- **The Insurance Trust generated a net investment return of +5.0% in the last year.** During the last 5-years, the Insurance Trust posted a net annualized return of 5.5%, exceeding the performance benchmark of 4.8%.
- **The Legacy Fund generated a net investment return of +4.2% last year.** During the last 5-years, Legacy Fund earned a net annualized return of 5.9%, exceeding the policy benchmark of 5.55%.
- The U.S. economy and global capital markets were strong in 2019 with U.S. unemployment at record low levels and the U.S. equity markets posting record highs **prior** to the impact of the pandemic which caused a sharp and severe decline in the global economy including a 33% decline in U.S. GDP in Q2 2020 and the highest rate of U.S. unemployment since the Great Depression in 1933. **Since March 31, 2020**, the S&P 500 Index has materially recovered in part due to an unprecedented level of government intervention, although there is a major disparity of returns between mega-cap growth stocks and the broader market.

Fund Name	Market Values as of 6/30/20 [1]	Market Values as of 6/30/19 [2]
Pension Trust Fund		
Public Employees Retirement System (PERS)	3,212,113,496	3,152,930,087
Teachers' Fund for Retirement (TFFR)	2,612,716,499	2,573,622,554
City of Bismarck Employees Pension	106,946,867	104,517,247
City of Grand Forks Employees Pension	67,458,579	68,419,301
City of Bismarck Police Pension	42,552,004	41,862,976
Grand Forks Park District	7,406,214	7,176,427
Subtotal Pension Trust Fund	**6,049,193,658**	**5,948,528,592**
Insurance Trust Fund		
Workforce Safety & Insurance (WSI)	2,125,881,220	2,065,400,398
Budget Stabilization Fund	727,275,063	118,707,130
City of Fargo FargoDome Permanent Fund	43,550,868	44,840,633
PERS Group Insurance Account	31,495,987	31,067,120
State Fire and Tornado Fund	22,825,556	22,761,457
ND Association of Counties (NDACo) Fund	6,693,191	6,333,052
Petroleum Tank Release Compensation Fund	6,165,424	5,994,235
Insurance Regulatory Trust Fund	5,714,619	6,218,781
State Risk Management Workers Comp Fund	5,116,217	5,187,879
State Risk Management Fund	4,561,175	4,909,623
State Bonding Fund	3,787,526	3,609,422
ND Board of Medicine	2,470,787	2,362,384
Attorney General Settlement Fund	1,057,147	
Lewis & Clark Interpretive Center Endowment Fund	793,808	751,763
Bismarck Deferred Sick Leave Account	770,793	779,596
Cultural Endowment Fund	493,401	475,311
ND Veterans' Cemetary Trust Fund	312,782	
Subtotal Insurance Trust Fund	**2,988,965,565**	**2,319,398,784**
Legacy Trust Fund		
Legacy Fund	6,999,783,262	6,580,759,920
PERS Retiree Insurance Credit Fund	144,237,322	135,962,521
Job Service of North Dakota Pension	95,338,534	97,285,279
ND Tobacco Prevention and Control Trust Fund	7,589,354	9,300,127
Total Assets Under SIB Management	**16,285,107,695**	**15,091,235,223**

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

[2] *6/30/19 market values as stated in the Comprehensive Annual Financial Report.*

CUSTOMER SATISFACTION SURVEY
NORTH DAKOTA STATE INVESTMENT BOARD
2020

Evaluation Forms Sent: 18
Evaluation Forms Returned: 13

1. Availability/Responsiveness to Requests (via calls and/or emails)

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

2. Clarity and Effectiveness of Communications, Reports, and Presentations

Excellent	Above Average	Average	Poor	N/A
5	4	4	0	0

3. Frequency of Communications/Reporting

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

4. Knowledge of Investments

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

5. Overall value of services provided

Excellent	Above Average	Average	Poor	N/A
10	0	3	0	0

2020 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	40	9	15	0	1
Weight	4	3	2	1	0
Percent	62%	14%	23%	0%	2%
Average	**3.39**				

2019 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	37	15	3	0	0
Weight	4	3	2	1	0
Percent	67%	27%	5%	0%	0%
Average	**3.62**				

2018 Summary of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	42	8	5	0	0
Grade	4	3	2	1	0
Percent	76%	15%	9%	0%	0%
Average	**3.67**				

Overall Customer Satisfaction Survey Comments and Impressions:

- I think the SIB/RIO team does a great job meeting our needs and keeping us informed of our investments. A big thank you for all of their efforts in managing our investment funds.
- as fast as this environment is changing and having investment long term need have some education on the goal.
- Some of the graphs and tables get really busy. We don't need everything on one page.

- We have been impressed by the prompt, courtesy, responses received by RIO staff. WSI's Actuarial Consultants have been happy with the rate of return for the Fund. We had to lower our discount rate and still the WSI Fund exceeds the statutory established amount.
- The staff consistently meets or exceeds my expectations. They are innovative and always willing to take time to answer questions. I appreciate the partnership SIB provides in our services to the 10,000+ teachers of North Dakota. In my opinion, the Board and staff do an excellent job of providing services and measure up to my expectations. I think/hope the new computer system will allow even more access and more current updates of client accounts. If possible, using the current technology/resources, we should be sending clients, in this COVID affected market, up dates of fund condition often. I often get questions from retired and active teachers as to the current health of the fund and will there be enough monies left in the near future for retirees and the farther future for active teachers. Continue to maintain the professional level of service and ensure a continuous effort to improve.
- All good - thank you.
- na

NORTH DAKOTA LEGACY FUND

INVESTMENT POLICY STATEMENT

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The North Dakota legacy fund was created in 2010 when the voters of North Dakota approved a constitutional amendment--now Article X, Section 26, of the Constitution of North Dakota--to provide that 30 percent of oil and gas gross production and oil extraction taxes on oil and gas produced after June 30, 2011, be transferred to the legacy fund. The principal and earnings of the legacy fund may not be spent until after June 30, 2017, and any expenditure of principal after that date requires a vote of at least two-thirds of the members elected to each house of the Legislative Assembly. Not more than 15 percent of the principal of the legacy fund may be spent during a biennium. The Legislative Assembly may transfer funds from any source to the legacy fund, and such transfers become part of the principal of the fund. The State Investment Board (SIB) is responsible for investment of the principal of the legacy fund. Interest earnings accruing after June 30, 2017, are transferred to the general fund at the end of each biennium. North Dakota Century Code Section 21-10-11 provides that the goal of investment for the legacy fund is principal preservation while maximizing total return.

2. FUND MISSION

The legacy fund was created, in part, due to the recognition that state revenue from the oil and gas industry will be derived over a finite timeframe. The legacy fund defers the recognition of 30 percent of this revenue for the benefit of future generations. The primary mission of the legacy fund is to preserve the real inflation-adjusted purchasing power of the money deposited into the fund while maximizing total return.

3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD

The Legacy and Budget Stabilization Fund Advisory Board (the "Advisory Board") is charged by law under Section 21-10-11 with the responsibility of recommending policies on investment goals and asset allocation of the legacy fund. The SIB is charged with implementing policies and asset allocation and investing the assets of the legacy fund in the manner provided in Section 21-10-07--the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 is hereby delegated to the SIB, which must establish written policies for the operation of the investment program consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers, which are also required to employ investment strategies consistent with the investment policy. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

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

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

The SIB shall notify the Advisory Board within 30 days of any substantial or notable changes in money managers; performance measurement services; and consultants, including hiring or terminating a money manager, performance measurement service, or a consultant.

The SIB, after consultation with the board, will implement necessary changes to this policy in an efficient and prudent manner.

4. RISK TOLERANCE

The Advisory Board's risk tolerance with respect to the primary aspect of the legacy fund's mission is low. The Advisory Board is unwilling to undertake investment strategies that might jeopardize the ability of the legacy fund to maintain principal value over time. The Advisory Board recognizes that the plan will evolve as the legacy fund matures and economic conditions and opportunities change.

5. INVESTMENT OBJECTIVES

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

a. The legacy fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

b. The legacy fund's risk, measured by the standard deviation of net returns, should not exceed 115 percent of the policy benchmark over a minimum evaluation period of five years.

c. The risk-adjusted performance of the legacy fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

6. POLICY ASSET MIX

After consideration of all the inputs and a discussion of its own collective risk tolerance, the Advisory Board approved the following policy asset mix for the legacy fund as of April 2, 2013:

Asset Class	**Policy Target Percentage**
Broad US Equity	**30%**
Broad International Equity	**20%**
Fixed Income and BND CD	**35%**
Core Real Estate	**5%**

Rebalancing of the fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually. The SIB approved an 18-month implementation strategy which completed in January of 2015. On June 17, 2017, the Advisory Board acknowledged the transfer of the Bank of North Dakota Match Loan Certificates of Deposit Program ("BND CD") to the Legacy Fund in early-2017. On August 23, 2019, the SIB increased its commitment to the BND CD investment program by $100 million for a total commitment of $300 million (and represent a sector allocation within fixed income). On December 3, 2019, the Advisory Board approved this change in the Legacy Fund's asset allocation without exception. BND will be requested to guarantee a minimum 1.75% investment return. The minimum return requirement will be periodically reviewed in connection with the Legacy Fund's overall asset allocation framework. BND CD's are rated AA by S&P. **On September 25, 2020, the SIB further increased its commitment to the BND Match Loan CD Program by $100 million for a total commitment of up to $400 million. RIO will request Advisory Board acceptance at its next scheduled meeting on November 12, 2020.**

7. RESTRICTIONS

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

a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.

c. No transaction may be made that would threaten the tax-exempt status of the legacy fund.

d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

e. No unhedged short sales or speculative margin purchases may be made.

f. Social investing is prohibited unless it meets the exclusive benefit rule, and it can be substantiated that the investment provides an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk. For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.

g. Economically targeted investing is prohibited unless the investment meets the exclusive benefit rule.

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

   Also, for the purpose of this document, the exclusive benefit rule is met if the following four conditions are satisfied:

   - The cost does not exceed the fair market value at the time of investment.
   - The investment provides the legacy fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

- Sufficient liquidity is maintained in the legacy fund to permit distributions in accordance with the terms of the plan.
- The safeguards and diversity that a prudent investor would adhere to are present.

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

8. INTERNAL CONTROLS

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

9. EVALUATION AND REVIEW

Investment management of the legacy fund will be evaluated against the fund's investment objectives and investment performance standards. Emphasis will be placed on 5-year and 10-year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy statement for achieving those objectives.

Performance reports will be provided to the Advisory Board periodically, but not less than quarterly. Such reports will include asset returns and allocation data. Additionally, not less than annually, reports will include information regarding all significant and/or material matters and changes pertaining to the investment of the legacy fund, including:

- Changes in asset class portfolio structures, tactical approaches, and market values.
- Loss of principal, if any.
- Management costs associated with various types of investments.
- All material legal or legislative proceedings affecting the SIB.
- Compliance with this investment policy statement.
- An evaluation of the national economic climate.
- A forecast of the expected economic opportunities and dangers.
- Management of risk by the SIB.

In addition to the quarterly and annual evaluation and review process, the SIB shall notify the Advisory Board within 30 days of any substantial or notable deviation from the normal management of the legacy fund, including any anomalies, notable losses, gains, or liquidation of assets affecting the fund.

Approved by:

LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD	**STATE INVESTMENT BOARD**
____________________________	____________________________
Representative Keith Kempenich **Chairman**	**David Hunter** **Executive Director / CIO**
Date: ______________________	**Date:** ______________________

Approved by the NDSIB: 8/23/2019, 9/25/2020
Approved by the LBSFAB: 12/3/2019

AGENDA ITEM IV.D.

BOARD ACTION

TO: **State Investment Board**

FROM: **Dave Hunter**

DATE: **October 16, 2020**

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 order to facilitate a meaningful review, **RIO intends to divide our review process over two months as follows:**

October 23, 2020 (First Reading)

Section A – Executive Limitations (13 pages)

Section B – Governance Process (15 pages)

Section C – Board Staff Relationship (6 pages)

Section D – Ends (10 pages)

November 20, 2020

Section E - Investments (30 pages)

Section F – TFFR Ends (TFFR Board Reviewed in early-2020)

Section G – By-Laws (9 pages)

Section H – Century Code (5 pages)

RIO encourages board members and RIO staff to review the relevant sections of our SIB Governance Manual prior to each of the above scheduled board meetings.

At the conclusion of our monthly board discussions, the SIB may make a motion to accept the recommended "First Reading" or "Second Reading" changes, if any, to the Governance Manual. Alternatively, the Board may motion to recommend additional and/or different changes. All 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*

PAGE

EXHIBITS

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 Chief Financial Officer 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 Chief Financial Officer.

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 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 TITLE: *COMPENSATION AND BENEFITS*

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

Accordingly, the executive director may not:

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

2. Promise or imply permanent or guaranteed employment.

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

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *CONFLICT OF INTEREST*

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

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

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

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

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *CODE OF CONDUCT*

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

Policy Implemented: June 27, 1997.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *UNRELATED BUSINESS INTERESTS*

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

Policy Implemented: August 18, 2000

Memorandum

To: **RIO Executive Director/CIO**

From: **RIO Compliance Officer**

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

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

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

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

Name (printed) ________________________________

Signature_____________________________________

Date____

Detail of any conflicts of interest (if any):

B. *GOVERNANCE PROCESS*

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 TYPE: GOVERNANCE PROCESS

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. Board mentors are encouraged to assist new members to understand their fiduciary duty and role.

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, October 26, 2018.

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 visit.

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 committees are set forth in this policy as follows:

1. Audit Committee
2. Securities Litigation Committee
3. Executive Review Committee

    A. The Audit Committee, Securities Litigation Committee, and Executive Review 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.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *STANDING COMMITTEES*

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.

INTRODUCTION – Executive Review Committee

An Executive Review Committee (ERC) has been established as a standing committee of the SIB. The ERC will assist the SIB in fulfilling its fiduciary oversight responsibilities of "monitoring executive performance (which) is synonymous with monitoring organizational performance against board policies on *Ends* and *Executive Limitations*". Internal audit will be responsible for preparing an annual summary of the required reports submitted to the SIB by the Executive Director in connection with its review of policy adherence to *Ends* and E*xecutive Limitations*. Internal audit will also assist the ERC in completing annual surveys of the Executive Director with the SIB, SIB clients, and RIO team members.

The ERC will conduct a formal evaluation of the Executive Director during the first half of every calendar year. This formal evaluation by the ERC will serve as the basis for an annual compensation recommendation to be reviewed and approved by the SIB on or before June 30th each year. Internal audit will also assist the SIB and ERC in administering the annual board self-assessment process.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *STANDING COMMITTEES*

POLICY OF THE STATE INVESTMENT BOARD – Executive Review Committee

The ERC is authorized to:

- Conduct a formal evaluation of the Executive Director annually;
- Obtain SIB approval of the annual performance evaluation of the Executive Director;
- Make a compensation recommendation to the SIB on or before June 30^{th} of each year; and
- Administer a formal self-assessment of the SIB periodically (unless instructed otherwise).

The ERC and/or RIO will seek SIB approval prior to formally engaging any third party assistance in conducting the annual executive review process or board self-assessment.

Policy Implemented: June 23, 1995.
Policy Amended: April 27, 2018, September 27, 2019.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *ANNUAL BOARD PLANNING CYCLE*

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

1. A biennial calendar will be developed.

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

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

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

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

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

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

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

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

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

   C. September: Annual Review of Governance Manual.

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

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

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

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

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

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

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

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 given to a person concerning any matter 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 acquire 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 which 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 the public 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 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 TYPE: *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 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 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 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 TITLE: *ORGANIZATIONAL BENEFICIARIES*

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *INVESTMENT SERVICES*

The Retirement and Investment Office exists in order that:

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

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

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

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

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

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

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON AVAILABLE SERVICES*

The Retirement and Investment Office exists in order that:

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *RETIREMENT SERVICES*

The Retirement and Investment Office exists in order that:

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

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON RETIREMENT SERVICES*

The Retirement and Investment Office exists in order that:

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

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *CUSTOMER SATISFACTION*

The Retirement and Investment Office exists in order that:

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

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

Policy Implemented: December 1, 1995.

ORGANIZATIONAL BENEFICIARIES

INVESTMENT CLIENTS:

Statutory:

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

Contractual:

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

ADMINISTRATIVE CLIENTS:

Statutory:

1. Teachers' Fund for Retirement Beneficiaries

Amended: July 24, 2020

EXHIBIT D-II

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*

Agenda Item IV.D.2.

Board Action

TO: **State Investment Board**

FROM: Dave Hunter

DATE: October 16, 2020

SUBJECT: **Board Governance Education and Best Practices**

Since 2015, the SIB has invited leading experts in the fields of board governance and investment education to present at our July board meetings. Due to the global pandemic, however, RIO did not advance a governance retreat this past July. Given the continuing importance of strong board governance, RIO respectfully requests the SIB to engage Amy McDuffee, CEO and Founder of Mosaic Governance Advisors, to provide this important continuing education including a review of best practices and current trends in public fund governance on November 20, 2020. Ms. Amy McDuffee last presented to the SIB in July of 2019.

Amy McDuffee founded Mosaic Governance Advisors to provide independent, action-oriented governance consulting to the public fund community. She specializes in strategic planning, policy development, board self-assessments, executive and consultant evaluations, benchmarking reviews, program assessments, trustee education and other related matters. Over her 20-year career, she has worked with over 40 public funds in 20 states, including public retirement systems, state investment boards, and state treasuries. She also works with non-profit entities that provide health care and other post-employment benefits to state and local workers.

Amy's unique perspective on governance best practices comes from her experience in both the public and private sectors. Before founding Mosaic, Amy was a lead governance consultant within the Fiduciary Services Practice of Aon Hewitt Investment Consulting (AHIC) where she served its largest public fund clients. Prior to becoming affiliated with AHIC's predecessor firm in 2009, Amy held senior positions with a global asset management firm and a statewide public retirement system. Amy also served as managing director at Great-West Life & Annuity Insurance Company, now Great-West Financial. In that capacity, she was accountable to a board of directors for building and growing an innovative subsidiary company that provided behavioral finance driven investment consulting, advisory, education, and investment management services to the company's defined contribution retirement plan sponsors and participants. Launching her career at Mercer, Amy was a key member of the National Governance and Policy Practice. She was responsible for research, analyses, strategic planning and policy development for a broad range of public fund clients.

Amy is a graduate of the University of Wisconsin and holds the Certified Employee Benefit Specialist designation from the Wharton School of the University of Pennsylvania and the International Foundation of Employee Benefit Plans (IFEBP). She also earned a Certificate of Achievement in Public Plan Policy. Amy serves on the Public Employee Committee of the IFEBP Board of Directors and is an advisor to the Government Finance Officers Association (GFOA) Committee On Retirement and Benefits Administration (CORBA). She is the former president of the Colorado Chapter of Certified Employee Benefit Specialists and a frequent speaker on board governance matters. Her speaking events at national industry conferences have included the National Association of State Retirement Administrators, the National Council on Teacher Retirement, the Public Pension Financial Forum, and the Association of Public Pension Fund Auditors.

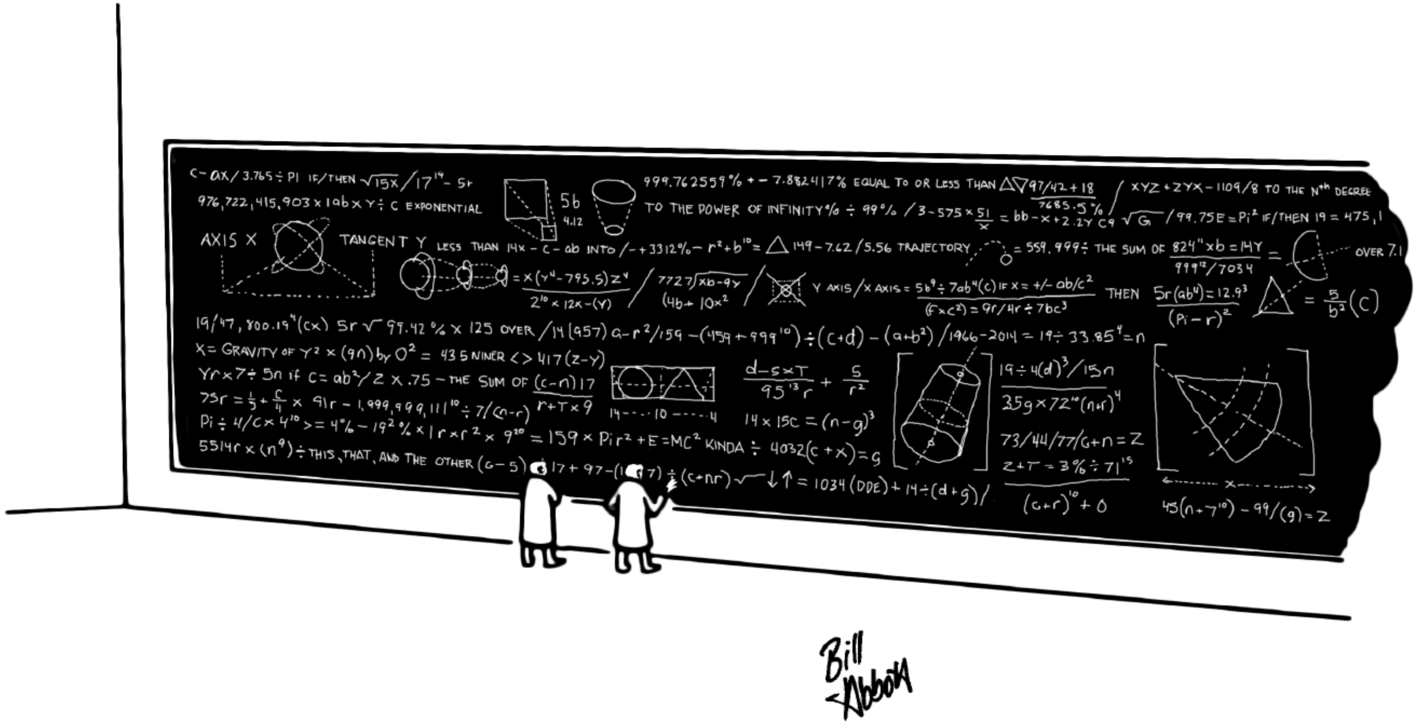
MOSAIC
Governance Advisors

Best Practices in Board Governance

An Educational Presentation to the North Dakota State Investment Board

July 26, 2019

Does our board governance align with best practices?



"I was just looking for a simple yes or no."

FROM *HARVARD BUSINESS REVIEW*, NOVEMBER 2014. CARTOON BY BILL ABBOTT.

MOSAIC
Governance Advisors

Topics for Discussion

- What is Good Governance?
- Effectiveness in Board Governance
- SIB Self-Evaluation Process and Results
- Trends in Public Fund Governance

What is Good Governance?

Today's Starting Point

(Handout #1)

MOSAIC
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The Roots of Governance

Parties

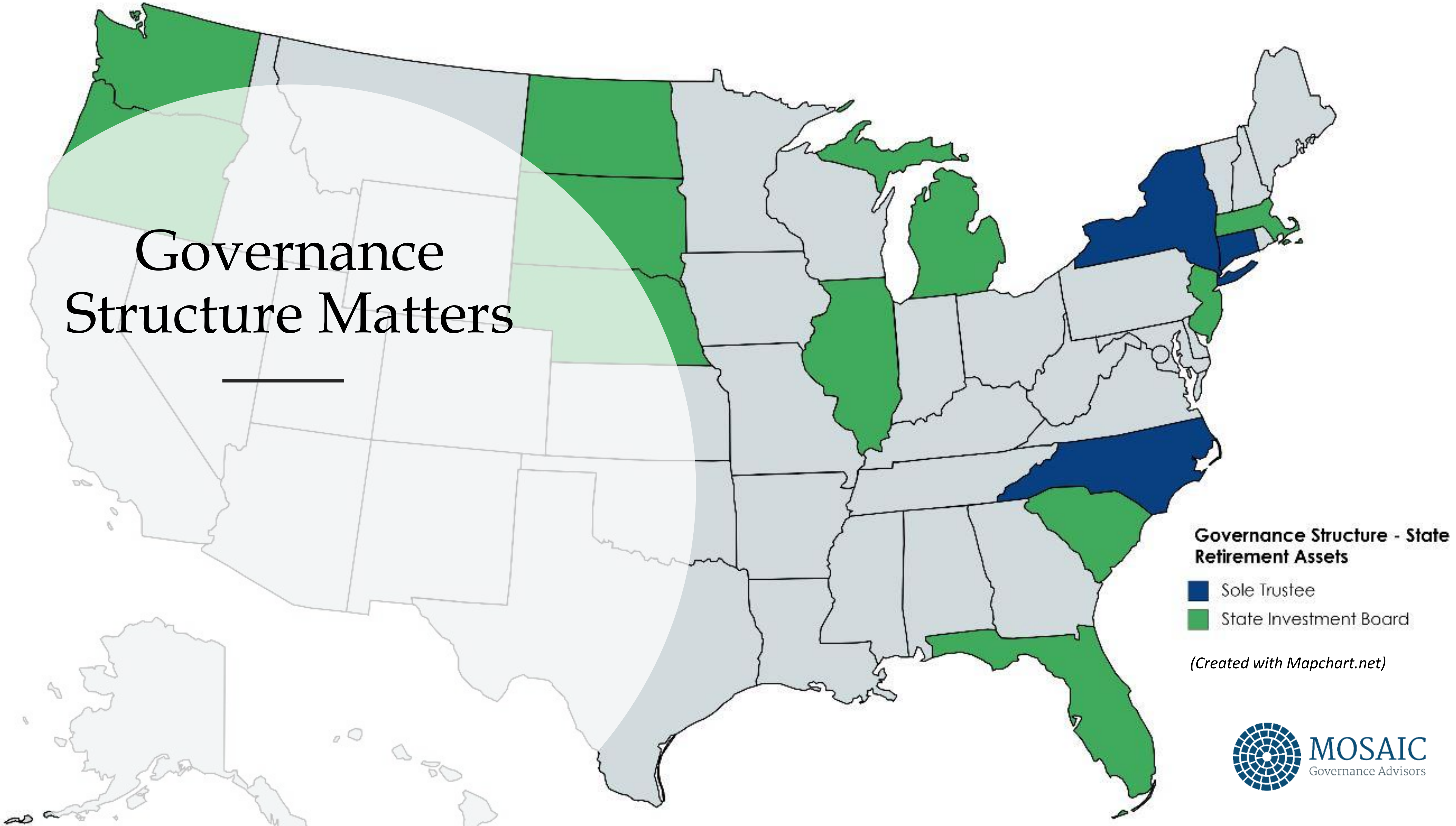
- The Governor
- The Legislature
- The Board
- The Executive Director/CIO and Staff

Governance Documentation

- Applicable laws and rules
- Bylaws, charters, policies, records of board actions

MOSAIC
Governance Advisors

Governance Structure Matters



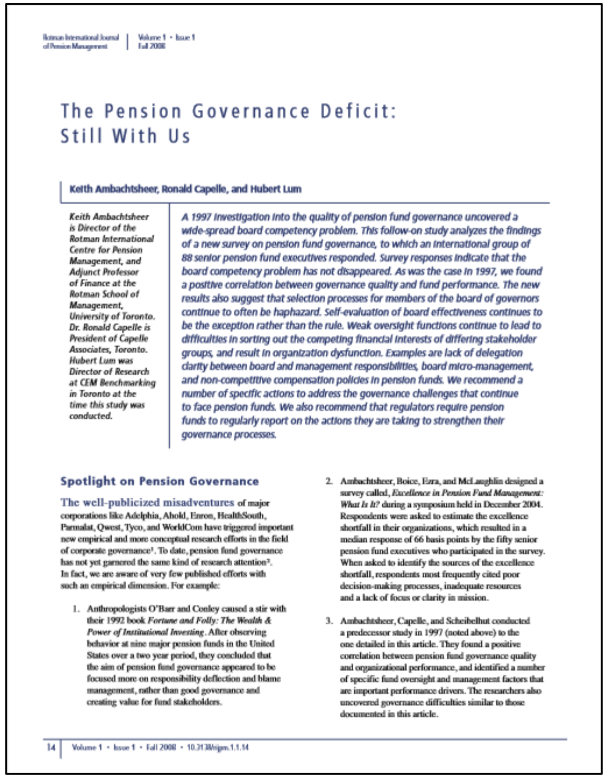
(Created with Mapchart.net)

MOSAIC
Governance Advisors

Essential Principles of Good Governance

- Compliant with the law, specifically high fiduciary standards
- Accountable
- Transparent
- Responsive
- Efficient
- Consensus-oriented
- Inclusive
- Fair
- Knowledgeable and experienced
- Appropriate balance between retained and delegated authority

Good Governance Matters



Rotman International Journal of Pension Management | Volume 1 • Issue 1 Fall 2008

The Pension Governance Deficit: Still With Us

Keith Ambachtsheer, Ronald Capelle, and Hubert Lum

Keith Ambachtsheer is Director of the Rotman International Centre for Pension Management, and Adjunct Professor of Finance at the Rotman School of Management, University of Toronto. Dr. Ronald Capelle is President of Capelle Associates, Toronto. Hubert Lum was Director of Research at CEM Benchmarking in Toronto at the time this study was conducted.

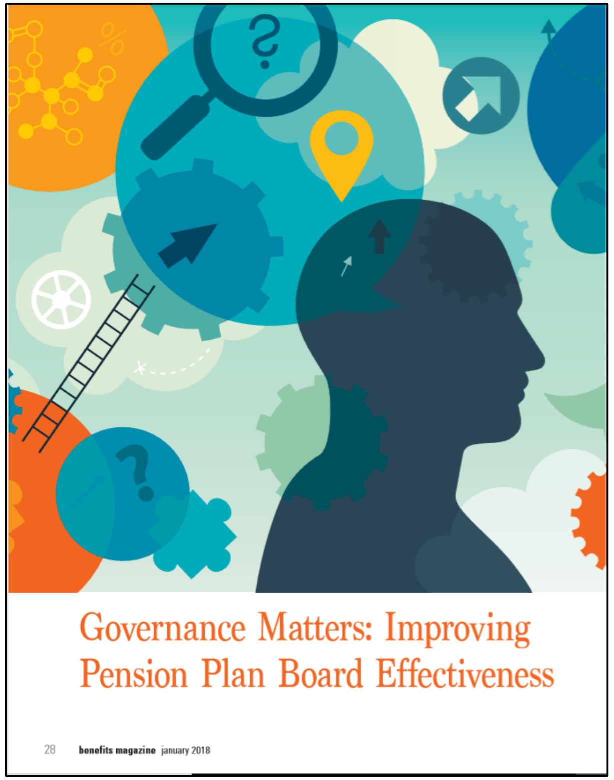
A 1997 investigation into the quality of pension fund governance uncovered a wide-spread board competency problem. This follow-on study analyzes the findings of a new survey on pension fund governance, to which an international group of 88 senior pension fund executives responded. Survey responses indicate that the board competency problem has not disappeared. As was the case in 1997, we found a positive correlation between governance quality and fund performance. The new results also suggest that selection processes for members of the board of governors continue to often be haphazard. Self-evaluation of board effectiveness continues to be the exception rather than the rule. Weak oversight functions continue to lead to difficulties in sorting out the competing financial interests of differing stakeholder groups, and result in organization dysfunction. Examples are lack of delegation clarity between board and management responsibilities, board micro-management, and non-competitive compensation policies in pension funds. We recommend a number of specific actions to address the governance challenges that continue to face pension funds. We also recommend that regulators require pension funds to regularly report on the actions they are taking to strengthen their governance processes.

Spotlight on Pension Governance

The well-publicized misadventures of major corporations like Adelphia, Ahold, Enron, HealthSouth, Parmalat, Qwest, Tyco, and WorldCom have triggered important new empirical and more conceptual research efforts in the field of corporate governance[1]. To date, pension fund governance has not yet garnered the same kind of research attention[2]. In fact, we are aware of very few published efforts with such an empirical dimension. For example:

1. Anthropologists O'Barr and Conley caused a stir with their 1992 book *Fortune and Folly: The Wealth & Power of Institutional Investing*. After observing behavior at nine major pension funds in the United States over a two year period, they concluded that the aim of pension fund governance appeared to be focused more on responsibility deflection and blame management, rather than good governance and creating value for fund stakeholders.
2. Ambachtsheer, Boice, Ezra, and McLaughlin designed a survey called, *Excellence in Pension Fund Management: What Is It?* during a symposium held in December 2004. Respondents were asked to estimate the excellence shortfall in their organizations, which resulted in a median response of 66 basis points by the fifty senior pension fund executives who participated in the survey. When asked to identify the sources of the excellence shortfall, respondents most frequently cited poor decision-making processes, inadequate resources and a lack of focus or clarity in mission.
3. Ambachtsheer, Capelle, and Scheibelhut conducted a predecessor study in 1997 (noted above) to the one detailed in this article. They found a positive correlation between pension fund governance quality and organizational performance, and identified a number of specific fund oversight and management factors that are important performance drivers. The researchers also uncovered governance difficulties similar to those documented in this article.

By Ambachtsheer, Capelle, and Lum. Published Fall 2008, *Rotman International Journal of Pension Management*.



By Chris Merker, PhD. Published January 2018 in *Benefits Magazine*.

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Well-Run Retirement Plans:
Essential to the Public Sector Workforce*

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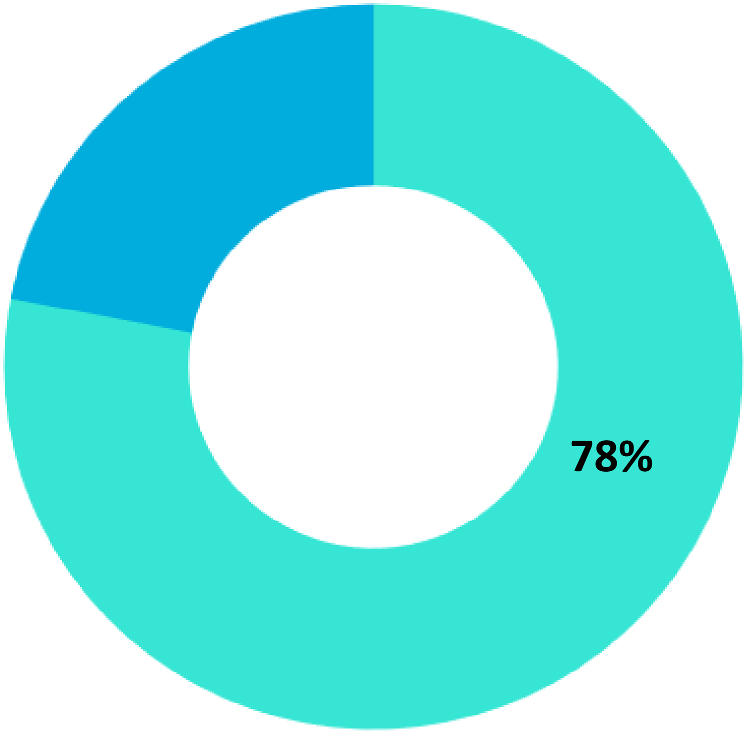
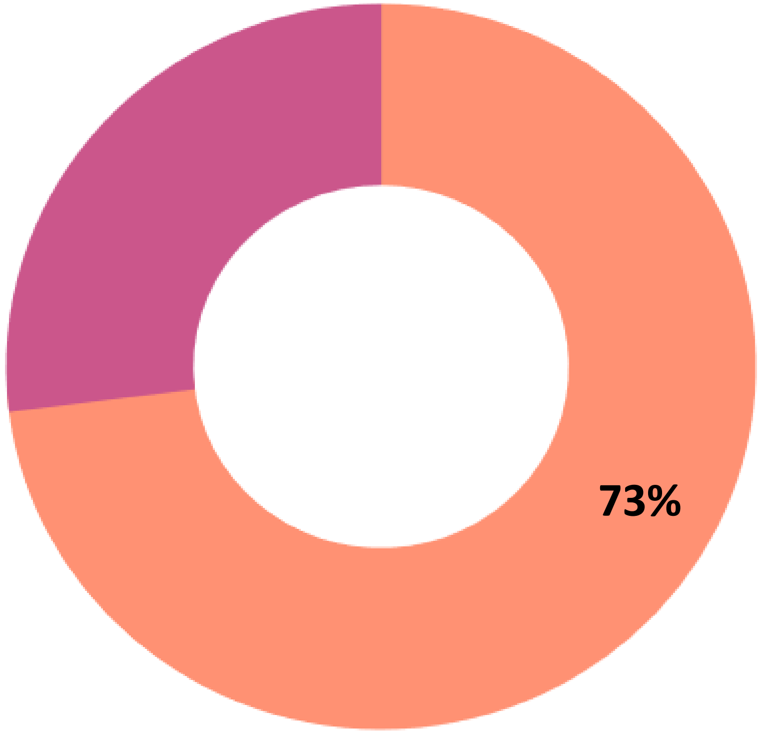


Pension benefits are critical to accepting employment



Stay with an employer because of the retirement benefits

*2018 Accenture survey of 2,800 employees

Key Factors Associated With Good Governance*

Selection of governing board members with relevant skills and knowledge

Development of a board self-improvement culture

Clear understanding of the board's mission and its investment beliefs

Sufficient size to allow cost effective management of assets

Competitive staff compensation to permit acquisition of internal expertise

Clarity of board and staff roles about delegation of management responsibilities

Insulation from conflicting political or third-party agendas

*Johnson, Keith L. and Frank Jan de Graf., "Modernizing Pension Fund Legal Standards for the 21st Century," Network for Sustainable Financial Markets: Consultation Paper No. 2, February 2009.

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Type and Degree of Board Authority Varies

- Budget
- Personnel
- Compensation
- Procurement and Contracting
- Ability to hire outside advisors, including actuaries, custodians, auditors, legal advisors, etc.
- Open Meetings and Public Records Laws
- Setting actuarial assumptions and contribution rates
- Determining permissible investments

Effectiveness in Board Governance

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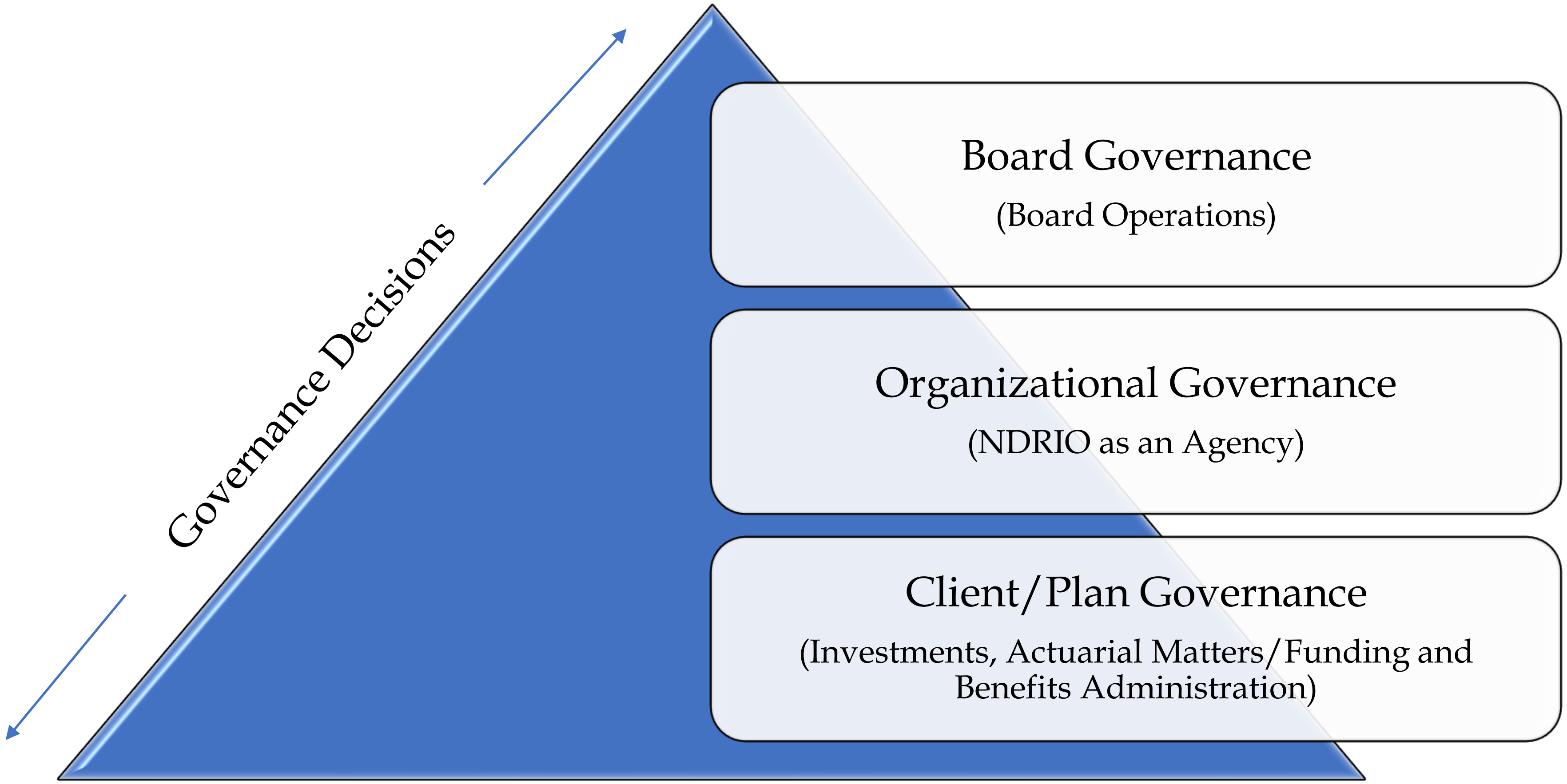
Span of Governance



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Reputable Industry Sources for Recognized Governance Practices

- Stanford Institutional Investors' Forum
- National Conference on Teacher Retirement (NCTR)
- National Association of State Retirement Administrators (NASRA)
- National Conference on Public Employee Retirement Systems (NCPERS)
- Government Finance Officers Association (GFOA)
- Association of Public Pension Fund Auditors (APPFA)
- National Association of State Investment Officers (NASIO)
- CFA Institute

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Examples of Best Practices in Board Governance

- Electing board leadership from among the board members
- Establishing and refreshing a long-range strategic plan
- Conducting an evaluation of board/committee/trustee performance
- Engaging in new trustee orientation, as well as board and trustee continuing education and development
- Conducting periodic evaluations of board consultants and service providers
- Periodically reviewing and refreshing a governance policy manual
- Adopting an annual board and committee workplan of required and focus topics to shape agenda development
- Annually evaluating the Executive Director/Chief Investment Officer
- Engaging in succession planning for the Executive Director/Chief Investment Officer position

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SIB Self-Evaluation Process and Results

SIB Self-Evaluation Process and Results
(May 2019)

Individual and Board Assessment Components

Five Categories:

- Board and staff roles
- Board and committee structure
- Board meetings
- Policy making and reviews
- Financial management and investment practices

Discussion of Observations *(Handout #2)*

Governance Improvements of Interest to SIB

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SIB's Stated Governance Style

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.

SIB Governance Manual, Page 18

Trends in Public Fund Governance

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An Increasing Number of Public Fund Boards Are…

- Becoming more actively engaged in setting and rejuvenating the long-term organizational vision
- Revisiting the plate of Board responsibilities and making refinements to balance:
  - Forward-looking (strategy) and oversight items
  - Board/management partnership and delegated authority
  - Shifting plate of policy-level items
- Developing practices for effective succession planning
- Allocating more time to board education and individual trustee self-development
- Discussing when/how to respond to environmental, social, and governance (ESG) factors in light of fiduciary responsibilities
- Requesting more visibility into organizational culture
- Refining technology oversight and risk monitoring (e.g., cybersecurity, modernization projects)
- Requesting a better understanding of the members, beneficiaries, or clients (e.g., preferences, customer experience)

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Questions/Open Discussion

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