

## Executive Summary - Informational

**TO:** State Investment Board  
**FROM:** Dave Hunter  
**DATE:** January 21, 2021  
**SUBJECT:** SIB Meeting Materials – January 22, 2021

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**Our January SIB meeting includes updates on recent investment results, Callan’s in-state investment study, RIO’s recommended in-state investment program, and RIO’s recommended investment work plan, in addition to a review of our SIB governance policies and a wide-ranging legislative update.**

**Interim Asset & Performance Overview** – Despite U.S. & global economies, governments and society facing numerous challenges in the last year, U.S. & global equities were up 21% and 16%, respectively, in 2020. **In the current fiscal year, U.S. & global equity markets gained over 19% and 17%, respectively, for the 5 months ended Nov. 30, 2020.** Most SIB clients benefitted from these strong equity markets and earned over \$1.6 billion of net investment income for the 5 months ends Nov. 30, 2020. Relative performance versus approved benchmarks was positive on trailing 1, 3 and 5-year periods for the vast majority of our SIB clients including Legacy, PERS, TFFR and WSI. **As a result of these strong returns, SIB client assets rose by over 10% or \$1.6 billion from \$16.3 billion at June 30, 2020 to over \$17.9 billion as of Nov. 30, 2020, and climbed over 34% since 2018.**

**In-State Investment Update** – Callan will provide an update on the SIB approved in-state investment study and RIO will offer an in-state investment recommendation. **RIO’s recommendation includes an initial target asset allocation of up to 1.25% or 1.5% (\$100 million or \$125 million) for private “in-state” equity and/or debt investments in Phase I commencing in mid-2021.**

**Investment Work Plan** – RIO will highlight our investment work plan for the first half of 2021, including **a recommendation to engage Callan to assist the SIB and RIO identify a new diversified real assets manager for the Pension Pool, Insurance Pool and Legacy Fund.**

**Governance** – RIO will review the key points and takeaways from our governance education session with Amy McDuffee of Mosaic Governance Advisors last month. **The SIB will also be asked to approve the 2021-22 Board Meeting Schedule, affirm Executive Review Committee membership, and consider engaging in a Board Self-Assessment survey and process in 2021.**

**Annual Governance Manual Review** – The SIB and RIO intend to complete a “second reading” of 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 three 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.



# ND STATE INVESTMENT BOARD MEETING

Friday, January 22, 2021, 8:30 a.m.  
RIO Conference Room (Virtual Host)  
3442 East Century Ave, Bismarck, ND

[Teleconference 701-328-0950](tel:701-328-0950), [Conference ID: 123521485#](https://www.zoom.us/j/123521485)

## Agenda

### I. APPROVAL OF AGENDA

### II. APPROVAL OF MINUTES (November 20, 2020)

### III. INVESTMENTS (Enclosed)

- A. Interim Asset & Performance Update - Mr. Hunter (10 minutes) *Informational*
- B. In-State Investment Program Update – Mr. Hunter (20 minutes)
  - 1. Callan Update – Mr. Paul Erlendson, Mr. Alex Browning *Informational*
  - 2. RIO Recommendation – Mr. Hunter **Board Action**
- C. PERS RHIC Fund Investment Policy - Mr. Hunter (5 minutes) **Board Acceptance**
- D. Investment Work Plan Update (15 minutes)
  - 1. Diversified Real Assets Recommendation – Mr. Darren Schulz **Board Action**

### IV. GOVERNANCE & EDUCATION (Enclosed)

- A. 2021-22 Board Meeting Schedule – Mr. Hunter (5 minutes) **Board Action**
- B. Governance Manual Review – Mr. Hunter (15 minutes) **Board Acceptance**
- C. Mosaic Governance Advisors Review - Mr. Hunter (10 minutes) *Informational*
- D. Executive Review Committee Appointments – SIB Chairman (5 minutes) **Board Acceptance**
- E. Board Self-Assessment – Mr. Hunter (5 minutes) **Board Action**
- F. Investment Manager Compliance Update – Mr. Hunter (5 minutes) *Informational*
- G. Legislative Update – Mr. Hunter and Ms. Janilyn Murtha (15 minutes) **Board Action**

### V. OTHER

Next Meetings: SIB Meeting – February 26, 2021, 8:30 a.m., RIO Conference Room  
Securities Litigation Committee – February 4, 2021, 2:00 p.m. RIO Conference Room  
Audit Committee – February 25, 2021, 3:00 p.m. WSI Conference Room

### VII. ADJOURNMENT.

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

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
NOVEMBER 20, 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  
Yvonne Smith, PERS Board

**MEMBER ABSENT:** Jodi Smith, Commissioner of Trust Lands

**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  
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

**GUESTS:** Nick Archuleta, ND United  
Jodi Bjornson, WSI  
Alex Browning, Callan LLC  
Dean DePountis, Attorney General's Office  
Paul Erlendson, Callan LLC  
Joan Heckaman, Legacy Fund Earnings Committee  
Laura Helbling, Ins. Dept.  
Perry Hopper, Callan LLC  
Pete Keliuotis, Callan LLC  
Rachel Kriege, Ins. Dept.  
Jerry Klein, LBSFAB  
Gary Kreidt, LBSFAB  
Adam Mathiak, Legislative Council  
Amy McDuffe, Mosaic Governance Advisors  
Scott Miller, PERS  
Joe Morrissette, LBSFAB  
Tim Porter, BND  
Chris Prestigiaco, Wisconsin Inv Board  
Ryan Rauschenberger, LBSFAB  
Bryan Reinhardt, PERS  
Karen Tyler, Securities Dept. Commissioner

**CALL TO ORDER:**

Dr. Rob Lech, Vice Chair, called the State Investment Board (SIB) regular meeting to order at 8:36 a.m. on Friday, November 20, 2020. The meeting was held at the State Capitol, Pioneer Room (virtual host), 600 East Boulevard, Bismarck, ND.

**AGENDA:**

The Board considered the agenda for the November 20, 2020, meeting,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE NOVEMBER 20, 2020, MEETING.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON, COMMISSIONER SMITH

**MINUTES:**

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO APPROVE THE OCTOBER 25, 2020, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

ABSENT: MR. OLSON, COMMISSIONER SMITH

**INVESTMENTS:**

Asset/Performance Overview - Mr. Hunter provided an asset and performance update. SIB client's assets under management totaled \$17 billion as of September 30, 2020; Pension Trust at \$6.3 billion, Insurance Trust at \$3 billion, and the Legacy Fund at \$7.4 billion. SIB clients generated \$735 million and the Legacy Fund \$344 million of net investment income due to a continuing rebound in equities. Over 99% of the SIB clients generated net returns which exceeded their approved policy benchmarks for the 5-years ended September 30, 2020.

The Pension Trust posted a net return of 8.1% and generated a net annualized return of 8.3% during the last 5- years exceeding the policy benchmark of 7.8%.

The Insurance Trust generated a net investment return of 6.3% and during the last 5- years, posted a net annualized return of 6.4%, exceeding the performance benchmark of 5.4%.

The Legacy Fund generated a net investment return of 8.3% and during the last 5- years, earned a net annualized return of 7.9%, exceeding the policy benchmark of 7.3%.

SIB Five Largest Clients (AUM as of 9/30/2020)	Qtr. Ended 9/30/2020	1 Yr Ended 9/30/2020	3 Yrs Ended 9/30/2020	5 Yrs Ended 9/30/2020	10 Yrs Ended 9/30/2020
<b>Legacy Fund \$7.4 billion</b>					<b>9 Yrs. Ended</b>
Total Fund Return - Net	4.93%	8.27%	6.02%	7.91%	5.19%
Policy Benchmark Return	3.95%	7.45%	5.94%	7.26%	4.48%
Excess Return	0.98%	0.82%	0.08%	0.65%	0.71%
<b>PERS \$3.4 billion</b>					
Total Fund Return - Net	4.97%	8.15%	6.39%	8.35%	8.05%
Policy Benchmark Return	4.35%	7.05%	6.25%	7.83%	7.52%
Excess Return	0.62%	1.10%	0.14%	0.52%	0.53%
<b>TFFR \$2.7 billion</b>					
Total Fund Return - Net	4.89%	8.08%	6.38%	8.29%	8.07%
Policy Benchmark Return	4.41%	7.06%	6.24%	7.79%	7.42%
Excess Return	0.48%	1.02%	0.14%	0.50%	0.65%
<b>WSI \$2.2 billion</b>					
Total Fund Return - Net	3.10%	7.46%	6.29%	7.07%	7.00%
Policy Benchmark Return	2.25%	7.30%	5.88%	5.99%	5.60%
Excess Return	0.85%	0.16%	0.41%	1.08%	1.40%
<b>BSF \$738 million</b>					
Total Fund Return - Net	1.63%	3.06%	2.80%	2.22%	2.13%
Policy Benchmark Return	0.23%	3.70%	2.83%	2.06%	1.27%
Excess Return	1.40%	-0.64%	-0.03%	0.16%	0.86%

Callan LLC Review - Representatives reviewed the investment performance of the Pension Trust, Insurance Trust, and Legacy Fund for the period ending September 30, 2020. Callan LLC also provided a market update for the same period.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT CALLAN LLC'S PERFORMANCE EVALUATION FOR THE QUARTER ENDING SEPTEMBER 30, 2020.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, MR. SEIBEL

Teachers' Fund for Retirement (TFFR) - RIO investment personnel and Callan LLC presented a revision to the TFFR asset allocation. The TFFR Board, at its November 19, 2020, meeting approved Mix 4 over the current policy target due to its' higher expected return of 6.8% and lower expected standard deviation of 13.1%. RIO investment personnel also recommended Mix 4 due to a slightly lower expected standard deviation of 13.1% and a slightly lower use of likely higher cost alternative investments.

Asset Class	Policy Target	Lower Risk			Same Risk		
		Mix 4	% Change	\$M Change	Mix 4a	% Change	\$M Change
<b>Public Equity</b>	<b>52%</b>	<b>45%</b>	<b>-7%</b>	<b>(\$183)</b>	<b>45%</b>	<b>-7%</b>	<b>(\$183)</b>
Broad U.S. Equity	29%	27%	-2%	(\$52)	27%	-2%	(\$52)
Global ex-U.S. Equity	23%	18%	-5%	(\$131)	18%	-5%	(\$131)
<b>Fixed Income</b>	<b>24%</b>	<b>27%</b>	<b>3%</b>	<b>\$78</b>	<b>25%</b>	<b>1%</b>	<b>\$26</b>
Core Fixed Income	16%	18%	2%	\$52	17%	1%	\$26
High Yield	7%	8%	1%	\$26	7%	0%	\$0
Cash Equivalents	1%	1%			1%		
<b>Alternatives</b>	<b>24%</b>	<b>28%</b>	<b>4%</b>	<b>\$105</b>	<b>30%</b>	<b>6%</b>	<b>\$157</b>
Real Estate	10%	9%	-1%	(\$26)	10%	0%	\$0
Private Infrastructure	6%	9%	3%	\$78	10%	4%	\$105
Timber	2%	0%	-2%	(\$52)	0%	-2%	(\$52)
Private Equity	6%	10%	4%	\$105	10%	4%	\$105
Expected Return	6.7%	6.8%			6.8%		
Expected Standard Deviation	13.3%	13.1%			13.3%		
Probability >7.25%	45%	45%			46%		

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE TFFR REVISED ASSET ALLOCATION.

AYES: MR. KLIPFEL, MR. OLSON, MR. MILLER, TREASURER SCHMIDT, MS. GUMERINGER, MS. SMITH, DR. LECH, AND LT. GOVERNOR SANFORD

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER GODFREAD, COMMISSIONER SMITH, MR. SEIBEL

Budget Stabilization Fund - The Investment Policy Statement (IPS) of the Budget Stabilization Fund was revised by the Legacy and Budget Stabilization Fund Advisory Board at their November 12, 2020, meeting. The revision included a statutory cap of \$726,534,475 for the 2019-21 biennium.

Legacy Fund - The IPS of the Legacy Fund was revised by the Legacy and Budget Stabilization Fund Advisory Board at their November 12, 2020, meeting. The revision included a \$100 million increase by the SIB, for a total commitment of up to \$400 million, in the Bank of North Dakota's (BND) in-state investment program.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISIONS TO THE IPS' FOR THE BUDGET STABILIZATION FUND AND THE LEGACY FUND.

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

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, MR. SEIBEL

State of Wisconsin Investment Board (SWIB) - Mr. Chris Prestigiaco, Private Markets Portfolio Manager for the SWIB, shared his experience in leading SWIB's private market in-state investment program.

In-State Investments - Callan LLC reviewed Phase 1 of the SIB in-state investment program research project.

The board recessed at 10:23 am and reconvened at 10:40 a.m.

**GOVERNANCE & EDUCATION:**

Governance Education - Ms. Amy McDuffee, Mosaic Governance Advisors, provided education on best practices in public fund board governance which included a focus on in-state investment program governance.

Audit Committee - Ms. Sauter provided an update on Internal Audit activities since July 1, 2020. Most notably, CliftonLarsonAllen has completed their review of the financial statements of RIO for the year ended June 30, 2020, and have issued an unmodified "clean" opinion.

**IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE AUDIT COMMITTEE REPORT.**

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

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH, MR. SEIBEL**

Callan LLC Fee Review - Callan LLC reviewed the results of their investment fee study for the fiscal year ended 2020. Results confirm RIO investment personnel's belief that overall investment expenses are reasonable. Management fees have been trending downward on a percent basis from 0.65% in fiscal year 2013 to less than 0.50% in fiscal years 2019 and 2020. SIB client returns on investment fees has been positive and exceeded 50 basis points per annum (or \$300 million in aggregate) for the 5-years ended September 30, 2020.

**IT WAS MOVED BY MS. GUMERINGER AND SECONDED BY MR. MILLER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CALLAN LLC FEE STUDY RESULTS.**

**AYES: MS. GUMERINGER, MS. SMITH, TREASURER SCHMIDT, DR. LECH, MR. OLSON, MR. SEIBEL, AND MR. MILLER**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: COMMISSIONER SMITH, COMMISSIONER GODFREAD, MR. KLIPFEL, AND LT. GOVERNOR SANFORD**

Governance Review - The review was tabled.

Securities Litigation Committee - Mr. Hunter provided an update on the activities of the Securities Litigation Committee since their last meeting on November 5, 2020.

Securities litigation recoveries amounted to \$638,661 for fiscal year 2020.

The SIB has been named as a defendant in two cases arising out of the Tribune and General Motors bankruptcy proceedings. The cases relate to securities that were purchased by external investment managers in one or more portfolios held by the SIB on behalf of its investment client funds. K&L Gates has been retained for legal representation in the Tribune case and Kasowitz Benson Torres for the General Motors case. Both appointments were overseen and approved by the Office of the Attorney General.

Grant & Eisenhofer reviewed the status of the Danske Bank and Volkswagen international securities cases.



IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SECURITIES LITIGATION REPORT.

AYES: MR. OLSON, MS. GUMERINGER, MR. MILLER, MS. SMITH, MR. SEIBEL, DR. LECH, AND TREASURER SCHMIDT

NAYS: NONE

MOTION CARRIED

ABSENT: MR. KLIPFEL, COMMISSIONER GODFREAD, COMMISSIONER SMITH, LT. GOVERNOR SANFORD

**QUARTERLY MONITORING:**

Monitoring reports for the quarter ending September 30, 2020, were presented for approval; Executive Limitations/Staff Relations, Budget/Financial Conditions, Investment Ends/Watch List (including additional monitoring report), Retirement Program Ends (including TFFR Pension Administration System), and Annual Compliance.

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. GUMERINGER AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS.

AYES: TREASURER SCHMIDT, MR. MILLER, MR. OLSON, MS. GUMERINGER, MR. SEIBEL, DR. LECH, AND MS. SMITH

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER SMITH, COMMISSIONER GODFREAD, MR. KLIPFEL, AND LT. GOVERNOR SANFORD

**OTHER:**

Resolution for Treasurer Schmidt - The following resolution was presented on behalf of Treasurer Schmidt. Treasurer Schmidt has served on the SIB and TFFR boards since January 2005. Board members expressed their gratitude to Treasurer Schmidt.

ND TFFR and ND SIB Joint Board Resolution

In Appreciation of

State Treasurer Kelly Schmidt

WHEREAS, State Treasurer Kelly Schmidt has served as a member of the TFFR and SIB Boards for the past 16 years; and

WHEREAS, State Treasurer Kelly Schmidt has diligently carried out her duties and responsibilities as a member of these Boards and fiduciary of the TFFR and SIB Programs; and

WHEREAS, State Treasurer Kelly Schmidt has been a valued and dedicated member of these Boards in helping maintain the integrity and stability of the TFFR and SIB Programs.

NOW THEREFORE, BE IT RESOLVED that State Treasurer Kelly Schmidt be duly recognized by these Boards for her years of unselfish dedication to the State of North Dakota through her service on the Teachers' Fund for Retirement Board of Trustees and State Investment Board.

DATED this 19<sup>th</sup> day of November, 2020

IT WAS MOVED BY MR. OLSON AND SECONDED BY MR. MILLER AND CARRIED BY A VOICE VOTE TO ACCEPT THE RESOLUTION PRESENTED FOR TREASURER SCHMIDT.

AYES: MS. GUMERINGER, MS. SMITH, DR. LECH, MR. OLSON, MR. SEIBEL, MR. MILLER

NAYS: NONE

ABSTAIN: TREASURER SCHMIDT

ABSENT: COMMISSIONER SMITH, MR. KLIPFEL, COMMISSIONER GODFREAD, AND LT. GOVERNOR SANFORD

The next regular meeting of the SIB has been scheduled for December 18, 2020 (tentative), at 8:30 a.m., Retirement and Investment Office (virtual).

The next regular meeting of the SIB Securities Litigation Committee is scheduled for February 4, 2021, at 1:00 p.m. at RIO (virtual).

The next regular meeting of the SIB Audit Committee is scheduled for February 25, 2021, at 3:00 p.m. at RIO (virtual).

**ADJOURNMENT:**

With no further business to come before the SIB, Dr. Lech adjourned the meeting at 12:29 p.m.

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Dr. Rob Lech, Vice Chair  
State Investment Board

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Bonnie Heit  
Recorder

Informational

# Interim Asset & Performance Overview

## As of November 30, 2020

January 15, 2021

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)

### Interim Asset & Performance Overview:

Despite the U.S. and global economies, governments and society facing numerous challenges in 2020, U.S. and global equities were up 21% and 16%, respectively, in 2020. In the current fiscal year, U.S. and global equity markets gained over 19% and 17%, respectively, for the 5 months ended Nov. 30, 2020. Most SIB clients benefitted from these strong equity markets and earned over \$1.6 billion of net investment income for the 5 months ends Nov. 30, 2020. As a result, SIB client assets rose by over \$1.6 billion from \$16.3 billion at June 30, 2020 to \$17.9 billion as of Nov. 30, 2020.

The vast majority of SIB clients generated actual net investment returns which exceeded respective policy benchmarks by at least 0.20% versus passive indices.

Net investment income for our five largest SIB clients are highlighted below for the 5 months ended Nov. 30, 2020:

- TFFR                    \$287 million
- PERS                    \$358 million
- WSI                     \$137 million
- BSF                     \$17 million
- Legacy                 \$778 million

	Fair Value as of 11/30/20	Fair Value as of 06/30/20
<b>PENSION POOL PARTICIPANTS</b>		
<b>Teachers' Fund for Retirement</b>	<b>\$2,861,340,438</b>	<b>\$2,612,716,499</b>
<b>Public Employees Retirement System</b>	<b>3,545,199,441</b>	<b>3,212,113,496</b>
Bismarck City Employee Pension Fund	\$116,759,662	\$106,946,867
Bismarck City Police Pension Fund	\$46,723,385	\$42,552,004
City of Grand Forks Pension Fund	\$72,013,615	\$67,458,579
Grand Forks Park District Pension Fund	\$8,185,027	\$7,406,214
<b>Subtotal Pension Pool Participants</b>	<b>\$6,650,221,567</b>	<b>\$6,049,193,658</b>
<b>INSURANCE POOL PARTICIPANTS</b>		
<b>Workforce Safety &amp; Insurance Fund</b>	<b>\$2,235,389,463</b>	<b>\$2,125,881,220</b>
State Fire and Tornado Fund	24,349,525	22,825,556
State Bonding Fund	3,856,166	3,787,526
Petroleum Tank Release Fund	6,270,326	6,165,424
Insurance Regulatory Trust Fund	1,164,366	5,714,619
State Risk Management Fund	4,126,993	4,561,175
State Risk Management Workers Comp	3,996,377	5,116,217
Cultural Endowment Fund	550,085	493,401
<b>Budget Stabilization Fund</b>	<b>744,320,167</b>	<b>727,275,063</b>
ND Assoc. of Counties (NDACo) Fund	7,267,438	6,693,191
City of Bismarck Deferred Sick Leave	830,457	770,793
PERS Group Insurance	39,448,940	31,495,987
State Board of Medicine	2,648,173	2,470,787
City of Fargo FargoDome Permanent Fund	46,399,302	43,550,868
Lewis & Clark Interpretive Center Endowment	862,009	793,808
Attorney General Settlement Fund	996,671	1,057,147
Veterans' Cemetery Trust Fund	346,973	312,782
<b>Subtotal Insurance Pool Participants</b>	<b>\$3,122,823,430</b>	<b>\$2,988,965,565</b>
<b>INDIVIDUAL INVESTMENT ACCOUNTS</b>		
<b>Legacy Fund</b>	<b>7,894,446,184</b>	<b>6,999,783,262</b>
Retiree Health Insurance Credit Fund	161,961,271	95,338,534
Job Service of North Dakota Pension Fund	96,567,365	144,237,322
Tobacco Prevention and Control Trust Fund	7,592,639	7,589,354
<b>TOTAL</b>	<b>\$17,933,612,458</b>	<b>\$16,285,107,695</b>

# Interim Investment Update

## As of Nov. 30, 2020 and January 8, 2021

- 1) Actual Net Investment Returns for TFFR, PERS and Legacy Fund exceeded 11% for the 5 months ended Nov. 30, 2020, with WSI at 6.48% and Budget Stabilization at 2.41%, and generated the following amounts of net investment income: TFFR \$287 million; PERS \$358 million; WSI \$137 million; Budget Stabilization \$17 million; and Legacy \$778 million.
- 2) Actual Net Investment Returns exceeded their respective policy benchmarks for the 5 months ended Nov. 30, 2020, ranging from 0.21% for TFFR, 0.48% for PERS, 1.24% for WSI, 0.72% for Legacy and over 2% for Budget Stabilization.

Estimated YTD Through 1/8/2021

(Actual returns are net of fees; estimates are gross indices)

		TFFR	PERS	WSI	Legacy	Budget Stabilization
<b>Net Investment Return - Actual through</b>	<b>30-Nov</b>	<b>11.05%</b>	<b>11.16%</b>	<b>6.48%</b>	<b>11.06%</b>	<b>2.41%</b>
Total Fund Policy through	30-Nov	10.84%	10.68%	5.24%	10.34%	0.35%
<i>Excess Return for 5 months ended Nov. 30, 2020</i>		<i>0.21%</i>	<i>0.48%</i>	<i>1.24%</i>	<i>0.72%</i>	<i>2.06%</i>
Policy Benchmark Returns from Dec. 2020		2.3%	2.6%	1.2%	2.5%	0.1%
Policy Benchmark Returns from Jan. 1-8, 2021		1.2%	1.3%	0.0%	1.1%	0.0%
<b>Net Estimated Return from 7/1/2020 to 1/8/2021</b>		<b>15.0%</b>	<b>15.6%</b>	<b>7.8%</b>	<b>15.2%</b>	<b>2.4%</b>

Investment returns are actual from 7/1 to 11/30/2020, and conservative benchmark data from 12/1/2020 to 1/8/2021, which is unaudited and subject to material change.

- 3) Net Estimated Returns on a current fiscal year to date basis through Jan. 8, 2021, ranged from 15% to 15.6% for TFFR and PERS, 7.8% for WSI, 15.2% for Legacy and 2.4% for Budget Stabilization and generally reflective of their underlying asset allocation policy.

# SIB Mission Statement and Fast Facts

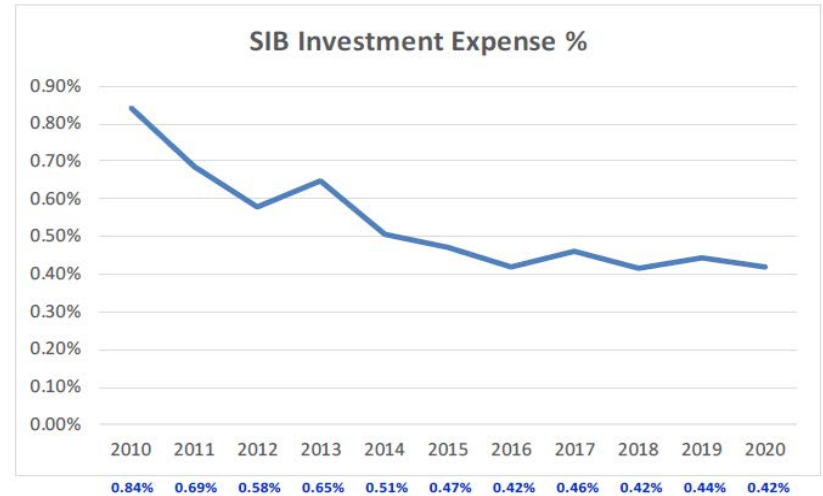
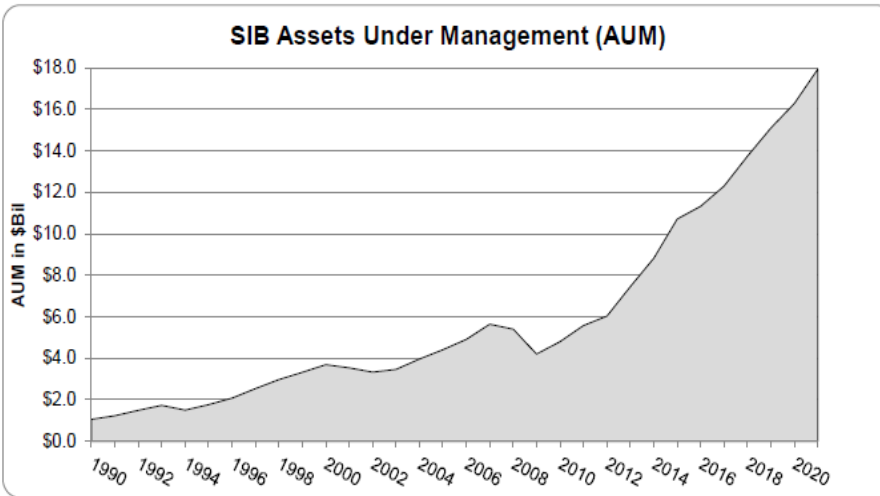
As of November 30, 2020

**Mission Statement:** The Retirement and Investment Office (RIO) serves the State Investment Board (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 (as defined in NDCC 21-10-07 "Legal Investments").
- 2) Potential SIB clients have access to information regarding the services provided by the SIB.
- 3) SIB clients receive satisfactory services from our Board & RIO staff including TFFR, PERS, WSI and Legacy & Budget Stabilization Funds.

**Top Ten SIB Fast Facts:**

- SIB client assets under management have more than tripled from \$5 billion in 2010 to \$18 billion in 2020, while rising over 34% since Jan. 1, 2019.
- SIB investment fees have significantly declined from 0.84% in 2010 to less than 0.45% in 2020.
- The SIB's keen focus on fees is saving our clients over \$20 million per year in lower costs which increases client net investment income.
- The SIB's prudent use of active investment management has generated over \$300 million of incremental income for our clients in the last 5-years.
- SIB client investment performance compares favorably with our peers including U.S. public pension plans and larger sovereign wealth funds.
- The SIB pension investment pool, which includes TFFR and PERS, returns are ranked in the top 25% of U.S. public funds in the last 10-years.
- North Dakota Legacy Fund returns are comparable to other Sovereign Wealth Funds since 2015 and favorable in more recent periods (see below).
- Actual net investment returns for 99% of our SIB clients have exceeded approved performance benchmarks for the 5-years ended Sep. 30, 2020.
- The SIB regularly accepts new investment clients such as the Office of the Attorney General and Veterans' Cemetery Trust Fund in recent years.
- SIB client satisfaction scores range from 3.4 to 3.7 in recent years (on 4.0 scale with 4 = Excellent, 3 = Above Average, 2 = Average and 1 = Poor).



<b>Sovereign Wealth Fund Returns</b>		<b>Fund Size</b>	<b>Fiscal Year Ended June 30, 2020</b>			<b>Date of</b>	<b>Fiscal YTD</b>
<b>Fund Name / Fund Size at Nov. 30, 2020</b>		<b>(billions)</b>	<b>1-year</b>	<b>5-years</b>	<b>Inception</b>	<b>Inception</b>	<b>Nov. 30, 2020</b>
Alaska Permanent Fund (Largest U.S. SWF) Source: <a href="https://apfc.org/report-archive/">https://apfc.org/report-archive/</a>		\$ 71.9	2.01%	6.44%	8.60%	7/1/1980	10.78%
North Dakota Legacy Fund Source: <a href="https://www.rio.nd.gov/legacy-fund">https://www.rio.nd.gov/legacy-fund</a>		\$ 7.9	4.23%	5.91%	4.76%	9/7/2011	11.06%
Norway Government Pension Fund (#1 Global) Source: <a href="https://www.nbim.no/en/the-fund/returns/">https://www.nbim.no/en/the-fund/returns/</a>		\$ 1,078.0	3.17%	5.41%	5.79%	1/1/1998	n/a

Note: The Legacy Fund was invested in 100% short-term fixed income prior to August 1, 2013. Since inception returns were 5.19% as of 9/30/2020.



# 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 22<sup>nd</sup> 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. Morill*

Executive Director/CEO

## Legacy Fund Facts – January 2021

### Legacy Fund Inception to Date Net Investment Income Exceeds \$2.4 billion

**Since inception, the Legacy Fund has earned over \$2.4 billion of net investment income** as of Nov. 30, 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 NDCC) 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> **Net investment income of over \$2.4 billion represented over 30% of Legacy Fund's \$7.9 billion balance as of Nov. 30, 2020.**

### 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 in late-2020.** The SIB dedicated an additional \$100 million in Legacy Fund investments to provide cost-efficient financing to companies seeking to develop new businesses 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 22<sup>nd</sup> 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>



# 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 November 30, 2020.*



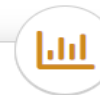
### FUND VALUE

**\$7,890,144,831**



### INCEPTION-TO-DATE NET INCOME

**\$2,469,003,907**



### PRINCIPAL BALANCE

**\$6,313,243,812**



### CURRENT BIENNIUM-TO-DATE EARNINGS

(as defined by NDCC 21-10-12)

**\$497,343,544**



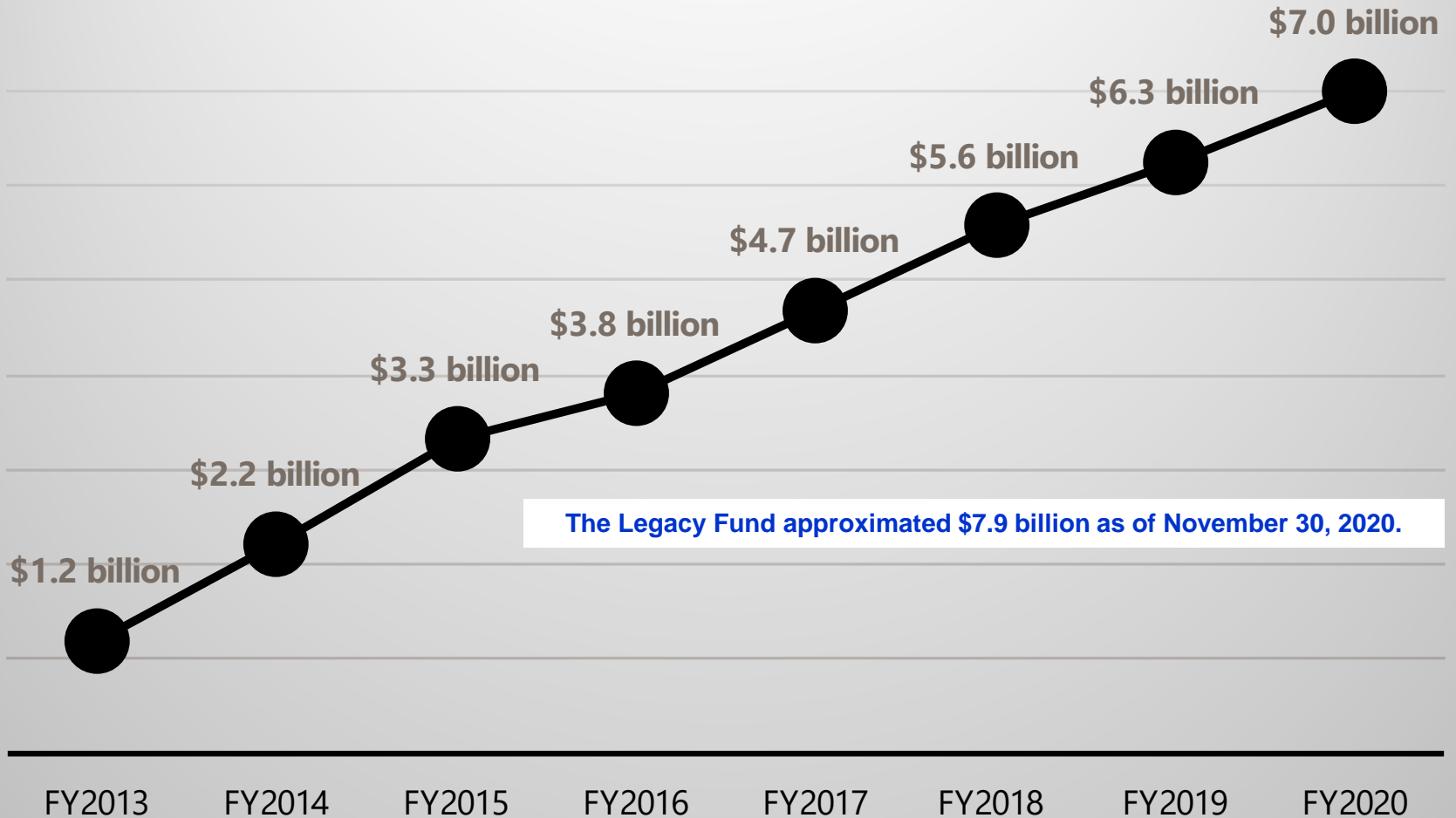
### EARNINGS TRANSFERRED TO GENERAL FUND

**2017-19 Biennium**

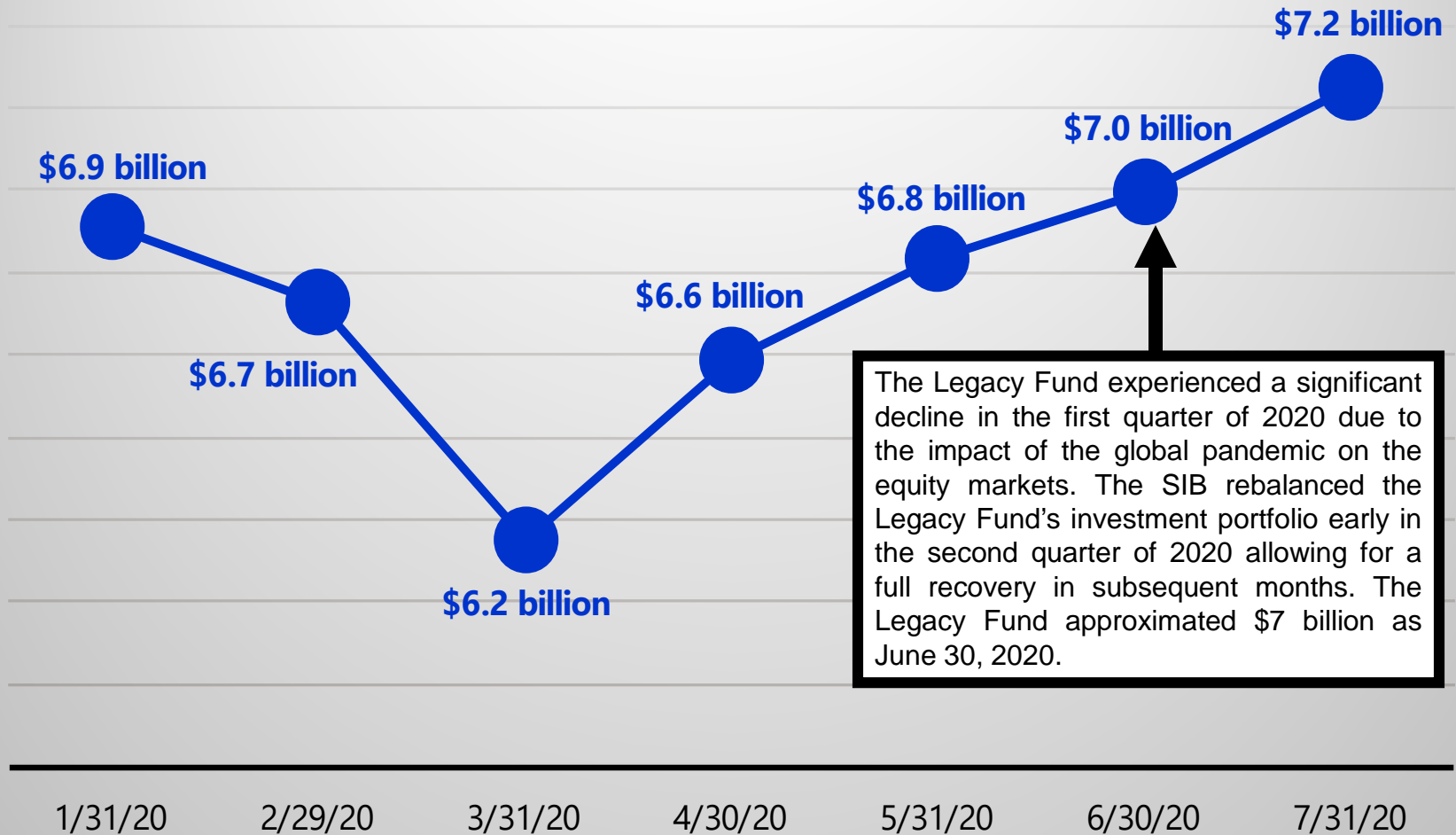
**\$455,263,216**

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

# Legacy Fund Ending Balance By Fiscal Year Ended June 30



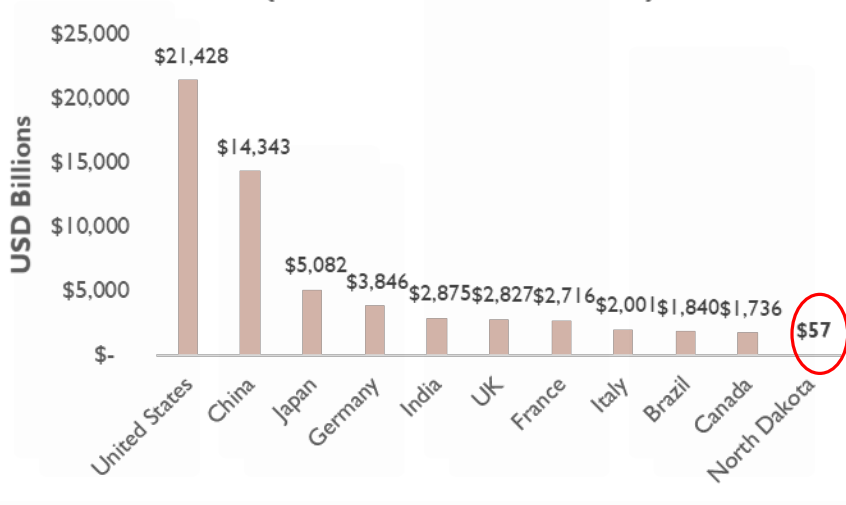
# Legacy Fund Month End Balances



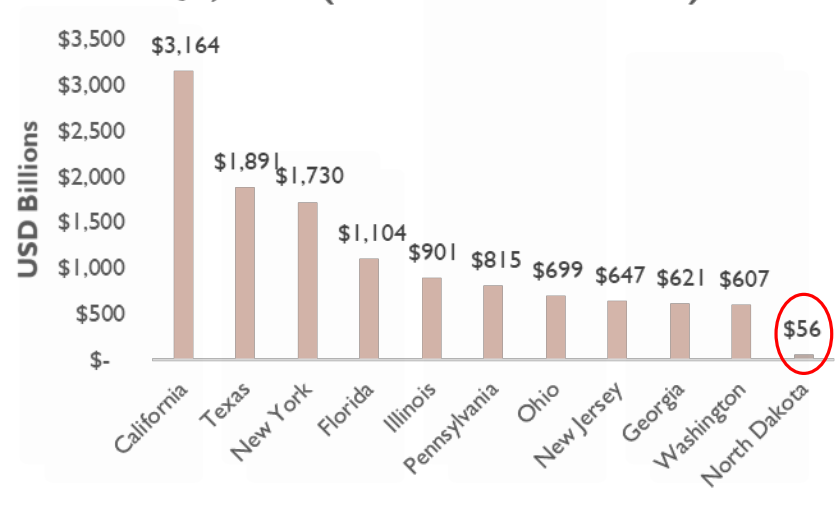
The Legacy Fund approximated \$7.9 billion as of Nov. 30, 2020.

# GDP of Ten Largest Global and U.S. Economies

**GDP of the Ten Largest Economies by Country**  
2019 (Current USD Billions)<sup>2</sup>



**GDP of the Ten Largest Economies by State**  
Q1, 2020 (Current USD Billion)<sup>1</sup>



1: State GDP data from www.bea.gov  
2: Country GDP data from www.worldbank.org

**SIB Press Release Sep. 2020 - The North Dakota State Investment Board (SIB) dedicated an additional \$100 million in Legacy Fund investments to providing cost-efficient financing to companies seeking to develop new businesses in North Dakota – one of several actions taken by the board to further improve the Legacy Fund’s performance and return for North Dakotans.**

**The \$100 million addition to the Bank of North Dakota’s Match Loan Certificates of Deposit (CD) Investment Program will increase the program’s total size from \$300 million to \$400 million.** The state-owned Bank of North Dakota requested the increase to support future anticipated growth in this economic development program, which has been in place for over 30 years.

**“This increase in funding will provide greater access to capital for entrepreneurs looking to launch new manufacturing, processing and value-added businesses and important infrastructure in North Dakota, while also ensuring that more Legacy Fund dollars are being invested right here in North Dakota,” said Lt. Gov. Brent Sanford, who chairs the SIB.**

**Informational**

**TO:** State Investment Board  
**FROM:** Dave Hunter  
**DATE:** January 21, 2021  
**SUBJECT:** Callan In-State Investment Update – Cover Memo

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Callan recently completed a survey of potential “in-state investment program” managers to gain insight into their overall approach, unique views on the investment opportunity set in various sectors, target asset allocation ranges, deployment guidelines, expected sector returns, optimal investment vehicle structures, and key success elements, for building this program in North Dakota.

The following 13 pages include an abridged and anonymized summary of select excerpts from these surveys. Callan will highlight the key points and takeaways from this process and address any comments or questions raised by the SIB and RIO during this overview.

## **NORTH DAKOTA IN-STATE INVESTMENT SURVEY SELECTED EXCERPTS**

- 1) What do you envision is the best way to execute an in-state investment program with regard to the geography of the investments? How would you define the parameters?

### Manager 1

North Dakota entrepreneurs have raised, on average, only \$8.1 million of venture capital financing per annum for the past fifteen years, we believe that such an investment program is best structured to invest in: (i) recipient funds physically located within the State (i.e., at least one partner and a physical office); (ii) recipient funds with a track record of investing in companies with a physical presence in the State; (iii) recipient funds with a track record of investing in the industries/sectors of strength to North Dakota's economy; and (iv) co-/direct investments in operating companies with a physical presence in the State.

We believe it is important to invest in recipient funds that have a physical presence in the State as they are the most likely to support local businesses and entrepreneurs, as well as in recipient funds with a nexus to the State and its entrepreneurs, or recipient funds that have a track record of investing in the sectors/industries of strength to North Dakota's economy or a track record of investing in North Dakota companies, but do not maintain a physical presence in the State.

### Manager 2

We propose to target companies with headquarters or business operations in the state of North Dakota, as well as businesses with a nexus to the state. This approach casts the widest net to execute and influence decisions that affect jobs and growth in North Dakota.

### Manager 3

Would like to conduct needs assessment first.

### Manager 4

In the case of North Dakota, we would advise trying to keep the parameters as broad as possible to allow for sufficient deal flow and investment options. This also plays into the size of the overall program and the desired diversification. We would advise considering companies and/or funds who not only may have a physical location in the state but also have a certain percentage of their revenue generated from the State of North Dakota.

### Manager 5

We believe the best way to execute an in-state investment program is to be as broad as possible while maintaining a focus on local impact and the mandate's overall goals. We suggest defining "in-state" as companies headquartered in the state, having an office in the state, employing residents of the state, or companies that are willing to establish a presence in the state. We suggest including multiple strategies such as buyouts, venture capital, credit, real estate, and infrastructure. We would also recommend including multiple types of investment types such as partnerships, co-investments, direct investments, and joint ventures. The parameters should be as wide as possible so that the investor has enough opportunities to choose from in order to construct a high-quality portfolio focused on maximum in-state impact, while also achieving the investor's return objectives.

### Manager 6

Capital attracted from outside the state will help to create links between local businesses and the broader national economy. At the same time, links to new in-state capital sources helps to build a community that can support itself and create a critical mass of skills and experience. The program manager should take

the lead in developing these connections, but it is important that they work in close collaboration with the local ecosystem. Local capital usually plays a larger role in the early days of an in-state program, but a successful manager will help shift that balance over time to attract a larger percentage of out of state financially focused and strategic investment capital.

- 2) Given your answer to the first question, what do you believe is the opportunity set using an asset class construct (e.g.—private equity, infrastructure, private debt, real estate, etc.)? What is your best estimate of the dollar size of each opportunity set, and how did you arrive at that estimate?

#### Manager 1

We believe that an optimal asset class construction for a successful in-state investment program is a core focus on venture capital, private credit and private equity. In our opinion, given the larger necessity of many in-state programs to catalyze or further catalyze the local entrepreneurial ecosystem from an economic development perspective, we believe that such a vehicle's committed capital can best serve the needs of entrepreneurs through private equity, private credit and venture capital financings. We believe that real assets and infrastructure capital needs are better served through separate funding structures. Real assets and infrastructure have much different hold periods and return profiles than private equity, which could cause a misalignment of return expectations for such an in-state program.

#### Manager 2

Buyouts, growth equity, venture capital, natural resources, infrastructure, food and agriculture and real estate should all be considered in North Dakota. The portfolio should be well diversified across the sub-asset classes. Asset classes that are higher risk such as venture capital and oil & gas should be appropriately allocated. The North Dakota in-state mandate should focus on equity and equity-like investment opportunities. Equity capital has a multiplier effect on jobs and growth. Equity capital will also complement existing in-state efforts with LIFT and the Bank of North Dakota Match Program.

- Private Equity (Historical Size of Market Opportunity \$200-\$500M annually)
  - Buyouts, growth equity, venture capital
- Real Assets (Historical Size of Market Opportunity \$100M-\$300M annually)
  - Natural resources, infrastructure, food & agriculture, real estate

The ND private markets ecosystem has material room to grow to match the State's level of total economic output, similar to other States' ratios. Manager 2 believes ND has the potential to grow the number of private market deals by 20-50% annually in order to align the private market ecosystem with the general economic output.

State	Total GDP	U.S. Private Market Deals	State	Total GDP	U.S. Private Market Deals
CA	14.92%	13.22%	OR	1.21%	0.94%
TX	8.48%	11.83%	SC	1.17%	0.88%
NY	8.16%	6.79%	AL	1.09%	0.86%
FL	5.32%	5.74%	LA	1.17%	0.84%
IL	4.19%	4.99%	KS	0.84%	0.81%
PA	3.77%	4.06%	KY	1.02%	0.78%
GA	3.00%	3.63%	NV	0.84%	0.63%
MA	2.82%	3.61%	NH	0.41%	0.49%
OH	3.27%	3.40%	IA	0.93%	0.48%
NJ	2.99%	3.24%	NE	0.62%	0.41%
CO	1.89%	2.81%	AR	0.63%	0.37%
NC	2.84%	2.75%	ME	0.32%	0.32%
MI	2.51%	2.62%	RI	0.29%	0.30%
VA	2.67%	2.49%	ID	0.41%	0.30%
MN	1.81%	2.23%	MS	0.55%	0.29%
TN	1.77%	2.12%	DE	0.37%	0.28%
AZ	1.81%	1.83%	NM	0.48%	0.24%
MD	2.05%	1.82%	VT	0.16%	0.21%
WA	3.02%	1.77%	SD	0.26%	0.14%
WI	1.65%	1.74%	WV	0.36%	0.14%
CT	1.36%	1.72%	ND	0.26%	0.14%
IN	1.81%	1.55%	MT	0.25%	0.14%
MO	1.56%	1.51%	AK	0.24%	0.08%
UT	0.95%	1.31%	HI	0.43%	0.07%
OK	0.89%	1.04%	WY	0.17%	0.06%

Source: Bureau of Economic Analysis. Gross Domestic Product by State, 3rd Quarter 2020. Preqin. Includes all private market deals (n=26,369) from January 1, 2010 to December 31, 2020 in the United States. Excludes 285 companies with no clear State classification.

Our research points toward continued growth across natural resources and food and agriculture. Areas where Manager 2 would like to focus on diversifying the North Dakota economy is around advanced manufacturing and business services. Manager 2 believes these two industries bring quality jobs and long-term economic viability to local communities. Furthermore, COVID-19 has demonstrated that employers are comfortable with remote workers. There may be opportunities for expansion of operations in business services companies to North Dakota.

Other areas where we see evolving opportunities across the country include waste-to-energy and clean power generation, as well as digital infrastructure. Our real asset expertise will bring the appropriate partners to the table and ensure that North Dakota keeps pace with the broader infrastructure market transitions.

Avoid: Our experience can offer cautionary tales on where in-state capital may fail to achieve both the spirit and the economic goals of the program. Investing in venture capital where a proper ecosystem for innovation and entrepreneurship does not exist, as well as investing in seed stage investments can lead to poor outcomes for in-state capital. Venture capital may also have a smaller impact on job growth.

### Manager 3

Generally, the wider the scope of the investment program, and the greater the flexibility we have to invest in the portfolio, the greater the likelihood the State could meet its defined programmatic goals. For a program with North Dakota, we would recommend starting with a relatively small program. More



specifically, we have experience managing in-state programs for several large states. Those range in size but can be around \$250MM. Given the relative size and GDP of North Dakota, we would recommend the program size be smaller than that.

Some considerations include whether the program intends to support new company creation or the growth of existing companies. In the case of the former, we might suggest developing an early-stage venture capital focused program, with capital available to fund companies as they grow.

We would recommend considering infrastructure and potentially real estate to increase flexibility, generate potential cash yield and, in the case of real estate, create jobs, depending on the project and investment scope. Generally, we would anticipate opportunities to be more plentiful in debt and equity opportunities in infrastructure, energy and oilfield services in keeping with North Dakota's focus on upstream oil & gas. We would recommend using very broad target ranges of up to 75% in private equity with a range of up to 40% in real assets, allowing for an opportunistic split between real estate and infrastructure.

#### Manager 4

Based on discussions with NDSIB and some high-level, cursory research, we believe a portfolio that would look to deploy \$50-75m per year into the asset classes above would be reasonable. At that level we would look to see deal flow at multiples of that to ensure we are seeing ample opportunities.

#### Manager 5

Per PitchBook, there are ~100 entities based in North Dakota that are captured as "investors" for equity and real estate. PitchBook classifies these entities as follows:

- 6 entities are listed as accelerators or angel investors. Based on our experience, we assume these funds are likely each less than \$20 million, and assume an investor could represent a maximum of half the fund for a total opportunity of \$60 million.
- 78 entities are listed as corporations looking for mergers/acquisitions. We assume 10% of them are investable, meaning 8 opportunities. We assume \$10 million for each for a total opportunity of \$80 million.
- 9 entities are listed as PE-backed companies or VC-backed companies. We assume 10% of them are investable, meaning 1 opportunity. We assume \$10 million for total opportunity.
- 5 entities are listed as VC funds. We assume \$25 million investment with each for a total opportunity of \$125 million.

As agreed, these numbers are totally rough estimates and have not been vetted. If these assumptions are deemed to be fair and reasonable, and the majority of corporate M&A was truly investable, the opportunity based on this data is approximately \$275 million. We do not know if this is truly actionable. In our experience, we invest in less than 10% of the opportunities we see. In the above, we are aggressive assuming investing in 100% of the investable in-state universe of angel funds and VC funds.

In addition to the data above, when we evaluate in-state programs, we also look at the underlying economic characteristics of the state itself. Those metrics may include start-up activity, employment data, economic activity, etc.

## Economic data supports a strong investment environment in Florida

### Florida's Financial Health

#### Prominent Startup Activity

- **Miami Metro Area** – The Miami metropolitan area has been ranked as the metro area with the highest startup activity with 560 new entrepreneurs for every 100,000 adults in a given month
- Florida ranked as the #2 state for business in Chief Executive Magazine

#### Economic Strength

- **Globally competitive** – Florida has the 17th largest economy globally and 4th highest GDP in the U.S in 2018
- **Private sector growth** – Florida has outpaced national real GDP growth: (Florida / National)
  - 2015: **4.0%** / 2.9%
  - 2016: **3.2%** / 1.6%
  - 2017: **2.2%** / 2.2%
  - 2018: **3.5%** / 2.9%
- **Strong Infrastructure** – Florida has 122,000 miles of roadways, 2,750 miles of railways, and 128 airports

#### Strong Employment Data

- **Low unemployment** – Florida's seasonally adjusted unemployment rate was 3.3% in November 2018, lower than the national unemployment rate of 3.7%
- **Increased job growth** – Florida's job growth rate has exceeded the nation's rate since May 2012. Florida added 173,100 jobs from a year ago, led by professional and business services (+2.9%)
- **Earnings growth** - Earnings increased 5.2% in 2018, an increase from the 4.5% in the United States.

#### Population & Housing Market Growth

- **Population steadily increasing** – As of December 2018, Florida had a population of 21.6 million people with 1,027 people moving to the state every day. Florida is the 3<sup>rd</sup> most populous state in the U.S and expected to grow to 26 million by 2030
- **Increased home values** – Median Florida home values have gone up 5.5% since April 2018. Expected to increase 3% in 2019

Source: 2018 Kauffman Index Startup Activity <http://www.kauffman.org/kauffman-in-dev/reporting/startup-activity>; Florida CFO – Infographics <http://www.myfloridacfo.com/FloridaInfographics/infographics>; Florida Statistics - <https://www.bea.gov/region/fl/beatfacts/pdf.cfm?tips=12000&areatyp=STATE&geotip=3>; [http://edr.state.fl.us/Content/presentations/economic/FIEconomicOverview\\_12-25-18.pdf](http://edr.state.fl.us/Content/presentations/economic/FIEconomicOverview_12-25-18.pdf); Florida Home Values - <https://www.zillow.com/fl/home-values/>

### Manager 6

Effective examples of geographically targeted investment programs are typically focused on venture capital, private equity, and private debt. To determine the size of the opportunity set, it is beneficial to determine what the annual pacing of investment in an asset class could potentially be in the target geography.

**Venture Capital/Private Equity** – Venture capital and private equity investments could either be made via a commitment to an investment fund (fund of funds approach) or a direct investment in a company. In programs that we have managed historically, a hybrid approach of investing in fund managers and directly co-investing alongside those fund managers is an effective combination. According to Pitchbook, the annual level of venture capital investment over the past three years for companies headquartered in North Dakota is between \$5-20 million. The presence of an in-state investment program that included venture capital as a strategy would be expected to significantly increase that volume, but annual deployment of \$10-20 million is a reasonable baseline for the venture capital opportunity set. It is not unreasonable to assume that an in-state investment program could deploy \$15-20 million or more annually for other private equity investments. Assuming a five-year investment period and requisite reserves, that implies a total investment fund size of \$125-200 million for the entire private equity/venture capital opportunity set.

**Private Debt** – Private debt investments typically would be made directly into companies. Private debt investments can be a useful way to invest in a broader set of companies that are not looking for equity financing and can provide consistent cash flow back to the investment program. This also provides greater industry diversification in the state for companies that are not typical venture capital or private equity opportunities. Using SBA lending as a proxy for the size of the opportunity set, North Dakota approved \$40.6 million in SBA 7(a) loans during the 2019 fiscal year. These loans were for between \$5,000 and \$4.5 million for small and medium sized businesses that may not be able to tap into traditional bank financing but are still considered promising. Based on our experience managing geographically targeted debt investment funds, debt investments would likely target a smaller subset of these loans and look to make debt investments of \$5 million on average with a broad range around that average and the ability to opportunistically invest more. It is not unreasonable to assume that \$15-20 million could be

prudently deployed annually. Assuming a five-year investment period, that would imply a fund size of \$100 million.

3) What is the likely allocation range for each of the investments opportunity sets described above?

Manager 1

If the primary goal is to create a more robust supply chain of risk-based capital for entrepreneurs in the State, we believe that a majority or super-majority allocation of the program's committed capital to multi-stage venture capital investments (both direct investments and fund investments) is imperative to ensuring that the program can provide much needed start-up and scale-up capital to entrepreneurs across the State. Within the program's venture capital allocation, we believe it is important that 5-10% of the investable venture capital allocation be committed to venture studios, incubators or accelerators that can help provide the critical start-up capital, mentorship and support that very early stage companies and entrepreneurs require.

We believe that a 10-20% allocation to private credit (e.g., SBICs, senior direct lenders, mezzanine, revenue-based financing, venture debt, etc.) is also important to ensuring that there are additional capital sources for entrepreneurs at different stages of their operating companies' growth cycle.

Lastly, we believe that a 30-40% allocation to growth-focused private equity firms is an important pillar of portfolio construction for such an in-state program. The earlier lifecycle of liquidity and less divergent return profile of private equity (versus venture capital) should enhance the overall return expectations of the vehicle and ensure that more growth-oriented, mature business owners have a means of attracting risk-based capital from regional and local investment managers who can best meet the needs of operators and entrepreneurs in the State.

In summary, we believe that a 50-60% allocation to multi-stage venture capital (incubation to growth), a 30-40% allocation to growth private equity and a 10-20% allocation to private credit, is an attractive and proven portfolio design construct for implementing successful in-state investment programs.

Manager 2

- Private Equity (25 – 75%)
- Real Assets (25 – 75%)

Manager 3

We would anticipate a diversified portfolio with 5% positions on average, although there should be flexibility to allow for select positions to be as large as 15-20% depending on the availability of opportunities.

Manager 4

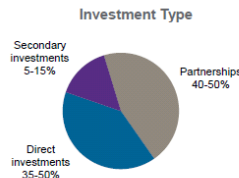
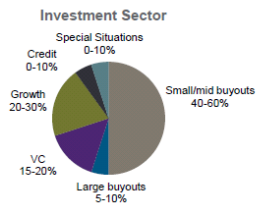
The likely allocation range for the aforementioned opportunity sets are as follows:

Asset Class	Approximate Allocation %
Private equity	33.3
Infrastructure	33.3
Private debt	16.7
Real estate	16.7

## Manager 5

We have also included a sample portfolio construction (see below) for an existing in-state program. Note this has different characteristics than North Dakota, so it may not necessarily be an apples to apples comparison.

- Objective: construct a return-enhancing private equity portfolio focused on technology, growth and buyout in companies with a significant presence in Florida.
- Investment period: 4 years (with the option of one year extension)
- Maximum of 50% of the capital to be committed in any one year of the investment period
- Target ~50% in partnership investments (average bite size of \$5 - \$15mm) with 8-10 General Partners, single fund exposure limited to 15% of capital committed & General Partner exposure (funds & co-investments) limited to 30% of capital committed
- Target ~50% in direct investments (average bite size of \$5 - \$10mm) based in Florida, having a significant presence in Florida, or sponsored by a Florida-based manager in the fund
  - Not more than 15% in any single direct co-investment
  - Not more than 30% in credit co-investments
- Not more than 15% in secondary investments



### Corporate Finance:

- Focus on small to mid-market and opportunistically larger companies
- Target proven GP teams with sector and strategy focus that can provide an execution and operating advantage
- "Emerging managers" expected to represent significant component of investments

### Venture Capital / Growth:

- Focus on areas of innovation
- Target GPs with domain expertise and strong entrepreneurial networks

- Direct & secondary investments are expected to provide return and income enhancement to the portfolio, as well as potential j-curve mitigation
- Target opportunities where we can leverage existing relationships with fund sponsors
- Consider non-traditional deal sources (e.g. strategic family offices, fundless sponsors, JPM's direct network)

## Manager 6

It would be reasonable to allocate between \$25-40 million annually to PE/VC (inclusive of direct and fund of fund investments) and \$15-20 million annually to private debt investments.

- 4) What do you believe is the best way to deploy or tranche capital and over what time period?

## Manager 1

We believe the optimal structure for an in-state investment program is to create a pooled vehicle with an 'evergreen' investment period to allow for a portion (or all) of the distributions received from portfolio companies (both direct and indirect) to be recycled back into future investments in recipient funds and co-/direct investments. To that end, we believe that such a vehicle should have an initial investment period of five years, with the ability to extend the investment period in additional one-year increments at the election of the State (and its stakeholders) to allow for additional investments after the five-year initial investment period, utilizing the recycled proceeds from the vehicle over time.

## Manager 2

We recommend committing between 1% and 4% of the Legacy Funds capital to the in-state mandate initially. Clear milestones for deployment and performance should be met prior to adding towards the program's long-term allocation goals/targets.

We suggest a four-year investment period, with one, one-year extension at the discretion of North Dakota SIB. Manager 2 has also seen single-year capital deployment caps used to pace capital appropriately. A prudent pacing cap would be 40 or 50% in any single, vintage year. The pacing cap and the extension period provide ND SIB with risk controls and flexibility to execute the initial program commitment, without being too restrictive and risk losing attractive opportunities.

We suggest creating a series structure to easily and cost-effectively create a new series as the initial commitment amount is deployed and new capital is approved for commitment by ND SIB. We have experience launching and operating series structures.

Manager 3

In the case of North Dakota, we would recommend considering a three to five-year investment period in order to provide an ample time horizon to source investments within the State.

Manager 4

We believe strongly in vintage year diversification, especially as you consider direct and/or co-investment mandates. As such, we would advise a three to four year program with consistent, targeted deployment each year at \$50m-\$75m.

Manager 5

Diversification by time is recommended for constructing a portfolio. We recommend a minimum of 3 years to deploy the capital to ensure appropriate exposure to multiple vintage years and a range of opportunities. To maintain flexibility in tactical opportunities, we suggest the ability to over/under weight from the target annual commitment amount, while maintaining the strategic commitment pace over a typical 3 year period (and the flexibility to go beyond 3 years if needed).

Manager 6

For in-state investment programs, it is typical to see the sponsor of the program make an initial commitment to the program to fund investments for 3-5 years. After the initial commitment has been deployed, additional tranches of financing are often provided based on the success of the program.

5) What is a reasonable net-of-fee return target for each of the opportunity sets?

Manager 1

We believe that the most critical function such an in-state program can serve to catalyze is the core foundation of a more mature entrepreneurial and risk-assets ecosystem. We believe that a 5.0-7.5% net internal rate of return over the life of such an in-state vehicle is a very reasonable base case expectation.

Manager 2

Properly designed in-state programs should deliver market level of returns, above all else. We will not sacrifice underwriting standards or independent, third party mindset for the sake of committing capital in North Dakota.

Below, we have provided market data from an independent, third party data provider highlighting the short and long-term performance of the various strategies that we contemplate for the North Dakota in-state program.

Asset Class	Pooled IRR	
	Since Inception	15-Year
Venture Capital	16.0%	12.9%
Buyouts	14.1%	12.3%
Growth Equity	12.8%	11.5%
Real Estate	6.3%	5.2%
Natural Resources	2.4%	1.3%
Infrastructure	6.8%	7.0%

Source: Burgiss Private IQ. Benchmarks include all vintage years and all geographies for the strategies shown. Returns are pooled, representing the annualized internal rate of return when all investments are included into the benchmark composition. Data shows since inception and the most recent 15-year Pooled IRRs. All data as of September 30, 2020.

### Manager 3

Depends on program goals and structure.

### Manager 4

We believe the following net-of-fee returns are reasonable targets for each of the opportunity sets:

Asset Class	Net-Of-Fee Return Targets
Private equity	13-15%
Infrastructure	8-10%
Private debt	6-9%
Real estate	6-9%

In all, we would expect the return target to be 8-12%.

### Manager 5

In a broadly diversified, global private equity portfolio, a 300-500 basis point excess over a public index is typical. However, the suggestion for this in-state mandate also includes other asset classes in addition to private equity which have lower return expectations. Additionally, the investor may view in-state economic activity as a benefit to the program leading to the possibility of accepting a lower return.

### Manager 6

In-state investment program return expectations can vary depending on whether the primary focus is on financial return or economic development. For programs with a financial return focus and less rigorous side letter investment requirements, the expectation is to achieve investment returns consistent with national averages for the respective asset class. For in-state investment programs that focus more heavily on economic development, there is the potential that investments may produce financial returns below national benchmarks for the asset class.

- 6) What are the optimal investment vehicle implementations and allocation ranges (e.g. Direct GPs, Fund of Funds, co-investments, direct investments, etc.)?

### Manager 1

We believe that a discretionary pooled vehicle structure is the optimal investment vehicle to align incentives by driving performance and economic development for such a program, composed of approximately seventy-five percent allocated to fund investments and twenty-five percent allocated to co-/direct investments is optimal to provide for ample portfolio diversification.

### Manager 2

We recommend that the investment guidelines be inclusive of commitments to funds, co-investments alongside fund managers, co-investments alongside independent sponsors and management teams. We do not recommend allocation ranges.

A single investment or position limit of 20% is prudent for in-state programs. We recommend excluding hostile takeover situations, and investments where the initial investment thesis includes the elimination of North Dakota jobs in order to achieve market returns.

### Manager 3

It is beneficial to diversify a private markets portfolio across primary fund investments, co-investments, secondaries and direct investments across all alternatives in seeking to mitigate the J-curve and enhance

returns. In-state mandates are no different in terms of objective, but sourcing execution can be slightly more challenging for non-fund investments. Primary fund investments develop long-term, forward-looking diversification by time (vintage year), manager, and sector. Typically, capital is called down over time by managers as portfolio companies and assets are selected, providing a longer duration over which capital is deployed, portfolios developed, and then potential returns harvested. Co-investments can provide the opportunity for out-performance and alpha enhancement through more concentrated positions, and reduced program costs with eliminated “double layer” fees.

#### Manager 4

Given the mandate, we feel the best approach here is one with a strong allocation to direct/co-investment across all of the asset classes (60-75%). The balance would be reserved for commitments to GP funds and/or secondary investments, should they become available.

We believe the following allocation ranges would be optimal for North Dakota’s in-state program:

<b>Asset Class</b>	<b>Allocation Range</b>
<b>Direct GPs</b>	25-40%
<b>Fund of Funds</b>	0%
<b>Co-investments</b>	60-75%
<b>Direct investments</b>	0

#### Manager 6

The two vehicles that have been most effective in deploying capital have been fund of funds investment and direct investment via a co-investment vehicle.

#### **Fund of Funds (30-50%)**

Fund of funds strategies can be effective for in-state investment programs in two key ways:

- Fund of funds investment can be used to support in-state investment firms to help build a local core of investors to support companies in the target geography. Investing in existing or emerging in-state fund managers helps ensure that there are multiple potential funding sources for companies in the target geography. By providing local capital, companies that receive this funding are often more capable of raising larger amounts of funding from other investors either from within the state or from outside of the state. Further, if funds are successful, this can lead to successful investment firm franchises that will continue to invest in the state without needing additional state funding.
- Fund of funds investment can be used to attract regional or national investors to the target geography.

#### **Co-Investment (50-70%)**

To supplement a fund of funds strategy, co-investment strategies can be very effective for increasing program return, retaining high growth companies in-state and building relationships with other investors in the region. A co-investment strategy could be utilized for either equity or debt investments. These strategies typically will require that an institutional investor (PE/VC fund or debt fund) be the lead investor in a company and set the terms of the investment.

Based on our analysis of the current level of venture capital funds present in North Dakota, we have purposely overweighted the direct investment allocation based on the limited number of investment funds currently present in the state. However, over time this allocation could change as the program and the ecosystem matures and becomes more capable of attracting venture capital and private equity funds to the state.

## 7) What are the key elements that would make such a program feasible?

### Manager 1

- Important to capitalize the vehicle with a size that it can truly meet the needs of entrepreneurs throughout the State as well as attract talented prospective recipient funds with a track record of investing in North Dakota entrepreneurs and/or investing in the industries/sectors of strength to the State's economy.
- Important to properly structure the program as a discretionary 'evergreen' investment vehicle to align incentives with the investment advisor/program administrator and ensure that a truly independent third-party investment advisor with deep experience implementing such in-state programs can pursue the program's investment strategy. To that end, we believe it is important to establish a governing investment policy statement for the program and a governing investment board that meets quarterly with the investment advisor/program administrator to discuss potential investment recommendations and provide oversight of the program.
- Important to establish at the onset how the program's success will be measured. Establishing the framework for success at the onset should be an important barometer guiding the overall implementation of the program. It will be important to understand the balance of economic development and investment performance goals to ensure an alignment of interest on each prospective recipient fund investment recommendation.
- Utmost importance that the program be managed in a transparent manner ensuring that all of the State's stakeholders have visibility into the development of the program and the public have access both to the investment advisor/program administrator and to the underlying recipient funds and their portfolio companies.
- Most importantly, we believe that there is no singular 'blueprint' or business model for successfully implementing an in-state investment program as every state's resources, entrepreneurial and investment communities are uniquely different.

### Manager 2

- Scope of Service – collaborate with ND SIB to fully understand and document the investment objectives and goals for the program. A full scope of service would be developed to outline the key areas of focus as well as outline the risk profile of the program. Roles and responsibilities, as well as the frequency of interaction will be outlined in the scope of service.
- Nexus Approach - target companies with headquarters or business operations in the state of North Dakota, as well as businesses with a nexus to the state. This approach casts the widest net to execute and influence decisions that affect jobs and growth in North Dakota.
- Best Ideas Approach – in-state programs should offer the flexibility to execute a best-ideas approach. 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. Eliminating asset classes or sectors limits the impact that capital can have in the local economy. Buyouts, growth equity, venture capital, natural resources, infrastructure, food and agriculture and real estate should all be considered in North Dakota.



- In-state Collaboration – The North Dakota in-state mandate should focus on equity and equity-like investment opportunities. Equity capital has a multiplier effect on jobs and growth. Equity capital will also complement existing in-state efforts with LIFT and the Bank of North Dakota Match Program. Collaboration between these parties can magnify in-state efforts.
- Increase In-state Influence – Recommend that ND SIB leverage other private market commitments, where appropriate, to influence general partners to consider capital investment within the state or in businesses with a nexus to the state. We estimate ca. \$3.7 billion of private market exposure for fiscal year end 2020.
- Working Relationship – Coordination and transparency amongst staff, consultant, board and external observers is critical to the success of an in-state program.
- Governance Rights – ND SIB retain certain governance provisions in the legal agreement, including the right to suspend and terminate the investment period at any time. ND SIB, as the majority investor, will have natural governance rights to amend the legal agreement and investment guidelines as the program develops, or as market circumstances change.

### Manager 3

We believe the feasibility and probability of success of the program is directly tied to program size and flexibility. As compared to traditional private market investment programs, we would anticipate a smaller universe and pipeline of investment opportunities, and we would therefore recommend a more manageable and reasonable program size, with the flexibility to invest across private markets, and up and down the capital stack. Additionally, we believe it would be critical to define various aspects of the program as clearly as possible including program goals, investment universe, capital sources, communications, resources, and team. We would also recommend a flexible governance model and a high level of collaboration between the NDSIB staff and our investment team. Finally, we would mention that all stakeholders would have to appreciate additional headline risk involved in an in-state program, where any missteps could be known to the broader community. All of these components will be vital to the success of the program.

### Manager 4

Due to their very nature, such programs require dedicated effort and investment discipline to execute successfully. Important factors to consider include:

- 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

### Manager 5

A narrowly focused program is not advised given the stated goals and desired impact. In our experience, even the best intentions, investment guidelines, and processes established up front are not enough to

offset a very narrow pipeline of opportunities. Ultimately, this increases the risk that the mandate is not able to be fully deployed and faces pressure to stretch underwriting in order to increase commitments – both of which have the opposite effect of the goals for a positive state and local impact.

#### Manager 6

The following key elements are consistent in program feasibility:

- **Clear Program Goals** – For an in-state investment program to be effective, the high-level goals for the program need to be clearly stated. The decision on whether to focus on financial return or economic development focus is critical as that will guide many of the program development decisions.
- **Experienced Program Manager** – Retaining a manager with experience managing geographically targeted investment programs can be a deciding factor for the success of an in-state program. Also important is that the manager of the program establishes a local presence in the target geography to be immersed in the ecosystem.
- **In-State Requirements** – Requirements need to be put in place to ensure that program dollars stay in-state. In the case of fund of fund commitments, that the states commitment is at least matched by in-state investment.
- **Alignment with Geographical Strengths** – To be effective, the investment goals of the program need to be realistic and aligned with the existing strengths and resources in the state.

**BOARD ACTION REQUESTED**

**TO:** State Investment Board  
**FROM:** Dave Hunter, Darren Schulz, Eric Chin and Matt Posch  
**DATE:** January 21, 2021  
**SUBJECT:** **RIO's In-State Investment Program Recommendation**

**SIB In-State Investment History:**

**The SIB and Advisory Board have supported in state investment opportunities since their inception.** As a result, the BND Match Loan CD program, which supports cost efficient financing to businesses looking to start or expand their operations in North Dakota, was raised to a record high \$400 million commitment level in late-2020, while the Legacy's other investments earned over \$2.4 billion of net investment income for North Dakota in the last 9 years.

**SIB and Advisory Board actions to allocate committed capital to support in state investments have kept pace with growth of the Legacy Fund and represent a target 5% allocation in 2020.** This month, RIO recommends the SIB and Advisory Board advance a proposal which seeks to allocate significant new capital to establish a new "in state private markets investment platform" with up to an additional \$100 million of fresh available capital beginning in 2021 (Phase I) and potentially up to another \$100 million of fresh available capital beginning in Phase II.

**These proposed SIB policy changes seek alignment with Advisory Board recommendations in a professional, diligent and cost efficient manner.** SIB and Advisory Board actions and prudent governance processes have served the State well, in our opinion, and generated over \$2.4 billion of net investment income for the State and its citizens over the past nine years, and represent over 30% of the Legacy Fund's current \$7.9 billion balance as of Nov 30, 2020. **RIO respectfully requests SIB and Advisory Board approval of these recommended policy actions, and invites any and all comments and questions, after highlighting some key factors driving this recommendation.**

### **Bank of North Dakota (BND) In-State Investment Program:**

**The BND Match Loan CD Program was established nearly 30 years ago and the SIB and Advisory Board have supported this important in state investment program since their inceptions.** In recent years, both boards have approved two Bank of North Dakota (BND) requests to increase the Match Loan CD Program, which enhances BND's ability to offer cost-efficient financing for companies seeking to develop or expand new business opportunities within the State and provide a direct benefit to our local economy. **These two board actions increased the Legacy Fund in-state investment program commitment from \$200 million to \$300 million in August of 2019 and to a record high of \$400 million in late-2020.** RIO understands that BND has a significant pipeline of new loan activity under consideration which prompted BND's two most recent requests for additional committed capital. As of January 21, 2021, there is over \$300 million of unused capacity in the BND Loan Program.

**RIO has consistently worked to support BND's requested increases to the "In-State Investment Program" in recent years to coincide with Legacy Fund's strong overall growth,** but only after significant internal staff discussion, due diligence and consultation with Callan. RIO also engages with large fixed income investment firms to obtain indicative pricing spreads for BND CD's to like-term U.S. Treasuries. After confirming indicative credit spreads and return levels on BND CD's (with fixed rate terms of up to 10-years), RIO gained reasonable assurance the most recently approved program terms and pricing remain in adherence to the "prudent investor rule". **The SIB and RIO consistently strive to meet the requirements of Legal Investments as defined by NDCC 21-10-07, including the "prudent investor rule".**

### **Key Milestones to Expand Legacy Fund In-State Investment Program:**

- Sep. 25, 2020** - SIB raises Legacy Fund In-State Investment Program Commitment to \$400 million
- Oct. 23, 2020** - Callan, Barings, Commerce, Grosvenor and Hamilton Lane share their insight, background and experience in expanding SIB's existing in-state investment program
- Nov. 20, 2020** - Callan, RIO and SWIB In-State Portfolio Manager highlight common elements of other mature in-state investment programs in private equity, venture capital and private credit

- Mosaic Governance Advisors reviews key factors when “*Constructing Prudent Due Diligence When Considering an In-State Investment Program*”

- Jan. 22, 2021** - RIO outlines key considerations to expand the Legacy Fund In-State Investment Program
- Callan and RIO review recent in-state investment survey results and propose a timeline to advance an “In-State Investment Program” manager candidates to the SIB for review and approval

### **Callan In-State Investment Program Research of Other U.S. Public Funds:**

**Callan previously provided a comprehensive list of 23 in-state investment programs in 16 other states ranging in size from \$50 million in Colorado and Nevada and up to roughly \$1 billion in larger states like California, Florida, New Mexico, New York and Texas. Although the dollar value of the programs varied widely, they generally represented less than 1% to 3% of the underlying investment fund.**

Callan also highlighted programs in states like Alaska, Connecticut, Nevada, New Mexico and Oregon with state economies being more closely comparable to North Dakota’s in terms of size and structure (with GDP ranging from \$54 to \$287 billion). Amounts invested within this group ranged from \$50 million to \$360 million based on Callan’s research. Most of these programs invested in multiple asset classes, though the primary focus is venture capital and growth equity, noting that these two strategies are expected to be the most effective in driving job creation and economic development. Implementation has been through a combination of private equity fund commitments and co-investments, although each state uses different guidelines for which types of businesses the programs intend to target. Most of these programs are designed to support businesses in the state, although Connecticut and Oregon’s are regional. Investment outcomes across these state programs has varied from satisfactory to disappointing.

# In-State Investment Program Research Project: Phase I

## Additional Detail for Selected Programs

State/Region	Program Name	Inception	Invested Capital	Asset Class(es)	Active?	Prudent Inv Rule?	State GDP (\$bn)	Implementation	Description
Alaska	Alaska Investment Program	2019	\$200m committed	Growth equity, private equity, infrastructure, private credit	Y	Y	\$54	Fund investments	Means of supporting growing businesses in the state; Alaska-based investments made with the \$200 million won't get preferential treatment: "our No. 1 and only goal is really to beat that private equity benchmark"
Connecticut	Nutmeg Opportunities Fund	2009, 2017	\$260m	Private equity, growth equity, venture capital	Y	Y	\$287	Fund commitments, direct investments	Invests in smaller or emerging managers with commitment to maintaining an office; having a significant business presence; or business plan to conduct substantial operations in CT
Nevada	Silver State Opportunities Fund	2012	\$50m committed	Private equity	Y	N	\$178	Fund commitments, co-investments	Generate attractive private equity returns for the State of Nevada Permanent School Fund by investing in Nevada companies either directly or through fund managers. A company is considered a Nevada business if it has a headquarters in the state, or in the process of planning an expansion in or relocation in the state, or significant percentage of employees residing in the state.
New Mexico	Private Equity Investment Program	1993	\$360.0m	Venture capital, growth equity, buyout	Y	N	\$105	Fund investments and co-investments	Support investments in companies located in the state; companies' headquarters need to be in New Mexico and at least 50% of its employees are required to live and work in the state
Oregon	Oregon Investment Fund	2004	\$195.7m	Venture capital, growth equity, buyout	N	Y	\$254	Fund investments and co-investments	Fund-of-fund strategy capitalized by the OIC to take advantage of the private equity opportunities in Oregon and the Pacific Northwest. Committed to funds that invest in companies located primarily in the state of Oregon and the Pacific Northwest region, and operating companies alongside the selected managers.

### Potential In-State Program Investment Costs:

The SIB, RIO and Callan will seek to obtain the highest level of investment expertise at a reasonable cost and in-line market standards. Private market investment fees, however, are generally substantially higher than in the public markets. In addition, private market investments often include commitment fees of 1% or more based on the program size, not invested capital, due to inherent high, fixed costs of building a new private, in-state investment platform. In order to reduce the inherent drag of higher fees on net investment returns when initially commencing a new private markets investment platform, RIO recommends the program size start at a modest level of \$100 million or a 1.25% target asset allocation (assuming the Legacy Fund approximates \$8 billion), but acknowledge that it may take time to prudently reach that aspiration. Investment professionals at the management firm and RIO will monitor deal flow and

capital calls on a monthly basis throughout the life of the program to ensure this potentially fast growing investment program is not “starved” for capital to fund compelling new investment opportunities as they arise, while seeking to reduce the drag of program size based investment fees in a prudent and reasonable manner. Vintage year concentration risk associated with deploying too much invested capital in any one year is also reduced by adopting a stable and consistent investment pacing schedule to dampen asset pricing volatility inherent in any given investment period. The SIB, RIO and Callan review private market investment pacing schedules regularly and adjust them as needed in private equity, debt, real estate and infrastructure.

#### **RIO In-State Investment Program Recommendations:**

- 1) RIO recommends the SIB request Callan to advance at least one expert, in-state investment firm for final review and approval at a future SIB meeting in either February or March; and**
- 2) RIO recommends the SIB approve an initial target asset allocation of up to 1.25% of the Legacy Fund (or \$100 million) for private “in-state” equity and/or debt investments in Phase I commencing in 2021 (see note below).**

**These recommendations are subject to standard SIB, RIO and Callan investment due diligence, negotiation and legal review procedures including completion of a new asset liability study and asset allocation policy recommendation by the Advisory Board, and subsequent approval by the SIB.**

*Note: In the event Phase I growth and results generally meet or exceed expectations, RIO will seek approval to increase the program size up to 2.5% to 3% of the Legacy Fund in Phase II.*

November 20, 2020



## **North Dakota State Investment Board**

In-State Investment Program  
Research Project  
Phase I

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### **Pete Keliuotis, CFA**

Executive Vice President, Alternatives

### **Paul Erlendson**

Senior Vice President

### **Alex Browning**

Senior Vice President



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# In-State Investment Program Research Project

## Overview

Callan's proposal is designed to achieve three primary objectives:

1. To provide the SIB with background education regarding the history of in-state investment programs that have been implemented in other states;
2. To outline alternative investment program designs for consideration by the SIB including but not limited to investment objectives, measurement standards, and types of investments / assets to be included; and
3. To assist the SIB with policy development and the selection of a third-party to manager(s) and implementation of the program.

## Phase One

- Description of in-state programs, types of investments utilized, and characteristics
- Summary of the sample set, including states, years active, size, asset types
- Provision of detailed examples of different programs
- If available, performance of in-state programs
- Takeaways based on examples from other states
- Identify which in-state investment programs subscribe to the Prudent Investor Rule

# In-State Investment Program Research Project: Phase I

## Comprehensive List of In-State Investment Programs

State	Program
Alaska	Alaska Investment Program
California	Golden State Investment Partners
Colorado	Colorado Mile High Fund
Connecticut	Nutmeg Opportunities Fund
Florida	Sunshine State Fund
Florida	Florida Growth Fund
Illinois	Illinois Growth and Innovation Fund
Indiana	Indiana Future Fund, iNext
Indiana	Next Level Fund
Michigan	Invest Michigan!
Nevada	Silver State Opportunities Fund
New Mexico	Private Equity Investment Program

State	Program
New Mexico	New Mexico Recovery Fund
New York	Hudson River Co-Investment Fund
New York	New York Credit Co-Investment Fund
North Carolina	NC Innovation Funds
North Dakota	Innovation Loan (LIFT) Fund
Ohio	Ohio Capital Fund
Oregon	Oregon Investment Fund
Texas	Texas Growth Fund
Texas	Emerging Technology Fund
Wisconsin	Wisconsin Venture Capital Portfolio
Wisconsin	Wisconsin Private Debt Portfolio

- Callan conducted a survey of in-state investment programs across the United States
- Programs have been sponsored by states of varying sizes and economic environments
- Most of these programs continue to be active, though some have been discontinued
- Among the issues identified that result in program discontinuation:
  - Did not meet initial objectives for performance, job creation, or technology development
  - Lack of support from sponsoring entity (e.g., new administration; inconsistently provided support)
  - Change in program governance and/or turnover among program managers

# In-State Investment Program Research Project: Phase I

## Additional Detail for Selected Programs

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Connecticut	Nutmeg Opportunities Fund	2009, 2017	\$260m	Private equity, growth equity, venture capital	Y	Y	\$287	Fund commitments, direct investments	Invests in smaller or emerging managers with commitment to maintaining an office; having a significant business presence; or business plan to conduct substantial operations in CT
Nevada	Silver State Opportunities Fund	2012	\$50m committed	Private equity	Y	N	\$178	Fund commitments, co-investments	Generate attractive private equity returns for the State of Nevada Permanent School Fund by investing in Nevada companies either directly or through fund managers. A company is considered a Nevada business if it has a headquarters in the state, or in the process of planning an expansion in or relocation in the state, or significant percentage of employees residing in the state.
New Mexico	Private Equity Investment Program	1993	\$360.0m	Venture capital, growth equity, buyout	Y	N	\$105	Fund investments and co-investments	Support investments in companies located in the state; companies' headquarters need to be in New Mexico and at least 50% of its employees are required to live and work in the state
Oregon	Oregon Investment Fund	2004	\$195.7m	Venture capital, growth equity, buyout	N	Y	\$254	Fund investments and co-investments	Fund-of-fund strategy capitalized by the OIC to take advantage of the private equity opportunities in Oregon and the Pacific Northwest. Committed to funds that invest in companies located primarily in the state of Oregon and the Pacific Northwest region, and operating companies alongside the selected managers.

- The programs above are cited here due to their state economies being most closely comparable to North Dakota's in terms of size or structure (GDP range: \$54B - \$287B). In 2019, North Dakota's reported GDP was ~ \$57B
- Amounts invested within this group range from \$50m to \$360m
- Most programs invest across multiple asset classes, though the primary focus is venture capital and growth equity
  - These two strategies are expected to be most effective in driving job creation and economic development
- Implementation has been through a combination of private equity fund commitments and co-investments
- Each state uses different guidelines for which types of businesses the programs intend to target
- Most programs are designed to support businesses **in the state**, although CT and OR's program are **regional**

Source: Callan survey of in-state programs; North Dakota annual GDP = \$57 billion

Note: Prudent Investor Rule assumed to be followed even if not explicitly stated if third-party fiduciary manager hired and given discretion

# In-State Investment Program Research Project: Phase I

## Historical Returns vs. Private Equity Benchmarks

Composite Returns	1 Year	3 Years	5 Years <sup>1</sup>	Since Inception <sup>2</sup>
Median return	1.36%	9.16%	10.75%	13.17%
Venture Capital Benchmark*	11.61%	16.68%	10.74%	
US Private Equity Benchmark*	3.40%	10.66%	10.30%	
Highest return	64.41%	35.25%	26.90%	33.39%
Lowest Return	(12.49%)	(9.79%)	(17.39%)	1.10%

- While returns of in-state programs for which performance data was available have been broadly in line with Private Equity benchmarks (Venture Capital and Buyouts), the range of investment outcomes has been very wide
- Characteristics of stronger-performing programs:
  - Broad deal sourcing effort – geographic and asset class
  - Consistent governance and oversight
  - Sponsor has an “arms-length” relationship with an independent third-party fiduciary manager with discretionary authority
- Characteristics of weaker-performing programs:
  - Significant change in governance or mandate description
  - Bad timing: implementation started at the cusp of a broad economic downturn
  - Deployment of capital was too aggressive
  - Primary objective was not “competitive returns” (e.g.– main goal was economic development, innovation, job creation)

Source: Callan survey of in-state programs; annual reports, program managers

\* Refinitiv/Cambridge Benchmarks as of June 30, 2020

<sup>1</sup> Only 6 programs with 5-year returns available

<sup>2</sup> Various time periods

# In-State Investment Program Research Project: Phase I

## Lessons Learned from In-State Programs

Callan conducted interviews with several managers and senior investment officers of various in-state programs. The following are summaries of their experiences with managing these programs.

### BEST PRACTICES

#### Governance

- Transparent program set-up and oversight process
- Apolitical oversight body
- Long-term commitment to program
- Adopt Statement of Investment Policy; review annually
- Regular (quarterly/annual) evaluation of progress towards goals

#### Objectives

- Returns-oriented
- Compliance with Prudent Investor Rule
- Clearly, concisely stated in writing

#### Implementation

- Delegate implementation to third-party fiduciary sourced through a competitive process with clear accountability
- Rely on external fiduciary to establish the opportunity set
- Capital invested over time (in “tranches”) based on achievement of program milestones
- Alignment of interests (e.g., GP capital commitment; performance-based fees; appropriate time-horizon)

### THINGS TO AVOID

#### Governance

- Lack of information available on program set-up or progress
- Oversight process includes political or other influences that conflict with the primary investment objective
- Inconsistent commitment; focus on short-term results
- Infrequent or inconsistent program evaluation

#### Objectives

- Unclear or unspoken
- Difficult to measure
- Independent of returns

#### Implementation

- Fiduciary not provided with implementation authority or autonomy
- Program structure overly prescriptive before fiduciary hired
- Too much capital allocated relative to opportunity set
- Lack of accountability
- Fees unrelated to achieving program goals

# In-State Investment Program Research Project: Phase I



- Dozens of in-state investment programs have been established across the country by states of all sizes and economies. Some have worked; some not.
- Most programs focus on venture capital or growth equity investments to help spur job growth, capital formation, and technology development
- Performance has been mixed, with wide dispersion, but median results have been largely in line with private equity benchmarks
- Program managers and senior investment officers believe a transparent process with clear objectives managed by a third-party fiduciary are the best ways to achieve success.
- Phase II Next Steps:
  - Program structure and composition
  - Geographic scope
  - Initial thoughts on program size, implementation

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## Appendix

# In-State Investment Program Research Project: Phase I

## Additional Detail for All Programs in Survey

State/Region	Program Name	Inception	Invested Capital	Asset Class(es)	Active?	Prudent Inv Rule?	State GDP (\$bn)	Implementation
Alaska	Alaska Investment Program	2019	\$200m committed	Growth equity, private equity, infrastructure, private credit	Y	Y	54	Fund investments
California	Golden State Investment Partners	2006	\$793.2m	Private equity, growth equity, venture capital, mezzanine	Y	Y	3,200	Fund commitment, co-investment SMA
Colorado	Colorado Mile High Fund	2012	\$50m committed	Venture capital, growth equity, buyout, mezzanine, infrastructure, energy	N	Y	393	Co-investments
Connecticut	Nutmeg Opportunities Fund	2009, 2017	\$260m	Private equity, growth equity, venture capital	Y	Y	287	Fund commitments, direct investments
Florida	Sunshine State Fund	2018	\$125m committed	Private equity, growth equity, venture capital	Y	Y	1,106	Fund commitments, direct investments
Florida	Florida Growth Fund	2009	\$601.1m	Private equity, growth equity, venture capital, credit	Y	Y	1,106	Fund commitments, co-investments
Illinois	Illinois Growth and Innovation Fund	2015 (upsized in 2018)	\$725m committed	Venture capital, growth/buyouts, private credit	Y	N (advisory)	886	Fund commitments
Indiana	Indiana Future Fund, iNext	2003, 2009	\$131m	Venture capital	N	Y	380	Fund commitments, direct investments
Indiana	Next Level Fund	2017	\$250m committed	Private equity, growth equity, venture capital, credit	Y	Y	380	Fund commitments, co-investments
Michigan	Invest Michigan! (Growth Capital, Opportunities, Mezzanine Funds)	2014	\$300m committed	Growth equity, venture capital, mezzanine (SBIC)	Y	N/A	537	Co-investments (80%) and venture capital fund investments (20%)
Nevada	Silver State Opportunities Fund	2012	\$50m committed	Private equity	Y	N	178	Fund commitments, co-investments

Source: Callan survey of in-state programs;

Note: Prudent Investor Rule assumed to be followed even if not explicitly stated if third-party fiduciary manager hired and given discretion



# In-State Investment Program Research Project: Phase I

## Additional Detail for All Programs in Survey

State/Region	Program Name	Inception	Invested Capital	Asset Class(es)	Active?	Prudent Inv Rule?	State GDP (\$bn)	Implementation
New Mexico	Private Equity Investment Program	1993	\$360.0m	Venture capital, growth equity, buyout	Y	Y	105	Fund investments and co-investments
New Mexico	New Mexico Recovery Fund	2020	\$100m committed	Credit	Y	Y	105	Business loans
New York	In-State Private Equity Program	2002	\$601.4m	Private equity, credit	Y	Y	1,772	Fund commitments, co-investments
New York	New York Credit SBIC	N/A	\$200m committed	Credit	Y	Y	1,772	Fund commitment
North Carolina	NC Innovation Funds	2013	\$232.3m	Venture capital, growth equity, buyout, mezzanine	Y	Y	592	Fund investments and co-investments
Ohio	Ohio Capital Fund	2006	\$341.3m	Venture capital, growth equity	Y	Y	695	Co-investments and fund investments
Oregon	Oregon Investment Fund	2004	\$195.7m	Venture capital, growth equity, buyout	N	Y	254	Fund investments and co-investments
Texas	Texas Growth Fund	1988	\$575m committed	Venture capital, buyout	N	N/A	1,887	Fund investments and co-investments
Texas	Emerging Technology Fund	2005	\$500m committed	Venture capital	N	N/A	1,887	Direct and co-investments
Wisconsin	Wisconsin Venture Capital Portfolio	1999	\$345m committed across multiple tranches (1999-2014)	Venture capital	Y	Y	349	Fund investments and co-investments
Wisconsin	Wisconsin Private Debt Portfolio	1960s	N/A	Private debt (small business loans)	Y	Y	349	Direct and co-investments with local banks

Source: Callan survey of in-state programs;

Note: Prudent Investor Rule assumed to be followed even if not explicitly stated if third-party fiduciary manager hired and given discretion

**Board Action**

**TO:** State Investment Board  
**FROM:** Dave Hunter and Darren Schulz  
**DATE:** January 15, 2021  
**SUBJECT:** **PERS Retiree Health Insurance Credit Fund Investment Policy**

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**RIO supports Callan’s asset allocation recommendation for the PERS Retiree Health Insurance Credit (“RHIC) Fund as recently approved by the PERS Board. The recommended asset allocation policy changes are highlighted on the following pages and include a 5% increase to Global ex-US Equity and 5% reduction to Fixed Income. These changes are consistent with PERS RHIC Fund targeted investment return assumption based on Callan’s latest Capital Market Assumptions. RIO recommends the SIB approve the revised PERS RHIC Fund Investment Policy Statement as approved by the PERS Board on January 14, 2021.**



**North Dakota  
Public Employees Retirement System**  
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**Scott A. Miller**  
Executive Director  
(701) 328-3900  
1-800-803-7377

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Fax: (701) 328-3920    Email [ndpers-info@nd.gov](mailto:ndpers-info@nd.gov)    Website <https://ndpers.nd.gov>

# Memorandum

**TO:**                   NDPERS Board

**FROM:**               Bryan

**DATE:**               January 12, 2021

**SUBJECT:**           RHIC Investment Policy

At the December 2020 NDPERS Board meeting, a new asset allocation was approved for the Retiree Health Insurance Credit plan. Attached is an updated RHIC investment policy. The new asset allocation has been sent to the State Investment Board and they will take action at their January meeting.

If you have any questions, I will be available at the NDPERS Board meeting.

BOARD ACTION:

Approve the Retiree Health Insurance Credit investment policy.

# NDPERS RETIREE HEALTH INSURANCE CREDIT FUND

## STATEMENT OF INVESTMENT GOALS, OBJECTIVES AND POLICIES

### 1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS

The North Dakota Public Employees Retirement System (NDPERS) Retiree Health Insurance Credit Fund was established in 1989 to provide for prefunding of premiums for medical coverage to state employees and employees of participating political subdivisions in accordance with Chapter 54-52.1 of the North Dakota Century Code. The plan is administered by a nine member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General, one member is the State Health Officer or their designee and two are legislative appointees.

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

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

Each year the NDPERS Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for the plan is 6.5%.

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

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-02, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

*Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)*

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

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

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

### 3. DELEGATION OF AUTHORITY

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
  - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
  - b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
  - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.
3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

### 4. INVESTMENT GOALS

The investment goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

- |          |                                                                                                                                                                                                                |
|----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Goal # 1 | Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund. |
| Goal # 2 | To obtain an investment return in excess of that needed to allow for increases in a retiree's credit to maintain the purchasing power of their benefit.                                                        |

### 5. INVESTMENT PERFORMANCE OBJECTIVE

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

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

- a. The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not materially exceed that of the policy portfolio.
- c. Over 5-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the expected risk for the period by more than 15% as measured by standard deviation.

**6. ASSET ALLOCATION**

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Date of Last Asset Allocation Study: December 2020 – Callan Corporation

<u>Broad US Equity</u>	<u>39%</u>	Deleted: February 2018
▼		Deleted: SEI
▼		Deleted: 33%
▼		Deleted: Domestic Equities - Large Cap
<u>Global ex-US Equity</u>	<u>26%</u>	Deleted: Domestic Equities – Small Cap
▼		Deleted: 6%
▼		Deleted: International Equities
Fixed Income	<u>35%</u>	Deleted: 21%
<b>Expected Return</b>	<u>6.1%</u>	Deleted: 40
<b>Standard Deviation</b>	<u>11.7%</u>	Deleted: 8.1
		Deleted: 13.3

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

PERS requires that in implementing this asset allocation that the State Investment Board seek to maximize return within the scope of these policies while limiting investment costs.

**7. RESTRICTIONS**

- A. No transaction may be made which threatens the tax exempt status of the Fund.  
 Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*
- B. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the

investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

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

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

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

## 8. INTERNAL CONTROLS

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

## 9. EVALUATION

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.

An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB.
- Compliance with these investment goals, objectives and policies.
- A general market overview and market expectations.
- A Review of fund progress and its asset allocation strategy.
- A report on investment fees and the SIB's effort relating to Section 6. To measure investment cost

PERS requires as part of the annual review information from Callan, CEM or other acceptable source showing the value added versus the cost.

In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives, and policies.

\_\_\_\_\_  
Scott Miller  
Executive Director  
North Dakota Public Employees Retirement System

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

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

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



**BOARD ACTION REQUESTED**

**TO:** State Investment Board  
**FROM:** Dave Hunter, Darren Schulz, Eric Chin and Matt Posch  
**DATE:** January 22, 2021  
**SUBJECT:** Callan LLC Diversified Real Assets Engagement Recommendation

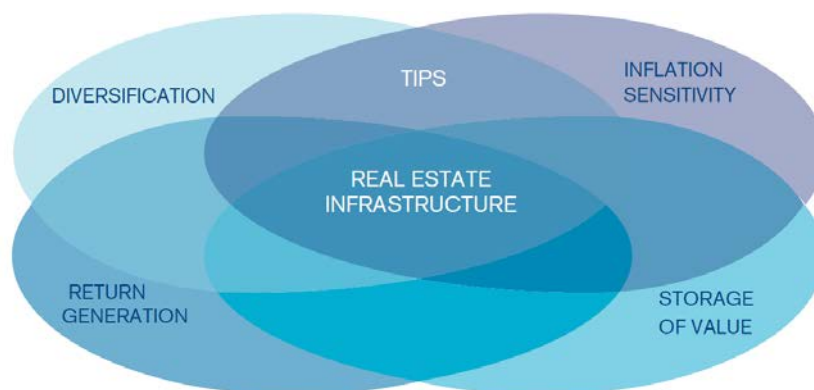
**Summary:**

In 2020, thanks to unprecedented policy support in response to the COVID-19 induced downturn and the realization of at least three viable COVID-19 vaccines, investors looked through near-term economic and market volatility and adopted a pro-risk stance, thus bidding up public equity securities. Meanwhile, as investors sought to discern cyclical weakness from an acceleration of pre-existing secular trends already in play, the performance of real assets such as private real estate was mixed, reflecting uncertainty regarding the pace and shape of the post-pandemic recovery. As a result of the bifurcated 2020 return environment, Staff recognizes the need to address imbalances relative to policy targets within the broad Diversified Real Assets category created by strong equity market performance across the Pension, Insurance and Legacy Fund pools. Staff is seeking Board approval to retain Callan LLC to assist Staff in reviewing real asset exposures with the goal of developing program commitments in the near term.

**Background:**

Global real assets are one of four broad asset class categories utilized by the SIB defined by the roles played in the whole portfolio, behaviors in varying economic regimes, and reactions to specific capital market factors. Real assets are broadly defined as value-generating physical assets that serve as portfolio diversifiers when combined with financial assets such as equities and fixed income. Additionally, real assets can provide varying degrees of inflation protection as the revenues of the underlying assets may be linked to measures of inflation such as CPI. Typically, the returns are expected to be derived from income or income-generating potential with some form of capital appreciation. Real assets broadly include a range of such assets as real estate, infrastructure, timberland, and commodities. Inflation-linked securities such as Treasury Inflation-Protected Securities (TIPS) are also often considered a real asset when the definition of real assets includes inflation mitigation given that TIPS are structurally indexed to inflation.

**Real Assets Characteristics**



## Real Assets Portfolio Risk Factors

In designing and implementing a diversified real assets program, a number of risk factors must be taken into account, including the degree to which these factors vary considerably across various real assets categories:

<b>Economic growth (GDP) sensitivity</b>	Asset behavior in response to general economic growth
<b>Inflation sensitivity</b>	Asset behavior in response to changes in measures of inflation
<b>Income/yield-orientation</b>	The contribution of cash yield/income to total return
<b>Interest rate (duration risk)</b>	Sensitivity to changes in interest rates
<b>Project/development risk</b>	Exposure to project-specific development risk
<b>Financing/leverage risk</b>	Dependence on access to availability of credit, leverage levels
<b>Political/geographic risk</b>	Exposure to non-US developed (OECD) and EM economies
<b>Illiquidity risk</b>	Willingness and ability to accept illiquidity
<b>Regulatory exposure</b>	Reliance on regulatory support

Source: Mercer

To illustrate how these key factor risks vary within the real assets class as a whole, the ranges become more pronounced when considering subcategories of implementation options as illustrated in the table below:

Asset class / risk factor	Economic (GDP) growth sensitivity	Inflation linkage	Income / yield-orientation	Interest rate (duration risk)	Project / development risk	Financing / leverage risk	Political / geographic risk	Illiquidity risk	Regulatory exposure
Core real estate	Medium	Medium	High	High	Low	Medium	Low	Medium	Low
Value-added real estate	High	Low	Medium	Medium	Medium	High	Low	High	Low
Opportunistic real estate	High	Low	Low	Low	High	High	Medium	High	Low
Core infrastructure	Low	High	High	High	Low	High	Low	High	High
Core plus infrastructure	Medium	Medium	Medium	High	Medium	High	Low	High	High
Opportunistic infrastructure	High	Medium	Low	High	High	High	Medium	High	High
Timberland	Medium	Medium	Medium	Medium	Medium	Low	Medium	High	Medium
TIPS	Medium	High	High	High	-	-	Low	Low	-

Source: Mercer

Real estate and infrastructure subcategories listed above can be defined as follows:

<b>Core real estate</b>	Fully stabilized, income-focused properties requiring little to no improvements; low leverage and credit quality tenants in major primary markets; a conservative bond-like return profile and a long-term holding period
<b>Value-added real estate</b>	Properties in primary, secondary and tertiary markets that have higher vacancy rates or some physical obsolescence; once stabilized the property can be marketed as Core; total return is a blend of income and capital appreciation
<b>Opportunistic real estate</b>	Includes ground-up development, redevelopment and adaptive re-use properties that carry execution risk; very little or no cash flow initially and highly levered; focuses mainly on capital appreciation as the primary source of return
<b>Core infrastructure</b>	Established assets with highly contracted cash flows that require little in the way of operational improvements; can be regulated assets with low GDP sensitivity; returns are typically generated through a predictable income return stream
<b>Core plus infrastructure</b>	Assets with less predictable revenues in need of operational improvements and asset-expansion synergies; typically greater economic sensitivity; total returns consist of a balance of income and capital appreciation
<b>Opportunistic infrastructure</b>	Heaviest economic exposure, usually in assets in their development phase with non-contracted revenues or fluctuations in market demand; private equity-like returns are targeted through primarily capital appreciation.

## **SIB Diversified Real Assets Implementation**

Historically, implementation of real assets portfolios across SIB pools have emphasized more income-oriented, defensive investments that generate steady cash flows. Hence what are defined as “Core” or “Core Plus” strategies predominate SIB exposures. For example, SIB real estate investments are geared towards income-focused and near to fully leased properties with low leverage, while infrastructure investments consist largely of regulated assets with availability-type income streams or mature operations that may have some GDP sensitivity. In general, opportunistic investments that entail project development or redevelopment risk, higher leverage and higher economic growth sensitivity are limited in scope. Finally, a preference for unlisted structures has been expressed recognizing that low liquidity needs of most SIB client funds allow them to earn an illiquidity premium in compensation for judiciously surrendering liquidity by investing in private market vehicles.

## **Current SIB Diversified Real Assets Exposures**

Due to strong equity market performance, mixed returns within Diversified Real Assets, and distributions from maturing, later life partnerships, deviations from policy targets, as evidenced below, need to be addressed by Staff with the assistance of Callan LLC, our general consultant.

### **SIB Consolidated Investment Pools Diversified Real Assets Portfolios as of November 30, 2020**

Real Assets Category	Pension				Legacy				Insurance			
	Market Value	Actual %	Target %	O/(U)	Market Value	Actual %	Target %	O/(U)	Market Value	Actual %	Target %	O/(U)
Real Estate	672,733,075	10.1%	10.5%	(0.4%)	344,181,873	4.4%	5.0%	(0.6%)	96,926,265	3.1%	3.6%	(0.5%)
Infrastructure	304,562,212	4.6%	6.1%	(1.6%)	290,414,064	3.7%	3.7%	0.0%	51,782,670	1.7%	1.7%	0.0%
U.S. TIPS	-	0.0%	0.0%	0.0%	456,351,432	5.8%	6.3%	(0.5%)	163,350,923	5.2%	5.4%	(0.2%)
Timber	123,307,174	1.9%	1.9%	0.0%	-	0.0%	0.0%	0.0%	51,892,399	1.7%	1.7%	0.0%
<b>Total</b>	<b>1,100,602,461</b>	<b>16.5%</b>	<b>18.6%</b>	<b>(2.0%)</b>	<b>1,090,947,370</b>	<b>13.8%</b>	<b>15.0%</b>	<b>(1.2%)</b>	<b>363,952,257</b>	<b>11.7%</b>	<b>12.3%</b>	<b>(0.7%)</b>

## **Current Market Environment**

2020’s disruption produced winners and victims that were a combination of themes both transformational and transitional:

- An acceleration of pre-existing structural themes such as tailwinds in e-commerce and digitization. E-commerce has fueled logistics real estate and connectivity has benefited data centers, cell towers, fiber and telecom.
- Assets dependent on mobility, such as lodging, retail and transportation were in the crosshairs of the pandemic. The pre-existing trend of the shrinkage of brick and mortar retail accelerated significantly.
- The future of the office post-pandemic is top of mind for institutional investors as companies are looking to reduce the amount of space they lease per worker. The traditional model of a single site, sole-occupancy corporate HQ is a relic of the past as companies now seek smaller, more flexible and cheaper office space.

These are important trends to navigate in the early recovery of more cyclically sensitive sectors in which case some may fall victim to permanent disruption.

## **Conclusion**

**Staff is seeking Board approval to retain Callan LLC to assist Staff in reviewing real asset exposures with the goal of developing program commitments for the Pension, Insurance and Legacy pools in the near term.**

**BOARD APPROVAL REQUESTED**

**TO:** State Investment Board (SIB)  
**FROM:** Dave Hunter  
**DATE:** January 22, 2021  
**SUBJECT:** **SIB Meeting Schedule**

---

**RIO requests the SIB approve the proposed board meeting schedule through June 30, 2022.** SIB meetings are generally held on the fourth Friday morning of each month with the exception of June, November and December. The November meeting is moved up to the third Friday (due to Thanksgiving), while **tentative** meetings have been scheduled in **August** and **March** in recent years.

**State Investment Board 2021-22 Meeting Schedule (10 reserved meetings/year)**

1. July 23, 2021 (Election of Officers - Reserved for Board Education)
2. August 27, 2021 (**Tentative**)
3. September 24, 2021 (Fiscal Year-End Performance Review as of 6/30/2021)
4. October 22, 2021
5. November 19, 2021 (Quarterly Performance Review as of 9/30/2020)
6. January 28, 2022
7. February 25, 2022 (Quarterly Performance Review as of 12/31/2021)
8. March 25, 2022 (**Tentative**)
9. April 22, 2022
10. May 27, 2022 (Quarterly Performance Review as of 3/31/2022)

**Previously Scheduled SIB Meetings:**

1. *January 22, 2021*
2. *February 26, 2021 (Quarterly Performance Review as of 12/31/2020)*
3. *March 26, 2021 (**Tentative**)*
4. *April 23, 2021*
5. *May 28, 2021 (Quarterly Performance Review as of 3/31/2021)*

**Board Action Requested:**

**If the SIB so desires, the Board can make a motion to accept the SIB Meeting Schedule for 2021-22 as proposed above.**

**Alternatively, the SIB can invite board discussion on alternative proposals.**

## BOARD ACTION

**TO:** State Investment Board  
**FROM:** Dave Hunter  
**DATE:** January 15, 2021  
**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, **the SIB and RIO elected to divide our review process over several months given numerous competing priorities (including additional governance education provided by Mosaic Governance Advisors in November), and now seek to pursue the following timeline:**

### **January 22, 2021 (Second 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)

### **February 26, 2021 (First Reading)**

- 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

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**A. EXECUTIVE LIMITATIONS**

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## POLICY TYPE: EXECUTIVE LIMITATIONS

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### **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 TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *STAFF RELATIONS***

---

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

Accordingly, the executive director may not:

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

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

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

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *RELATING TO PUBLIC AND GOVERNMENT***

---

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

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

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *BUDGETING***

---

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

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

1. Contains too little information to enable credible projection of expenses, cash flow, and disclosure of planning assumptions.
2. Plans the expenditure in any fiscal year of more funds than are authorized by legislative appropriation.
3. Reduces the level of service, or anticipates a reduction in the level of service, of any Retirement and Investment Office program without the prior approval of the State Investment Board.

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

**Amended:** November 2, 1997; June 26, 1998.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *FINANCIAL CONDITION***

---

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

Accordingly, the executive director may not:

1. Make any expenditure that exceeds the appropriation authority authorized by the North Dakota legislature.
2. Create policies for payment of administrative obligations that are in conflict with the policies of the Office of Management and Budget.
3. Initiate a transfer of appropriation authority between budget line items without board and Emergency Commission approval.
4. Allow appropriation expenditures to be made unless reported on PeopleSoft.

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

**Amended:** September 26, 2014.

## **POLICY TYPE: EXECUTIVE LIMITATIONS**

---

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

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

Accordingly, the executive director may not:

1. Neglect to submit monitoring data required by the board (see policy on Monitoring Executive Performance) in a timely, accurate, and understandable fashion, directly addressing provisions of the board policies being monitored.
2. Let the board be unaware of relevant trends, anticipated adverse media coverage, material external and internal changes, and particularly changes in the assumptions upon which any board policy has previously been established.
3. Fail to advise the board if, in the executive director's opinion, the board is not in compliance with its own policies on *Governance Process* and *Board-Staff Relationship*, particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director.
4. Fail to marshal for the board as many staff and external points of view, issues, and options as needed for fully informed board choices.
5. Present information in unnecessarily complex or lengthy form.
6. Fail to provide a mechanism for official board, officer, or committee communications.
7. Fail to deal with the board as a whole except when (a) fulfilling individual requests for information or (b) responding to officers or committees duly charged by the board.
8. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the board, particularly *Ends* and *Executive Limitations*.
9. Fail to inform the board in a timely manner of any intention to hire or dismiss the Deputy Executive Director, the Deputy Chief Investment Officer, or the 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 TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *ASSET PROTECTION***

---

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

Accordingly, the executive director may not:

1. Fail to insure against theft and casualty losses to at least 80 percent replacement value and against liability losses to board members, staff, or the organization itself in an amount greater than the average for comparable organizations.
2. Allow non-bonded personnel access to funds.
3. Subject plant and equipment to improper wear and tear or insufficient maintenance.
4. Unnecessarily expose the organization, its board, or staff to claims of liability.
5. Fail to protect intellectual property, information, and files from loss or significant damage.
6. Receive, process, or disburse funds under controls which are insufficient to meet the state auditor's standards.
7. Invest or hold operating capital in a manner that is inconsistent with state law or board policy.
8. Acquire, encumber, or dispose of real property.
9. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.
10. Deviate from the investment process set by the State Investment Board (SIB) as contained in the board's policy on investments.

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

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *COMPENSATION AND BENEFITS***

---

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

Accordingly, the executive director may not:

1. Change the compensation and benefits of any program officer reporting directly to the SIB.
2. Promise or imply permanent or guaranteed employment.

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

**Amended:** January 22, 1999; November 19, 1999.



**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *CONFLICT OF INTEREST***

---

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

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

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

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

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

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: *CODE OF CONDUCT***

---

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

**Policy Implemented:** June 27, 1997.

**POLICY TYPE: EXECUTIVE LIMITATIONS**

**POLICY TITLE: UNRELATED BUSINESS INTERESTS**

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

**Policy Implemented:** August 18, 2000

**Memorandum**

**To: RIO Executive Director/CIO**

**From: RIO Compliance Officer**

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

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

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

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

Name (printed) \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Detail of any conflicts of interest (if any):

**B. GOVERNANCE PROCESS**

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**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *GOVERNANCE COMMITMENT***

---

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

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

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

The board will strive to govern with an emphasis on:

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

The board will:

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

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: GOVERNING STYLE**

---

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

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

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

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

**Amended:** June 28, 1996; November 19, 1999, January 26, 2001, February 27, 2015, October 26, 2018.



**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD JOB DESCRIPTION**

---

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

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

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

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

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: CHAIRPERSON'S ROLE**

---

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

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

**POLICY TYPE: GOVERNANCE PROCESS**

***POLICY TITLE: STANDING COMMITTEES***

---

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 *Executive 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 30<sup>th</sup> 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<sup>th</sup> 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.

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT**

---

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

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



**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT**

---

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

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

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

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY TITLE: *ADMINISTRATION OF FIDUCIARY AUTHORITY***

---

The board is responsible for:

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

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

**POLICY TYPE: GOVERNANCE PROCESS**

**POLICY 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

**Memorandum**

**To: State Investment Board**

**From: RIO Compliance Officer**

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

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

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

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

Name (printed) \_\_\_\_\_

Signature\_\_\_\_\_

Date\_\_\_\_\_

Detail of any conflicts of interest (if any):

**C. BOARD-STAFF RELATIONSHIP**

	<u>PAGE</u>
Chief Executive Role .....	C-1
Delegation to the Executive Director .....	C-2
Executive Director Job Description.....	C-3
Monitoring Executive Performance.....	C-4

**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: *CHIEF EXECUTIVE ROLE***

---

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

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

**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: *DELEGATION TO THE EXECUTIVE DIRECTOR***

---

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

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

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

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

**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: EXECUTIVE DIRECTOR JOB DESCRIPTION**

---

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

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

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

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



## **POLICY TYPE: BOARD-STAFF RELATIONSHIP**

### **POLICY TITLE: *MONITORING EXECUTIVE PERFORMANCE***

---

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

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

Quarterly internal reports for policies:

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

Annual external reports for policies:

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

**POLICY TYPE: BOARD-STAFF RELATIONSHIP**

**POLICY TITLE: *MONITORING EXECUTIVE PERFORMANCE***

---

Annual internal reports for policies:

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

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

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

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

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

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

**Policy Implemented:** June 23, 1995

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

**D. ENDS**

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Organizational Beneficiaries.....	D-2
Investment Services .....	D-3
Information on Available Services .....	D-4
Retirement Services .....	D-5
Information on Retirement Services.....	D-6
Customer Satisfaction .....	D-7

*EXHIBITS*

<i>Organizational Beneficiaries.....</i>	<i>D-I</i>
<i>Monitoring Summary.....</i>	<i>D-II</i>

The Retirement and Investment Office exists in order that:

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

**Policy Implemented:** October 27, 1995.

**Amended:** January 27, 2012.

**POLICY TYPE: ENDS**

**POLICY TITLE: *ORGANIZATIONAL BENEFICIARIES***

---

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

**Policy Implemented:** October 27, 1995.

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 TFR 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**

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

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

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

**E. INVESTMENTS**

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Key Program Entities and Responsibilities .....	E-3
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*EXHIBITS*

<i>Listing of Trust Funds.....</i>	<i>E-I</i>
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## **POLICY TYPE: INVESTMENTS**

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### ***POLICY TITLE: FIDUCIARY DUTIES***

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

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

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

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

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

1. An investment policy must be established for each fund and must be in writing.
2. Plan assets must be diversified, unless under the circumstances it would be prudent not to do so.
3. Investment decisions must be made with the skill and care of a prudent expert.
4. Investment performance must be monitored.
5. Investment expenses must be controlled.
6. Prohibited transactions must be avoided.

**Policy Implemented:** September 20, 1995.

**Amended:** May 30, 1997, January 22, 1999, February 27, 2009, October 26, 2018.

## **POLICY TYPE: INVESTMENTS**

### **POLICY TITLE: *INVESTMENT PROCESS***

---

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

Asset allocation targets:

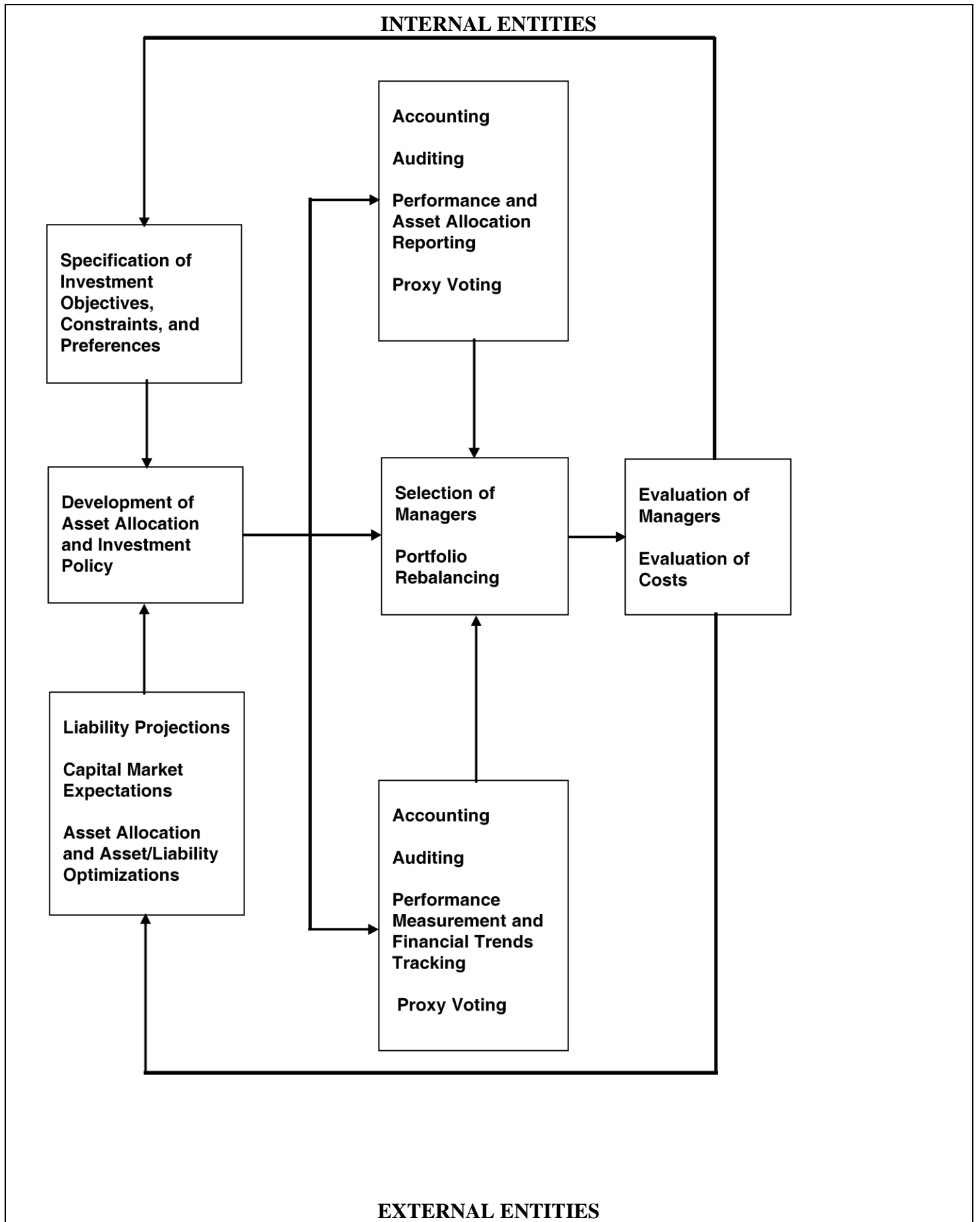
- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

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

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

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

**Policy Implemented:** September 20, 1995.





## **POLICY TYPE: INVESTMENTS**

### **POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES**

---

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

#### **Fund Governing Bodies**

1. Establish policy on investment goals and objectives.
2. Establish asset allocation.
3. Hire actuary when required.

#### **SIB**

1. Invest funds entrusted by statute and contracted entities.
2. Set policies on appropriate investments and investment practices for entrusted funds.
3. Approve asset allocation and investment policies of participating trust funds.
4. Report the investment performance of the funds to each fund's governing authority.
5. Hire and terminate money managers, custodians, and consultants.

#### **Investment Officer and RIO Staff**

1. Implement investment policies approved by the SIB.
2. Provide research and administrative support for SIB projects.
3. Recommend investment regulations appropriate for governing the investment of entrusted funds.
4. Assist fund governing bodies in developing asset allocation and investment policies.
5. Evaluate money manager adherence to investment objectives.
6. Provide performance reports to the SIB and boards of participating funds.
7. Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.
8. Develop and maintain appropriate accounting policies and systems for the funds entrusted to the SIB.

**POLICY TYPE: INVESTMENTS**

***POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES***

---

Investment Consultant

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

Actuary

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

Auditor

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

## **POLICY TYPE: INVESTMENTS**

### ***POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES***

---

#### Master Custodian

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

#### Portfolio Managers

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

**Policy Implemented:** September 20, 1995.

**Amended:** February 27, 2009

## **POLICY TYPE: INVESTMENTS**

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### **POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS***

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

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

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

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

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

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

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

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

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

## **POLICY TYPE: INVESTMENTS**

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### **POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS***

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

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

1. Fund characteristics and constraints.
  - a. An explanation as to the purpose of the portfolio and its legal structure.
  - b. Size of portfolio and the likelihood and amount of future contributions and disbursements
  - c. Participant demographics when applicable.
  - d. Fiscal health of fund.
  - e. Constraints.
  - f. Unique circumstances.
2. Responsibilities of SIB.
3. Investment objectives.
4. Standards of investment performance.
5. Asset allocation policy and guidelines.
6. Evaluation and review.

**Policy Implemented:** September 20, 1995.

**Amended:** February 27, 2009

## **POLICY TYPE: INVESTMENTS**

### ***POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – INVESTMENT POOLS***

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

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

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

**Policy Implemented:** September 20, 1995.

**Amended:** February 27, 2009

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

- Accounting
- Auditing
- Performance Measurement

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

#### Accounting

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

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

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

#### Compliance

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

#### Auditing

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

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

#### Performance Measurement and Reporting

The third element of monitoring entails measuring the performance of the individual investment managers and the total fund performance of each of the funds under the SIB. The SIB will retain reputable investment consultants or performance measurement services to provide comprehensive quarterly performance measurement information. This information will include data on the capital markets, other plan sponsors, and other investment managers.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *MONITORING***

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Performance results for SIB accounts will be calculated from data provided by the master custodian and compared to relevant capital market benchmarks, other public funds, manager peer groups, and investment goals specified in the asset class investment policy. Time periods covered by the report may vary but generally will include the most recent quarter, last 12 months, last three years, five years, and longer time periods (as data is available).

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

**Policy Implemented:** September 20, 1995.

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



**STATEMENT OF POLICY**

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

The objectives of these policies are as follows:

1. Exercise the value empowered in proxies.
2. Maintain or improve share value for the exclusive benefit of the participants.
3. Achieve changes for the common good whenever these do not conflict with the exclusive benefit objective.

**PROCEDURES**

**DISTINCTION OF RESPONSIBILITIES**

**Master Custodian**

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

**Managers**

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

**Staff**

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

**Board**

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

**REPORTING**

**Master Custodian**

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

**Managers**

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

**Staff**

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

**GUIDELINES**

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

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

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

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

**Policy Implemented:** September 20, 1995.

**Amended:** February 27, 2009, October 26, 2018.

## **POLICY TYPE: INVESTMENTS**

### ***POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION***

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

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

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

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

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

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

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

## **POLICY TYPE: INVESTMENTS**

### ***POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION***

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

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

- The Investment Officer will give a written report to the SIB on the due diligence process conducted by the Investment Officer, RIO staff, and the SIB in the manager selection process. This report will include selection steps followed and process steps excluded.
- Consultant and/or staff use the profile to screen their data base for managers that meet SIB criteria.
- Consultant and/or staff reduce the group to the top candidates and prepare a summary report. The report will contain pertinent data on each of the candidates.
- When appropriate, on-site visits may be made by staff and board members to the candidates' home offices. Visits by board members to potential manager sites must have board approval.
- When appropriate the Investment Officer will conduct fact-finding pre-interviews. SIB trustees and RIO staff will receive notice of these pre-interviews.

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

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

- The SIB will select the investment manager by majority vote.
- Manager(s) selected by the SIB are notified immediately by RIO staff. Unsuccessful candidates are notified by consultant.
- Investment management contracts are reviewed and finalized, sent to the Attorney General for approval, and executed.
- Accounts are set up at the master custodian and on the internal general ledger.
- Consultant is notified when to begin the measurement of the investment performance of the manager(s).

**Policy Implemented:** September 20, 1995

**Amended:** February 27, 2009

**POLICY TYPE: INVESTMENTS**

***POLICY TITLE: IMPLEMENTATION – PORTFOLIO REBALANCING***

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Portfolio Rebalancing

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

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

**Policy Implemented:** September 20, 1995.

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

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

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

#### Evaluation of Money Managers

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

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

These criteria are assessed by quantitative and qualitative means:

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

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

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

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

#### Evaluation of Program Costs

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

These costs will be compared to other funds on an annual basis and generally include a fee study conducted by an experienced investment consultant every two years. Staff is encouraged to identify other cost-comparison sources which may include the engagement of specialized fee consultants to conduct in-depth fee reviews on a periodic basis, subject to board review and approval.

**Policy Implemented:** September 20, 1995.

**Amended:** October 26, 2018

## **POLICY TYPE: INVESTMENTS**

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

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

#### **Factors which may result in a Manager Review:**

Significant changes in organizational structure

Significant changes in investment philosophy

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

Substandard investment performance

Diminished confidence in manager

#### **Manager Review Procedures:**

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

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

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

The Investment Director reports findings to SIB at a subsequent meeting.

After considering findings of the Manager Review, SIB may:

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



## **POLICY TYPE: INVESTMENTS**

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

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

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

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

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

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

**Policy Implemented:** June 27, 1997.

**POLICY TYPE: INVESTMENTS**

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

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

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

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

**Policy Implemented:** April 24, 1998.

**Amended:** February 27, 2009

## **POLICY TYPE: INVESTMENTS**

### **POLICY TITLE: ACCEPTING NEW CLIENTS**

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

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

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

**Policy Implemented:** November 20, 2009

## **POLICY TYPE: INVESTMENTS**

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### **POLICY TITLE: SECURITIES MONITORING AND LITIGATION**

#### **General Purpose**

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

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

#### **Non-Active Recovery and Filing**

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

## POLICY TYPE: INVESTMENTS

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### POLICY TITLE: *SECURITIES MONITORING AND LITIGATION*

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

#### Active Participation in Cases

1. The Executive Director will initiate active participation in securities cases only upon prior review and approval of the SIB or Committee. Before bringing any recommendations to the SIB or Committee, the Executive Director, with significant assistance from legal counsel from the Office of the Attorney General, will assess the merits and prospects for active participation by reference to the criteria and factors outlined in this section.
2. Decision Criteria and Factors:
  - a. The decision to participate in an active capacity in security litigation should be based on the totality of the circumstances. Dollar loss amounts are important, but not the sole or overriding factor to consider in making such recommendations by the Executive Director, or determinations by the SIB or Committee.
  - b. Potential losses to SIB clients must be significant in order to warrant participation as a lead plaintiff, co-lead plaintiff, or separate litigant in U.S. or Canadian cases. Generally, in cases where the potential loss does not exceed the \$5 million, the SIB will generally avoid active participation.
  - c. The *prima facie* merits of the claim for loss, and the factual basis for the action, recognizing that the full discovery process will not commence until the class has been certified by the court in which such case is to be filed.
  - d. The availability of witnesses, and possible support that may be obtained from investment managers, consultants, and the custodial bank through discovery.
  - e. The potential that any defendants or insurers will be able to pay an adequate recovery to the class, without impairing the value of any current security holdings SIB may yet hold in the issuer in the portfolio.

## **POLICY TYPE: INVESTMENTS**

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### ***POLICY TITLE: SECURITIES MONITORING AND LITIGATION***

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- f. The ability of the law firm recommending action on the part of SIB to prosecute the case effectively, in the venue where such case is likely to be filed, and the experience of the firm in managing such cases individually or in partnership with other firms.
  - g. Potential long-term benefits from corporate governance changes from pursuing litigation.
  - h. The ability of SIB to serve as a fiduciary on behalf of all class members in the case, especially in relative terms to other institutional investors that may be considering the same case.
  - i. Potential costs that may be incurred. Special consideration must be given to any case that must be filed in a non-U.S. venue under the “Morrison” criteria established by the U. S. Supreme Court in a 2010 decision, since costs of litigation and potential liabilities of unsuccessful claims may be significant.
  - j. Current workload and staffing resources required for the fulfillment of SIB’s primary member service functions, and whether participation might displace time and staff resources needed for core business functions.
3. Decision Criteria and Factors for cases filed in a non-U.S. venue: In addition to the Criteria and Factors set forth in Subsection 2, the SIB or Committee may consider the following:
- a. The proposed funding arrangements for the action.
  - b. Evaluate the merits and risks of the case in light of the law of the jurisdiction in which the action would be brought. Generally, in cases where the potential loss does not exceed the Jurisdictional Thresholds referenced in Exhibit A, the SIB will avoid opt-in or group litigation participation.

#### Roles in Managing & Monitoring Litigation

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

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: SECURITIES MONITORING AND LITIGATION**

4. Any agreement for portfolio monitoring services that includes a fee or subscription cost must first be approved by the SIB or Committee before execution by the Executive Director.

Policy Review

1. The Committee and SIB shall review this policy annually to ensure that it remains relevant and appropriate.

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

Jurisdictional Description	Threshold
Passive/very low risk jurisdictions, simple registration or claim filing (no participation in litigation required, strong anonymity, very low costs) including, but potentially not limited to: Australia, Israel, Netherlands (including Dutch Foundations), regulatory funds (e.g. Compensation Schemes in UK)	None
Low risk jurisdictions (no discovery, low cost) including, but potentially not limited to: Japan	\$1 million
Moderate risk jurisdictions (moderate cost, funded/insured to protect from cost shifting, some restricted discovery, not fully public) including but potentially not limited to: Germany, Austria, Belgium, Switzerland, Denmark, Spain, Finland, France, Hong Kong, Indonesia, Ireland, Italy, Korea, Luxembourg, Malaysia, Norway, New Zealand, Portugal, Sweden, and Thailand	\$5 million
High risk jurisdictions (potential in-person discovery, no anonymity, uncapped fees) including, but potentially not limited to: Taiwan, United Kingdom, Singapore, Brazil	\$10 million

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

**Policy Implemented:** November 20, 2015

**Policy Amended:** April 27, 2018, May 24, 2019

**EXHIBIT E-1**

## State Investment Board (SIB) Members 2020-2021:

<b>Position</b>	<b>Incumbent</b>	<b>Designation</b>	<b>Term Expiration</b>
Lt. Governor	Brent Sanford	Statutory	12/31/20
State Treasurer	Kelly Schmidt	Statutory	12/31/20
State Insurance Commissioner	Jon Godfread	Statutory	12/31/20
Commissioner University & School Lands	Jodi Smith	Statutory	open
Executive Director Workforce Safety & Insurance	Bryan Klipfel	Statutory	open
Trustee, TFFR	Toni Gumeringer	Appointed by TFFR Board	6/30/24
Trustee, TFFR	Rob Lech	Appointed by TFFR Board	6/30/25
Trustee, TFFR	Mel Olson	Appointed by TFFR Board	6/30/23
Trustee, PERS	Adam Miller	Appointed by PERS Board	6/30/22
Trustee, PERS	Troy Seibel	Appointed by PERS Board	6/30/21
Trustee, PERS	Yvonne Smith	Appointed by PERS Board	6/30/24



## Retirement and Investment Office (RIO) Staff:

<b>Position</b>	<b>Incumbent</b>	<b>Education</b>
Executive Director/ Chief Investment Officer	David Hunter	BS, Accounting, Northern Illinois University MBA, Finance, University of Chicago
Deputy Executive Director/ Chief Retirement Officer	Jan Murtha	B.A. Economics & Management, Albion College J.D. Marquette University Law School
Deputy Chief Investment Officer	Darren Schulz	BBA, Finance, Georgia State University, CFA , CAIA
Chief Financial Officer	Connie Flanagan	BS, Accounting, University of Mary

External

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

## **F. TFFR PROGRAM**

Reference: Teachers' Fund for Retirement Program Manual

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

**G. BY-LAWS**

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## **CHAPTER 1 - AUTHORITY**

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

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

## **CHAPTER 2 - BOARD**

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

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

**Amended:** July 22, 2011.

### **CHAPTER 3 - OFFICERS AND DUTIES**

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

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

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

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

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

## **CHAPTER 4 - MEETINGS**

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

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

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

**Amended:** July 22, 2011.

## **CHAPTER 5 - COMMITTEES**

Section 5-1. The SIB has two standing committees: Audit Committee and Securities Litigation.

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

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

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

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

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

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

Section 5-3 Securities Litigation Committee. The Securities Litigation Committee will consist of five members. They will be selected by the SIB and include two SIB members, RIO's legal counsel, RIO's chief financial officer and RIO's executive director.

The Securities Litigation Committee will assist the SIB in fulfilling its oversight responsibilities with regards to monitoring securities litigation. The Committee helps to determine when an active role should be pursued in regards to securities litigation affecting SIB client investments. This Committee also serves as a communication link for the SIB, RIO, third party securities litigation firms and others.

The Executive Director shall supervise the administrative activities of the Securities Litigation Committee with the assistance of RIO's legal counsel and Chief Financial Officer.

Membership on the Securities Litigation Committee will be for an unlimited term but subject to annual review and acceptance by the SIB every year. Vacancies will be filled by the SIB at the first scheduled meeting following the vacancy.

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

**Amended:** October 26, 2018



## **CHAPTER 6 - RULES OF ORDER**

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

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

## **CHAPTER 7 - ADMINISTRATIVE OFFICE**

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

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

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

## **CHAPTER 8 - AMENDMENTS**

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

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

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

## H. CENTURY CODE

### SECTION

### PAGE

#### STATE INVESTMENT BOARD

[Link to Century Code Chapter 21-10](#)

21-10-01.	State investment board—Membership—Term—Compensation—Advisory council.	1
21-10-02.	Board—Powers and duties.	1
21-10-02.1.	Board—Policies on investment goals and objectives and asset allocation.	1
21-10-03.	Cooperation with Bank of North Dakota.	2
21-10-04.	Board—Meetings.	2
21-10-05.	Investment director—Powers and duties.	2
21-10-06.	Funds under management of board—Accounts.	2
21-10-06.1.	Board—Investment reports.	3
21-10-06.2.	Investment costs.	3
21-10-07.	Legal investments.	3
21-10-08.	Reserves—Percentage limitations.	3
21-10-09.	Personal profit prohibited—Penalty.	3
21-10-10.	State investment board fund—Cost of operation of board—Repealed.	3
21-10-11.	Legacy and budget stabilization fund advisory board.	3
21-10-12.	Legacy fund—Earnings defined.	4

#### STATE RETIREMENT AND INVESTMENT OFFICE

[Link to Century Code Chapter 54-52.5](#)

54-52.5-01.	North Dakota State Retirement and Investment Office.	1
54-52.5-02.	Governing authority.	1
54-52.5-03.	State retirement and investment fund—Cost of operation of agency.	1

**Informational**

**TO: State Investment Board**

**FROM: Dave Hunter**

**DATE: January 21, 2021**

**SUBJECT: Mosaic Governance Advisors Review – Cover Memo**

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If the SIB desires, RIO is prepared to review and discuss the Governance presentation shared by Amy McDuffee of Mosaic Governance Advisors last month, and address any subsequent questions in the upcoming month. RIO will then formally document our prior discussion and any comments or questions shared today, in a follow-up report to be provided at our next SIB meeting, which should coincide with the first reading of the remaining sections of our SIB Governance Manual.

# Effective Governance in Decision-Making

An Education Presentation to the North  
Dakota State Investment Board

November 20, 2020

# Topics for Discussion



Recap of Governance Basics



Good Governance Matters



Constructing Prudent Due Diligence When Considering an In-State Investment Program



Open Discussion and Questions





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# Recap of Governance Basics





# A Solid Governance Structure Effectively Addresses Authority, Responsibility, and Accountability

## Parties to Public Funds

- The Governor
- The Legislature
- The Boards
- The Executive Director/CIO and Staff
- Beneficiaries

## Governance Documentation

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



“Fiduciary” ≠ a commonly known word.

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- “A fiduciary is a person or organization that acts on behalf of another person or persons, putting their clients' interest ahead of their own, with a duty to preserve good faith and trust. Being a fiduciary thus requires being bound both legally and ethically to act in the other's best interests.”

-Investopedia.com





# Recap of Key Fiduciary Duties

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- Based on the primary duties of loyalty, prudence, and care.
- The duty required in fiduciary relationships exceeds what is acceptable in many other business relationships because a fiduciary is in an enhanced position of trust.
- Qualified retirement plans, like TRFF and PERS, are also subject to the exclusive benefit rule.



# Discussion #1

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How well do you think others throughout the State and within your community understand the SIB's role as a fiduciary and what it requires?

How important is it that they do?



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# Good Governance Matters



# Good Governance is an Imperative

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, Abell, Enron, HealthSouth, Parmalat, Qwest, Tyco, and WorldCom have triggered important new empirical and more conceptual research efforts in the field of corporate governance<sup>1</sup>. To date, pension fund governance has not yet garnered the same kind of research attention<sup>2</sup>. In fact, we are aware of very few published efforts with such an empirical dimension. For example:

1. Anthropologists O'Bar and Conley caused a stir with their 1992 book *Form and Polly: 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 Scheibhut conducted a precursor 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.

14 | Volume 1 • Issue 1 • Fall 2008 • 10.21301/ijpm.1.1.14

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



## Governance Matters: Improving Pension Plan Board Effectiveness

28 | benefits magazine | january 2018

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





# Key Factors in 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.

# For Fiduciaries, Good = Process

It is essential for fiduciaries to have a process that is defensible, repeatable, and documented and that provides evidence of the diligence undertaken in fulfilling their role.

The process does not guarantee a specific outcome.

Used consistently and correctly, it increases the likelihood of achieving objectives set by fiduciaries on behalf of beneficiaries.



# Contemporary Issues are Putting Pressure on Public Fund Governance

- A progressively widened scope of issues has developed.
- Public funds have matured, and assets have meaningfully increased.
- Financial markets and products have grown in complexity.
- Markets and investors are increasingly interconnected and interdependent.
- External stakeholders have become more prominent in boardrooms.
- As an asset manager within a “government wrapper,” the SIB is not alone in experiencing these issues.

# Examples of Public Fund Board Responses

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- Periodically refreshing investment philosophy and/or investment beliefs so that they remain fit for purpose.
- Adopting a consensus set of board values and holding all trustees accountable to them.
- Setting consensus expectations for due diligence by addressing key governance risks.
- Attaining a consensus future vision that defines long-term success and using it as a driver of strategy.
- Revisiting how the fund's story is being shared through strategic branding and communications.
- Proactively establishing a consensus definition of stakeholders and engaging with them.

# SIB's Stated Governance Style

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Outward vision rather than an internal preoccupation.

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Encouragement of diversity in viewpoints.

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Strategic leadership more than administrative detail.

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Clear distinction of board and executive director roles.

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Collective rather than individual decisions.

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Future rather than past or present.

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Proactivity rather than reactivity.

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## Discussion #2

In your opinion, what do you think is the best way for the SIB to respond to contemporary pressures such as the increasing influence of external stakeholders, and why?

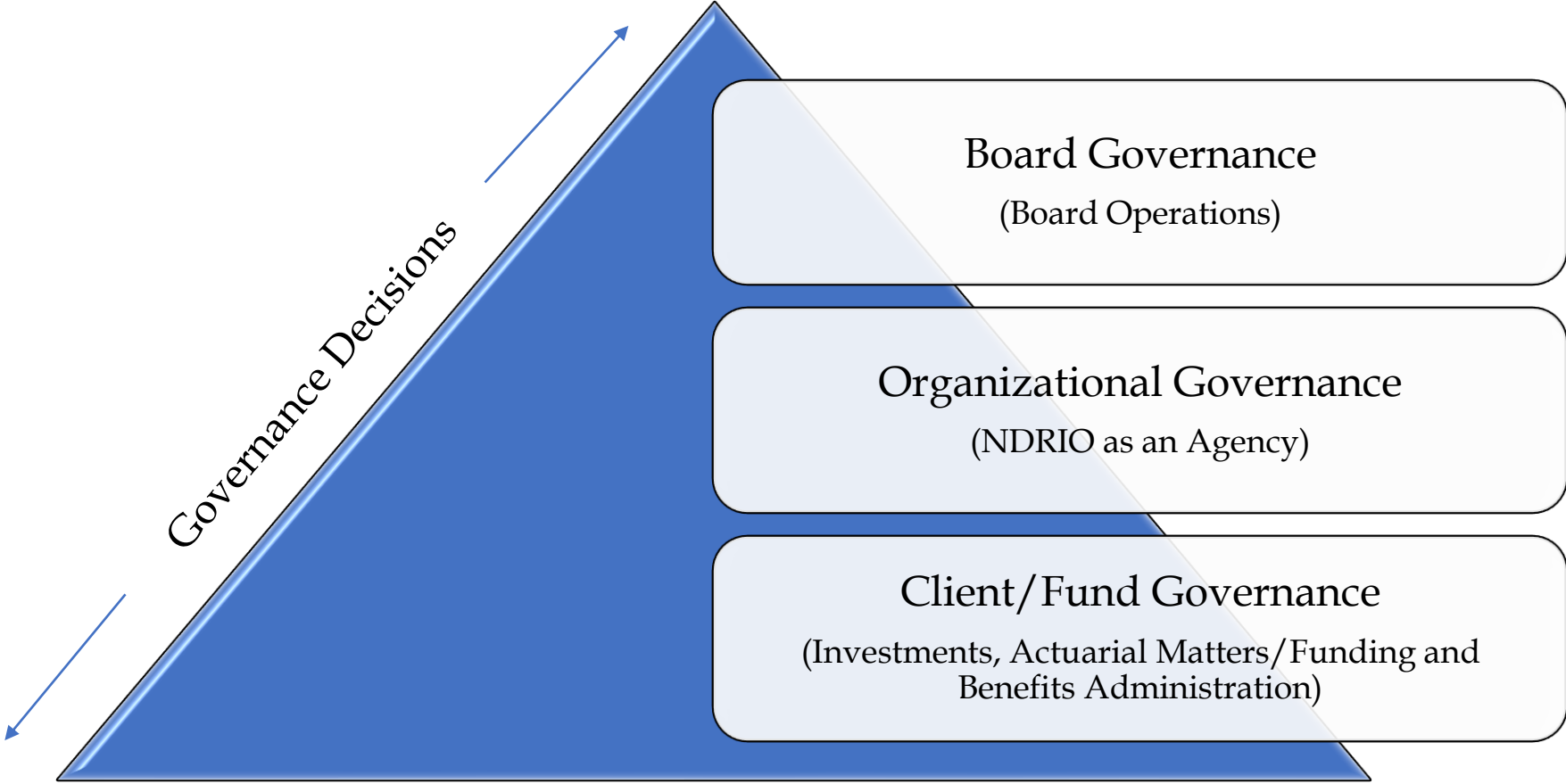
How does your stated Governance Style support the consensus preferred response?

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# Constructing Prudent Due Diligence When Considering an In- State Investment Program



# Span of Governance Decision-Making



# Span of Governance Risks Inherent to an In-State Investing Program

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Examples of governance risks, among others.

- Strategic Risk
- Accountability Risk
- Ethical Conduct Risk
- Implementation/Operational Risk
- Oversight Risk
- Reputational Risk
- Transparency Risk



# Strategic Risk: Examples of Questions to Consider

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- What is the impetus for the program? Is it based on a solidly outlined investment thesis that satisfies fiduciary duties?
- How does it fit with the consensus risk appetite of the SIB?
- What is the SIB's future vision for the program?
- 10 years from now, what signals, both quantitative and qualitative, will convey to the SIB that the program has been successful?
- What have been the experiences, lessons learned, and outcomes of public fund peers that have undertaken similar in-state investment programs?



## Accountability Risk: Examples of Questions to Consider

- Is the role and authority of the Board relative to an in-state investment program, and where it starts and ends, clear?
- To whom is the SIB accountable for results?
- What is the SIB's consensus definition of stakeholders?
- How much stakeholder input constitutes “meaningful stakeholder” input and on what topics (i.e., allocation of capital, distribution of earnings)?

# Ethical Conduct Risk: Examples of Questions to Consider

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- What governance structure is appropriate for the program, in terms of SIB oversight, recommendations, and approvals?
- What are the expected ethics framework and protocols related to the program for the members of the SIB, for the RIO staff, and others that are fiduciaries?
- What governance policies need revisiting, adjustment, or enhancement to accommodate such a program?
- What new compliance procedures might be necessary?

# Implementation Risk: Examples of Questions to Consider

- What is the governance-level work to be done by the SIB? How does it want to organize itself to accomplish it?
- What authority should be delegated?
- What beliefs or values will be important at the SIB-level for implementation?
- What level of investment due diligence is most appropriate?
- What will the cost be to operate the program, including any performance fees? How does it compare to the expected benefits?
- Does the RIO have the right type and amount of staff to successfully support all aspects of the program? If not, what resources are needed?

## Reputational Risk: Examples of Questions to Consider

- What type of new partnerships or relationships should the SIB consider in order to execute the program? What existing partnerships need strengthening?
- How will interests be cost-effectively aligned?
  - With an external asset manager(s)?
  - With the in-state trade associations like the Economic Development Association?

# Oversight Risk: Key Questions to Consider

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- On what topics, how, and with what frequency will the SIB expect staff to provide updates on the program?
- What talking points will be made available for Trustees to use in speaking outside of the boardroom with constituent groups and stakeholders?
- Are there to be parameters on what can/cannot be said or shared?



# Transparency Risk: Examples of Questions to Consider

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- How will strategic communications be planned/ deployed to support the program?
- What will be reported to the public in terms of investments made, as well as those considered but not made? How, with what frequency, and by whom?
- How will unsuccessful proposals from interested parties be communicated and by whom?





## Discussion #3

- What are the SIB's early views on these various governance risks surrounding the program?
- To what degree should they be addressed before proceeding?
- What is the consensus direction to Staff?

# Key Takeaways

- External pressures will continue to impact public funds with ever widening groups seeking stakeholder status.
- Stakeholder input matters, but it must be put into appropriate context.
- Constructing and documenting a comprehensive due diligence process across the full span of governance decisions is critical for fiduciaries:
  - to mitigate risk, and
  - as a matter of good governance.





**MOSAIC**  
Governance Advisors

# Questions / Open Discussion

[www.MosaicGovernance.com](http://www.MosaicGovernance.com)

**Board Action**

To: **State Investment Board**  
From: Dave Hunter  
Date: January 21, 2021  
RE: **Executive Review Committee Member Affirmation**

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SIB Governance Manual C-4 on Monitoring Executive Performance states that “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. In prior years, the Chair was required to appoint a three-member Executive Review Committee (ERC) to review the board’s evaluation and make a recommendation to the full board concerning the salary for the Executive Director / Investment Office in May. **In 2020, the ERC was made a standing committee and identified Yvonne Smith, Mel Olson and Adam Miller as ERC members. At this time, the SIB may elect to affirm or modify the current membership of the ERC prior to requesting them to commence the executive review process in the upcoming months.**

A listing of SIB which served on the ERC in prior years is summarized below:

<u>Year</u>	<u>SIB Executive Review Committee Members</u>
<b>2020</b>	<b>Ms. Yvonne Smith, Mr. Mel Olson, Mr. Adam Miller</b>
2019	Ms. Yvonne Smith, Dr. Rob Lech, Mr. Mel Olson
2018	Ms. Yvonne Smith, Dr. Rob Lech, Land Commissioner Jodi Smith
2017	Lt. Gov. Sanford, Ms. Yvonne Smith, Mr. Mike Sandal, Ms. Cindy Ternes
2016	Lt. Gov. Wrigley, Dr. Rob Lech, Mr. Mike Sandal
2015	Dr. Rob Lech, Mr. Mike Sandal, Ms. Cindy Ternes

**RIO’s Supervisor of Internal Audit , Sara Sauter, has been requested to administer the Executive Director/CIO Survey on behalf of the SIB and/or the Executive Review Committee in the past.** The Executive Director endorses this historical practice.

**BOARD ACTION REQUESTED**

**TO:** State Investment Board (SIB)  
**FROM:** Dave Hunter  
**DATE:** January 22, 2021  
**SUBJECT:** **Board Self-Assessment for 2021**

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**Board Self-Assessment Background:**

The SIB has conducted Board Self-Assessments since 2018 in addition to expressing interest in conducting an annual board self-assessment survey in recent years.

In 2018, the SIB engaged Aon Hewitt Fiduciary Services Practice Leader Jeanna Cullins to conduct the Board Self-Assessment.

Since 2019, the SIB appointed the Executive Review Committee members to conduct the Board Self-Assessment.

In the past, RIO's Supervisor of Internal Audit Sara Sauter has also assisted the Board in administering the assessment survey.

The last **Board Self-Evaluation Executive Review Survey as of March 27, 2020**, is attached for reference.

**Board Action Requested:**

**If the SIB so desires, the Board can make a motion to:**

- 1. conduct the Board Self-Assessment in 2021;**
- 2. confirm the Executive Review Committee members will be appointed to serve the Board in providing oversight and direction for the 2021 Board Self-Assessment; and**
- 3. confirm RIO's Supervisor of Audit Services will offer administrative support to complete the Board Self-Assessment and survey process on or before May 27, 2021.**

**Alternatively, the SIB can promote additional board discussion on alternative proposals.**

# North Dakota Retirement and Investment Office

## Internal Audit

### State Investment Board Self-Evaluation Executive Review Summary

March 27, 2020

#### **Background**

The State Investment Board (SIB) requested Internal Audit of the Retirement and Investment Office (RIO) to assist the SIB Executive Review Committee on developing and administering a Board Self-Evaluation Survey (Survey). Internal Audit worked with the Executive Review Committee in developing, administering, and reporting the self-evaluation results.

#### **Scope**

The Survey is comprised of twenty-nine questions and consists of five categories for both the self-assessment and board assessment portions. The five categories in each section included: board and staff roles, board and committee structure, board meetings, policy making and reviews, and financial management and investment practices. There were two open ended questions at the end that asked for any other input for the Survey and any recommendations for topics to be included in future evaluations. The Survey was administered through SurveyMonkey and results were reviewed by the Executive Review Committee. A four-point scale was used, with 4 – strongly agree, 3 – agree, 2 – disagree, and 1 – strongly disagree as the rating system. Twelve out of twelve board members participated in the Survey.

#### **Results Summary**

Generally, the self-assessment portion of the Survey had positive results and comments. In the self-assessment section, board members found their participation on the board to be stimulating and rewarding. The majority of board members strongly agreed they abide by the Board Code of Conduct and avoid conflicts of interest. Comments reflected Board members appreciate the Executive Summary for each meeting and policies are reviewed in sections versus all at once. Areas of improvement also have been identified. One board member stated the board should be reminded of the legal duties and responsibilities before approving policies or asset allocations. In the Survey board members felt there can be an overwhelming amount of board materials to read before the meeting to adequately prepare. Board members need to be more proactive in reaching out to staff for understanding financial reports and seeking clarification when necessary.

The board-assessment portion of the Survey also had positive results and comments. From a board level, board members felt that board meetings were well-run and a good use of time. The majority agreed the board stays informed of economic trends and conditions that can effect investment performance. There were several areas where improvement was identified: First, that attendance continues to be an area that needs improvement; board members missing meetings should be the exception, not the norm. Secondly, comments indicated that healthy discussions are held, but more board members need to actively participate in discussions. The board would benefit from hearing the perspectives of all the Board members. The last area of improvement was that standing and ad hoc committees could improve communicating to the full board in an effective and timely manner.

In comparing the self-assessment portion to the board-assessment portion, there was an areas of variance. In the self-assessment portion majority of the board members strongly agreed once again that they understood the authority that has been retained by the SIB and what duties have been delegated to staff. However, on the board-assessment portion, the majority members only agreed that the board recognizes the authority retained and what has been delegated to staff. In the self-assessment portion five board members strongly agreed and seven board members agreed that they actively engage and are prepared for board meetings. On the board-assessment portion only one board strongly agreed that board members are engaged and prepared for meetings. A second board member disagreed that board members are

prepared and stay in engaged in board meetings, while the remaining ten members just agreed.

General overall comments were positive. The SIB operates effectively and staff does an outstanding job keeping Board members informed. The board needs to continue to stay proactive and improve. One comment made by a board member was the board needs to do a better job of communicating complex information to the public and legislature.

Overall, the SIB Board Self-Evaluation was positive and continues to show areas the Board wishes to approve on.

*State Investment Board*  
2020 Board Self-Evaluation

Compilation of State Investment Board Self-Evaluation Results

**GENERAL OVERVIEW**

The Board Self-Evaluation consists of five categories, for both the self-assessment and board assessment portions. The five categories in each section which included:

- Board and Staff Roles
- Board and Committee Structure
- Board Meetings
- Policy Making and Reviews
- Financial Management and Investment Practices

*Any comments provided by respondents have been included as written in survey responses and have not been edited for spelling, grammar, etc.*

**2020 State Investment Board Self-Evaluation  
Self Assessment - Board and Staff Roles**

1. I believe I have the skills and training necessary to fulfil my responsibilities as a SIB member.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	6	50.00%	<b>3.50</b>	<b>3.00</b>
3 - Agree	6	50.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

2. I understand the authority that has been retained by the SIB and what duties have been delegated to staff.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	10	83.33%	<b>3.83</b>	<b>4.00</b>
3 - Agree	2	16.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

3. I actively engage in Board meetings by contributing to the discussions in a meaningful way, listening to others (i.e., board members, staff, guests) and communicate my points concisely.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	5	41.67%	<b>3.42</b>	<b>3.30</b>
3 - Agree	7	58.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

4. I make an effort to be educated on the aspects of the investment program that I do not understand.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	7	58.33%	<b>3.58</b>	<b>3.50</b>
3 - Agree	5	41.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

**2020 State Investment Board Self-Evaluation  
Self Assessment - Board and Staff Roles**

**Comments for Self-Assessment - Board and Staff Meetings:**

The staff do an excellent job of providing the Board members with the information necessary to make the decisions necessary at the Board level.

It's imperative to recognize all Board members are at different levels in their service and need different levels of education.

I depend significantly upon board education for the areas that I need build further capacity. It becomes difficult to spend the amount of time necessary outside of the board room with other work/life responsibilities, so board education is crucial. Developing my own capacity, however, needs to be a greater priority. One other area to consider and plan for is turnover of key members of the SIB and staff. As a board, we must be proactive to mitigate the loss of institutional knowledge and recognize that existing members/staff need to fill that leadership void.



**2020 State Investment Board Self-Evaluation  
Self Assessment - Board and Committee Structure**

5. I understand board conduct, abide by it, and avoid conflicts of interest.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	10	83.33%	<b>3.83</b>	<b>3.80</b>
3 - Agree	2	16.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

6. I find my participation on the Board to be stimulating and rewarding.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	9	75.00%	<b>3.75</b>	<b>3.70</b>
3 - Agree	3	25.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

7. I am comfortable with the amount of time I devote as a Board member.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	4	33.33%	<b>3.33</b>	<b>3.40</b>
3 - Agree	8	66.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

8. If I am not able to attend the SIB meeting, I make appropriate notifications to staff and review the information presented at the meeting.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	8	66.67%	<b>3.67</b>	<b>3.80</b>
3 - Agree	4	33.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

**2020 State Investment Board Self-Evaluation  
Self Assessment - Board and Committee Structure**

**Comments for Self-Assessment - Board and Committee Structure:**

The greatest struggle to provide the necessary time to the Board is during Legislative Session. Due to extreme time constraints I would recommend minimizing meetings during session and only meeting when necessary. I would also recommend moving the meetings to Friday afternoons when Legislative Committee hearing are not being conducted.

I always try to make Board Meetings. However, my schedule is very busy and sometimes I can't. I normally try to read through material. It would be better if I contacted Dave or Darren to go through information. However, I like a stated before my schedule gets extremely busy.

It is a priority for me...I wish it was for others.

It is recognized that we have a diverse board with many professional responsibilities, however, it feels as if, at least, one board member is absent at every meeting. I believe we should strive for this to be the exception as opposed to the norm.

**2020 State Investment Board Self-Evaluation  
Self-Assessment - Board Meeting**

**9.** I have participated in an effective new member orientation program which outlined responsibilities and important organizational information.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	5	41.67%	<b>3.25</b>	<b>3.40</b>
3 - Agree	5	41.67%		
2 - Disagree	2	16.67%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

**10.** I am prepared for Board meetings, reading information in advance, so I can make informed decisions.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	6	50.00%	<b>3.50</b>	<b>3.50</b>
3 - Agree	6	50.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	<u>12</u>	<u>100.00%</u>		

**Comments for Self Assessment - Board Meeting:**

When I started at WSI in 2009, I had Cindy Ternes as my designee. I did attend numerous meetings so I knew what to expect. When Cindy retired, I took over full time on the Board and really did not need an orientation.

Always. I appreciate the Executive Overview and the time frame allowing me to ask questions of staff when there are questions

I appreciate the changes that we have made in board education and orientation. I am hopeful that this will result in our least experienced board members feeling empowered to be active participants.

**2020 State Investment Board Self-Evaluation  
Self-Assessment - Policy Making and Reviews**

11. I fully understand the policies of the SIB.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	5	41.67%	<b>3.42</b>	<b>3.40</b>
3 - Agree	7	58.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

12. I review board policies as necessary to fulfill my role as a board member.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	7	58.33%	<b>3.50</b>	<b>3.40</b>
3 - Agree	4	33.33%		
2 - Disagree	1	8.33%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**Comments for Self Assessment - Policy Making and Reviews:**

I don't necessarily read through the rules. I receive most of my education at the actual Board meetings. I have been involved with the WSI Board for many years and understand Board governance.

I am very familiar with our governance structure. It is vital to our role

I appreciate that we have moved towards reviewing policies in smaller chunks over a period of time.

The board review of policies at meetings is helpful and meaningful.

**2020 State Investment Board Self-Evaluation  
Self-Assessment - Financial Management and Investment Practices**

**13.** I understand the legal duties and responsibilities required of me as a fiduciary.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	10	83.33%	<b>3.83</b>	<b>3.90</b>
3 - Agree	2	16.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**14.** I sufficiently understand all financial reports and seek clarification when necessary.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	7	58.33%	<b>3.58</b>	<b>3.70</b>
3 - Agree	5	41.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**15.** I am familiar with the annual report by the independent auditors and understand any findings or recommendations.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	8	66.67%	<b>3.67</b>	<b>3.70</b>
3 - Agree	4	33.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**Comments for Self Assessment - Financial Management and Investment Practices:**

I think the Board should be reminded of our legal duties and responsibilities when reviewing and approving the asset allocations of specific funds and their spending policies.

I get a lot of the same information through our WSI Board. I am familiar with annual reports.

These are important areas to consider additional education and guidance as we support future new board members. As referenced previously, we are losing outstanding leadership on our board so we must be proactive.

My career experiences being in charge of large budgets at the district and state level is valuable.

**2020 State Investment Board Self-Evaluation  
Board Assessment - Board and Staff Roles**

**16.** The Board members are consistently prepared for meetings and stays engaged.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	1	8.33%	<b>3.00</b>	<b>3.10</b>
3 - Agree	10	83.33%		
2 - Disagree	1	8.33%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**17.** The Board has healthy discussions on a topic before making a well informed decision.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	5	41.67%	<b>3.42</b>	<b>3.40</b>
3 - Agree	7	58.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**18.** The Board recognizes the authority it has retained and what has been delegated to staff.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	5	41.67%	<b>3.42</b>	<b>3.40</b>
3 - Agree	7	58.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**Comments for Board Assessment - Board and Staff Roles:**

I feel as if there are a select few Board members who speak more openly. I would like to see ALL of the Board members openly engaging in the conversations.

I appreciate the process used to provide recommendations to the board. It is well-thought out and gives all board members the information we need to make the best possible decision. The board would benefit from hearing the perspectives of all board members more.

Seldom does a board member cross the line into staff responsibilities.

**2020 State Investment Board Self-Evaluation  
Board Assessment - Board and Committee Structure**

**19.** All Board members regularly attend board meetings.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	3	25.00%	<b>3.00</b>	<b>3.00</b>
3 - Agree	6	50.00%		
2 - Disagree	3	25.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**20.** Standing and ad hoc committees complete their tasks in an effective and timely way.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	5	41.67%	<b>3.42</b>	<b>3.40</b>
3 - Agree	7	58.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**21.** Standing and ad hoc committees communicate to the full board in an effective and timely manner.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	3	25.00%	<b>3.25</b>	<b>3.70</b>
3 - Agree	9	75.00%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**Comments for Board Assessment - Board and Committee Structure:**

It's challenging when ad hoc committees meet and present materials at the Board meeting and do not provide enough time for the Board to review the material prior to the meeting.

Attendance continues to be an area that we could improve. We make the best decisions when all board members are present to share perspectives.

The committee work and committee reports are usually very well done and contribute to board effectiveness.

**2020 State Investment Board Self-Evaluation  
Board Assessment - Board Meetings**

**22.** Board meetings are generally well-run and make good use of members' time.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	7	58.33%	<b>3.58</b>	<b>3.70</b>
3 - Agree	5	41.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**23.** Board meetings allow the right allocation of time between Board discussions and presentations.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	7	58.33%	<b>3.58</b>	<b>3.50</b>
3 - Agree	5	41.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**Comments for Board Assessment - Board Meetings:**

When reviewing policies I think the review could be managed in a more efficient manner. Instead of reading through ALL of the policies that need to be reviewed present the changes in the policies in a high level overview and then allow the Board members to provide feedback.

The Board discussions and presentations are very informative.

The executive summary and detailed board memos are extremely helpful as the monthly packet can be daunting.

Meetings are efficiently and effectively run by the leadership.



**2020 State Investment Board Self-Evaluation  
Board Assessment - Policy Making and Reviews**

**24.** The Board reviews policies on a regular basis and updates them as needed.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	7	58.33%	<b>3.58</b>	<b>3.40</b>
3 - Agree	5	41.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**25.** If a new policy is needed for the SIB, the policy is clearly presented to and discussed by the Board.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	5	41.67%	<b>3.42</b>	<b>3.50</b>
3 - Agree	7	58.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**Comments for Board Assessment - Policy Making and Reviews:**

When reviewing policies I think the review could be managed in a more efficient manner. Instead of reading through ALL of the policies that need to be reviewed present the changes in the policies in a high level overview and then allow the Board members to provide feedback.

The recent policy statement for proxies is a great example of how this process has worked (and should continue to work).

**2020 State Investment Board Self-Evaluation  
Board Assessment - Financial Management & Investment Practices**

**26.** The Board regularly reviews financial, investment, and portfolio.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	7	58.33%	<b>3.58</b>	<b>3.60</b>
3 - Agree	5	41.67%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**27.** The Board is regularly informed of economic trends or conditions that can effect investment performance.

<u>Answer Choices</u>	<u># Responses</u>	<u>% Responses</u>	<u>2020 Average Response</u>	<u>2019 Average Response</u>
4 - Strongly Agree	8	66.67%	<b>3.67</b>	<b>3.50</b>
3 - Agree	4	33.33%		
2 - Disagree	0	0.00%		
1 - Strongly Disagree	0	0.00%		
	12	100.00%		

**Comments for Board Assessment - Financial Management and Investment Practices:**

To have professionals like Callan come in and make presentations on economic trends is very helpful to me.

I depend on manager presentations to provide this information

There is an appropriate mix of board education, presentations (staff and external), consultants, and board guidance that ensures board members are well-informed on investments, performance, and economic trends and conditions. I see this as a profound institutional strength.

Department Leaders and regular reports from Callan and other experts in the field keep us well informed.

**2020 State Investment Board Self-Evaluation  
Overall Assessment**

**28.** Any final comments, observations, or suggestions for the board self-evaluation?

Very well done!

I enjoy being part of the SIB. No suggestions.

The SIB operates effectively as a governance board, through the discussion of information prepared and presented by staff and consultants. It is critical that we keep our fiduciary responsibility central to our discussion and actions, and avoid being caught up in the political arena.

Just a comment: I believe the board does a good job of retaining authority where it needs to while also allowing staff to do their jobs effectively. Certainly any success the board has is a result of the good work done by staff at RIO.

I continue to appreciate the process for self-evaluation as I believe it helps our board be proactive and strive to be a little better tomorrow than we are today.

Caring, concerned board members focused on their fiduciary responsibilities combined with excellent office leadership and professional consultants result in a very effective board.

Staff does an exemplary job of informing staff of the status of the fund, changes that impact the fund, and continuing education on fiduciary responsibilities.

We must do a better job of letting the public/legislature know what we are doing, I am not sure how to take this complex information and distill it down to a readable bite size for the general public, but we must do a better job of telling our story as a board and an office.

**29.** Please let the Executive Review Committee know if there are any areas in the board self-evaluation that you would like to see addressed in the future?

The self-evaluation is comprehensive and addresses the needs of the Board.

Well done. I think this is comprehensive. It may be necessary, at some point, to consider the orientation question as it may not be applicable to every member the way it is currently worded. Perhaps make it more general, such as, "I am aware of our orientation process and it..."

Continued focus on fiduciary responsibilities and education on the fund investments.

Continue investment education

Results appear to indicate that the important actions and behaviors are being addressed.

# Annual Investment Compliance Report

## Fiscal Year Ended 06/30/2020

### Adams Street Partners

Document	Dated	Received	Notes
ADV	3/31/2020	8/4/2020	Parts 2a,2b
Annual Certification of Guidelines	6/30/2020	8/4/2020	DDQ notes they have not violated any guidelines
Audited Financials	12/31/2019	8/4/2020	Financials received for all funds. Clean opinions.
DDQ	6/30/2020	8/4/2020	SEC exam resulted in a single comment
SOC/Internal Controls	9/30/2019	8/4/2020	Controls are effective

Additional Comments: DDQ SEC comment was pertaining to more prominently disclosing in their marking the use of capital call lines in their investment vehicles. ASP modified their confidentiality statement to include an additional paragraph noting the capital call lines and potential effect on IRR calculations.

### Ares Management

Document	Dated	Received	Notes
ADV	3/31/2020	9/1/2020	Part 2A
Annual Certification of Guidelines	9/1/2020	9/1/2020	In compliance
Audited Financials	12/31/2019	9/1/2020	Clean opinion
DDQ	6/30/2020	9/1/2020	Reviewed
SOC/Internal Controls	6/30/2020	9/1/2020	No material changes in internal controls

Additional Comments:

ADV Disclosures:

THE SEC ALLEGED THAT, IN 2016, REGISTRANT'S WRITTEN POLICIES AND PROCEDURES REGARDING THE PREVENTION OF MISUSE OF POTENTIALLY MATERIAL NONPUBLIC INFORMATION WERE NOT SUFFICIENTLY IMPLEMENTED AND ENFORCED IN CERTAIN CIRCUMSTANCES WHEN REGISTRANT HAD AN EMPLOYEE SERVING ON THE BOARD OF DIRECTORS OF A PUBLIC COMPANY IN WHICH ONE OF REGISTRANT'S FUNDS WAS INVESTED. PURSUANT TO AN OFFER OF SETTLEMENT, THE SEC FOUND, AND THE REGISTRANT NEITHER ADMITTED NOR DENIED, THAT THE REGISTRANT VIOLATED SECTIONS 204A AND 206(4) OF THE INVESTMENT ADVISERS ACT OF 1940 AND RULE 206(4)-7 THEREUNDER.

### Atlanta Capital

Document	Dated	Received	Notes
ADV	1/30/2020	9/1/2020	Parts 1&2
Annual Certification of Guidelines	8/31/2020	9/1/2020	In compliance
Audited Financials	10/31/2019	9/1/2020	Clean opinion
DDQ	6/30/2020	9/1/2020	Reviewed, adopted Eaton Vance code of ethics July 2019.

Additional Comments:

### Axiom International

Document	Dated	Received	Notes
ADV	3/27/2020	8/31/2020	Parts 1&2
Annual Certification of Guidelines	6/30/2020	8/31/2020	In compliance
Audited Financials	12/31/2019	8/31/2020	Clean opinion
DDQ	6/30/2020	8/31/2020	Reviewed
SOC/Internal Controls	9/30/2019	8/31/2020	Effective controls

Additional Comments: Lead PM is leaving and transferring responsibilities in 2021

## Barings

Document	Dated	Received	Notes
ADV	3/31/2020	8/31/2020	Parts 2a,2b
Annual Certification of Guidelines	8/31/2020	8/31/2020	In compliance
Audited Financials	12/31/2019	8/31/2020	Clean opinion
DDQ	6/30/2020	8/31/2020	Reviewed
SOC/Internal Controls	9/30/2019	8/31/2020	Controls audited and found effective
Additional Comments: On May 11, 2020, Financial Industry Regulatory Authority (FINRA) began a routine exam of BSL. BSL has to date received a number of requests from FINRA and the exam is ongoing.			

## Blackrock PEP

Document	Dated	Received	Notes
ADV	10/19/2020	10/26/2020	Reviewed
Annual Certification of Guidelines	8/31/2020	8/31/2020	In compliance
Audited Financials	12/31/2019	8/31/2020	Clean opinion
DDQ	6/30/2020	8/31/2020	Reviewed
Additional Comments:			

## Capital International

Document	Dated	Received	Notes
ADV	6/30/2020	8/10/2020	2A
Annual Certification of Guidelines	6/30/2020	8/10/2020	See firm note*
Audited Financials	12/31/2019	8/10/2020	Clean opinion
Additional Comments: As the investment manager of CIPEF V and CIPEF VI, we are required to manage the funds in accordance with the terms of the funds' limited partnership agreements ('LPA'). We have processes and controls to monitor compliance with each fund's applicable investment restrictions, but instead of providing compliance certifications to limited partners, we ask that limited partners rely on our standard reporting as specified per the funds' LPAs for information as to such matters. To the extent there is a known breach of an investment guideline, Capital Group Private Markets would take remedial steps, which may include seeking consent of the Advisory Committee (if allowed under the LPA) or a waiver and amendment to the LPA from the limited partners.			

## Cerberus Capital Management

Document	Dated	Received	Notes
ADV	3/25/2020	4/6/2020	Part 2a
Annual Certification of Guidelines			In process
Audited Financials	12/31/2019	12/31/2019	Clean opinion
DDQ			In process
Additional Comments:			

**Corsair Capital**

Document	Dated	Received	Notes
ADV	3/30/2020	7/13/2020	Received
Annual Certification of Guidelines	7/13/2020	7/13/2020	In compliance with guidelines
Audited Financials	12/31/2019	7/13/2020	Clean opinion
Additional Comments:			

**Dimensional Fund Advisors**

Document	Dated	Received	Notes
ADV	3/30/2020	8/31/2020	Parts 1&2
Annual Certification of Guidelines	6/30/2020	8/31/2020	In compliance
Audited Financials	10/31/2019	8/31/2020	Clean opinion
DDQ	6/30/2020	8/31/2020	Reviewed
SOC/Internal Controls	9/30/2019	8/31/2020	Controls effective
Additional Comments:			

**EIG Management Company**

Document	Dated	Received	Notes
ADV	3/31/2020	7/24/2020	Parts 2a&2b
Annual Certification of Guidelines	7/24/2020	7/24/2020	In compliance
Audited Financials	12/31/2019	7/24/2020	Clean opinion
DDQ	1/23/2020	7/24/2020	Reviewed
Additional Comments:			

**Epoch Investment Partners**

Document	Dated	Received	Notes
ADV	1/27/2020	8/28/2020	Parts 1&2
Annual Certification of Guidelines	7/16/2020	8/28/2020	In compliance
Audited Financials	10/31/2019	8/28/2020	Clean opinion
DDQ	6/30/2020	8/28/2020	Reviewed
SOC/Internal Controls	12/31/2019	8/28/2020	Controls found effective
Additional Comments:			

**Goldman Sachs**

Document	Dated	Received	Notes
ADV	3/30/2020	7/22/2020	Received
Annual Certification of Guidelines	7/20/2020	7/22/2020	In compliance
Audited Financials	12/31/2019	7/22/2020	Clean opinion

## Additional Comments:

### ADV Disclosures:

ON JUNE 15, 2020, A LETTER OF ACCEPTANCE, WAIVER AND CONSENT ("AWC") FROM NYSE ARCA, INC. ("NYSE ARCA") DIRECTED AT GOLDMAN SACHS & CO. LLC ("GOLDMAN") WAS FINALIZED. WITHOUT ADMITTING OR DENYING THE FINDINGS, GOLDMAN CONSENTED TO THE SANCTIONS AND TO THE ENTRY OF FINDINGS. THE AWC STATES THAT GOLDMAN VIOLATED NYSE ARCA RULE 6.49-O(B) BY EFFECTING EQUITY TRANSACTIONS AFTER GAINING KNOWLEDGE OF UNDISCLOSED TERMS AND CONDITIONS OF A CUSTOMER ORDER IN THE SAME OPTIONS SERIES. THE FINDINGS STATE THAT A GOLDMAN TRADER RELAYED FACILITATED CROSS ORDERS FOR 800 CALL OPTIONS OF A CERTAIN OPTIONS SERIES TO AN NYSE ARCA FLOOR BROKER THAT WERE SYSTEMATIZED IN SIX SEPARATE PIECES AT SIX DIFFERENT TIMES, FOUR 100 QUANTITIES AND THEN TWO 200 QUANTITIES. THE FINDINGS ADDITIONALLY STATE THAT THE GOLDMAN TRADER SOLD A TOTAL OF 49,000 EQUITY SHARES OF THE OPTIONS SERIES AS HEDGES, AND WHEN DOING SO, HOWEVER, GOLDMAN SOLD MORE SHARES THAN NEEDED TO HEDGE THE DISCLOSED (OR SYSTEMIZED) PORTIONS OF THE SECOND THROUGH SIXTH FACILITATED OPTIONS ORDERS, THEREFORE RESULTING IN OVERHEDGES.

ON JUNE 15, 2020, AN AWC FROM NYSE ARCA DIRECTED AT GOLDMAN WAS FINALIZED. IN THE AWC, NYSE ARCA IMPOSES THE SANCTIONS CENSURE AND A FINE OF \$30,000 FOR A VIOLATION OF NYSE ARCA RULE 6.49-O(B). THE FINE WAS PAID BY GOLDMAN BY WIRE ON JUNE 22, 2020.

ON MAY 8, 2020, THE ICE FUTURES U.S. ("IFUS" OR "EXCHANGE") MARKET REGULATION DEPARTMENT NOTIFIED GOLDMAN SACHS & CO. LLC ("GSCO") THAT IT WAS ISSUED A SUMMARY FINE IN THE AMOUNT OF \$10,000 PURSUANT TO IFUS RULE 21.02. THE EXCHANGE ALLEGES THAT IN SEVEN INSTANCES, GSCO APPEARED TO HAVE BEEN IN VIOLATION OF IFUS RULE 6.15(A) WHEN IT FAILED TO ACCURATELY SUBMIT REPORTABLE POSITIONS TO THE EXCHANGE.

ON MARCH 31, 2020, THE CME GROUP MARKET REGULATION DEPARTMENT NOTIFIED GOLDMAN SACHS & CO. LLC ("GSCO") THAT IT HAD COMPLETED ITS INVESTIGATION INTO ALLEGATIONS THAT GSCO VIOLATED EXCHANGE RULE 562. GSCO HELD A PRO-RATA SHARE OF MELLON INVESTMENT CORPORATION'S POSITION EXCESS FOR THREE BUSINESS DAYS ON SEPTEMBER 11, 2019, SEPTEMBER 12, 2019, AND SEPTEMBER 13, 2019, BEFORE IT WAS LIQUIDATED ON SEPTEMBER 16, 2019. THE CME GROUP MARKET REGULATION DEPARTMENT ALLEGES THAT GSCO FAILED TO LIQUIDATE ITS PRO-RATA SHARE IN EXCESS OF LIMITS OR OTHERWISE FAILED TO ENSURE THAT ITS CUSTOMER WAS IN COMPLIANCE WITH LIMITS WITHIN A REASONABLE PERIOD OF TIME. THE ABOVE MATTER HAS NOW BEEN REFERRED TO THE CME GROUP MARKET REGULATION'S ENFORCEMENT DIVISION. ON JUNE 15, 2020, A PANEL OF THE CBOT BUSINESS CONDUCT COMMITTEE ("PANEL") CONCLUDED THAT GSCO HAD VIOLATED CBOT RULE 562. IN ACCORDANCE WITH A SETTLEMENT OFFER THAT BECAME EFFECTIVE ON JUNE 17, 2020, THE PANEL ORDERED GSCO TO PAY A FINE IN THE AMOUNT OF \$15,000. GSCO NEITHER ADMITTED NOR DENIED THE RULE VIOLATION UPON WHICH THE PENALTY IS BASED. THE FINE WAS PAID IN BY GSCO BY WIRE ON JUNE 26, 2020.

ON APRIL 1, 2020, THE SWEDISH FINANCIAL SUPERVISORY AUTHORITY (FINANSINSPEKTIONEN - "SFSA") IMPOSED A FINE ON GOLDMAN SACHS & CO. LLC ("GSCO") IN THE AMOUNT OF 315,000 SWEDISH KRONA (SEK). SFSA ALLEGES A VIOLATION OF CHAPTER 4 OF THE FINANCIAL INSTRUMENTS TRADING ACT (SFS 1991:1980), IN RELATION TO A LATE DISCLOSURE OF CHANGES IN MAJOR HOLDINGS OF SHARES IN MICRONIC AB BETWEEN JUNE AND SEPTEMBER OF 2017.

ON DECEMBER 19, 2019, THE FINANCIAL INDUSTRY REGULATORY AUTHORITY ("FINRA") ACCEPTED A LETTER OF ACCEPTANCE, WAIVER AND CONSENT ("AWC") IN WHICH WITHOUT ADMITTING OR DENYING THE FINDINGS, GOLDMAN SACHS & CO. LLC ("GOLDMAN") CONSENTED TO THE SANCTIONS AND TO THE ENTRY OF FINDINGS. THE FINDINGS ISSUED BY FINRA NAME A VIOLATION OF MUNICIPAL SECURITIES RULEMAKING BOARD ("MSRB") RULE G-15(F) AND STATE THAT GOLDMAN EFFECTED ON A DISCRETIONARY BASIS CUSTOMER SALE TRANSACTIONS OF MUNICIPAL BONDS IN AMOUNTS LOWER THAN THE MINIMUM DENOMINATIONS OF THE RESPECTIVE ISSUES. GOLDMAN GENERALLY RELIED ON DATA IT RECEIVED FROM THIRD-PARTY VENDORS TO DETERMINE WHETHER A TRANSACTION WAS BELOW AN ISSUE'S MINIMUM DENOMINATION, AND THE VIOLATIVE TRANSACTIONS ARE PRIMARILY ATTRIBUTABLE TO INACCURACIES IN THAT VENDOR DATA. GOLDMAN HAS ALREADY VOLUNTARILY RESCINDED THE VIOLATIVE TRANSACTIONS OR OTHERWISE REIMBURSED AFFECTED CUSTOMERS.

ON DECEMBER 19, 2019 FINRA ACCEPTED AN AWC IN WHICH FINRA IMPOSES THE SANCTIONS CENSURE AND A FINE OF \$130,000 FOR A VIOLATION OF MSRB RULE G-15(F). THE FINE WAS PAID BY GOLDMAN BY WIRE ON DECEMBER 26, 2019.

THE CHICAGO BOARD OF TRADE ("CBOT") IMPOSED A FINE ON GOLDMAN SACHS & CO. ("GOLDMAN") IN THE AMOUNT OF \$15,000. CBOT CITED VIOLATIONS OF CBOT RULE 538.C. IN RELATION TO AN EXCHANGE FOR RELATED POSITION ("EFRP") PACKAGE EXECUTED IN THE TEN -YEAR TREASURY NOTE FUTURES AND OPTIONS MARKETS ON JULY 19, 2018, WHERE THE RELATED POSITION COMPONENTS OF THE EXCHANGE FOR RISK ("EFR") TRANSACTION DID NOT HAVE A REASONABLE DEGREE OF PRICE CORRELATION AND DID NOT HAVE OPPOSING MARKET BIAS TO THE EXCHANGE COMPONENT. FURTHER, THE RELATED COMPONENT OF THE EXCHANGE OF OPTION FOR OPTION ("EOO") TRANSACTION WAS NOT REASONABLY EQUIVALENT TO THE EXCHANGE COMPONENT. THE EFRP PACKAGE WAS THEREFORE NON-BONA FIDE AND IN VIOLATION OF CBOT RULE 538.C.

WITHOUT ADMITTING OR DENYING THE RULE VIOLATION OR THE FACTUAL ALLEGATIONS UPON WHICH THE PENALTY IS BASED, GOLDMAN SUBMITTED AN OFFER OF SETTLEMENT, WHICH WAS ACCEPTED, AND IT BECAME EFFECTIVE ON NOVEMBER 27, 2019. THE FINE IMPOSED BY CBOT WAS IN THE AMOUNT OF \$15,000, WHICH WAS PAID BY GOLDMAN BY WIRE ON DECEMBER 4, 2019.

THE MARKET REGULATION DEPARTMENT OF ICE FUTURES U.S., INC. ("ICE") DETERMINED THAT GOLDMAN SACHS & CO. LLC ("THE FIRM") VIOLATED ICE RULE 2.22 BY REPORTING INACCURATE OPEN INTEREST FOR THE SEPTEMBER 2019 FCOJ-A FUTURES CONTRACT FOR THE TRADE DATES OF AUGUST 29, 2019, AUGUST 30, 2019 AND SEPTEMBER 2, 2019. ICE IMPOSED A FINE ON THE FIRM IN THE AMOUNT OF \$10,000, WHICH WAS PAID BY SUBMISSION OF A WIRE ON SEPTEMBER 18, 2019.

ICE IMPOSED A FINE ON THE FIRM IN THE AMOUNT OF \$10,000, WHICH WAS PAID BY SUBMISSION OF A WIRE ON SEPTEMBER 18, 2019.

THE ICE FUTURES EUROPE ("THE EXCHANGE") CONDUCTED AN INVESTIGATION OF THE FIRM'S PRE- AND POST-TRADE CONTROLS. AS A RESULT OF ITS FINDINGS IN THE INVESTIGATION, THE EXCHANGE ALLEGES THAT THE TIMING AND NATURE OF CERTAIN ORDERS WAS MANIPULATIVE, VIOLATING EXCHANGE RULES A.11.1 (D), E.2.1(B), E.2.2 (A)(VI), (XIII) AND (XIV), E.2.2A AND G.20.

GSCO PAID A TOTAL SETTLEMENT AMOUNT OF £125,000, INCLUSIVE OF A DISCRETIONARY 1/3 DISCOUNT FROM £187,500. GSCO PAID THE £125,000 BY SUBMISSION OF A WIRE ON OCTOBER 2, 2019.

ON NOVEMBER 26, 2019, THE COMMODITY FUTURES TRADING COMMISSION ("CFTC") ISSUED AN ORDER REQUIRING GOLDMAN SACHS & CO. LLC ("GOLDMAN") TO PAY A \$1,000,000 CIVIL MONETARY PENALTY AND TO CEASE AND DESIST FROM FURTHER VIOLATIONS OF CERTAIN CFTC REGULATIONS. DURING AN INVESTIGATION BY THE CFTC'S DIVISION OF ENFORCEMENT ("DIVISION"), THE DIVISION REQUESTED THAT GOLDMAN PRODUCE CERTAIN AUDIO RECORDINGS FROM JANUARY 2014. GOLDMAN WAS UNABLE TO PRODUCE MANY OF THE RECORDINGS REQUESTED DUE TO A MALFUNCTION WHICH OCCURRED DURING THE COURSE OF A SYSTEM UPGRADE WHICH AFFECTED RECORDINGS OF THE PHONE LINES OF A TRADING AND SALES DESK IN ONE OF GOLDMAN'S OFFICES FOR TWENTY CALENDAR DAYS IN JANUARY AND FEBRUARY 2014. GOLDMAN'S INABILITY TO PRODUCE THESE RECORDINGS IMPEDED THE DIVISION'S ONGOING INVESTIGATION, BECAUSE THE DIVISION WAS UNABLE TO OBTAIN THE INFORMATION THAT SHOULD HAVE BEEN CAPTURED IN MANY OF THE RECORDINGS THROUGH ANY OTHER MEANS. BASED ON THE FOREGOING, THE CFTC FOUND THAT GOLDMAN VIOLATED REGULATIONS 23.202(A)(1), (B)(1), AND 23.203(B)(2), 17 C.F.R. §§ 23.202(A)(1), (B)(1) (2018), 23.203(B)(2) (2017).

## Grosvenor

Document	Dated	Received	Notes
ADV	7/21/2020	8/31/2020	Parts 2a&2b
Annual Certification of Guidelines	10/22/2020	10/23/2020	In compliance
Audited Financials	12/31/2019	6/30/2020	Clean opinion
SOC/Internal Controls	9/30/2019	6/30/2020	Controls are effective
Additional Comments:			

## Hearthstone

Document	Dated	Received	Notes
ADV	3/31/2020	7/13/2020	Received
Annual Certification of Guidelines	7/13/2020	7/13/2020	In compliance



Audited Financials 12/31/2019 7/13/2020 Clean opinion

Additional Comments:

### I Squared Capital

Document	Dated	Received	Notes
ADV	3/22/2019	10/26/2020	Part 2a
Annual Certification of Guidelines	6/30/2020	8/24/2020	In compliance
Audited Financials	12/31/2019	8/24/2020	Clean opinion
SOC/Internal Controls	9/30/2019	8/24/2020	Controls found effective

Additional Comments:

### Invesco Advisers

Document	Dated	Received	Notes
ADV	6/29/2020	8/31/2020	Part 2a
Annual Certification of Guidelines	6/30/2020	8/31/2020	In compliance
Audited Financials	12/31/2019	8/31/2020	Clean opinion
DDQ	8/31/2020	8/31/2020	Reviewed for Asia & Core
SOC/Internal Controls	9/30/2020	8/31/2020	Controls are effective

Additional Comments:

### Invest America

Document	Dated	Received	Notes
ADV			NA
Annual Certification of Guidelines	6/30/2020	7/30/2020	In compliance
Audited Financials	12/31/2019	6/15/2020	Qualified opinion*

Additional Comments: Basis for qualified opinion: As discussed in Note 1, the investments have been valued on a basis of accounting prescribed by the U.S. Small Business Administration (SBA) which differs from accounting principles generally accepted in the United States of America. Accordingly, the accompanying investment values are not intended to be a presentation in conformity With accounting principles generally accepted in the United States of America. The investment valuations of L&C Private Equities II, L P. were prepared in accordance with its approved valuation policy established in accordance With Section 310(d)(2) of the Small Business Investment Act of 195B, as amended. In addition, disclosures associated with fair value measurements as required by accounts principles generally accepted in the United States of America have not been included in the financial statements Accordingly, the accompanying investment values are not intended to be a presentation in conformity with accounting principles generally accepted In the United States of America. Quantification of the effects of that departure from accounting principles generally accepted in the United States of America on the financial statements of Private Equities II, L.P. is not practicable.

### JP Morgan

Document	Dated	Received	Notes
ADV	3/30/2020	8/14/2020	Part 2a
Annual Certification of Guidelines	7/6/2020	7/10/2020	In compliance with guidelines
Audited Financials	12/31/2019	8/14/2020	Clean opinion
DDQ	8/14/2020	8/14/2020	Reviewed

SOC/Internal Controls 12/31/2019 8/14/2020 Internal controls audited and found effective

Additional Comments:

## LA Capital

Document	Dated	Received	Notes
ADV	3/26/2020	8/31/2020	Parts 1A, 2A, 2B
Annual Certification of Guidelines	8/24/2020	8/31/2020	In compliance
Audited Financials	12/31/2019	4/24/2020	Clean opinion
DDQ	6/30/2020	8/31/2020	Reviewed
SOC/Internal Controls	10/31/2019	8/31/2020	Audited controls are suitable

Additional Comments:

## Loomis Sayles

Document	Dated	Received	Notes
ADV	12/12/2019	7/10/2020	Parts 2a&2b
Annual Certification of Guidelines	6/30/2020	7/10/2020	In compliance
Audited Financials	10/31/2020	7/10/2020	Clean opinion
SOC/Internal Controls	8/31/2019	7/10/2020	Controls are effective

Additional Comments:

ADV Disclosures:

IN JUNE 2019, NATIXIS ("NATIXIS"), THE FRENCH BANK THAT OWNS OUR PARENT COMPANY, WAS REFERRED FOR TRIAL IN FRANCE IN CONNECTION WITH A PRESS RELEASE ISSUED BY NATIXIS IN NOVEMBER 2007 AT THE START OF THE FINANCIAL CRISIS. THE PRESS RELEASE IN QUESTION RELATED TO RISKS TO WHICH NATIXIS, A PUBLICLY TRADED COMPANY, WAS SUBJECT, AND DID NOT RELATE TO ANY OF NATIXIS' SUBSIDIARY BUSINESSES ENGAGED IN ADVISORY OR BROKER-DEALER ACTIVITIES. THE INVESTIGATING MAGISTRATE FOUND THAT THERE WAS SUFFICIENT EVIDENCE THAT THIS PRESS RELEASE CONTAINED FALSE OR MISLEADING INFORMATION IN RELATION TO NATIXIS' EXPOSURE TO SUBPRIME RISK. THE REFERRAL RESULTS FROM AN INVESTIGATION LAUNCHED IN 2009 BY THE PARIS PUBLIC PROSECUTOR'S OFFICE INTO A COMPLAINT FILED BY CERTAIN MINORITY SHAREHOLDERS OF NATIXIS COORDINATED BY THE ASSOCIATION TO DEFEND MINORITY SHAREHOLDERS RIGHTS (ASSOCIATION DE DÉFENSE DES ACTIONNAIRES MINORITAIRES - ADAM). NATIXIS BELIEVES THAT IT INFORMED THE MARKET AND THE PUBLIC IN DUE COURSE WITH AN APPROPRIATE DEGREE OF DETAIL GIVEN THE INFORMATION IT HAD AT THE TIME. NATIXIS BELIEVES THAT IT HAS NOT COMMITTED ANY CRIMINAL VIOLATION AND WILL VIGOROUSLY DEFEND ITSELF AGAINST THIS CHARGE. NATIXIS ALSO NOTES THAT THE ASPECTS OF THE PRESS RELEASE COVERED BY THE REFERRAL WERE ALREADY ASSESSED BY THE FRENCH FINANCIAL MARKETS AUTHORITY, THE AUTORITÉ DES MARCHÉS FINANCIERS ("AMF"), AND THE AMF DECLINED TO TAKE ANY ACTION AGAINST NATIXIS. NO OFFICERS, DIRECTORS OR EMPLOYEES OF NATIXIS HAVE BEEN CHARGED IN CONNECTION WITH THIS PROCEEDING. IF NATIXIS IS CONVICTED ON THIS CHARGE, IT COULD BE SUBJECT TO A FINE UP TO EUR 7,500,000. UNDER FRENCH LAW, THERE ARE NO OTHER LEGAL CONSEQUENCES TO NATIXIS FOR A GUILTY VERDICT IN THIS CASE.

## LSV Asset Management

Document	Dated	Received	Notes
ADV	3/30/2020	10/26/2020	Reviewed
Annual Certification of Guidelines	6/30/2020	10/26/2020	In compliance
Audited Financials	12/31/2019	10/26/2020	Clean opinion
DDQ	6/30/2020	10/26/2020	Reviewed
SOC/Internal Controls	10/31/2019	10/26/2020	Audited controls found effective

Additional Comments:

### Macquarie Infrastructure Partners

Document	Dated	Received	Notes
ADV	6/30/2020	6/30/2020	Part 2a
Audited Financials	12/31/2019	6/30/2020	Clean opinion

Additional Comments:

### Manulife Investment Management

Document	Dated	Received	Notes
ADV	3/27/2020	8/20/2020	Parts 1&2
Annual Certification of Guidelines	6/30/2020	8/20/2020	In compliance
Audited Financials	12/31/2019	8/20/2020	Clean opinion
DDQ	3/30/2020	8/20/2020	Reviewed
SOC/Internal Controls	9/30/2020	8/20/2020	Controls effective

Additional Comments:

### MatlinPatterson Global Advisers

Document	Dated	Received	Notes
ADV	3/30/2020	10/26/2020	Reviewed part 2a
Audited Financials	12/31/2019	4/29/2020	Clean opinions

Additional Comments:

### Northern Trust Investments

Document	Dated	Received	Notes
ADV	6/4/2020	10/26/2020	Reviewed part 2a
Annual Certification of Guidelines	6/30/2020	11/13/2020	DDQ notes no significant compliance events
Audited Financials	12/31/2019	10/26/2020	Clean opinion
DDQ	6/30/2020	11/13/2020	Reviewed
SOC/Internal Controls	6/30/2020	11/13/2020	Controls effective

Additional Comments:

ADV Disclosures:

WITHOUT ADMITTING OR DENYING THE FINDINGS OR CONCLUSIONS OF THE COMMODITY FUTURES TRADING COMMISSION ("CFTC"), THE NORTHERN TRUST COMPANY ("TNTC") CONSENTED TO ENTRY OF AN ORDER ISSUED ON SEPTEMBER 30, 2019 FINDING THAT FROM 2013 THROUGH AT LEAST 2018 TNTC FAILED TO REPORT CERTAIN SWAPS TO A SWAP DATA REPOSITORY CONSISTENT WITH THE REQUIREMENTS OF THE COMMODITY EXCHANGE ACT AND CFTC REGULATIONS, AND THAT THOSE SWAP REPORTING FAILURES WERE A DIRECT RESULT OF TNTC'S FAILURE TO ADEQUATELY SUPERVISE ITS SWAP DEALER, INCLUDING FAILING TO HIRE QUALIFIED SUBJECT MATTER EXPERTS TO ENSURE SWAP DEALER COMPLIANCE. THE CFTC'S ORDER REQUIRES THAT TNTC PAY A CIVIL MONETARY PENALTY OF \$1 MILLION, AND THAT IT ENHANCE ITS SUPERVISORY PROGRAM, POLICIES, PROCEDURES AND CONTROLS, AND PROVIDE ADDITIONAL TRAINING TO RELEVANT PERSONNEL. TNTC WILL PROVIDE STATUS REPORTS TO THE CFTC CONCERNING ITS REMEDIATION PROGRESS. ADDITIONALLY, TNTC HAS RETAINED OUTSIDE CONSULTANTS TO REVIEW ITS SWAP DEALER PROCESSES AND PROCEDURES, HAS HIRED NEW PERSONNEL TO OVERSEE COMPLIANCE AT ITS SWAP DEALER AND HAS TAKEN SUBSTANTIAL STEPS TO IMPROVE ITS PROCESSES FOR SWAP REPORTING GOING FORWARD.

**Parametric**

Document	Dated	Received	Notes
ADV	11/4/2020	11/11/2020	Part 2a
Audited Financials	12/31/2019	11/11/2020	Clean opinion
DDQ	6/30/2020	11/11/2020	Reviewed

Additional Comments: Parametric's parent company Eaton Vance is expected to be acquired by Morgan Stanley.

**PIMCO**

Document	Dated	Received	Notes
ADV	3/30/2020	8/27/2020	Part 2A
Annual Certification of Guidelines	6/30/2020	8/27/2020	In compliance
Audited Financials	12/31/2019	8/27/2020	Clean opinion
DDQ	8/31/2020	8/27/2020	Reviewed
SOC/Internal Controls	9/30/2020	8/27/2020	Controls are effective

Additional Comments:

**Prudential**

Document	Dated	Received	Notes
ADV	3/30/2020	8/25/2020	Parts 1&2
Annual Certification of Guidelines	6/30/2020	8/25/2020	In compliance
Audited Financials	12/31/2019	8/25/2020	Clean opinion
DDQ	6/30/2020	8/25/2020	Reviewed
SOC/Internal Controls	9/30/2019	8/25/2020	Effective controls

Additional Comments:

**Quantum Energy Partners**

Document	Dated	Received	Notes
ADV	3/30/2020	6/30/2020	Part 2a
Annual Certification of Guidelines			Fund is winding down, only two positions
Audited Financials	12/31/2019	6/30/2020	Clean opinion

Additional Comments:

**Rohatyn Group**

Document	Dated	Received	Notes
ADV	3/30/2020	9/1/2020	Part 2a
Annual Certification of Guidelines	6/30/2020	9/1/2020	DDQ indicates no client guidelines have been violated
Audited Financials	12/31/2019	9/1/2020	Clean opinion
DDQ	6/30/2020	9/1/2020	Reviewed

Additional Comments:

**SEI**

Document	Dated	Received	Notes
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ADV	6/30/2020	11/12/2020	Part 2a
Audited Financials	5/31/2020	11/12/2020	Clean opinion
SOC/Internal Controls	3/30/2020	11/12/2020	Controls effective

Additional Comments:

### State Street

Document	Dated	Received	Notes
ADV			NA
Annual Certification of Guidelines	7/20/2020	8/31/2020	In compliance with guidelines
Audited Financials	12/31/2019	8/31/2020	Clean opinion
DDQ	6/30/2020	8/31/2020	Reviewed
SOC/Internal Controls	3/31/2020	8/31/2020	Audited controls were effective

Additional Comments:

### TIR

Document	Dated	Received	Notes
ADV	3/30/2020	8/27/2020	Part 2a
Annual Certification of Guidelines	6/30/2020	8/27/2020	In compliance
Audited Financials	12/31/2019	8/27/2020	Clean opinion
DDQ	6/30/2020	8/27/2020	Reviewed

Additional Comments:

### Vanguard

Document	Dated	Received	Notes
ADV	3/30/2020	8/28/2020	Parts I,II
Annual Certification of Guidelines	6/30/2020	8/28/2020	DDQ indicates no client guidelines have been violated
Audited Financials	10/31/2019	8/28/2020	Clean opinion
DDQ	6/30/2020	8/28/2020	Reviewed

Additional Comments:

### Wellington

Document	Dated	Received	Notes
ADV	3/27/2020	8/31/2020	2A
Annual Certification of Guidelines	8/31/2020	8/31/2020	In compliance with guidelines
Audited Financials	12/31/2019	8/31/2020	Clean opinion
DDQ	3/27/2020	8/31/2020	Reviewed
SOC/Internal Controls	12/31/2020	8/31/2019	Audit found no issues with controls or compliance

Additional Comments:

### Wells Capital

Document	Dated	Received	Notes
ADV	3/30/2020	10/22/2020	Part 2a

Annual Certification of Guidelines	8/31/2020	10/22/2020	Noted in DDQ no portfolio guidelines have been in violation
Audited Financials	12/31/2019	10/22/2020	Clean opinion on financials. Auditor notes internal controls on financial reporting also found effective.
DDQ	3/30/2020	10/22/2020	Reviewed
SOC/Internal Controls	8/31/2020	10/22/2020	SOC1 found controls effective with no exceptions

Additional Comments:

ADV Disclosures:

WITHOUT ADMITTING OR DENYING LIABILITY, WELLS FARGO & COMPANY (WF&CO) ENTERED INTO A CONSENT ORDER IN WHICH WF&CO WAS ALLEGED TO HAVE VIOLATED §11-301(2) OF THE MARYLAND SECURITIES ACT, RELATED TO THE CREATION, POOLING, STRUCTURING, SPONSORSHIP, PACKAGING, MARKETING, UNDERWRITING, SALE OR ISSUANCE OF RESIDENTIAL MORTGAGE-BACKED SECURITIES ("RMBS") BETWEEN JANUARY 1, 2005 AND JANUARY 1, 2009. WF&CO AGREED TO PAY RESTITUTION OF \$20,000,000 TO THE STATE OF MARYLAND WITHIN THIRTY (30) BUSINESS DAYS.

WELLS FARGO & COMPANY ("WFC") VIOLATED SECTION 10(B) OF THE EXCHANGE ACT OF 1934 (THE "EXCHANGE ACT") AND RULE 10B-5 THEREUNDER WITH RESPECT TO ITS HISTORICAL COMMUNITY BANK SALES PRACTICES AND RELATED DISCLOSURES.

WFC CONSENTED TO THE ENTRY OF THE SEC ORDER AND AGREED TO PAY A CIVIL PENALTY OF \$500 MILLION AND TO BE ENJOINED FROM FUTURE VIOLATIONS OF SECTION 10(B) OF THE EXCHANGE ACT AND RULE 10B-5 THEREUNDER. WFC ALSO AGREED TO ENGAGE OUTSIDE EXPERIENCED SECURITIES COUNSEL TO CONDUCT AN ASSESSMENT OF THE REGULATION D POLICIES AND PROCEDURES OF WFC AND CERTAIN OF ITS SUBSIDIARIES AND TO PRESENT TO THE SEC ON THE IMPLEMENTATION OF RECOMMENDATIONS MADE BY OUTSIDE COUNSEL.

#### Western Asset Management

Document	Dated	Received	Notes
ADV	6/30/2020	8/31/2020	Parts 1, 2A, 2B received
Annual Certification of Guidelines	7/2/2020	8/31/2020	In compliance with guidelines
Audited Financials	12/31/2019	8/31/2020	Received for both Legg Mason and Franklin Templeton. Clean opinions.
DDQ	8/31/2020	8/31/2020	Received
SOC/Internal Controls	10/31/2020	8/31/2020	SOC1 audit report found controls suitable

Additional Comments: Parent company Legg Mason was acquired by Franklin Templeton.

#### William Blair

Document	Dated	Received	Notes
ADV	3/25/2020	8/25/2020	Part 2a
Annual Certification of Guidelines	8/25/2020	8/25/2020	In compliance
Audited Financials	12/31/2019	8/25/2020	Clean opinion
DDQ	3/30/2020	8/25/2020	Reviewed
SOC/Internal Controls	10/31/2019	8/25/2020	Controls are effective

Additional Comments:

**Investment Guideline Exceptions Log**  
**For Fiscal Year Ended June 30, 2020**

Date Received	Manager	Guideline Exception	Cusip	Description	Manager Recommendation	Action Taken	Maturity Date	Par/Shares	Cost	Fair Value	Acct #
2/20/2020	Barings	Security rated below investment grade - No Rating	032359AE1	Amtrust Financial Services Inc	Continue to hold Contribution notice was sent to wrong contact.	concur	8/15/2023	800,000	802,920	753,749	ND14
2/26/2020	Wells Capital	Futures position breached 5%			Position has been corrected	none	NA	NA	NA	NA	26-48000
5/28/2020	Loomis Sayles	Company in bankruptcy	51818KAB6	Latam Finance LTD	Continue to hold	concur	4/11/2024	595,000		108,885	NDK09
5/28/2020	Loomis Sayles	Company in bankruptcy	51818KAC4	Latam Finance LTD	Continue to hold	concur	3/1/2026	253,200		43,200	NDK09
6/30/2020	Loomis Sayles	Company in bankruptcy	165167CY1	Chesapeake Energy Corp.	Continue to hold	concur	9/15/2026	575,000	547,049	15,169	NDK09
6/30/2020	Loomis Sayles	Company in bankruptcy	165167768	Chesapeake Energy Corp.	Continue to hold	concur		1,196	802,875	-	NDK09
6/30/2020	Loomis Sayles	Company in bankruptcy	165167750	Chesapeake Energy Corp.	Continue to hold	concur		166	90,395	-	NDK09
6/30/2020	Loomis Sayles	Company in bankruptcy	165167776	Chesapeake Energy Corp.	Continue to hold	concur		25	18,392	-	NDK09

**NORTH DAKOTA STATE INVESTMENT BOARD**

**DUE DILIGENCE QUESTIONNAIRE**

**FOR PERIOD ENDING 6/30/20**

Please read the following instructions before completing this questionnaire:

1. All questions must be completed.
2. Type or select answers to each question.
3. If any questions are not applicable, please answer as "N/A".
4. If any answer is larger than the space available, please include it in an attachment that references the page and section number.
5. Responses are due no later than August 31, 2020.



**GENERAL INFORMATION**

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

**FIRM INFORMATION**

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

- Registered Investment Advisor (registered under the Investment Advisors Act of 1940)
- Bank (as defined in the Investment Advisors Act of 1940)

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

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

## **PERSONNEL**

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

**ASSETS AND BREAKDOWN**

1. Please provide assets managed and number of accounts *as of 6/30/20*.

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

Describe "other":

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

**Firmwide**

	2020			2019			2018		
	Total	Gain	Loss	Total	Gain	Loss	Total	Gain	Loss
Total accounts									
Total assets									
Total public fund accounts									
Public fund assets									

**Subject Product**

	2020			2019			2018		
	Total	Gain	Loss	Total	Gain	Loss	Total	Gain	Loss
Total accounts									
Total assets									
Total public fund accounts									
Public fund assets									

3. Please provide an explanation of account departures and additions and for any meaningful changes in firm wide and/or product assets.
4. What is the minimum, average, and maximum account size for the subject strategy?
5. You may include additional detail or explanation of firm assets under management below to demonstrate firm capabilities.
6. Please list clients representing more than 10% of total firm assets under management or total firm revenue. It is adequate to describe the client without identifying them (e.g., public pension plan). Please comment on business risk related to client concentration.

**INVESTMENT STRATEGY**

1. Describe your investment philosophy for the subject strategy.
2. Describe the drivers of return. What has been your historical experience on return drivers?
3. Have you made or are you planning any modifications to your overall investment philosophy or process? If so, describe the process used to identify and effect the change.
4. Address the following as it relates to your investment strategy and the portfolio construction process you use to implement your philosophy:
  - a. Role of top-down, thematic and/or sector allocation decisions in your process, and how these decisions are made and implemented.
  - b. What is the firm’s research process as it relates to the subject strategy? How is the research process organized (i.e. regional, country and/or sector)?

- c. Comment on security selection, including the initial universe, decision making factors, and analysis by market segment. Include use of model portfolios or recommended lists. Describe the process by which an investment idea is originated and implemented.
  - d. Describe your portfolio construction process. What specific factors are integral to the portfolio construction process? Specify the portfolio guidelines and rules, such as maximum issue and sector weights. Describe any quantitative techniques or optimization tools used to construct portfolios.
  - e. How is portfolio risk measured, monitored and controlled? Describe any risk management models used and how this analysis is incorporated in the portfolio management process.
  - f. Describe your sell discipline. Under what conditions can the manager/investment committee deviate from your stated discipline?
  - g. If subject strategy is a passive mandate, does your strategy attempt full index replication or are sampling techniques utilized when constructing the portfolio? If sampling is utilized, please describe your sampling process.
5. Please list the relative importance of each of the following decisions:

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

- 6. What unique attributes or competitive advantage does your firm or subject strategy have, which distinguishes it from its competitors? Why do you believe this advantage is sustainable?
- 7. Describe what circumstances or market conditions would favor the subject strategy? When can it be expected to be out of phase or be unrewarded?
- 8. If applicable, please describe your currency decision and hedging policy.
- 9. Does this strategy utilize leverage in any way? If so, please describe. What is the expected and maximum leverage employed in the strategy?
- 10. Describe the firm's use of derivatives in the management of the strategy. If applicable, please list any procedures that serve as guidelines for your firm's management of the collateral.

## **TRADING**

1. Please describe your policies and procedures concerning trading and execution, including those relating to the following:
  - a. How your firm seeks to achieve best execution;
  - b. How your firm measures and minimizes trading costs;
  - c. How your traders interact with portfolio managers and analysts.
2. Describe your trading practices, including the trading systems and strategies you use, and indicate any enhancements your firm is contemplating.
3. What guidelines and practices does your firm employ in managing its counterparty risk?
4. How many broker relationships does your firm have? Please describe how the broker/dealers your firm uses are selected.
5. Does your firm trade client accounts through any related or affiliated broker/dealer? If yes, describe the nature of the relationship and the percentage of trades directed through such affiliate(s).
6. Does your firm use soft dollars? If so, for what purpose?

## **RISK MANAGEMENT**

1. Please describe the risk management process within your organization and the degree of independence from your portfolio management process. Please describe how the firm assures the independence of risk management.
2. How is portfolio risk measured, monitored and controlled? Describe any risk management models used and how this analysis is incorporated in the portfolio management process.

## **ENVIROMENTAL, SOCIAL & GOVERNANCE**

1. Does the firm have a policy addressing its approach to incorporating sustainable and responsible investment factors into its investment process? If so, please provide a copy of the policy and the extent of its use in current investment strategies. If not, please explain the rationale.
2. Please indicate the methods of internal investment manager oversight (e.g. oversight by committee, firm, management, board of directors, etc.) including reporting practices.
3. Please describe what ESG data, research, consultants, tools and practices are used and how they are incorporated into the investment and risk management process.
4. Have there been any changes in the firm's ESG practices, policies, applications or reporting in the past year. If so, please explain the changes.

5. Please explain how active investment ownership practices are integrated into investment decisions including any impact on voting shares/rights.
6. Please describe what metrics are used to measure the impact of ESG investing practices.
7. Does the firm include climate related factors into its investment process including the measurement and monitoring of the carbon footprint of its investment portfolio? If yes, please explain the assessment process. If not, please explain the rationale.
8. Please list the various types of sustainable and responsible investing themes considered in the past and if any have been excluded because they were non investible (i.e. eliminate poverty, disease eradication, zero waste, healthy living, etc.).

### **COMPLIANCE/INTERNAL CONTROLS**

1. What compliance system does your firm employ? How is compliance implemented in your firm's operations?
2. Provide a detailed summary of your firm's internal control structure. Who serves as your firm's compliance officer? Who does he/she report to? Does the firm conduct periodic risk assessment?
3. What systems are in place for ensuring that portfolios are in compliance with client guidelines?
4. Has your firm ever violated a client guideline in the subject strategy? If so, please describe the violation and resolution. It is acceptable if this information is grouped by some method of categorization that allows for easier reporting.
5. Describe valuation policies and procedures by security type, list pricing sources and personnel responsible for valuation. Describe any special systems, valuation services, or other unique issues relating to the pricing of less liquid securities in the portfolio.
6. Is your firm registered with the CFA Institute as compliant with the CFA Institute's Asset Manager Code (AMC) of Professional Conduct? If not, would your firm consider registering as compliant in the future?
7. Please state your firm's ethics policy. How do you ensure that employees follow this ethics policy? How are violations of the firm's ethics policy handled?

### **FEES**

1. Please provide a fee schedule for the subject strategy, including any breakpoints.
2. Under what circumstances are your fees negotiable?
3. Do all clients pay the same fee? Please explain any discrepancies.

4. Is there a minimum annual fee?
5. Do you offer a performance-based fee? If so, please provide a performance-based fee schedule. Over what period is performance evaluated and against what benchmark? What is the base fee? Is there a maximum fee (a cap)?
6. Do you offer a Most Favored Nations (MFN) clause? If not, please provide an explanation of why not.

**CLIENT SERVICES**

1. Describe your firm’s approach to client service.
2. What policies are in effect to control the workload as it relates to the number of clients serviced by each account manager? Is there a limit on the number of accounts that an account manager may handle?
3. Provide a breakdown for each key investment person’s time dedicated to each listed function (add more rows for additional key persons if necessary):

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

Describe other:



## **BUSINESS PLANS**

1. Please discuss the overall business objectives of your firm with respect to future growth. Comment on any present or planned areas of emphasis over the near future. Be sure to include in your response the following:
  - a. Total assets or client relationships that will be accepted;
  - b. Maximum amount of clients or assets per portfolio manager;
  - c. Plans to develop and expand resources.
2. Indicate the details of any new investment services you plan to introduce.
3. Do you have any plans to cap or limit your growth in terms of total assets and total number of accounts? If so, please describe.

## **CYBERSECURITY**

1. What IT systems, data sets, and business processes are most vulnerable to cyber threats? Explain how the company protects itself against such threats. What cybersecurity controls and crisis management plans are in place?
2. Please describe the firm's third party exposure. Does the firm have a formal vendor risk management program? If so, please describe.

## **DISASTER RECOVERY**

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

## **ADDITIONAL INFORMATION**

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

# BlackRock

January 8, 2021

Re: BlackRock Compliance with Executive Order 13959 and Chinese Military Company Sanctions Implementation

To Whom It May Concern,

I hereby confirm on behalf of all BlackRock entities (collectively, "BlackRock") that may act as adviser or manager to funds or accounts that hold the securities and are subject to the EO that BlackRock is undertaking the necessary steps to implement the sanctions targeting Chinese Military Companies (CMC).

I confirm that the following actions are resulting in our compliance with the EO, specifically:

- (1) Commingled index vehicles, including collective investment funds, mutual funds and iShares ETFs, have placed trades to divest in conjunction with index deletions;
- (2) Actively managed exposures and commingled index vehicles, including collective investment funds, mutual funds and iShares ETFs where no index deletions have occurred, will continue to be divested in line with applicable deadlines;
- (3) BlackRock has coded our pre-trade compliance system to ensure that securities and related derivatives thereof subject to the EO are blocked from further purchase. The only securities purchases permitted at this time are to cover short positions, and these will not occur after January 8, 2021;
- (4) BlackRock is, and will continue to, actively monitor any subsequent developments associated with the EO and take necessary actions to come into compliance with those developments; and
- (5) BlackRock has been advised by external counsel that OFAC has asserted that U.S. persons may continue to invest in investment funds that hold CMC on or after January 11, 2021 as long as that fund is pursuing divestment from securities held of any CMC by November 11, 2021. This guidance also applies to securities of an entity with a name that exactly or closely matches the name of a CMC identified in the Annex to the EO and to the securities of any subsequently identified CMC companies and subsidiaries. In line with this interpretation, BlackRock will continue to divest during the relevant wind-down periods to ensure compliance with the EO, and relevant FAQs.

Please reach out to your BlackRock point of contact if you have any questions or concerns.

Yours faithfully



Name: Ashleigh Piatetsky  
Title: Global Head of Sanctions  
Company: BlackRock, Inc.

## RIO Legislative Update January 21, 2021

Bill No.	Description	Sponsor/Introducer
HB 1022	RIO Budget	Appropriations Committee

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0281-01000.pdf>

**HB 1022 contains the 2021-23 budget authority and continuing appropriation for RIO to administer the SIB investment program and TFFR retirement program which are special funds. RIO's 2021-23 budget request is \$6.49 million including a \$311,154 increase in the Governor's Budget primarily for 2% annual salary increases and higher benefit costs, \$73,123 to join the Governor's IT Unification plan and \$52,000 to partially reinstate our Contingency line plus \$309,225 in additional amendments primarily to add one FTE for a Public Information Officer (½ SIB and ½ TFFR) and \$73,000 to fully reinstate our Contingency line (to \$125,000).** RIO will also request an amendment to HB 1022 to rollover the remaining balance of the \$9 million one-time funding for the TFFR Pension Administration System (PAS) project into the 2021-23 biennium. RIO's first legislative committee hearing is scheduled for the morning of January 12<sup>th</sup>. SIB client assets under management have increased by over 33% from \$13.4 billion at 1/1/2019 to over \$17.9 billion at 11/30/2020.

**Status: Committee Hearing held 1/12/21**

HB 1037	Legacy Earnings Fund and Transfers	Legislative Management/Legacy Earnings Committee
---------	------------------------------------	--------------------------------------------------

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0111-02000.pdf>

**HB 1037 gives the SIB authority over the investment of a newly created "Legacy Earnings Fund" and requires all legacy fund earnings, which are constitutionally required to be transferred to the general fund at the end of each biennium, be immediately transferred into the new Legacy Earnings Fund.** This bill would go into effect for legacy fund earnings generated and transferred during the 2021-23 biennium. **The bill then spells out the amount available for appropriation out of this new fund as six percent (6%) of the five-year average value of legacy fund assets as determined by SIB.** Any amounts in the new legacy earnings fund in excess of this 6% amount are to be retained in the fund as a reserve balance for future use only if the amounts transferred from the legacy fund are insufficient to cover the calculated 6% of average value amount. Beginning with the 2023-25 biennium, the legislature will be able to appropriate out of the new legacy earnings fund an amount equal to the six percent amount calculated above or the balance of the fund, whichever is less.

**Status: Introduced.**

HB 1038	Legacy Fund Earnings Committee	Legislative Management
---------	--------------------------------	------------------------

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0178-01000.pdf>

**HB 1038 creates the legacy fund earnings committee to study the potential uses of legacy fund earnings, including the use of earnings to provide tax relief, provide for reinvestment of legacy fund earnings, fund research and technological advancements, promote economic growth and diversification, and promote workforce development and career and technical education. The committee may consider public input on the use of legacy fund earnings and review the operation of other funds, such as Norway's sovereign wealth fund. Legislative management shall report its findings and recommendations, together with any legislation required to implement those recommendations, to the sixty-eighth legislative assembly.**

**Status: Passed House 1/12/21**

**HB 1041 PERS Program**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0091-01000.pdf>

A BILL for an Act to amend and reenact subsection 2 of section 54-52-06, section 54-52.1-06, and subsection 2 of section 54-52.6-09 of the North Dakota Century Code, relating to public employees retirement system penalties for late payments or failures to follow required processes; and to provide a penalty.

**Status: Committee Hearing 1/7/21**

**HB 1114 Teacher Support Program Rep. Heinert and Owens, Senator Schaible**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0255-01000.pdf>

A BILL for an Act to amend and reenact sections 15.1-18.2-05 and 15.1-18.2-06 of the North Dakota Century Code, relating to the expansion of the teacher support program to provide mentoring to all first- and second-year teachers in the state; and to provide an appropriation.

**Status: Referred to House Appropriations Committee 1/14/21**

**HB 1138 Free Speech Rep. Kading, Becker, Lefor, D. Ruby, Schatz, and Schauer, Sen. Heitkamp, O. Larsen, Myrdal**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0454-01000.pdf>

A BILL for an Act to provide for a civil action against the state or a political subdivision for a state constitutional free speech violation.

**Status: Committee Hearing 1/20/21**

**HB 1140      Contingency Fee Arrangements Rep Klemin, Devlin, Roers Jones, Sen. Dwyer, Larson, Lee**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0612-01000.pdf>

A BILL for an Act to amend and reenact section 54-12-08.1 of the North Dakota Century Code, relating to contingent fee arrangements. This may be impactful to securities litigation agreements.

**Status: Referred to Judiciary Comm. 1/8/21**

**HB 1174      TFFR Program      Rep. Kempenich and Kreidt, Senator Klein**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0677-01000.pdf>

HB 1174 enacts the requirements of the Secure Act of 1999 which changed federal law relating to "required minimum distributions" (RMD's) in retirement plans. RMD's are minimum amounts that a retirement plan account owner must withdraw annually starting when the member reaches a certain age. The Secure Act changed that age. This bill was reviewed by plan actuaries who found no impact to the actuarial position of the fund, or material impact to liabilities or costs.

**Status: Committee Hearing 1/18/21**

**HB 1188      Certs for Special Education Teacher      Rep. Schreiber-Beck, D. Johnson, Sen. Oban**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0670-01000.pdf>

A BILL for an Act to create and enact a new section to chapter 15.1-32 of the North Dakota Century Code, relating to services provided by special education technicians; and to amend and reenact section 15.1-02-16 of the North Dakota Century Code, relating to a certificate of completion for special education technicians.

**Status: Committee Hearing 1/18/21**

**HB 1202      Land Board Investments      Reps. Kempenich, Brandenburg, Delzer, M. Ruby, Schatz, Tveit  
Senators Klein, Patten**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0252-01000.pdf>

**HB 1202 amends NDCC 21-10-06 and NDCC 15-01-02 relating to funds managed by the SIB and board of university and school lands.** "Investment authority over the permanent funds derived from the sale of any of the lands" including the "Common schools trust fund and other investments under the control of the board of university and school lands" are transferred to the SIB under HB 1202.

**Status: Committee Hearing 1/22/21**

**HB 1209      PERS Program      Rep. M. Ruby, Dockter, O'Brien, Schauer, Sen. Anderson, Dever**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0566-01000.pdf>

A BILL for an Act to amend and reenact section 54-52-02.9, 54-52-06, 54-52-06.5, and 54-52.6-09 of the North Dakota Century Code, relating to public employees retirement system employer and temporary employee contribution rates; and to provide an effective date.

**Status: Committee Hearing 1/21/21**

**HB 1211      Veterans' Funds      Rep. Magrum, Hoverson, Kasper, B. Koppelman, Louser, Schauer, Vetter, Sen. Meyer, Vedaa**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0690-02000.pdf>

A BILL for an Act to amend and reenact sections 37-14-03 and 37-14-14 of the North Dakota Century Code, relating to the veterans' aid fund and veterans' postwar trust fund; and to declare an emergency.

**Status: Committee Hearing 1/22/21**

**HB 1231      SIB Program      Rep. Satrom, K. Koppelman, Ostlie, Paulson, D. Ruby, Schauer, Vetter, Sen. Conley**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0127-01000.pdf>

A BILL for an Act to amend and reenact section 21-10-05 of the North Dakota Century Code, relating to duty of the investment director to consider investing locally. This may have implications for both the PERS and TFFR plans.

**Status: Committee Hearing 1/22/21**

**HB 1260      Wage Moratorium      Rep. Becker, Kasper, B. Koppelman, Rohr, Steiner Sen. Anderson, Heitkamp**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0598-05000.pdf>

A BILL for an Act to create and enact a new section to chapter 54-06 of the North Dakota Century Code, relating to a wage and salary moratorium on state or local officials and employees if certain temporary restrictions on businesses are imposed.

Status: Committee Hearing 1/20/21

HB 1274 Legacy Fund Fiscal Impacts Reps. Kempenich, B. Anderson, Longmuir, Pollert, Shatz  
Senators Erbele, Klein, Wardner

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0248-01000.pdf>

HB 1274 creates and enacts a new section to NDCC 21-10 relating to fiscal impact statements for any measure or policy affecting the legacy fund. The legacy and budget stabilization fund advisory board shall review any legislative measure, initiated or referred measure, or asset allocation and investment policy affecting the legacy fund. **If the advisory board determines the measure or policy will have a fiscal impact on the fund, the board shall request the state retirement and investment office to arrange for the preparation and submission of a fiscal impact statement to the advisory board before the measure or policy is acted upon.** The fiscal impact statement must be prepared by an independent consultant paid by the state retirement and investment office. The fiscal impact statement must include the estimated fiscal impact of the measure or policy for the next biennium and for the next ten biennia.

Status: Committee Hearing 1/18/21

HB 1275 Legacy Earnings & Transfers Reps. Boschee, P. Anderson, Buffalo, Dobervich, Ista, Mitskog  
Senators Heckaman, Hogan, Mathern, Oban

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0668-02000.pdf>

HB 1275 is similar to HB 1037 and gives the SIB authority over the investment of a new “Legacy Earnings Fund” and a new “Human Services and Public Health Stabilization Fund”, but also provides a distribution waterfall for the continuing appropriation of funds from the Legacy Earnings Fund including the “Arts and Culture Endowment Fund” and “Human Services and Public Health Stabilization Fund” among others.

HB1275 states the amount available for appropriation out of this new fund as seven percent (7%) of the five-year average value of legacy fund assets as determined by SIB (versus 6% for HB 1037). Any amounts in the new legacy earnings fund in excess of this 7% amount are to be retained in the fund as a reserve balance for future use only if the amounts transferred from the legacy fund are insufficient to cover the calculated 7% of average value amount. Beginning with the 2023-25 biennium, the legislature will be able to appropriate out of the new legacy earnings fund an amount equal to the six percent amount calculated above or the balance of the fund, whichever is less.

Status: Referred to Appropriations Committee 1/11/21

HB 1342 PERS Retirement Rep. Lefor, Dockter, Nathe, O'Brien Sen. Anderson, Dever,  
Wardner

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0202-05000.pdf>

A BILL for an Act to amend and reenact subsection 1 of section 54-52-02.9, subsection 2 of section 54-52-05, subsection 1 of section 54-52-06, subsection 6 of section 54-52.6-02, subsection 1 of section 54-52.6-09, and subsection 2 of section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the public employees retirement system defined benefit and defined contribution plans; to provide an appropriation; and to provide a statement of legislative intent.

**Status: Status: referred to Gov. & Veterans' Affairs Comm. 1/14/21**

**HB 1380 SIB/Legacy Fund Rep. Lefor, Bosch, Dockter, Headland, Howe, Nathe, Porter, M. Ruby, Steiner  
Sen. Patten, Sorvaag, Wardner**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0218-05000.pdf>

A BILL for an Act to create and enact a new section to chapter 6-09, a new section to chapter 6-09.4, a new section to chapter 15-20.1, a new section to chapter 21-10, a new section to chapter 50-06, two new sections to chapter 54-44, and a new section to chapter 54-59 of the North Dakota Century Code, relating to an economic diversification research fund, **a legacy sinking and interest fund**, a career and technical education support fund, **a legacy earnings fund**, a behavioral health support fund, **a legacy infrastructure project fund**, a state building maintenance and project fund, and an information technology cybersecurity fund; **to amend and reenact subsection 1 of section 21-10-06 and section 21-10-12 of the North Dakota Century Code, relating to funds invested by the state investment board and legacy fund definitions; to provide for a transfer; and to provide a report.**

**Status: referred to Appropriations Committee 1/18/21**

**HB 1425 SIB/Legacy Fund Rep. Nathe, D. Anderson, Bosch, Headland, Howe, Lefor, Mock, Porter  
Sen. Meyer, Bell, Wardner**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0415-06000.pdf>

A BILL for an Act to create and enact section 6-09-49.1 **and a new section to chapter 21-10 of the North Dakota Century Code, relating to the legacy infrastructure revolving loan fund and the state investment board; to amend and reenact sections 21-10-02 and 21-10-11 of the North Dakota Century Code, relating to the state investment board and the legacy and budget stabilization fund advisory board; and to provide a continuing appropriation.**

**Status: referred to Finance and Taxation Committee 1/18/21**



**HB 1446 SIB/Legacy Fund**

**Rep. Magrum, Ertelt, Kading, B. Koppelman, Simons, Toman**

**Sen. Clemens, Heitkamp.**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0069-04000.pdf>

A BILL for an Act to create and enact a **new section to chapter 21-10 and a new section to chapter 57-02 of the North Dakota Century Code, relating to the transfer of legacy fund earnings to a property tax relief fund and a property tax credit for property used as a primary residence**; to provide a continuing appropriation; to provide for a transfer; to provide an exemption; to provide an effective date; and to declare an emergency.

**Status: referred to Finance and Taxation Committee 1/18/21**

**HB 1475 SIB/Legacy Fund**

**Rep. Satrom, Haggert, Kempenich, Keifert, Mitskog, Ostlie**

**Sen. Conley, Wanzek**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0693-02000.pdf>

A BILL for an Act to create and enact a new section to chapter 4.1-01 and a **new section to chapter 21-10 of the North Dakota Century Code, relating to an agriculture innovation fund and a transfer of legacy fund earnings**; and to provide a continuing appropriation.

**Status: referred to Agriculture Committee 1/18/21**

**SB 2033 NEW Fund**

**Legislative Management**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0187-01000.pdf>

A BILL for an Act to create and enact a new chapter to title 15 of the North Dakota Century Code, relating to the university system capital building fund; to provide an appropriation; to provide for a transfer; and to declare an emergency.

**Status: Referred to Senate Education Committee.**

**SB 2042 PERS Retirement**

**Gov. & Veterans' Affairs Committee**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0089-01000.pdf>

A BILL for an Act to amend and reenact subsection 1 of section 54-52-02.9, subsection 1 of section 54-52-06, subsection 6 of section 54-52.6-02, and subsection 2 of section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the public employees retirement system defined benefit and defined contribution plans; and to provide a penalty.

**Status: Referred to Gov. & Veteran's Affairs Committee 1/5/21**

**SB 2043 Highway Patrolmen's Retirement Fund Gov. & Veteran's Affairs Committee**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0090-01000.pdf>

A BILL for an Act to amend and reenact section 39-03.1-10 of the North Dakota Century Code, relating to contributions to the highway patrolmen's retirement system by the state.

**Status: Committee Hearing 1/15/21**

**SB 2044 PERS Retirement Gov. & Veteran's Affairs Committee**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0092-01000.pdf>

A BILL for an Act to amend and reenact section 39-03.1-10, subsection 2 of section 39-03.1-11.2, subsection 8 of section 54-52-17, subsection 10 of section 54-52-26, subsection 2 of section 54-52-28, subsection 2 of section 54-52.1-03.2, subsection 1 of section 54-52.1-03.3, and subsection 2 of section 54-52.6-21 of the North Dakota Century Code, relating to public employees retirement system unpaid benefit payments, missing member confidentiality requirements, compliance with Internal Revenue Code distribution requirements, insurance programs for which retiree health insurance credit moneys may be used, and clarification of eligibility for retiree health insurance credit payments.

**Status: Passed Senate 1/15/21**

**SB 2045 PERS Retirement Gov. & Veteran's Affairs Committee**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0094-01000.pdf>

A BILL for an Act to create and enact a new section to chapter 54-52.2 of the North Dakota Century Code, relating to payment of administrative expenses for the public employees retirement system deferred compensation plan; and to provide a continuing appropriation.

**Status: Committee Hearing 1/15/21**

**SB 2046 PERS Retirement Gov. & Veteran's Affairs Committee**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0095-01000.pdf>

A BILL for an Act to amend and reenact subsection 1 of section 54-52-02.9, subsection 2 of section 54-52-05, subsection 1 of section 54-52-06, subsection 6 of section 54-52.6-02, and section 54-52.6-09 of the North Dakota Century Code, relating to increased employer and employee contributions under the public employees retirement system defined benefit and defined contribution plans; and to provide a penalty.

**Status: Committee Hearing 1/14/21**

## **PERS Health Care Related Bills**

**HB 1029      PERS Health Care      Legislative Management**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0170-01000.pdf>

A BILL for an Act to amend and reenact section 54-52.1-04.2 of the North Dakota Century Code, relating to public employee uniform group insurance for health benefits; to provide for application; and to declare an emergency.

**Status: Passed House 1/12/21**

**HB 1042      PERS Health Care      Gov. & Veterans Affairs Committee**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0093-01000.pdf>

A BILL for an Act to amend and reenact subsection 3 of section 54-52.1-04.16, relating to the public employees retirement system's uniform group insurance program part D contracts with pharmacy benefit managers.

**Status: Committee Hearing 1/7/21**

**HB 1147      PERS Health Care      Rep. Brandenburg, Dobervich, Mitskog Sen. Erbele, Oban, K. Roers**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0447-01000.pdf>

A BILL for an Act to create and enact section 54-52.1-04.19 of the North Dakota Century Code, relating to public employee fertility health benefits; to amend and reenact section 26.1-36.6-03 of the North Dakota Century Code, relating to self-insurance health plans; to provide for a report; to provide for application; to provide an expiration date; and to declare an emergency.

**Status: Referred to Industry, Business, and Labor Committee 1/8/21**

**HB 1155      PERS Health Care      Rep. Keiser, Sen. Oban**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0135-03000.pdf>

A Bill for an Act to amend and reenact section 54-52.1-02 of the North Dakota Century Code, relating to the public employees retirement system uniform group insurance program benefits; and to provide for application.

**Status: Committee Hearing 1/18/21**

**HB 1233      PERS Health Care      Rep. Kasper, Jones, Keiser, Lefor, Louser, Meier, Rohr, Schauer, Steiner**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0147-01000.pdf>

A BILL for an Act to provide for the public employees retirement system to contract for an audit of pharmacy benefit managers providing contract services for the state uniform group health insurance program; and to provide for a legislative management report.

**Status: referred to Gov. & Veterans' Affairs Comm. 1/11/21**

**HB 1245      PERS Health Care      Rep. Kasper, Dockter, Keiser, B. Koppelman, Lefor, Louser, Meier, Pollert, D. Ruby, Steiner Sen. Hogue**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0148-03000.pdf>

A BILL for an Act to amend and reenact sections 54-52.1-04, 54-52.1-04.1, 54-52.1-04.2, 54-52.1-04.7, 54-52.1-04.8, and 54-52.1-05 of the North Dakota Century Code, relating to public employee uniform group insurance plans; to provide for application; and to declare an emergency.

**Status: referred to Gov. & Veterans' Affairs Comm. 1/11/21**

**HB 1250      PERS Health Care      Rep. M. Nelson, Adams Sen. Mathern**

<https://www.legis.nd.gov/assembly/67-2021/documents/21-0068-01000.pdf>

A BILL for an Act to create and enact a new section to chapter 54-52.1 of the North Dakota Century Code, relating to public employee health insurance drug benefit coverage; to amend and reenact section 26.1-36.6-03 of the North Dakota Century Code, relating to self-insurance health plans; to require a report; to provide for application; to provide an expiration date; and to declare an emergency.

**Status: Committee Hearing 1/18/21**