

Friday, August 26, 2022, 8:30 a.m.
WSI Board Room (In-Person)
1600 E Century Ave, Bismarck, ND
[Click here to join the meeting](#)

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

- A. Executive Summary
- B. Welcome new Chief Financial Officer – Chief Operating Officer

II. ACCEPTANCE OF MINUTES (July 22, 2022)

III. BOARD EDUCATION (20 minutes)

- A. Portfolio Construction Part 2 – Fixed Income – Mr. Anderson

IV. GOVERNANCE (90 minutes)

- A. Governance & Policy Review Committee Update – Dr. Lech
- B. 1st Reading - Policy B-6 & Draft Charter for Executive Review Committee – Ms. Murtha
- C. 2023 Legislative Initiatives Discussion – Dr. Lech, Mr. Anderson, Ms. Murtha
- D. 2023 Budget/Fiscal Conditions Planning – Ms. Murtha, Ms. Kmetz

V. Quarterly Monitoring Reports (30 minutes)

- A. Annual Internal Audit Report – Ms. Sauter
- B. Quarterly Budget/Financial Report – Rachel Kmetz
- C. Executive Limitations/Staff Relations – Ms. Murtha

VI. OTHER (5 minutes)

Next Meetings:

Securities Litigation Committee – September 20, 2022
TFFR Board Meeting – September 22, 2022
State Investment Board – September 23, 2022

VII. ADJOURNMENT

EXECUTIVE SUMMARY

SIB Regular Meeting

August 26 2022 – 8:30am CT

- I. **Agenda:** The August Board Meeting will be held at the WSI Conference room to accommodate in person attendance, however, a link will also be provided so that Board members and other attendees may join via video conference. The board member video link is included in the email with the Board materials.
- We will begin the meeting by welcoming our new Chief Financial/Operating Officer.
- II. **Minutes (Board Action):** The July 22, 2022, Board meeting minutes are included for review and approval.
- III. **A. Board Education – Portfolio Construction Part 2 (Information Only):** Mr. Anderson will continue to provide education on the advantages implicit in portfolio construction with a focus on fixed income.
- IV. **A. Governance & Policy Review Committee Update (Information Only):** Dr. Lech will provide an overview of recommendations of the SIB-GPR committee related to additional Governance Manual amendments, agency organization and legislative initiatives.
- B. First Reading – Amendment to Policy B-6 and Draft Charter for the Executive Review Committee (Board Action):** Ms. Murtha will present the GPR committee's recommendation regarding changes to the Executive Review Committee for First Reading.
- C. 2023 Legislative Initiatives Discussion (Board Action):** Staff will present and GPR committee members will provide comments on the discussion regarding legislative initiatives for the investment program and agency.
- D. 2023 Budget/Fiscal Conditions Planning (Board Action):** Staff will present to the Board on the budget and decision packages submitted to OMB for the 2023 session. Staff will also request the Board's approval to expend money from the contingency funds granted for the current biennium.
- V. **A-C. Reports (Board Action):** Staff will provide monitoring reports for internal audit, budget/fiscal conditions, and executive limitations/staff relations.

Adjournment.

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JULY 22, 2022, BOARD MEETING (IN PERSON)**

MEMBERS PRESENT: Brent Sanford, Lt. Governor, Chair
Claire Ness, PERS Board, Parliamentarian
Thomas Beadle, State Treasurer
Glenn Bosch, Legacy/Budget Stab. Adv. Board Rep
Mike Burton, TFFR Alternate
Jon Godfread, Insurance Commissioner
Joseph Herringer, Commissioner of Univ & School Lands
Bryan Klipfel, Director of WSI
Cody Mickelson, TFFR Board
Adam Miller, PERS Board
Mel Olson, TFFR Board
Yvonne Smith, PERS Board

MEMBERS ABSENT: Dr. Rob Lech, TFFR Board, Vice Chair

STAFF PRESENT: Scott Anderson, CIO
Eric Chin, Deputy CIO
Missy Kopp, Exec Assistant
Rachel Kmetz, Accounting Mgr
Jan Murtha, Exec Dir
Ann Nagel, Investment Accountant
Matt Posch, Sr. Investment Officer
Sara Sauter, Internal Audit Supvr
Dottie Thorsen, Internal Auditor
Susan Walcker, Senior Financial Accountant
Dr. Paul White, Chief Risk Officer

GUESTS: Lauren Albanese, FIN News
Kevin Balaod, With Intelligence
Dean DePountis, Attorney General's Office
Paul Erlendson, Callan
Candace Johnson, Securities Commission
Scott Miller, PERS
Mike Nowatzki, Gov. Office
Colton Schulz, Insurance Department

CALL TO ORDER:

Lt. Gov. Sanford Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, July 22, 2022. The meeting was held in the Workforce Safety and Insurance Board Room, 1600 E Century Ave., Bismarck, ND.

The following members were present representing a quorum: Treasurer Beadle, Mr. Burton, Commissioner Godfread, Commissioner Heringer, Mr. Mickelson, Mr. Miller, Ms. Ness, Mr. Olson, Lt. Gov. Sanford, and Ms. Smith.

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the July 22, 2022, meeting.

IT WAS MOVED BY MR. OLSON AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA AS DISTRIBUTED.

AYES: COMMISSIONER HERINGER, TREASURER BEADLE, MR. MILLER, COMMISSIONER GODFREAD, MR. OLSON, MR. KLIPFEL, MR. MICKELSON, MS. NESS, MR. BURTON, MS. SMITH, AND LT. GOV. SANFORD

NAYS: NONE

ABSENT: MR. KLIPFEL AND DR. LECH

MOTION CARRIED

MINUTES:

The Board considered the minutes of the May 20, 2022, SIB meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO APPROVE THE MAY 20, 2022, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, COMMISSIONER HERINGER, MS. SMITH, MR. KLIPFEL, TREASURER BEADLE, MR. BURTON, COMMISSIONER GODFREAD, MR. OLSON, MS. NESS, MR. MILLER, AND LT. GOV. SANFORD

NAYS: NONE

ABSENT: MR. KLIPFEL AND DR. LECH

MOTION CARRIED

ELECTION OF OFFICERS & COMMITTEE APPOINTMENTS:

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO CAST A UNANIMOUS BALLOT WITH LT. GOV. SANFORD AS SIB CHAIR AND DR. LECH AS SIB VICE CHAIR

AYES: MR. OLSON, MS. NESS, COMMISSIONER HERINGER, MR. MICKELSON, COMMISSIONER GODFREAD, MS. SMITH, MR. MILLER, TREASURER BEADLE, MR. KLIPFEL, MR. BURTON, AND LT. GOV. SANFORD

NAYS: NONE

ABSENT: MR. KLIPFEL AND DR. LECH

MOTION CARRIED

Lt. Gov. Sanford appointed Ms. Ness as the Parliamentarian.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO CAST A UNANIMOUS BALLOT WITH MS. SMITH, TREASURER BEADLE, AND MR. MICKELSON AS AUDIT COMMITTEE MEMBERS.

AYES: TREASURER BEADLE, MR. MICKELSON, COMMISSIONER GODFREAD, COMMISSIONER HERINGER, MS. SMITH, MR. BURTON, MR. MILLER, MS. NESS, MR. OLSON, AND LT. GOV. SANFORD

NAYS: NONE

ABSENT: MR. KLIPFEL AND DR. LECH

MOTION CARRIED

Lt. Gov. Sanford appointed Commissioner Heringer, Mr. Klipfel, Mr. DePountis, Ms. Murtha, and Mr. Anderson to the SIB Securities Litigation Committee.

Lt. Gov. Sanford appointed Treasurer Beadle, Dr. Lech, and Mr. Miller to the SIB Executive Review Committee.

IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO CAST A UNANIMOUS BALLOT WITH DR. LECH, COMMISSIONER GODFREAD, AND TREASURER BEADLE AS GOVERNANCE AND POLICY REVIEW COMMITTEE MEMBERS.

AYES: MS. SMITH, MR. MILLER, MR. OLSON, MR. MICKELSON, MR. BURTON, MS. NESS, COMMISSIONER GODFREAD, COMMISSIONER HERINGER, TREASURER BEADLE, AND LT. GOV. SANFORD

NAYS: NONE

ABSENT: MR. KLIPFEL AND DR. LECH

MOTION CARRIED

BOARD EDUCATION:

Portfolio Construction:

Mr. Anderson provided education on portfolio construction. Portfolio construction is the combination of sub-asset allocation, manager selection, and manager allocation in a portfolio. Good portfolio construction enables an optimal amount of active return for a required active risk at a reasonable cost.

INVESTMENTS:

Investment Program Initiatives Update:

Mr. Chin provided an update on investment program initiatives. At the May 20, 2022, meeting the SIB approved a change to the equity portfolio. Staff have compared the products offered by State Street and Northern Trust. Staff selected Northern Trust to manage U.S. passive equity strategies and SSGA to manage international passive equity strategies. Staff are amending existing contracts to facilitate onboarding of new passive products. Next steps will include working with a transition manager to facilitate reallocation and minimize costs. Staff will begin building a portfolio of equity managers that optimizes active return and risk targeting 200 bps of tracking error and 100 bps of excess return. Staff are looking to engage a third-party firm to help conduct an independent valuation of the timber holdings. This project will help the Board determine the next steps for the timber holdings.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. MICKELSON AND CARRIED BY A ROLL CALL VOTE TO APPROVE STAFF TO ENGAGE THE SERVICES OF A THIRD-PARTY TIMBERLAND VALUATION FIRM.

AYES: TREASURER BEADLE, MS. NESS, MR. OLSON, COMMISSIONER HERINGER, MR. BURTON, MR. MILLER, COMMISSIONER GODFREAD, MR. MICKELSON, MS. SMITH, MR. KLIPFEL, AND LT. GOV. SANFORD

NAYS: NONE

ABSENT: DR. LECH

MOTION CARRIED

GOVERNANCE:

2nd Reading – Governance & Policy Review (GPR) Committee Recommendations:

Ms. Murtha reviewed the policies and charter for 2nd reading and final adoption. There are minor changes needed in the charter including correcting the title and some punctuation.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO APPROVE POLICIES B-6 AND E-10, AND THE INVESTMENT COMMITTEE CHARTER WITH DISCUSSED CHANGES FOR 2ND READING AND FINAL ADOPTION.

AYES: MR. KLIPFEL, MR. OLSON, COMMISSIONER GODFREAD, TREASURER BEADLE, COMMISSIONER HERINGER, MS. NESS, MR. BURTON, MR. MILLER, MS. SMITH, MR. MICKELSON, AND LT. GOV. SANFORD
NAYS: NONE
ABSENT: DR. LECH
MOTION CARRIED

Lt. Gov. Sanford appointed Treasurer Beadle, Commissioner Heringer, Mr. Anderson, and Mr. Chin to the SIB Investment Committee.

Legacy & Budget Stabilization Fund Advisory Board (LBSFAB) Update:

Mr. Anderson provided an update from the June 30, 2022, LBSFAB meeting. Representatives from RVK provided a presentation on the asset allocation study of the Legacy Fund and the development of policies and guidelines for an in-state equity investment program. A representative from 50 South Capital provided an update of the in-state investment program. Staff provided a presentation regarding the asset allocation, basis points charged by investment advisors, fund balances, and investment returns of the Legacy and Budget Stabilization Funds. The LBSFAB discussed legislation related to the asset allocation plan for the Legacy Fund.

SIB Calendar & Program Plan:

Ms. Murtha reviewed the proposed 2022-23 SIB Calendar and Program Plan.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. KLIPFEL AND CARRIED BY A VOICE VOTE TO ACCEPT THE SIB CALENDAR AND PROGRAM PLAN FOR 2022-23.

AYES: MR. KLIPFEL, COMMISSIONER GODFREAD, MR. OLSON, MR. MILLER, TREASURER BEADLE, MR. MICKELSON, MS. SMITH, COMMISSIONER HERINGER, MR. BURTON, MS. NESS, AND LT. GOV. SANFORD
NAYS: NONE
ABSENT: DR. LECH
MOTION CARRIED

QUARTERLY MONITORING REPORTS:

Investment Ends:

Mr. Chin presented the Investment Ends report for the quarter ending June 30, 2022. During the quarter staff presented to the board on harmonization of strategies across pools and clients within the public entity sleeve. A review of the fixed income allocation has begun and will be presented to the Board. An evaluation of index provider took place including a review of fees, performance, and other capabilities. Staff selected Northern Trust for the domestic components and State Street for the international components. Staff began a review of the timber allocation and a private markets pacing model analysis. The job postings for the additional investment team positions were posted and interviews are underway.

Investment Manager Catalog:

The SIB Investment Manager Catalog was provided for review and acceptance.

TFFR Ends:

The TFFR Ends Report for the quarter ending March 31, 2022, was provided for review and acceptance.

Executive Limitations/Staff Relations:

Ms. Murtha provided an update on staffing, current projects, and staff presentations to boards and committees. The new DED/CRO and Accounting Manager have started and the offer for the CFO/COO position was accepted by Ryan Skor who will start on August 22, 2022. The Legal Intern position was filled for the summer. The interviews for the open investment positions have begun. The PAS project will be called the Pioneer Project, a name that was chosen by the staff. State email accounts have been created for all Board and Committee members that are not state employees. RIO administrative staff will work with members to get their new email set up.

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE INVESTMENT ENDS, INVESTMENT MANAGER CATALOG, TFFR ENDS, AND EXECUTIVE LIMITATION/STAFF RELATIONS REPORTS.

AYES: MR. BURTON, TREASURER BEADLE, MR. OLSON, COMMISSIONER HERINGER, MS. NESS, MR. MILLER, COMMISSIONER GODFREAD, MR. MICKELSON, MS. SMITH, MR. KLIPFEL, AND LT. GOV. SANFORD

NAYS: NONE

ABSENT: DR. LECH

MOTION CARRIED

ADJOURNMENT:

With no further business to come before the SIB, Lt. Gov. Sanford adjourned the meeting at 10:28 a.m.

Prepared by:

Missy Kopp, Assistant to the Board



PORTFOLIO CONSTRUCTION II: FIXED INCOME

Scott M Anderson, CFA
August 26, 2022

NORTH
Dakota
Be Legendary.

Retirement & Investment

PORTFOLIO REVIEW

ACROSS CLIENT FUNDS, ASSET CLASSES, SUB-ASSET CLASSES AND MANAGERS

ASSET ALLOCATION

- WHAT ARE THE FUNDS' PURPOSES?
- WHAT ARE THE RISK AND RETURN OBJECTIVES?
- WHAT BENCHMARKS WERE USED IN DEVELOPING THE ASSET ALLOCATIONS?

POLICY STATEMENT/ GUIDELINES

- WHAT ARE THE PORTFOLIO EXPECTATIONS?
- WHAT ARE THE RISK CONTROL CONSTRAINTS?
- WHAT ARE THE PORTFOLIO COMPOSITION CONSTRAINTS?

BENCHMARKS

- WHAT BENCHMARKS ARE BEING USED?
- WHAT ARE THE BENCHMARK WEIGHTS?
- WHAT ARE THE REBALANCING RULES?

MANAGER SELECTION

- WHAT ARE THE MANAGERS' BENCHMARK?
- WHAT ARE THE MANAGERS' INVESTMENT PHILOSOPHIES?
- WHAT ARE RISK CHARACTERISTICS OF THE INVESTMENT MANAGERS' STYLE OF INVESTING?
- HOW DO THE MANAGERS PERFORM IN A RANGE OF RISK ENVIRONMENTS?

PHASE

ACTIVITIES

1.0

SUB-ASSET STRUCTURE

- INDEXING FOR LIQUIDITY, TRACKING ERROR CONTROL, AND REBALANCING
- CONSISTENT SUB-ASSET ALLOCATIONS AND ASSET ALLOCATION POOLS ACROSS FUNDS BASED ON MARKET REPRESENTATIVE UNIVERSES AND BENCHMARKS
- MANGER'S MANDATES RISK ALIGNED TO ASSET ALLOCATION AND TO MANAGE RISK

2.0

SUB-ASSET OPTIMIZATION

- FIND OPTIMAL POOL OF MANAGERS FOR SUB-ASSET ACTIVE RETURN AND RISK GOALS
- CONSTRUCT OPTIMAL WEIGHTING OF MANAGER MANDATES

3.0

ADVANCED FUNDS MANAGEMENT

- OFFSET SUB-ASSET EXPOSURES TO OPTIMIZE ACTIVE RETURN/RISK
- MANAGE LIQUIDITY, REBALANCING AND EXPOSURES WITH INDEX FUNDS

MARKET CAPITALIZATION VIEW VERSUS RISK VIEW

ILLUSTRATION

ASSET CLASS	ASSET RISK	POLICY ALLOCATION			POLICY IMPLEMENTATION	
		POLICY ALLOCATION	RISK CONTRIBUTION	% OF RISK	RISK CONTRIBUTION	% OF RISK
EQUITY	19%	45%	6.9%	58.0%	7.2%	60.0%
FIXED INCOME	6%	26%	0.7%	6.0%	0.6%	5.0%
PRIVATE EQUITY	28%	10%	2.5%	21%	2.5%	21.0%
REAL ESTATE	14%	9%	0.8%	7.0%	0.7%	6.0%
OTHER REAL ASSETS	15%	9%	1.0%	8.0%	1.0%	8.0%
CASH	1%	1%	0.0%	0.0%	0.0%	0.0%
TOTAL		100%	11.9%	100.0%	12.0%	100.0%

PROVIDES LIQUIDITY

- REGULAR AND PREDICTABLE CASHFLOW FROM COUPONS
- TRANSPARENT AND DERIVABLE PRICES FROM TERMS, CONDITIONS AND MARKET VARIABLES ENABLES LIQUID MARKETS FOR RATES AND MANY PUBLIC SECURITIES
- TREASURY RELATED SECURITIES HAVE A LARGE LIQUID MARKETS FOR BOTH THE PHYSICAL AND DERIVATIVE SECURITIES

MORE CERTAIN RETURN

- TRANSPARENT AND DERIVABLE PRICES FROM TERMS, CONDITIONS AND MARKET VARIABLES
- MUCH LOWER VOLATILITY THAN EQUITY RELATED SECURITIES

DOWNSIDE PROTECTION

- LOW TO NEGATIVE PRICE VARIATION WITH EQUITIES CREATES RETURN STABILITY WHEN EQUITY MARKETS ARE VOLATILE AND HAVE NEGATIVE RETURNS
- AVAILABLE, LIQUID FUNDS FROM TREASURY SECURITIES WHEN EQUITY RETURNS ARE NEGATIVE

CREDIT ADDS RETURN BUT ALSO ADDS RISKS (RISK OF DEFAULT)

CREDIT RISK

- VARIES WITH EQUITY RETURNS INCREASING REDUCING DOWNSIDE PROTECTION
- ADDS A PROBABILITY OF DEFAULT AND POTENTIAL LOSS OF PRINCIPAL

LIQUIDITY RISK

- PUBLIC MARKETS NOT AS LIQUID AS TREASURY MARKETS
- PRIVATE MARKETS MUCH LESS LIQUID

LESS CERTAIN RETURN

- HIGHER VOLATILITY AND MORE CO-MOVEMENT OF RETURNS WITH EQUITIES MAKE RETURNS LESS CERTAIN AND LOWER WHEN EQUITY RETURNS ARE LOW
- FUNDS LESS LIQUID DURING MARKET DISRUPTIONS

ALLOCATION VIEW VERSUS IMPLEMENTATION VIEW OF RISK

ILLUSTRATION

FIXED INCOME PORTFOLIO RISK

ASSET CLASS	ASSET RISK	POLICY ALLOCATION			IMPLEMENTATION	POLICY IMPLEMENTATION	
		POLICY ALLOCATION	RISK CONTRIBUTION	% OF RISK		RISK CONTRIBUTION	% OF RISK
INVESTMENT GRADE FI	4%	18.0%	1.70%	41.0%	12.0%	1.25%	27.0%
LONG TREASURIES	11%				2.0%	0.30%	7.0%
SHORT CREDIT	2%				2.0%	0.40%	8.0%
HIGH YIELD	10%	8.0%	2.40%	69.0%	4.0%	1.10%	25.0%
LEVERERD BANK LOANS	10%				4.0%	0.75%	17.0%
DISTRESSED DEBT	15%				2.0%	0.70%	16.0%
TOTAL		26.0%	4.10%	100.0%	26.0%	4.50%	100.0%

HIGHER RETURN/MORE DIVERSITY AND HIGHER UNCERTAINTY
FROM MORE EQUITY CORRELATED RISK, LESS LIQUIDITY

ALLOCATION VIEW VERSUS IMPLEMENTATION
VIEW OF RISK

NORTH
Dakota

Be Legendary.™

FIXED INCOME PORTFOLIO CHARACTERISTICS VERSUS BENCHMARK

	% YIELD CURVE MATURITY PLACEMENT				
	LOW	MEDIUM	HIGH	CREDIT RISK	LIQUIDITY
PORTFOLIO	12%	35%	53%	1.75%	LESS
BENCHMARK	16%	44%	40%	1.00%	
NET ACTIVE	-4%	-9%	13%	0.75%	LESS

THE PORTFOLIO HAS MORE
RISK THAN THE BENCHMARK

EARLY THOUGHTS REQUIRING MORE QUANTIFICATION

- GENERALLY, THERE IS A GOOD GROUP OF MANAGERS THAT DOES NOT REQUIRE CHANGING BECAUSE OF PERFORMANCE
- THE BARBELL OF LONG TREASURIES AND SHORT CREDIT IS A VIEW NOT SUPPORTED BY CURRENT ANALYSIS AND MAY BE BETTER IMPLEMENTED WITH A GOVERNMENT/CREDIT INDEX MANDATE
- THE GOVERNMENT/CREDIT MANDATE AS A REPLACEMENT FOR THE LONG TREASURY/SHORT CREDIT CAN HAVE A SIMILAR YIELD CURVE PLACEMENT PROFILE AS THE BLOOMBERG AGGREGATE AND MAY BE A BETTER CHOICE FOR LIQUIDITY AND REBALANCING. MANAGERS COULD MAKE PROPRIETARY DECISIONS REGARDING YIELD CURVE PLACEMENT
- A GOVERNMENT/CREDIT MANDATE SEPARATED INTO GOV AND CREDIT IS GOOD FOR REBALANCING FIXED INCOME - MAINTAINING DURATION PROFILES, REBALANCING A CD MATCH PROGRAM AND CONTROLLING ACTIVE RISK
- THE BLOOMBERG AGGREGATE IS A GOOD MARKET REPRESENTATION OF THE INVESTMENT GRADE FIXED INCOME MARKET
- THE SHORT-TERM LIQUIDITY PORTFOLIOS SHOULD BE VETTED FOR ALLOCATION, SUB-ASSET ALLOCATION AND MANAGER SELECTION.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: August 22, 2022
RE: GPR Committee Update

I. Introduction:

At its meeting on July 27, 2022 the GPR committee met and discussed: 1) proposed policy amendment changes; 2) recommendations for appointments to the newly formed investment committee; and 3) several governance issues or initiatives the SIB may wish to consider or take a position on in the upcoming legislative session. Dr. Lech and the other committee members will be present at the SIB meeting to provide additional information regarding these discussions. The remaining items under the Governance section of the SIB agenda result from the GPR committee recommendations.

II. Executive Review Committee Scope

The GPR committee recommends expanding the scope of the Executive Review Committee to an Executive Review and Compensation committee. A proposed amendment and proposed charter is included under agenda item IV.B. for your review and discussion.

III. Legislative Initiatives

The GPR committee recommends the SIB discuss and support legislative initiatives relating to talent management, asset management, and board composition in the upcoming legislative session. Staff will present information on the possible scope of these initiatives under agenda item IV.C.

IV. Investment Committee

At the SIB July meeting of the Board, the Chair appointed 4 of the 6 committee members and deferred recommendations for the two external investment professionals until the SIB GPR committee developed a list of candidates eligible for appointment at the preference of and for consideration by the Board Chair. The GPR committee met and provided recommendations to the Board Chair. The Board Chair appointed: Prodosh Simlai - Professor of and Chair of Department of Economics and Finance at UND; and Ruilin Tian - Professor of Risk Management and Insurance at NDSU. The first meeting of the Investment Committee will be scheduled for a date subsequent to the September SIB meeting.

BOARD ACTION: Information Only.

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 and Compensation Committee
4. Governance and Policy Review Committee
5. Investment Committee

- A. The Audit Committee, Securities Litigation Committee, Executive Review and Compensation Committee, the Governance and Policy Review Committee, and the Investment 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 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 *and Compensation* Committee

An Executive Review *and Compensation* Committee (ERCC) has been established as a standing committee of the SIB. The ~~ERC-ERCC~~ 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*”. The ERCC will also assist the SIB in developing compensation goals and strategies for the agency as a whole that are in alignment with the strategic plan of the agency. The Chief Financial Officer- Chief Operating Officer (CFO-COO) will be responsible for the preparation of all committee materials with the exception of internal survey and audit materials. 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 and Chief Investment Officer with the SIB, SIB clients, and RIO team members, and Executive Director and Deputy Executive Director- Chief Retirement Officer with the TFFR Board, TFFR stakeholders, and RIO team members.

The ERCC will conduct a formal evaluation of the Executive Director, and survey's regarding the performance of the Chief Investment Officer, and Deputy Executive Director – Chief Retirement Officer during the first half of every calendar year. This formal evaluation by the ERCC will serve as the basis for an annual compensation recommendation for the Executive Director only to be reviewed and approved by the SIB on or before June 30th each year. The survey results for all three positions will be reported to both the SIB and TFFR Board. Internal audit will also assist the SIB and ERC in administering the annual board self-assessment process.

POLICY TITLE: *STANDING COMMITTEES*

POLICY OF THE STATE INVESTMENT BOARD – Executive Review and Compensation Committee

The ERCC is authorized to:

- Conduct a formal evaluation of the Executive Director annually;
- Obtain SIB approval of the annual performance evaluation of the Executive Director;
- Obtain performance survey's of the Chief Investment Officer and Deputy Executive Director- Chief Retirement Officer;
- Make a compensation recommendation for the Executive Director to the SIB on or before June 30th of each year; ~~and~~
- Administer a formal self-assessment of the SIB periodically (unless instructed otherwise);
- Review and make recommendations regarding RIO's compensation policy to ensure RIO can recruit and retain superior talent to satisfy the core mission and strategic plan of the agency; and
- Conduct or procure a new peer compensation study or survey at least every three years to assess the current level of RIO staff compensation and recommend policy changes to address target salary ranges as appropriate.

The ERCC 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.

INTRODUCTION – Governance & Policy Review

A Governance and Policy Review Committee has been established as a standing committee of the SIB. The Governance and Policy Review Committee will assist the SIB in fulfilling its fiduciary oversight responsibilities to fulfill its responsibilities regarding matters that relate to governing the SIB, policies, and identifying and making recommendations to the SIB.

The Governance and Policy Review Committee will be responsible for reviewing the governance manual, recommending policy changes, and when directed by the board review governance specific concerns, and make recommendations for improvement.

POLICY OF THE STATE INVESTMENT BOARD – Governance & Policy Review Committee

The Governance & Policy Review Committee is authorized to:

- Review and recommend policies for the governance manual.
- Ensure the governance manual reflects best practices and good governance.
- As directed by the board, review specific governance concerns, and make recommendations for improvement.

- Request RIO staff for specific topic training or education

INTRODUCTION – Investment Committee

The Investment Committee (the “Committee”) is created to provide oversight of SIB investments within the parameters established by the SIB. Oversight will include an analysis of risk and return at the portfolio, asset class, and client fund levels. Additionally, the Committee will provide input to the Board on asset allocation and benchmark recommendations.

In general, the Committee will focus on various policies and procedures of the agency to ensure they are consistent with industry standards and that they continue to keep pace with prudent investment theory and practice.

The Committee will review decisions made about deviations from established benchmarks and allocation of investments among internal management (if approved) and external management, including decisions about passive, active and quantitative styles.

POLICY OF THE STATE INVESTMENT BOARD – Investment Committee

The Investment Committee is authorized to:

- propose to the SIB changes to its Investment Policy including delegation of investment authority to RIO investment staff;
 - approve the SIB Investment Committee Investment Guidelines (IC Guidelines);
 - approve the general strategies for each investment division; and
 - approve new investment instruments.
-

Executive Review and Compensation Committee Charter

I. PURPOSE

The Executive Review and Compensation Committee (“ERCC”) will assist the State Investment Board (SIB) to fulfill its responsibilities regarding matters that relate to “monitoring executive performance (which) is synonymous with monitoring organizational performance against board policies on *Ends* and *Executive Limitations*”. The ERCC will also assist the SIB in developing compensation goals and strategies for the agency as a whole that are in alignment with the strategic plan of the agency.

II. KEY RESPONSIBILITIES

The ERCC shall perform all duties as requested or required by the SIB. Specifically:

1. Conduct a formal evaluation of the Executive Director annually prior to June 30th of each year;
2. Obtain SIB approval of the annual performance evaluation of the Executive Director prior to June 30th of each year;
3. Obtain performance surveys of the Chief Investment Officer and Deputy Executive Director- Chief Retirement Officer prior to June 30th of each;
4. Make a compensation recommendation for the Executive Director to the SIB on or before June 30th of each year;
5. Administer a formal self-assessment of the SIB periodically (unless instructed otherwise);
6. Review and make recommendations regarding RIO’s compensation policy to ensure RIO can recruit and retain superior talent to satisfy the core mission and strategic plan of the agency; and
7. Conduct or procure a new peer compensation study or survey at least every three years to assess the current level of RIO staff compensation and recommend policy changes to address target salary ranges as appropriate.

The ERCC will conduct a formal evaluation of the Executive Director, and performance survey’s regarding the performance of the Chief Investment Officer, and Deputy Executive Director – Chief Retirement Officer during the first half of every calendar year. This formal evaluation by the ERCC will serve as the basis for an annual compensation recommendation for the Executive Director only to be reviewed and approved by the SIB on or before June 30th each year. The survey results for all three positions will be reported to both the SIB and TFFR Board.

III. GOVERNANCE COMMITTEE COMPOSITION AND TERM LIMITS

The ERCC shall be composed of at least three SIB members as appointed by the SIB Chair at the first SIB meeting in July of each year or when a vacancy arises. This is a standing committee with no term limits. At least one committee member must be an elected or appointed official.

The Chief Financial Officer- Chief Operating Officer (CFO-COO) will be responsible for the preparation of all committee materials with the exception of internal survey and audit materials. 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 assist the ERC in completing annual surveys of the Executive Director and Chief Investment Officer with the SIB, SIB clients, and RIO team members, and Executive Director and Deputy Executive Director- Chief Retirement Officer with the TFFR Board, TFFR stakeholders, and RIO team members. Internal audit will also assist the SIB and ERC in administering the annual board self-assessment process.

IV. MEETINGS

The ERCC must meet at least twice in the second half of the fiscal year, and hold additional meetings as needed, to fulfill its responsibilities as described in this Committee Charter and as called by the Committee Chair. At its first meeting after July the Committee will elect a Committee Chair and Vice-Chair.

V. AUTHORIZATION AND LIMITATIONS OF POWER

The ERCC is established by the SIB governance manual and has no power or authority to act on behalf of the full board. The ERCC will abide by the provisions in the governance manual that pertain to the meetings and actions of the Board.



2023 LEGISLATIVE INITIATIVES

Scott M Anderson, CFA

Jan Murtha, JD, MPAP

August 22, 2022



Retirement & Investment

OVERVIEW

I. RIO Strategic Plan Implementation

- Pursuit of Core Priorities

II. SIB Discussion

- Opportunities to achieve greater benefits with Scale.
- Board Composition

III. RIO Agency Initiatives

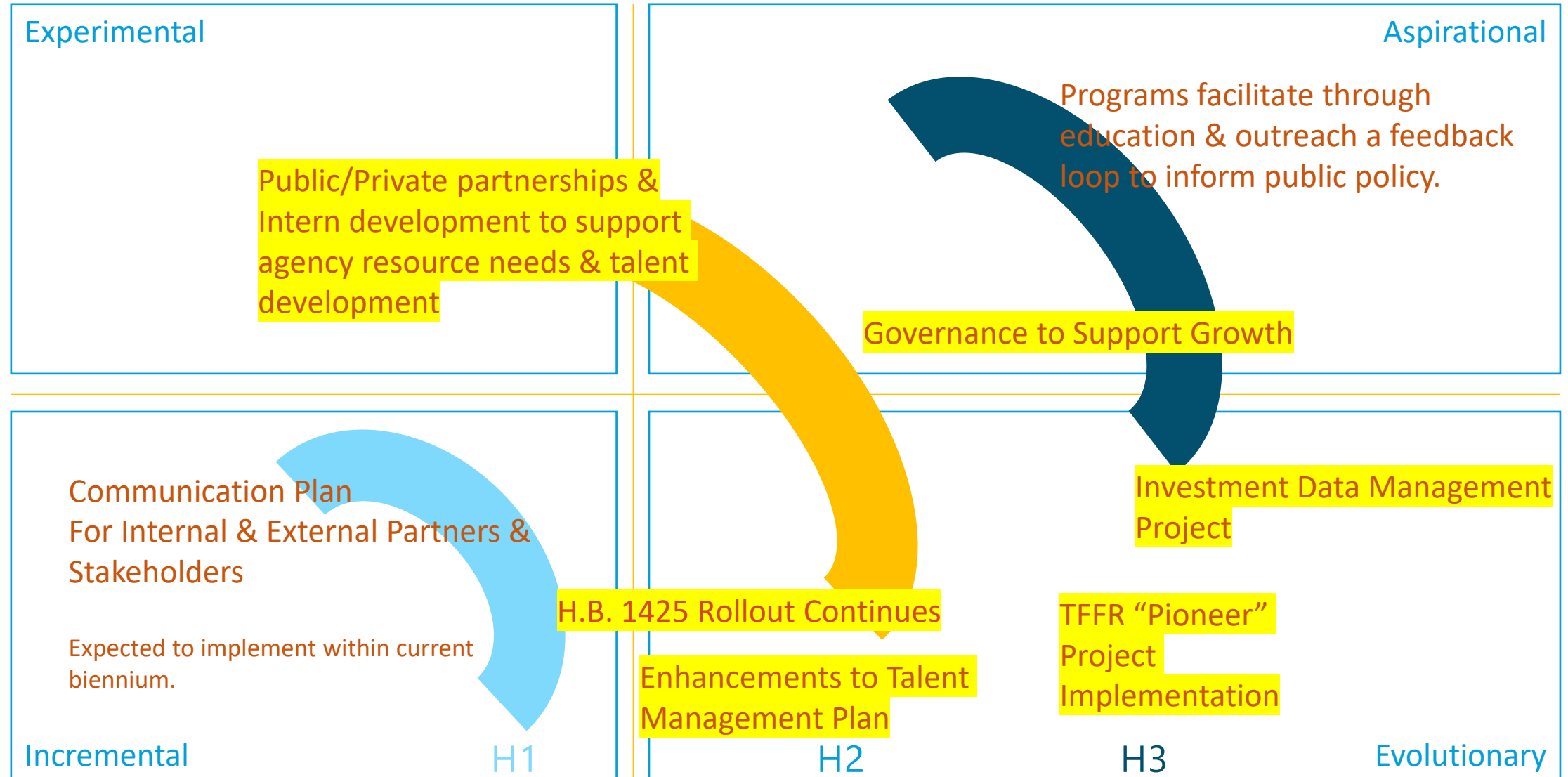
- Talent Management
- TFFR "Pioneer" Project"
- Workforce needs to support Organizational Culture

Retirement and Investments Core Priorities

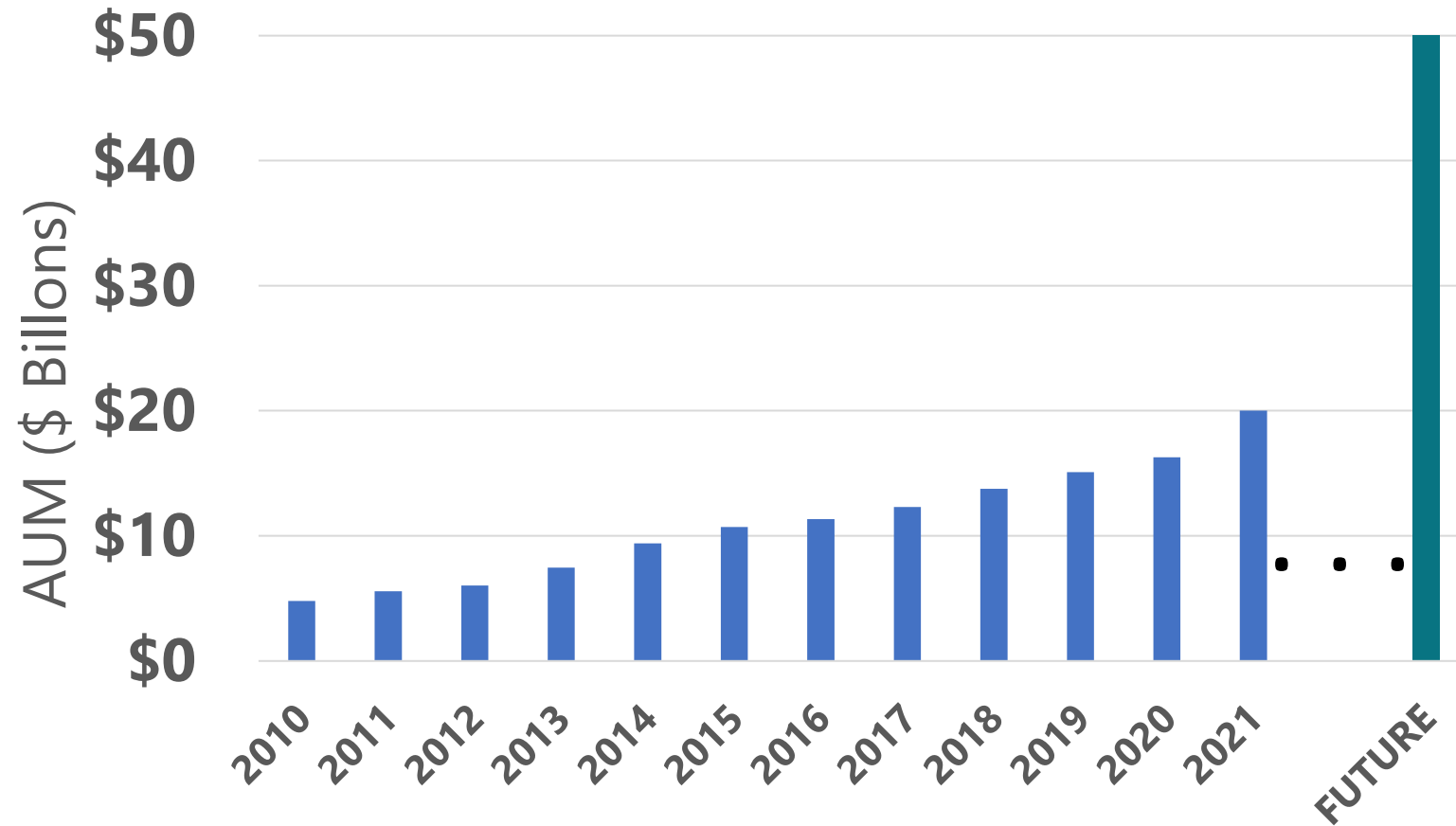


2022 RIO Strategic Plan Presentation

Horizon-Based Transformation

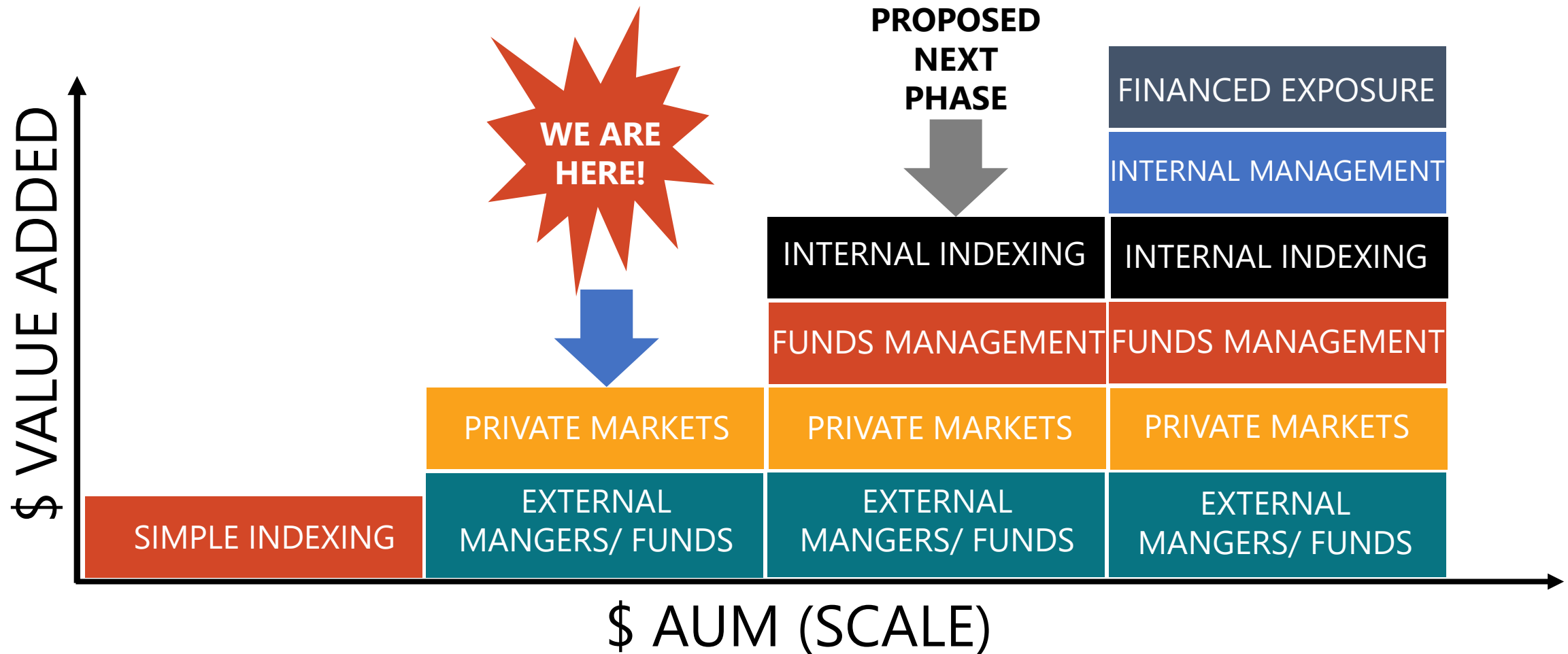


ASSETS UNDER MANAGEMENT GROWTH



+320%

OPPORTUNITY



NECESSARY CAPABILITIES FOR SUCCESS

GOVERNANCE

A GOVERNANCE HIERARCHY INCLUDING A STAFF RUN INVESTMENT COMMITTEE WITH SOME DELEGATION AS WELL AS BOARD LEVEL INVESTMENT EXPERTISE

TALENT MANAGEMENT

SPECIFIC INVESTMENT ROLE RECOGNITION AS WELL AS A TOTAL REWARDS PACKAGE THAT IS COMPETITIVE WITH SIMILAR INVESTMENT ORGANIZATIONS

OPERATIONS

APPROPRIATE STAFFING AND SKILLS OR OUTSOURCING OF CRITICAL INVESTMENT ACCOUNTING, TRANSACTION PROCESSING, AND ENTERPRISE RISK CAPABILITIES

DATA AND TECHNOLOGY INFRASTRUCTURE

HIGH FREQUENCY AND HIGH-QUALITY DATA AS WELL AS INFRASTRUCTURE TO SUPPORT DATA THROUGHPUT AND PROCESSING SPEEDS

RESEARCH AND KNOWLEDGE MANAGEMENT

A CULTURE OF RESEARCH, LEARNING, CREATIVITY AND KNOWLEDGE MANAGEMENT SUPPORTED BY EXPECTATIONS, RESOURCES, AND RECOGNITION

ACTIVITIES TO ENABLE CAPABILITIES YTD

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GOVERNANCE

GOVERNANCE COMMITTEE/INVESTMENT COMMITTEE FORMATION, COMPENSATION ROLE OF EXECUTIVE REVIEW COMMITTEE, AUDIT CONSULTANT, RISK MANAGEMENT PROGRAM

TALENT MANAGEMENT

HIRE FOUR NEW ROLES, DEVELOP TALENT MANAGEMENT PLAN, IDENTIFY POTENTIAL ORGANIZATION STRUCTURES

OPERATIONS

ALLOCATION/UNITIZATION, CONSOLIDATE POOLED ALLOCATIONS /SUB-ASSET ALLOCATIONS, INCREASED COLLABORATION ACROSS OPERATIONS AND INVESTMENTS, STRUCTURE SUB-ASSET FUNDS FOR MORE ADVANCED FUNDS MANAGEMENT/INTERNAL MANAGEMENT

DATA AND TECHNOLOGY INFRASTRUCTURE

IMPLEMENT RISK SYSTEM, NORTHERN TRUST – ALLOCATION /UNITIZATION, VENN, PERFORMANCE, PRIVATE MARKET DATA

RESEARCH AND KNOWLEDGE MANAGEMENT

COMPREHENSIVE PORTFOLIO REVIEW AND TALENT MANAGEMENT WILL LEAD TO DEVELOPMENT OF METHODOLOGY, RESEARCH AND KNOWLEDGE MANAGEMENT AGENDA

LEGISLATIVE ACTIVITIES

SCALE

Decision for: SIB,
Client Funds, Legislature

LAND TRUST MANAGED BY RETIREMENT AND INVESTMENT OFFICE (ACCELERATES BENEFIT REALIZATION); LEGACY FUND INSTATE INVESTMENT PROPOSALS (ENDOWMENT STRUCTURE ENABLES MORE EFFICIENT AND SCALABLE RETURNS ACROSS ALL CLIENT FUNDS)

GOVERNANCE

Decision for Legislature

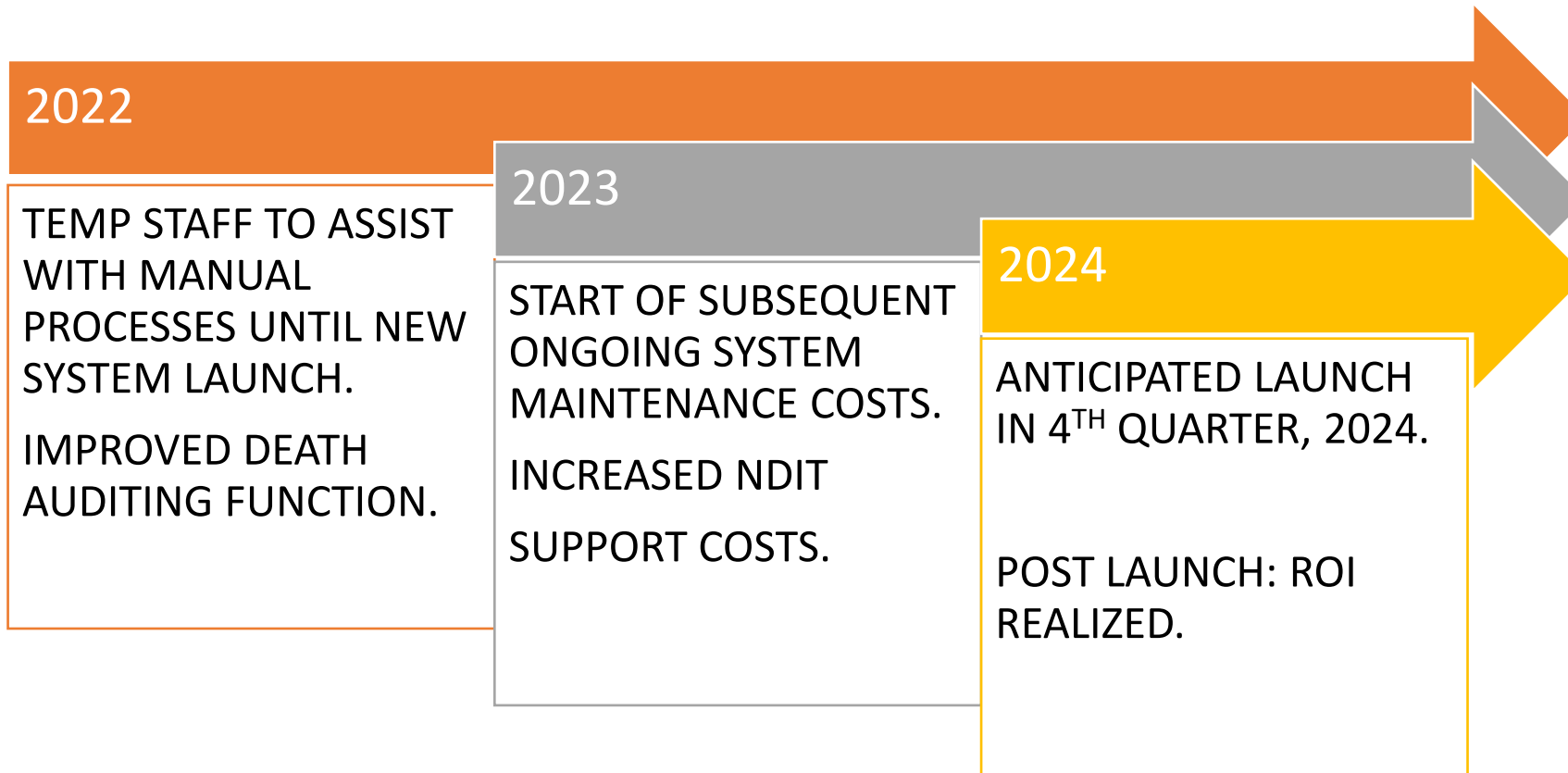
COMPOSITION OF SIB BOARD (BETTER REFLECTS CLIENT FUND REPRESENTATION)

TALENT MANAGEMENT

Decision for SIB,
Legislature

EXPAND STAFF FOR INTERNAL MANAGEMENT AND INVESTMENT OPERATIONS; HAVE INVESTMENT ROLE CLASSIFICATION AND COMPENSATION SYSTEM; PROVIDE FOR AN INVESTMENT INCENTIVE COMPENSATION SYSTEM THAT IS FUNDED ON A CONTINUING BASIS. (Ex: OHIO, WISCONSIN, SOUTH DAKOTA, NORTH CAROLINA)

INFRASTRUCTURE/TECHNOLOGY ENABLED PROCESSES- TFFR PIONEER PROJECT INITIATIVE



ORGANIZATION CULTURE – WORKFORCE INITIATIVE

SALARIES

- ED/CIO SPLIT AND OTHER AGENCY RE-ORGANIZATION INCLUDING ACCOUNTING MANAGER, CFO-COO.
- Support Intern Program.

SUPPORT

- 1 ADDITIONAL ADMIN TO SUPPORT 5 NEW FTE'S.
- CURRENTLY HAVE 3 FULL TIME AND 1 TEMP PART-TIME TO SUPPORT 17.

CERTS.

- COST OF PROFESSIONAL CERTIFICATIONS THAT ARE EITHER REQUIRED OR ENCOURAGED TO PERFORM DUTIES
- SUPPORT HIGH PERFORMANCE AND GROWTH MINDSET.

INFLATION

- COST OF TRAVEL, TRAINING, AND SUPPORT OF A HYBRID/REMOTE WORKPLACE.

CONTINGENCY

- REQUEST FOR CONTINGENCY FUNDS.

RIO AGENCY INITIATIVES



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2023 Budget/Fiscal Conditions Planning

RIO Agency Presentation

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Extension from 7/15 to 8/15 requested due to departure of CFO/COO

8/15 Proposed Budget and Decision Packages submitted to OMB

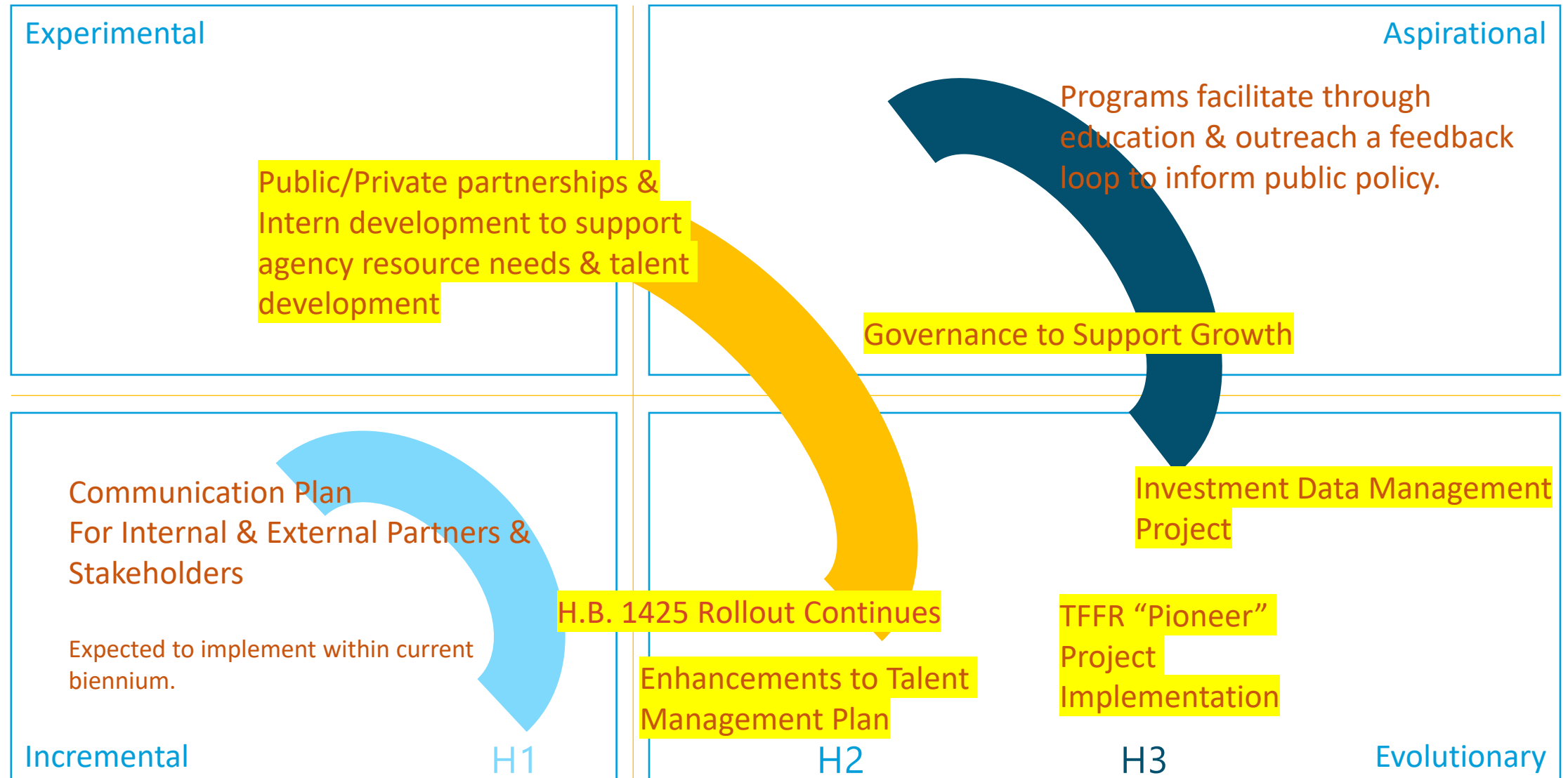
Week of 8/22 Budget under review by OMB and presented to SIB.

RIO's 2023-2025 Budget Request

Base Budget & Impact Factors

- Base Budget Amount Included:
- 8,834,720
- Impact Factors:
- Agency Re-organization
- Increase in FTE's during Special Legislative Session
- New Hires Travel Cost v. Office Cost
- NDIT Unification
- Strategic Planning/Decision Packages

Horizon-Based Transformation



ORGANIZATION CULTURE – WORKFORCE INITIATIVE

SALARIES

- ED/CIO SPLIT AND OTHER AGENCY RE-ORGANIZATION INCLUDING ACCOUNTING MANAGER, CFO-COO.
- SUPPORT INTERN PROGRAM

SUPPORT

- 1 ADDITIONAL ADMIN TO SUPPORT 5 NEW FTE'S.
- CURRENTLY HAVE 3 FULL TIME AND 1 TEMP PART-TIME TO SUPPORT 17.

CERTIFICATIONS

- COST OF PROFESSIONAL CERTIFICATIONS THAT ARE EITHER REQUIRED OR ENCOURAGED TO PERFORM DUTIES
- SUPPORT HIGH PERFORMANCE AND GROWTH MINDSET.

INFLATION

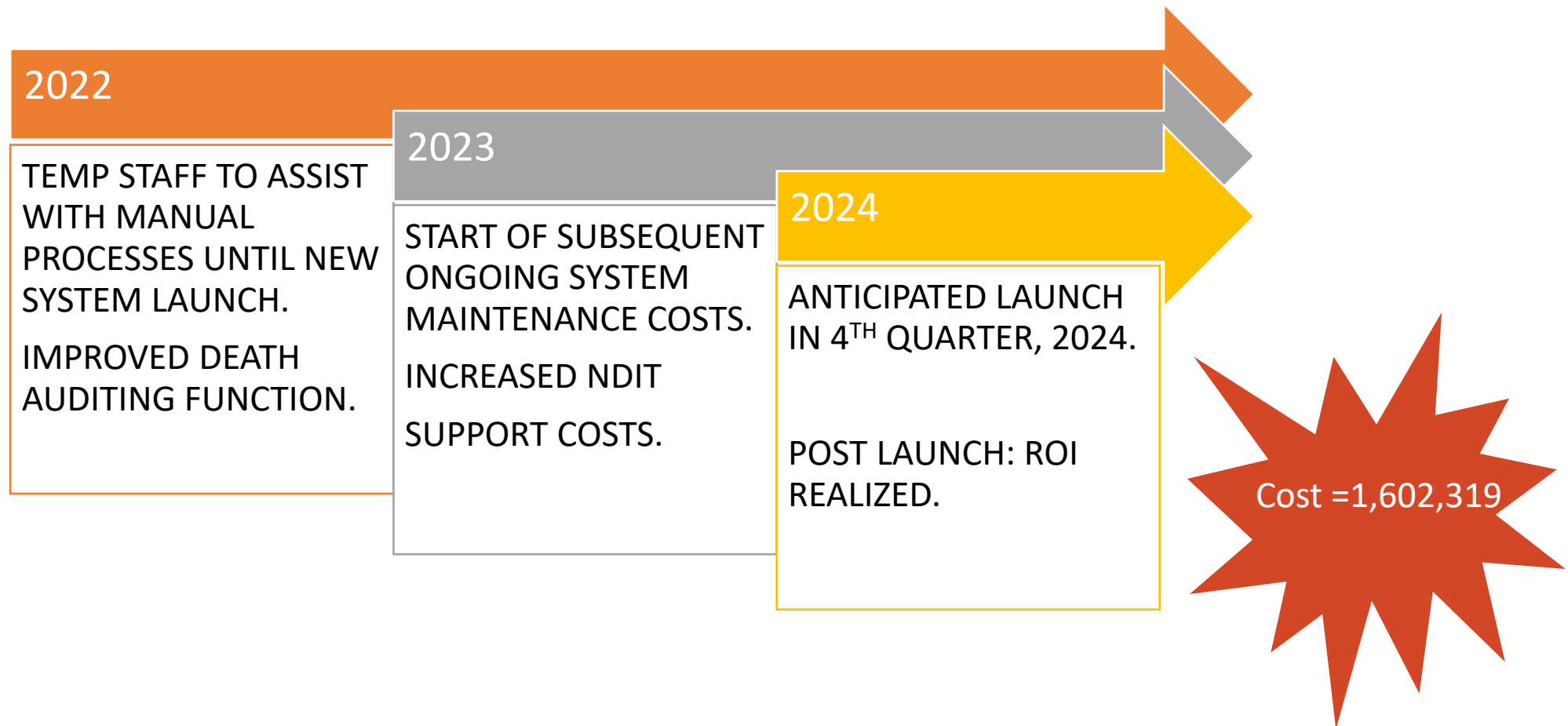
- COST OF TRAVEL, TRAINING, AND SUPPORT OF A HYBRID/REMOTE WORKPLACE.

CONTINGENCY

- REQUEST FOR CONTINGENCY FUNDS.

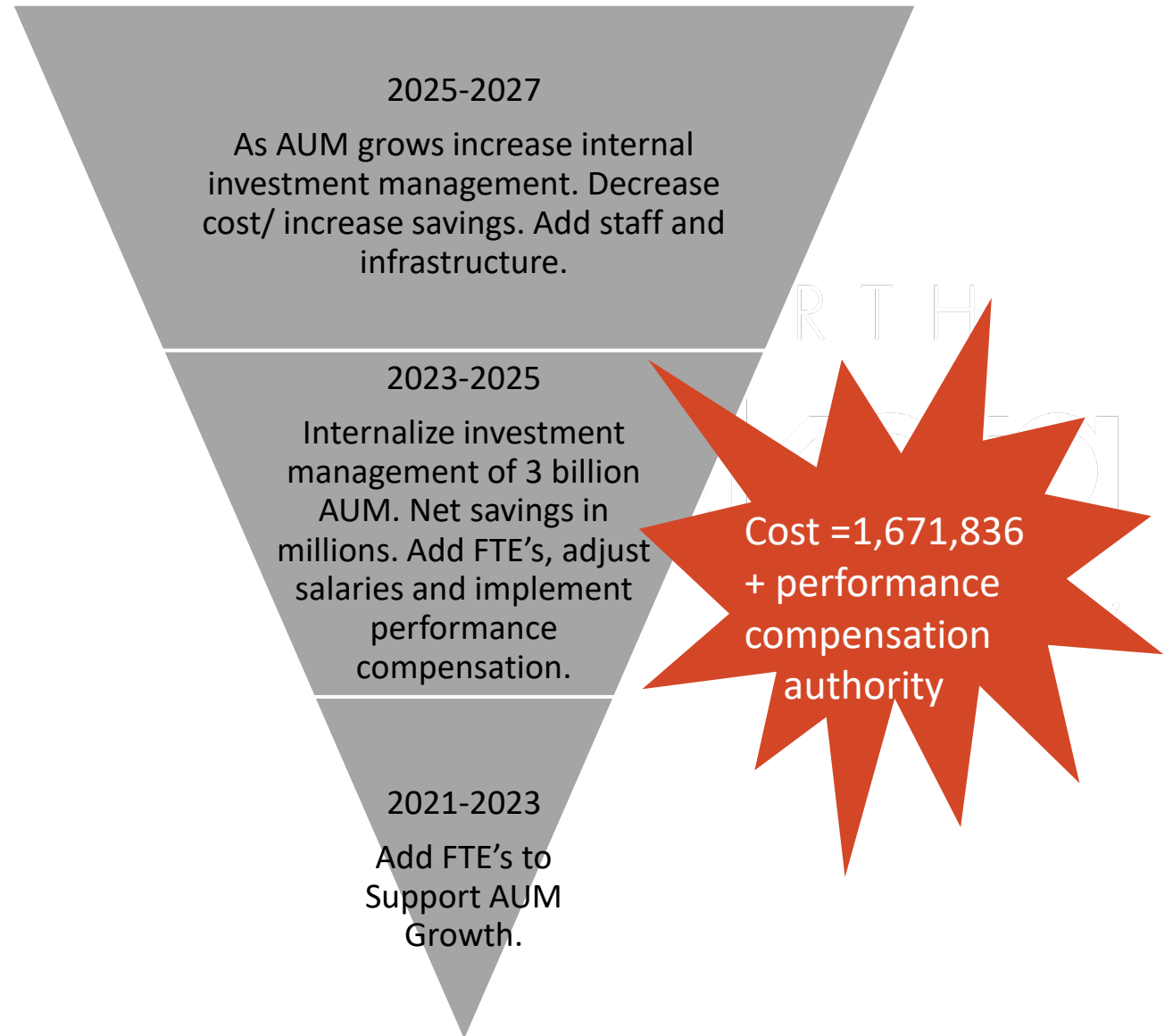
Cost =
667,256

TFFR “PIONEER” PROJECT INITIATIVE



TALENT MANAGEMENT & INTERNAL INVESTMENT INITIATIVE

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Contingency Funds Request



Type	Amount
Current Balance	19,355
Position Advertising – Investment	5,289
Balance	14,066

Request SIB approval for use of Contingency Funds.

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MEMORANDUM

TO: State Investment Board (SIB)

FROM: SIB Audit Committee

DATE: August 9, 2022

**SUBJECT: Fiscal Year End Audit Committee Activities Update
July 1, 2021 to June 30, 2022**

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under the SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including the financial reporting process, internal controls, and compliance with laws, regulations, policies, and procedures.

The Audit Committee consists of five members selected by the SIB. Three members of the Audit Committee represent the three groups on the SIB (Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials). The other two members are selected from outside the SIB, that are both independent and financially literate. Members of the Audit Committee for the 2021 - 2022 fiscal year were:

Yvonne Smith, PERS Board, Chair

Rob Lech, TFFR Board, Vice Chair, Resigned from Audit Committee effective April 22, 2022

Cody Mickelson, TFFR Board, effective April 22, 2022

Jodi Smith, Elected and Appointed Officials, Resigned from Audit Committee effective October 31, 2021

Treasurer Thomas Beadle, Elected and Appointed Officials, effective November 1, 2021

Julie Dahle, External Member

Jon Griffin, External Member

The Audit Committee held four regular meetings and one special meeting during the fiscal year ended June 30, 2022. The meetings occurred: August 11, 2021, October 14, 2021, November 16, 2021, February 16, 2022, and May 10, 2022.

Activities of the Audit Committee during the past year included:

- The Committee approved a July 1, 2021 through June 30, 2022 Internal Audit work plan. Progress was monitored on a quarterly basis. Audit activities included:
 - Executive Limitations Audit was completed. The audit determined the Executive Director's level of compliance with SIB Governance Manual Executive Limitation policies (A-1 through A-11) for the calendar year ending December 31, 2021.
 - State Investment Board Self-Evaluation was administered by Internal Audit. The SIB requested Internal Audit's assistance in administering the self-evaluation and presenting the results. The SIB self-evaluation was presented on February 25, 2022 SIB meeting.

- SIB Board Governance - The SIB requested the SIB Audit Committee to review and provide education on Board Governance on May 21, 2021. Board Governance is the framework that structures the board and how it operates. Governance includes the Board's responsibilities and organizational well-being. The Audit Committee presented its recommendations to the SIB on November 19, 2021.
 - SIB Board Executive Search Committee - Internal Audit has participated in the RFP process to procure an Executive Recruitment Service in a search for a new Executive Director/Chief Investment Officer. The Supervisor of Internal Audit participated in SIB Executive Search Committee meetings and interviews. The Executive Director/Chief Investment Officer resigned from his position June 22, 2021. The Executive Director/Chief Investment Officer position was split at the August 27, 2021 SIB meeting. The Executive Director position was filled in November 2021 and Chief Investment Officer position as filled in December 2021.
 - RIO Succession Planning – Internal Audit reviewed the vacated positions to ensure proper documentation of their responsibilities and that all responsibilities were transferred to the new positions developed in the reorganization of RIO. Also, reviewed the risks facing the investment program due to staff turnover. The Succession Planning Phase I was presented on February 16, 2022.
 - RIO's Strategic Plan - RIO undertook the development of a comprehensive strategic plan by partnering with other state agencies who are leading such efforts. Internal Audit attended meetings as the strategic plan was an agency effort.
 - TFFR Benefit Payment Audit - Internal Audit worked with IT, Retirement Services, and ND Procurement in getting a new death search system. Internal Audit also attended meetings for the Consultant's presentation of their product. PBI was selected as the analytic system to be used for identifying deceased TFFR members and was launched in October 2021.
 - TFFR Salary Verification-Participant Data Audit was completed in FY 2021. Internal Audit continued to work with Retirement Services on the recommendations.
 - PAS Project – Stage 2 was completed in March 2022. Stage 3 started in April 2022. IA participated in the procurement process in Stage 2 and the kick-off meetings in May 2022.
 - Internal Audit worked with staff on updating the Administrative Policy Manual. Policies were written and updated to ensure compliance with state and federal policies. RIO also adopted other federal and state policies as found on the ND State OMB website. This is a continual project.
 - RIO's Internal Audit division provided assistance to our external audit partners, CliftonLarsonAllen, LLP (CLA), during the 2020-2021 and the 2021-2022 financial audits of the RIO as well as the GASB 68 Census Data Audits.
 - Internal Audit staff continued to pursue networking and professional development opportunities via the IIA's local chapter and the APPFA (Association of Public Pension Fund for Auditors). Staff attended training seminars which covered a variety of topics (Business Continuity, Cyber Threats, Employer Program, Third-Party Risk, and IT refresher classes).
- The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2021 from independent auditors, CliftonLarsonAllen, LLP. They issued an unmodified "clean" opinion.

- The Committee reviewed the RIO financial audit plan for fiscal year ended June 30, 2022 with independent auditors, CliftonLarsonAllen, LLP. Discussion included scope and approach for the audit to ensure complete coverage of financial information and GASB 68 Audit.
- The Committee adopted a detailed audit work plan and budgeted hours for fiscal year July 1, 2022 to June 30, 2023.

The above activities support the Committee's fulfillment of its oversight responsibilities. Please inform the Committee if there are special audits or activities the Board would like to have reviewed.

BUDGETING / FINANCIAL CONDITION

AS OF JUNE 30, 2022

	2021-2023 BUDGET	ADJUSTED APPROPRIATION	BIENNIUM TO DATE ACTUAL	EXPENDITURES		
				BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	\$ 5,103,977.00 *	\$ 6,841,839.00	\$ 2,316,307.79	\$ 4,525,531.21	66.14%	50.00%
OPERATING EXPENDITURES	3,567,403.00 *	3,642,403.00	897,297.84	2,745,105.16	75.37%	50.00%
CAPITAL ASSETS	6,300,000.00	6,300,000.00	934,912.50	5,365,087.50	85.16%	50.00%
CONTINGENCY	100,000.00	100,000.00	80,644.81	19,355.19	19.36%	50.00%
TOTAL	<u>\$ 15,071,380.00</u>	<u>\$ 16,884,242.00</u>	<u>\$ 4,229,162.94</u>	<u>12,655,079.06</u>	<u>74.95%</u>	<u>50.00%</u>

* In addition to the Capital Assets line, the salaries and benefit line includes \$50,000 and the operating expenditure budget includes \$2,318,875 for the TFFR Pension Administration System Project.

The adjusted appropriation includes additional amounts appropriated during the Special Legislative Session in November 2021.

EXPENDITURE REPORT

AS OF AND FOR THE QUARTER ENDED JUNE 30, 2022

	INVESTMENT	RETIREMENT	QUARTERLY TOTALS	FISCAL YEAR TO - DATE	BIENNIUM TO - DATE
<u>CONTINUING APPROPRIATIONS</u>					
INVESTMENT EXPENDITURES	\$ 22,317,282	\$ 0	\$ 22,317,282	\$ 75,493,703	\$ 75,493,703
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0	61,244,068	61,244,068	244,705,096	244,705,096
2. REFUND PAYMENTS	0	2,011,211	2,011,211	7,142,360	7,142,360
TOTAL MEMBER CLAIMS	0	63,255,279	63,255,279	251,847,456	251,847,456
OTHER CONTINUING APPROPRIATIONS	401,222	124,748	525,970	847,349	847,349
TOTAL CONTINUING APPROPRIATIONS	22,718,504	63,380,027	86,098,531	328,188,507	328,188,507
<u>BUDGETED EXPENDITURES</u>					
1. SALARIES & BENEFITS					
SALARIES	340,259	161,918	502,177	1,708,135	1,708,135
OVERTIME/TEMPORARY	1,975	17,662	19,637	36,388	36,388
TERMINATION SALARY & BENEFITS	0	0	0	0	0
FRINGE BENEFITS	100,212	65,394	165,606	571,785	571,785
TOTAL SALARY & BENEFITS	442,445	244,975	687,420	2,316,308	2,316,308
2. OPERATING EXPENDITURES					
DATA PROCESSING	36,870	108,295	145,165	337,030	337,030
TELECOMMUNICATIONS - ISD	2,007	1,941	3,948	9,699	9,699
TRAVEL	19,750	7,996	27,745	38,533	38,533
IT - SOFTWARE/SUPPLIES	9	10	18	42	42
POSTAGE SERVICES	1,232	1,931	3,163	25,786	25,786
IT - CONTRACTUAL SERVICES	1,500	73,324	74,824	76,561	76,561
BUILDING/LAND RENT & LEASES	9,969	11,984	21,953	109,271	109,271
DUES & PROF. DEVELOPMENT	2,248	4,893	7,141	20,707	20,707
OPERATING FEES & SERVICES	16,996	12,141	29,137	40,822	40,822
REPAIR SERVICE	114	125	239	654	654
PROFESSIONAL SERVICES	0	91,757	91,757	223,675	223,675
INSURANCE	0	0	0	1,192	1,192
OFFICE SUPPLIES	335	542	877	2,015	2,015
PRINTING	210	225	436	7,655	7,655
PROFESSIONAL SUPPLIES & MATERIALS	0	0	0	1,626	1,626
MISCELLANEOUS SUPPLIES	317	309	627	1,390	1,390
IT EQUIPMENT UNDER \$5000	116	124	240	240	240
OTHER EQUIP. UNDER \$5000	0	0	0	0	0
OFFICE EQUIP. & FURNITURE UNDER \$5000	113	286	399	399	399
TOTAL OPERATING EXPENDITURES	91,786	315,883	407,669	897,298	897,298
3. CAPITAL ASSETS	0	934,913	934,913	934,913	934,913
4. CONTINGENCY	148	0	148	80,645	80,645
TOTAL BUDGETED EXPENDITURES	534,379	1,495,770	2,030,149	4,229,163	4,229,163
TOTAL EXPENDITURES	\$ 22,851,661	\$ 64,751,049	\$ 88,128,680	\$ 332,417,670	\$ 332,417,670

EXPENDITURE REPORT

AS OF AND FOR THE QUARTER ENDED JUNE 30, 2022

PAS PROJECT - UNEXPENDED PORTION CARRIED FORWARD TO 2021-23 BIENNIUM

	2019-2021 Biennium Approved Budget	2019-2021 Biennium Actual	Carryover to 2021-2023 Biennium	2021-2023 Biennium Actual *	Total PAS Project to Date
TEMPORARY SALARIES	50,000	0	50,000	0	0
IT - DATA PROCESSING (NDIT PROJECT MGMT)	775,000	34,025	740,975	32,137	66,163
PROFESSIONAL SERVICES	1,875,000	297,099	1,577,901	198,380	495,479
CAPITAL ASSETS	6,300,000	0	6,300,000	934,913	934,913
TOTAL PAS PROJECT BUDGET	9,000,000	331,125	8,668,875	1,165,430	1,496,554

* The amounts in the 2021-2023 actual column are included in the totals on the Expenditure Report on the previous page.

INVESTMENT EXPENDITURE DETAIL
INVESTMENT EXPENSES FOR YEAR ENDED JUNE 30, 2022

	9/30/2021 Quarter	12/31/2021 Quarter	3/31/2022 Quarter	6/30/2022 Quarter *	Fiscal Year to Date Totals
Investment Manager Fees					
Pension Investment Pool	\$ 16,678,808	\$ 16,502,977	\$ 5,399,452	\$ 31,387	\$ 38,612,624
Insurance Investment Pool	2,084,633	1,950,317.92	1,166,877.57	-	5,201,829
Legacy Fund	12,182,980	11,364,921.40	5,178,311.31	-	28,726,213
PERS Retiree Health Credit Fund / Job Service ND Pension Fund	301,967	302,091.58	295,323.10	-	899,382
Total Investment Manager Fees	\$ 31,248,388	\$ 30,120,308	\$ 12,039,964	\$ 31,387	\$ 73,440,047
Investment Custodian Fees					
Pension Investment Pool	\$ 155,470	\$ 154,347	\$ 156,501	\$ 156,158	\$ 622,476
Insurance Investment Pool	78,823	79,250	64,158	63,561	285,792
Legacy Fund	187,931	172,553	153,753	154,796	669,033
PERS Retiree Health Credit Fund / Job Service ND Pension Fund	4,707	4,704	5,588	5,485	20,483
Total Investment Custodian Fees	\$ 426,931	\$ 410,854	\$ 380,000	\$ 380,000	\$ 1,597,784
Investment Consultant Fees					
Pension Investment Pool	\$ 84,223	\$ 57,053	\$ 55,758	\$ 9,381	\$ 206,416
Insurance Investment Pool	29,678	18,532	18,355	-	66,566
Legacy Fund	82,119	50,242	50,530	-	182,890
Total Investment Consultant Fees	\$ 196,020	\$ 125,828	\$ 124,644	\$ 9,381	\$ 455,872
Total Investment Expenses	\$ 31,871,338	\$ 30,656,989	\$ 12,544,607	\$ 420,768	\$ 75,493,703

* Final June 30, 2022 quarter fees are in the process of being collected and reviewed. The final values will be completed with the September board meeting materials.

MEMORANDUM

TO: State Investment Board
FROM: Jan Murtha, Executive Director
DATE: August 22, 2022
RE: Executive Limitations/Staff Relations

Ms. Murtha will provide a verbal update at the meeting on agency efforts to address current and future organizational risk through strategic planning. Including updates on the following topics:

1. Retirements/Resignations/FTE's/Temporary Assistance:

Employee Title	Status
Fiscal Management Specialist	Temporary/Part-Time. Started 8-2-22.
Chief Risk Officer	Position Posted – closing pending additional advertising.
Investment #1	Posted in June, closed 6/27/22. Interviews scheduled.
Investment #2	Posted in June, closed 6/27/22. Interviews scheduled.
Investment #3	Posted in June, closed 6/29/22. Interviews scheduled.
Investment #4	Posted in June, closed 7/5/22. Interviews pending.
Communications/Outreach Director	Posted 8-11-22. Closes 8-28-22.
Accounting Intern	Vacant. Posting Pending.

2. Current Project Activities/Initiatives:

- **Legacy Fund Asset Allocation Study** – RVK continues its work on the Legacy Fund Asset Allocation Study and provided preliminary considerations/recommendations to the Advisory Board on June 30, 2022. Another meeting is anticipated this fall.
- **TFFR PAS Project** (hereinafter TFFR “Pioneer Project”)– The TFFR Pioneer Project continues with implementation consistent with the project plan. The amount of time spent on the project by various staff members currently varies from 5 to 25 hours or more per week.
- **Northern Trust Initiative** – In an effort to enhance the infrastructure for the investment program the Investment and Fiscal teams are leading an initiative to coordinate with Northern Trust for additional functionality/capabilities.
- **Board Member Email Accounts:** State email accounts have been created for all SIB, TFFR, and committee members that are non-state employees (except for the new investment committee which is in progress). All affected Board and committee members, except as noted, have been contacted. Board/committee materials will be delivered to nd.gov accounts.

3. End of Fiscal Year Close-out

All agency divisions have participated in various aspects of end of fiscal year close-out including external auditor coordination during the month of August.

BOARD ACTION REQUESTED: Board Acceptance.