NORTH Dakota | State Investment Board

Be Legendary. RETIREMENT & INVESTMENT

Friday, March 24, 2023, 8:30 a.m.
WSI Board Room (In-Person)
1600 E Century Ave, Bismarck, ND
Click here to join the meeting

UPDATED AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA
   A. Executive Summary
   B. Introductions – New RIO Team Members

II. ACCEPTANCE OF MINUTES (February 17, 2023)

III. INVESTMENTS (90 minutes)
   A. Market Trends & Update – Callan
   B. Performance Review – Callan
   C. Investment Program Update – Mr. Chin

(Break)

IV. GOVERNANCE (75 minutes)
   A. 2023 Legislative Session Update – Ms. Murtha
   B. Investment Committee – Treasurer Beadle, Mr. Anderson
   C. Governance & Policy Review Committee - Dr. Lech, Ms. Murtha
   D. Securities Litigation Committee - Commissioner Heringer, Ms. Murtha
      1. Securities Litigation Charter Amendments
      2. Board Member Appointment
   E. Executive Review & Compensation Committee – Mr. Miller, Mr. Skor

V. Quarterly Monitoring Reports (15 minutes)
   A. Quarterly TFFR Ends Report – Mr. Roberts
   B. Executive Limitations/Staff Relations – Ms. Murtha

VI. OTHER (5 minutes)

Next Meetings:
Investment Committee – April 14, 2023, at 9:00 a.m.
SIB GPR Committee – April 27, 2023, at 10:00 a.m.
TFFR Board Meeting – April 27, 2023, at 1:00 p.m.
SIB Meeting – April 28, 2023, at 8:30 a.m.

VII. ADJOURNMENT

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.

EXECUTIVE SUMMARY Updated

SIB Regular Meeting

March 24, 2023 – 8:30am CT

I. **Agenda:** The **March Board Meeting will be In-Person at the WSI Conference Room, a link will be provided so that Board members and the public may join via video conference.** The board member video link is included in the email with the Board materials.

- **New RIO Team members will be introduced to the Board.**

II. **Minutes (Board Action):** The February 17, 2023, Board meeting minutes are included for review and approval.

III. **A. Investments – Market Trends & Updates (Information Only):** Representatives from Callan will share updates to market trends. RIO staff will also be available to comment on recent market activity including activity within the banking industry.

B. Investments – Performance Review (Board Action): Representatives from Callan will present on fund performance.

C. Investments – Investment Program Update (Board Action): Mr. Chin will update the Board on the Fixed Income transition.

IV. **A. Governance – 2023 Legislative Session Update (Information Only):** Ms. Murtha will review information relating to the status of bills under consideration by the legislature that are impactful to the SIB program.

B. Governance – Investment Committee (Information Only): The Committee Chair and Mr. Anderson will provide the Board with an overview of discussion items from the most recent committee meeting.

C. Governance – Governance & Policy Review Committee (Information Only): Committee members will present on recent topics discussed by the committee including a discussion regarding changes to the Board member orientation process.

D. Governance – Securities Litigation Committee (Board Action): Committee actions will be shared with the Board. The Committee recommends changes to the charter and committee member composition. If approved, a new Board member will need to be appointed to the Committee.

E. Executive Review & Compensation Committee Report (Information Only): Committee members will present on recent topics discussed by the committee and advise the Board regarding pending surveys.

F. A-D. Reports (Board Action): Staff will provide monitoring reports on quarterly TFFR Ends and executive limitations/staff relations.

Adjournment.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
FEBRUARY 17, 2023, BOARD MEETING (IN-PERSON)

MEMBERS PRESENT:	Tammy Miller, Lt. Governor, Chair Thomas Beadle, State Treasurer Jon Godfread, Insurance Commissioner Joseph Herringer, Commissioner of Unv. & School Lands Cody Mickelson, TFFR Board Adam Miller, PERS Board Claire Ness, PERS Board, Parliamentarian Mel Olson, TFFR Board Yvonne Smith, PERS Board Art Thompson, Director of WSI
MEMBERS ABSENT:	Dr. Rob Lech, TFFR Board, Vice Chair
STAFF PRESENT:	Scott Anderson, CIO Eric Chin, Deputy CIO Derek Dukart, Investment Officer Rachel Kmetz, Accounting Mgr. Missy Kopp, Exec Assistant George Moss, Sr. Investment Officer Jan Murtha, Exec Dir. Matt Posch, Sr. Investment Officer Emmalee Riegler, Contracts/Records Admin. Sara Seiler, Internal Audit Supvr. Ryan Skor, CFO/COO Dottie Thorsen, Internal Auditor Tami Volkert, Compliance Spec. Jason Yu, Risk Officer
GUESTS:	Craig Chaikin, Callan Dean DePountis, Attorney General's Office Kodee Furst, 50 South Capital Trey Hart, 50 South Capital Members of the Public

CALL TO ORDER:

Lt. Gov. Miller, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, February 17, 2023. 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, Commissioner Godfread, Commissioner Heringer, Mr. Mickelson, Lt. Gov. Miller, Mr. Miller, and Mr. Olson.

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the February 17, 2023, meeting.

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

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

MINUTES:

The Board considered the minutes of the January 27, 2023, SIB meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. MICKELSON AND CARRIED BY A VOICE VOTE TO APPROVE THE JANUARY 27, 2022, MINUTES AS DISTRIBUTED.

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

Ms. Ness joined the meeting at 8:35 a.m.

INVESTMENTS:

HB 1425 Background:

Ms. Murtha provided background on the requirements of HB 1425 and reviewed past discussion and actions by the SIB related to implementation. There are three key components to HB 1425. The preference program for in-state managers has been implemented by staff through outreach to in-state vendors to assess their interest and capabilities. Staff has received positive feedback about their outreach efforts. The other components are the 10% equity and 10% fixed income requirements. Ms. Murtha reviewed the in-state program rollout timeline and the current status. The Bank of ND is the in-state fixed income manager with over $190 million in capital committed. 50 South is the in-state equity manager with $100 million in capital committed to the ND Growth Fund. With almost $300 million committed, ND has one of the largest in-state investment programs in the nation. Board discussion followed.

Legacy Fund & In-State Investment Program Update:

Mr. Anderson provided an update on the Legacy Fund and In-State Investment program. The Legacy Fund has grown dramatically to about $8.5 billion. The fund is quite liquid because up to 15% can be called on to transfer to the general fund. $1.3 billion has been transferred to the general fund so far. Mr. Anderson described how earnings are calculated, the definition of transferrable earnings, and fund performance. Mr. Anderson discussed the impacts of in-state investing on the asset allocation of the fund and the status of the in-state project. There is a general consensus that the goals of 1425 are beneficial, but refinement of the statute can help to more effectively achieve those goals. A bill is currently pending that would set a 3.5% of market value spending rule, smaller equity allocation, and eliminate the infrastructure loan program. Board discussion followed.

Ms. Smith joined the meeting at 9:13 a.m.

ND Growth Fund Update:

Ms. Furst and Mr. Hart, 50 South Capital, provided background and an update on the ND Growth Fund (NDGF). Ms. Furst reviewed the fund-of-funds overview, internal due diligence process, and investment process. The NDGF is building a diversified portfolio across vintage, sector, and strategy that is unified by a commitment to invest in ND entrepreneurs. As of February 7, 2022, the NDGF has $100 million in committed capital. Ms. Furst provided background on the NDGF investment portfolio. Board discussion followed.

GOVERNANCE:

Investment Committee (IC) Update:

Treasurer Beadle provided an update from the IC meeting on February 10, 2023. There was an update on the Legacy Fund and presentation regarding country risk and a plan to monitor this risk. 50 South presented on the ND Growth Fund. The Committee also discussed current legislation with potential impacts on the investment program. Board discussion followed.

Executive Review & Compensation Committee (ERCC) Update:

Ms. Seiler reviewed the results of the SIB Self-Assessment which was distributed to Board members in January. All questions in the survey scored above a 3 on a 4-point scale and most comments were positive. Comments indicated that members appreciate the work done by the new Governance and Policy Review Committee, increased Board education, and the hard work by staff as they deal with many changes within the agency. An area the ERCC has identified as an opportunity for growth was question 6, "I find my participation on the Board to be stimulating and rewarding." Mr. Miller provided background on the self-assessment and how the results can be used by Board members. Board discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER HERINGER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE SIB SELF-ASSESSMENT RESULTS AS PRESENTED.

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

QUARTERLY MONITORING REPORTS:

Budget/Financial Conditions:

Mr. Skor reviewed the quarterly budget and expense report for the quarter ended December 31, 2022. The report breaks out expenses including investment expenses, TFFR member payments, and budgeted expenses. The Pioneer project is on budget. Much of that budget will be carried over into the next biennium.

Internal Audit Activities:

Ms. Seiler provided the second quarter Internal Audit (IA) update. The SIB Audit Committee met on February 15, 2023. The Committee approved the second quarter IA activities and Executive Limitations audit. IA performed an employee exit review which IA performs when there is a sudden resignation or separation of an employee. IA reviews files to see if anything needs to be addressed. After the review, IA recommended the creation of a general email address for media and open records inquiries. The email would be monitored by multiple employees to prevent disruption to responses. IA also recommended adding an internal policy that staff members cannot add external people to internal RIO Team Channels without approval. IA also recommended annual governance education for Board members focusing on governance structure.

Mr. Thompson joined the meeting at 10:26 a.m.

Executive Limitations/Staff Relations:

Mr. Skor provided an update on staffing at RIO. The Chief Risk Officer starts on February 21, 2023. The Investment Accountant position is open because that staff person moved into the Retirement Accountant position. Interviews for that position have been scheduled. The new Senior Investment Officer starts on March 20, 2023, and the Communications and Outreach Director position offer has been accepted with an anticipated start date in March. Current projects include the Legacy Fund asset allocation project, Pioneer Project, Northern Trust Initiative, and the IA Business Process review. A list of meetings attended and legislative testimony provided by staff are included.

IT WAS MOVED BY MR. OLSON AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE BUDGET/FISCAL CONDITIONS, INTERNAL AUDIT ACTIVITIES, AND EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORTS.

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

2023 Legislative Session Update:

Mr. Skor provided an update on the 2023 Legislative Session and bills that may be impactful to RIO programs. RIO's budget bill was approved by the subcommittee with only a small adjustment to the language in one of the requests. Staff continue to provide testimony on behalf of the Boards on bills that impact the TFFR or investment programs including multiple bills relating to Environmental, Social, Governance (ESG) investments. Ms. Murtha will send an email to Board members next week before cross over with an update on the bills staff are tracking. Board discussion followed.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Gov. Miller adjourned the meeting at 10:39 a.m.

Prepared by:

Missy Kopp, Assistant to the Board

Callan

North Dakota | Retirement & Investment
Be Legendary.

March 24, 2023

North Dakota State Investment Board

Performance Evaluation
as of December 31, 2022

Alex Browning
Senior Vice President

Craig Chaikin, CFA
Senior Vice President

Callan

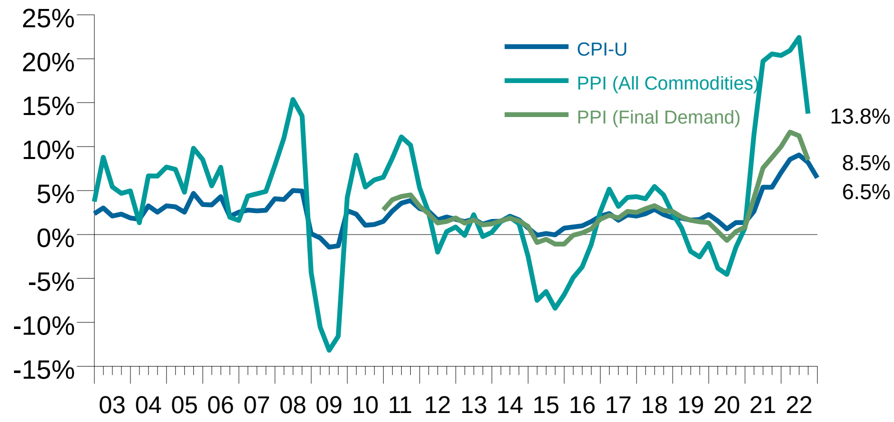
Market Update

U.S. Economy—Summary

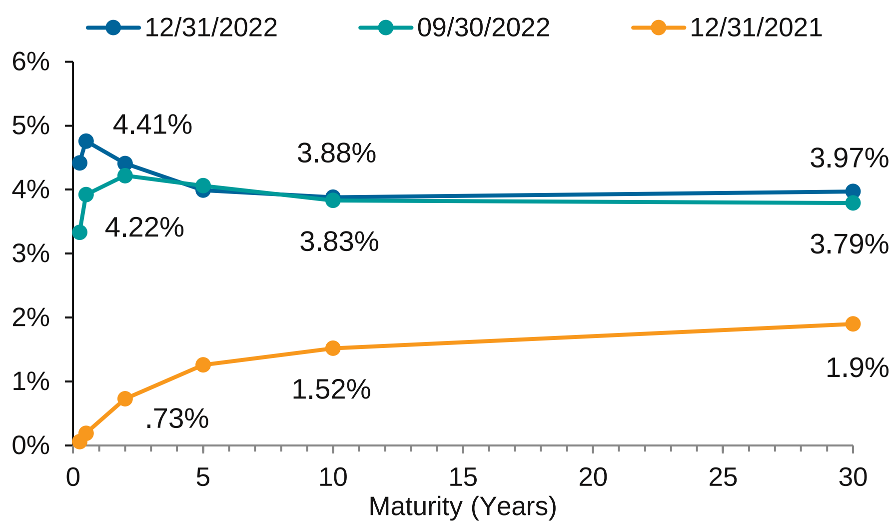
Fourth Quarter 2022

- Following an increase of 3.2% in Q3, the Advance Estimate of Q4 GDP came in at 2.9% (annualized).
- Headline inflation softened to 6.5% year-over-year in Q4, down from 8.2% in Q3.
- The Federal Reserve made its fourth consecutive 75 basis point rate hike on November 2, followed by a 50 basis point rate hike on December 14 (to a target range of 4.25-4.50%).
- The labor market continues to be a source of strength with unemployment remaining at 3.5% in December.

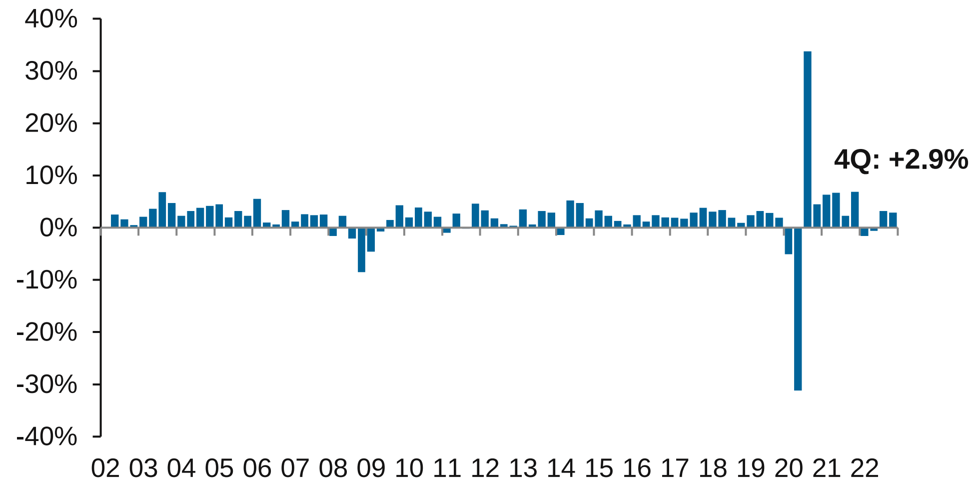
Inflation Year-Over-Year



U.S. Treasury Yield Curves



Quarterly Real GDP Growth

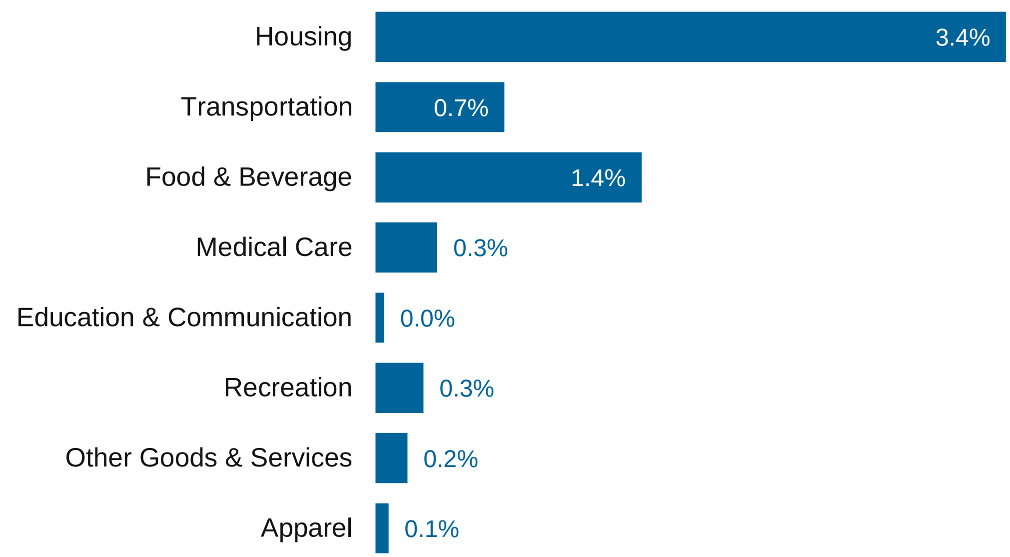


Sources: Bloomberg, Bureau of Labor Statistics, Callan. GDP reflective of 4Q22 Estimate.

Contributors to Recent Inflation: Primary Categories

- Transportation inflation has finally begun to trend downward.
- Housing took over as the biggest weighted contributor to headline inflation due to the category's high weight in the index (42.4%).
- Transportation's downward trend in inflation has been somewhat offset by an upward trend for Food & Beverage and Housing.

Contribution to December 2022 Year-Over-Year Inflation

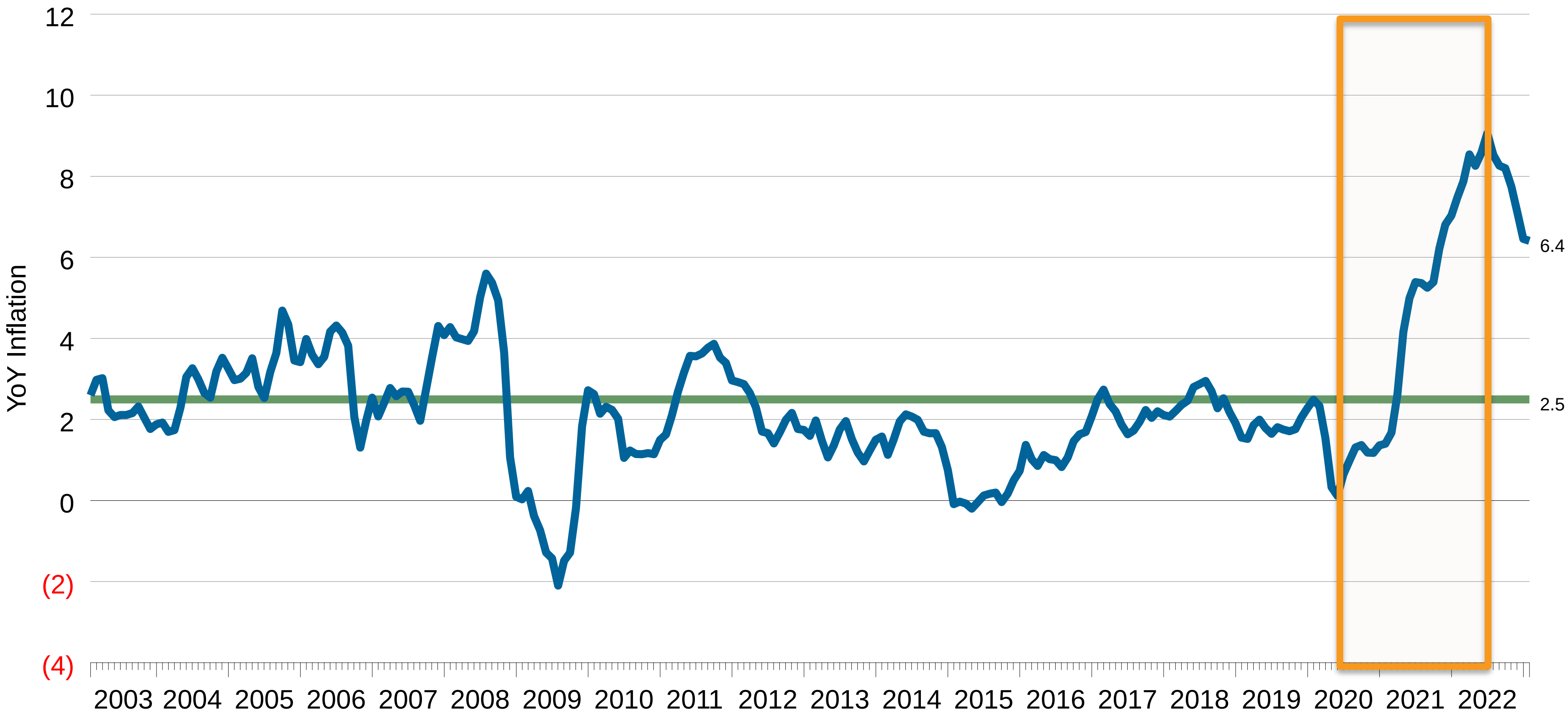


Primary Category	Primary Category Weight	Year-over-Year Change											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
All Items	100.0%	7.5%	7.9%	8.5%	8.3%	8.6%	9.1%	8.5%	8.3%	8.2%	7.7%	7.1%	6.5%
Housing	42.4%	5.7%	5.9%	6.4%	6.5%	6.9%	7.3%	7.4%	7.8%	8.0%	7.9%	7.8%	8.1%
Transportation	18.2%	20.8%	21.1%	22.6%	19.9%	19.4%	19.7%	16.4%	13.4%	12.6%	11.2%	7.8%	3.9%
Food & Bev	14.3%	6.7%	7.6%	8.5%	9.0%	9.7%	10.0%	10.5%	10.9%	10.8%	10.6%	10.3%	10.1%
Medical Care	8.5%	2.5%	2.4%	2.9%	3.2%	3.7%	4.5%	4.8%	5.4%	6.0%	5.0%	4.2%	4.0%
Education & Communication	6.4%	1.6%	1.6%	1.5%	1.0%	0.8%	0.8%	0.5%	0.5%	0.2%	0.0%	0.7%	0.7%
Recreation	5.1%	4.7%	5.0%	4.8%	4.3%	4.5%	4.6%	4.4%	4.1%	4.1%	4.1%	4.7%	5.1%
Other Goods & Svcs	2.7%	4.9%	5.6%	5.5%	5.7%	6.3%	6.7%	6.3%	6.6%	6.9%	6.5%	7.0%	6.4%
Apparel	2.5%	5.3%	6.6%	6.8%	5.4%	5.0%	5.2%	5.1%	5.1%	5.5%	4.1%	3.6%	2.9%

Source: U.S. Bureau of Labor Statistics

Inflation Has Slowed Since June 2022

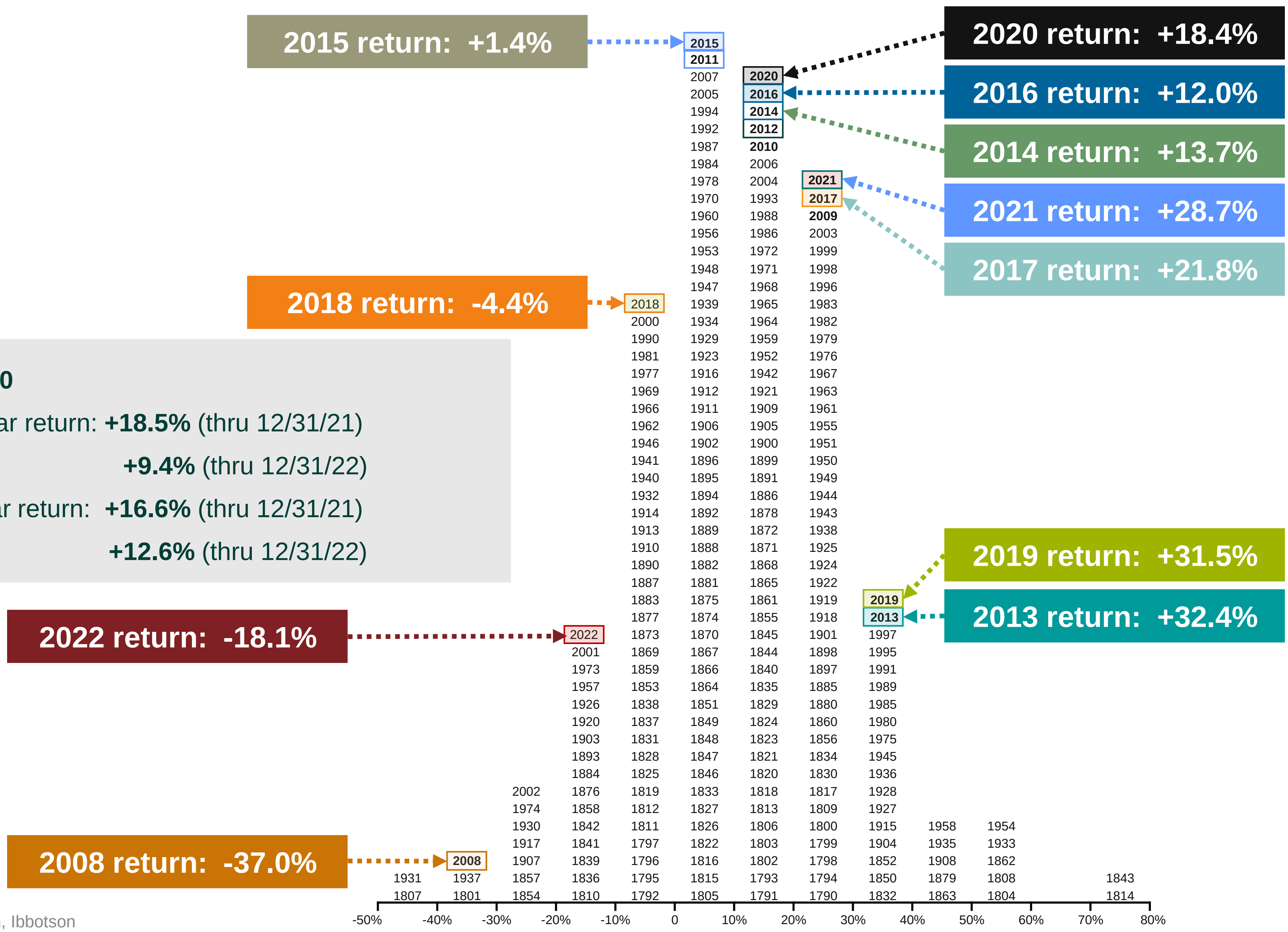
CPI-U Rolling 12 Month Inflation for 20 Years Ended January 31, 2023



- Inflation accelerated in the back half of 2020 through June 2022
- Since then, inflation has moderated significantly, growing only 2% from June 2022 through January 2023

Stock Market Returns by Calendar Year

2022 YTD performance in perspective: History of the U.S. stock market (233 years of returns)



S&P 500

Five-year return: **+18.5%** (thru 12/31/21)

+9.4% (thru 12/31/22)

Ten-year return: **+16.6%** (thru 12/31/21)

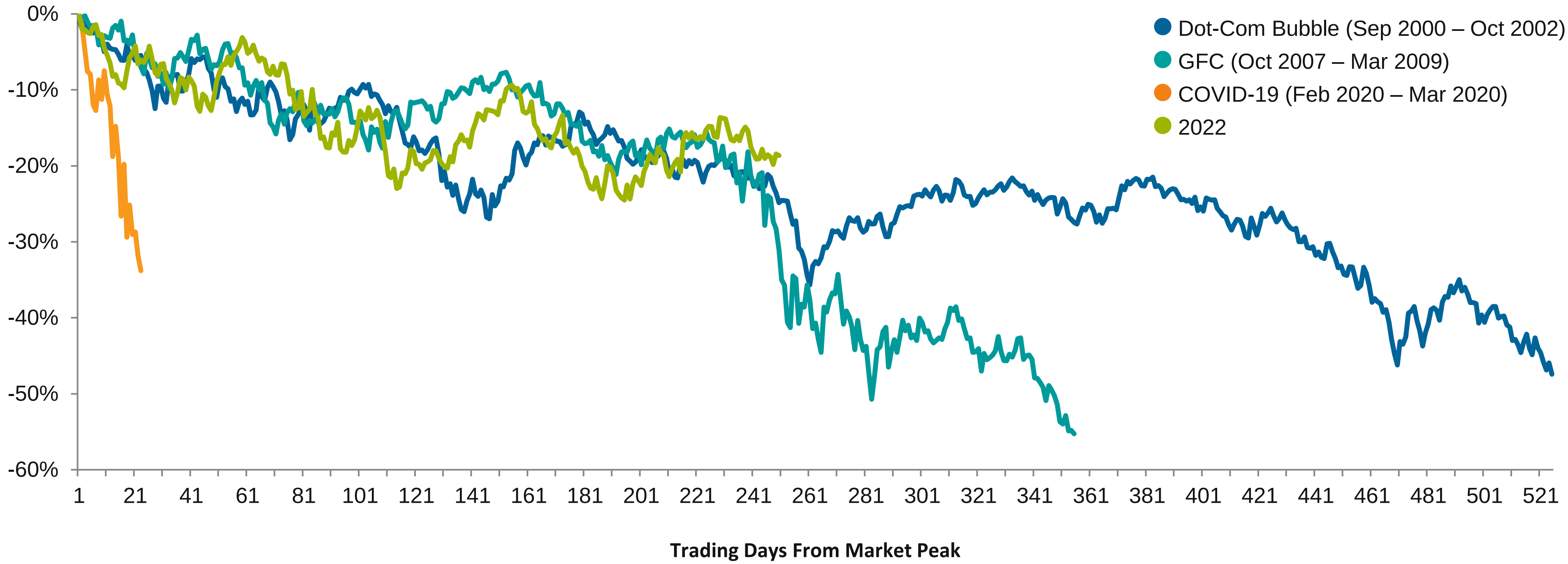
+12.6% (thru 12/31/22)

Sources: Callan, Ibbotson

2022 Equity Drawdown: A More ‘Typical’ Correction?

S&P 500 Cumulative Returns

Market Peak-to-Trough for Recent Corrections vs. 2022 Through 12/31/22



- While the COVID correction was swift and intense, the 2022 correction resembles the GFC and Dot-Com Bubble.
- The 2022 drawdown has been 250 trading days through December.
- It would take another 105 trading days to get to the bottom of the GFC and 275 trading days to get to the bottom of the Dot-Com Bubble.

Sources: Callan, S&P Dow Jones Indices

Callan Periodic Table of Investment Returns

Annual Returns					Cumulative Returns					
2018	2019	2020	2021	2022	15 Years	10 Years	5 Years	3 Years	1 Year	1 Quarter
NCREIF:NFI-ODCE Val Wt Nt 7.36%	Large Cap Equity 31.49%	Small Cap Equity 19.96%	Large Cap Equity 28.71%	NCREIF:NFI-ODCE Val Wt Nt 6.55%	Large Cap Equity 8.81%	Large Cap Equity 12.56%	Large Cap Equity 9.42%	NCREIF:NFI-ODCE Val Wt Nt 8.97%	NCREIF:NFI-ODCE Val Wt Nt 6.55%	Dev ex-U.S. Equity 16.18%
U.S. Fixed Income 0.01%	Small Cap Equity 25.52%	Large Cap Equity 18.40%	NCREIF:NFI-ODCE Val Wt Nt 21.02%	High Yield -11.19%	Small Cap Equity 7.16%	NCREIF:NFI-ODCE Val Wt Nt 9.11%	NCREIF:NFI-ODCE Val Wt Nt 7.72%	Large Cap Equity 7.66%	High Yield -11.19%	Emerging Market Equity 9.70%
High Yield -2.08%	Dev ex-U.S. Equity 22.49%	Emerging Market Equity 18.31%	Small Cap Equity 14.82%	U.S. Fixed Income -13.01%	High Yield 6.09%	Small Cap Equity 9.01%	Small Cap Equity 4.13%	Small Cap Equity 3.10%	U.S. Fixed Income -13.01%	Large Cap Equity 7.56%
Global ex-U.S. Fixed Income -2.15%	Emerging Market Equity 18.44%	Global ex-U.S. Fixed Income 10.11%	Dev ex-U.S. Equity 12.62%	Dev ex-U.S. Equity -14.29%	NCREIF:NFI-ODCE Val Wt Nt 5.27%	Dev ex-U.S. Equity 4.59%	High Yield 2.31%	Dev ex-U.S. Equity 1.27%	Dev ex-U.S. Equity -14.29%	Global ex-U.S. Fixed Income 6.81%
Large Cap Equity -4.38%	High Yield 14.32%	Dev ex-U.S. Equity 7.59%	High Yield 5.28%	Large Cap Equity -18.11%	U.S. Fixed Income 2.66%	High Yield 4.03%	Dev ex-U.S. Equity 1.79%	High Yield 0.05%	Large Cap Equity -18.11%	Small Cap Equity 6.23%
Small Cap Equity -11.01%	U.S. Fixed Income 8.72%	U.S. Fixed Income 7.51%	U.S. Fixed Income -1.54%	Global ex-U.S. Fixed Income -18.70%	Dev ex-U.S. Equity 1.84%	Emerging Market Equity 1.44%	U.S. Fixed Income 0.02%	Emerging Market Equity -2.69%	Global ex-U.S. Fixed Income -18.70%	High Yield 4.17%
Dev ex-U.S. Equity -14.09%	Global ex-U.S. Fixed Income 5.09%	High Yield 7.11%	Emerging Market Equity -2.54%	Emerging Market Equity -20.09%	Emerging Market Equity 0.65%	U.S. Fixed Income 1.06%	Emerging Market Equity -1.39%	U.S. Fixed Income -2.71%	Emerging Market Equity -20.09%	U.S. Fixed Income 1.87%
Emerging Market Equity -14.57%	NCREIF:NFI-ODCE Val Wt Nt 4.39%	NCREIF:NFI-ODCE Val Wt Nt 0.34%	Global ex-U.S. Fixed Income -7.05%	Small Cap Equity -20.44%	Global ex-U.S. Fixed Income 0.54%	Global ex-U.S. Fixed Income -1.64%	Global ex-U.S. Fixed Income -3.07%	Global ex-U.S. Fixed Income -5.94%	Small Cap Equity -20.44%	NCREIF:NFI-ODCE Val Wt Nt -5.17%

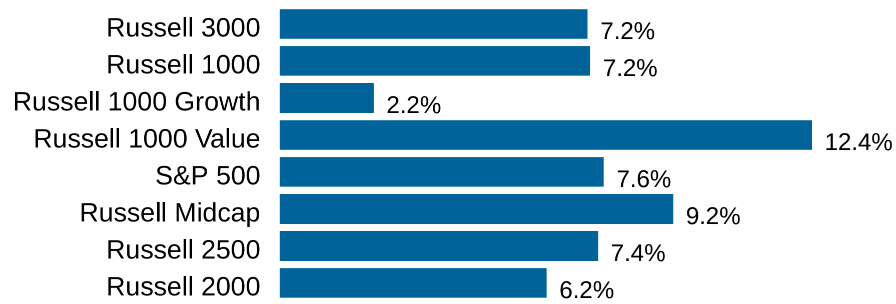
Sources: ● Bloomberg U.S. Aggregate Bond ● Bloomberg Corp High Yield ● Bloomberg Global Aggregate ex U.S. ● NCREIF ODCE Val Wtd ● MSCI World ex USA ● MSCI Emerging Markets ● Russell 2000 ● S&P 500

U.S. Equity Performance: 4Q22

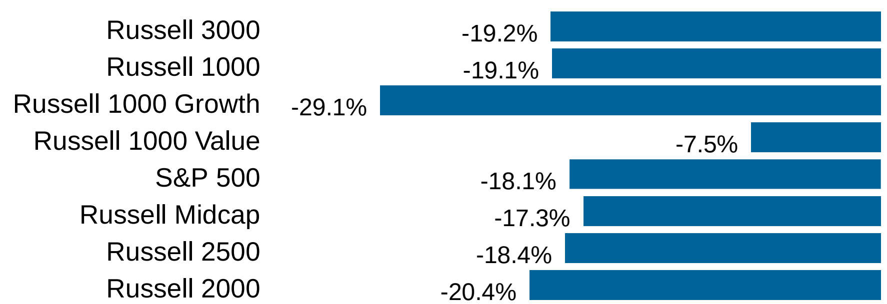
Markets retrace in December after gains in the prior two months

- The S&P 500 Index posted positive returns in both October and November but fell in December. The index was up 7.6% during 4Q22 but ended 2022 down 18.1%.
- Energy was the best-performing sector during the quarter and 2022, returning 23% and 66% respectively. Consumer Discretionary and Communication Services were the only two sectors that posted negative returns in 4Q.
- Value stocks outperformed growth across the market capitalization spectrum, and for both 4Q and the full year.
- Large cap stocks (Russell 1000) outperformed small caps (Russell 2000) last quarter and for the year.
- Continued macroeconomic concerns (e.g., inflation, potential recession, geopolitical issues) led to higher volatility and a down-year for U.S. equities.

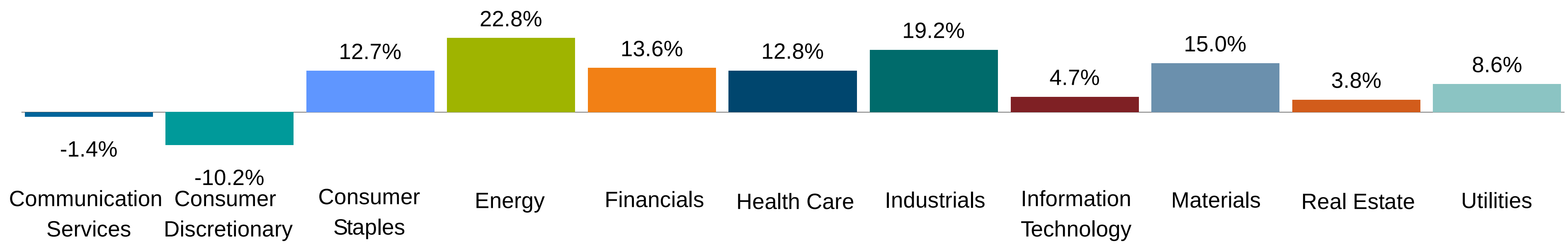
U.S. Equity Returns: Quarter Ended 12/31/22



U.S. Equity Returns: One Year Ended 12/31/22



Industry Sector Quarterly Performance (S&P 500) as of 12/31/22



Sources: FTSE Russell, S&P Dow Jones Indices

Global/Global ex-U.S. Equity Performance: 4Q22

Ending on a high note

4Q22 was a bright spot during a tough calendar year in global and global ex-U.S. equity markets.

Encouraging signs

- Lower-than-expected U.S. inflation data buoyed market optimism at the end of the year.
- The Fed slowed its pace of tightening with further slowing expected in 2023.
- China reversed its zero-COVID policies, prompting exuberance from investors.

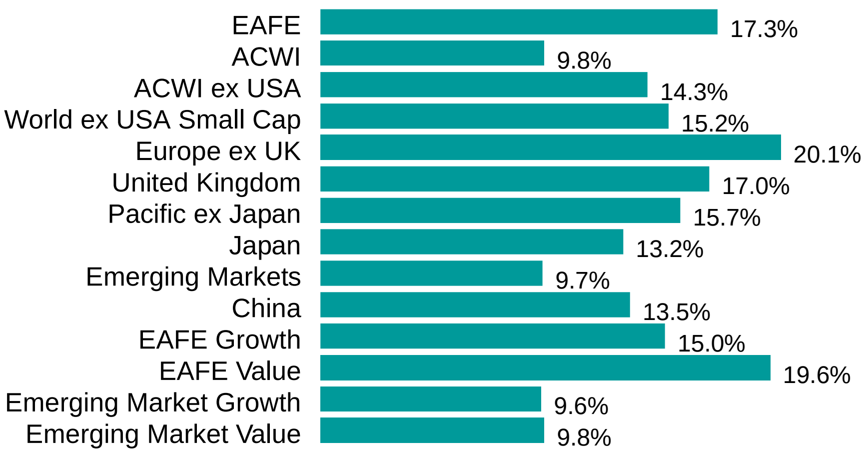
Growth vs. value

- Value outpaced growth across developed and emerging markets.
  - Economically sensitive sectors (e.g., Financials and Industrials) benefited from the anticipation of improved growth; Energy was the largest outperformer.

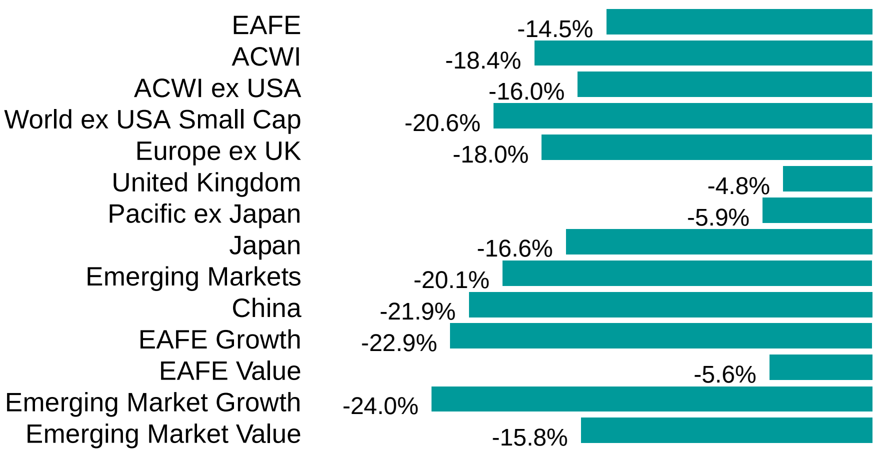
U.S. dollar vs. other currencies

- After reaching a multi-decade high, the dollar fell against all major currencies with signs of inflation easing.
  - Despite the 7.7% decline in 4Q22, the dollar still gained nearly 8% over the full year.

Global Equity Returns: Quarter Ended 12/31/22



Global Equity Returns: One Year Ended 12/31/22



Source: MSCI

U.S. Fixed Income Performance: 4Q22

Bonds were up in 4Q but 2022 results remain negative

- Aggregate: positive return driven by coupon income and spread tightening; interest rates rose modestly
- Rates were volatile intra-quarter
  - UST 10-year yield: high 4.22% on 11/7; low 3.42% on 12/7
  - Curve remained inverted at quarter-end; 10-year yield 3.88% and 2-year yield 4.41%; most since 1981
- Fed raised rates, bringing target to 4.25%-4.50%
  - Median expectation from Fed is 5.1% for year-end 2023
  - Inflation showed signs of moderating but job market remained tight with solid wage growth

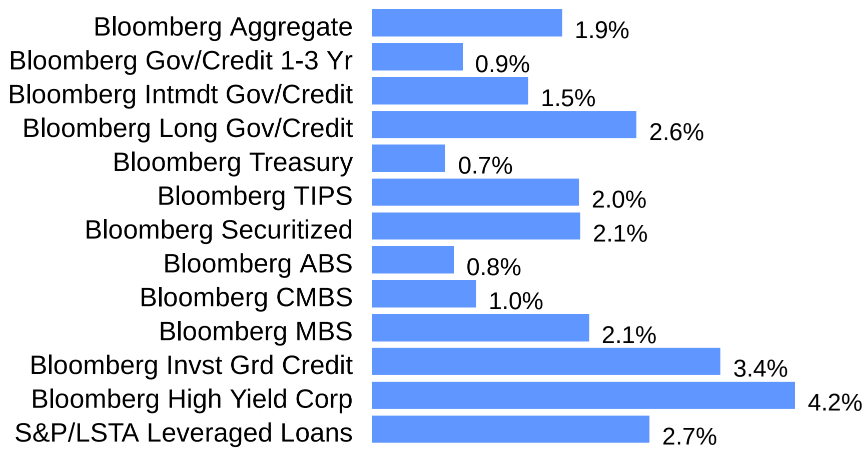
Corporates and mortgages outperformed Treasuries in 4Q but underperformed for the year

- 4Q: Corporates +289 bps excess return; RMBS +110 bps
- 2022: Corporates -125 bps excess return; RMBS -223 bps
- RMBS had worst month ever (September: -191 bps) and best month ever (November: +135 bps) in excess returns.

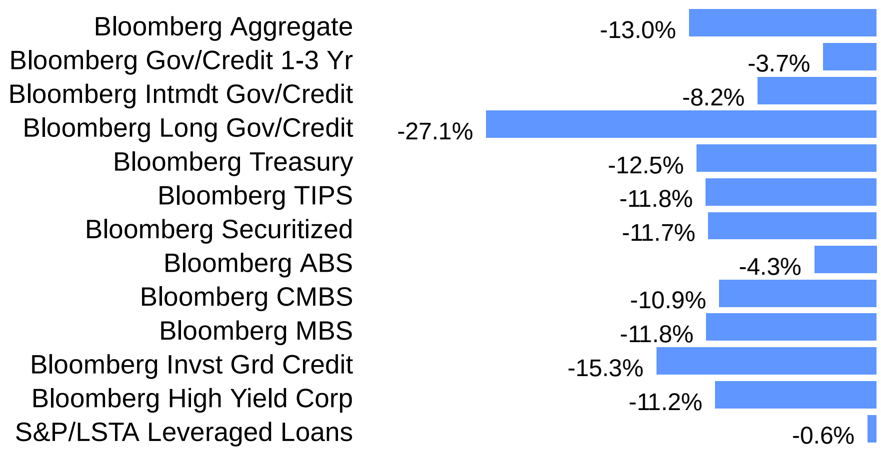
Valuations fair

- While absolute yields are higher, spreads have not widened materially and most are close to historical averages.
- An economic slowdown/recession could impact credit spreads.
- Higher yields boosting forward-looking return outlooks across sectors

U.S. Fixed Income Returns: Quarter Ended 12/31/22



U.S. Fixed Income Returns: One Year Ended 12/31/22



Sources: Bloomberg, S&P Dow Jones Indices

U.S. Private Real Estate Performance: 4Q22

Appreciation returns negative once again

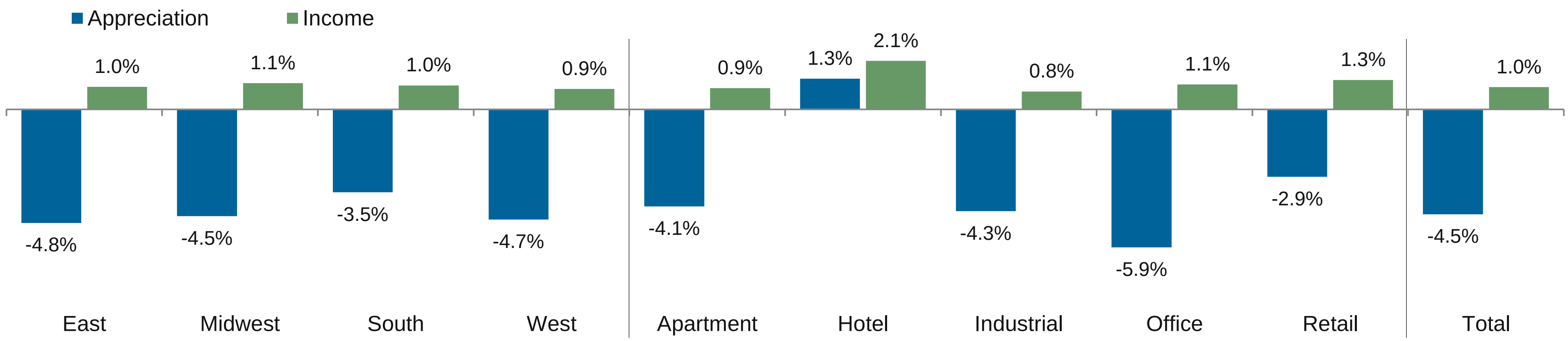
Negative appreciation in four major sectors

- Income returns were positive across sectors and regions.
- All property sectors and regions, except for Hotel, experienced negative appreciation.
- Valuations are reflective of higher interest rates, which have put upward pressure on capitalization rate and discount rate assumptions.
- Return dispersion by manager within the ODCE Index was due to the composition of underlying portfolios.

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
NCREIF ODCE	-5.2%	6.6%	9.0%	7.7%	9.1%
Income	0.6%	2.6%	2.9%	3.0%	3.4%
Appreciation	-5.8%	3.9%	6.0%	4.6%	5.5%
NCREIF Property Index	-3.5%	5.5%	8.1%	7.5%	8.8%
Income	1.0%	3.9%	4.1%	4.3%	4.7%
Appreciation	-4.5%	1.6%	3.8%	3.1%	4.0%

Returns are geometrically linked

NCREIF Property Index Quarterly Returns by Region and Property Type



Source: NCREIF, ODCE return is net

NDSIB Total Performance Summary

Conclusions and observations

1. **Are the Plans' assets invested as outlined in the Plan's Investment Policy Statement?**
   - Each of the Trust's asset allocation were within policy ranges as of December 31, 2022.
2. **Are the Plans' cash flows being managed consistent with the Plan's strategic asset allocation policy?**
   - Each Trust's cash flows were managed to rebalance towards strategic targets as of December 31, 2022.
3. **Are the Plans' investment results meeting strategic objectives?**
   - Total Fund returns have each exceeded their respective benchmarks on a net-of-fee basis for the trailing five-year period ended December 31, 2022.
4. **Are the fees paid to managers reasonable given the competitive landscape and given the value delivered?**
   - In most cases, Total Fund net-of-fee results exceed benchmark.
5. **Are any corrective steps necessary to bring the Plan back into compliance with long-term objectives?**
   - No action steps are recommended as the Plans are meeting objectives.

NDSIB Consolidated Gross Performance Summary

As of December 31, 2022

	Last Quarter	Last Year	Last 5 Years
Consolidated Pension Trust	4.71%	-10.49%	5.94%
Consolidated Pension Trust Target	*5.11%*	*-10.42%*	*5.78%*
Relative Performance vs. Target	-0.40%	-0.07%	0.16%
PERS Total Fund	4.90%	-10.64%	5.97%
NDSIB PERS Total Fund Target	*5.29%*	*-10.72%*	*5.69%*
Relative Performance vs. Target	-0.39%	0.08%	0.28%
TFFR Total Fund	4.43%	-10.32%	5.94%
NDSIB TFFR Total Fund Target	*4.88%*	*-10.01%*	*5.93%*
Relative Performance vs. Target	-0.45%	-0.31%	0.01%
WSI Total Fund	3.30%	-12.11%	2.81%
NDSIB WSI Total Fund Target	*3.17%*	*-12.13%*	*2.31%*
Relative Performance vs. Target	0.13%	0.02%	0.50%
Legacy - Total Fund	5.59%	-12.70%	4.22%
NDSIB Legacy - Total Fund Target	*5.16%*	*-13.53%*	*3.75%*
Relative Performance vs. Target	0.43%	0.83%	0.47%
Budget - Total Fund	1.32%	-4.89%	1.19%
NDSIB Budget - Total Fund Target	*0.89%*	*-3.63%*	*0.93%*
Relative Performance vs. Target	0.43%	-1.26%	0.26%

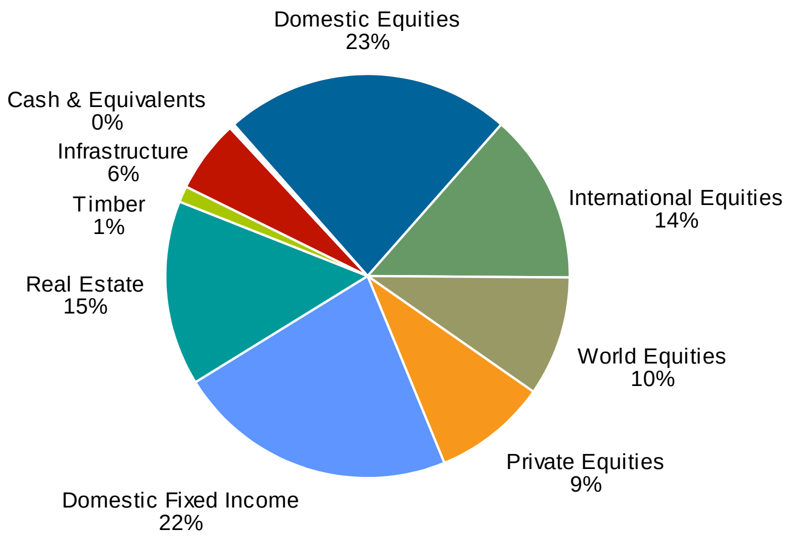
Callan

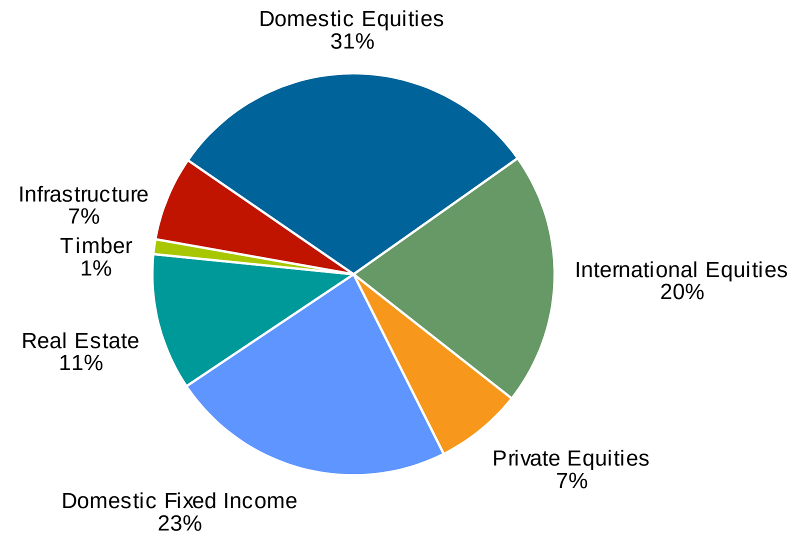
Consolidated Pension Trusts
Quarterly Review

- Public Employees Retirement System
- Teachers' Fund for Retirement

PERS Allocation

As of December 31, 2022

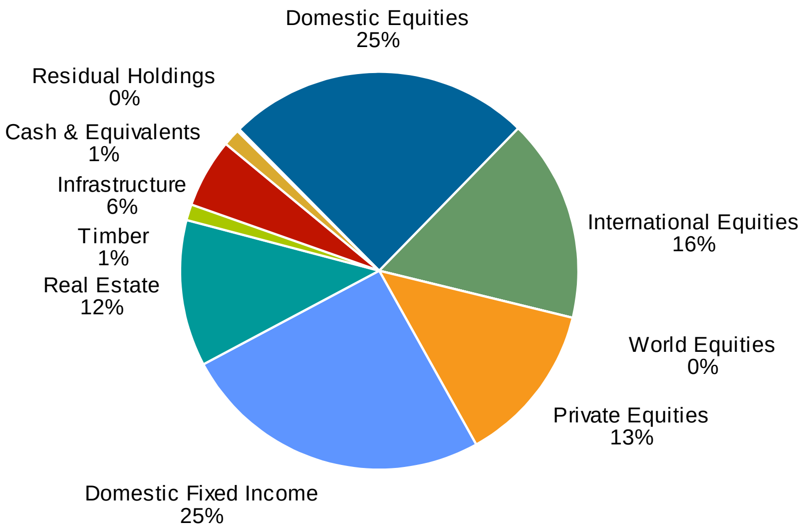


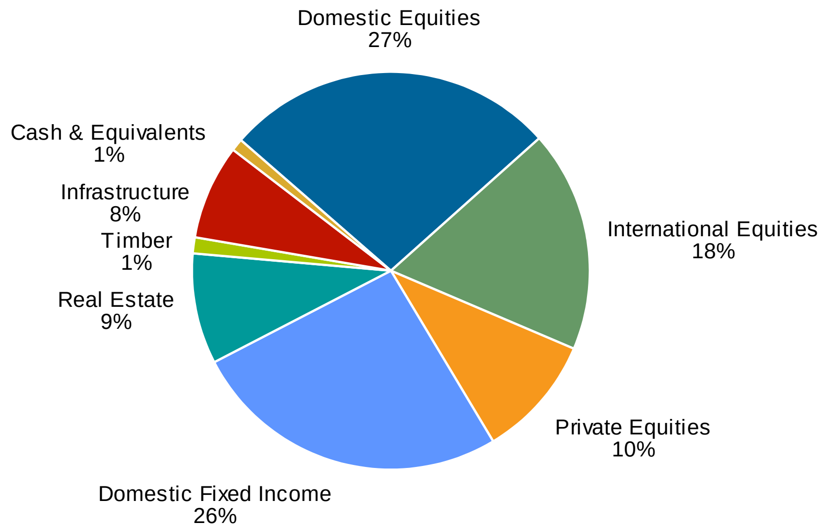


Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Domestic Equities	1,059,194	28.7%	30.6%	(1.9%)	(71,038)
International Equities	705,082	19.1%	20.4%	(1.3%)	(47,232)
World Equities	40	0.0%	0.0%	0.0%	40
Private Equities	339,884	9.2%	7.0%	2.2%	81,495
Domestic Fixed Income	791,360	21.4%	23.0%	(1.6%)	(57,631)
Real Estate	512,687	13.9%	11.0%	2.9%	106,648
Timber	43,429	1.2%	1.2%	0.0%	0
Infrastructure	203,245	5.5%	6.8%	(1.3%)	(48,627)
Cash & Equivalents	35,981	1.0%	0.0%	1.0%	35,981
Residual Holdings	365	0.0%	0.0%	0.0%	365
Total	3,691,267	100.0%	100.0%		

TFFR Allocation

As of December 31, 2022

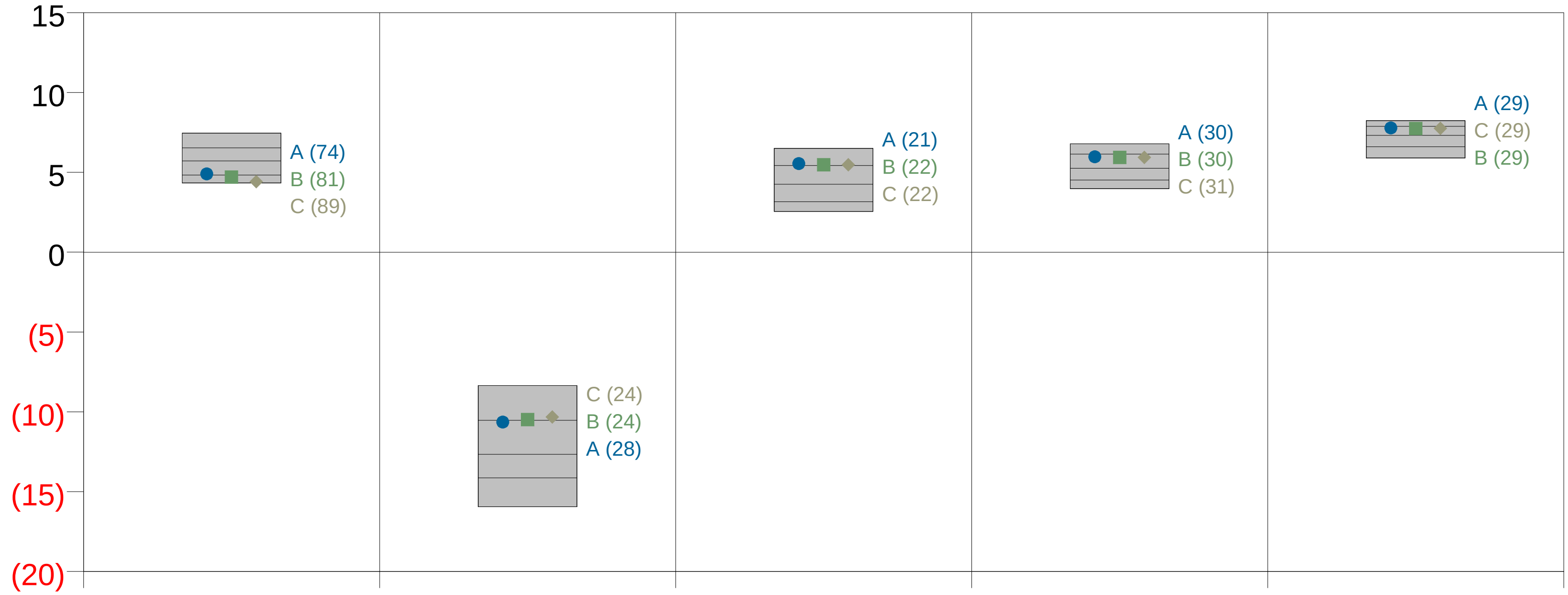




Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Domestic Equities	730,651	24.7%	27.0%	(2.3%)	(66,968)
International Equities	486,287	16.5%	18.0%	(1.5%)	(44,631)
World Equities	365	0.0%	0.0%	0.0%	365
Private Equities	385,564	13.1%	10.0%	3.1%	90,333
Domestic Fixed Income	745,933	25.3%	26.0%	(0.7%)	(21,666)
Real Estate	352,250	11.9%	9.0%	2.9%	86,543
Timber	38,766	1.3%	1.3%	0.0%	0
Infrastructure	166,438	5.6%	7.7%	(2.0%)	(60,504)
Cash & Equivalents	42,731	1.4%	1.0%	0.4%	13,208
Residual Holdings	3,319	0.1%	0.0%	0.1%	3,319
Total	2,952,305	100.0%	100.0%		

Consolidated Pension Trust, PERS, and TFFR Performance Rankings

Returns for Periods Ended December 31, 2022
Group: Callan Public Fund Sponsor Database

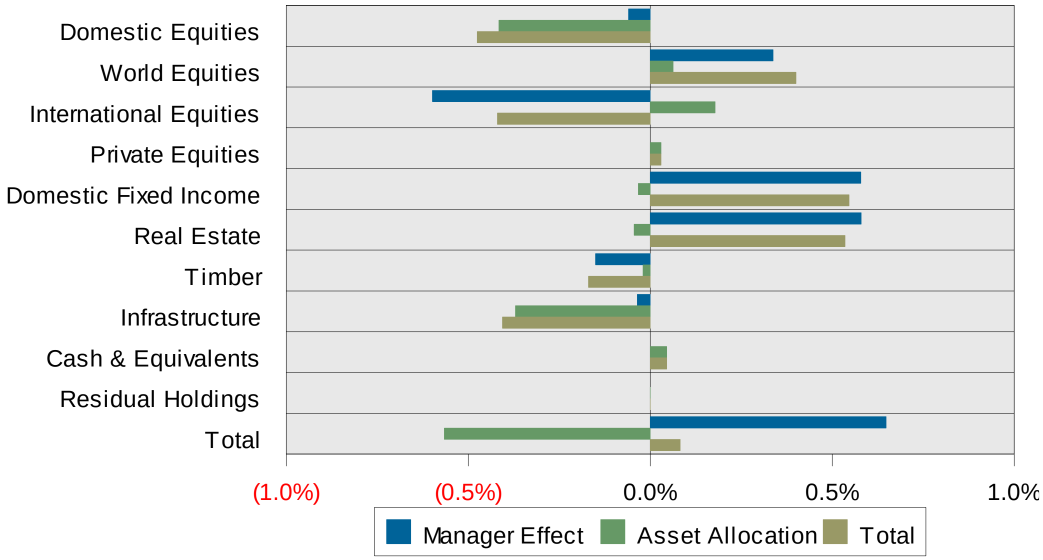


		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile		7.46	(8.35)	6.51	6.79	8.25
25th Percentile		6.54	(10.53)	5.43	6.15	7.89
Median		5.72	(12.66)	4.26	5.26	7.32
75th Percentile		4.84	(14.14)	3.16	4.52	6.61
90th Percentile		4.34	(15.94)	2.56	3.98	5.91
NDPERS-Total Fund	● A	4.90	(10.64)	5.55	5.97	7.78
NDPEN-Total Fund	■ B	4.71	(10.49)	5.49	5.94	7.75
NDTFFR-Total Fund	◆ C	4.43	(10.32)	5.48	5.94	7.76

PERS Performance and Attribution

As of December 31, 2022

One Year Relative Attribution Effects



Returns for 1 Year Ended 12/31/2022

Return Type	Return (%)
Gross	-10.64%
Net of fees	-10.87%
Target	-10.72%
Net added	-0.15%

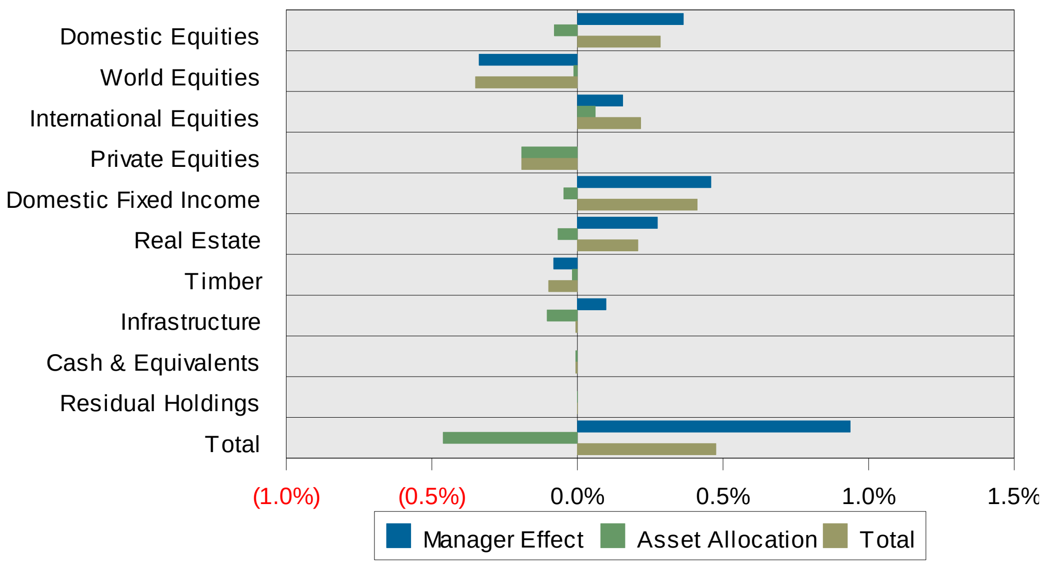
One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equities	25%	26%	(19.52%)	(19.32%)	(0.06%)	(0.42%)	(0.48%)
World Equities	8%	7%	(24.96%)	(27.74%)	0.34%	0.06%	0.40%
International Equities	16%	18%	(19.37%)	(15.99%)	(0.60%)	0.18%	(0.42%)
Private Equities	8%	7%	0.27%	0.27%	0.00%	0.03%	0.03%
Domestic Fixed Income	23%	23%	(10.00%)	(12.40%)	0.58%	(0.03%)	0.55%
Real Estate	13%	11%	11.05%	5.53%	0.58%	(0.04%)	0.54%
Timber	1%	1%	(1.53%)	12.90%	(0.15%)	(0.02%)	(0.17%)
Infrastructure	5%	7%	6.66%	7.91%	(0.04%)	(0.37%)	(0.41%)
Cash & Equivalents	0%	0%	1.52%	1.52%	0.00%	0.05%	0.05%
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**(10.64%) =**	**(10.72%) +**	**0.65% +**	**(0.57%)**	**0.08%**

PERS Performance and Attribution

As of December 31, 2022

Three Year Annualized Relative Attribution Effects



Returns for 3 Years Ended 12/31/2022

Return Type	Return (%)
Gross	5.55%
Net of fees	5.28%
Target	5.08%
Net added	0.20%

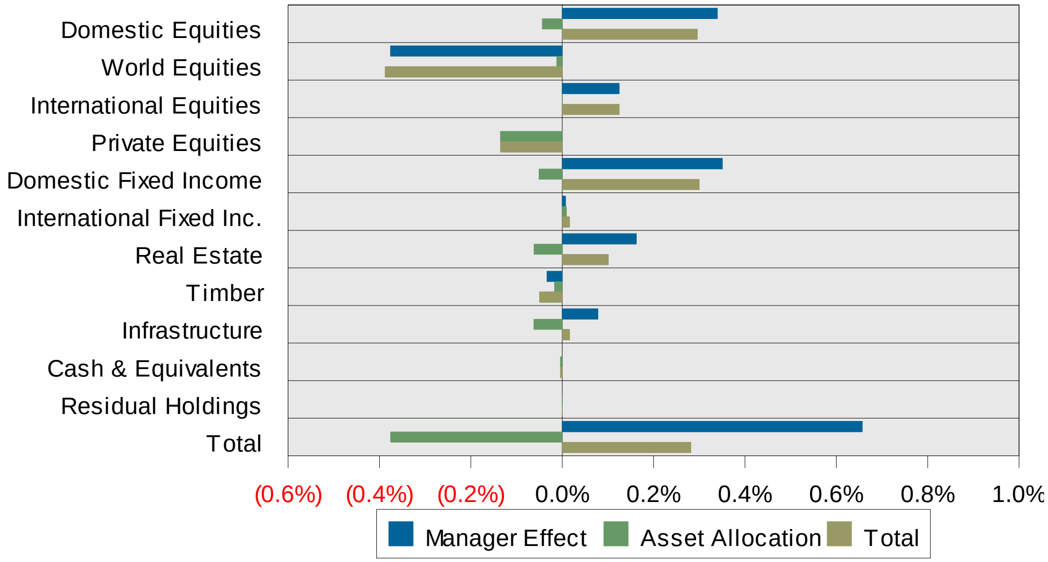
Three Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equities	24%	24%	8.18%	6.56%	0.36%	(0.08%)	0.28%
World Equities	12%	11%	(1.19%)	0.67%	(0.34%)	(0.01%)	(0.35%)
International Equities	16%	16%	1.36%	0.24%	0.16%	0.06%	0.22%
Private Equities	6%	7%	20.96%	20.96%	0.00%	(0.19%)	(0.19%)
Domestic Fixed Income	23%	23%	0.00%	(1.79%)	0.46%	(0.05%)	0.41%
Real Estate	11%	11%	10.39%	8.06%	0.27%	(0.07%)	0.21%
Timber	2%	2%	1.29%	7.51%	(0.08%)	(0.02%)	(0.10%)
Infrastructure	5%	6%	9.06%	7.33%	0.10%	(0.10%)	(0.01%)
Cash & Equivalents	0%	0%	0.71%	0.71%	0.00%	(0.01%)	(0.01%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**5.55% =**	**5.07% +**	**0.94% +**	**(0.46%)**	**0.48%**

PERS Performance and Attribution

As of December 31, 2022

Five Year Annualized Relative Attribution Effects



Returns for 5 Years Ended 12/31/2022

Return Type	Return (%)
Gross	5.97%
Net of fees	5.72%
Target	5.69%
Net added	0.03%

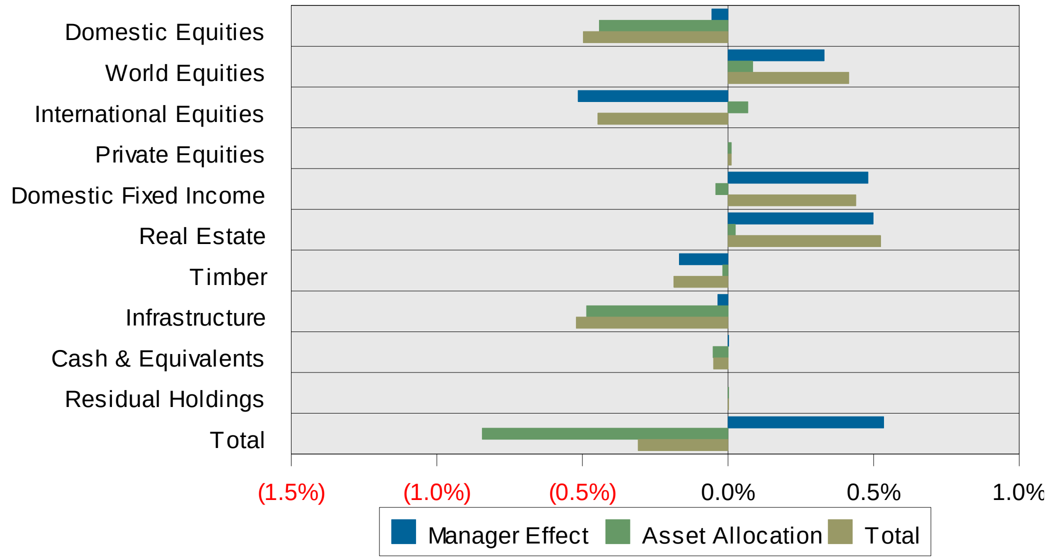
Five Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equities	24%	22%	9.62%	8.10%	0.34%	(0.04%)	0.30%
World Equities	14%	13%	1.35%	3.53%	(0.38%)	(0.01%)	(0.39%)
International Equities	16%	16%	1.84%	1.00%	0.13%	0.00%	0.13%
Private Equities	5%	7%	14.85%	14.85%	0.00%	(0.13%)	(0.13%)
Domestic Fixed Income	23%	23%	2.20%	0.77%	0.35%	(0.05%)	0.30%
International Fixed Inc.	0%	0%	-	-	0.01%	0.01%	0.02%
Real Estate	11%	11%	8.81%	7.46%	0.16%	(0.06%)	0.10%
Timber	2%	2%	2.48%	5.37%	(0.03%)	(0.02%)	(0.05%)
Infrastructure	5%	6%	7.44%	6.00%	0.08%	(0.06%)	0.02%
Cash & Equivalents	0%	0%	1.26%	1.26%	0.00%	(0.00%)	(0.00%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**5.97% =**	**5.69% +**	**0.66% +**	**(0.38%)**	**0.28%**

TFFR Performance and Attribution

As of December 31, 2022

One Year Relative Attribution Effects



Returns for 1 Year Ended 12/31/2022

Return Type	Return (%)
Gross	-10.32%
Net of fees	-10.53%
Target	-10.01%
Net added	-0.52%

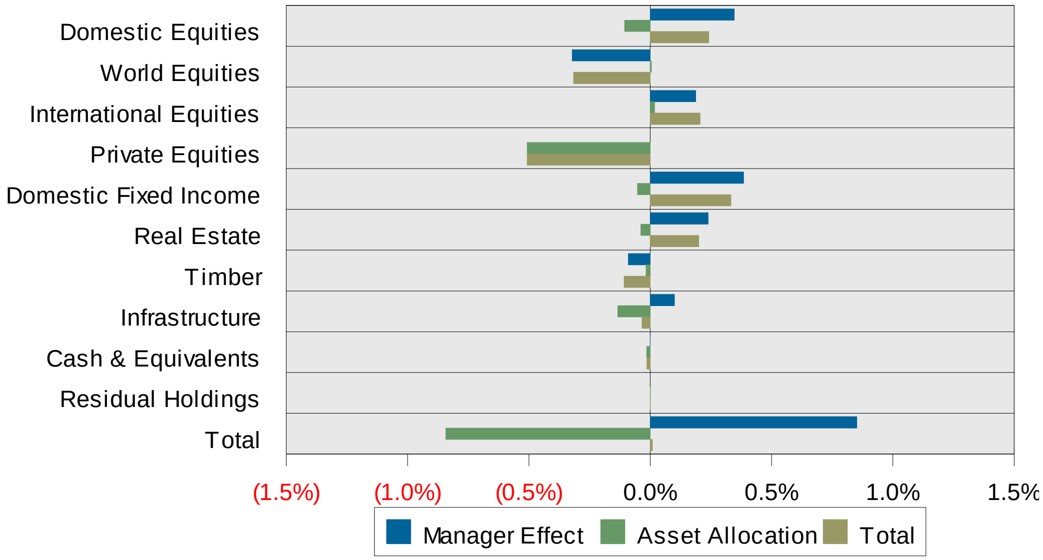
One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equities	23%	23%	(19.52%)	(19.32%)	(0.06%)	(0.44%)	(0.50%)
World Equities	8%	7%	(25.07%)	(27.84%)	0.33%	0.09%	0.42%
International Equities	13%	15%	(19.29%)	(15.99%)	(0.51%)	0.07%	(0.45%)
Private Equities	11%	10%	0.27%	0.27%	0.00%	0.01%	0.01%
Domestic Fixed Income	26%	26%	(10.67%)	(12.39%)	0.48%	(0.04%)	0.44%
Real Estate	11%	9%	11.05%	5.53%	0.50%	0.03%	0.52%
Timber	1%	1%	(1.53%)	12.90%	(0.17%)	(0.02%)	(0.19%)
Infrastructure	5%	8%	6.67%	7.91%	(0.04%)	(0.49%)	(0.52%)
Cash & Equivalents	1%	1%	1.68%	1.46%	0.00%	(0.05%)	(0.05%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**(10.32%) =**	**(10.01%) +**	**0.54% +**	**(0.84%)**	**(0.31%)**

TFFR Performance and Attribution

As of December 31, 2022

Three Year Annualized Relative Attribution Effects



Returns for 3 Years Ended 12/31/2022

Return Type	Return (%)
Gross	5.48%
Net of fees	5.23%
Target	5.47%
Net added	-0.24%

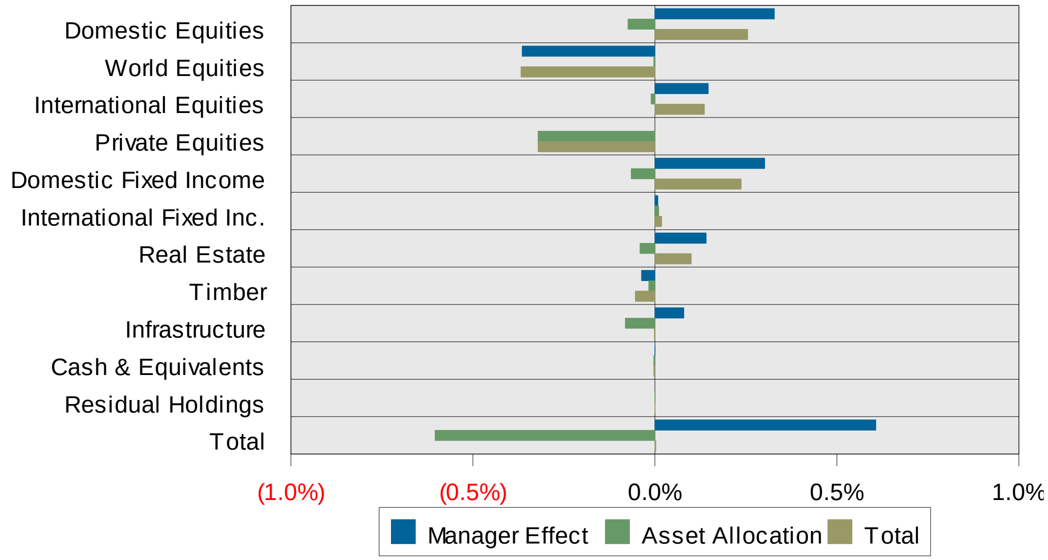
Three Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equities	23%	22%	8.20%	6.57%	0.35%	(0.11%)	0.24%
World Equities	11%	11%	(1.23%)	0.62%	(0.32%)	0.01%	(0.32%)
International Equities	14%	14%	1.32%	0.12%	0.19%	0.02%	0.21%
Private Equities	8%	9%	20.96%	20.96%	0.00%	(0.51%)	(0.51%)
Domestic Fixed Income	26%	25%	(0.43%)	(1.78%)	0.39%	(0.05%)	0.33%
Real Estate	10%	9%	10.38%	8.06%	0.24%	(0.04%)	0.20%
Timber	2%	2%	1.29%	7.51%	(0.09%)	(0.02%)	(0.11%)
Infrastructure	5%	7%	9.06%	7.33%	0.10%	(0.13%)	(0.03%)
Cash & Equivalents	1%	1%	0.76%	0.72%	0.00%	(0.01%)	(0.01%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**5.48% =**	**5.47% +**	**0.85% +**	**(0.84%)**	**0.01%**

TFFR Performance and Attribution

As of December 31, 2022

Five Year Annualized Relative Attribution Effects



Returns for 5 Years Ended 12/31/2022

Return Type	Return (%)
Gross	5.94%
Net of fees	5.69%
Target	5.93%
Net added	-0.24%

Five Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equities	23%	22%	9.64%	8.12%	0.33%	(0.07%)	0.25%
World Equities	13%	13%	1.33%	3.50%	(0.36%)	(0.00%)	(0.37%)
International Equities	15%	15%	1.86%	0.96%	0.15%	(0.01%)	0.14%
Private Equities	6%	8%	14.85%	14.85%	0.00%	(0.32%)	(0.32%)
Domestic Fixed Income	25%	24%	1.90%	0.76%	0.30%	(0.06%)	0.24%
International Fixed Inc.	0%	0%	-	-	0.01%	0.01%	0.02%
Real Estate	10%	10%	8.81%	7.46%	0.14%	(0.04%)	0.10%
Timber	2%	2%	2.48%	5.37%	(0.04%)	(0.02%)	(0.05%)
Infrastructure	5%	6%	7.44%	6.00%	0.08%	(0.08%)	(0.00%)
Cash & Equivalents	1%	1%	1.29%	1.26%	0.00%	(0.00%)	(0.00%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**5.94% =**	**5.93% +**	**0.61% +**	**(0.60%)**	**0.00%**

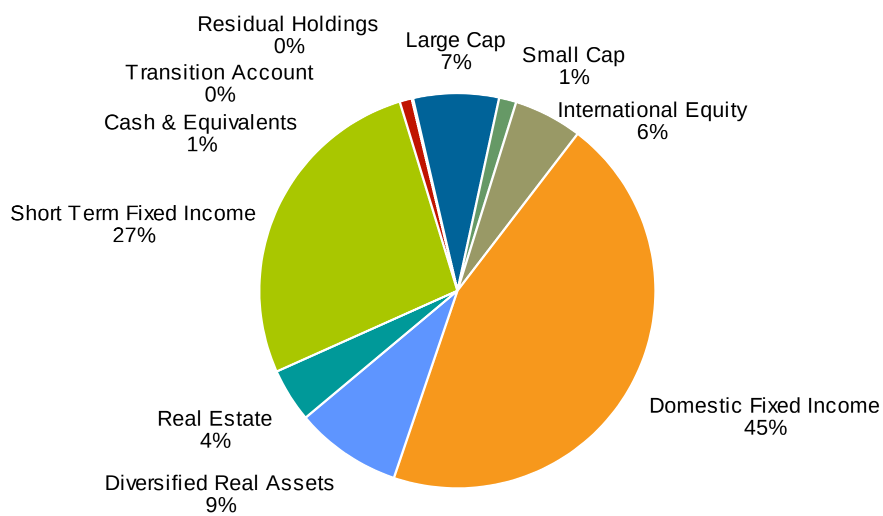
Consolidated Insurance Trust
Quarterly Review

- Workforce Safety and Insurance Legacy Fund
- Budget Stabilization Fund

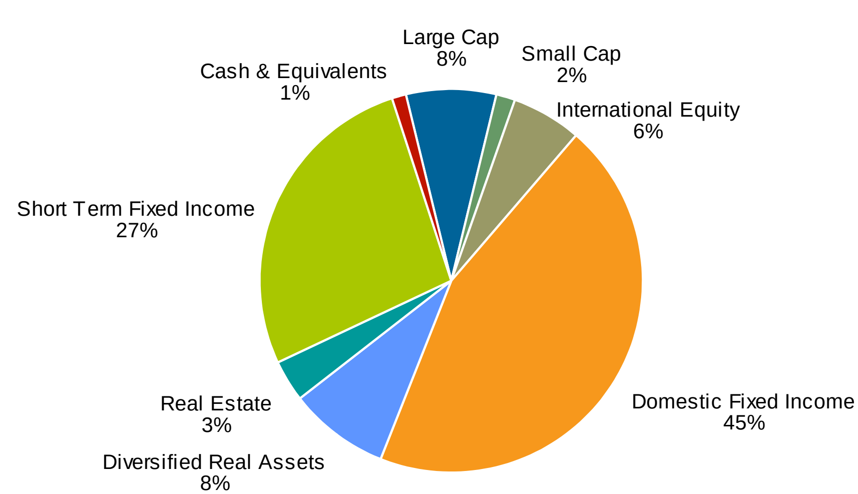
Consolidated Insurance Trust Allocation

As of December 31, 2022

Actual Asset Allocation



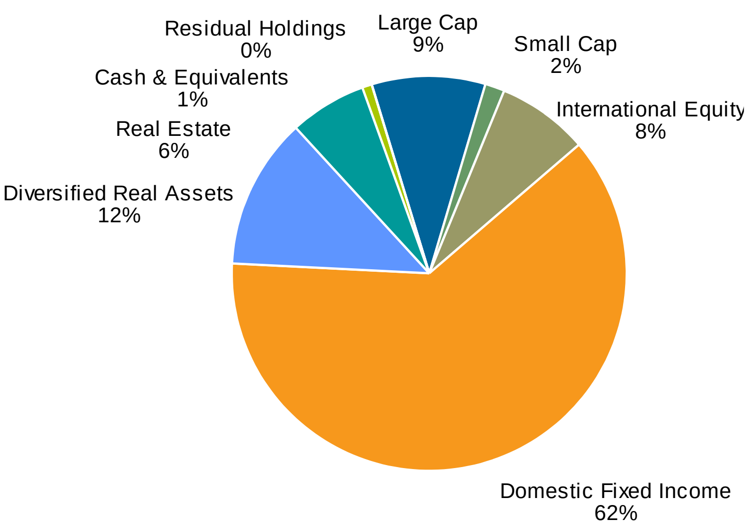
Target Asset Allocation

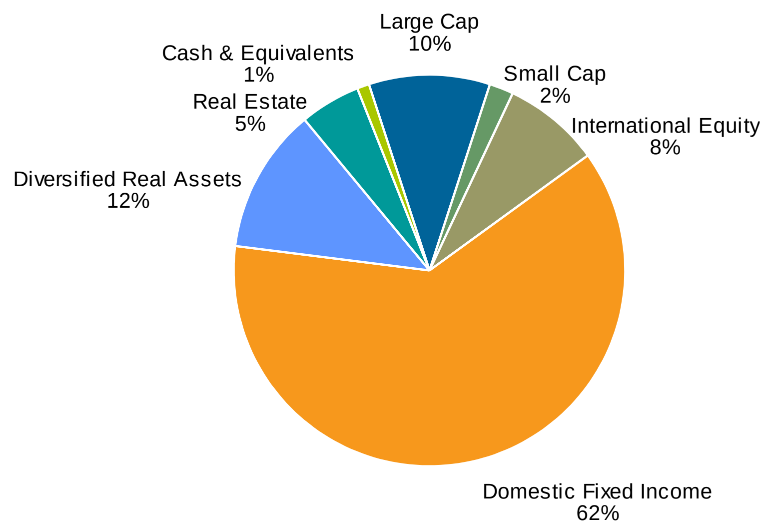


Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Large Cap	201,206	7.0%	7.6%	(0.5%)	(15,490)
Small Cap	40,080	1.4%	1.6%	(0.2%)	(6,955)
International Equity	160,322	5.6%	5.9%	(0.3%)	(9,017)
Domestic Fixed Income	1,283,404	44.8%	44.7%	0.1%	2,128
Diversified Real Assets	250,836	8.7%	8.5%	0.2%	7,146
Real Estate	126,372	4.4%	3.5%	0.9%	26,263
Short Term Fixed Income	774,844	27.0%	27.0%	(0.0%)	(0)
Cash & Equivalents	30,105	1.0%	1.2%	(0.2%)	(4,389)
Transition Account	0	0.0%	0.0%	0.0%	0
Residual Holdings	314	0.0%	0.0%	0.0%	314
Total	2,867,484	100.0%	100.0%		

WSI Allocation

As of December 31, 2022



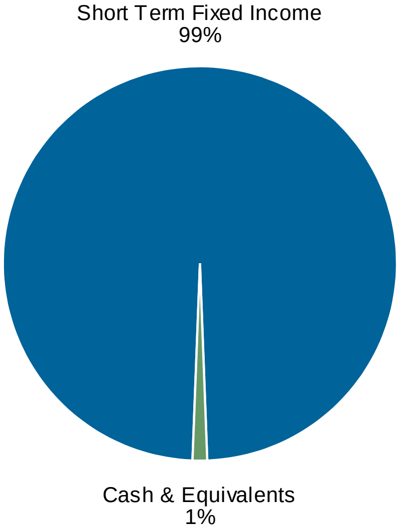


Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Large Cap	185,270	9.3%	10.0%	(0.7%)	(14,453)
Small Cap	32,879	1.6%	2.0%	(0.4%)	(7,066)
International Equity	150,631	7.5%	8.0%	(0.5%)	(9,148)
Domestic Fixed Income	1,240,012	62.1%	62.0%	0.1%	1,727
Diversified Real Assets	246,781	12.4%	12.0%	0.4%	7,113
Real Estate	126,137	6.3%	5.0%	1.3%	26,275
Cash & Equivalents	15,524	0.8%	1.0%	(0.2%)	(4,449)
Total	1,997,233	100.0%	100.0%		

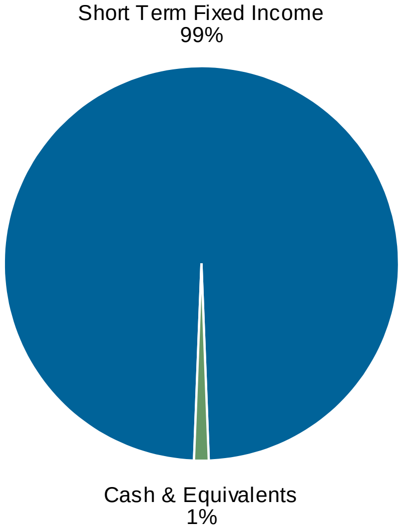
Budget Stabilization Fund Allocation

As of December 31, 2022

Actual Asset Allocation



Target Asset Allocation

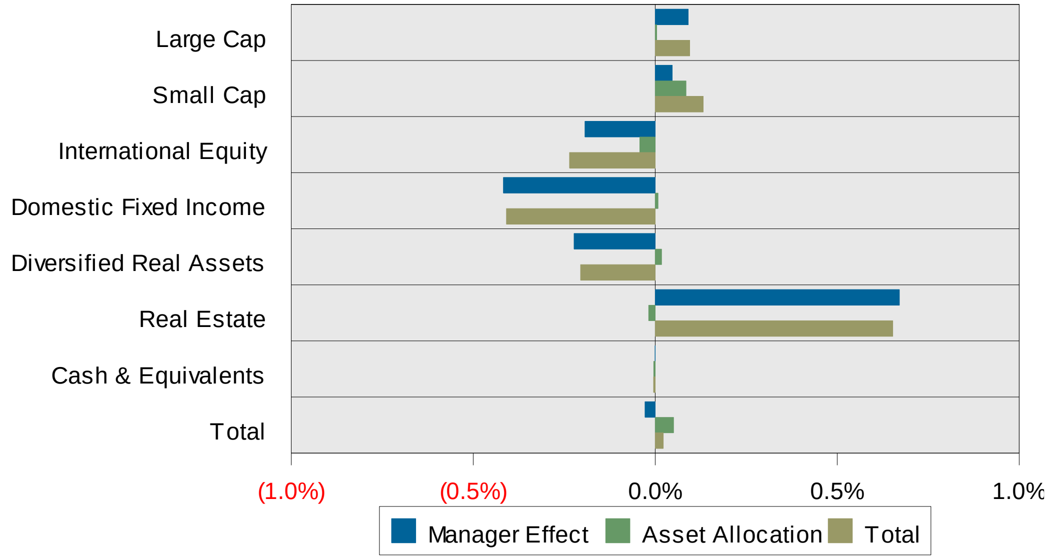


Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Short Term Fixed Income	716,492	99.5%	99.3%	0.1%	926
Cash & Equivalents	3,828	0.5%	0.7%	(0.1%)	(926)
Total	720,320	100.0%	100.0%		

WSI Performance and Attribution

As of December 31, 2022

One Year Relative Attribution Effects



Returns for 1 Year Ended 12/31/2022

Return Type	Return (%)
Gross	-12.11%
Net of fees	-12.26%
Target	-12.13%
Net added	-0.13%

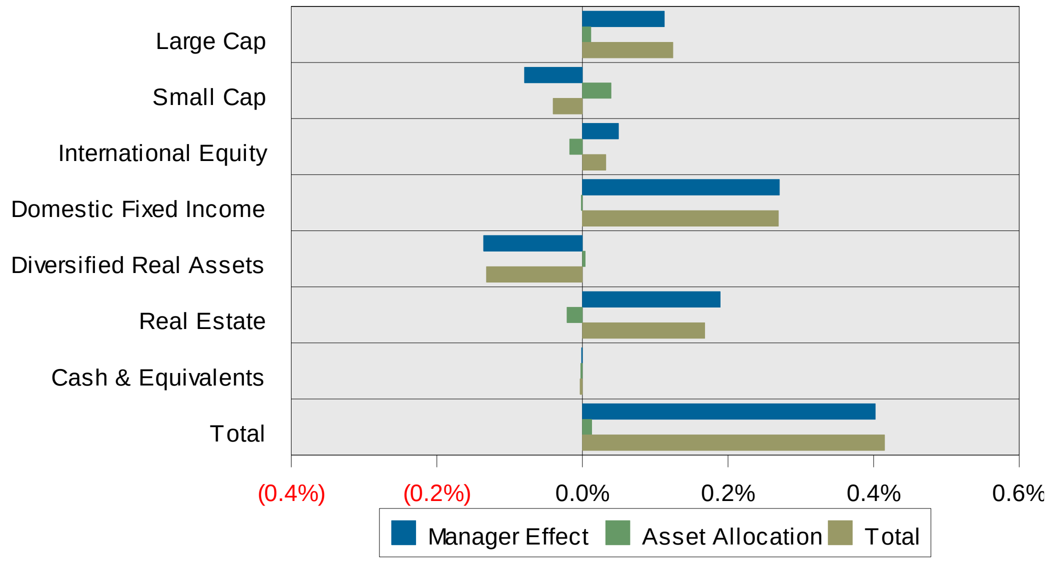
One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	10%	11%	(18.18%)	(19.13%)	0.09%	0.00%	0.10%
Small Cap	2%	2%	(17.16%)	(20.44%)	0.05%	0.09%	0.13%
International Equity	7%	8%	(18.07%)	(15.79%)	(0.19%)	(0.04%)	(0.24%)
Domestic Fixed Income	62%	61%	(13.67%)	(13.01%)	(0.42%)	0.01%	(0.41%)
Diversified Real Assets	12%	12%	(7.07%)	(5.19%)	(0.22%)	0.02%	(0.21%)
Real Estate	6%	5%	20.63%	5.53%	0.67%	(0.02%)	0.65%
Cash & Equivalents	1%	1%	1.42%	1.46%	(0.00%)	(0.00%)	(0.00%)
Total			**(12.11%)** =	**(12.13%)** +	**(0.03%)** +	**0.05%**	**0.02%**

WSI Performance and Attribution

As of December 31, 2022

Three Year Annualized Relative Attribution Effects



Returns for 3 Years Ended 12/31/2022

Return Type	Return (%)
Gross	0.76%
Net of fees	0.58%
Target	0.35%
Net added	0.23%

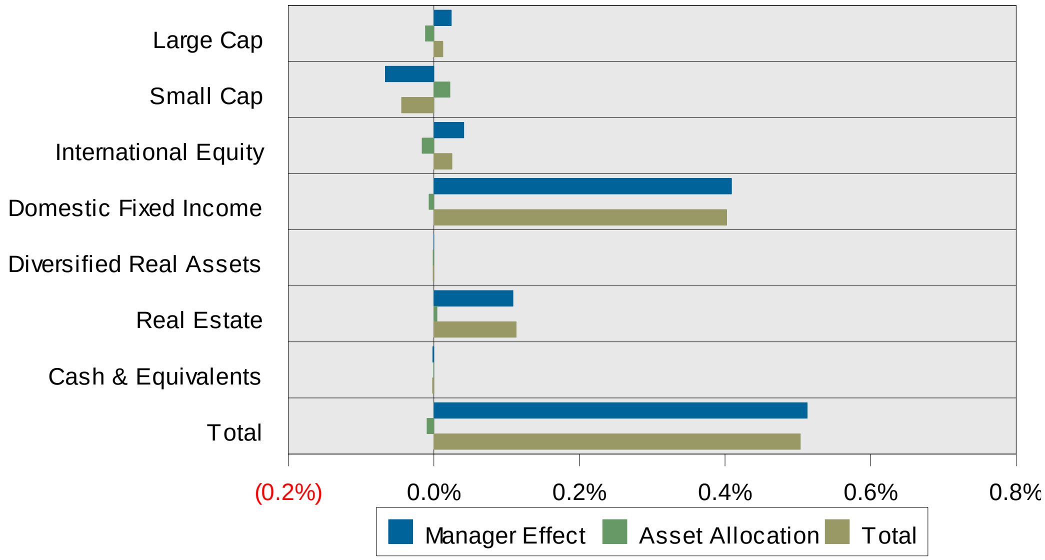
Three Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	11%	11%	8.40%	7.35%	0.11%	0.01%	0.12%
Small Cap	3%	3%	1.68%	3.10%	(0.08%)	0.04%	(0.04%)
International Equity	8%	8%	1.26%	0.67%	0.05%	(0.02%)	0.03%
Domestic Fixed Income	61%	60%	(2.19%)	(2.71%)	0.27%	(0.00%)	0.27%
Diversified Real Assets	12%	12%	1.94%	3.03%	(0.14%)	0.00%	(0.13%)
Real Estate	5%	5%	11.30%	8.06%	0.19%	(0.02%)	0.17%
Cash & Equivalents	1%	1%	0.63%	0.72%	(0.00%)	(0.00%)	(0.00%)
Total			**0.76% =**	**0.35% +**	**0.40% +**	**0.01%**	**0.42%**

WSI Performance and Attribution

As of December 31, 2022

Five Year Annualized Relative Attribution Effects



Returns for 5 Years Ended 12/31/2022

Return Type	Return (%)
Gross	2.81%
Net of fees	2.63%
Target	2.31%
Net added	0.32%

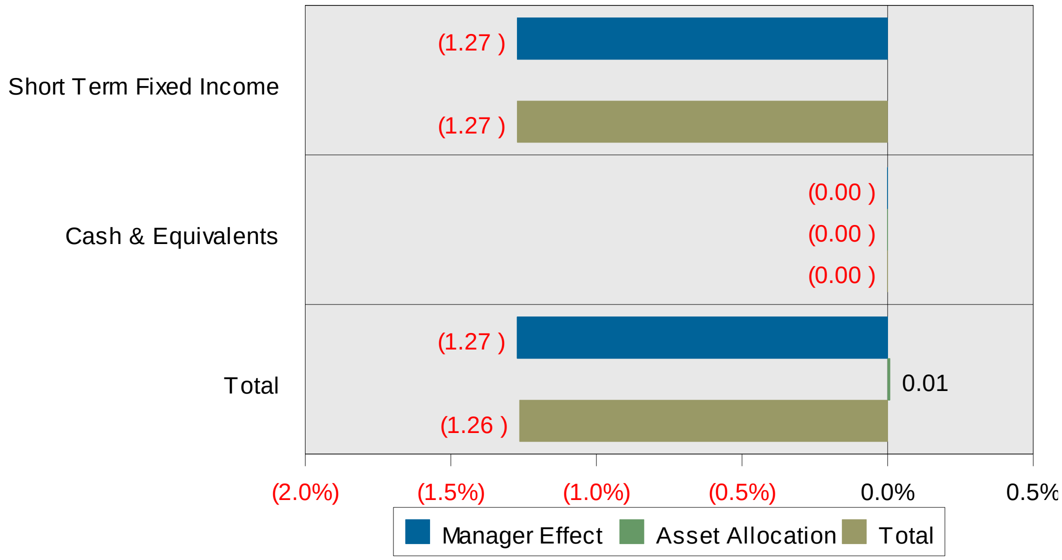
Five Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	11%	11%	9.34%	9.13%	0.02%	(0.01%)	0.01%
Small Cap	3%	3%	2.76%	4.13%	(0.07%)	0.02%	(0.04%)
International Equity	8%	8%	1.78%	1.43%	0.04%	(0.02%)	0.02%
Domestic Fixed Income	60%	59%	0.76%	0.02%	0.41%	(0.01%)	0.40%
Diversified Real Assets	12%	12%	3.14%	3.17%	(0.00%)	(0.00%)	(0.00%)
Real Estate	5%	5%	9.16%	7.46%	0.11%	0.00%	0.11%
Cash & Equivalents	1%	1%	1.15%	1.26%	(0.00%)	(0.00%)	(0.00%)
Total			**2.81% =**	**2.31% +**	**0.51% +**	**(0.01%)**	**0.50%**

Budget Stabilization Fund Performance and Attribution

As of December 31, 2022

One Year Relative Attribution Effects



Returns for 1 Year Ended 12/31/2022

Return Type	Return (%)
Gross	-4.89%
Net of fees	-4.99%
Target	-3.63%
Net added	-1.36%

One Year Relative Attribution Effects

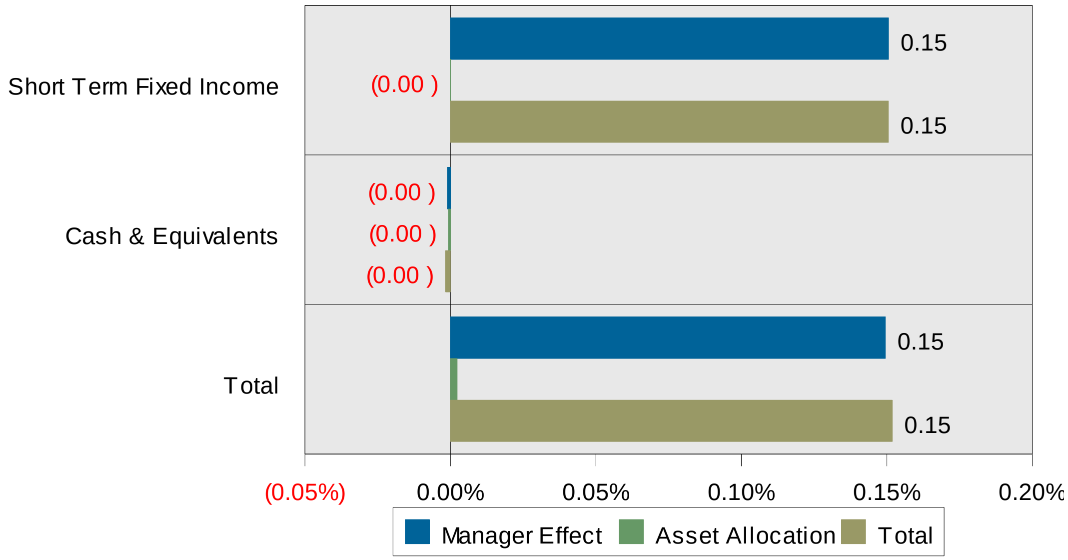
Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Short Term Fixed Income	99%	99%	(4.98%)	(3.69%)	(1.27%)	0.00%	(1.27%)
Cash & Equivalents	1%	1%	1.46%	1.46%	(0.00%)	(0.00%)	(0.00%)
Total			**(4.89%)** =	**(3.63%)** +	**(1.27%)** +	**0.01%**	**(1.26%)**

Callan Knowledge. Experience. Integrity.

Budget Stabilization Fund Performance and Attribution

As of December 31, 2022

Three Year Annualized Relative Attribution Effects



Returns for 3 Years Ended 12/31/2022

Return Type	Return (%)
Gross	-0.15%
Net of fees	-0.27%
Target	-0.30%
Net added	0.03%

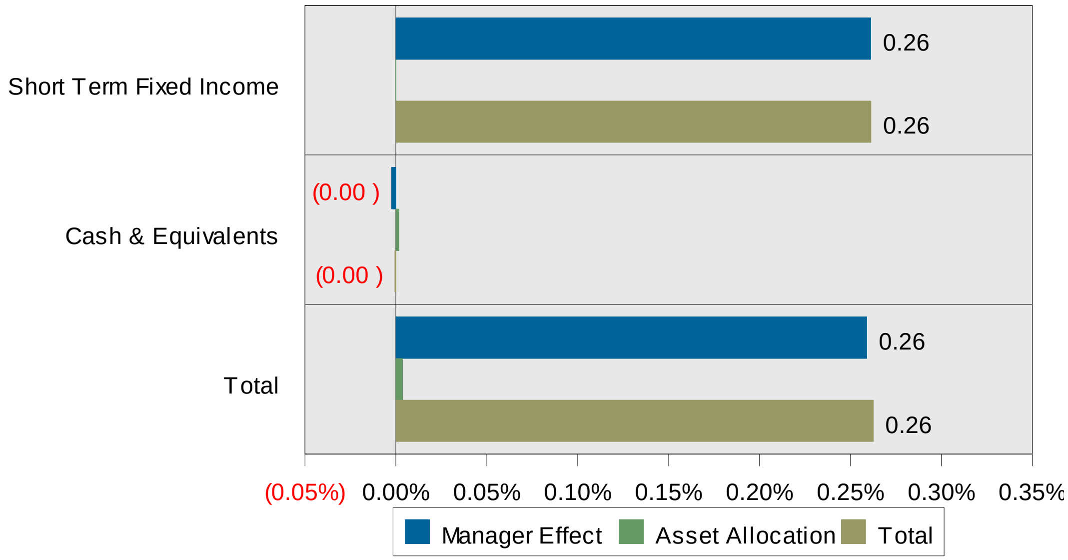
Three Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Short Term Fixed Income	99%	99%	(0.17%)	(0.32%)	0.15%	(0.00%)	0.15%
Cash & Equivalents	1%	1%	0.65%	0.72%	(0.00%)	(0.00%)	(0.00%)
Total			**(0.15%) =**	**(0.30%) +**	**0.15% +**	**0.00%**	**0.15%**

Budget Stabilization Fund Performance and Attribution

As of December 31, 2022

Five Year Annualized Relative Attribution Effects



Returns for 5 Years Ended 12/31/2022

Return Type	Return (%)
Gross	1.19%
Net of fees	1.08%
Target	0.93%
Net added	0.15%

Five Year Annualized Relative Attribution Effects

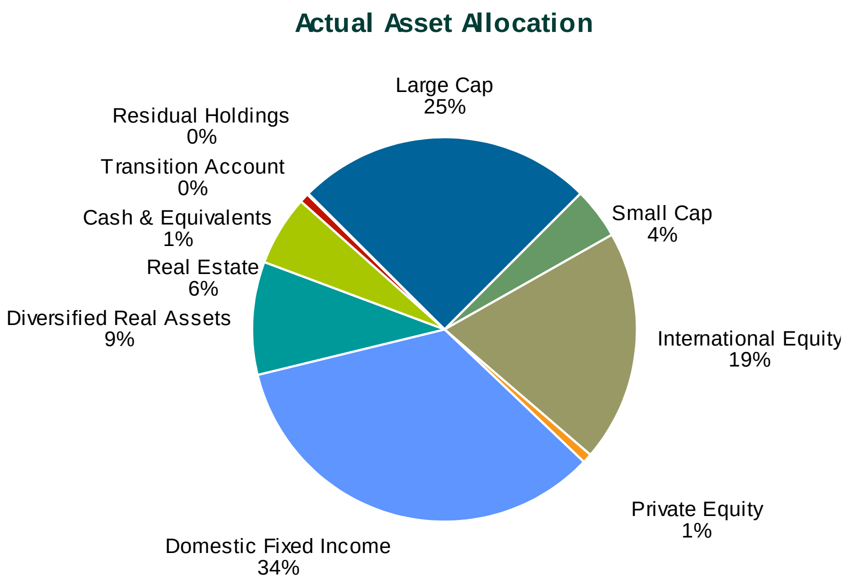
Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Short Term Fixed Income	98%	98%	1.18%	0.92%	0.26%	0.00%	0.26%
Cash & Equivalents	2%	2%	1.15%	1.26%	(0.00%)	0.00%	(0.00%)
Total			**1.19% =**	**0.93% +**	**0.26% +**	**0.00%**	**0.26%**

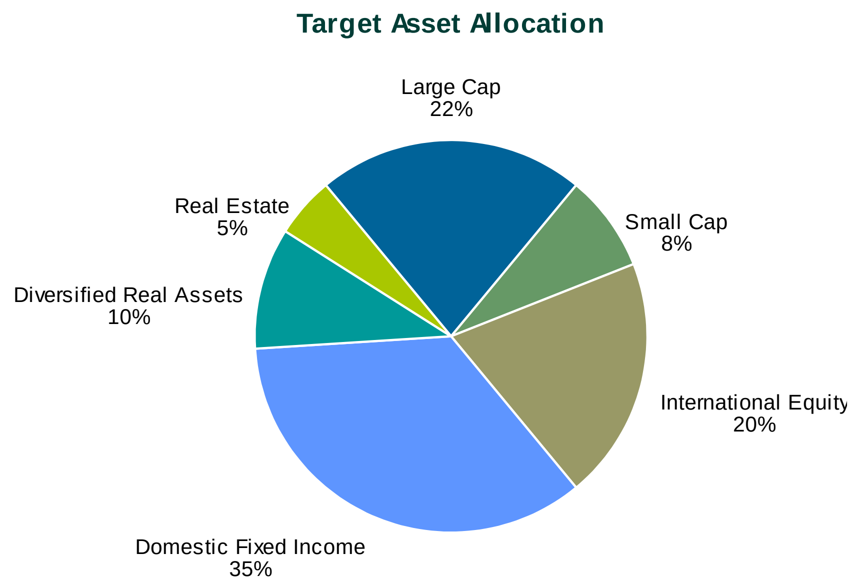
Callan

Legacy Fund Quarterly Review

Legacy Fund Allocation

As of December 31, 2022



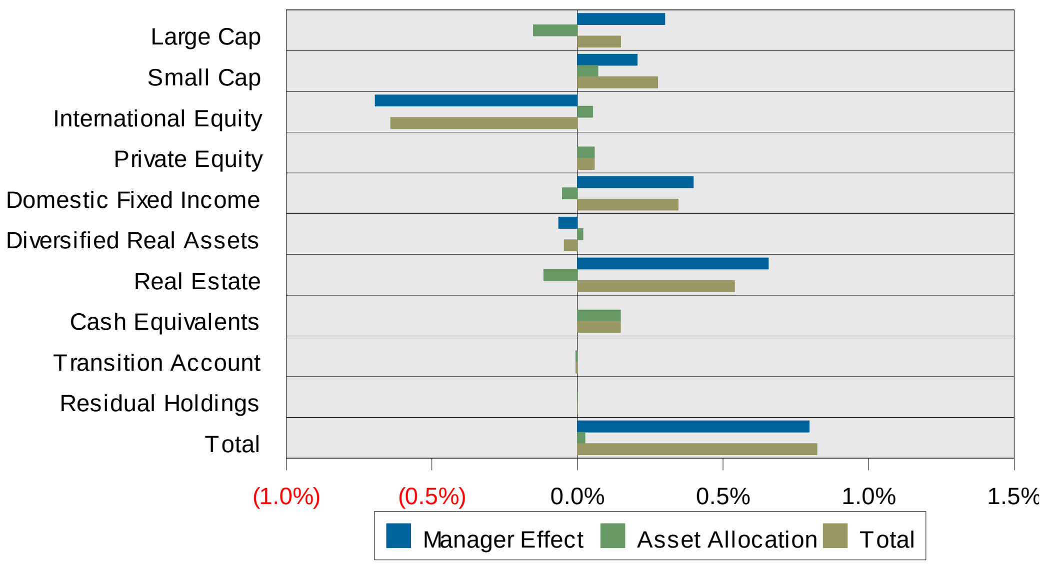


Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Large Cap	2,119,700	25.0%	22.0%	3.0%	254,334
Small Cap	365,221	4.3%	8.0%	(3.7%)	(313,094)
International Equity	1,652,145	19.5%	20.0%	(0.5%)	(43,643)
Private Equity	68,744	0.8%	0.0%	0.8%	68,744
Domestic Fixed Income	2,893,503	34.1%	35.0%	(0.9%)	(74,125)
Diversified Real Assets	803,917	9.5%	10.0%	(0.5%)	(43,977)
Real Estate	504,478	5.9%	5.0%	0.9%	80,531
Cash & Equivalents	68,774	0.8%	0.0%	0.8%	68,774
Transition Account	43	0.0%	0.0%	0.0%	43
Residual Holdings	2,414	0.0%	0.0%	0.0%	2,414
Total	8,478,937	100.0%	100.0%		

Legacy Performance and Attribution

As of December 31, 2022

One Year Relative Attribution Effects



Returns for 1 Year Ended 12/31/2022

Return Type	Return (%)
Gross	-12.70%
Net of fees	-12.89%
Target	-13.53%
Net added	0.64%

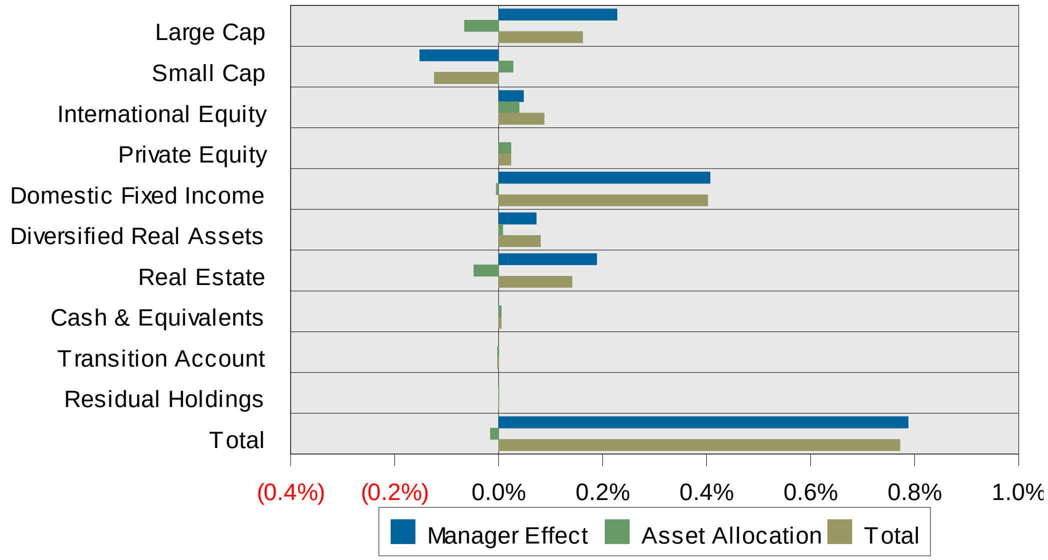
One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	23%	23%	(17.89%)	(19.13%)	0.30%	(0.15%)	0.15%
Small Cap	6%	6%	(17.09%)	(20.44%)	0.21%	0.07%	0.28%
International Equity	19%	20%	(19.26%)	(15.79%)	(0.69%)	0.05%	(0.64%)
Private Equity	1%	1%	0.85%	0.85%	0.00%	0.06%	0.06%
Domestic Fixed Income	34%	35%	(11.82%)	(13.01%)	0.40%	(0.05%)	0.35%
Diversified Real Assets	10%	10%	(3.56%)	(2.92%)	(0.06%)	0.02%	(0.05%)
Real Estate	6%	5%	20.97%	5.53%	0.66%	(0.12%)	0.54%
Cash Equivalents	1%	0%	1.42%	1.42%	0.00%	0.15%	0.15%
Transition Account	0%	0%	-	-	0.00%	(0.01%)	(0.01%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**(12.70%) =**	**(13.53%) +**	**0.80% +**	**0.03%**	**0.82%**

Legacy Performance and Attribution

As of December 31, 2022

Three Year Annualized Relative Attribution Effects



Returns for 3 Years Ended 12/31/2022

Return Type	Return (%)
Gross	3.07%
Net of fees	2.85%
Target	2.29%
Net added	0.56%

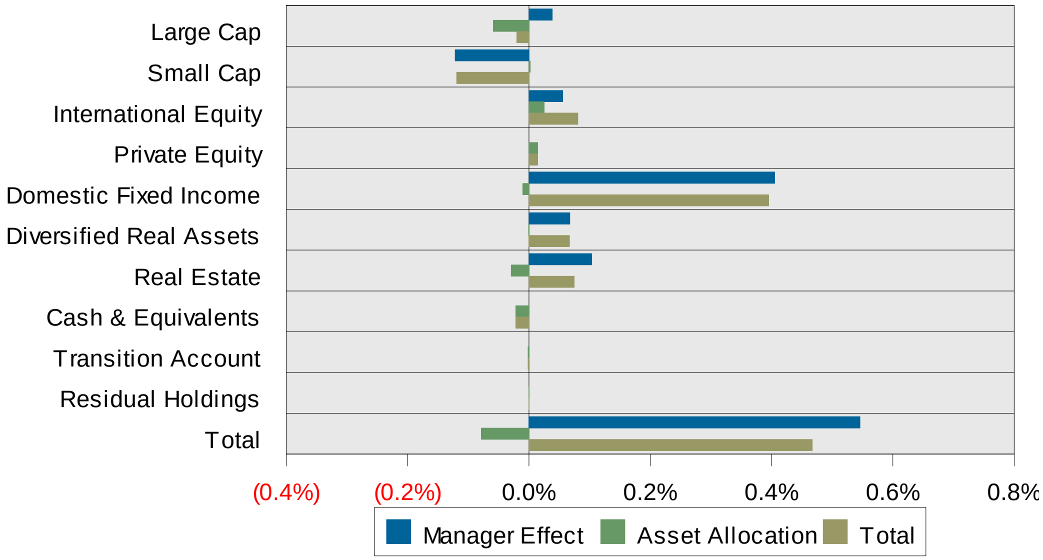
Three Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	22%	22%	8.34%	7.35%	0.23%	(0.07%)	0.16%
Small Cap	7%	7%	1.98%	3.10%	(0.15%)	0.03%	(0.12%)
International Equity	20%	20%	0.80%	0.67%	0.05%	0.04%	0.09%
Private Equity	0%	0%	-	-	0.00%	0.02%	0.02%
Domestic Fixed Income	35%	35%	(1.38%)	(2.71%)	0.41%	(0.00%)	0.40%
Diversified Real Assets	10%	10%	5.15%	4.25%	0.07%	0.01%	0.08%
Real Estate	5%	5%	11.40%	8.06%	0.19%	(0.05%)	0.14%
Cash & Equivalents	1%	0%	0.62%	0.62%	0.00%	0.01%	0.01%
Transition Account	0%	0%	-	-	0.00%	(0.00%)	(0.00%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**3.07% =**	**2.30% +**	**0.79% +**	**(0.02%)**	**0.77%**

Legacy Performance and Attribution

As of December 31, 2022

Five Year Annualized Relative Attribution Effects



Returns for 5 Years Ended 12/31/2022

Return Type	Return (%)
Gross	4.22%
Net of fees	4.01%
Target	3.75%
Net added	0.26%

Five Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	22%	22%	9.25%	9.13%	0.04%	(0.06%)	(0.02%)
Small Cap	8%	8%	3.10%	4.13%	(0.12%)	0.00%	(0.12%)
International Equity	20%	20%	1.58%	1.43%	0.06%	0.03%	0.08%
Private Equity	0%	0%	-	-	0.00%	0.01%	0.01%
Domestic Fixed Income	35%	35%	1.31%	0.02%	0.41%	(0.01%)	0.40%
Diversified Real Assets	10%	10%	4.49%	3.71%	0.07%	(0.00%)	0.07%
Real Estate	5%	5%	9.17%	7.46%	0.10%	(0.03%)	0.07%
Cash & Equivalents	1%	0%	1.14%	1.14%	0.00%	(0.02%)	(0.02%)
Transition Account	0%	0%	-	-	0.00%	(0.00%)	(0.00%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
Total			**4.22% =**	**3.75% +**	**0.55% +**	**(0.08%)**	**0.47%**

Callan Update

Published Research Highlights from 4Q22

Webinar: Rebalancing During this Unusual Market Environment

Considering Currency: A Guide for Institutional Investors

2022 Nuclear Decommissioning Funding Study

2022 ESG Survey

Recent Blog Posts

Unlocking the Secrets of the 'Data Vault'

Bo Abesamis

Index Selection Within TDF Benchmarks Can Make a Big Difference

Mark Andersen

Emerging Managers in Private Equity: A Guide for Success

David Smith

Additional Reading

Alternatives Focus quarterly newsletter

Active vs. Passive quarterly charts

Capital Markets Review quarterly newsletter

Monthly Updates to the Periodic Table

Market Pulse Flipbook quarterly markets update

Real Estate Indicators market outlook

Callan Institute Events

Upcoming conferences, workshops, and webinars

Callan College

Intro to Alternatives

This course is for institutional investors, including trustees and staff members of public plans, corporate plans, and nonprofits. This session familiarizes trustees and staff with alternative investments like private equity, hedge funds, and real estate and how they can play a key role in any portfolio. You will learn about the importance of allocations to alternatives and how to consider integrating, evaluating, and monitoring them.

- February 15-16, 2023 – Virtual Session via Zoom

Intro to Investments—Learn the Fundamentals

This course is for institutional investors, including trustees and staff members of public plans, corporate plans, and nonprofits. This session familiarizes trustees and staff with basic investment theory, terminology, and practices.

- March 1–2, 2023 – In-Person Session – Chicago
- May 23–25, 2023 – Virtual Session via Zoom

Please visit our website at callan.com/events-education as we add dates to our 2023 calendar!

Mark Your Calendar

2023 National Conference

April 2–4, 2023
Scottsdale, Arizona

2023 Regional Workshops

June 27, 2023 – Denver
June 29, 2023 – San Francisco

October 24, 2023 – New York
October 26, 2023 - Chicago

Watch your email for further details and an invitation.

Webinars & Research Café Sessions

Research Café: ESG Interview Series

February 23 , 2023 – 9:30am (PT)

North Dakota | Retirement and Investment

Be Legendary.™

SIB Performance Report Appendix
March 2023

Performance Reports prepared by Callan for quarter ending December 31, 2022, are available on the RIO website at:

[Newsletters & Reports | Retirement Investment Office (nd.gov)]

FIXED INCOME TRANSITION UPDATE

INVESTMENT STAFF
MARCH 24, 2023

NORTH Dakota Be Legendary. | Retirement & Investment

FIXED INCOME TRANSITION UPDATE

NORTH Dakota Be Legendary.™

EXECUTIVE SUMMARY

- THE OBJECTIVE OF THE TRANSITION IS TO HARMONIZE THE INVESTMENT GRADE PORTFOLIOS ACROSS POOLS
- COMPLEX TRANSITION: REDUCE TRANSACTION COSTS USING INTER-POOL TRANSFERS AND CROSSING
- HIRED STATE STREET GLOBAL MARKETS AS TRANSITION MANAGER
- BEGAN IN JANUARY 2023: INITIATED REDEMPTIONS FROM SOME COMMINGLED FUNDS
- TRANSITION BEGAN IN EARNEST ON MARCH 6TH—EXPECTED TO BE LARGELY COMPLETED ON APRIL 1ST

A CONSISTENT INVESTMENT GRADE SUB-ALLOCATION - MANAGERS

NORTH Dakota Be Legendary.™

	PERS CURRENT IG ALLOCATION	WSI CURRENT IG ALLOCATION	LEGACY FUND CURRENT IG ALLOCATION	NEW IG ALLOCATION PERS AND WSI	NEW IG ALLOCATION LEGACY
CORE FIXED INCOME	**71.4%**	**67.3%**	**57.6%**	**74.2%**	**74.2%**
PRUDENTIAL CORE FIXED INCOME	35.9%			24.7%	24.7%
1 PRUDENTIAL CORE PLUS FIXED INCOME		26.8%	28.8%		
PIMCO CORE PLUS CONSTRAINED	35.5%	14.4%	0.0%	24.7%	24.7%
WESTERN ASSET U.S. CORE FIXED INCOME		26.1%	28.8%	24.7%	24.7%
2 **SHORT DURATION SECURITIZED**	**11.4%**	**7.4%**	**6.9%**	**0.0%**	**0.0%**
MANULIFE TOTAL RETURN BOND FUND	11.4%	7.4%	6.9%	0.0%	0.0%
2 **LONG TREASURIES**	**8.0%**	**0.0%**	**0.0%**	**0.0%**	**0.0%**
SSGA LONG U.S. TREASURY INDEX NL FUND	8.0%			0.0%	0.0%
IG GOV/CREDIT	**0.0%**	**13.7%**	**17.6%**	**0.0%**	**0.0%**
SSGA U.S. GOVT CREDIT BOND INDEX 3		13.7%	17.6%	0.0%	0.0%
IG GOV	**0.0%**	**0.0%**	**7.0%**	**11.0%**	**11.0%**
SSGA GOV INDEX 3				11.0%	4.0%
BANK OF ND MATCH LOAN CDS			7.0%	0.0%	7.0%
IG CREDIT	**0.0%**	**8.3%**	**8.7%**	**11.0%**	**11.0%**
ALLSPRING MEDIUM QUALITY CREDIT 3		8.3%	8.7%	8.0%	8.0%
SSGA CREDIT INDEX				3.0%	3.0%
OPPORTUNISTIC	**9.2%**	**3.3%**	**2.1%** 4	**3.8%**	**3.8%**
PIMCO DISCO II	9.2%	3.3%	2.1%	3.8%	3.8%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

INVESTMENT GRADE FIXED INCOME

IMPLEMENT A CONSISTENT IG ALLOCATION

1. CREATE A CONSISTENT *CORE FIXED INCOME* SUB-ALLOCATION
2. TERMINATE MANULIFE AND THE LONG TREASURY FUND
3. BREAK UP *IG GOV/CREDIT* INTO *IG GOV* AND *IG CREDIT*. ADD ALLSPRING TO PENSION. BND CDS OFFSETS GOV EXPOSURE
4. CREATE *OPPORTUNISTIC* SUB-ALLOCATION

FIXED INCOME TRANSITION TRANSACTIONS

	PENSION POOL ($ MILLION)	INSURANCE POOL ($ MILLION)	LEGACY FUND ($ MILLION)	TOTAL ($ MILLION)
SALES	-523	-629	-1,561	-2,713
PURCHASES	523	629	1,561	2,713

- COMPLEXITY REQUIRES FINANCE, INVESTMENTS, NORTHERN TRUST AND SSGM TO ENSURE TRADES AND SETTLEMENTS ARE EXECUTED ACCURATELY AND TIMELY
- INTER-POOL TRANSFERS: $300 MILLION (NO TRANSACTION COSTS)
- CROSS TRADES: $737 MILLION (NO/REDUCED TRANSACTION COSTS)
- INVESTMENT GUIDELINE CHANGES: $978 MILLION (REDUCED TRANSACTION COSTS)
- TRANSITION PORTFOLIO WITH SSGM: $715 MILLION (COMMISSIONS & TRANSACTION COSTS)
- IN TOTAL ~$2.0 BILLION OF TRANSACTIONS WITH NO OR REDUCED TRANSACTION COSTS

FIXED INCOME TRANSITION COSTS

NORTH Dakota
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TRANSITION COST ESTIMATES (SSGM TRANSITION PORTFOLIO):

POOL	COST
PENSION POOL	0.8 BPS
INSURANCE POOL	0.2 BPS
LEGACY FUND	2 BPS

- GREATER THAN 80% OF TRADES EXECUTED ON MARCH 8TH AND MARCH 9TH
- MARKETS BECAME SIGNIFICANTLY LESS LIQUID FOLLOWING THE SVB NEWS ON MARCH 9TH
- TRADES AFTER MARCH 9TH SAW HIGHER TRANSACTION COSTS

NEXT STEPS

- COMPLETE TRANSITION ON APRIL 1st–RECONCILE AND TRUE UP IN APRIL
- POST TRADE REVIEW OF TRANSITION WITH SSGM
- STAFF WILL CONTINUE PORTFOLIO ANALYSIS ACROSS ASSET CLASSES
- BEGIN WORK ON IG FIXED INCOME PORTFOLIO 2.0

2023-2025 Legislative Session RIO Bill Tracker

Bill #	Topic	Description	Sponsor	Hearing Date	Committee	Status	Position
HB 1040	Closing DB Plan	Closing DB Plan (eff. 12/31/24)	Legislative Management: Weisz, Bosch, Boschee, Lefor, Mitskog, Vigesaa, Burckhard, Klein, Piepkorn, Schaible, Wanzek	3/9 -10:30 a.m.	Senate State & Local	Passed House 2/22 77 yeas / 16 nays	Neutral
HB 1088	SIB	SIB Membership changes	SIB			Amended by House.Reduced experts to 1 from 2, changed experience language; Legacy Advisory Board would be a voting member; and two legislative members. Passed House 1/25 80 yeas/ 11 nays. 2/8 Senate I&B amended to original version except making Legacy Advisory member voting member and an amendment to replace the Insruance Commissioner with the OMB Director on the Advisory Board. Senate I&B passed amendment 5-0-0. Passed Senate 3/10 46 yeas / 0 nays **Return to House 3/13**	Support - Original Version
HB 1150	Veteran Exemption for TFFR	Allows veterans with at least 20 years of military service to opt out of the TFFR in their first year of teaching	Thomas, Bekkedahl, Heinert, Meyer, O'Brien, Pyle, Richter, Ruby, Schaible, Schreiber-Beck, Vedaa			Passed House 1/19 54 yeas/ 37 nays- 2/13 Referred to Senate State & Local **Passed Senate 03/14 27 yeas / 18 nays Returned to House 3/15**	Oppose
HB 1183	PERS retirement for law enforcement	Amends description of participants.	Rep. Porter, Sen. Axtman, Rep. Dockter, Rep. Heinert, Rep. Karls, Rep. Kasper, Sen. Larson, Rep. Louser, Rep. Motschenbacher, Rep. Ostlie, Rep. Ruby, Rep. Schauer	3/9 - 10am	Senate State & Local	2/22 Passed House 84 yeas 7 nays	Monitor
HB 1216	ND Development Fund	Commerce Dept. funds to promote economic development.	Rep, Nathe			Passed House 1/25 91 yeas 0 nays. Passed Senate 3/9 45 yeas / 1 nay **Returned to House 3/10**	Monitor
HB 1219	TFFR	TFFR Changes	Reps. Kempenich, Conmy, Kreidt Sen. Schaible	3/9 - 9:30am	Senate State & Local	Passed House 2/7 94 yeas/0 nays. 2/13 Do Not Pass 3/10 **Rereferred to Senate State&Local 3/15**	Support

HB 1227	Legacy Fund	Requiring a cost-benefit analysis for a measure or policy affecting the Legacy Fund.	Reps. Kempenich, Bosch, Cory, Mock, Swiontek, Thomas, Vigesaa Sens. Klein, Meyer, Patten	3/7 - 10:45am	Senate I&B	Passed House 1/20 89 yeas/ 0 nays. Passed Senate 3/10 47 yeas / 0 nays **Sent to Governor 3/15**	Neutral
HB 1278	SIB	Requiring contracts with custodians/managers include required written support of fossil fuel and ag industries in state.	Reps. Satrom, Grueneich, Headland, Lefor, S. Olson, Ostlie, Schauer, Steiner Sens. Conley, Wanzek	3/15 - 11am	Senate I&B	Passed House 2/20 92 yeas / 1 nays. Amended to support investment program.	Oppose original Version; support amended version.
HB 1285	Agency	Prohibiting executive branch agency bill submissions without legislator or legislative committee sponsor.	Reps. Toman, Christensen, Heilman, Henderson, Prichard	**3/24 - 9:20 a.m.**	Senate State & Local	Passed House 2/21 80 yeas / 14 nays	Monitor
HB 1309	PERS	Plan design changes for law enforcement	Rep. Boschee, Sen. Braunberger, Sen. Cleary, Sen. Dever, Rep. Heinert, Rep. Martinson, Rep. Nathe, Sen. Roers, Rep. Ruby, Rep. Schneider	3/9 - 2pm	Senate State & Local	Passed House 2/21. 87 yeas, 7 nays.	Monitor
HB 1321	PERS Board	Changing PERS Board makeup	Reps. Kasper, Dockter, Lefor, Louser, D. Ruby, M. Ruby, Steiner, Vigesaa, Weisz Sen. Hogue	3/13 - 9am	Senate I&B	Passed House 2/21 79 yeas / 15 nays	Monitor
HB 1345	Procurement	State may give priority to companies that support state's ag & energy industries when procuring contracts.	Reps. Satrom, Grueneich, Hagert, Headland, Kiefert, Ostlie, Steiner Sen. Conley, Erbele, Lemm, Wanzek	3/16 - 9:45am	Senate Ag & Veterans Affairs	Passed House 2/20 85 yeas / 8 nays	Monitor with other ESG bills; amended to reduce impact to investment program
HB 1368	Investments	Prohibiting investments and contracts with companies that boycott Israel.	Reps. K. Anderson, Bellew, M. Ruby, Strinden, Timmons, Tveit Sens. Clemens, Kannianen, Myrdal	3/15 - 10am	Senate I&B	Passed House 2/20 86 yeas / 7 nays	Oppose original Version; support amended version.
HB 1379	Legacy Earnings Streams	Modifies Legacy Fund Earnings streams	Reps. Lefor, Bosch, Dockter, Headland, Nathe, Novak, O'Brien Sens. Bekkedahl, Hogue, Rummel, Sorvaag	**3/22 - 8 a.m.**	Senate Approps	Passed House 2/22 77 yeas / 16 nays	Monitor
HB 1429	SIB	ESG Boycott/ Contract Restrictions/SIB list	Reps. Novak, Koppelman, Louser, J. Olson, S. Olson, M. Ruby, Thomas, Sen. Elkin, Magrum, Rummel	3/15 - 10:30am	Senate I&B	Passed House 93 yeas / 0 nays	Oppose original version; support amended version.
HB 1532	TFFR	Bill provides funding for private school attendance; **Louser has proposed amendments incorprating private school teachers in to TFFR**	Reps, Cory, Kasper, Kempenich, Lefor, Nathe, Porter,Strinden, Sens. Beard, Burckhard, Meyer, Wobbema, Hogue	03/14 - 9:00 a.m.	Sen Education	Passed House 2/21 54 yeas / 40 nays	
SB 2015	Budget bill	OMB Budget Bill	Senate Appropriations	**3/22 - 8:30 a.m.**	House Approps	Passed Senate 2/21 40 yeas / 6 nays	Monitor
SB 2022	Budget bill	RIO's Budget	Senate Appropriations	**3/23 - 3:30 p.m.**	House-Approps	Passed Senate 2/20 45 yeas / 2 nays	Support

SB 2070	Teacher Permitting	Extends the length of time non-certified teachers can be permitted	Senate State and Local Govt - Roers, Barta, Braunberger, Cleary, Estenson, Lee		House Education	Passed Senate 1/26 47 yeas / 0 nays **HE reported back, Do Not Pass, Place on Calendar 03/15**	Monitor
SB 2164	PERS Board	Changing how legislative members of PERS Board are appointed	Sen. Dever Reps. Brandenburg, Hatlestad, D. Johnson, Monson, Schauer	3/3 - 9am	House GVA	Passed Senate 1/30 47 yeas / 0 nays	Monitor
SB 2165	Energy Commission	Funds to clean sustainable engery fund/ BND	Sen. Patten, Rep. Bosch, Sen. Kannianen, Sen. Kessel, Rep. Novak, Rep. Porter			Passed Senate 2/21 40 yeas / 6 nays **Passed House 3/15** **93 yeas / 0 nays**	Monitor
SB 2196	Infrastructure Revolving Loan Fund	Resets terms of the infrastructure revolving loan fund.	Sen. Patten, Sen. Beard, Sen. Bekkedahl, Sen. Kannianen, Rep. Olson, Rep. Richter	3/3 at 9am	House Energy & Natural Resources	Passed Senate 1/23 47 yeas/ 0 nays	Monitor
SB 2233	BND	Auditing practices of certain funds under management of BND	Sen. Klein, Sen. Bekkedahl, Sen. Hogue, Rep. Lefor, Rep. Vigesaa	3/13 - 9am	House IBL	Passed Senate 1/24 46 yeas/ 0 nays **House IBL reported back 3/13, do pass, place on calendar**	Monitor
SB 2239	PERS Plan	Changing PERS contribution rates and appropriating $250M to the fund	Sens. Cleary, Dever Rep. Boschee	3/10 - 9am	House GVA	Passed Senate 2/21 34 yeas / 13 nays	Support
SB 2258	TFFR	Expands scope of Critical Shortage area qualification for rehired retirees	Sens. Paulson, Beard Reps. Heilman, Hoverson, Louser	3/6 - 3pm	House Education	Passed Senate 2/1 47 yeas 0 nays	Neutral
SB 2330	Legacy Fund	Legacy earnings definition and change in Legacy Fund IPS percentages.	Sens. Klein, Hogan, Meyer Reps. Bosch, Kreidt	3/14 - 10am	House Finance & Taxation	Passed Senate 2/15 43 yeas / 3 nays	Support
HCR 3033	Legacy Fund	Legacy fund earnings definition constitutional amendment	Reps. Mock, Hagert, Ista, Kempenich, Kreidt, Schatz Sens. Cleary, Meyer	**03/20 - 9:00 a.m.**	Senate I&B	Passed House 3/14 67 yeas / 24 nays	

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MEMORANDUM

TO: **SIB**
FROM: **Scott Anderson, Chief Investment Officer**
DATE: **March 24, 2023**
RE: **Investment Committee Update**

The Investment Committee met Friday March 10, 2023. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the February 10, 2023, meeting. Mr. Anderson discussed the performance of the RIO funds under management including fund returns, risks by asset class and individual external manager performance. Mr. Chin next discussed the fixed income transition. Mr. Anderson then discussed upcoming investment committee content. Lastly, the investment committee discussed pending legislation that has potential to impact the investment program.

https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Investment/Board/Materials/sibinvestmat20230310.pdf

BOARD ACTION REQUESTED: Information Only.

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MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: March 23, 2023
RE: Governance & Policy Review Committee

I. Summary of Actions

The SIB Governance & Policy Review Committee (GPR Committee) met on Wednesday March 22, 2023, and received the following information:

- Legislative Update

The Committee took the following actions:

- Reviewed and recommended approval of changes to the Securities Litigation Committee Charter.
- Discussed changes to the SIB member onboarding process.
- Additional information may be found at sibgprmat20230322.pdf (nd.gov)

II. Changes to Securities Litigation Committee Charter

The committee reviewed and approved changes to the Securities Litigation Committee charter. The changes replace the existing membership which is comprised of two board members, two staff members, and our assigned Asst. Atty. General with three members of the Board. Additional suggestions were made to remove redundant and unnecessary language. The requested changes reflect a concern by staff and the committee that the current composition creates unnecessary difficulties in staff support of the committee due to quorum requirements.

No changes to the SIB Governance Manual were suggested and the current language in the Governance manual is not in conflict. The proposed charter amendments were presented to and approved by the SIB Securities Litigation Committee on Tuesday, March 21, 2023, with the GPR committee concurring in a recommendation for approval of the change.

III. SIB Member Onboarding Process

The Committee discussed amending the Governance Manual to better outline an onboarding process per prior request from the SIB, as well as having staff create a New Board Member handbook. The Committee reaffirmed its continued support for an incremental approach to new member onboarding over a members first year. Staff will prepare materials for presentation to the GPR committee at its next meeting.

BOARD ACTION REQUESTED: Information only.

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MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: March 23, 2023
RE: Securities Litigation Committee

I. Summary of Actions

The SIB Securities Litigation Committee (Committee) met on Tuesday March 21, 2023 and received the following information:

- Securities Litigation Case Updates from outside counsel on pending litigation: Daimler, Volkswagen, Danske, and Nissan.
- Securities Litigation Monitoring Report.

The Committee took the following actions:

- Approved participation in a new action referred to hereafter as "Phillips" and approved seeking an arrangement with FRT and a local organizer to facilitate participation. The jurisdiction is in the Netherlands and exceeded the policy threshold amount for participation. RIO staff will provide necessary documentation and proceed with a request for Appointment of a Special Attorney General to represent the SIB.[1]
- Reviewed and recommended approval of changes to the Committee Charter.
- Additional information may be found at SIB.pdf (nd.gov)

II. Changes to Charter

The committee reviewed and approved changes to its charter. The changes replace the existing membership which is comprised of two board members, two staff members, and our assigned Asst. Atty. General with three members of the Board. Additional suggestions were made to remove redundant and unnecessary language. The requested changes reflect a concern by staff and the committee that the current composition creates unnecessary difficulties in staff support of the committee due to quorum requirements.

No changes to the SIB Governance Manual were suggested and the current language in the Governance manual is not in conflict. The proposed charter amendments were also presented to the SIB Governance and Policy Review (GPR) Committee on Wednesday, March 22, 2023, with

[1] If the SIB would like to discuss additional case details an executive session would be necessary for confidential and privileged attorney client consultation pursuant to NDCC 44-04-17.1(4), NDCC 44-04-19.1 and NDCC 44- 04-19.2.

the GPR committee concurring in a recommendation for approval of the change.

Given that no Governance Manual sections were impacted only one vote is required to approve the requested charter changes.

BOARD ACTION REQUESTED: 1) Approve Changes to Committee Charter. 2) If approved, Chair may appoint an additional Board member to serve.

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

I. PURPOSE

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

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

II. AUTHORITY

The Committee 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 cases of direct litigation.

III. COMPOSITION

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

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

The Committee will elect a Chair ~~and a Vice Chair~~. The Chair will preside at all meetings of the Committee and serve as the liaison to the SIB. In the absence of, or at the direction of the Chair, the ~~Vice Chair will perform the duties of the Chair.~~ Executive Director will report committee actions. The liaison will report ~~at least four times a year~~quarterly to the SIB, or as often as the committee shall meet, on the activities of the Committee and other pertinent information.

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

IV. MEETINGS

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

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

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

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

V. RESPONSIBILITIES

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

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

To this end, the Committee will:

- Develop initial policy and periodically review policy to determine if changes are needed.
- Review reports from RIO staff and third parties in order to maintain awareness of potential and actual securities litigation affecting the SIB portfolios.
- Make decisions on whether to pursue direct litigation and/or lead plaintiff status on cases exceeding policy thresholds for passive participation.

- Select third party litigation firms when deemed appropriate.
- Perform other activities related to this charter as requested by the SIB.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually the review of all responsibilities outlined in this charter.

~~Reporting Responsibilities~~

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

DATE OF CREATION OF COMMITTEE AMENDMENTS: February 16,2018
DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: April 27,2018

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MEMORANDUM

TO: SIB
FROM: Ryan K. Skor, CFO/COO
DATE: March 15th, 2023
RE: Executive Review & Compensation Committee

The Executive Review and Compensation Committee met Wednesday, March 15th, 2023. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the February 14, 2023, meeting. The committee reviewed and approved survey questions to be sent out to the SIB and staff for the Executive Director performance evaluation and additional surveys to the SIB members for the CIO and to TFFR members for the DED/CRO. These surveys will be coming to board members using Survey Monkey via sseiler@nd.gov.

The committee also requested additional information from the staff for its next meeting to assist with fulfilling its responsibilities.

https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20ERC/Board/Materials/sibercmat20230315.pdf

BOARD ACTION REQUESTED: Information Only.

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MEMORANDUM

TO: State Investment Board
FROM: Chad R. Roberts, DED/CRO
DATE: March 14, 2023
RE: TFFR Ends Report 2nd QTR 2023 ending December 31, 2022

This report highlights exceptions to the normal operating conditions of the TFFR program for the period spanning October 1, 2022, through December 31, 2022.

The newly created position of Communications and Outreach Director was filled in November of 2022.

The position of Accounting Intern was filled in December of 2022. The intern will participate in the internship through the end of the Spring 2023 semester. The intern will be assisting in areas such as employer reporting and compliance projects.

Pilot 1 of the third phase of the "Pioneer" Project was completed on December 16, 2023. The pilot finished on schedule.

A new NDIT Applications Support resource for the Retirement and Investment Office was hired and onboarded in November of 2022. This position was vacated by a resignation from NDIT in September of 2022.

The actuarial audit started in October of 2022 and was completed and presented to the Board in January 2023.

The TFFR staff conducted a full review of all participant deaths and retirements occurring in FY2021 and FY2022. This review was based on a recommendation from Internal Audit. This review was the first compliance project conducted by TFFR staff outside of Internal Audit. In additional to resolving the few issues identified by Internal Audit, it allowed TFFR to develop procedures that will be used in the new compliance role going forward.

In November of 2022, the TFFR GPR Committee began review of recommended changes and edits to the TFFR Manual. The Review will continue through the 2023 fiscal year with all recommended changes and edits to be presented to the full TFFR Board at the completion of the manual review.

BOARD ACTION REQUESTED: Board Acceptance.

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MEMORANDUM

TO: **SIB**
FROM: **Jan Murtha, Executive Director**
DATE: **March 17, 2023**
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
Investment Accountant	Vacancy due to team member accepting Retirement Acct. position. Posting extended through 3/20/23.
Legal Intern - Summer	Interviews Scheduled.

2. **Current Project Activities/Initiatives:**

- **TFFR Pioneer Project** – The TFFR Pioneer Project continues with implementation consistent with the project plan. Currently the project is in an elaboration phase involving review of system components. The amount of time spent on the project by various staff members currently varies from 5 to 25 hours or more per week.
- **TFFR Actuary RFP** – An RFP for actuarial consulting services for the TFFR program has been issued. Finalists will present to the TFFR Board in April.
- **Legacy Fund Asset Allocation Study –** RVK continues its work on the Legacy Fund Asset Allocation Study. The changes to the Investment Policy Statement recommended by RVK were approved by both the Advisory Board and the SIB in December 2023. At the last meeting, it was discussed that RVK and the Advisory Board intend to meet in Q2 2023 to review recommendations for updates to the Legacy Fund asset allocation and discuss a pacing schedule. Legislation relating to the asset allocation of the Legacy Fund is being monitored by staff. RVK has offered neutral testimony related to SB 2330.
- **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.
- **Audit Consultant RFP:** In September staff issued an RFP for Audit consultant services to assist with the development of additional internal audit business practices to support program evolution consistent with the agencies strategic plan. Procurement concluded, the contract is finalized, and work is currently underway with the expectation that recommendations will be presented to the SIB Audit Committee in May 2023. Weaver Consultants was awarded the contract.
- **ERCC Committee update:** The SIB Executive Review and Compensation Committee is beginning the process for the annual review of the Executive Director. Surveys will be sent

to SIB and TFFR Board members. The ERCC is also collecting survey data related to the performance of the Chief Investment Officer from the SIB, and the Deputy Executive Director- Chief Retirement Officer from the TFFR Board. This survey data is collected to assist the Executive Director in the performance review of these positions.

3. Board & Committee Presentations February 17, 2023 through March 24, 2023

Staff provided or is scheduled to provide the following presentations to Boards and Committees during the above referenced time period:

- **Testimony on: HB 1040, HB 1088, HB 1150, HB 1219, HB 1227, HB 1278, HB 1368, HB 1429, SB 2022, SB 2239, SB 2258, SB 2330, and HCR 3033.**
- **SIB Investment Committee – 3/10/23**
- **SIB Executive Review and Compensation Committee – 3/15/23**
- **SIB Securities Litigation Committee – 3/21/23**
- **SIB GPR Committee – 3/22/23**
- **TFFR Board – 3/23/23**
- **SIB meeting – 3/24/23**

BOARD ACTION REQUESTED: Board Acceptance.

Board Leadership

March–April 2023 • No. 186

Innovative Approaches to Governance

EDITOR: NICHOLAS KING

What We Talk About When We Talk About ESG

By Daniel J. Struck

Daniel J. Struck is a partner in the Chicago office of Culhane Meadows PLLC and the chair of the firm's Insurance Practice. In this article, he discusses some of the uncertainties confronting corporate leadership as they attempt to navigate a business environment in which environmental, social, and governance principles are not yet clearly defined, and it is necessary to balance the risks associated with the competing demands of ESG advocates and ESG critics.

With apologies to Raymond Carver, when we talk about ESG (environmental, social, and governance) we often find that although we think we all are talking about the same thing, there is little agreement about the proper scope and role of ESG.

Depending on who is doing the talking, ESG may refer to very different things with very different meanings, very different expectations, and very different impacts. Ostensibly ESG refers to a bundle of environmental, social, and governance-related priorities and objectives intended to provide a lodestar helping to guide corporate decision-makers as well as a framework for evaluating corporate responsibility. It is generally assumed that a corporation that acts consistently with ESG principles is a sound investment and has a favorable risk profile.

However, beyond anodyne statements that corporations should be law-abiding and responsible, there is much uncertainty and controversy about, among other things, the specific issues and concerns that make up the constituent elements of ESG, what makes an entity successful from an ESG perspective, how material progress toward the achievement of ESG principles is measured, and whether there is any correlation between successful engagement in ESG initiatives and profitability or reduced corporate risk. There is also uncertainty about the makeup of the regulatory and litigation risks associated with ESG. Given the ambiguities and uncertainties that are inherent in a discussion of ESG, it may well be an impossible task to satisfy every constituency or interested set of stakeholders.

Whose ESG?

ESG has become something of a buzzword in the corporate and investing world. Shareholders and activist investors demand that corporations adopt ESG practices and goals. Corporations are eager to publicize their good citizenship by adopting aspirational ESG goals. Investment advisers and managers continue to roll out funds and other investment vehicles targeting climate-friendly or other ESG-focused companies. Pension and retirement fund managers include ESG responsibility as a factor in their selection of investments. Analytical firms include ESG factors in their evaluations and ratings. Securities regulators have launched ESG task forces charged with developing ESG-related reporting requirements. With this background, ESG initiatives have become a factor in assessing a corporation's reputation and value.

But the question remains, what is everyone talking about

continued on page 2

Inside This Issue

when they talk about ESG? The generic answer is that ESG is shorthand for a collection of factors—E (environmental), S (social), and G (governance)—that are instructive when making investment decisions or evaluating corporate performance and risk. A brief review of publicly available materials from the webpages of several large investment managers that offer ESG-focused funds demonstrates the challenge of finding clarity when discussing ESG. Following is a compendium of the factors included under the ESG-oriented investment umbrella by three investment managers:

E: environmental biodiversity loss, climate change, renewable energy use, reduced carbon emissions, green building, deforestation, native title, pollution, reduced waste, and natural resources

S: social diversity, inclusion, race, gender, human rights, modern slavery/trafficking, supply chain standards, antidiscrimination, bullying, harassment, First Nations people, cultural heritage, health and safety, data privacy, labor management, human capital development, employee relations, and conflict/blood resources

G: governance risk mitigation, shareholder activism, anti-bribery, anticorruption, accountability, board independence, board diversity, transparency, leadership, corporate governance, executive pay, business ethics, board structure, tax strategy, donations, and political lobbying

The breadth and diversity of issues that can be characterized as ESG priorities pose a host of challenges for corporate boards trying to determine how to respond effectively to the call for greater ESG responsiveness.

Virtually no two lists of ESG concerns or priorities are identical. There is no agreed definition of the precise components of ESG. Indeed, some of the issues identified as ESG priorities are susceptible to different interpretations. Given the issues identified as ESG priorities, some imprecision is inevitable. But due to the sensitive social and political nature of some of the ESG priorities, efforts to adopt ESG goals or to motivate ESG-oriented actions through the selection of investments can engender controversy.

Similarly, because ESG is composed of a basket of diverse issues, measuring success in achieving ESG goals is problematic. How does one compare the relative merits, investment worthiness, or risk profile of two corporations: one of which has established a goal of eliminating its carbon emissions in 10 years and the other that has removed enterprises that rely on child labor from its supply chain? The actions of both corporations further goals that are regarded as desirable and consistent

When We Say…

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

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

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

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

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

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

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

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with ESG principles. But who is to say that a promise to eliminate carbon emissions in the future is more or less valuable, or better mitigates enterprise risk, than replacing enterprises that utilize child labor in the supply chain? Further, neither of these examples inevitably has a positive impact: there is no guarantee that a promise made today will be fulfilled in 10 years, and it does not necessarily follow that replacing objectionable suppliers will eliminate supply chain disruptions or improve worker conditions. Even accepting that there is some benefit to largely symbolic ESG actions, attempting to benchmark particular symbolic actions or using the activities described herein as a basis for making investment decisions or assessing enterprise risk is susceptible to criticism and methodological uncertainty. Although there are many analysts benchmarking or grading companies based on their ESG bona fides, any grade in this regard is likely to be based on the biases and assumptions built into the evaluation tool.

One might suggest that making investment decisions or assessing risks based on the extent to which a corporation embraces ESG principles is forward looking. Committing to the elimination of carbon emissions or discontinuing relationships with suppliers that use child labor arguably is an investment in the future.

But even if ESG principles are consistent with long-term investment or risk assessment horizons, it does not follow that making ESG commitments is the same thing as accomplishing ESG goals. It is relatively easy to identify ESG goals, but it is something entirely different to achieve those goals. There is a fundamental difference between identifying areas in which change is appropriate, setting targets or establishing policies, and actually making real change. Too often, ESG efforts are focused more on setting goals or creating policies than on the achievement of those targets or on making sustainable progress. ESG measurements are often process oriented by focusing on establishing policies and procedures. Metrics are necessarily broad because it is difficult to measure actual accomplishment, but process-based success may not track actual performance.

Corporate boards are subject to market pressures to institute ESG measures. But what is the relationship of ESG initiatives to a board's duty to shareholders? ESG includes multiple, sometimes competing, objectives. There is little guidance as to the preferred formula for instituting ESG measures. It does not necessarily follow that ESG accomplishments lead to better corporate performance or lower enterprise risk. Certainly, acting to limit the impact of climate change or preserving scarce water resources is desirable. But it may be difficult to measure the incremental contribution of the actions of a single actor to a larger goal. Actions that might result in a benefit in 20 years have little value for an investor with a two-year horizon. Indeed, being proactive in instituting ESG initiatives may in some circumstances create additional risk. Actions that a corporate board views as an important ESG initiative might look like a costly boondoggle that is detrimental to the bottom line in the eyes of some shareholders.

Although there is generalized agreement about the types of issues that are included in the ESG conversation, once the analysis turns to particular issues or to the means of reaching a particular target, differences of opinion are likely. Although there may be general agreement that it is beneficial to engage in ESG initiatives, it may be difficult to demonstrate that there is any immediate corporate benefit other than satisfying the requirements of ESG-directed investors. This is the setting in which corporate boards find themselves: there are widespread calls from private and institutional investors and some regulators to adopt ESG initiatives, but what ESG means and the nature of the benefits of ESG are amorphous and open to dispute.

No "Good" Deed Goes Unpunished

It appears to be a common viewpoint that ESG initiatives eventually will equate with a reduction in corporate and management risk because they demonstrate responsible leadership. This may prove to be the case once the meaning and content of ESG become better defined and ESG goals become reality and not merely promises. At present, however, with the uncertainties surrounding ESG initiatives, ESG is often a source of additional risk and new litigation. To date there has been little litigation against perceived ESG laggards. Defying expectations, much of the ESG-related litigation has been brought against entities that have undertaken ESG initiatives. The sources of ESG-related litigation have included controversial ESG actions that allegedly harmed the corporation's share price and reputation, ESG actions that allegedly restrained trade or interfered with shareholder rights, and ESG-related representations and claimed benefits that allegedly exceeded actual performance.

The experience of Unilever and its subsidiary Ben & Jerry's provides an example of the possible consequences of politicized or controversial ESG initiatives. After it was acquired by Unilever, Ben & Jerry's was permitted to maintain an independent board charged with furthering the company's social mission statement. In 2020, the Ben & Jerry's board passed a resolution calling for the end of sales in areas that Ben & Jerry's considered to be illegally occupied by Israel. With the 2021 expiration of a regional licensing agreement, Ben & Jerry's discontinued sales in "occupied Palestinian territory" while continuing distribution in "Israel proper." Unilever and the Ben & Jerry's board soon got into a public spat over the characterization of Ben & Jerry's actions, with Unilever trying to minimize the consequences and highlighting that Unilever and Ben & Jerry's continued to do business in Israel. Negative reactions followed, with protests in Israel and seven U.S. states divesting pension fund holdings in Unilever. Unilever's share price fell by 5% in the aftermath

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The Biggest Opportunity for Boards: Say Goodbye to Traditional DEI Strategies

By Coco Brown

Coco Brown is founder and CEO of Athena Alliance. In this article, she explores how traditional diversity, equity, and inclusion initiatives are not helping to create genuinely diverse boards.

It's now widely accepted and acknowledged that diverse boards translate to *stronger, more effective boards*. While we are making progress in this realm (in particular with women on boards), the progress is still painfully slow—hindered by a fixation by boards on a "check the box" approach to diversity, equity, and inclusion (DEI).

The reality is that DEI is deeply complex, spanning far beyond perceptions, labels, or categories. Boards that are sincerely committed to diversification can achieve their goals by reimagining their DEI strategy to consider the whole of an individual's life experiences, including background, education, gender, functional expertise, age, and cognitive diversity.

DEI and Boards: A Mounting Imperative

While boards could get away with shirking their responsibility to DEI 10 years ago, it's a lot harder to do today. Boards are on a public stage, and stakeholders are watching. Diverse boards are crucial if boards want to deliver real value; inspire customer growth; spark innovation; and create rich, rewarding, and engaging company cultures.

As boards look to create value and purpose for all stakeholders involved in a company—from employees, community members, and investors to policymakers, media, and regulators—stakeholders are looking to boards to represent the communities they serve. In parallel, as companies make bold claims of valuing diversity and inclusion, stakeholders also want to see action behind their words.

While many boards acknowledge this, too many are slow to undergo the board refresh or growth process. Instead of proactive diversification, many boards cling to policy and mandates to guide their way, such as California's Women on Boards mandate, which requires California-based boards to have at least two female directors. Other boards lean on the traditional "board matrix" approach, where they look to pair director experience and skills with the company's goals—in essence, attempting to validate the existence of each director around the table. While these policies and matrix attempts are progress, to be sure, relying on policy and matrixes alone is far too narrow a strategy to enact the real, robust changes that boards today require to be effective.

What really needs to happen? Boards must go far beyond the standard matrix to evaluate their needs while taking into account the entirety of a board director's identity and experience.

Inclusion at the Board Level

Traditional means of recruiting and reporting on board diversity are limited to labels and categories. For example, boards may track ethnicity and gender in the boardroom, measuring their progress in terms of these narrow windows into someone's identity and representation. Woman. Man. CFO. CHRO. LGBTQ+. Cybersecurity background. These labels fail to take into account our full cognitive diversity and the richness of our human experience.

Boards cannot rely on these labels or categories to make assumptions about a board director's perspective or experience. A black male from an Ivy League school is going to bring a very different perspective to the boardroom than, say, a gay black male who attended a public university. A transgender woman is going to have a very different life experience and lens than a woman who is a mother and an entrepreneur and grew up in poverty.

True inclusion in the boardroom allows for board directors to contribute to the business as their whole selves; it's when boards can look past surface-level labels to appreciate and value the whole of a board director.

How Boards Can Reinvent Their DEI Strategy

For forward-looking boards that are ready to embrace DEI, the process begins with self-awareness and looking inward. For true transformation, boards must first acknowledge and commit *within* to making a purposeful and lasting change. In particular, the board chair must drive this process forward through safe and open conversation and ensure that board diversity remains a top agenda topic.

It's crucial that board directors—and, especially, board chairs—acknowledge the discomfort that will be likely felt around the board table. Board directors will be faced with confronting their own bias, assumptions, and possibly their waning value to a board.

To be effective, DEI strategies must be reinvented both internally (board refresh) and externally (board recruitment).

Internally, a more meaningful shift to effective DEI begins with the following:

- **Commitment.** Board chairs are at the helm of DEI reinvention. They must ensure DEI is at the top of every agenda on an ongoing basis. They must also be willing to navigate the uncomfortable, potentially awkward conversations that will accompany a DEI conversation; it's one thing to say you're committed as a board, it's another thing to act.

• **Mission.** While it's certainly not the board's job to manage a company, critical decisions that affect strategy, culture, and public perception have their place in the boardroom. An evolving, diverse board is simply the capstone on what should be an evolving, diverse organization. The board must ensure it's connected to, and involved in, the broader organization's DEI strategy, including challenges it's had to date, employee sentiment, public perception, risks, KPIs, and a meaningful and modern mission statement that the entire company can get behind.

• **Committee charters.** Where does "DEI" sit on a board, and who has ultimate responsibility for DEI? The answer to this question is increasingly *everyone*. DEI cannot be pinned on any single director or committee; it must be a cross-board responsibility, a cross-senior management responsibility—deeply embedded in the company's culture.

• **Evaluations.** When was the last time your board had a meaningful evaluation? Not a simple survey but a deep dive leveraging a third party? Boards should fold regular evaluations into their annual board agenda and invest in third-party resources to ensure their time is well spent.

• **Measurement.** Too often, boards are hitting the lowest bar of expectation—they are only doing what they are asked or mandated to change. I encourage boards to turn the table around—to truly think about the right thing to do, to get proactive on DEI. Disclosures aside, what should they be reporting on? How are they going to access that data, and what does their dashboard look like? What third-party consultants may be required to help them understand and act on that data?

Modernizing the Board Recruitment Process

Externally, boards must reconsider their approach to the board recruitment process. Too often, board recruitment is rooted in antiquated concepts. For example, despite the changes in business, emerging technologies, and the global nature of business, when I speak with board directors or CEOs about recruitment, too often I hear something like: "Well, I want someone who has been a CEO or a former CFO." Board recruitment is stuck in the '90s!

Boards can update their approach to board recruitment in a variety of ways:

• **Syncing to company goals.** Boards must constantly ask themselves how they are serving their company and how they are driving value. As the company evolves—whether in product, geographic expansion, size and scale, and so forth—is the board evolving as well? Boards need to have an honest conversation about what skills they truly need to overcome their next challenges. In today's fast-moving world, there's a good chance it's not simply "a former CEO or CFO" but someone who has navigated a down market, someone who has taken a company from Series C to IPO, someone who has navigated a company through a crisis, someone who has taken a company from national to multinational, and so on.

• **Network and recruit with a purpose.** Too often, executives turn to those they know to fill in the gaps. They hire their friends for board seats rather than putting in the time and effort to be thoughtful. We all know networking is at the heart of board searches, so boards instead should be thinking about how to expand their networks to reach relevant groups—underrepresented communities, women, and international candidates.

• **Look beyond the surface.** Recruiting boards are bound to see ideal candidates who appear polished and perfect on paper, but I challenge boards to look beyond the obvious and consider how new candidates overlap or don't overlap with the existing board, for example, education. If every board director comes from the same slew of Ivy League universities, you need to question how diverse your board truly is, even if you have a mix of genders and ethnicities. Consider how a board director grew up and in what region he came of age; consider his life circumstances and the adversity he may or may not have faced. Each of these is a lens through which your board candidate sees and experiences the world.

• **Let your guard down.** We've been conditioned to sweep away the sensitive conversations and to avoid topics like gender, parenthood, and ethnicity. But there's never been a more important time to be open and vulnerable than when recruiting for the boardroom. The board needs to put the business first—not themselves—and think about what qualities will best help the business move forward. This means sensitive, uncomfortable conversations; rather than squirm, embrace them and approach them with a curious, open mind.

• **Stay close to the customer.** There's a lot of skills and areas of expertise your business needs—but you can never go wrong with staying close to the customer. Think about who the organization is serving—their life experience, their mindset, their needs, their goals—and consider if those elements are addressed in the boardroom. For example, if you're a business that caters to working mothers and your board directors are all older white men, then you have a problem.

DEI Should Stay in Step With the Business

Bottom line: just as the business evolves, so should a board's DEI strategy. A progressive, modern business should have a board that reflects its core stakeholders. Ultimately, the diversity seen across a board should reflect the business itself or where the business is headed. Boards that lack diversity are stuck in an antiquated mindset, and boards that mean well by embracing diversity are limiting their potential by adhering to bare-minimum mandates.

Boards have an enormous opportunity to reimagine what

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of the negative publicity. A shareholder stock price drop lawsuit followed shortly thereafter. Ben & Jerry's actions, which purported to advance its "social mission" (presumably the "S" in ESG), were controversial. To many observers, Ben & Jerry's actions were incompatible and inconsistent with the appropriate scope of corporate social action. Moreover, for many observers actions that appear to advance the BDS (boycott, divestment, and sanctions) movement carry ugly connotations. Rather than making a corporation a desirable investment and improving its risk profile, controversial ESG actions may engender adverse publicity, substantial controversy, and litigation.

Less controversial ESG initiatives have also been the basis of lawsuits against companies with well-publicized social ESG initiatives, such as Starbucks. The types of claims that have been brought include shareholder claims alleging that ESG-friendly boards are violating their duties to maximize value for the sake of engaging in social initiatives of dubious value; by implementing allegedly discriminatory policies, boards are exposing the corporation to new liabilities contrary to the board's duties to shareholders; and boards are exposing the corporation to federal and state civil rights claims by customers and job applicants that have been discriminated against as a result of ESG initiatives.

To date, so-called greenwashing and similar claims have been the predominant category of claims arising out of ESG efforts. These claims typically concern an alleged discrepancy between a corporation's public statements concerning ESG activities and the corporation's actual actions. The relevant discrepancies can be the result of alleged misrepresentations or misstatements, overly optimistic goals, or the inadequate execution of policies and/or inadequate oversight and supervision.

"Greenwashing" refers to the subset of situations in which an entity exaggerates or paints an overly rosy picture of its environmental initiatives or accomplishments. These claims typically are brought as shareholder or regulatory proceedings. The experience of Wells Fargo Bank with the failed execution of its diversity in hiring initiatives is a prominent recent example of the risks that result when there are discrepancies between aspirational policy statements and actual corporate practice. Wells Fargo announced a broad diversity and inclusion in hiring initiative. After the initiative was launched, reports of fake interviews and the doctoring of interview records began appearing in the media. After initial denials, Wells Fargo acknowledged that fake or back-dated job interviews had been reported in order to satisfy the bank's diversity in hiring requirements. Shortly thereafter, Wells Fargo was sued in a shareholder claim, alleging that Wells Fargo made statements that were materially false and misleading, Wells Fargo failed to disclose that it had misrepresented the extent of its diversity efforts, Wells Fargo conducted fake job interviews in order to feign compliance with its diversity in hiring requirements, Wells Fargo's conduct exposed it to potential enforcement actions, and Wells Fargo's share price and reputation suffered as a result of the bank's actions. Instead of minimizing risk, ESG initiatives, if rolled out poorly, create a new category of potential risk.

Thus far, the expected lawsuits against companies that are sluggish in enacting ESG measures have been relatively limited. But inaction is not a viable alternative. Corporations that do not undertake any significant ESG initiatives face the risk of attacks by activist investors seeking to challenge or replace leadership. Corporations that do not undertake significant ESG initiatives face a risk of disinvestment by failing to satisfy ESG benchmarks established by investment managers or market analysts. Although substantial litigation against perceived ESG laggards has not materialized, that is likely to change once initial climate disclosure rules and regulations are finalized by the SEC because mandatory disclosures—or the failure to satisfactorily comply with those requirements—will provide a convenient basis for litigation.

The litigation that has materialized is largely against entities that have claimed to be proactive on ESG issues but have had difficulty in carrying out their initiatives or have taken controversial actions with an arguably adverse impact on reputation. ESG involves a complex web of competing risks that pose hazards if poor choices are made or claims outstrip performance. Instead of becoming a means to reduce corporate risk, ESG has become a new source of potential liability.

It's Only a Matter of Time Before Regulators Have Their Say

The ESG-related hazards confronting corporations are not limited to market pressures and litigation risks. Federal regulatory agencies have begun weighing in concerning the role of ESG in corporate disclosures and bringing enforcement actions involving allegedly inaccurate or misleading ESG statements.

The SEC has established an ESG task force that is preparing rules governing climate change disclosures. The proposed final rules were scheduled to be released in the fourth quarter of 2022 but have been pushed back until the first quarter of 2023 at the earliest due to recent Supreme Court rulings limiting the scope of agency rule-making powers.

The SEC's ESG task force is also charged with bringing ESG-related enforcement proceedings. The ESG task force is focusing initially on material misstatements concerning climate risks under existing rules. The SEC is particularly concerned with investment advisers that are branding and marketing their funds and investment strategies as ESG directed. It is the SEC's stated intention to hold investment advisers that market their funds as ESG-focused accountable if they do not accurately describe the application of ESG factors in their investment processes. To date, the SEC has brought enforcement actions against a number of advisers and asset managers for marketing funds as ESG focused without adequate policies and procedures in place to ensure that the investments were indeed ESG directed. In a similar vein, the SEC has commenced enforcement proceedings against securities issuers that have announced ESG initiatives but have failed to follow through on those initiatives.

Additionally, the Department of Labor has issued rules permitting ERISA plan fiduciaries to consider ESG factors when selecting investments for retirement funds or exercising shareholder rights such as the authorization of proxy votes. These rules reverse the approach of the previous administration that forbade plan fiduciaries from considering ESG factors when investing plan funds.

To date regulatory enforcement actions have not been focused on corporations or investment managers that failed to undertake any ESG initiatives. Enforcement actions largely have been brought against enterprises that have overstated their ESG achievements or have had poor execution of their ESG initiatives. Although the SEC has yet to promulgate rules providing for ESG-related disclosures, it is clear that the SEC will look askance at allegedly misleading or inaccurate statements concerning the fulfillment of ESG goals or the utilization of ESG factors in making investment decisions.

Watch Out for Cross-Currents

Based on the foregoing, there are:

(1) Definitional issues surrounding ESG initiatives.

(2) Inconsistencies in the evaluation of ESG performance.

(3) Disagreements about some of the more controversial expressions of ESG goals.

(4) Concerns about potential discrepancies between ESG promises and performance.

Nonetheless, there is vague general consensus that it is appropriate for corporate boards and management to identify ESG priorities and for investors to include ESG factors in the process of selecting investments. We may not be able to define or evaluate ESG with precision, but generally we know it when we see it.

But this description disregards the substantial cross-current of sentiment that ESG factors have no place in making investment decisions or in setting corporate policy. At least 17 states have adopted or proposed some form of anti-ESG legislation. The state legislation typically bars state governments and public retirement funds from considering ESG factors in selecting investments and/or bars state governments and public retirement funds from doing business with advisers, funds, or corporations that are disinvesting in certain disfavored industries such as fossil fuels, lumber, mining, chemical processing, and firearms.

Not surprisingly, Florida has taken a leading role in opposition to ESG-focused investing. Florida's chief financial officer has directed the divestiture of more than $2 billion in state assets managed by firms that apply ESG considerations in making investment decisions. State fund administrators have been directed to redirect state funds to prioritize the highest return on investment without regard for the "ideological" agenda of the ESG movement. The Florida CFO characterized the practice of considering ESG factors in making investment decisions as an undemocratic "social-engineering project" that is at odds with the responsibility of Florida officials to manage state funds so as to secure the highest possible return on behalf of state agencies and retirees.

Perhaps counting their chickens before they hatch, a group of five Republican senators sent letters four days before the mid-term elections to 51 major law firms informing them that the Senate planned to use its oversight powers to conduct investigations into the "institutional antitrust violations being committed in the name of ESG." The senators suggested that activist investment advisers and their lawyers were engaged in a collusive effort to restrict the supply of fossil fuels in order to drive up energy costs and empower America's adversaries. These injuries, so the senators claimed, were being done in service of the ESG movement's weaponization of American business to reshape society in ways that would never prevail at the ballot box. The senators ended their missive warning the law firms that their clients should preserve documents pending upcoming congressional investigations.

Whether the condemnation of the ESG movement playing out in some state capitols and among some members of Congress is merely posturing or has a material chilling effect on ESG-oriented corporate and investment decision-making has yet to determined. But the tenor of the criticism is indicative of the current unstable environment.

There Are No Clear-Cut Answers When We Talk About ESG

The assumption that companies that are taking ESG initiatives are good risks assumes that the corporate embrace of ESG is an indicator of corporate success or of reduced liability and regulatory risk. Ultimately, that assumption may prove to be accurate. But that conclusion is not clear-cut at present. ESG initiatives may be a magnet for litigation due to controversial choices or unmet goals. Corporate boards and investment managers also must balance the risk of being viewed unfavorably if they do not adopt ESG measures against the risk of disinvestment if they run afoul of investors and state fund managers that view ESG as inappropriate.

Companies eager to demonstrate their ESG bona fides have to beware exposing themselves to accusations that they are exaggerating their ESG accomplishments. Optimistic goals to reduce emissions may be viewed as a material misstatement by regulators or investors if goals are not met. ESG should not just be a marketing tool. If a corporation or fund presents itself

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as ESG oriented, it is necessary to actually be ESG oriented.

The process of making ESG decisions, the complexity of evaluating the level of commitment to ESG initiatives, and the risks that are associated with ESG initiatives may be more challenging and nuanced than often is assumed. A clear-eyed approach and careful analysis in adopting appropriate ESG goals, as well the commitment to fulfill stated goals, are the bare minimum of a successful ESG program.

There is no guarantee that there will be immediate payoffs or that realistic accomplishments will be viewed favorably by analysts or the investment market. If there is a payoff to ESG initiatives, it most likely will come in the form of leaving an entity better prepared to meet future challenges as the by-product of careful planning and the commitment to continual improvement. In other words, an ESG-friendly culture is not much different than the kind of corporate culture that responsible and healthy boards always have fostered. It may be difficult to define or measure ESG precisely. The definitional and methodological sloppiness associated with much of the current discussion is unfortunate, but a board that is prepared to adapt to ESG demands is one that is prepared for the vicissitudes and changing circumstances that face any business enterprise. ■

DIVERSITY

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DEI means to them and how it can positively impact their business—but they also need to courageously make the changes necessary to realize those benefits. They can take giant leaps forward by leaving traditional DEI strategies behind and instead approaching DEI with an open, embracing mindset. ■

Mulling board size? Experts cite advantages of small boards paired with advisory councils

Expert opinions on what the ideal size of a nonprofit board should be can vary widely. Some argue that smaller boards are better because of quicker decision-making capabilities, while others say that larger boards have more capacity and can, therefore, handle more tasks and critical, time-sensitive issues at once.

However, one option that is rarely discussed is a hybrid approach, where the board itself is small—maybe a half dozen directors or so—but it is supported by an advisory council that provides guidance to the board in an informal way.

In a recent blog post on this topic, experts at MissionMet, a board development and strategic planning consultancy, explained how the structure—and strictures—of an advisory council differ from your regular board.

“Councils typically differ from other groups like your board of directors or committees,” MissionMet said.

“A board is a more formal organizational body that requires clear management, officers, rules, etc. A smooth-running committee, too, has documented guidelines, a chair, and clear processes that help it address one topic or project (such as financial management, fund development, governance, board recruitment, etc.) By calling the advisory body a council you can communicate something entirely different: a group that provides guidance in a more informal way,” the company wrote.

MissionMet’s experience has been that the less formal structure of an advisory council works best for small and medium-sized nonprofits.

As an example, the company described one of their clients that has an especially effective advisory council of about 15 people that provide guidance on legal, indemnity, programmatic and fundraising topics. Critically, the council members never meet as a full group and don’t have a chair or any officers, like what you’d see on a regular board or committee, but instead are a loosely organized group that the board and executive staff can call upon when needed.

“It works beautifully and doesn’t create any unnecessary management responsibilities for the already taxed board and staff,” the group wrote. “With the advisory council’s support, the organization always exceeds its fundraising goals and receives exceedingly high marks on its programs.”

One key thing to remember is that the council’s role is not to make decisions—that’s the purview of the board. Instead, it is meant to provide guidance on topics that the board itself identifies as areas that need additional insight and support—whether that’s in the fundraising arena, governance, staff or board member recruitment and retention, or community engagement.

“Some councils play multiple roles and focus on multiple topics. It just depends on what you want and need,” MissionMet said.

Because the advisory council has no formal decision-making powers, it can include people from a wide variety of areas and backgrounds. Of course, former board members are a wonderful place to start when putting together an advisory council, but many others would make a good fit.

Really, MissionMet said, the council could be a good fit for anyone who cares deeply about the cause/issue your organization is focused on and has some valuable insight into the topics at hand.

For more information, visit https://www.missionmet.com. ■