

Friday, January 26, 2024, 8:30 a.m.
WSI Board Room (In-Person)
1600 E Century Ave, Bismarck, ND
[Click here to join the meeting](#)

AGENDA

- I. **CALL TO ORDER AND ACCEPTANCE OF AGENDA - (Board Action)**
 - A. Pledge of Allegiance
 - B. Introduction of New Board Member
 - C. Conflict of Interest Disclosure
 - D. Executive Summary

 - II. **ACCEPTANCE OF MINUTES (November 17, 2023) – (Board Action)**

 - III. **EDUCATION (30 minutes)**
 - A. Open Meetings & Records – Asst. Attorney General DePountis

 - IV. **INVESTMENTS (90 minutes)**
 - A. Staff Investment Performance Review (11/30) (Board Action) – Mr. Anderson
 - B. Consultant Strategy (Board Action) – Mr. Anderson
 - C. New Client Funds – (Information) Ms. Murtha
- (Break)
- V. **GOVERNANCE (60 min)**
 - A. Securities Litigation Committee Vacancy Appointment (Chair Action) – Lt. Governor Miller, Ms. Murtha
 - B. Strategic Planning Update (Information) – Ms. Murtha
 - C. Securities Litigation Update (Information) – Commissioner Heringer, Ms. Murtha
 - D. Executive Review & Compensation Committee Update (Information) – Dr. Lech, Mr. Skor
 - E. SIB Self-Assessment Survey (Board Action) – Ms. Seiler
 - F. Investment Committee Update (Information) – Treasurer Beadle, Mr. Anderson
 - G. Audit Committee Update (Information) – Treasurer Beadle, Ms. Seiler

 - VI. **Quarterly Monitoring Reports (45 minutes) – (Board Action)**
 - A. Quarterly Investment Ends Report (12/31) – Mr. Posch
 - B. Quarterly TFFR Ends Report (12/31) – Mr. Roberts
 - C. Quarterly Outreach Report (12/31) – Ms. Mudder
 - D. Executive Limitations/Staff Relations – Ms. Murtha

 - VII. **OTHER**

Next Meetings:

Investment Committee – February 8, 2024, at 9:00 a.m.
SIB GPR – February 13, 2024, at 2:00 p.m.
Audit Committee – February 15, 2024, at 2:30 p.m.
ERCC – February 20, 2024, at 9:30 a.m.
SIB Meeting – February 23, 2024, at 8:30 a.m.

VIII. ADJOURNMENT

EXECUTIVE SUMMARY

SIB Regular Meeting

January 26, 2024 – 8:30 a.m. CT

- I. **Agenda:** The January board meeting will be held at the WSI Board room to accommodate in person attendance; however, a link will also be provided so that board members and other attendees may join via video conference. The board member video link is included in the email with the board materials.
 - Attendees are invited to join the Board Chair in the Pledge of Allegiance.
 - Welcome new board member, Mr. Joe Morrissette, PERS board trustee.
 - Conflict of Interest Disclosure: For best practice board members are asked to review the agenda and note any potential conflicts of interest for an item in advance of or at the start of the meeting. Conflicts can be documented using the following form: [Conflict of Interest Disclosure Form 8 17 2022 .pdf \(nd.gov\)](#)
- II. **Minutes (Board Action):** The November 17, 2023, board meeting minutes are included for review and approval.
- III. **Board Education – Open Meetings & Records (Information):** Assistant Attorney General Dean DePountis will provide board education on North Dakota public meeting and records law.
- IV. **A. Staff Investment Performance Review (Board Action):** Mr. Anderson will review the quarterly investment performance of funds under management.
B. Consultant Strategy (Board Action): Mr. Anderson will present a proposed strategy for investment consultant services that reflect program changes for board consideration.
C. New Client Funds (Information): Ms. Murtha will update the board regarding the proposed onboarding of two new client funds.
- V. **A. Securities Litigation Committee Vacancy Appointment (Chair Action):** The Chair will appoint a new member to the securities litigation committee due to a vacancy on the committee.
B. Strategic Planning Update (Information): Ms. Murtha will provide the board with an update on the strategic planning process.
C. Securities Litigation Committee Update (Information): The Committee Chair and Ms. Murtha will provide the board an update on recent committee activities.
D. ERCC Update (Information): The Committee Chair and Mr. Skor will provide the board an update on recent committee activities.
E. SIB Self-Assessment Survey (Board Action): Ms. Seiler will advise the board regarding the process for the annual board self-assessment survey and request the board to approve the new survey format.

- F. Investment Committee Update (Information):** The Committee Chair and Mr. Anderson will provide the board an update on recent committee activities.
- G. Audit Committee Update (Information):** The Committee Chair and Ms. Seiler will provide the board an update on recent committee activities.
- VI. A-D. Reports (Board Action):** Staff will provide monitoring reports for quarterly investment ends, TFFR ends, outreach activities, and executive limitations/ staff relations.

Adjournment.

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

MEMBERS PRESENT:

Tammy Miller, Lt. Governor, Chair
Dr. Rob Lech, TFFR Board, Vice Chair
Thomas Beadle, State Treasurer, Parliamentarian
Pete Jahner, Investment Professional
Sen. Jerry Klein, LBSFAB
Cody Mickelson, TFFR Board
Adam Miller, PERS Board
Dr. Prodosh Simlai, Investment Professional
Susan Sisk, Director of OMB
Art Thompson, Director of WSI

MEMBERS ABSENT:

Rep. Glenn Bosch, LBSFAB
Joseph Heringer, Commissioner of Univ. & School Lands

STAFF PRESENT:

Scott Anderson, CIO
Eric Chin, Deputy CIO
Derek Dukart, Investment Officer
Jennifer Ferderer, Fiscal/Investment Admin.
Rachel Kmetz, Accounting Mgr.
Missy Kopp, Exec. Assistant
George Moss, Sr. Investment Officer
Sarah Mudder, Communications/Outreach Dir.
Jan Murtha, Exec. Dir.
Matt Posch, Sr. Investment Officer
Emmalee Riegler, Procurement/Records Coord.
Chad Roberts, DED/CRO
Sara Seiler, Internal Audit Supvr.
Ryan Skor, CFO/COO
Dottie Thorsen, Internal Auditor
Nitin Vaidya, Chief Risk Officer
Susan Walcker, Sr. Financial Accountant
Jason Yu, Risk Officer
Lance Zietlow, Sr. Investment Officer

GUESTS:

Dean DePountis, Attorney General's Office
Marc Gesell, Verus Consulting
Derrick Hohbein, PERS
Candace Johnson, Securities Commission
Adam Montgomery, Securities Commission
Eileen Neill, Verus Consulting
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, November 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, Mr. Jahner, Sen. Klein, Dr. Lech, Mr. Mickelson, Lt. Gov. Miller, Mr. Miller, Dr. Simlai, Ms. Sisk, and Mr. Thompson.

ACCEPTANCE OF AGENDA:

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

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

AYES: TREASURER BEADLE, MR. MILLER, MS. SISK, MR. THOMPSON, DR. SIMLAI, MR. MICKELSON, SEN. KLEIN, DR. LECH, MR. JAHNER, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: REP. BOSCH AND COMMISSIONER HERRINGER

MOTION CARRIED

MINUTES:

The Board considered the minutes of the October 26, 2023, SIB meeting.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE OCTOBER 26, 2023, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, MR. THOMPSON, TREASURER BEADLE, DR. LECH, MR. JAHNER, MS. SISK, SEN. KLEIN MR. MILLER, DR. SIMLAI, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: REP. BOSCH AND COMMISSIONER HERRINGER

MOTION CARRIED

INVESTMENTS:

Quarterly Performance Review:

Mr. Chaikin, Callan, provided a performance update as of September 30, 2023, including an overview of the economy and how that has affected performance. Each of the Trust's asset allocations were within policy ranges and cash flows were managed to rebalance towards strategic targets. All Total Fund returns have each exceeded their respective static benchmarks on a net-of-fee basis for the trailing five-year period ended September 30, 2023. In most cases, Total Fund net-of-fee results exceed benchmark.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY PERFORMANCE REVIEW.

AYES: SEN. KLEIN, DR. SIMLAI, MS. SISK, MR. MICKELSON, MR. MILLER, TREASURER BEADLE, MR. JAHNER, MR. THOMPSON, DR. LECH, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: REP. BOSCH AND COMMISSIONER HERRINGER

MOTION CARRIED

Pathway to Strategy:

Mr. Anderson reviewed the next steps in the implementation of the internal investment management initiative. An overview was provided of the necessary capabilities and near-term timeline of activities. Board discussion followed.

Benchmark Memo:

Ms. Neill and Mr. Gesell, Verus, reviewed the Strategic Benchmark Recommendations for the strategic asset classes which comprise the asset allocation policies overseen by the SIB. Selecting benchmarks is an

important decision and provides the method for evaluating the success of the respective investment program objectives. The desirable qualities of benchmarks were reviewed. The recommended benchmarks were presented. Board discussion followed.

The Board recessed at 10:31 a.m. and reconvened at 10:42 a.m.

GOVERNANCE:

Strategic Communication Plan:

Ms. Mudder presented the Strategic Communication Plan. A strategic communication plan outlines who the target audience is, when we need to communicate with them, and the channels that will be used. The plan should support agency goals, be research based, and use input from stakeholders. Ms. Mudder reviewed the communication goals and outlined the methods to achieve the goals. Progress will be monitored and shared with the Board. Board discussion followed.

IT WAS MOVED BY MR. THOMPSON AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE STRATEGIC COMMUNICATION PLAN.

AYES: MR. MILLER, MR. MICKELSON, DR. LECH, MR. JAHNER, MS. SISK, MR. THOMPSON, DR. SIMLAI, TREASURER BEADLE, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: REP. BOSCH AND COMMISSIONER HERRINGER

MOTION CARRIED

Governance & Policy Review (GPR) Committee Update:

Dr. Lech provided an update from the November 9, 2023, GPR meeting. The Committee continued their review of the SIB Governance Manual and discussed the strategic review process for RIO. The draft plan will be presented to the GPR Committee for feedback. Dr. Lech discussed the "BHAGs" (Big Hairy Audacious Goals) that the Committee suggested including transitioning the PERS program and the Land assets to RIO, and a more active role for the agency in the outcomes of the cash management study. Staff will review the suggested goals, create a draft plan, and present the plan to the GPR Committee then the SIB. Board discussion followed.

Investment Committee (IC) Update:

Treasurer Beadle provided an update from the November 7, 2023, IC meeting. The IC received a presentation of the Benchmark Memo from Verus and recommended approval by the SIB. Staff provided a Private Equity and Private Real Estate strategy update and a presentation on Machine Learning and Investments. Board discussion followed.

QUARTERLY MONITORING REPORTS:

Quarterly Audit Activities Report:

Ms. Seiler provided an update on Internal Audit (IA) activities. At the November 14, 2023, meeting of the Audit Committee, the external auditor presented the June 30, 2023, Fiscal Year Financial Statement Audit result. There was an unmodified clean opinion, and no material weaknesses or significant deficiencies were identified. The Committee reviewed and approved an RFP and the proposed workplan for IA development. Board discussion followed.

Quarterly Budget/Expense Report:

Mr. Skor reviewed the Budget/Expense Report for the quarter ended September 30, 2023. The report includes the budget appropriation status, expenditure summary, and pension administration project status.

Quarterly TFFR End Report:

Mr. Roberts provided the TFFR Ends report for the quarter ended September 30, 2023. Staff and the pension administration system vendor completed Pilot three of the Pioneer Project and began pilot four of the system design phase. The Accounting Intern completed her time at RIO in August 2023. Staff attended the Governor's Summit on Innovative Education. The publication of an active member newsletter resumed and was delivered via the GovDelivery system. The open Retirement Specialist position was filled internally.

Executive Limitations/Staff Relations:

Ms. Murtha reviewed RIO's strategic planning process. Board members will receive a brief survey. The responses will be used during the initial discussion with staff. Staff will present the draft strategic plan to the TFFR & SIB GPR Committees in February so both groups can provide feedback. The final plan will be presented to the Governor's Office and Boards in March.

Ms. Murtha provided an update on New Board Member Onboarding, Staffing, and ongoing projects. RIO received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association and the TFFR program received the Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council. The results of the 2023 RIO Engagement Survey were provided. Board discussion followed.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY AUDIT ACTIVITIES, QUARTERLY BUDGET/EXPENSE, QUARTERLY TFFR ENDS, AND EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORTS.

AYES: SEN. KLEIN, MS. SISK, DR. LECH, MR. MILLER, TREASURER BEADLE, DR. SIMLAI, MR. MICKELSON, MR. JAHNER, MR. THOMPSON, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: REP. BOSCH AND COMMISSIONER HERRINGER

MOTION CARRIED

ADJOURNMENT:

With no further business to come before the SIB, Lt. Gov. Miller adjourned the meeting at 11:52 a.m.

Prepared by: Missy Kopp, Assistant to the Board



Open Records and Open Meetings (RIO)



Dean DePountis
Assistant Attorney General

What is subject to open record laws?

- All **records**
- In the possession of a **public entity**
- Regarding **public business**

Unless otherwise provided by law, all records of public or governmental bodies, boards, bureaus, commissions, or agencies of the state or any political subdivision of the state, or organizations or agencies supported in whole or in part by public funds, or expending public funds, shall be public records, open and accessible for inspection during reasonable office hours.

North Dakota Constitution, Article XI, Section 6

What is a Record?

- **Recorded information** of any kind, regardless of the physical form or characteristic by which the information is stored, recorded, or reproduced . . .

What is Public Business?

- **All matters** that relate or may foreseeably relate in any way to . . . the performance of the public entity's governmental functions, including any matter over which the public entity has supervision, control, jurisdiction, or advisory power; or...the public entity's use of public funds.

What is protected?

- All public business records are open unless a law specifically provides the record is protected.
- Protected means the record is “not subject to Article XI of the North Dakota Constitution,” “not an open record,” “**exempt**,” or “**confidential**.”

Exempt

- May be released.
- Public entity has discretion – needs entity action.
- May be called a “closed” record.
- Not against the law to release an exempt record.

Confidential

- Cannot be released.
- Public entity has no discretion.
- Can only be released pursuant to a statute.
- Class C felony to knowingly release confidential records.

Exempt

Public employee personal information, including:

- Month/Day of Birth;
- Home Address;
- Personal Phone Numbers;
- Photograph;
- DMV and Employee ID Numbers;
- Payroll Deduction Information;
- Dependent/emergency contact information;
- Any credit, debit, or electronic fund transfer card number;
- Any account number at a bank or other financial institution; and
- Type of leave taken, and leave applied for but not yet taken.

Confidential

- Social Security Numbers;
- Computer Passwords;
- Employee use of Employee Assistance Programs; and
- BCI background checks.

44-04-18.4. Confidentiality of trade secret, proprietary, commercial, financial, and research information

Trade secret, proprietary, commercial, and financial information is confidential if it is of a privileged nature and it has not been previously publicly disclosed.

"Commercial information"

...means information pertaining to buying or selling of goods and services that has not been previously publicly disclosed and that if the information were to be disclosed would impair the public entity's future ability to obtain necessary information or would cause substantial competitive injury to the person from which the information was obtained.

"Financial information"

...means information pertaining to monetary resources of a person that has not been previously publicly disclosed and that if the information were to be disclosed would impair the public entity's future ability to obtain necessary information or would cause substantial competitive injury to the person from which the information was obtained.

"Proprietary information"

(2) Information received from a private business that has entered or is negotiating an agreement with a public entity to conduct research or manufacture or create a product for potential commercialization.

(5) Technical, financial, or marketing records that are received by a public entity, which are owned or controlled by the submitting person, are intended to be and are treated by the submitting person as private, and the disclosure of which would cause harm to the submitting person's business.

"Trade secret"

...means information, including a formula, pattern, compilation, program, device, method, technique, technical know-how, or process, that:

(1) Derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons that can obtain economic value from its disclosure or use; and

(2) Is the subject of efforts that are reasonable under the circumstances to maintain the secrecy of the information.

Analysis

1) Does the requested record contain:

- a. *A trade secret;*
- b. *Commercial information;*
- c. *Financial information; or*
- d. *Proprietary information.*

If not, it is not confidential and must be released. If yes, proceed to step 2.

2) Was the information previously publicly disclosed?

If yes, it is not confidential and must be released. If not, proceed to step 3.

3) Is the information privileged (impair state's ability to obtain information or substantial harm to competitive position of provider of information)?

If not, it is not confidential and must be released. If yes, the record must be redacted as appropriate.

What is a Meeting?

- A **quorum** of
- A **governing body**
- Of a **public entity**
- Discussing **public business**

Unless otherwise provided by law, all meetings of public or governmental bodies, boards, bureaus, commissions, or agencies of the state or any political subdivision of the state, or organizations or agencies supported in whole or in part by public funds, or expending public funds, shall be open to the public.

North Dakota Constitution, Article XI, Section 5

What is a Quorum?

- **One-half or more of the members** of the governing body, or any smaller number if sufficient for a governing body to transact business on behalf of the public entity.

Committees

- Committee: **Two or more people** acting collectively pursuant to authority delegated to that group by the governing body.
 - *Includes delegation of any public business, including information gathering.*
 - *Applies even if the public business being discussed was not delegated to the committee by the governing body, so long as it relates to the business of the public entity.*

Key questions:

- Did the governing body delegate any sort of authority?
- Is the committee doing something the governing body could do itself?

Committees

It does not matter...

- If the committee does not have final authority;
- If the committee is just “brainstorming” or “fact-finding;”
- If the committee is only intended to recommend something to the governing body;
- If the subject being discussed is not a subject within the authority delegated to the committee.

...a quorum of a committee is still a meeting.

A Meeting can happen...

- By conference call;
- On very short notice;
- Over video conference; or
- At a restaurant

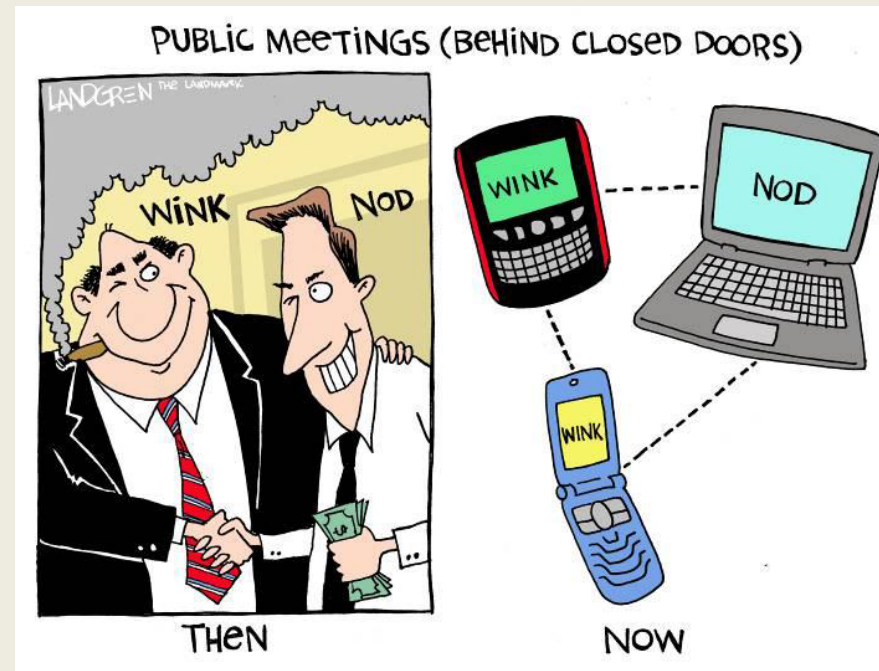
Anywhere a quorum is present.

Open Meeting Exceptions

- Chance or social gatherings where no public business is considered or discussed.
- Emergency operations during a disaster or emergency declared under section 37-17.1-10 or an equivalent ordinance if a quorum of the members of the governing body are present but are not discussing public business as the full governing body or as a task force or working group.
- Attendance at meetings of national, regional, or state associations.
- Training seminars where no public business is discussed.

Common Violations

- Using technology to circumvent open meetings laws.



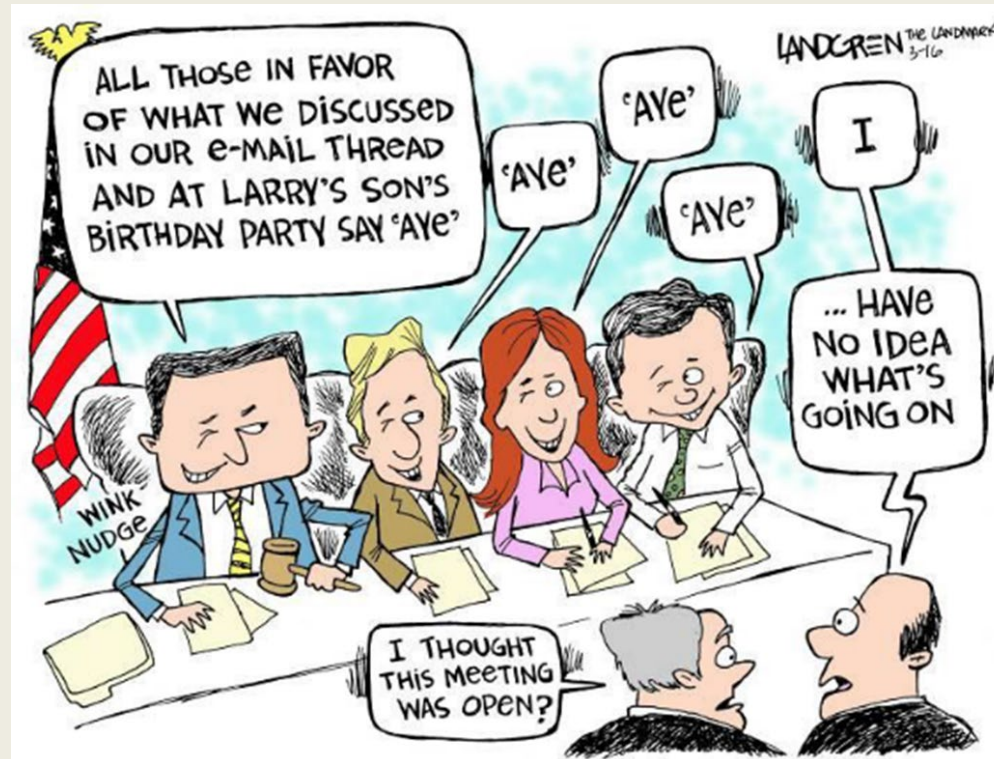
Common Violations

Using emails or other communication methods where a quorum is involved to discuss public business.

- Permissible
 - *To provide information for members to review before a meeting;*
 - *To set a meeting date.*
- Violation
 - *A member sharing thoughts, ideas, or opinions to a quorum of a public entity or a committee, even if no one responds.*
 - *Hitting “reply all” to a permissible communication to hold a discussion or provide an opinion.*

Common Violations

- Telephone straw polling (no matter who does the polling).
- Serial meetings - a series of smaller gatherings which collectively constitute a quorum - and public business is discussed.



Executive Session

Must be legally authorized:

- Most common: exempt/confidential records, attorney consultation, and negotiation strategy.
- Most common violation: closing meeting to discuss personnel matters.

Executive Session

Attorney consultation – 2 Ways

1. Advice regarding and in anticipation of reasonably predictable or pending litigation or adversarial administrative proceedings **OR**
 2. To receive attorney's advice and guidance on the legal risks, strengths, and weaknesses of an action of a public entity, which, if held in public, **would have an adverse fiscal effect.**
- Remember: Just because attorney is sitting in does not automatically make it an attorney consultation.

Executive Session

Negotiation strategy

- Must relate to strategy or provide instructions to an attorney or other negotiator,
- Regarding a pending claim, litigation, adversarial administrative proceedings, or contracts,
- Which is currently being negotiated or for which negotiation is reasonably likely to occur in the immediate future,
- **AND** must have adverse fiscal effect if the discussion would be held in public.

Executive Session Procedure

- Convene in open meeting;
- Announce in open meeting the topics to be discussed and legal authority;
 - *Note: To discuss confidential information – no motion necessary. To discuss exempt/closed information - motion to enter executive session.*
- Record the session (keep for 6 months);
- Note time of executive session and who attended in minutes;
- Only discuss topics in announcement;
- (usually) Final action in open meeting.

Resources

Attorney General's website: www.attorneygeneral.nd.gov.

- Open Records & Meetings Laws
 - *Manuals & Guides*
 - Open Records Guide (“One pager”)
 - Template for Responding to Records Requests
 - Open Meetings Guide (“One pager”)
 - Sample Form for Closing Executive Session
 - Sample Meeting Notice
 - Notice Checklist

INVESTMENT PERFORMANCE REVIEW

Scott M Anderson, CFA – Chief Investment Officer

January 25, 2024

NORTH
Dakota
Be Legendary.

Retirement & Investment

THE MARKET

NORTH
Dakota
Be Legendary.

Retirement & Investment

PERFORMANCE – BENCHMARK INDICES

Summary of Returns					
November 30, 2023					
Benchmark Indices					
(% change, annualized)	YTD	1 Yr	5 Yr	10 Yr	10 Yr Volatility
Russell 1000	20.6%	13.6%	12.2%	11.6%	17.9%
Russell 2000	4.2%	-2.6%	4.8%	6.1%	22.5%
S&P 500	20.8%	13.8%	12.5%	11.8%	17.7%
MSCI ACWI IMI Net	15.5%	11.1%	8.7%	7.4%	14.3%
MSCI World ex US	11.8%	11.3%	6.2%	3.9%	14.3%
MSCI Emerging Markets	5.7%	4.2%	2.3%	2.1%	15.7%
Bloomberg Aggregate	1.6%	1.2%	0.7%	1.4%	4.5%
Bloomberg Gov/Credit	2.0%	1.5%	1.1%	1.5%	4.9%
Bloomberg US High Yield	9.4%	8.7%	4.1%	4.3%	5.2%
NCREIF Property Index (09/30/2023)	-5.1%	-8.4%	5.3%	7.4%	3.7%

Source: Bloomberg

PERFORMANCE – BENCHMARK INDICES

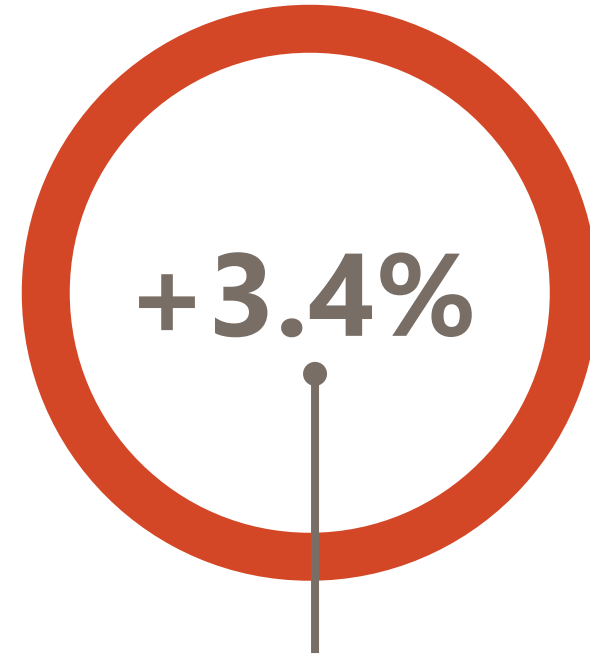
Summary of Returns					
January 18, 2024					
Benchmark Indices	YTD	1 Yr	5 Yr	10 Yr	10 Yr
(% change, annualized)					Volatility
Russell 1000	0.1%	23.3%	14.0%	11.8%	17.9%
Russell 2000	-5.1%	5.4%	6.8%	6.5%	22.6%
S&P 500	0.3%	23.7%	14.3%	12.1%	17.7%
MSCI ACWI IMI Net	-1.7%	14.0%	9.7%	7.6%	14.3%
MSCI World ex US	-2.9%	5.9%	6.7%	4.0%	14.3%
MSCI Emerging Markets	-6.1%	-4.2%	1.3%	2.3%	15.7%
Bloomberg Aggregate	-1.4%	0.4%	0.8%	1.6%	4.6%
Bloomberg Gov/Credit	-1.4%	0.7%	1.1%	1.7%	4.9%
Bloomberg US High Yield	-0.7%	8.1%	4.4%	4.4%	5.2%
NCREIF Property Index (09/30/2023)	-5.1%	-8.4%	5.3%	7.4%	3.7%

Source: Bloomberg

HAS INFLATION PEAKED?¹



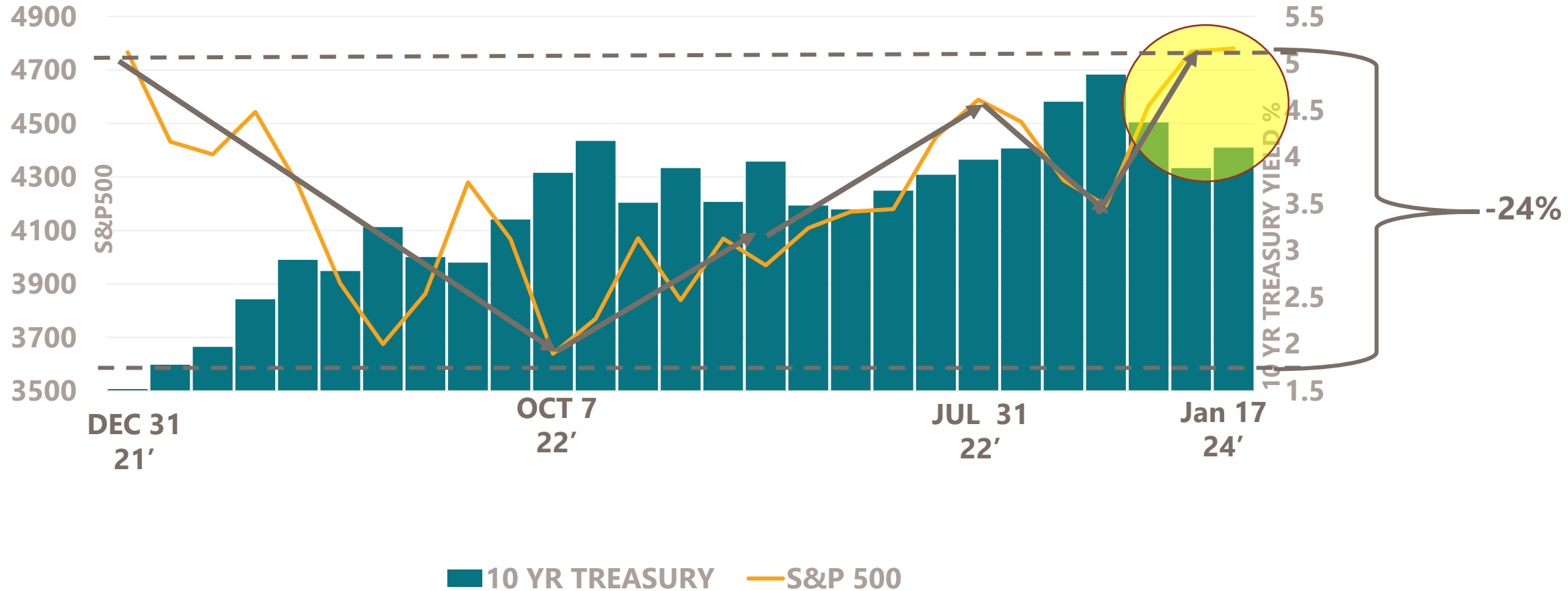
**ANNUAL INFLATION RATE
(June 2021 thru June 2022)**



**ANNUAL INFLATION RATE
(December 2022 thru December 2023)
3.9% Ex Food & Energy**

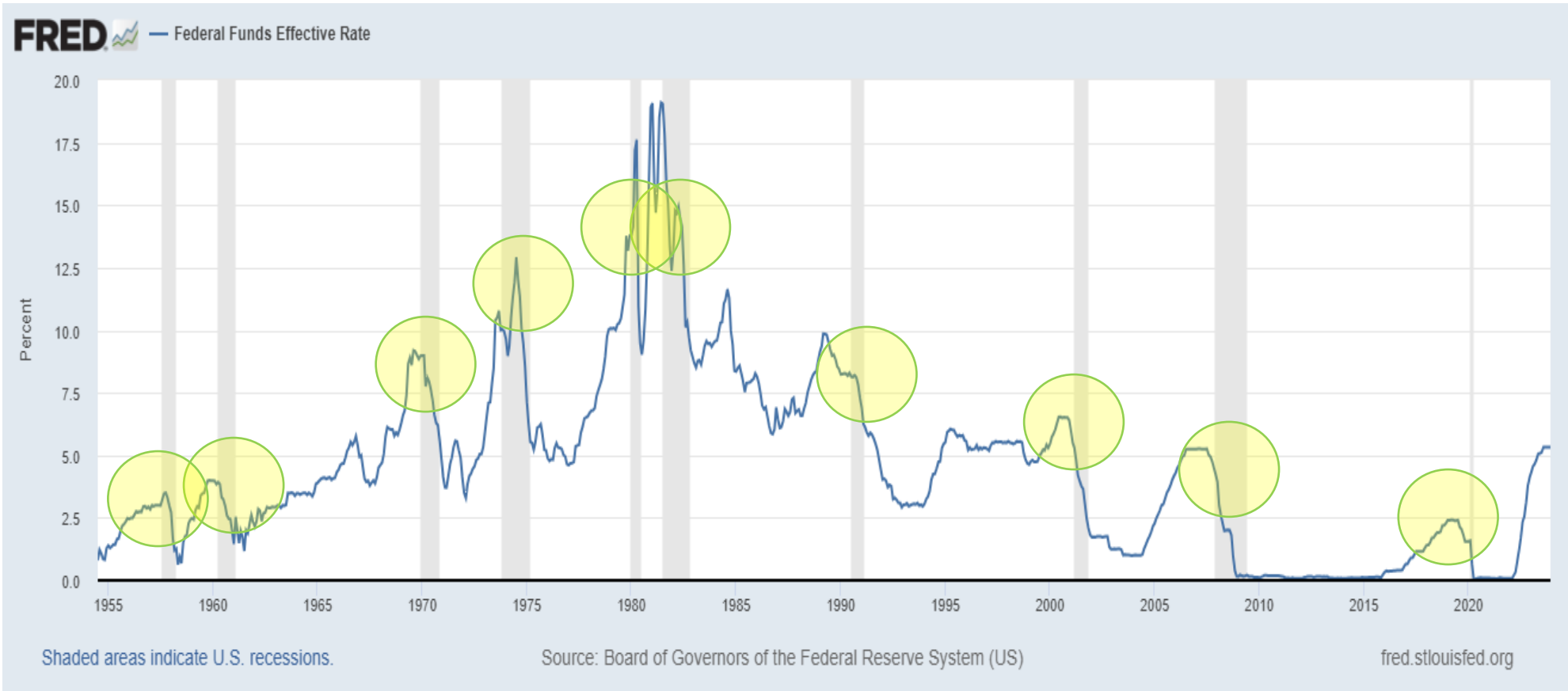
1. Bureau of Labor Statistics
Scott M Anderson, CFA – January 25, 2024

THE S&P500 HAS TRACKED INFLATION EXPECTATIONS¹



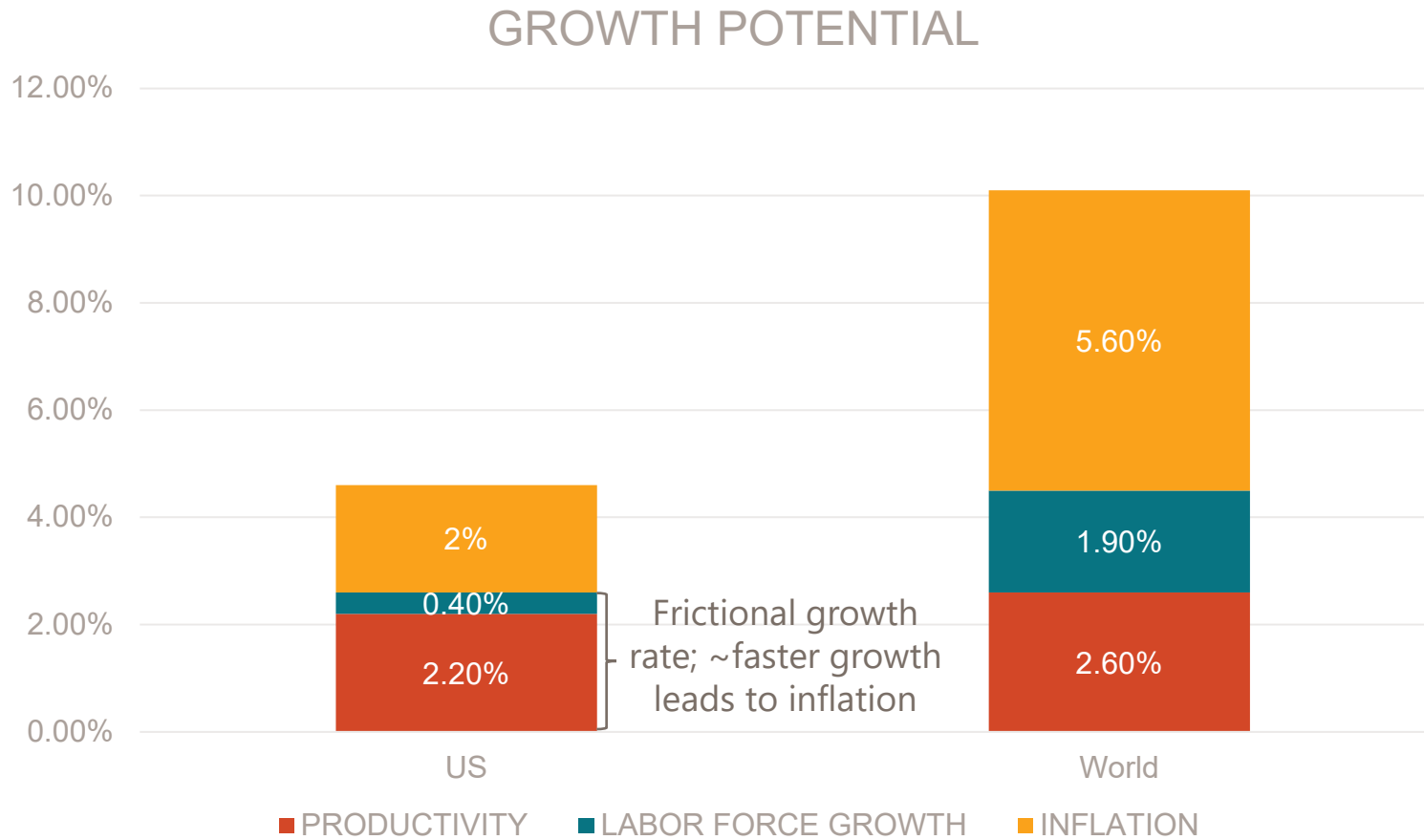
1. FRED

RECESSIONS AS FED LOWERS RATES



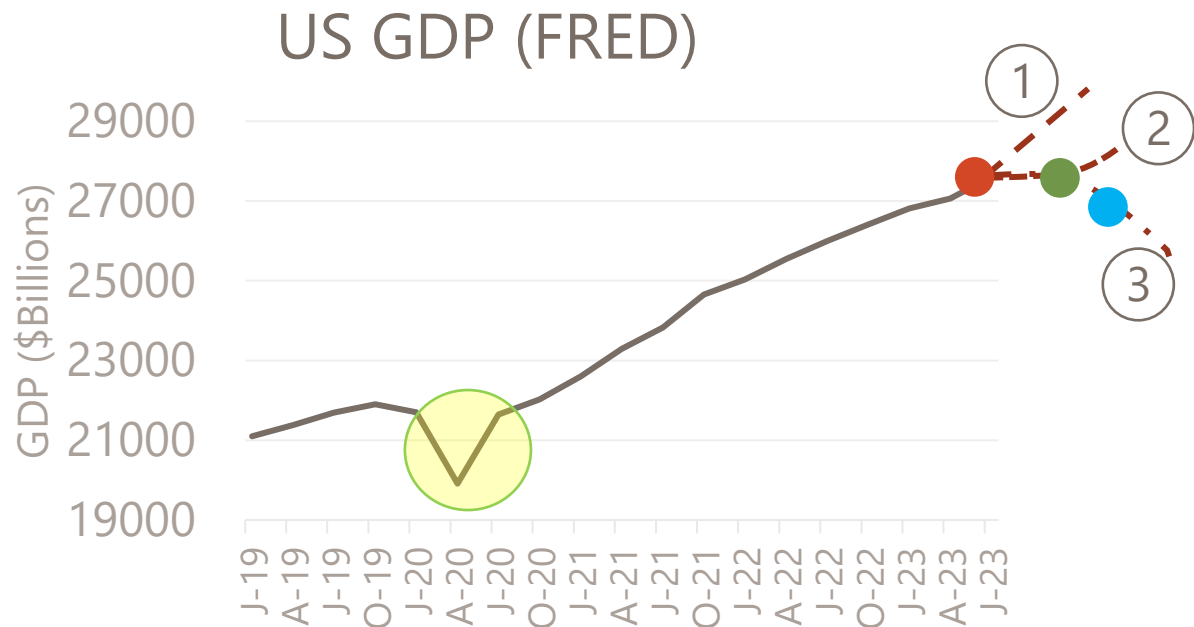
1. Fed Fed Fuds Effective Rate

DRIVERS OF GDP GROWTH



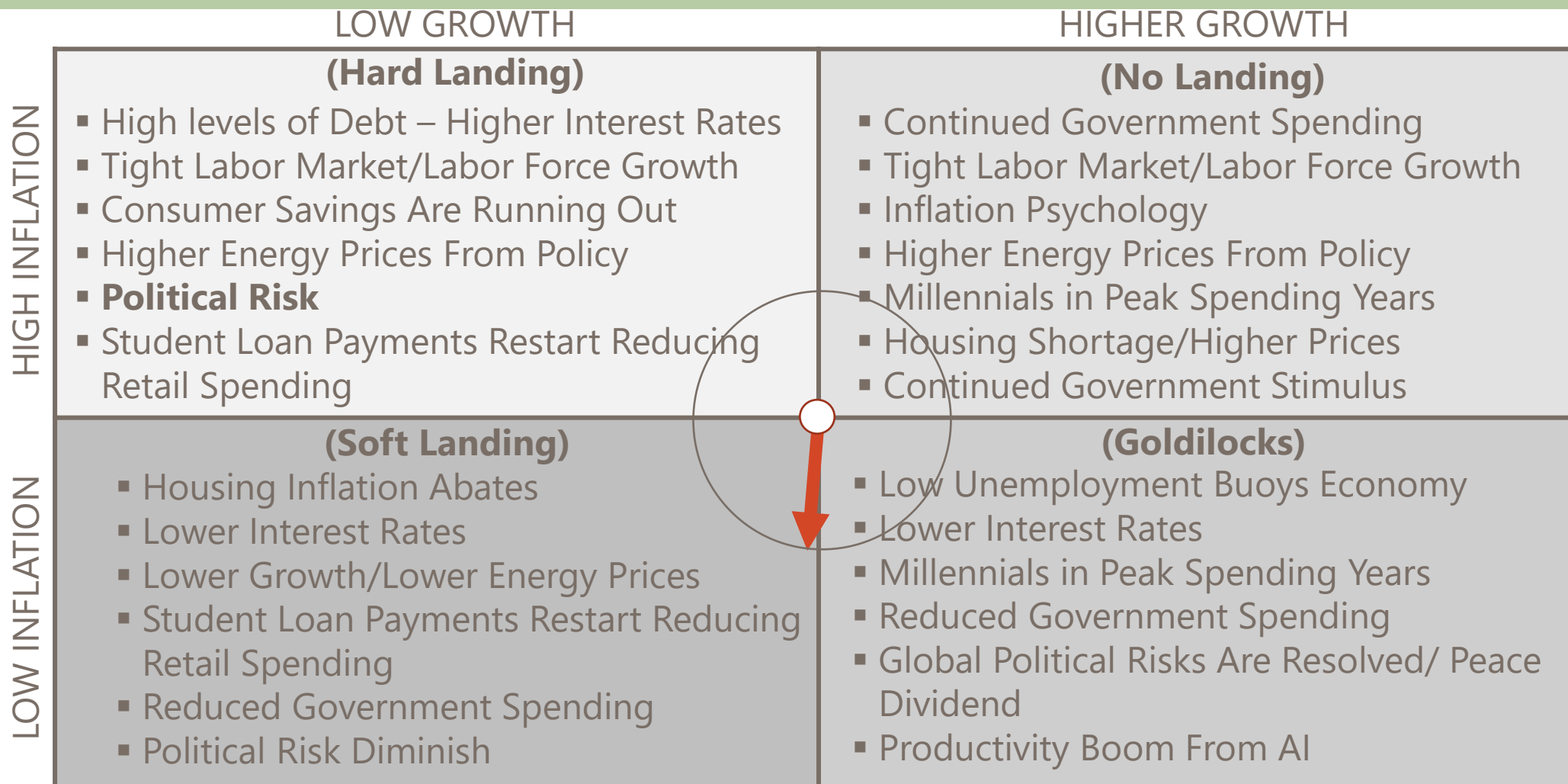
1. US productivity based on BLS (2023) stats and global productivity from The Conference Board (2011 -2019)
2. US Labor force growth projection from BLS and global labor force growth from the World Bank
3. US FED inflation target and 2019 global inflation estimate IMF

THE GOLDILOCKS NARRATIVE



- ① Fed Lowers Early – Too Hot ●
 - GDP growth too fast
 - Tight labor and fast growth cause inflation
 - Moderate equity growth, interest rates rise
- ② Fed lowers Just Right - Goldilocks ●
 - Reach growth capacity and control inflation
 - Moderate equity markets, normal fixed income markets, low defaults
- ③ Fed lowers too Late- Too Cold ●
 - Growth collapses into a recession
 - Equity markets perform poorly, fixed income performs poorly as defaults spike
 - Lower rates eventually potentially spur stagflation

COMPETING NARRATIVES



GOOD NEWS ¹

BLOOMBERG AGG YIELD¹: 4.74%



1. Fixed income benchmark; yields are the best estimate of future bond returns.

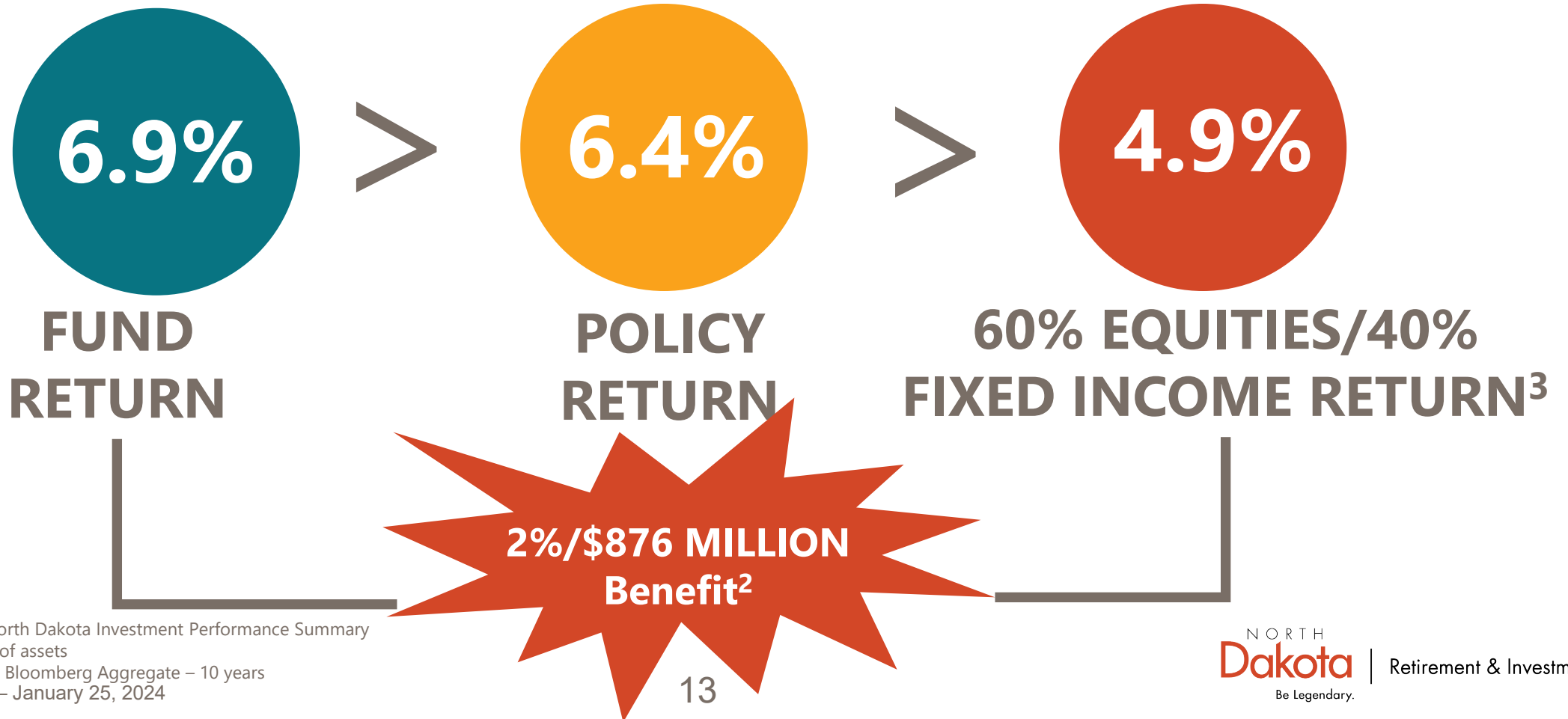
PERFORMANCE

NORTH
Dakota
Be Legendary.

Retirement & Investment

INVESTMENT MANAGEMENT BENEFITS

PERS TEN YEAR AVERAGE RETURN¹

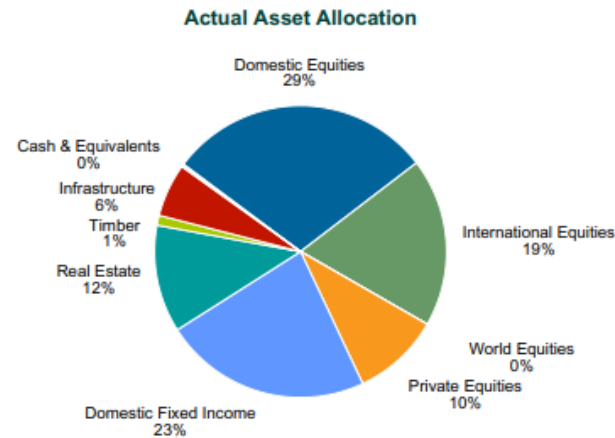


1. Thru September 2023; North Dakota Investment Performance Summary

2. Starting with \$4.0 Billion of assets

3. 60% MSCI ACW IMI/40% Bloomberg Aggregate – 10 years
Scott M Anderson, CFA – January 25, 2024

ASSET ALLOCATION¹



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equities	1,156,791	29.4%	31.3%	(1.9%)	(74,562)
International Equities	736,346	18.7%	19.7%	(1.0%)	(37,358)
World Equities	25	0.0%	0.0%	0.0%	25
Private Equities	382,480	9.7%	7.0%	2.7%	107,276
Domestic Fixed Income	904,973	23.0%	23.0%	0.0%	732
Real Estate	466,823	11.9%	11.0%	0.9%	34,360
Timber	42,805	1.1%	1.1%	0.0%	5
Infrastructure	230,797	5.9%	6.9%	(1.0%)	(40,922)
Cash & Equivalents	10,443	0.3%	0.0%	0.3%	10,443
Total	3,931,482	100.0%	100.0%		

1. September 2023 values – Callan

PERS PERFORMANCE

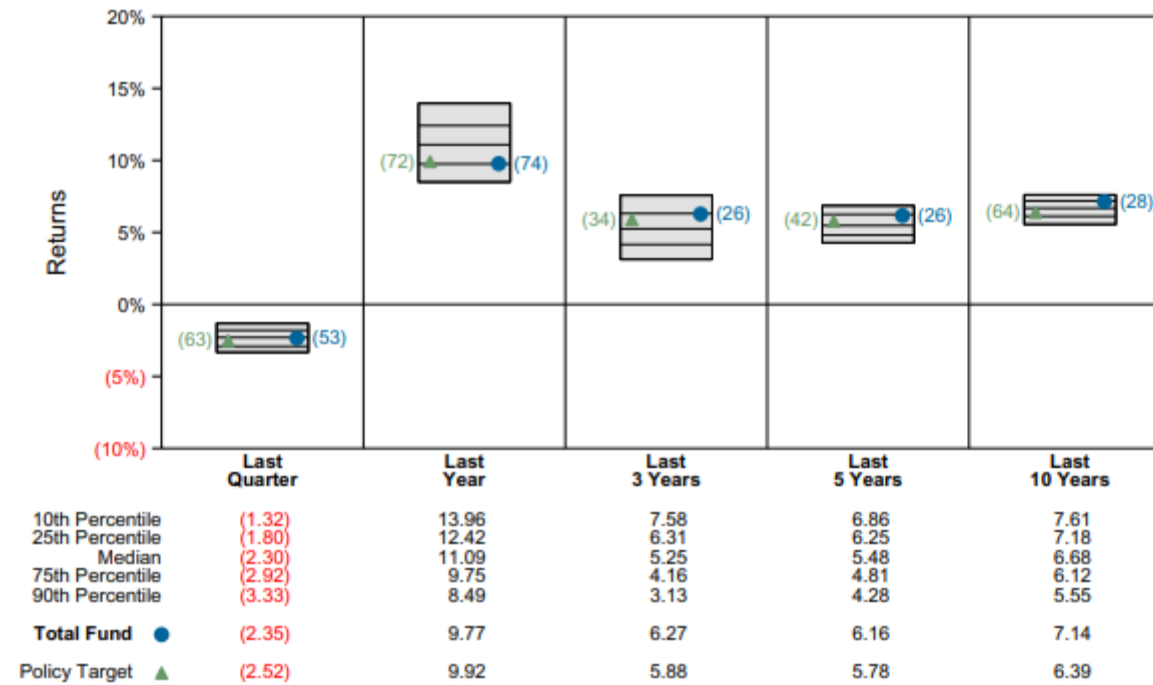
AS OF NOVEMBER 30, 2023
PERS \$4.0 Billion

	Year to Date	1 Year	3 year	5 Year¹	Risk (5 Year)
Total Fund Return - Net	7.8%	5.3%	5.1%	7.4%	10.3%
Policy Benchmark Return	7.7%	5.2%	4.9%	7.2%	10.6%
Total Relative Return¹	0.1%	0.0%	0.2%	0.2%	
Corridor <u>Difference</u> September	0.0%	0.8%	0.4%	0.4%	

1. Corridor benchmark applied only in year-to-date numbers

PERS PERFORMANCE

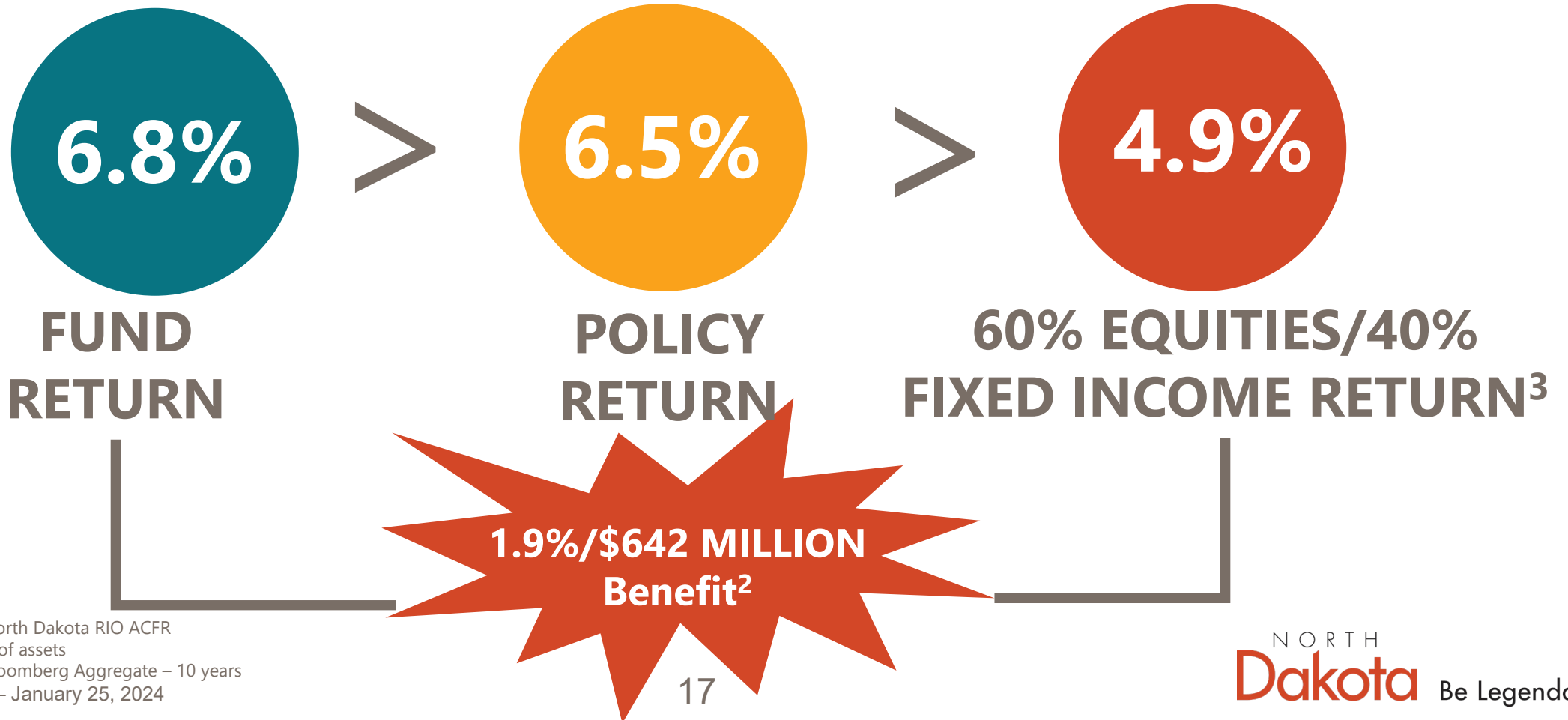
Callan Public Fund Sponsor Database



1. September 2023 values – Callan

INVESTMENT MANAGEMENT BENEFITS

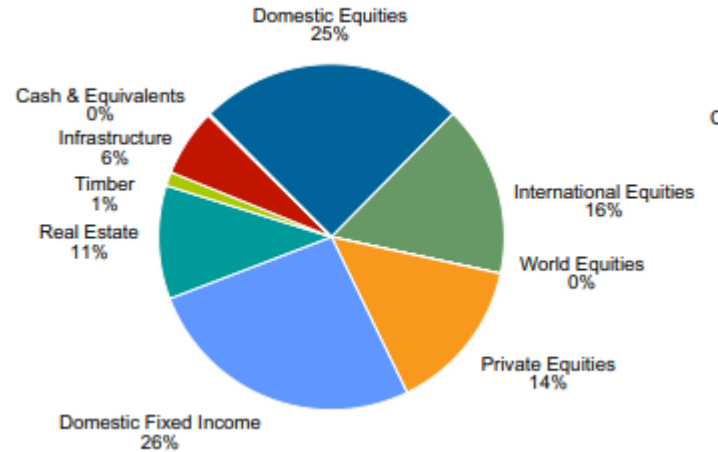
TFFR TEN YEAR AVERAGE RETURN¹



1. Thru September 2023; North Dakota RIO ACFR
2. Starting with \$3.1 Billion of assets
3. 60% MSCI World/40% Bloomberg Aggregate – 10 years
Scott M Anderson, CFA – January 25, 2024

ASSET ALLOCATION¹

Actual Asset Allocation



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equities	752,182	24.9%	27.6%	(2.7%)	(82,019)
International Equities	482,795	16.0%	17.4%	(1.4%)	(41,363)
World Equities	226	0.0%	0.0%	0.0%	226
Private Equities	433,885	14.4%	10.0%	4.4%	132,027
Domestic Fixed Income	797,363	26.4%	26.0%	0.4%	12,533
Real Estate	320,220	10.6%	9.0%	1.6%	48,548
Timber	38,209	1.3%	1.3%	0.0%	48
Infrastructure	189,069	6.3%	7.7%	(1.5%)	(44,443)
Cash & Equivalents	4,628	0.2%	1.0%	(0.8%)	(25,558)
Total	3,018,576	100.0%	100.0%		

1. September 2023 values – Callan

TFFR PERFORMANCE

AS OF NOVEMBER 30, 2023

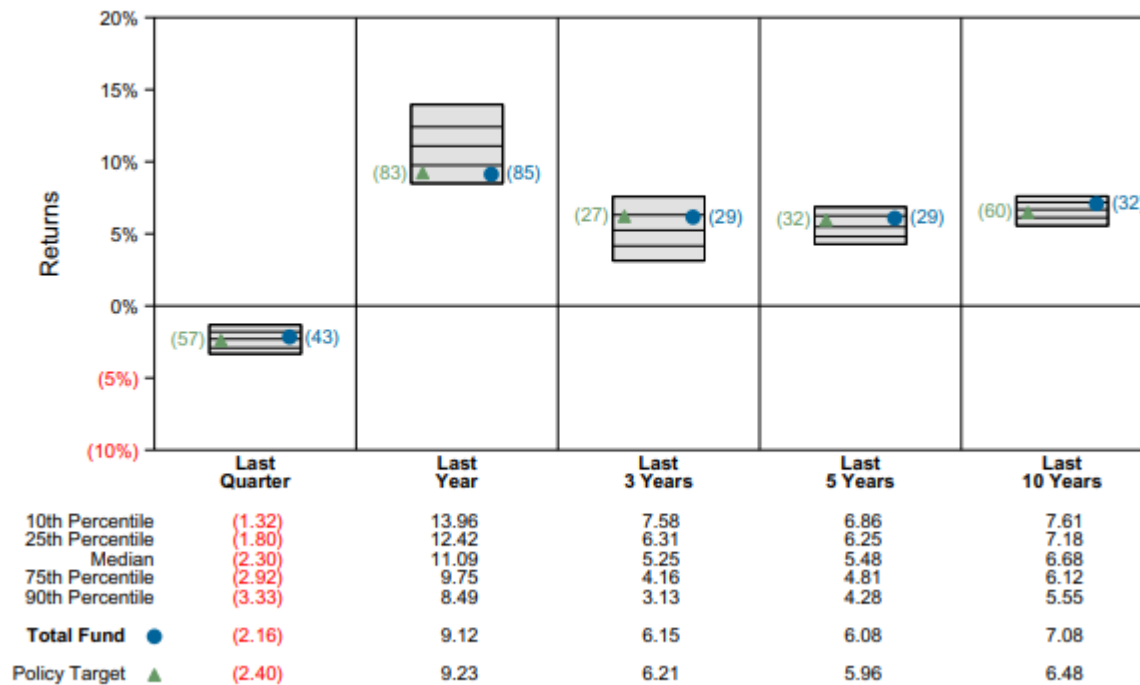
TFFR \$3.1 Billion

	Year to Date	1 Year	3 year	5 Year¹	Risk (5 Year)
Total Fund Return - Net	7.3%	5.1%	4.9%	7.2%	10.0%
Policy Benchmark Return	7.1%	4.9%	5.1%	7.3%	10.3%
Total Relative Return¹	0.2%	0.2%	-0.2%	-0.1%	
Corridor <u>Difference</u> September	0.0%	0.8%	0.7%	0.6%	

1. Corridor benchmark applied only in year-to-date numbers

PERFORMANCE – TFFR

Callan Public Fund Sponsor Database



1. September 2023 values – Callan

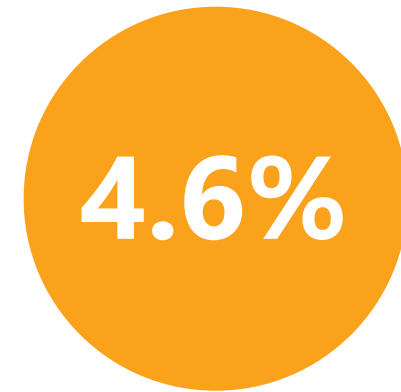
INVESTMENT MANAGEMENT BENEFITS

LEGACY TEN YEAR AVERAGE RETURN¹



**FUND
RETURN**

>

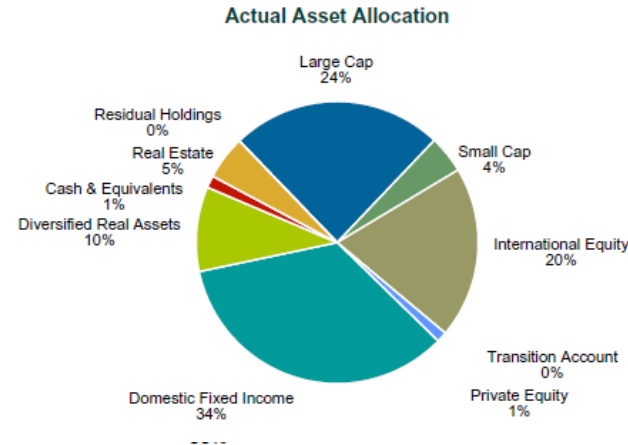


**POLICY
RETURN**



1. Thru September 2023; North Dakota RIO ACFR
2. Starting with \$9.0 Billion of assets

ASSET ALLOCATION¹



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Large Cap	2,175,624	24.3%	23.8%	0.5%	47,992
Small Cap	384,316	4.3%	4.2%	0.1%	8,851
International Equity	1,760,277	19.7%	19.0%	0.7%	61,747
Transition Account	43	0.0%	0.0%	0.0%	43
Private Equity	106,685	1.2%	3.0%	(1.8%)	(161,503)
Domestic Fixed Income	3,076,895	34.4%	35.0%	(0.6%)	(51,976)
Diversified Real Assets	862,853	9.7%	10.0%	(0.3%)	(31,110)
Cash & Equivalents	120,768	1.4%	0.0%	1.4%	120,768
Real Estate	450,014	5.0%	5.0%	0.0%	3,033
Residual Holdings	2,156	0.0%	0.0%	0.0%	2,156
Total	8,939,632	100.0%	100.0%		

1. September 2023 values – Callan

* Current Quarter Target = 35.0% Blmgb:Aggregate, 23.8% Russell 1000 Index, 19.0% MSCI ACWI xUS IMI, 10.0% DRA Weighted Benchmark, 5.0% NCREIF Total Index, 4.2% Russell 2000 Index and 3.0% Private Equity.

PERFORMANCE – LEGACY

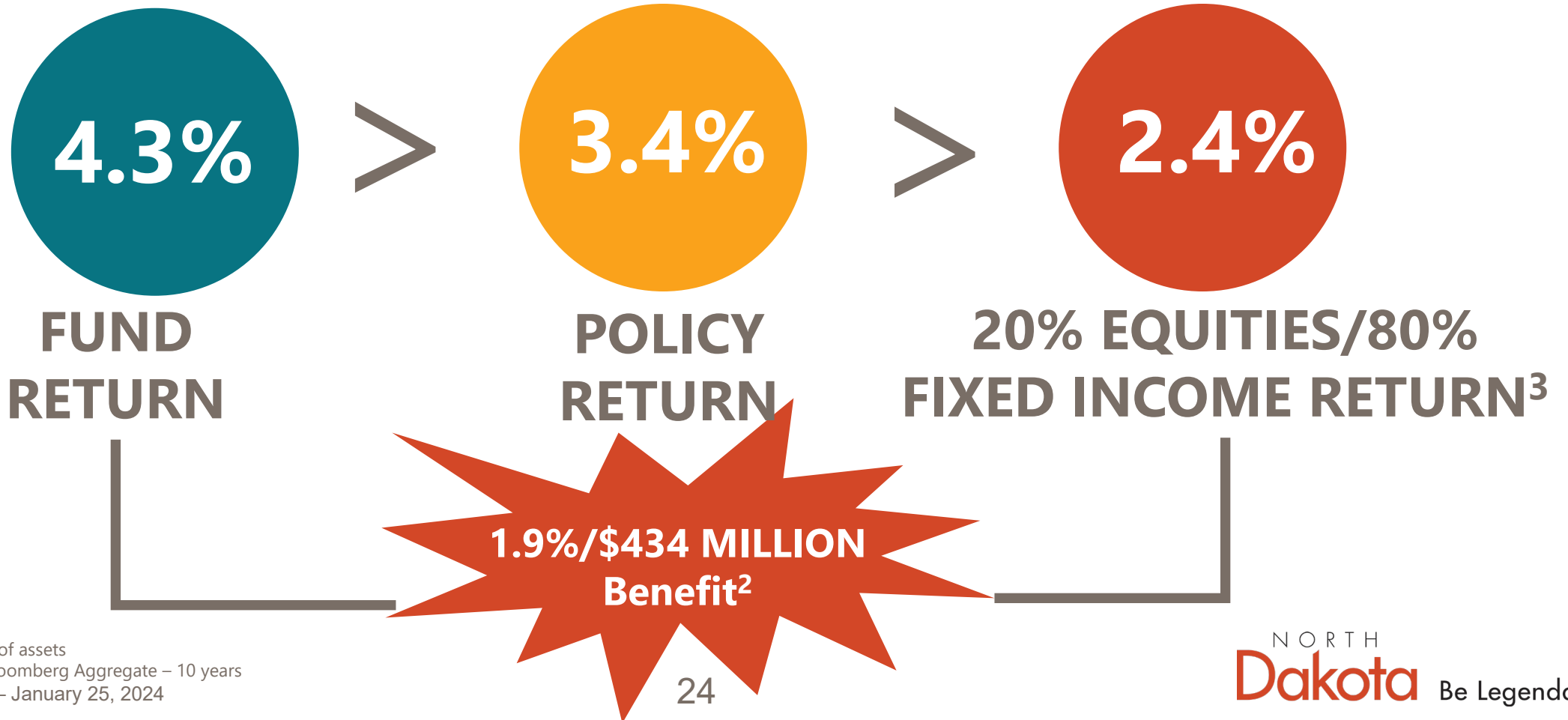
AS OF NOVEMBER 30, 2023
LEGACY \$9.4 Billion

	Year to Date	1 Year	3 year	5 Year¹	Risk (5 Year)
Total Fund Return - Net	8.5%	6.3%	2.7%	6.1%	10.9%
Policy Benchmark Return	7.3%	5.0%	1.7%	5.5%	10.7%
Total Relative Return	1.2%	1.2%	1.0%	0.7%	
Corridor <u>Difference</u> September	0.0%	-0.2%	-0.1%	0.0%	

1. Corridor benchmark applied only in year-to-date numbers

INVESTMENT MANAGEMENT BENEFITS

WSI TEN YEAR AVERAGE RETURN¹



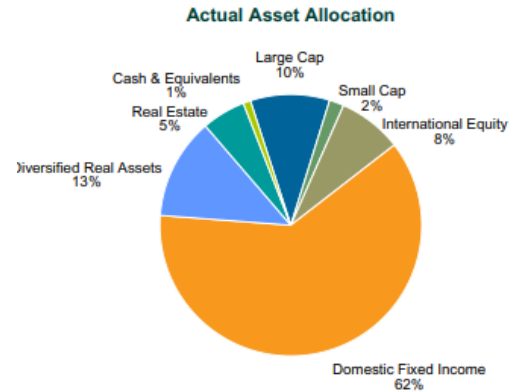
1. Thru September 2023

2. Starting with \$2.1 Billion of assets

3. 20% MSCI World/80% Bloomberg Aggregate – 10 years

Scott M Anderson, CFA – January 25, 2024

ASSET ALLOCATION¹



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Large Cap	196,299	9.8%	10.0%	(0.2%)	(3,464)
Small Cap	34,993	1.8%	2.0%	(0.2%)	(4,959)
International Equity	157,368	7.9%	8.0%	(0.1%)	(2,442)
Domestic Fixed Income	1,232,547	61.7%	62.0%	(0.3%)	(5,981)
Diversified Real Assets	249,718	12.5%	12.0%	0.5%	10,003
Real Estate	108,128	5.4%	5.0%	0.4%	8,247
Cash & Equivalents	18,573	0.9%	1.0%	(0.1%)	(1,403)
Total	1,997,626	100.0%	100.0%		

1. September 2023 values – Callan

PERFORMANCE – WSI

AS OF NOVEMBER 30, 2023

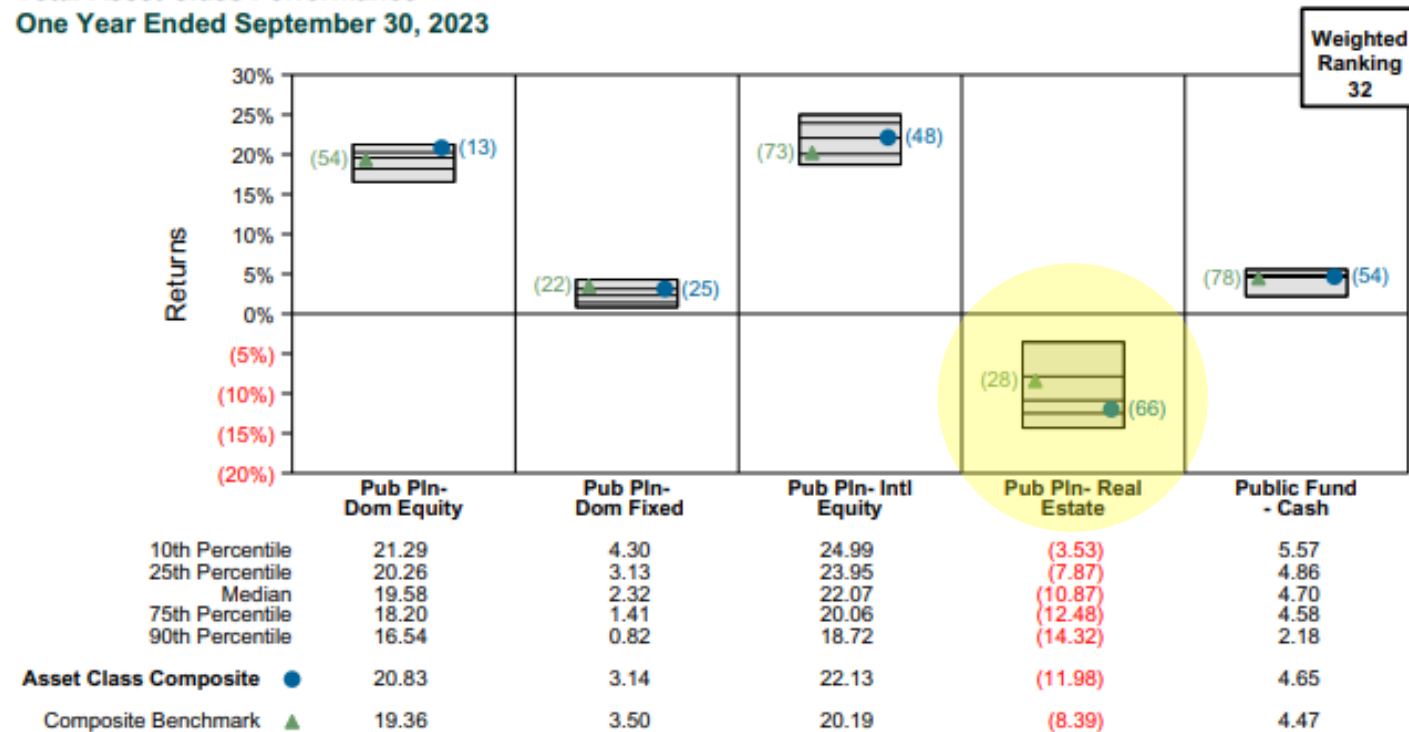
WSI \$2.1 Billion

	Year to Date	1 Year	3 year	5 Year¹	Risk (5 Year)
Total Fund Return - Net	4.4%	3.3%	-0.6%	3.6%	7.4%
Policy Benchmark Return	3.7%	2.4%	-1.1%	3.2%	6.9%
Total Relative Return	0.7%	0.9%	0.5%	0.5%	
Corridor <u>Difference</u> September	0.0%	0.3%	0.0%	0.0%	

1. Corridor benchmark applied only in year-to-date numbers

ASSET CLASS PERFORMANCE

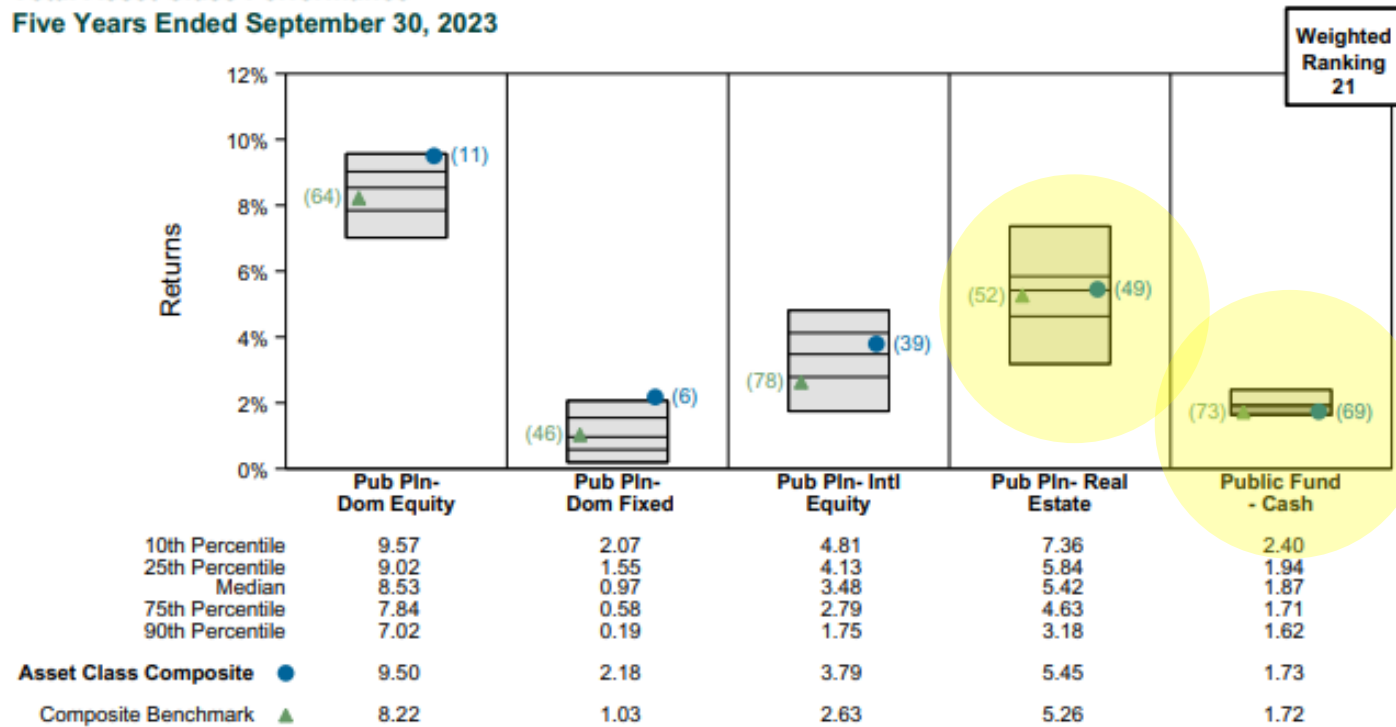
Total Asset Class Performance
One Year Ended September 30, 2023



1. September 2023 values – Callan

ASSET CLASS PERFORMANCE

**Total Asset Class Performance
Five Years Ended September 30, 2023**



1. September 2023 values – Callan

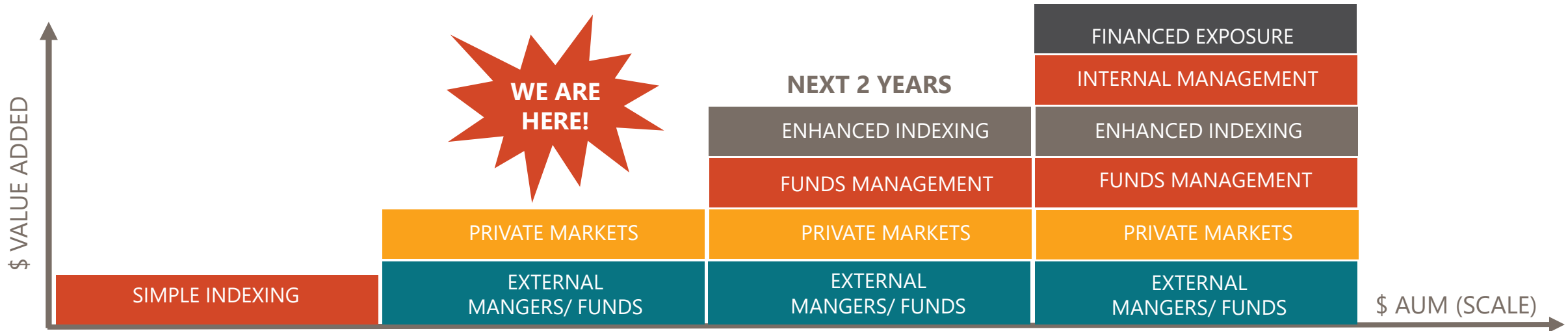
* Current Quarter Target = 25.2% Russell 1000 Index, 18.7% MSCI ACWI xUS IMI, 17.1% Blmbg:Aggregate, 10.1% NCREIF Total Index, 8.2% Private Equity, 7.4% Blmbg HY Corp 2% Iss Cap, 4.5% Russell 2000 Index, 3.6% CPI All Urban Cons lagged 3 months, 3.6% NCREIF NFI-ODCE Eq Wt Net, 1.2% NCREIF Timberland Index and 0.4% 3-month Treasury Bill.

PATHWAY TO STRATEGY

Scott M Anderson, CFA

January 25, 2024

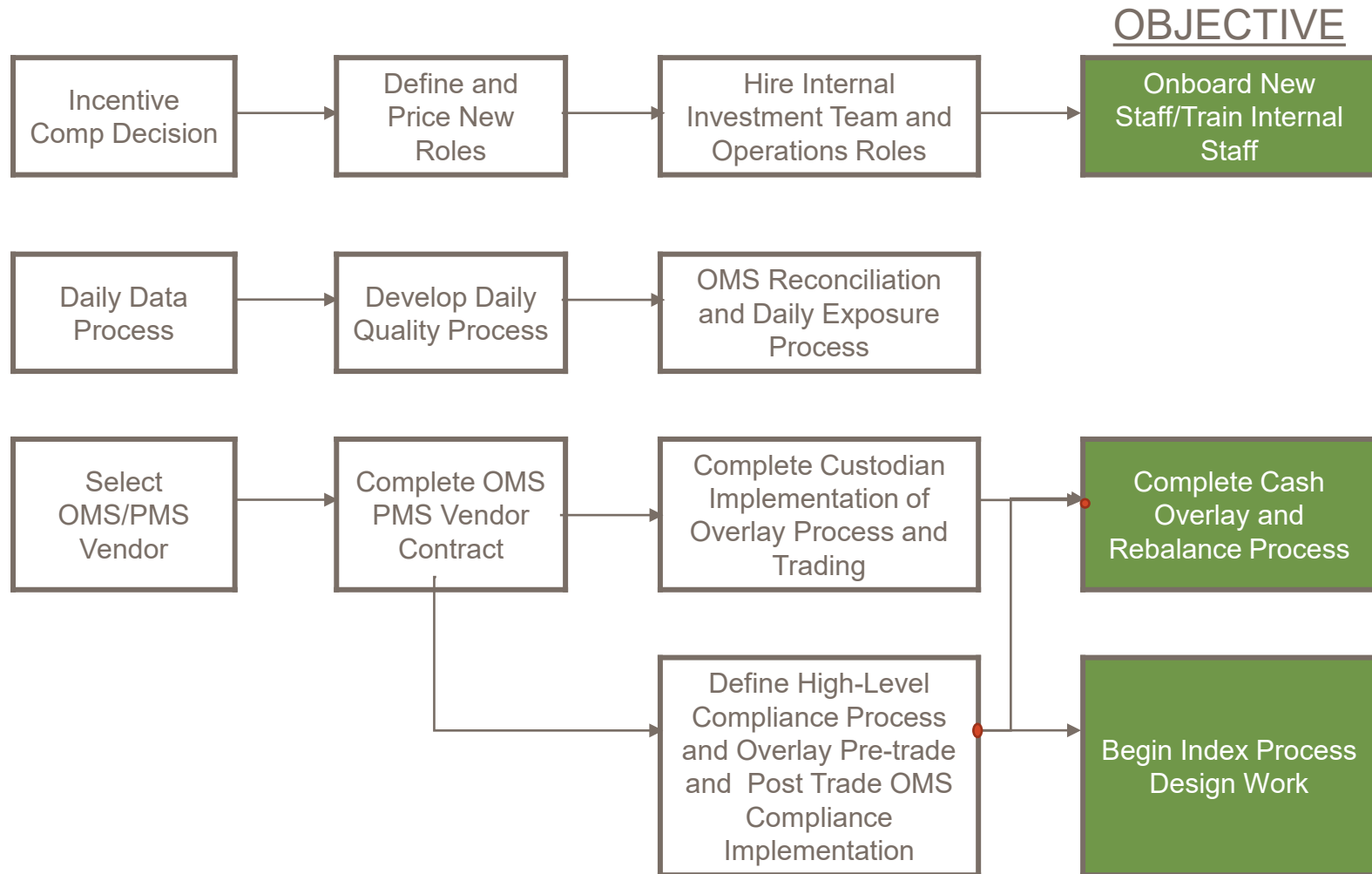
ROADMAP FOR SUCCESS



CAPABILITIES FOR SUCCESS

- DELEGATED AUTHORITY
- INCENTIVE COMP SYSTEM
- DIRECT INVESTMENT TEAM
- INDEPENDENT BENCHMARK CONSULTANT
- PRIVATE MARKETS BENCHMARK CORRIDOR
- FUND POOLING
- DAILY FUND VALUES AND RETURNS
- ADVANCED OPERATIONS
- AUDIT PROCESSES AND COMPLIANCE
- NEW INVESTMENT PROCESSES
- FUND AND LIQUIDITY MANAGEMENT
- DERIVATIVES OVERLAYS
- VALUATION AND EXPOSURE MANAGEMENT
- INVESTMENT DATA WAREHOUSE
- ORDER MANAGEMENT SYSTEM
- PORTFOLIO MANAGEMENT ANALYTICS
- INTEGRATED DATA AND MESSAGES
- KNOWLEDGE MANAGEMENT SYSTEM

CRITICAL PATHS OF SUCCESS



NEAR TERM TIMELINE OF ACTIVITIES

NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
<ul style="list-style-type: none"> Begin incentive and unclassified role project Board approves benchmark memo Coordinate hurdle rate discussions with incentive comp and unclassified role project Establish Executive Steering Committee for IT project. Approve Alternative IT Procurement Issue IT RFP 	<ul style="list-style-type: none"> Present private markets strategy to Legacy Fund Complete daily allocation process design Identify investment role titles and benchmark Consultant reviews incentive comp prototype 	<ul style="list-style-type: none"> Refine incentive comp plan 1.0, Receive and score OMS/PMS RFPs Select OMS/PMS vendors for call back 	<ul style="list-style-type: none"> Equity 2.0 proposal approval Begin Fixed Income 2.0 Determine Private Markets Harmonization Strategy Issue Compliance Process RFP Issue Performance Consultant RFP Approve incentive comp 1.0 and role comp (ERCC) – OMS/PMS vendor demonstrations Select OMS/PMS vendor Complete daily allocation process design 	<ul style="list-style-type: none"> Begin Private Markets Harmonization Define new investment roles and comp Recruit new investment roles New role long list screening OMS/PMS vendor negotiation Sign OMS/PMS contract Begin OMS/PMS incremental implementation Launch data warehouse project Begin to develop data warehouse strategy Complete daily data quality process 	<ul style="list-style-type: none"> Begin internal direct overlay and rebalance strategy New role long list screening First round interviews of long list screened candidates Begin compliance process design Develop large IT project data architecture Select data warehouse solution and approach Hire ops roles 	<ul style="list-style-type: none"> Approve internal direct overlay and rebalance strategy Approve Private Markets Harmonization strategy at IC and Board Select and call back second round candidates Interview second round candidates Implement direct overlay and rebalance OMS/PMS requirements Continue compliance process design Complete daily reconciliation design 	<ul style="list-style-type: none"> Implement Private Markets Harmonization strategy Equity 2.0 complete Select and call back final round candidates Interview final round candidates Issue Allocation Consultant RFP Finalize compliance process design Begin design custodian feed to data warehouse

NEAR TERM TIMELINE OF ACTIVITIES - CONTINUED

JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB
<ul style="list-style-type: none"> ▪ Implement Private Markets Harmonization strategy ▪ Hire initial internal direct team ▪ Continue recruitment ▪ Onboard initial internal direct team ▪ Incorporate compliance into OMS implementation ▪ Finalize OMS integration with custodian ▪ Roll-out PMS daily reconciliation 	<ul style="list-style-type: none"> ▪ Finalize Private Markets Harmonization strategy ▪ Pilot internal direct cash overlay and rebalance ▪ Test OMS and integration with custodian/external traders on internal direct overlay and rebalance pilot ▪ Hire initial internal direct team ▪ Continue recruitment ▪ Continue data warehouse project ▪ Begin data exchange project 	<ul style="list-style-type: none"> ▪ Develop legislative strategy ▪ Begin legislative outreach ▪ Begin to develop index strategy ▪ Scale up overlay and rebalance strategy ▪ Approve Fixed Income 2.0 strategy ▪ Continue recruitment ▪ Continue data warehouse project ▪ Begin data exchange RFP 	<ul style="list-style-type: none"> ▪ Develop tools and data for <u>indexing</u> ▪ Implement Fixed Income 2.0 ▪ Continue legislative outreach ▪ Continue recruitment ▪ Continue data warehouse project ▪ Select data exchange vendor 	<ul style="list-style-type: none"> ▪ Develop tools and data for indexing ▪ Continue legislative outreach ▪ Continue recruitment ▪ Continue data warehouse project ▪ Negotiate data exchange contract ▪ Update compliance for internal indexing 	<ul style="list-style-type: none"> ▪ Approve indexing policy ▪ Continue legislative outreach ▪ Continue recruitment ▪ Continue data warehouse project ▪ Launch data exchange project ▪ Incorporate indexing into OMS implementation including compliance 	<ul style="list-style-type: none"> ▪ Continue legislative outreach ▪ Continue recruitment ▪ Continue data warehouse project ▪ Continue data exchange project ▪ Test OMS for indexing with custodian on a small pilot 	

INVESTMENT CONSULTANT STRATEGY

Scott M Anderson, CFA

January 25, 2024

NORTH
Dakota Be Legendary.

EXISTING CONSULTANT CONTRACTS

MANDATE	CURRENT CONSULTANT	RENEWAL DATE
Performance and Project Consultant ¹	Callan	July 1, 2024
Compensation Consultant	Mercer	July 1, 2024
Benchmark Hurdle Rate Consultant	Verus	July 1, 2025
Performance Consultant ²	-	July 1, 2024
Allocation Consultant ³	-	July 1, 2024
Cost and FTE Benchmark Consultant	CEM Benchmarking	In Discussion
Compliance Consultant Retainer	-	April 2024
Public or Private Market Manager Specialist ⁵	-	?
Contracted Consulting Projects	-	?

+ 2025?

1. The performance and process consulting contract includes quarterly investment performance reports and evaluation of manager performance/attendance at board meetings quarterly; 2 consulting projects; access to specialty consulting staff – can be unbundled into separate performance consulting and project consulting arrangements
2. A general performance consulting contract that provides quarterly performance assessment of client funds and managers; potential to provide annual performance and independent performance checks of fiscal staff generated performance
3. Potential for a retained allocation consultant that provides for fee allocation project consulting, portfolio construction advice and manager search expertise
4. A retained compliance consultant would provide advice and compliance services including legal/regulatory compliance, personal trading policy, trading processes controls/compliance, high level compliance processes
5. Potential for public and private market manager specialist consulting contracts

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: January 24, 2024
RE: New Client Funds

RIO staff has been contacted by two new client funds, the opioid settlement fund and the state historical society, regarding the SIB providing investment management services.

NDCC 21-10-06 provides the authority for the SIB to provide investment management services to public funds. Subsection 1 identifies those funds which the SIB is required to invest (non-discretionary client funds) and subsection 3 identifies the process by which the SIB may onboard new client funds not listed under subsection 1 (discretionary client funds).

The opioid settlement fund is a new non-discretionary client fund that the SIB is required to invest pursuant to H.B. 1447 which added the fund to the list of funds enumerated under NDCC 21-10-06(1). The state historical society has expressed interest in having the SIB provide investment management services under NDCC 21-10-06(3) as a discretionary client fund.

The next step in the process to onboard these two new clients will require coordination between RIO staff and the respective client fund governing boards to agree to a proposed investment policy statement to present to the SIB. The state historical society, as a discretionary client fund, will also need to sign a written agreement for services that must be approved by both the SIB and the Industrial Commission before services can be provided.

RIO staff will provide updates regarding the onboarding of these clients at future meetings.

BOARD ACTION REQUESTED: Information Only.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: January 19, 2024
RE: Securities Litigation Committee Vacancy

SIB Governance Manual B-6 on Standing Committees states:

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

The committee charter states:

The Committee will consist of 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.

Current Committee members are:

Land Commissioner Joe Heringer (Chair);

WSI Director Art Thompson; and

Vacant.

BOARD ACTION REQUESTED: Chair to Appoint.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: January 24, 2024
RE: Strategic Planning Update

RIO staff began the strategic planning process in November by issuing a survey to obtain opinions from board, committee, and staff members. Strategic planning sessions were conducted with representatives and managers from each agency division. These sessions involved reviewing the current strategic plan, reviewing the survey responses, and discussing both amendments to the current strategic plan as well as additional content requested by the Governor's Office. Staff is presently creating action plans for next biennium goals. A final draft of an updated strategic plan will be shared with the Governance and Policy Review committees of both the SIB and TFFR Board in February for additional feedback followed by a presentation to the Governor's Office, RIO staff and each full board, in March.


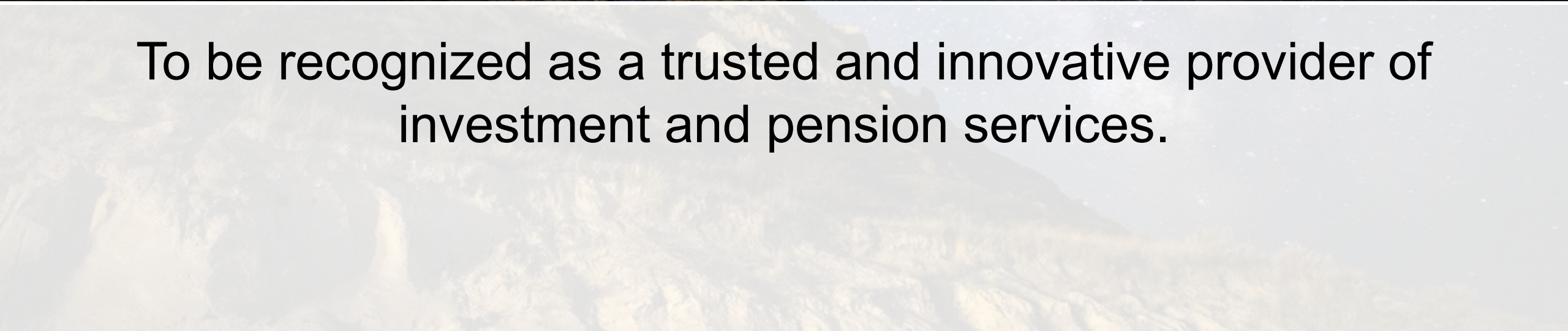
Included within this packet are three slides from the draft presentation relating to agency vision, priorities, and goals (BHAG's). The vision, priorities and goals form the basis of the initiatives identified for the next three biennium as well as the action plan for the upcoming biennium. Board members are requested to provide commentary on the vision, priorities, and goals at the January meeting.

BOARD ACTION REQUESTED: Discussion – No action requested.



AGENCY VISION STATEMENT

To be recognized as a trusted and innovative provider of investment and pension services.






AGENCY PRIORITIES

Outreach – Implementing a communication strategy with our stakeholders and the public that supports education and transparency.

Organizational Culture – Recognizing that talent management, a growth mindset, and a remote enabled workforce supports agency success.

Technology - Leveraging technology enabled processes and infrastructure to enhance organizational efficiency and support quality fiscal and risk management practices.



BIG HAIRY AUDACIOUS GOALS (BHAG)

LOOKING AHEAD 5 TO 10 YEARS

BHAG Goals (Draft)

ND Cash Management Practices – Leveraging opportunities across agencies.

Internal Investment Initiative Expansion – Building on the business case to optimize benefits of scale.

Benefits Administration Optimization – Leveraging opportunities across agencies.

Financial/Retirement Literacy Initiative – Educating for teacher recruitment & retention success.

Industry Leader Initiative – Innovation in operations to excel in education, technology, and talent pool.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: January 19, 2024
RE: Securities Litigation Committee Update

I. Summary of Actions

The committee met on December 5, 2023 and again on December 8, 2023 to interview and select finalist firms for securities litigation monitoring.

The committee selected two firms to provide monitoring services:

Bernstein, Litowitz, Berger & Grossmann LLP; and

Robbins Gellar Rudman & Dowd, LLP.

II. Additional Information

Committee materials may be found on the RIO website here: [State Investment Board Securities Litigation Committee | Retirement Investment Office \(nd.gov\)](https://www.nd.gov/state-investment-board/securities-litigation-committee/retirement-investment-office)

BOARD ACTION REQUESTED: Information Only.

MEMORANDUM

TO: State Investment Board
FROM: Dr. Rob Lech, Chair and Ryan Skor, CFO/COO
DATE: January 26, 2024
RE: Executive Review and Compensation Committee Update

The Executive Review and Compensation Committee met Tuesday, January 9th, 2023. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the August 3 and August 24, 2023, meetings.

Ms. Seiler provided the committee with an updated version of the SIB self and board assessment meant to streamline the questionnaire and improve question clarity while still capturing relevant information. This proposal was an update to the evaluation form that has been used since 2019. She also included a proposed timeline for the assessment period.

The Committee had a robust discussion on the proposed assessment and timeline. The Committee then approved both the form of the assessment and the proposed timeline, noting that the assessment will be sent out to board members after the SIB meeting on Friday, January 26, 2024, and will close on Friday, February 2, 2024. The assessment results will be compiled for the next ERCC meeting on February 20, 2024.

Additional information can be found at: <https://www.rio.nd.gov/state-investment-board-sib/state-investment-board-executive-review-compensation-committee>

BOARD ACTION REQUESTED: Information Only.



State Investment Board

RETIREMENT & INVESTMENT

2024 State Investment Board Self and Board Assessment

Introduction

State Investment Board (SIB) members are invited to participate in a self and a board assessment responsibilities, meetings and structure, and financial management and investment practices. Following each section, space is provided to explain your rankings or comment.

Any questions regarding the assessment, which is administered by the SIB's Executive Review and Compensation Committee, should be directed to Sara Seiler, the Retirement and Investment Office's supervisor of internal audit, at 701-328-9896 or sseiler@nd.gov.

Survey responses are due by midnight on **Friday, February 2, 2024**.

Thank you in advance for your participation.

* 1. Full name of State Investment Board member completing the evaluation:

2024 State Investment Board Self and Board Assessment

Section 1: Self Assessment

Board and Committee Member Responsibilities

This section refers to your perspective as an individual board member.

2. I receive the training necessary to fulfill my responsibilities as a SIB member.

Strongly Agree

Agree

Disagree

Strongly Disagree

3. I understand the authority that has been retained by the SIB and what duties have been delegated to the committees of the SIB and RIO staff.

Strongly Agree

Agree

Disagree

Strongly Disagree

4. I make an effort to learn about aspects of the investment program that I do not understand by participating in education provided by RIO's staff.

Strongly Agree

Agree

Disagree

Strongly Disagree

5. I fully understand the policies of the SIB and/or review them as necessary to fulfill my role.

Strongly Agree

Agree

Disagree

Strongly Disagree

Comments for Board and Committee Member Responsibilities



2024 State Investment Board Self and Board Assessment

Board & Committee Meetings and Structure

This section refers to your perspective as an individual board member.

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

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. I am prepared for meetings, reviewing the materials in advance so I can make informed decisions.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

8. If I am unable to attend a SIB meeting, I review the information that was presented.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments for Board and Committee Meetings and Structure



2024 State Investment Board Self and Board Assessment

Financial Management and Investment Practices

This section refers to your perspective as an individual board member.

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

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

11. I sufficiently understand all financial, performance, and audit, reports and seek clarification when necessary.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments for Financial Management and Investment Practices



2024 State Investment Board Self and Board Assessment

Section 2: Board Assessment

Board and Committee Member Responsibilities

This section refers to your perspective of the performance of the Board as a whole.

12. The Board has healthy discussions on a topic before making a decision.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

13. The Board recognizes the authority it has retained and what has been delegated to RIO's staff.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

14. The Board reviews policies on a regular basis and updates them as needed. If a new policy is needed, the policy is clearly presented and discussed.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments for Board and Committee Member Responsibilities



2024 State Investment Board Self and Board Assessment

Board and Committee Meetings and Structure

This section refers to your perspective of the performance of the Board as a whole.

15. Meetings are generally well-run and make good use of time with the right allocation between Board discussions and presentations.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

16. Standing and ad hoc committees complete tasks and communicate them to the full board in an effective and timely manner.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments for Board and Committee Meetings and Structure



2024 State Investment Board Self and Board Assessment

Financial Management and Investment Practices

This section refers to your perspective of the performance of the Board as a whole.

17. The Board is regularly informed of economic trends or conditions that can affect investment performance.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

18. The Board quarterly Ends reports provide adequate information relating to investment, retirement, fiscal, audit, and executive limitation activities of the agency.

Strongly Agree	Agree	Disagree	Strongly Disagree
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Comments for Financial Management and Investment Practices



State Investment Board
RETIREMENT & INVESTMENT

2024 State Investment Board Self and Board Assessment
Overall Assessment

* 19. Any final comments, observations, or suggestions?

MEMORANDUM

TO: SIB
FROM: Scott Anderson, Chief Investment Officer
DATE: January 26, 2023
RE: Investment Committee Update

January 12, 2024, Investment Committee Meeting

The Investment Committee met Friday, January 12, 2024. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the December 8, 2023, meeting.

Mr. Anderson provided an Investment Strategy update that included a market review and a performance review of PERS, TFFR, WSI and the Legacy Fund. Mr. Anderson also presented the high-level strategy for the Investment Program and key initiatives going forward.

Mr. Anderson then provided information on the Consulting Strategy for the agency. Lastly, Mr. Moss and Mr. Zietlow provided a closed session Private Markets Manager recommendation. After the presentation, the investment committee approved Staff's recommendation to move forward as recommended.

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Investment/Board/Materials/sibinvestmat20240112.pdf>

BOARD ACTION REQUESTED: Information Only.

MEMORANDUM

TO: State Investment Board
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: January 19, 2024
RE: Audit Committee Special Meeting

The SIB Audit Committee met for a special meeting on January 18, 2024. The committee heard presentations from the finalists who offered proposals for the Internal Audit Maturity Development project. After discussion, the committee directed staff to move forward with the entity most susceptible to award for the project. An intent to award was issued on January 19, 2024. After the seven-day protest period and the contract has been finalized a kick-off meeting will be scheduled.

BOARD ACTION REQUESTED: Information Only.

Quarterly Report on Ends

Quarter ending December 31, 2023

Investment Program

Portfolio Changes & Investment Consultant

Verus presented benchmark recommendations that were approved by SIB. There were no portfolio changes.

Public Markets:

Over the quarter, the Public Markets team continued to screen and evaluate equity managers for Equity 2.0. In the latter half of the quarter the Team presented the High Yield Strategy to the Investment Committee. The Team began work on addressing the Legacy Fund's underweight to high yield (that resulted from the Legacy Fund's new investment policy statement). Moreover, over the quarter the Team conducted initial screens and began due diligence on candidate high yield managers. In total the Public Markets team conducted due diligence/monitoring meetings with over 35 current and prospect manager strategies.

Private Markets:

During the quarter, the private markets team conducted in-depth due diligence on two private equity managers. One was presented to the Investment Committee for approval in January, and the other will be presented for approval at the February meeting. In total, the Private Markets team conducted nearly 100 introductory, due diligence, and monitoring meetings with current and prospective managers and strategies. The team also completed a review of the private equity and real estate programs at the November Investment Committee meeting. The team continues to work on solutions to harmonize the private market assets across the various RIO pools of capital. Additionally, the team worked with Hamilton Lane to complete the onboarding process and importing of RIO's historical private markets data onto their portfolio management platform.

Risk:

In the recent quarter, the risk team has been actively engaged in several key initiatives. Work is ongoing to develop portfolio risk reports and processes at various levels, notably by pool, client, and manager. This effort is complemented by reviewing data integrity in systems such as Aladdin. The team is also in the process of developing a Market Risk Dashboard, which will enhance our risk monitoring capabilities. Notably, the team supported the Public Markets team during their manager search processes. Research efforts have been directed towards optimizing the allocation for equity managers, alongside analyzing fixed income allocations for the new high yield allocation in the Legacy Fund. Additionally, the quarter saw a comprehensive review of manager compliance which was presented to the IC.

Other

- Key projects include continued development of hurdle rates for incentive comp.
- RFP was issued for an internal investment management order execution system and portfolio management system.
- Staff continues to conduct due diligence on prospect managers/products for future consideration.
- Staff continues to monitor each client's asset allocation monthly and makes rebalancing decisions based on rebalancing policy and cash flow requirements.
- Staff attended meetings with many SIB client boards, sub-committees and/or legislative committees or representatives including TFFR, PERS, and WSI.
- There are currently no managers on the watch list.

NDRIO Investment Due Diligence Quarterly Monitoring Report

Oct-01-2023 to Dec-31-2023

Date	Firm	Subject	Location	RIO Attendees
10/2/2023	Cerberus	Follow-up: Residential Credit & Single Family Rental	Call	George Moss, Lance Zietlow
10/2/2023	General Atlantic	Follow-up: 2023 Growth Equity	Call	George Moss, Lance Zietlow
10/3/2023	Kayne Anderson	Real Estate Debt	Onsite	Lance Zietlow
10/3/2023	DigitalBridge	Introduction	Onsite	Lance Zietlow
10/4/2023	Arrowstreet	Annual Review	Onsite	Derek Dukart, Jason Yu, Matthew Posch
10/4/2023	Tiger Global Management	Follow-up: Venture Capital Market Outlook	Call	George Moss, Lance Zietlow
10/4/2023	Adams Street Partners	Follow-up: BDC Strategy	Call	George Moss, Lance Zietlow
10/5/2023	JP Morgan	Update: Real Estate Market & Portfolio Discussion	Call	George Moss, Lance Zietlow
10/5/2023	Sands Capital	Introduction	Onsite	Matthew Posch
10/6/2023	Insight Equity	Introduction	Call	George Moss, Lance Zietlow
10/6/2023	Orion Resource Partners	Introduction	Call	George Moss, Lance Zietlow
10/9/2023	Invesco	Catch-up: Real Estate	Call	George Moss, Lance Zietlow
10/9/2023	Invesco	Invesco Private Credit Introduction	Onsite	Lance Zietlow
10/10/2023	General Atlantic	Follow-up: Private Credit	Call	George Moss, Lance Zietlow
10/10/2023	50 South Capital	50 South Capital Annual Investor Conference-Private Equity	Onsite	Jason Yu

10/10/2023	Pantheon	Introduction: Private Credit Secondaries	Call	George Moss
10/13/2023	K1	K1 Investment Update	Call	George Moss, Lance Zietlow
10/13/2023	HarbourView	Introduction to HarbourView, a manager focused on music royalties	Call	George Moss, Lance Zietlow
10/16/2023	Coller Capital	Introduction: Secondaries	Call	George Moss, Lance Zietlow
10/16/2023	JP Morgan	Update: Income & Growth Fund	Call	George Moss, Lance Zietlow
10/16/2023	JP Morgan	Update: Strategic Property Fund	Call	George Moss, Lance Zietlow
10/17/2023	PAG Asia	China Update	Call	Derek Dukart, Eric Chin, George Moss, Jason Yu, Lance Zietlow, Matthew
10/18/2023	Pharmakon	Introduction: Pharma Lending	Call	George Moss, Lance Zietlow
10/18/2023	Avenue Capital	Avenue Asia Introduction	Onsite	Lance Zietlow
10/19/2023	HIG	Follow-up: Advantage Fund II	Call	George Moss, Lance Zietlow
10/19/2023	JP Morgan	Update: Special Situations Property Fund	Call	George Moss, Lance Zietlow
10/25/2023	PIMCO	Follow-up: Specialty Finance Fund	Onsite	George Moss, Lance Zietlow
10/25/2023	Triton Partners	Introduction: MM Buyout strategy	Onsite	George Moss, Lance Zietlow
10/25/2023	Portfolio Advisors	Follow-up: GP-led Secondaries	Onsite	George Moss, Lance Zietlow
10/25/2023	Manulife	Follow-up: GP-led Secondaries	Onsite	George Moss, Lance Zietlow
10/27/2023	Hillsdale	Introduction	Call	Matthew Posch
10/30/2023	Taurus	Taurus Update Call	Call	Lance Zietlow
10/30/2023	Applied Finance	Applied Finance - Intro	Call	Derek Dukart, Eric Chin
10/31/2023	SSGA	Passive High Yield	Call	Derek Dukart, Eric Chin
10/31/2023	Waycross	Introduction to Focused Core Equity	Call	Derek Dukart

11/1/2023	Centre Lane Partners	Introduction: Private Credit strategy	Call	George Moss, Lance Zietlow
11/1/2023	T. Rowe Prudential Global Investment Management	Strategy Introduction	Call	Derek Dukart, Matthew Posch
11/2/2023	(PGIM)	Annual Review	Virtual	Derek Dukart, Eric Chin, Matthew Posch, Nitin Vaidya
11/2/2023	Mudrick Capital	Introduction: Mudrick Capital	Call	George Moss, Lance Zietlow
11/2/2023	Copeland Capital	Intro to Copeland Small Cap	Call	Derek Dukart, Eric Chin
11/2/2023	Aquiline	Introduction: Financial Services Fund	Call	George Moss, Lance Zietlow
11/3/2023	Tribe Capital	Introduction: Venture Capital	Call	George Moss, Lance Zietlow
11/3/2023	Algert Global	Intro to Algert Global	Call	Derek Dukart, Eric Chin
11/3/2023	PIMCO	Discussion: In-State Investment Opportunities/Partnership	Call	George Moss, Lance Zietlow
11/6/2023	Graham Partners	Introduction	Call	George Moss, Lance Zietlow
11/7/2023	Wellington	Small Cap 2000	Call	Derek Dukart, Eric Chin, Matthew Posch
11/7/2023	Portfolio Advisors	Follow-up: GP-led Secondaries	Call	George Moss, Lance Zietlow
11/8/2023	JP Morgan	Discussion on Strategic Property Fund Portfolio Management Changes	Call	George Moss, Lance Zietlow
11/8/2023	JP Morgan	Discussion: SPF Portfolio Manager Changes	Call	George Moss, Lance Zietlow
11/8/2023	Hudson Northern Shipping	Introduction: Maritime Credit/Shipping Fund	Call	George Moss, Lance Zietlow
11/9/2023	Neuberger Berman	Introduction	Call	Derek Dukart, Eric Chin, Matthew Posch
11/9/2023	Vendera Resources	Introduction: Natural Resources	Call	George Moss, Lance Zietlow
11/9/2023	PanAgora	Introduction	Call	Derek Dukart, Eric Chin, Matthew Posch
11/9/2023	Blue Owl Capital	Update meeting with Blue Owl	Onsite	Lance Zietlow
11/9/2023	New Mountain Capital	Introduction: Private Credit	Call	George Moss, Lance Zietlow

11/9/2023 Adams Street Partners	Follow-up: BDC Fund and other topics	Call	George Moss, Lance Zietlow
11/13/2023 Kinterra Capital	Introduction: Natural Resources	Call	George Moss, Lance Zietlow
11/13/2023 McGinty Road Partners	Update	Onsite	Lance Zietlow
11/13/2023 Putnam	Introduction	Call	Derek Dukart, Eric Chin, Matthew Posch
11/14/2023 Fortress	Follow-up: Credit Opportunities Fund	Call	George Moss, Lance Zietlow
11/14/2023 Deerpath Capital	Introduction: LMM Senior/Direct Lending	Call	George Moss, Lance Zietlow
11/14/2023 Keel Harbour	Introduction	Call	George Moss, Lance Zietlow
11/14/2023 Prudential	Introduction: Credit Opportunities Fund	Call	George Moss, Lance Zietlow
11/15/2023 TrueBridge Capital	Introduction	Call	George Moss, Lance Zietlow
11/15/2023 Anchorage Capital	Introductory meeting with Yale Baron, Co-CIO	Onsite	Lance Zietlow
11/15/2023 HarbourView	Update: Music royalties investment opportunities	Onsite	Lance Zietlow
11/16/2023 White Wolf Capital	Follow-up: SBIC Fund	Call	George Moss
11/16/2023 Altor	Altor Funds Advisory Committee Meeting - Q3 2023 Valuations - 16 November 2023	Call	George Moss, Lance Zietlow
11/16/2023 Blackrock	Macro Credit Discussion	Call	George Moss, Lance Zietlow
11/16/2023 Jefferies	Introduction: Private Credit Capabilities	Call	George Moss, Lance Zietlow
11/17/2023 Portfolio Advisors	Follow-up: GP-led Secondaries	Call	George Moss, Lance Zietlow
11/20/2023 Davidson Kempner	Introduction	Call	George Moss, Lance Zietlow
11/20/2023 Callan (Investment Management)	Update: JP Morgan SPF's PM Departure	Call	George Moss, Lance Zietlow
11/20/2023 CVC	Introduction	Onsite	Lance Zietlow
11/20/2023 Manulife	Intro to Manulife Small Cap	Call	Derek Dukart, Eric Chin

11/21/2023	Neuberger Berman	Follow-up: GP-led Secondaries	Call	George Moss, Lance Zietlow
11/21/2023	Insight Investment	Intro to HY Beta	Call	Derek Dukart, Eric Chin
11/21/2023	PIMCO	Follow-up: In-State Investments	Call	George Moss, Lance Zietlow
11/27/2023	Kayne Anderson Rudnick	KAR Intro Meeting	Call	Derek Dukart, Eric Chin
11/27/2023	EnTrust	Follow-up: Blue Ocean Maritime Fund	Onsite	George Moss
11/28/2023	Sands Capital	Introduction: Private strategies	Call	George Moss, Lance Zietlow
11/28/2023	Principal	Principal Core/Core+ Review	Onsite	Lance Zietlow
11/28/2023	Labyrinth	Update	Call	George Moss
11/29/2023	Blackstone	Update: Senior Direct Lending	Call	George Moss, Lance Zietlow
11/29/2023	Grafine Partners	Introduction	Onsite	Lance Zietlow
11/29/2023	Lime Rock	Introduction	Call	George Moss, Lance Zietlow
11/30/2023	Barings	Barings - Capital Solutions Discussion	Onsite	Lance Zietlow
11/30/2023	Partners Group	Introduction	Onsite	Lance Zietlow
11/30/2023	Peak Rock	Introduction	Call	George Moss, Lance Zietlow
11/30/2023	Oak Hill Advisors	Introduction	Call	Eric Chin, George Moss, Lance Zietlow, Nitin Vaidya, Scott Anderson
12/1/2023	Virtus Real Estate Capital	Introduction	Call	George Moss, Lance Zietlow
12/1/2023	Chorus Capital	Introduction	Onsite	Lance Zietlow
12/1/2023	TIR	Fund Update	Call	George Moss, Lance Zietlow
12/4/2023	Paceline	Introduction	Call	George Moss, Lance Zietlow
12/4/2023	Viola	Introduction	Onsite	Lance Zietlow

12/4/2023 IFM Investors	Update: Infrastructure Direct Lending	Call	George Moss, Lance Zietlow
12/5/2023 ISQ	Update	Onsite	George Moss, Lance Zietlow
12/6/2023 Anchorage Capital	Introduction	Call	Derek Dukart, Eric Chin, Matthew Posch
12/6/2023 White Wolf Capital	Update Meeting	Onsite	George Moss, Lance Zietlow
12/6/2023 HIG	Follow-up	Onsite	George Moss, Lance Zietlow
12/7/2023 Orion Global Asia	Introduction	Call	Lance Zietlow
12/7/2023 Pretium	Update Call	Call	George Moss, Lance Zietlow
12/7/2023 Goldman Sachs	QIS Introduction	Call	Derek Dukart, Eric Chin, Matthew Posch
12/7/2023 Goldman Sachs	Intro to GS QIS	Call	Derek Dukart, Eric Chin, Matthew Posch
12/7/2023 Chicago Pacific	Update meeting	Call	Lance Zietlow
12/8/2023 Orchard Global	Introduction	Call	George Moss, Lance Zietlow
12/8/2023 Lightyear Capital	Introduction	Call	George Moss
12/11/2023 Portfolio Advisors	Follow-up	Onsite	George Moss, Lance Zietlow
12/12/2023 SiM	Into to SiM HY	Call	Derek Dukart, Eric Chin, Matthew Posch
12/12/2023 50 South Capital	Update	Onsite	George Moss, Lance Zietlow
12/12/2023 Nomura	Intro to NCRAM HY	Call	Derek Dukart, Eric Chin, Matthew Posch
12/14/2023 Beach Point Capital Management	Intro to Beach Point HY/MAC	Call	Derek Dukart, Eric Chin, Matthew Posch
12/14/2023 MacKay Shields	Intro to Mackay Shields HY	Call	Derek Dukart, Eric Chin, Matthew Posch
12/15/2023 HarbourView	Update	Call	Lance Zietlow
12/15/2023 King Street	Introduction	Call	George Moss, Lance Zietlow

12/15/2023 KKR	Intro to KKR GCOF and HY	Call	Derek Dukart, Eric Chin
12/15/2023 Horsley Bridge	Introduction	Call	George Moss, Lance Zietlow
12/15/2023 GoldenTree	Intro to Goldentree MAC	Call	Derek Dukart, Eric Chin
12/18/2023 Cloverlay	Introduction	Call	George Moss, Lance Zietlow
12/18/2023 Oak Hill Advisors	Intro to OHA HY	Call	Derek Dukart, Eric Chin
12/18/2023 Blackrock	H.I.G. Discussion	Call	George Moss, Lance Zietlow
12/18/2023 Federated	Intro to FHI HY	Call	Derek Dukart, Eric Chin
12/19/2023 Nomura	Follow-up	Call	George Moss
12/19/2023 Portfolio Advisors	Follow-up	Call	George Moss, Lance Zietlow
12/19/2023 Comvest	Introduction	Call	George Moss, Lance Zietlow
12/19/2023 Stellus Capital	Introduction	Call	George Moss, Lance Zietlow
12/28/2023 Ares	Introduction: Joel Holsinger/Pathfinder	Onsite	George Moss

MEMORANDUM

TO: TFFR Board of Trustees
FROM: Chad Roberts, DED/CRO
DATE: January 4, 2024
RE: TFFR Ends Report – 2nd Quarter ending December 31, 2023

This report highlights exceptions to the normal operating conditions of the TFFR program for the period spanning October 1, 2023, through December 31, 2023.

TFFR staff and the PAS vendor completed pilot 4 of the pension system design phase in October of 2023. Pilot 4 was the last phase of the design sessions. The vendor is now developing the actual modifications for the NeoSpin software and the user acceptance testing phase will begin in January of 2024.

Presentations were given by Retirement Services staff members at the annual conferences for both the North Dakota School Boards Association and the North Dakota Council of Educational Leadership in October. The presentations offered a preview of the new pension administration system to business partners.

Retirement Services staff provided a presentation on the new pension administration system to business partners through coordinated brunch and learn sessions with both the North Dakota School Boards Association and the North Dakota Council of Educational Leadership.

GRS completed the FY2023 actuarial valuation report and presented it to the TFFR Board of Trustees at the November board meeting.

Retirement Services staff members provided member education sessions in Bismarck, Minot, Jamestown, and Williston in October 2023.

The ED and DED/CRO attended the National Council on Teacher Retirement annual conference in La Jolla, California in October.

An internal applicant presently filling the part-time temporary administrative assistant position was selected to fill the vacant temporary full-time member specialist position and will start in that role on January 2, 2024. The temporary part-time administrative assistant position has been posted.

Board Action Requested: Board acceptance

MEMORANDUM

TO: State Investment Board
FROM: Sarah Mudder, communications and outreach director
DATE: January 26, 2024
RE: SIB outreach 2023 (Q4) conducted and 2024 (Q1) planned

The Retirement and Investment Office (RIO) staff who administer the State Investment Board program engaged with clients and the public in the four quarter of the calendar year as follows:

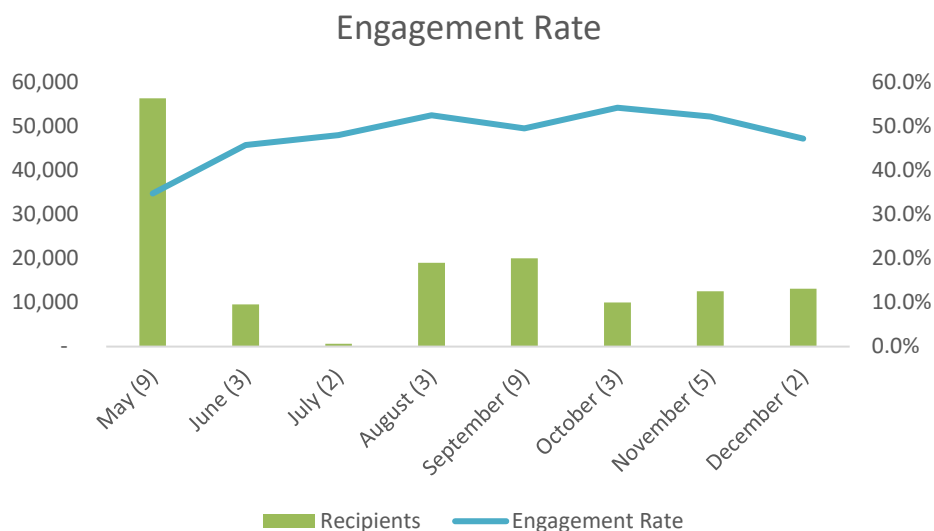
PUBLICATIONS

News Releases

Publication	Date	Open Rate/Subscribers
RIO recognized for financial rpt	Nov. 14	46% / 520
TFFR earns pension awards	Dec. 7	46% / 667

Date	Stories	Publication	Reporter	Readership
11/25/2023	State office recognized	Bismarck Tribune	Business Digest	28,226
12/16/2023	State program earns awards	Bismarck Tribune	Business Digest	28,226

GovDelivery Monthly Metrics



EVENTS

Board Education

Courses	Attended/Completed
Onboarding training – agency overview, etc.	7 of 13
Fiduciary Responsibility	7 of 13

Open Meetings/Open Records	7 of 13
Asset Allocation	8 of 13
Performance Reports	8 of 13
Governance Manual Part #1	7 of 13

Upcoming activities include planned for first quarter of 2024 include:

PUBLICATIONS

Newsletters and Updates (GovDelivery)

FY2023 ACFR available, Jan. 23, 2025

Investment Newsletter, tentatively planned for March

APPOINTED/ELECTED

Jan Murtha, Investment Committee, National Association of Public Pension Attorneys (NAPPA)

Jan Murtha, Legislative Committee 2024, National Council on Teacher Retirement

PRESENTATIONS/CONFERENCES

Jan Murtha, "Participant Education and Communication," NAPPA Winter Seminar, Feb. 21-23, 2024

Jan Murtha, attendee, NCTR/NASRA winter joint meeting, Feb. 24-26, 2024

Jan Murtha, attendee, NIRS Annual Retirement Policy Conference, Feb. 26-27, 2024

Lance Zietlow, "Manager Selection: Everybody Sounds the Same," Pension Bridge Private Credit, Feb. 26-27, 2024

Scott Anderson, "Re-strategizing the portfolio and optimizing due diligence in the market landscape," Private Equity International NEXUS 2024, March 6-8, 2024

BOARD ACTION REQUESTED: Board acceptance.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: January 19, 2024
RE: Executive Limitations

A verbal update will be provided at the meeting on staff relations and strategic planning. Including updates on the following topics:

I. Strategic Planning

RIO staff began the strategic planning process in November by issuing a survey to obtain opinions from board, committee and staff members. Strategic planning sessions were conducted with representatives and managers from each agency division. These sessions involved reviewing the current strategic plan, reviewing the survey responses, and discussing both amendments to the current strategic plan as well as additional content requested by the Governor’s Office. Staff is presently creating action plans for next biennium goals. A final draft of an updated strategic plan will be shared with the Governance and Policy Review committees of both the SIB and TFFR Board in February for additional feedback followed by a presentation to the Governor’s Office, RIO staff and each full board, in March.

II. New Board & Committee Member Update

The next new board member onboarding meeting is scheduled for Monday, January 29, 2024, at 9:00am. This meeting is virtual only and a Teams link will be provided. The topic of this training is Fiscal Operations Overview with Mr. Skor (CFO/COO) presenting.

III. Retirements/Resignations/FTE’s/Temporary Assistance:

Position Title*	Status
Retirement Membership Specialist (temporary)	Filled with internal candidate.
Administrative Assistant (part-time - temporary)	Vacancy due to promotion. Interviews completed.

*New FTEs related to the Internal Investment program are expected to be posted in Spring of 2024.

IV. 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 continues to vary from 5 to 25 hours or more per week.
- **Northern Trust Initiative** – In an effort to enhance the infrastructure for the investment program the Investment and Fiscal teams continues to coordinate with Northern Trust for additional functionality/capabilities.

- **Audit Consultant Report:** Staff has created an Executive Steering committee comprised of the ED, CFO/COO, and IA Supervisor to oversee a project to implement consultant recommendations related to modernizing RIO's internal audit program. The Audit Committee approved procuring co-sourcing of some internal audit services to assist staff with implementing the recommendations. An RFP was issued and the Audit Committee interviewed finalists and selected a vendor at a special January Audit Committee meeting. As of the date of this memorandum the notice of award is pending. A verbal update regarding the consultant will be shared at the board meeting.
- **Compensation Study RFP:** An RFP for a Compensation Study was issued for consultant services necessary to prepare and present an incentive compensation plan for approval to the Board and develop compensation goals for agency positions. Staff has been working with the vendor to complete the project. A final presentation will be made to both the ERCC and full SIB in February.
- **Investment Program Software Solutions:** NDIT has determined that the investment software solution to provide the necessary infrastructure for internal investment management qualifies as a large IT project. RIO staff is working with NDIT and State Procurement through the procurement process. The Executive Steering Committee met in November and approved an RFP. The procurement process is pending.

V. **Board & Committee Presentations November 17, 2023, through January 26, 2023.**

In addition to the activities noted in the SIB Outreach report, Staff attended or provided or is scheduled to attend or provide presentations to Boards and Committees during the above referenced time period:

- **Cash Management Study – 11/27/23**
- **Investment Software ESC – 11/27/23**
- **SIB Securities Litigation Committee – 12/5/23**
- **SIB Investment Committee – 12/8/23**
- **SIB Securities Litigation Committee – 12/8/23**
- **Legacy and Budget Stabilization Fund Advisory Board – 12/13/23**
- **Board/committee education session – 12/15/23**
- **Retirement (PAS Project) ESC – 1/2/24**
- **SIB Executive Review and Compensation Committee – 1/9/24**
- **SIB Investment Committee – 1/12/24**
- **Cash Management Study – 1/12/24**
- **JEL Leadership meeting – 1/17/24**
- **SIB Audit Committee – 1/18/24**
- **ND State of the State – 1/23/24**
- **TFFR Board meeting – 1/25/24**
- **SIB meeting – 1/26/24**

VI. **Presentations/Conferences**

I have been appointed to the following committees: Investment Committee, National Association of Public Pension Attorneys (NAPPA) and Legislative Committee 2024, National Council on Teacher Retirement.

I will also attend the winter meetings of NAPPA, NCTR, NASRA, and NIRS in February.

Staff is participating as a speaker on the following panels:

Jan Murtha, "Participant Education and Communication," NAPPA Winter Seminar, Feb. 21-23, 2024.

Lance Zietlow, "Manager Selection: Everybody Sounds the Same," Pension Bridge Private Credit, Feb. 26-27, 2024

Scott Anderson, "Re-strategizing the portfolio and optimizing due diligence in the market landscape," Private Equity International NEXUS 2024, March 6-8, 2024

Board Action Requested: Board acceptance.

BOARD LEADERSHIP

January–February 2024 • No. 191

INNOVATIVE APPROACHES TO GOVERNANCE

EDITOR: NICHOLAS KING

Artificial Intelligence: The Corporate Dealmaking Game-Changer

BY STEVEN LEE AND MANISH GUPTA

Steven Lee and Manish Gupta are managing directors with Alvarez & Marsal's Transaction Advisory Group. In this article, they explore the impact of artificial intelligence on corporate dealmaking.

No longer isolated in the ivory tower, and with technology tentacles crisscrossing boardrooms around the globe, artificial intelligence (AI) is disrupting traditional dealmaking processes and will have a profound impact on deal sourcing, execution, and integration. Broadly speaking AI leverages machines or software, as opposed to human intelligence. Now democratic in nature, AI's benefits of increased productivity, efficiency, and accuracy are within easy reach. Thanks to AI, companies of all shapes and sizes can synthesize vast amounts of data for identifying potential deal targets and better manage their unique pain points across the deal life cycle. Harnessing the power of AI, while avoiding the pitfalls of this evolutionary technology, will be critical for buyers and sellers seeking to capitalize on current and future investment opportunities.

AI: Why, What, and How

Generative AI (GenAI) is the topic du jour. It can generate text, images, or other media. Generative AI models learn patterns and structures of input training data and then generate

new data that has similar characteristics. However, the term "AI" dates to the 1950s when English mathematician Alan Turing published "Computer Machinery and Intelligence," which proposed a test of machine intelligence called The Imitation Game. Today, according to The State of AI in 2023: Generative AI's Breakout Year survey, more than one-quarter of respondents from companies using AI said, "Generative AI is already on their boards' agendas. While 40 percent of respondents said their organizations will increase their overall AI investment because of Generative AI advances."

Dealmaking, with its time- and labor-intensive information gathering, analyzing, and evaluation processes, is ripe for the efficiencies and insights that AI provides. Knowing your companies' appetite for and ability to integrate AI technologies into the dealmaking process is a critical first step. Defining how you will deploy AI technologies across deal sourcing, deal execution and due diligence, and integration and value creation is a must.

Dealmaking is expensive and very often turns into expensive mistakes (various studies suggest over 50% of mergers and acquisitions [M&A] transactions fail to meet the strategic objectives and deal thesis). Boards have a critical role to play in ensuring that the right deals that fit the strategic priorities of the business get approved at a fair price and a manageable risk profile. AI can supplement the tools available in corporate boardrooms by providing the objective and quantitative lens to the qualitative and human-experience-based evaluation of the boards.

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DEALMAKING

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AI for Deal Sourcing

Traditionally private equity deal sourcing firms relied on their teams or contracted professionals to search for potential investments. Following that, they engaged their networks or vendors to conduct additional research and initial deal outreach. This approach involved countless manual hours and the potential for missed opportunities due to human error. AI can now analyze financial data and market trends and even infer specific company performance metrics of private company information quickly and easily. To best leverage AI for deal sourcing:

- Ensure consensus for your deal goals and objectives. Are you interested in private, public, PE-backed, or family-owned companies?
- Know your datapoints. AI can gather a plethora of datapoints for each potential target, but with varying levels of accuracy and criticality. How critical are the key performance indicators (KPIs) to deals, and what’s the acceptable level of accuracy?
- Have a plan with assigned tasks and responsibilities. Who will be responsible for each component associated with your AI deal sourcing? How will that information be evaluated for accuracy?

Better Deal Execution and Due Diligence with AI

Due diligence is the X-ray of mergers and acquisitions (M&A). It provides parties transparency of a deal’s potential risks and opportunities that may not be evident on the surface. However, comprehensive due diligence comes with its own

set of challenges. It is often labor-intensive, time-consuming, and costly. It can involve large amounts of information across multiple sources. The manual gathering, analyzing, and verifying of information lends itself to human error and data gaps. Integrating disparate data from multiple sources can result in an incomplete picture, missing data points, and unaccounted-for risks.

AI is poised to upend the old-style due diligence process and reimagine outmoded needle-in-the-haystack approaches to garnering deal insights. If properly utilized, AI can help M&A professionals focus on interpreting datapoints and assessing key value drivers, as opposed to spending time crunching through large volumes of disparate data to see the forest for the trees.

AI’s use of natural language processing (NLP) algorithms and large language models (LLM) can enable corporate development teams to quickly:

- Review thousands of customer contracts, legal agreements, and audit reports for summarizing a target’s market position and identifying red flags.
- Analyze relevant laws, regulations, and industry-specific standards.
- Deliver in-depth business due diligence, including historic performance trends, alongside providing predictive future performance.
- Help businesses evaluate impacts on revenue, customer churn, and profitability from combined customer behavior and industry/competitor data sets.
- Uncover hidden insights to spot potential deal-breakers, negotiate better terms, and reduce post-acquisition surprises.

<p>When We Say...</p> <p><i>Board Leadership’s</i> 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.”</p> <p>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:</p> <ul style="list-style-type: none"> • 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. <p>Uniquely among regular publications on board governance, <i>Board Leadership</i> primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.</p> <p>Over time, <i>Board Leadership</i> 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:</p> <ul style="list-style-type: none"> • Innovative: Creating significant positive change • Approaches: Principles, theories, ideas, methodologies and practices. • Board governance: The job of governing whole organizations. 	<p style="text-align: center;">BOARD LEADERSHIP</p> <p><small>BOARD LEADERSHIP: INNOVATIVE APPROACHES TO GOVERNANCE (Online ISSN: 1542-7862) is published bimonthly by Wiley Periodicals LLC, 111 River St., Hoboken, NJ 07030-5774 USA.</small></p> <p><small>Copyright and Copying (In any format): Copyright © 2024 Wiley Periodicals LLC. All rights reserved. No part of this publication may be reproduced, stored, or transmitted in any form or by any means without the prior permission in writing from the copyright holder. Authorization to copy items for internal and personal use is granted by the copyright holder for libraries and other users registered with their local Reproduction Rights Organisation (RRO), e.g. Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, USA (www.copyright.com), provided the appropriate fee is paid directly to the RRO. This consent does not extend to other kinds of copying such as copying for general distribution, for advertising or promotional purposes, for republication, for creating new collective works, or for resale. Permissions for such reuse can be obtained using the RightsLink “Request Permissions” link on Wiley Online Library. Special requests should be addressed to: permissions@wiley.com</small></p> <p><small>Disclaimer: The Publisher and Editors cannot be held responsible for errors or any consequences arising from the use of information contained in this journal; the views and opinions expressed do not necessarily reflect those of the Publisher or Editors, neither does the publication of advertisements constitute any endorsement by the Publisher or Editors of the products advertised.</small></p> <p><small>Wiley’s Corporate Citizenship initiative seeks to address the environmental, social, economic, and ethical challenges faced in our business and which are important to our diverse stakeholder groups. Since launching the initiative, we have focused on sharing our content with those in need, enhancing community philanthropy, reducing our carbon impact, creating global guidelines and best practices for paper use, establishing a vendor code of ethics, and engaging our colleagues and other stakeholders in our efforts. Follow our progress at www.wiley.com/go/citizenship.</small></p> <p><small>Publishing Editor: Samara Kuehne. Editor: Nicholas King.</small></p> <p><small>Production Editor: Mary Jean Jones. Editorial Correspondence: Samara Kuehne, Email: skuehne@wiley.com.</small></p> <p><small>Policy Governance is a registered service mark of John Carver.</small></p> <p><small>For submission instructions, subscription and all other information visit: wileyonlinelibrary.com/journal/bl</small></p> <p><small>View this journal online at wileyonlinelibrary.com/journal/bl</small></p> <p style="text-align: right;">WILEY</p>
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Integration and Value Creation: AI's Next Frontier

AI is at the forefront of democratizing technology and providing insights to all that were once only available to the C-suite and a handful of very resourceful companies. The proliferation of GenAI platforms such as ChatGPT, Google Bard, and Microsoft CoPilot are disrupting the traditional deal integration landscape while highlighting previously slower-to-emerge value creation opportunities. AI platforms are now engaged across a range of functions, from software developers auto-generating programming code to financial planning and analysis (FP&A) teams augmenting budget planning with alternative data.

AI should be part of your tool kit for post-merger integration (PMI) and synergy realization. Consider the following:

- AI can help identify synergetic growth drivers, predict cost optimization levers, and mitigate risks in planning for post-merger integration.
- In the post-deal merging of companies' assets, personnel, and related business activities, AI can streamline benchmarking; reduce risks, such as from customer, employee, or vendor contract reviews; and be a more wholesome and quantitative-based predictor of talent and culture matters than solely based on human judgement.
- Data- and AI-driven solutions can analyze synergy potentials and risks to uncover the most efficient integration methods for furthering value creation opportunities.

Avoiding AI Pitfalls

AI's transformative benefits are undeniable. Yet, the technology is evolving, and it is not a panacea. The ability to recognize AI's potential pitfalls is as critical as the ability to harness its power. Studies at Stanford University and the University of California, Berkely reveal that ChatGPT has deteriorated performance with certain basic math operations. Other issues include:

- Drift, when attempted improvements made in one part of a complex AI lessen the performance of other parts of the model.
 - Hallucination, when a confident AI response does not seem to be justified by its training data. For example, a hallucinating chatbot might, when asked to generate a company's financial report, falsely state a random revenue number apparently "plucked from thin air."
- To avoid falling into the trap of AI's pitfalls, check yourself and your organization on:
- Overreliance on early-stage AI tools that could result in flawed insights leading to inaccurate, incomplete, and/or biased data decisions.
 - Remembering the importance of human intuition and experience.
 - Data privacy and security issues that often accompany AI,

particularly with sensitive information that's shared during the M&A process.

- Legal and ethical considerations that AI can raise with heighten risk for discrimination and unfair practice charges due to algorithm biases.

Boards should be mindful of the above risk areas and raise these considerations with executives and M&A teams who are pioneering and early adopting usage of AI to support dealmaking. Maximizing AI's value requires striking the right balance in human and technology symbiosis. By increasing efficiencies and revealing hidden opportunities, AI can provide a competitive edge in a challenging M&A environment. Boards that prioritize AI as an essential dealmaking tool and take the time to develop processes for leveraging its insights, as well as managing its risks, will reap the rewards. ■

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Calendar Of Events

March 5–6

Conference Board 2024 Diversity, Equity & Inclusion Global Conference

The Conference Board will host its 2024 Diversity, Equity & Inclusion Global Conference during March 5–6 in Atlanta.

According to organizers, this annual event serves as a platform for DEI practitioners from around the world to share their work and discuss race, social justice, neurodiversity, women's health, disability, allyship, and others.

Attendees come from many different industries and types of companies, offering insight into how to apply DEI knowledge and solutions in different situations for successful outcomes. Participants will hear from a speaker lineup of in-house practitioners who are doing this work and will share the insights they have learned over time in this space. They will share with you the details of how they work, where they have had to swerve and change direction, and how to achieve results, organizers said.

Registration fees range up to \$1,995.

For more information, visit <https://bit.ly/3nHsRvH>. ■

Close but Not Cozy: How Robust Conversations between the Chair and the CEO Can Enhance Board Performance

BY KATHRYN BISHOP

Kathryn Bishop is Associate Fellow at the Saïd Business School at the University of Oxford and co-author of Board Talk: 18 crucial conversations that count inside and outside the boardroom. In this article, she explores the key aspects of the CEO/board chair relationship in effective organizations.

The relationship between the CEO or most senior leader in an organization and the chair of the board is a key ingredient in effective governance. Their interactions influence the behavior of the board as a whole—and that collective behavior in turn has a surprisingly significant effect on the culture of the organization as a whole.

When that relationship is working well, it benefits everyone—the board, the organization, and members of staff. When it is not working well, it's visible to everyone and can be hugely damaging; key topics may be carefully omitted from the agenda, questions not fully answered, or scrutiny turn into interrogation. Frustrated board members might begin to feel that their role is merely ceremonial, presiding vaguely over decisions that are not properly explained. These symptoms of a dysfunctional board may often be traced back to a breakdown in the relationship between two members of the board, the CEO and the chair.

There are some contradictions, though, in this key working relationship: it needs to be close enough for honest and open discussion, but not cozy. Conversations need to be regular and focused, but also allow space for speculation and to generate ideas. The chair needs to provide support to the CEO, but also challenge, and the CEO, in turn, needs to support the board with information at an appropriate level of detail, while sometimes pressing them to make timely decisions.

So how do these two leaders build a sound working relationship, with their different roles and areas of focus? Much of it happens through their conversations, as we explore in our book *Board Talk: 18 crucial conversations that count inside and outside the boardroom*. There are some key topics they need to talk about, and it matters how and when they do so. These are conversations that allow them to bring together their different experiences and areas of focus in the service of good governance.

Building the understanding of the business

Good governance is founded on the shared understanding of what the organization does, how and why—its results, rhythms and routines, regulators and stakeholders. Within their different roles, the CEO and the chair both need to

develop this understanding around the boardroom table—not the detailed scrutiny of individual internal processes but a clear-eyed perspective on the organization and its context that will fuel the board's ability to think strategically. With that aim in mind, the chair may schedule regular board briefings and the CEO arrange for board members to visit parts of the organization so that their conversations about strategy have a solid foundation in organizational reality.

Bridging the gap

Both the chair and the CEO benefit from conversations about their respective roles and areas of focus. If the chair appreciates the operational and organizational pressures on the CEO, they can act as a bridge, connecting the board members with the CEO's operational reality. For example, in one boardroom, the lack of mutual understanding about nonexecutive priorities and executive workload around the boardroom table began to impede boardroom discussions. The chair took the opportunity to discuss this with the CEO: "I do understand that you have about a thousand things to do but I need to tell you that the non-execs on the board think that you have only two things to do—the two things they told you to do at the last meeting. Neither of you are wrong. It is my job as chair to translate between these two worlds, to act as a bridge. And I'll be having this conversation with them, too, to put your perspective across." The CEO needs the chair to help build the bridges between the different perspectives and experiences of board members that contribute to successful governance.

Creating a culture of accountability

There are too many boardrooms in which accountability is exercised through corrosive interrogations of the CEO and the executive team, probing into every little operational detail. Such interactions are dangerous: they consume time, but add little value and may mean that the board is too busy with inappropriate scrutiny to attend to the big strategic issues that are their proper responsibility. And as a result, some key topics may never appear on the board agenda, because executives feel that the discussions are likely to be painful and pointless.

By contrast, the right kinds of conversations create a culture



of accountability, in which board members are clear about their different roles and areas of focus. This is a function of day-to-day behavior of the board, led by the chair and the CEO—the way that they ask questions, challenge assumptions, generate and test ideas with executives and members of the organization. Independent board members, in particular, can create a virtuous circle, in which well-informed interest prompts them to ask good questions and engage in useful discussion. As executives find this valuable, they are encouraged to bring issues to the board for discussion in a culture of openness, which they find motivating. The resulting trust that builds over time is evident in their constructive conversations that allow the board to hold the organization properly to account.

Speculating and hypothesizing

The CEO needs space and time to speak openly, and to explore ideas and test hypotheses, and a good working relationship with the chair of the board allows this. In our book, *Board Talk*, we describe three kinds of necessary conversations between the CEO and the chair or the independent board members.

These are mutually beneficial conversations, too. The CEO must coach the board in understanding the business of the organization and explaining the key issues that arise, while the board may also coach the CEO on particular matters using their experience from outside. The CEO needs space to confide, to test ideas, and to think through scenarios with people who have a range of different perspectives, and the chair in particular should encourage this, in order to help the board to look ahead. And the board challenges the CEO and the executive team as part of their challenge-and-support interactions, just as the CEO will occasionally need to challenge the board to make a difficult but urgent decision (*Board Talk*, Conversation 11 with the CEO, p. 138 ff).

Day-to-day interactions do not usually fit neatly into one or other of these three conversational categories, but there is a need for the CEO and the chair to find time and space for all three because they add value to the work of the board. It can be useful for the chair and the CEO to ask themselves: do we have all three kinds of conversation?

Reviewing and adapting

Such reflective questions can fuel review conversations between the CEO and the chair, allowing them to look at their normal interactions and working practices and adapt them where necessary. And sometimes, it is necessary: when the context changes, the CEO and the chair may need to alter the way they work together.

For example, in a crisis, the chair may become more hands-on or may focus on particular stakeholders, while the CEO attends to operational recovery. In one organization, a UK care

home for the elderly, a major fire required the chair and the CEO to work in parallel; the CEO focused on residents and staff, working with local bodies such as the fire service and the local council to make all the necessary arrangements, while the chair dealt with external communication, so that the organization could make its own announcements rather than being driven by press timetables. The strength of their existing working relationship allowed them to work with little time for close co-ordination—the trust between them, built up over years of working together, compensated for the lack of detailed task schedules as they dealt with the crisis. Once it was over, each needed to return to the more regular patterns of interactions, re-adjusting their working relationship once again.

Striking the balance in this key and complex working relationship requires regular reflection—at least annually. Creating the conversational space to do that is part of the recipe for an effective working relationship, which is a key ingredient in good governance. ■

Kathryn Bishop served as the first chair of the Welsh Revenue Authority, Britain's newest tax authority, and has been a non-executive in several national public bodies, as well as a civil service commissioner, regulating all recruitment into the Civil Service. She was awarded a CBE in June 2021 for services to diversity and public administration. She is the chairman of the Dean Close Foundation and a non-executive on the board of DAC Beachcroft, an international law firm. Her new book, written in collaboration with Gillian Camm, focuses on the importance of conversations around the boardroom table: *Board Talk: 18 crucial conversations that count inside and outside the boardroom* was published in October 2023 by Practical Inspiration Publishing. A podcast about the book can be found in episode 392 of The Extraordinary Business Book Club series, available wherever you find your podcasts.

Food for Thought

Every day, think as you wake up, today I am fortunate to be alive, I have a precious human life, I am not going to waste it. I am going to use all my energies to develop myself, to expand my heart out to others; to achieve enlightenment for the benefit of all beings. I am going to have kind thoughts towards others, I am not going to get angry or think badly about others. I am going to benefit others as much as I can.

—Dalai Lama

ESG: The Next Chapter. Is Your Board Prepared?

BY TOM O'NEIL

Tom O'Neil is the managing director at Berkely Research Group (BRG), a global consulting firm that helps leading organizations advance in three key areas: disputes and investigations, corporate finance, and performance improvement and advisory. In this article, Tom discusses environmental, social, and governance (ESG) challenges that will confront boards in 2024.

Environmental, social, and governance (ESG) strategies and practices faced a host of challenges in 2023, from growing claims of greenwashing and new reporting requirements to legal and public policy attacks on DEI initiatives and the fundamental notion of sustainability. Yet contrary to some predictions, ESG survived the year fully intact as a nuanced spectrum of key strategic considerations and enterprise risks.

Here are notable ESG challenges that will confront boards in 2024—along with suggestions on how best to prepare for them.

New stakeholders, new priorities

The universe of ESG stakeholders is expanding as younger generations distill and prioritize their values as consumers, employees, and investors. They tend to focus intently on the environmental and social pillars of ESG, strongly preferring sustainable retail brands and pursuing employment opportunities with organizations that foster diverse and inclusive cultures.¹

Gen Z and millennials are more likely to view ESG workplace initiatives as important, according to a survey from the Society for Human Resource Management.² Sustainability, innovation, DEI programs, and ethical protocols have become critical components of recruiting and retention strategies. Failure to address these priorities can adversely impact the development of an organization and its ability to compete in the marketplace.

As investors, both generations are equally committed to these principles. A recent survey from U.S. Bank found that nearly two-thirds of Gen Z investors prefer to align their portfolios with their values, and 85% would accept an investment portfolio that underperforms the S&P 500's ten-year average return so long as it reflects their individual priorities.³ This has ramifications for everything from mutual funds to employer 401(k) programs.

ESG continues to resonate across other generations as well. Globally, 90% of investors believe that integrating ESG factors into their investment strategies will improve their returns, and as of 2022, 80% of US investors planned to increase their allocations to ESG products over the next two years.⁴

¹ <https://bit.ly/3RD1906>

² <https://bit.ly/48rv4PV>

³ <https://bit.ly/41C0u40>

Opposing ESG regulations will complicate compliance efforts

Against that backdrop, regulatory developments surrounding ESG are poised to continue complicating the operating environment.

Case in point: the Securities and Exchange Commission's Climate and ESG Task Force and its proposed rules surrounding climate-related disclosures, coupled with the Federal Trade Commission's pending updates to its "Green Guides" for marketing environmental claims, will require companies to pay close attention to their ESG programs and initiatives.⁵

And that's just at the federal level. In more than 20 states, lawmakers have introduced bills that would amend fiduciary duty laws to exclude ESG, making it *more difficult* for companies to develop and execute key strategic initiatives.⁶ ESG has also become an increasingly partisan issue in Congress as Democrats and Republicans, who formed the ESG Working Group, disagree markedly on its legitimacy and value.⁷

How boards can improve ESG management

As ESG continues to evolve, the role of a governing body is ever more critical. The board's duty is oversight, which includes stewardship of the organization's core values, mission, vision, strategic priorities, and risk management. Boards have an obligation to help their organizations implement ESG initiatives effectively, manage risks, and drive new opportunities.

Here are four considerations to keep top of mind in 2024.

- **Make ESG a priority.** Board members are addressing ESG commitments with unprecedented rigor as these issues take on a greater sense of urgency thanks to comprehensive educational programs developed by governance organizations and leading academic centers. It is becoming increasingly clear that organizations benefit from an intentional approach to ESG strategy and education.

Allocating sufficient discussion time in board meetings, preparing meeting materials that are crisp and transparent about

⁴ <https://bit.ly/4781Vbj>; <https://bit.ly/48fcYRC>

⁵ <https://bit.ly/3RHu7we>; <https://bit.ly/3TBMmWh>; <https://bit.ly/41z6kTy>

⁶ <https://bit.ly/3NG2CSh>

⁷ <https://bit.ly/3TBRQQJ>



the leadership team's strategic challenges and imperatives, and eliciting feedback from the board as the plan is crafted and executed can facilitate more effective board oversight of ESG. Boards should also undertake, as needed, educational initiatives to ensure fluency in key ESG areas.

• **Develop ESG metrics and measure progress.** Robust and auditable ESG datasets will not only help to achieve an organizations' ESG goals but also build trust with stakeholders—especially as greenwashing-related litigation picks up. Current metrics for ESG effectiveness can include board-membership diversity statistics, surveys of shareholder and ownership rights, quality and integrity scores, indices of compensation incentives for ESG efforts, and transparency in auditing and financial reporting.⁸

Board members should also be apprised of the latest in ESG measurement standards. The European Financial Reporting Advisory Group, for instance, is developing new ESG requirements under its Corporate Sustainability Reporting Directive that could help guide boards in these efforts.⁹

Further, while the role and impact of artificial intelligence in this context is as yet undetermined, AI will certainly be a topic of conversation and debate at board meetings across all sectors of the global economy.

• **Ensure diversity in board membership and skillsets.** Effective boards rigorously assess their performance and composition at regular intervals as an essential part of good governance. However, lack of diversity among board members and the absence of specific expertise required to effectively oversee ESG matters can present significant issues.¹⁰

A mix of backgrounds, skills, knowledge, and experience is essential in supporting ESG practices while aligning with the company's broader mission and business objectives. The most effective boards utilize holistic self-assessments in active recruitment initiatives to enhance, if not transform, their composition. This requires boards to broaden their priorities beyond the historical focus on CEOs and CFOs to a much more inclusive range of executives and business leaders.

• **Closely track emerging ESG best practices.** While ESG's roots may be in risk assessment, environmental, social, and governance principles are now considered holistically as both a spectrum of potential risks and a set of strategic priorities, if not imperatives. For many years, boards have focused on each of the three pillars to varying degrees depending on the organization's mission, core values, industry, and competitive realities. But they are now an integrated concept in C-suites and boardrooms alike.

As new roles and regulations for ESG emerge, so too will accompanying best practices. One recommendation is for the

board to delegate ESG oversight to a committee, such as board nominating and governance committees, with the committee regularly informing the board regarding significant initiatives or developments. While some companies no longer refer specifically to “ESG,” there has been a significant uptick in boards adding the terms “corporate responsibility” or “social responsibility” to the chartered responsibilities of their nominating and governance committees.¹¹

Many organizations have come to appreciate ESG's value as a risk management framework and a way to invest in their values, communities, and the planet. As next-generation stakeholders exert their influence in the ecosystem, and as new complex—and seemingly irreconcilable—regulatory and public policy regimes crystallize, effective stewardship in the boardroom will be a critical factor in the fulfillment of an organization's mission and the creation of enterprise value. ■

The views and opinions expressed in this article are those of the author(s) and do not necessarily reflect the opinions, position, or policy of Berkeley Research Group, LLC or its other employees and affiliates.

¹¹<https://bit.ly/48led1i>

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⁸ <https://bit.ly/48dNHHh>

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News

Re-acquaint board members with Robert's Rules basics

To mark the turning of the calendar with New Year's, many experts advise corporate and nonprofit boards alike to take the opportunity to brush up on their familiarity with Robert's Rules of Order, which serves as the structural basis for board meetings throughout the year. Often, the very rudimentary basics of Robert's Rules are followed fairly strictly, but variances take place around the edges, so to speak—most notably, when it comes to making motions during meetings, which is a bit more complicated than many believe.

The Municipal Research and Services Center (MRSC)—a nonprofit that helps local governments across Washington State better serve their communities by providing legal and policy guidance—provides the following explanation of the four different kinds of motions that are brought up in board meetings, and with which board leadership and ranking members should be familiar:

- **Main motions.** The most common and important category are main motions, the MRSC said, which can bring any particular subject before the board for discussion and action.
- **Subsidiary motions.** Following main motions, subsidiary motions direct or change how a main motion is handled, the MRSC said. Subsidiary motions include:
 - Tabling, which is used to postpone discussion until the group decides by majority vote to resume discussion.
 - Previous question or close debate motions, which are used to close the debate, stop further amendments, and bring the body to an immediate vote, the MRSC said.
 - Limit/extend debate. According to the MRSC, these motions might be called if the group has adopted a rule limiting the amount of time that will be spent on a topic,

or if it wants to impose a time limitation.

- **Refer to committee.** This motion directs that the matter will be studied by some other body—typically one of the existing committees—which will report back on it at a future meeting.
- **Amendments.** These motions are used to “fine tune” a motion to make it more acceptable to the group.
- **Incidental motions.** Per the MRSC, these are “house-keeping” motions, which take precedence over main motions and subsidiary motions, and include such items as:
 - Points of order, which bring to the group's attention that the rules are being violated.
 - Appeals from the decision of the chair, which are used to overrule the chair on a decision.
 - Parliamentary inquiries, which are used to question whether an action would be in order.
 - Points of information, wherein a person rises to offer information that is considered necessary for the group.
 - Suspension of the rules, which are used when matters are to be taken out of order, or when a particular task can be better handled without formal rules in place.
- **Renewal motions.** These are used after the group has taken action, but a board member would like the group to further discuss or dispose of a motion. These include:
 - **Reconsider.** This motion calls for the group to further discuss a motion that has already been defeated at the same meeting.
 - **Rescind.** These are used when the group wishes to annul some action it has taken.

For an in-depth explanation of Robert's Rules and the use of motions, visit the MRSC website at <https://bit.ly/3bVDzc7>. ■