

Friday, February 23, 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. Conflict of Interest Disclosure
- C. Executive Summary

II. ACCEPTANCE OF MINUTES (January 26, 2024) – *(Board Action)*

III. INVESTMENTS (120 minutes)

- A. Incentive Compensation Plan - *(Board Action)*
 - 1. Presentation – Mr. Josh Wilson, Mercer
 - 2. Board Discussion
- B. Interim Benchmark Update *(Board Action)* – Ms. Eileen Neill & Mr. Marc Gesell, Verus
- C. New Client Onboarding Update *(Information)* – Mr. Skor

(Break)

IV. GOVERNANCE (60 minutes)

- A. Executive Review & Compensation Committee Update *(Information)* – Dr. Lech, Mr. Skor
 - 1. Board Self-Assessment Results *(Board Action)* – Ms. Seiler
 - 2. Board Discussion
- B. SIB GPR Committee Update *(Information)* – Dr. Lech, Ms. Murtha
- C. Investment Committee Update *(Information)* – Treasurer Beadle, Mr. Anderson
- D. Audit Committee Update *(Information)* – Ms. Seiler

V. Quarterly Monitoring Reports (15 minutes) – *(Board Action)*

- A. Quarterly Budget/Fiscal Activities Report (12/31) – Mr. Skor
- B. Executive Limitations/Staff Relations – Ms. Murtha

VI. OTHER

Next Meetings:

Securities Litigation Committee – TBD
ERCC – March 13, 2024, at 10:00 a.m.
SIB GPR – March 14, 2024, at 10:00 a.m.
Investment Committee – March 15, 2024, at 9:00 a.m.
TFFR Meeting – March 21, 2024, at 1:00 p.m.
SIB Meeting – March 22, 2024, at 8:30 a.m.

VII. ADJOURNMENT

EXECUTIVE SUMMARY

SIB Regular Meeting

February 23, 2024 – 8:30 a.m. CT

- I. **Agenda:** The February Board Meeting will be held at the WSI Conference room to accommodate in person attendance; however, a link will also be provided so that Board members and other attendees may join via video conference.
 - Attendees are invited to join the Board Chair in the Pledge of Allegiance.
 - 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 January 26, 2024, Board meeting minutes are included for review and approval.
- III. **A. Incentive Compensation Plan (Board Action):** Representatives from Mercer will present a proposed incentive compensation plan for board discussion and approval. The legislature provided SIB the authority to create an incentive compensation plan during the 2023 legislative session. The proposed plan will first be reviewed by the Executive Review and Compensation Committee (ERCC). The board materials and recommendations from the ERCC will be provided after the committee meets.
B. Interim Benchmark Update (Board Action): Representatives from Verus will present an interim benchmark update. The Investment Committee will hold a special meeting to review the proposed benchmarks and provide recommendations at the board meeting. The materials for this item will be provided after the special Investment Committee meeting.
C. New Client Onboarding Update (Information): Mr. Skor will update the board regarding the proposed onboarding of new client funds.
- IV. **A. ERCC Update (Information):** The Committee Chair and Mr. Skor will provide the Board an update on recent committee activities.
 - 1-2. **SIB Self-Assessment Survey Results (Board Action):** Ms. Seiler will present the Board self-assessment survey results once they are reviewed by the ERCC. The Board is encouraged to discuss the results and identify areas of future focus.**B. GPR Committee (Information):** The Committee Chair and Ms. Murtha will provide the Board an update on recent committee activities.
C. Investment Committee Update (Information): The Committee Chair and Mr. Anderson will provide the Board an update on recent committee activities.
D. Audit Committee Update (Information): The Committee Chair and Ms. Seiler will provide the Board an update on recent committee activities.
- V. **A-B. Reports (Board Action):** Staff will provide monitoring reports for quarterly budget/fiscal conditions and executive limitations/staff relations.

Adjournment.

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
JANUARY 26, 2024, BOARD MEETING (IN-PERSON)**

MEMBERS PRESENT:

Tammy Miller, Lt. Governor, Chair
Dr. Rob Lech, TFFR Board, Vice Chair
Thomas Beadle, State Treasurer, Parliamentarian
Rep. Glenn Bosch, LBSFAB
Joseph Heringer, Commissioner of Unv. & School Lands
Pete Jahner, Investment Professional
Sen. Jerry Klein, LBSFAB
Cody Mickelson, TFFR Board
Adam Miller, PERS Board
Joe Morrissette, PERS Board
Dr. Prodosh Simlai, Investment Professional
Susan Sisk, Director of OMB
Art Thompson, Director of WSI

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 Coor.
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:

Craig Chaikin, Callan
Dean DePountis, Attorney General's Office
Derrick Hohbein, PERS
Adam Montgomery, Securities Commission
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, January 26, 2024. 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, Rep. Bosch, Commissioner Heringer, Mr. Jahner, Dr. Lech, Mr. Mickelson, Lt. Gov. Miller, Mr. Miller, Mr. Morrissette, Dr. Simlai, Ms. Sisk, and Mr. Thompson.

ACCEPTANCE OF AGENDA:

The Board considered the agenda for the January 26, 2024, meeting.

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

AYES: COMMISSIONER HERINGER, TREASURER BEADLE, MR. MILLER, MS. SISK, REP. BOSCH, MR. THOMPSON, DR. SIMLAI, MR. MICKELSON, DR. LECH, MR. MORRISSETTE, MR. JAHNER, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: SEN. KLEIN

MOTION CARRIED

MINUTES:

The Board considered the minutes of the November 17, 2023, SIB meeting.

IT WAS MOVED BY MS. SISK AND SECONDED BY REP. BOSCH AND CARRIED BY A VOICE VOTE TO APPROVE THE NOVEMBER 17, 2023, MINUTES AS DISTRIBUTED.

AYES: MR. MICKELSON, COMMISSIONER HERINGER, MR. MORRISSETTE, MR. THOMPSON, TREASURER BEADLE, DR. LECH, MR. JAHNER, MS. SISK, REP. BOSCH, MR. MILLER, DR. SIMLAI, AND LT. GOV. MILLER

NAYS: NONE

ABSENT: SEN. KLEIN

MOTION CARRIED

EDUCATION:

Open Meeting & Records:

Mr. DePountis, Assistant Attorney General, presented education on open meeting and records law. The presentation included an overview of what is subject to open records laws, the definition of a record, public business, and protected records. Mr. DePountis defined what constitutes a meeting and quorum. An overview of open meeting exceptions, common violations, and executive session requirements was provided. Board discussion followed.

INVESTMENTS:

Staff Investment Performance Review:

Mr. Anderson provided a performance update for the quarter ended September 30, 2023, and as of November 30, 2023. An overview was provided of the trends in the markets this year, including inflation rates. Mr. Anderson reviewed performance for PERS, TFFR, Legacy Fund, and WSI. Mr. Anderson reviewed the roadmap for success for the continuing development of the investment program, and an update on the near-term activities that have been completed or are ongoing. Board discussion followed.

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

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

NAYS: NONE

MOTION CARRIED

Consultant Strategy:

Mr. Anderson presented a list of current consultant contracts for RIO. A strategy for future consultant services was presented. This strategy reflects service needs to support investment program changes. Board discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MR. JAHNER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE CONSULTANT STRATEGY.

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

NAYS: NONE

MOTION CARRIED

New Client Funds:

Ms. Murtha provided information about two new client funds. The Opioid Settlement Fund is a new non-discretionary fund. The State Historical Society is a discretionary fund that has expressed interest in having the SIB provide investment management services. Staff are working with the opioid settlement fund to transfer funds and to establish an asset allocation with the client board.

The Board recessed at 10:13 a.m. and reconvened at 10:31 a.m.

GOVERNANCE:

Securities Litigation Committee (SLC) Appointment:

Lt. Gov. Miller appointed Mr. Morrisette to the Securities Litigation Committee to fill the vacant position.

Strategic Planning Update:

Ms. Murtha provided an update on strategic planning activities. The process started with a short survey of all staff, board, and committee members. A kick-off meeting of non-manager level staff from each division was held in December. Agency managers reviewed the same information and the input from staff and established action items. The draft plan will be presented to the TFFR and SIB GPR Committees for feedback. The final plan will be presented to staff, the Governor's Office, and both boards in March 2024. Ms. Murtha provided slides from the draft presentation for Board feedback. Board discussion followed.

Securities Litigation Committee Update:

Commissioner Heringer provided an update from the December 5 and 8, 2023, SLC meetings. The Committee completed the RFP process and selected two firms to provide securities litigation monitoring services.

Executive Review and Compensation Committee (ERCC) Update:

Dr. Lech provided an update from the January 9, 2023, ERCC meeting. The Committee reviewed and discussed the format of the board self-assessment.

SIB Self-Assessment Survey:

The proposed survey was provided to Board members. Ms. Seiler reviewed the procedure for the survey which will be sent to all Board members after the completion of the meeting. The results will be compiled and reviewed by the ERCC at their February meeting and a summary will be presented to the full Board. Board discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE SIB SELF-ASSESSMENT SURVEY FORMAT.

AYES: MR. MORRISSETTE, MR. MILLER, SEN. KLEIN, MR. MICKELSON, DR. LECH, MR. JAHNER, MS. SISK, MR. THOMPSON, DR. SIMLAI, COMMISSIONER HERINGER, TREASURER BEADLE, REP. BOSCH, AND LT. GOV. MILLER
NAYS: NONE
MOTION CARRIED

Investment Committee (IC) Update:

Treasurer Beadle provided an update from the January 12, 2024, IC Meeting. The Committee received an investment strategy and performance update followed by the consultant strategy that was presented to the Board. The Committee received a private markets manager recommendation in closed session and approved the recommendation.

Audit Committee Update:

Treasurer Beadle provided an update from the January 18, 2024, Special Audit Committee meeting. The Committee heard finalist presentations from the IA Consultant firms for co-sourcing as part of the IA maturity plan. The Committee directed staff to move forward with the entity most susceptible to award.

QUARTERLY MONITORING REPORTS:

Quarterly Investment Ends Report:

Mr. Posch provided the Investment Ends report for the quarter ended December 31, 2023. During the quarter there were no portfolio changes. The report included activities completed and ongoing for the Public Markets, Private Markets, and Risk teams. Mr. Posch reviewed ongoing projects and a quarterly monitoring report was provided. Board discussion followed.

Quarterly TFFR Ends Report:

Mr. Roberts provided the TFFR Ends report for the quarter ended December 31, 2023. The report highlights exceptions to the normal operating conditions. Pilot 4 of the Pioneer Project was completed. Staff provided presentations at the annual conferences of the ND School Boards Association and the ND Council of Educational Leadership. Staff also provided a presentation on the new pension administration system to business partners. The fiscal year 2023 valuation was completed. Mr. Roberts reviewed additional staff outreach and conference participation. Board discussion followed.

Quarterly Outreach Report:

Ms. Mudder provided the quarterly outreach report for the quarter ended December 31, 2023. The report included a breakdown of attendance at education events, open and click rates for publications, and staff presentations. Board discussion followed.

Executive Limitations/Staff Relations:

Ms. Murtha reviewed RIO's strategic planning process. The next new board member onboarding session is scheduled for January 29, 2024. Ms. Murtha provided an update on staffing and ongoing projects and initiatives. Ms. Murtha was appointed to committees for the National Association of Public Pension Attorneys (NAPPA) and the National Council on Teacher Retirement (NCTR). She will attend the winter meetings for NAPPA, NCTR, NASRA, and NIRS in February. Board discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY MS. SISK AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY INVESTMENT ENDS, TFFR ENDS, OUTREACH, AND EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORTS.

AYES: SEN. KLEIN, MS. SISK, REP. BOSCH, COMMISSIONER HERINGER, DR. LECH, MR. MILLER, TREASURER BEADLE, DR. SIMLAI, MR. MICKELSON, MR. JAHNER, MR. THOMPSON, MR. MORRISSETTE, AND LT. GOV. MILLER
NAYS: NONE
MOTION CARRIED

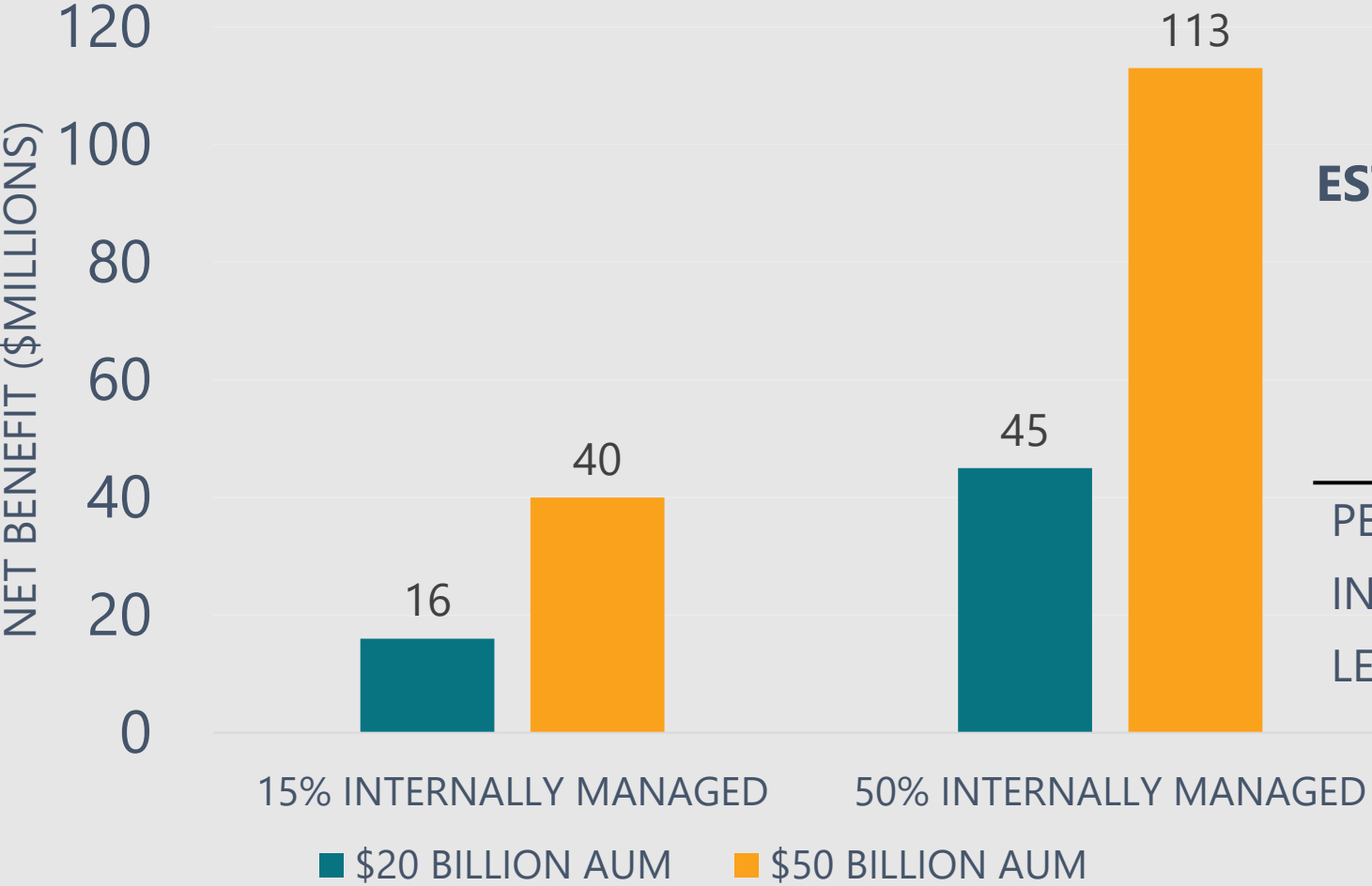
ADJOURNMENT:

With no further business to come before the SIB, Lt. Gov. Miller adjourned the meeting at 11:43 a.m.

Prepared by: Missy Kopp, Assistant to the Board

- LOWER COST THAN WITH EXTERNAL MANAGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

THE BENEFIT SCALES WITH THE SIZE OF THE COMMITMENT



ESTIMATED ANNUAL SAVINGS PER YEAR (\$20 BILLION AUM)

PLAN	15% OF ASSETS		50% OF ASSETS	
	\$(MIL)	%	\$(MIL)	%
PENSION	\$6	0.08%	\$16	0.23%
INSURANCE	\$3	0.10%	\$8	0.26%
LEGACY	\$7	0.09%	\$21	0.25%

THE COST OF THE PROGRAM IS LOW WHEN COMPARED TO THE FEES IT REPLACES

PROGRAM COST



**INCLUDES TOTAL REWARDS
AND INFRASTRUCTURE**

CURRENT COST



**DOMESTIC
EQUITY**



**INVESTMENT GRADE
FIXED INCOME**

MINIMAL REQUIREMENTS WHEN COMPARED TO THE BENEFITS^{1,2,3}

5 INVESTMENT PROFESSIONALS¹:

2 X SENIOR PORTFOLIO MANAGERS

3 X INVESTMENT ANALYSTS

2 X INVESTMENT OPS



TALENT MANAGEMENT:

- ADEQUATE CLASSIFICATION OF ROLES
- INCENTIVE COMPENSATION FUNDED ON A CONTINUING BASIS (Ex: OHIO, WISCONSIN, SOUTH DAKOTA, NORTH CAROLINA)

**THE STRATEGY AND STRUCTURE WOULD EVOLVE
WITH THE SIZE OF THE PROGRAM**

- 1. The cost of staff is estimated to be approximately 10% of the total net cost savings.**
- 2. Positive Client Fund feedback.**
- 3. Supports greater control over investment strategies.**

SOME ADDITIONAL BENEFITS

- IMPROVED INVESTMENT CAPABILITIES VERSUS OUTSOURCING THOSE CAPABILITIES
- SCALABLE SAVINGS THAT GROW WITH THE ASSETS UNDER MANAGEMENT
- ADDITIONAL FLEXIBILITY AND AGILITY TO MARKET OR INTERNATIONAL EVENTS AS THE ASSETS ARE CONTROLLED LOCALLY
- ATTRACTION OF TOP TALENT WITH A REMOTE HYBRID WORKFORCE AND THE ABILITY TO MANAGE SOME ASSETS INTERNALLY
- ATTRACTION OF LOCAL TALENT FROM UNIVERSITIES USING INTERNSHIP PROGRAMS - BOOTSTRAPPING A MARKET FOR INVESTMENT TALENT IN NORTH DAKOTA

EXAMPLE STATES WITH INTERNAL INVESTMENT MANAGEMENT AND INCENTIVE COMPENSATION

ARIZONA
FLORIDA
NEW MEXICO
NORTH CAROLINA
OHIO
SOUTH DAKOTA
TEXAS
VIRGINIA
WISCONSIN

ND RIO Incentive Plan Review

February 2024

Josh Wilson, Partner
Susan Lemke, Principal
Aimee Kudela, Senior Associate
Lanni Barrie, Senior Analyst

Background & Context

- In late 2023, North Dakota Retirement and Investment Office (“RIO”) commissioned Mercer to review the incentive compensation program against other comparable plans at similar organization on various fronts (design, eligibility, target awards, etc.)
- RIO manages approximately \$20 billion in assets. The assets are divided between the ND State Investment Board (“SIB”) and the ND Teachers’ Fund for Retirement Board (“TFFR”). As of the beginning of 2023, RIO managed 28 client funds with 43 managers at RIO, with portfolios comprised of equity, fixed income, private equity, and real estate assets.
- RIO is in a transformative phase, gaining the capabilities of funds management and enhanced indexing in the next 2 years. Looking to the future, RIO strives to gain internal management and financed exposure capabilities in the next 5 years and become one of the more sophisticated state pension plans in the country.
- In order to retain and motivate current staff as well as attract future talent, RIO seeks to design and implement a performance incentive plan that will boost the overall competitiveness of investment professional compensation if performance warrants it. RIO has designed the plan and has asked Mercer to review the plan and opine on it.

Incentive Compensation Plan Current State

The plan reflects careful consideration of the following:

- Achieving long-term strategic and investment objectives with high-quality investment management staff
- A reasonable and competitive plan is critical to attracting and retaining high quality staff
- Staff should be motivated to earn the highest possible returns for RIO at reasonable costs and controlled levels of risk
- A meaningful portion of total pay opportunities should be provided through performance-based incentives
 - Investment-related awards should be earned only when net investment performance is above benchmarks
 - The greatest share of the excess value should accrue to the client funds, not to RIO staff.

The plan objectives include:

- Help attract and retain talented investment professionals
- Help RIO earn the highest possible investment returns at a reasonable cost and at controlled levels of risk
- Reward long-term investment performance
- Motivate staff to make good decisions for client funds
- Foster a collaborative approach to investing RIO's AUM
- Reward measurable and achievable performance
- Be clear and easily communicated in terms of the Plan's objectives, design features, and associated opportunities
- Be perceived as fair by RIO's employees and potential recruits

Incentive Design Mechanics

	Proposed RIO Incentive Plan Design
Eligibility	<ul style="list-style-type: none"> Investment-related positions <ul style="list-style-type: none"> 20 unique positions (13 current roles and 7 to-be-hired role) centered in the investment and leadership areas
Performance Measurement	<ul style="list-style-type: none"> Financial performance “Value added” to North Dakota Retirement and Investment Office (RIO) through fund performance as measured by basis point outperformance Individual performance
Performance Standards	<ul style="list-style-type: none"> Total Fund(relative to Benchmarks) <ul style="list-style-type: none"> Threshold performance: 1 Basis Point-At threshold performance, incentive plan pays out 10% of maximum Maximum performance: 50 Basis Points –At maximum performance, incentive plan pays out 100% of maximum <i>Achievement in between threshold and maximum performance levels will be interpolated on a straight-line basis</i>
Incentive Opportunity	<ul style="list-style-type: none"> Maximum incentive awards are set for all eligible positions, ranging from 25% - 100% For purposes of comparison, Mercer interpolates incentive targets as ½ of incentive maximums
Measurement Period/Timing of Payout	<ul style="list-style-type: none"> Performance period will be three-years but initial plans will be one and two years as start up plans

Annual Incentive Plan

Executive Summary

Alignment with Objectives

Competitive



Uncompetitive



Design Feature	ND RIO Practice	Market Practice	Rating	Commentary
Plan Eligibility	Direct management and investment positions.	Eligibility is typically extended to Top Investment Officer through Senior Investment Analyst, however, only about 50% the market provides incentives to all investment positions.		More inclusive than market.
STI Award Opportunity	Maximum incentive awards are set for all incentive-eligible positions, ranging from 25% to 100%; target ranges are interpolated to be ½ of maximum incentive award opportunity.	At the median, the maximum incentive awards are set for all incentive-eligible positions, ranging from 20% to 150%. Target ranges are set from 10% to 82%. The endowment peers have much wider ranges than the pension peers.		At market (or slightly above) for Pension plans; slightly below market median for maximum incentive awards when considering both pensions and endowments.
Performance Measures / Plan Design	<ul style="list-style-type: none"> 80% Total Fund performance 20% Individual / Qualitative performance <ul style="list-style-type: none"> Asset Class performance may, to start the program, fall into the Individual / Qualitative bucket; consideration to measure performance partially off asset class performance in the future 	Majority of the market (>90%) measures performance of the Total Fund against a composite benchmark. It is most likely that in tandem with the quantitative performance of the total fund, there is a qualitative component. For pension peers, 11% of firms use asset class performance, while individual performance is measured in 85% (specifically for senior and second level investment executives).		More competitive than the market as more investment positions are rewarded for the performance of asset class funds compared to the market.
Market Performance Standards	The threshold for performance is 1 BP and the Maximum is 50 BPS.	All Endowments/Foundations: <ul style="list-style-type: none"> Threshold: 0 BPS Target: 95 BPS Maximum: 190 BPS Pensions: <ul style="list-style-type: none"> Threshold: 0 BPS Target: 35 BPS Maximum: 70 BPS 		Performance expectations calculated by independent 3rdparty expert and outperformance factors in risk. 50 BPS of outperformance represents top quartile of performance
Measurement Period	Measurement period is a one-year individual performance period (calendar year) <ul style="list-style-type: none"> Performance of the fund: three-year rolling period Initial periods will be one and two years respectively 	Majority of the market (>80%) utilizes a three-year rolling period. Some funds who use a three-year rolling period also utilize another rolling period (one- or five-years)		Aligned with market.

RIO Incentive Eligibility and Metrics

Opportunity

Tier	Min (% of Base)	Target (% of Base)	Max (% of Base)	Positions
1	0%	50%	100%	CIO Executive Director
2	0%	45%	90%	Deputy CIO
3	0%	37.5%	75%	Portfolio Manager Chief Risk Officer Senior Investment Officer
4	0%	30%	60%	Chief Financial Officer / Chief Operating Officer
5	0%	25%	50%	Investment Officer Risk Officer Accounting Manager
6	0%	12.5%	25%	Senior Investment Accountant Investment Accountant

Market Eligibility

Pension Survey	Endowment Survey	Financial Services (STI Survey)
<ul style="list-style-type: none"> 60% provide incentive compensation; of those who provide incentive compensation, 57% possess less than \$150 B in AUM. Eligibility is typically extended to the Top Investment Officer through Senior Investment Analysts, and to managers and above for investment operations staff. Incentive opportunities decline at the analyst level; of those who provide executive compensation, only 50% offer junior analysts incentives (67% offer intermediate analysts incentives). Of those who provide incentive compensation, 83% provide incentives to Operations Directors, which is exponentially higher than the 29% that provide incentives to Operations Analysts. 	<ul style="list-style-type: none"> 92% provide incentive compensation. Of those providing incentive compensation, virtually all include Senior Investment Analysts and above; prevalence drops slightly to approximately 90% for lower-level investment analysts. 59% extend participation to all investment operations staff. 	<ul style="list-style-type: none"> Incentive compensation is most common at the Executive Level 3 (E3), Executive Level 3 (E3), and Senior Manager II (M5); 90% of companies provide incentive compensation for E1 and E3 executives, while 91% provide incentive compensation for M5 managers. Professionals at the Entry Professional (P1) level are significantly less likely to receive incentive compensation from their companies compared to other professionals; 47% of companies offer P1 professionals incentive compensation, compared to the 72% that offer P2 professionals incentive compensation. Companies provide incentive compensation to Entry Support (S1) more often compared to Experienced and Senior Support; 49% of companies provide incentive compensation for S1 support employees.

Considerations for RIO

- In relation to other endowment and pension funds, RIO's eligibility list is appropriate. The participants are direct investment professionals and management.
- The implementation of an incentive compensation program will require strict guidelines and be primarily leadership-driven.
- Companies have been rewarding employees who are ineligible to participate in the incentive compensation plan with one-time rewards or bonuses, which helps increase retention and awards employees past base pay.
- It is becoming an increasing trend for companies to consider non-investment staff to be included in incentive plans, but the actual implementation is much slower; consider increasing eligibility to those in the Operations department, especially because it is more common to include Operations Directors as opposed to Operations Analysts.

RIO Incentive Targets

Tier	Positions	ND RIO		Pension Survey				Endowment Survey			
		Target	Max	Target		Max		Target		Max	
				25 th	Med.	25 th	Med.	25 th	Med.	25 th	Med.
1	CIO Executive Director	50%	100%	22%	50%	33%	100%	55%	82%	100%	150%
2	Deputy CIO	45%	90%	22%	38%	34%	72%	50%	80%	100%	150%
3	Portfolio Manager Chief Risk Officer Senior Investment Officer	37.5%	75%	18%	45%	29%	90%	40%	55%	75%	120%
4	Chief Financial Officer / Chief Operating Officer	30%	60%	-	-	-	-	-	-	-	-
5	Investment Officer Risk Officer Accounting Manager	25%	50%	11%	18%	21%	35%	25%	45%	40%	76%
6	Senior Investment Accountant Investment Accountant	12.5%	25%	-	15%	-	28%	20%	30%	30%	50%

Market Practices – Measuring Performance

RIO

- Performance measures are based on financial performance, value added, and individual performance.
- Measurement period is a one-year individual performance period that aligns to the calendar year; the goal is to distribute payouts within the first four months of the following calendar year.
 - Performance of the fund is awarded on a one- and three-year rolling period.
 - Performance of asset class funds are awarded on a one- and five-year rolling period.

Considerations for RIO

- Weighting on individual performance metrics and goals is significantly higher than it used to be; some funds, such as CalPERS have switched their compensation plan to make it more focused on performance pay rather than salaries.

Pension Survey

Performance Measures and Weighting

- Of those that provide incentive compensation, all (100%) measure performance based on measured performance of the total fund relative to a composite benchmark.
 - Out of the 100% who do provide incentive compensation based on measured performance, 89% also include a qualitative/individual component
 - 89% use an asset class measure Investment positions (Executives, Managers, Executives)

Measurement Period

- 89% of organizations utilize a three-year period, and of those who use a three-year period, 38% also include another measurement period (either one-year or five-years).

Endowment Survey

Performance Measures and Weighting

- 89% of organizations that offer incentive compensation use a formulaic (quantitative) approach, which is often in tandem with a qualitative approach.
 - 92% of organizations measure relative to policy portfolio benchmarks
 - 37% of organizations measure relative to a peer group
 - Specific to Senior and Second Level Investment Executives: 11% of firms use asset class performance, while individual performance is measured in 85%.
- The remaining 11% of organizations utilize a predominately qualitative approach.

Measurement Period

- The investment measurement period is measured over a rolling three-year period in the majority (81%) of organizations.
- Less common is the use of a one-year performance period (29%).
- It is common for organizations to use multiple periods to measure performance, more than 1/3 of organizations utilize multiple periods.

Market Performance Standards

Market Practice

- For pensions, the target typically ranges from 20 – 50 BPS and the maximum typically ranges from 40 – 100 BPS.
- For endowments, the target typically ranges from 50 – 100 BPS and the maximum typically ranges from 100 – 200 BPS.
- Median performance standards at threshold, target, and maximum are shown for the Endowment Survey and the Pension Survey.

Median Total Fund Performance Standards			
	Threshold	Target	Maximum
All Endowments/Foundations	0 BPS	75 BPS	190 BPS
Pension Survey	0 BPS	35 BPS	70 BPS
ND RIO	1 BPS	-	50 BPS

Considerations for RIO

- RIO is aligned to pension peers, especially if the target performance is assumed to be ½ of maximum
- RIO used a 3rd party benchmark consultant, Verus, to establish the performance levels
- A historical back testing of the goals is a good way to determine if the plan goals are reasonable
- In a new plan, it is reasonable to assume that over time, the goals will change to reflect the reality of the incentive plan



Retirement and Investment Office

Incentive Compensation Plan

DRAFT

Executive Summary

North Dakota Century Code Chapter 54-52.5 provides that the North Dakota Retirement and Investment Office may develop an incentive compensation program for full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the state investment board.

In carrying out its responsibilities, the Board has developed and administers an incentive compensation plan that reflects careful consideration of the following:

- To achieve its long-term strategic and investment objectives, RIO must have high-quality investment management staff.
- A reasonable and competitive incentive compensation plan is critical to attracting and retaining high quality staff.
- Staff should be motivated to earn the highest possible returns for RIO at reasonable costs and controlled levels of risk.
- Given that RIO needs to provide competitive pay to attract and retain qualified staff, a significant portion of total pay opportunities should be provided through performance-based incentives, a practice that is universally accepted in the financial marketplace. Under RIO's incentive compensation plan:
 - Investment-related awards should be earned only when net investment performance is above defined benchmarks (i.e., when value is created for client funds).
 - The greatest share of the excess value should accrue to the client funds, not to RIO staff.

The incentive compensation plan is rigorously managed by RIO's Executive Review and Compensation Committee (ERCC) to ensure compliance with all applicable statutes and related rules and guidelines.

Authority

North Dakota Century Code Chapter 54-52.5 provides that the North Dakota Retirement and Investment Office may develop an incentive compensation program for full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the state investment board. This document specifies the policies and procedures related to the administration of annual incentive compensation.

This incentive compensation plan (the Plan) provides for payment of incentive compensation awards to full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the state investment board (Participants) and supersedes all prior incentive compensation plans and/or arrangements for Participants. Participants under this Plan include all unclassified investment services related staff as may be determined by the SIB, ERCC, and Executive Director. The Effective Date of the Plan is July 1, 2024. Each plan year starts at the beginning of the fiscal year on July 1.

Plan Objectives

As developed and adopted by the Board, this Plan is designed to:

1. Help attract and retain talented investment professionals.
2. Help RIO earn the highest possible investment returns at a reasonable cost and at controlled levels of risk.
3. Reward long-term investment performance.
4. Reflect the RIO client fund above-benchmark, net of all performance.
5. Motivate staff to make good decisions for RIO client funds, including implementation decisions related to asset allocation.
6. Foster a collaborative approach to investing RIO's assets under management.
7. Reward measurable and achievable performance.
8. Be clear and easily communicated in terms of the Plan's objectives, design features and associated incentive compensation opportunities.
9. Be perceived as fair by RIO's employees and potential recruits.

Administration and Management

The SIB reserves the right to modify, terminate, and/or rescind any or all of the compensation schedules, provisions, policies, and procedures contained in this and all supporting documents at any time. This document describes a policy and does not provide a contract, guarantee of payment, guarantee of participation in the Plan in subsequent years, or guarantee of employment among RIO, the Board, and the Participants. Should an error in calculation or in data be discovered before or after the award distribution, RIO reserves the right to make an adjustment and recover any incentive compensation award distributed based on the erroneous data or calculation.

The Executive Director will administer the Plan with oversight by the ERCC. The Executive Director may delegate certain administrative responsibilities to other employees at RIO, including the Chief Investment Officer and the Chief Financial Officer/Chief Operating Officer.

Compensation plan participants may present questions related to the Plan to the Executive Director. The Executive Director will work with the appropriate persons to answer such questions. The Executive Director, ERCC, and SIB will have full discretion to conclusively decide all questions or matters relating to the interpretation of the provisions and administration of this Plan.

The SIB must approve any question or matter whose resolution requires a material modification to the Plan, such as a change to the performance standards or maximum award levels. Any such amendments or changes to the Plan may be proposed by the Executive Director or the ERCC but must be recommended by the ERCC and approved by the SIB.

Eligibility

Positions that are eligible for incentive compensation are full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the state investment board as set forth in this plan. Any temporary employment or project positions are not eligible. Plan participation is determined based on employment status and the Executive Director's assessment of the position's impact on RIO's overall investment performance. Participants must have worked in a covered position at least three full consecutive calendar months during the year to be eligible for incentive compensation under the Plan, and incentive compensation will be paid on a pro-rata basis if not employed the entire fiscal year. The Executive Director will confirm any new positions that will be eligible under the Plan during the next fiscal year.

Employment at RIO in good standing on the day of payment is a pre-requisite for receiving any incentive compensation payment, except in the case of retirement, disability, death or otherwise as provided below. For purposes of this Plan, "employment in good standing" means (a) the Participant's performance is rated above "Developing" in the Participant's most recent performance review, (b) the Participant is not on a performance improvement plan.

Eligibility upon Separation

Generally, a Participant must be employed by RIO as of the date the incentive compensation is paid out in order to be eligible to receive the payment. In the case of disability or death occurring during the fiscal year, any Board- approved incentive compensation amount may be paid to the Participant, the amount to be determined by the Executive Director, subject to approval by the SIB, based on the time worked during the fiscal year and subject to the Participant's termination meeting the qualifications in the next paragraph, if not employed as of the date of payment. These payments will be made at the same time as any other incentive compensation award. No incentive compensation will be awarded if the Participant was employed for less than three consecutive months during the fiscal year in which the disability or death occurred.

If a Participant terminated employment prior to payment of an award, the full amount of the incentive compensation award will be paid to the Participant (or beneficiary in the case of death) only upon the following conditions:

- If the Participant's separation is due to the Participant's disability.
- If the Participant's separation is due to the Participant's death.
- If the Participant's termination is due to reasons other than the Participant's disability or death, and his/her last day of active employment is prior to the payment date then no incentive compensation award will be payable to the Participant.

Plan Concepts/Mechanics

The Plan's terms and conditions are described in this document. A summary of the Plan's overall mechanics is as follows:

- Prior to or near the beginning of each fiscal year, Participants will be assigned a maximum incentive compensation opportunity, which effective as of the Plan year will be expressed as a percentage of his or her base salary at the beginning of the fiscal year (or the Participant's start date if employed after the start of the fiscal year). Maximum incentive compensation opportunities will vary by position based on differing levels of accountability and responsibility.
- Maximum incentive compensation opportunities will be weighted or allocated to specific quantitative and discretionary Plan components. Several Plan components are based on Value Added. Value Added (VA) means the weighted average of outperformance of funds as described within the plan.
- After year-end, depending on performance, awards will be determined for each stand-alone Plan component.
- Notwithstanding any other provision in this Plan and regardless of any incentive compensation award calculations hereunder, no incentive compensation award shall be made unless and until approved by the SIB, in its sole discretion. The SIB may award, adjust (up or down), modify or deny any incentive compensation amounts calculated pursuant to the Plan. All incentive compensation awards hereunder are discretionary.

Step 1: Set Each Participant’s Maximum Incentive Compensation Opportunity

Prior to or near the beginning of each fiscal year, or the Participant’s start date if employed after the start of the fiscal year, Participants will be assigned a maximum incentive compensation opportunity, which will be expressed as a percentage of his or her base salary. Unless approved by the Executive Director, maximum incentive compensation opportunities will vary by the position held for most of the year (i.e., position held through June 30 for existing employees) and based on differing levels of accountability and responsibility.

Current maximum incentive compensation opportunities are set forth below.

Maximum Incentive Award	Position Title
100%	Chief Investment Officer Executive Director
90%	Deputy Chief Investment Officer
75%	Portfolio Manager (new FTE’s) Chief Risk Officer Senior Investment Officer
60%	Chief Financial Officer/ Chief Operating Officer
50%	Investment Officer Risk Officer Accounting Manager
25%	Sr. Investment Accountant Investment Accountant

Step 2: Calculate the Maximum Incentive Compensation Opportunity for the Plan

The maximum incentive compensation opportunity for the entire Plan will be calculated by aggregating the maximum incentive compensation opportunities for each Participant.

Step 3: Allocate each Participant’s Maximum Incentive Compensation Opportunity to Performance Components

Each Participant’s maximum incentive compensation opportunity will be weighted or allocated among standalone quantitative and qualitative performance components.

All Roles		
<i>Weight</i>	<i>Performance Component</i>	<i>Allocation Method</i>
80%	Fund VA -3-year rolling	Minimum: (10%) \geq 1 bp Maximum: (100%) 50 bps
20%	Individual Goals	Discretionary

Any proposed changes to incentive compensation weightings will be reviewed and approved by the Executive Director and the ERCC, and approved by the SIB, prior to the beginning of each fiscal year.

Step 4: Calculate the Performance Components

VA Performance Components

The Plan’s quantitative components focus on weighted average of the Legacy Fund, PERS pension fund, TFFR fund, and the WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks. Client fund performance is measured on a net of all basis (i.e., net of all direct and indirect costs). Asset Class and Team performance is measured net of direct costs.

The SIB approves an Incentive Compensation Metric (ICM) performance verified by the SIB’s independent Benchmark and Hurdle Rate consultant. The Incentive Compensation Metric represents the amount of outperformance of the applicable benchmark necessary to earn the full incentive compensation opportunity. Performance-award scales are derived from the ICM and define the linkage between RIO’s actual, relative, net investment performance and a corresponding percentage of the maximum incentive compensation opportunity that is earned.

Prior to or near the beginning of each performance year, any requested changes to the ICM(s) or performance-award scales must be submitted, in writing, by the Executive Director to the ERCC and from the ERCC to the SIB for review and approval, and to the Hurdle Rate and Benchmark Consultant for review and verification. There will be a comprehensive review of the ICM(s) up to every three to five years at the discretion of the SIB.

Under RIO Plan:

The percentage of the maximum *quantitative* incentive compensation opportunity earned:

- Equals 0% when performance is at or below benchmark.
- Equals 10% when net performance exceeds the benchmark by one full basis point.
- Increases pro rata, from 10% to 100%, for net performance that is between one full basis point above the benchmark, and the ICM.
- Equals 100% when net performance equals or exceeds the benchmark by the full ICM¹

Portfolio VA

In the first three years of the Plan, the first year Fund VA will be the one year weighted average Fund VA, the second year of the plan will be the two-year compound Fund VA and the third year will be the three-year compound average of the weighted average of the Legacy Fund, the PERS pension fund, TFFR fund, and WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks. Thereafter, the weighted average Fund VA applied to all participants is a rolling three-year average of the weighted average of the Legacy Fund, the PERS pension fund, TFFR fund, and WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks.

For Participants that join RIO on or after the beginning of the fiscal year, the weighted average Fund VA applied to all participants will be used. The payout will be made pro-rata based on the percentage of plan year time employed that starts with the beginning of the fiscal year on July 1.

For Participants that joined RIO prior to the plan year starting with the beginning of the fiscal year but have been employed for fewer than three years as of the start of the fiscal year, the weighted average Fund VA applied to all participants will be used.

Individual Goals Component

The Individual Goals component is set by the manager of the Participant as part of the performance evaluation process. The final performance evaluation of each Participant is approved by the Executive Director. In addition, such Participants will be evaluated on leadership/behavioral and organizational competence factors. Some factors that may be considered include training and mentoring of staff, contribution to organizational strategic planning, and participation in projects or initiatives to update business and/or analytical processes and tools and the associated technology applications. The Executive Director will determine the amounts awarded for Individual Goals in consultation with managers.

Step 5: Allocate Discretionary Components Among Relevant Participants

Quantitative components are allocated to Participants directly without modification. Discretionary components for Individual Goals components, will be allocated by the Executive Director.

Step 6: Present Final Award Recommendations to the Board of Trustees

The Executive Director's award recommendations will be made to the ERCC. The ERCC will make a recommendation regarding the incentive compensation awards to the SIB for approval. For all Participants, an incentive compensation award is contingent on approval of the award by the SIB, in its sole discretion.

Step 7: Payment of Awards

Incentive compensation awards will be determined and authorized as soon as practical following the close of each fiscal year, with a target of within the first four months of each fiscal year for the previous fiscal year.

RIO shall be entitled to withhold or deduct, as applicable, from the amount of any payment under this Plan or any other compensation due to the Participant, all federal, state, city and other taxes and all other amounts, as applicable.

¹ ICMs are intended to reflect levels of net performance that are considered top-quartile, based upon expected levels of risk and return.

Memorandum

To: Members of the Investment Committee
North Dakota State Investment Board

From: Verus

Date: February 20, 2024

RE: Private Equity Benchmark and Benchmark Methodology Recommendation

The purpose of this memorandum is to provide the North Dakota State Investment Board (“SIB”) a Private Equity strategic and implementation benchmark recommendation and a Private Equity benchmarking methodology. For the methodology, Verus recommends a three-tiered approach to benchmarking Private Equity based on the life cycle of investment control (i.e., commitment gathering/investment decision making/distributing capital). The three-tiered approach is articulated below:

1. ‘Start-up’ mode = Benchmarked against itself (new strategies \leq 3 years)
2. ‘Post-start up’ mode = Vintage year-weighted (strategies $>$ 3 years)
3. ‘Steady state’ mode = No weighting by vintage year, use peer universe aggregate (\geq 10 years)

For the benchmark to be employed in Tiers 2 and 3, Verus is recommending adoption of the Hamilton Lane Private Equity Private Equity Index weighted by vintage year (for Tier 2) and the Hamilton Lane Private Equity Index, aggregate version (for Tier 3).

Recommendation Rationale

Benchmark: There are several reasons Verus’ recommends adoption of this peer universe-based benchmark. First, we believe peer Private Equity universes provide the best means of measuring the strategic and implementation Private Equity decisions. From a strategic perspective, a Private Equity peer-based universe better meets the quality benchmark standards Verus presented to the Board at the November 17, 2023 Board meeting in that (1) it reflects the asset class investment opportunity set best, (2) is aligned with the Private Equity index proxy employed in the 2023 asset allocation study, (3) is transparent/measurable to RIO Staff through their subscription to the Hamilton Lane peer universe analytics system (“Cobalt”), (4) is reflective of the asset class return and risk characteristics, and (5) is used by similar investors. Verus undertook a Private Equity benchmark vendor study in late 2022 and viewed this benchmark vendor as favorable among the six firms evaluated. We evaluated the vendors in the following categories:

- Reporting mechanism
- Quality control
- Survivorship and selection biases
- Granularity of universes
- Avoidance of double counting funds
- Universe scope and scale
- Historical performance

Hamilton Lane was rated as follows in these categories:

Category	Hamilton Lane
Reporting mechanism	Below average
Quality control	Average
Survivorship and selection biases	Above average
Granularity of universes	Above average
Avoidance of double counting funds	Average
Universe scope and scale	Above average
Historical performance	Average to above average

Two important factors that are specific to the SIB and were considered in Verus' Private Equity recommendation are (1) the fact the RIO Staff maintain a subscription to the Hamilton Lane Private Equity peer universe analytics and (2) the majority of the SIB's Private Equity assets are invested in Private Equity fund of funds. The analytics subscription enables RIO Staff to slice and dice the universe as well as have look-through to the underlying funds so they can better understand the peer universe performance as well as create a custom sub-peer universe that better compares to the SIB's Private Equity program for internal monitoring purposes.

Having a current majority of the Private Equity assets in Private Equity fund of fund vehicles means the Private Equity program's performance will be impacted by the additional fees associated with those structures for many years to come even though all new Private Equity investments will be made in lower cost direct Private Equity investments. Only two of the six peer universe vendors Verus evaluated had peer universes for Private Equity fund of funds, Hamilton Lane being one of them.

From an implementation perspective, the recommended Private Equity peer universe-based benchmark is optimal in informing the SIB how successful the RIO Staff will be going forward in selecting those direct fund investments. This is particularly important given the benchmark will eventually factor into the incentive compensation metric for the asset class. A peer universe-based benchmark will be fairest in terms of evaluating RIO Staff's selection skill and will satisfy the Board that it is evaluating Staff's performance using an objective and appropriate benchmark. These factors, plus the results of Verus' Private Equity peer universe vendor comparison and the quality benchmark standards fulfilled by this benchmark support our recommendation to adopt the Hamilton Lane Private Equity peer universes.

Benchmarking Methodology: Benchmarking private markets investments is difficult for several reasons. With Private Equity, one of the complicating factors is the "J-curve" effect which occurs at the start of every new, or 'start-up' Private Equity strategy or fund implementation as fees are paid on commitments which do not bear fruit in terms of investment returns until after the first at least 2 to 3 years of the investment horizon. After this period, benchmarking versus peer funds can begin as the peer universes will be sufficiently populated with investment funds

of commensurate vintage year, which is not typically the case for Private Equity peer universes for periods less than 3 years.

To address the unique benchmarking issues associated with Private Equity investing, Verus has created a 3-tier benchmarking approach. The objective of this approach is to maintain a single benchmark which evolves with the stages of a typical Private Equity investment program. We characterize these stages as modal states. 'Start-up' mode can be characterized as the initial roughly 3-year period of a Private Equity program, which will be meaningfully driven by the J-curve effect as well as the unique strategy being implemented by the Plan. Many GP funds don't begin reporting results to peer universes until they have passed this J-curve phase or at least they are well into the beginning of the investment phase. Thus, peer universes will be sparsely populated during the first couple of years of a fund's life, which normally should encompass between 12 and 15 years. This is why Verus recommends simply benchmarking the fund against itself for the first 3-years.

Once the fund is past the J-curve and well into the investment phase, characterized as 'Post start-up' mode, then it becomes easier to benchmark the fund versus the peer Private Equity universe on a vintage year weighted basis. The investment phase typically lasts up to 7 or 8 years, at which point, the fund enters into its final mode, 'Steady state' At this point, usually year 10, it is possible to switch to the broadest Private Equity peer universe, the aggregate peer universe which represents all Private Equity funds and vintage years, until the fund has completely wound down and returned all capital. We believe this recommended 3-tiered approach is fair to both RIO Staff and SIB as it is, again, objective in nature due to the prescriptive timing of benchmarking evolution from mode to mode as well as the defined benchmarks for each tier.

MEMORANDUM

TO: SIB
FROM: Ryan K. Skor, CFO/COO
DATE: February 14, 2024
RE: New Client Onboarding Update

As Ms. Murtha updated in our January board meeting, RIO staff had been contacted by two potential new client funds about the ability for the State Investment Board to provide investment management services for their funds.

RIO staff has continued its discussions with the State Historical Society to complete and finalize an investment management agreement that will need to be approved by both the SIB and the Industrial Commission. Additionally, staff has met to begin development of a proposed investment policy statement to be approved by both the State Historical Society and the SIB.

Discussions are also ongoing with representatives of the ND Department of Health and Human Services regarding the opioid settlement fund. Correspondence has continued regarding the potential fund size as well as planned cash flow needs over the life of the settlement fund. As details are finalized, a proposed investment policy statement will be brought to the board for approval.

In addition to these two funds, RIO staff has also been contacted by representatives of the Water Commission regarding the SIB providing investment management services for the water project stabilization fund. The water project stabilization fund is separately listed within subsection 1 of NDCC 21-10-06 as a non-discretionary fund in which the SIB is required to invest. RIO staff is currently coordinating with the Water Commission to determine potential investment fund size, cash flow needs, and investment strategy to develop and agree upon proper investment policy statements.

BOARD ACTION REQUESTED: Information Only.

MEMORANDUM

TO: State Investment Board
FROM: Dr. Rob Lech, Chair and Ryan Skor, CFO/COO
DATE: February 23, 2024
RE: Executive Review and Compensation Committee Update

The Executive Review and Compensation Committee met Tuesday, February 20th, 2023. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the January 9, 2024, meeting.

The Committee received an incentive compensation presentation from Mercer that included an analysis of the draft incentive compensation program designed for RIO. The Committee had a robust discussion on the details of the proposed plan. After discussion, the Committee moved to approve the proposed plan and to forward on to the full SIB for presentation and approval.

Ms. Seiler provided the Committee with a summary of the SIB self and board assessments. The Committee discussed the results noting that the overall response was positive and identifying a few of the comments as areas to focus on.

Ms. Seiler also provided the Committee with updated drafts of the surveys used for executive team performance evaluations. The Committee received and discussed new formats for the SIB surveys for the ED and CIO performance and TFFR board member surveys for the ED and DED/CRO performance. Ms. Seiler continued by providing updated manager and staff level surveys of the ED to be incorporated in the performance evaluation process. The Committee approved the format and timeline of each survey.

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

SELF AND BOARD ASSESSMENT RESULTS

**Executive Review and
Compensation Committee**



Overall Results

POSITIVE RESULTS OVERALL

- Average score was 3.52 on a 4.0 scale.
- Always learning.
 - Onboarding has been a great addition.
- Great leadership on board and staff level.
 - Committees do a great job.
- Additional time for discussions after certain topics.
 - More board members to voice their opinions.

General Comments

- SIB is an example of outstanding and effective governance.
- Board members are well informed and engaged.
- RIO staff is a pleasure to work with and is helpful.
- Would like more discussion and opinion sharing by board members.
- Board works well with RIO leadership.
- Board education and presentations can be lengthy but does help with understanding the SIB better.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: February 16, 2024
RE: Governance and Policy Review Committee

I. Summary of Actions

The SIB Governance & Policy Review Committee (GPR Committee) met on February 13, 2024, to discuss the following:

- SIB Governance Manual Review Project
- Strategic Planning Preparation
- Legislative Study and Initiative Implementation Update

The Committee took the following actions:

- The committee reviewed, discussed and provided staff guidance on proposed changes to Section D of the SIB Governance Manual in accordance with the approved work plan to conduct a comprehensive review of the SIB Governance Manual for the upcoming fiscal year. The committee is not bringing forward proposed changes at this time and will present all proposed amendments for first reading at the April 2024 SIB meeting, followed by Second Reading and Final Adoption at the May 2024 SIB meeting. This review is necessary given the creation of an internal investment management program and other governance updates.
- Staff provided the committee with an update to the agency strategic plan in preparation for a strategy review session with the Governor's office in 2024. The committee discussed and provided guidance on proposed initiatives.
- Staff provided an update on participation in legislative studies and internal initiatives.
- Additional information may be found at: [State Investment Board Governance & Policy Review Committee | Retirement Investment Office \(nd.gov\)](#)

BOARD ACTION REQUESTED: Information Only.

MEMORANDUM

TO: SIB
FROM: Scott Anderson, Chief Investment Officer
DATE: February 23, 2024
RE: Investment Committee Update

February 9, 2024, Investment Committee Meeting

The Investment Committee met Friday, February 9, 2024. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the January 12, 2024, meeting.

Mr. Chin, Mr. Posch and Mr. Dukart presented a Public Markets Strategy Review. This was followed by a High Yield Portfolio recommendation presentation in closed session. Mr. Moss and Mr. Zietlow then presented a Private Market Manager Recommendation also in closed session.

During the discussion portion of the agenda, Mr. Anderson suggested that the Investment committee evaluate a Private Equity Benchmark that is strategic benchmark that can on shorter time horizons track closely with the underlying private equity holdings. The current strategic benchmark is a public market equivalent benchmark that represents a longer-term opportunity cost for the private equity portfolio and is suitable for that purpose but has the potential to create more volatility of active returns over shorter time horizons making it difficult to use in any proposed shorter time horizon incentive comp program. The Investment Committee agreed to a special Investment Committee meeting to discuss an alternative private equity benchmark.

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Investment/Board/Materials/sibinvestmat20240209.pdf>

BOARD ACTION REQUESTED: Information Only.

MEMORANDUM

TO: State Investment Board
FROM: Sara Seiler, Supervisor of Internal Audit
DATE: February 16, 2024
RE: Audit Committee

The Audit Committee met on February 15, 2024. The Audit Committee reviewed and approved the second quarter audit activities and update on current audit activities. An updated version of the charter was presented and approved that will be going to the Governance Review and Policy Committee for their review. Informational updates on the internal audit modernization project and Pioneer Project were given.

The Audit Committee reviewed and approved the Executive Limitations Audit. The Executive Limitations Audit reviews the Executive Director's level of compliance with the State Investment Board governance manual Executive Limitations A-1 thru A-11 on an annual basis. Internal Audit is sufficiently satisfied that the Executive Director was in compliance with the SIB Governance Manual Executive Limitation Policies A-1 through A-11 during calendar year 2023.

The following link has the committee materials that were presented for your reference:

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Audit/Board/Materials/sibauditmat20240215.pdf>

BOARD ACTION REQUESTED: Information Only.

MEMORANDUM

TO: SIB
FROM: Ryan K. Skor, CFO/COO
DATE: February 12th, 2024
RE: Quarterly Budget/Expense Report

Enclosed are the following quarterly budget and expense reports for the quarter ended December 31, 2023:

- Budget Appropriation Status Report
- Expenditure Summary Report
- PAS Modernization Project Status Report

Board Action Requested: Board acceptance.

BUDGET APPROPRIATION STATUS

AS OF DECEMBER 31, 2023

	2023-2025 BUDGET	ADJUSTED APPROPRIATION *	EXPENDITURES			
			BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	\$ 8,910,047.00	9,466,151.30 ^	\$ 2,181,013.79	\$ 7,285,137.51	76.96%	75.00%
OPERATING EXPENDITURES	2,869,937.00	4,277,560.00	552,876.28	3,724,683.72	87.07%	75.00%
CAPITAL ASSETS	0.00	4,150,213.50	400,696.87	3,749,516.63	90.35%	75.00%
CONTINGENCY	200,000.00	200,000.00	0.00	200,000.00	100.00%	75.00%
TOTAL	\$ 11,979,984.00	18,093,924.80	\$ 3,134,586.94	14,959,337.86	82.68%	75.00%

* In addition to the capital assets line, the salaries and benefit line includes \$50,000 and the operating expenditure budget includes \$1,407,623 for the TFFR Pension Administration System Project.

^ The adjusted appropriation for salaries and benefits also includes amounts appropriated during the Legislative Session in relation to the new and vacant FTE funding pool, target market equity, and additional employer retirement funding.

EXPENDITURE SUMMARY

AS OF AND FOR THE QUARTER ENDED DECEMBER 31, 2023

	<u>INVESTMENT</u>	<u>RETIREMENT</u>	<u>QUARTERLY TOTALS</u>	<u>FISCAL YEAR TO - DATE</u>	<u>BIENNIUM TO - DATE</u>
<u>CONTINUING APPROPRIATIONS</u>					
INVESTMENT EXPENDITURES	\$ 10,128,973	\$ 0	\$ 10,128,973	\$ 32,011,854	\$ 32,011,854
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0	66,361,242	66,361,242	133,389,610	133,389,610
2. REFUND PAYMENTS	0	4,570,462	4,570,462	7,070,231	7,070,231
TOTAL MEMBER CLAIMS	0	70,931,704	70,931,704	140,459,842	140,459,842
OTHER CONTINUING APPROPRIATIONS	240,923	110,363	351,285	456,439	456,439
TOTAL CONTINUING APPROPRIATIONS	10,369,896	71,042,066	81,411,963	172,928,135	172,928,135
<u>BUDGETED EXPENDITURES</u>					
1. SALARIES & BENEFITS					
SALARIES	553,524	271,232	824,756	1,603,888	1,603,888
OVERTIME/TEMPORARY	614	3,481	4,095	26,583	26,583
TERMINATION SALARY & BENEFITS	0	0	0	0	0
FRINGE BENEFITS	182,465	96,319	278,784	550,542	550,542
TOTAL SALARY & BENEFITS	736,604	371,032	1,107,635	2,181,014	2,181,014
2. OPERATING EXPENDITURES					
DATA PROCESSING	15,959	109,922	125,881	237,744	237,744
TELECOMMUNICATIONS - ISD	2,113	1,551	3,663	6,329	6,329
TRAVEL	3,610	10,665	14,274	20,790	20,790
IT - SOFTWARE/SUPPLIES	0	0	0	0	0
POSTAGE SERVICES	1	1,314	1,315	2,748	2,748
IT - CONTRACTUAL SERVICES	468	63,189	63,657	123,087	123,087
EQUIPMENT RENTS AND LEASES	0	0	0	0	0
BUILDING/LAND RENT & LEASES	12,615	13,204	25,819	53,213	53,213
DUES & PROF. DEVELOPMENT	6,419	6,475	12,894	25,753	25,753
OPERATING FEES & SERVICES	378	4,018	4,396	8,473	8,473
REPAIR SERVICE	0	0	0	0	0
PROFESSIONAL SERVICES	0	35,988	35,988	69,804	69,804
INSURANCE	0	0	0	1,467	1,467
OFFICE SUPPLIES	90	86	176	458	458
PRINTING	204	1,353	1,557	2,169	2,169
PROFESSIONAL SUPPLIES & MATERIALS	117	106	223	223	223
MISCELLANEOUS SUPPLIES	65	66	131	437	437
IT EQUIPMENT UNDER \$5000	111	69	180	180	180
OFFICE EQUIP. & FURNITURE UNDER \$5000	0	0	0	0	0
TOTAL OPERATING EXPENDITURES	42,150	248,005	290,155	552,876	552,876
3. CAPITAL ASSETS	0	34,521	34,521	400,697	400,697
4. CONTINGENCY	0	0	0	0	0
TOTAL BUDGETED EXPENDITURES	778,754	653,557	1,432,311	3,134,587	3,134,587
TOTAL EXPENDITURES	\$ 10,907,728	\$ 71,585,261	\$ 82,844,274	\$ 176,062,722	\$ 176,062,722

PAS MODERNIZATION PROJECT STATUS

AS OF AND FOR THE QUARTER ENDED DECEMBER 31, 2023

PAS PROJECT - UNEXPENDED PORTION CARRIED FORWARD TO 2023-25 BIENNIUM

	2019-2021 Biennium Approved Budget	Carryover to 2023-2025 Biennium	Expenses 2023-2025 Biennium	Remaining Budget
TEMPORARY SALARIES	50,000	50,000	0	50,000
IT - DATA PROCESSING (NDIT PROJECT MGMT)	775,000	596,933	38,472	558,461
PROFESSIONAL SERVICES	1,875,000	810,690	140,913	669,776
CAPITAL ASSETS	6,300,000	4,150,214	400,697	3,749,517
TOTAL PAS PROJECT BUDGET	9,000,000	5,607,837	580,082 *	5,027,754

* The amounts in the 2023-2025 expense column are included in the totals on the Expenditure Summary on the previous page.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: February 12, 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. Drafts of the updated strategic plan action items 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 tentatively scheduled for Wednesday, March 6, 2024, at 2pmCT. This meeting is virtual only and a Teams link will be provided. The topic of this training is Governance Manual Part 2, Jan Murtha Executive Director presenting.

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

Position Title*	Status
Administrative Assistant (part-time - temporary)	Offer extended.

*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 has been issued and contract negotiations are pending.

- **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.

This section will be included in the Communications and Outreach Director quarterly report.

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.