

Friday, April 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. Conflict of Interest Disclosure
- C. Executive Summary

II. ACCEPTANCE OF MINUTES (March 22, 2024) – (Board Action)

III. INVESTMENTS (100 minutes)

- A. Quarterly Performance Report *(Board Action)* – Mr. Anderson
- B. Internal Investment Initiative Update *(Information)* – Mr. Anderson
- C. Country Risk *(Information)* – Mr. Vaidya

(Break)

IV. GOVERNANCE (60 minutes)

- A. SIB GPR Committee Update *(Information)* – Dr. Lech, Ms. Murtha
 - 1. SIB Governance Manual – Introduction & First Reading *(Board Action)* – Ms. Murtha
 - 2. Audit Committee Charters *(Board Action)* – Ms. Seiler
 - 3. 2024-25 Board and Committee Calendar *(Board Action)* – Ms. Murtha
- B. SIB ERCC Committee Update *(Information)* – Dr. Lech, Mr. Skor
 - 1. Budget Recommendation Discussion *(Information)*
 - 2. Time Horizon and Target Compensation *(Board Action)*
- C. Investment Committee Update *(Information)* – Treasurer Beadle, Mr. Anderson

V. Quarterly Monitoring Reports (30 minutes) – (Board Action)

- A. Investment Ends Report – Mr. Posch
- B. Budget/Fiscal Conditions Report – Mr. Skor
- C. TFFR Ends Report – Mr. Roberts
- D. Outreach Report – Ms. Mudder
- E. Executive Limitations/Staff Relations – Ms. Murtha

VI. OTHER

Next Meetings:

ERCC – May 7, 2024, at 10:00 a.m.
SIB GPR – May 8, 2024, at 10:00 a.m.
Investment Committee – May 10, 2024, at 9:00 a.m.
SIB Meeting – May 17, 2024, at 8:30 a.m.

VII. ADJOURNMENT

EXECUTIVE SUMMARY

SIB Regular Meeting

April 26, 2024 – 8:30 a.m. CT

- I. **Agenda:** The March 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 March 22, 2024, Board meeting minutes are included for review and approval.
- III. **A. Investments Quarterly Performance (Board Action):** CIO Anderson will present quarterly investment performance for board acceptance.
B. Internal Investment Initiative Update (Information): CIO Anderson will provide the Board with an update on current activities related to implementation of the internal investment initiative.
C. Country Risk (Information): Chief Risk Officer Vaidya will provide the full board with an overview of country risk assessment framework highlighting China challenges vs, India opportunities and risks.
- IV. **A. Governance & Policy Review Committee (Information):** The committee chair and Ms. Murtha will provide the Board with an update on current committee activities.
 1. **Introduction and First Reading of SIB Governance Manual (Board Action):** Board members are requested to review proposed changes to the governance manual recommended by the committee for first reading.
 2. **Audit Committee Charters (Board Action):** Board members are requested to review proposed changes to two charters recommended by both the Audit and GPR committees.
 3. **FY2024-25 Board and Committee Calendar (Board Action):** Board members are requested to review and approve the board and committee calendar for next fiscal year.**B. ERCC Update (Information):** The Committee Chair and Mr. Skor will provide the Board an update on recent committee activities.
 1. **Budget Recommendation Discussion (Information):** The committee has recommendations for future budget development after considering the results of the Mercer survey.
 2. **Time Horizon and Target Compensation (Board Action):** The committee has recommendations for a compensation strategy relating to time horizon and target salaries for the ED and agency wide compensation.**C. Investment Committee Update (Information):** The Committee Chair and Mr. Anderson will provide the Board an update on recent committee activities.
- V. **A. – E. Reports (Board Action):** Staff will provide monitoring reports for Investment Ends, budget and fiscal conditions, TFFR Ends, outreach, and executive limitations/ staff relations.

Adjournment.

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MARCH 22, 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
Robbie Morey, Investment Accountant
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
Tami Volkert, Compliance Spec.
Susan Walcker, Sr. Financial Accountant
Jason Yu, Risk Officer
Lance Zietlow, Sr. Investment Officer

GUESTS:

Alex Browning, Callan
Dean DePountis, Attorney General's Office
Hope Wedul, HRMS
Josh Wilson, Mercer
Members of the Public

CALL TO ORDER:

Lt. Gov. Miller, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, February 23, 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, Sen. Klein, 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 March 22, 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, SEN. KELIN, DR. LECH, MR. MORRISSETTE, MR. JAHNER, AND LT. GOV. MILLER

NAYS: NONE

MOTION CARRIED

MINUTES:

The Board considered the minutes of the February 23, 2024, SIB meeting.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE FEBRUARY 23, 2024, MINUTES AS DISTRIBUTED.

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

NAYS: NONE

MOTION CARRIED

INVESTMENTS:

Quarterly Performance Report:

Mr. Browning, Callan, provided a performance update as of December 31, 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 December 31, 2023. In most cases, Total Fund net-of-fee results exceed benchmark. 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 PERFORMANCE REPORT.

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

GOVERNANCE:

Compensation Study Presentation:

Mr. Wilson, Mercer, presented the compensation market benchmarking findings. When conducting the study, Mercer used four industry perspectives: public pensions, endowments and foundations, government, and general industry. RIO's roles were benchmarked to six compensation surveys and the data was aged and geographically adjusted. The benchmark findings were discussed for incentive eligible and non-incentive eligible roles. More detailed benchmark information for the ED and CIO roles were discussed.

Ms. Murtha described the compensation discussions that will occur at future board meetings. The SIB expanded the scope of the ERCC to enable that Committee to make compensation recommendations to the

SIB. The Committee will bring forward a compensation philosophy for discussion as the internal investment program is implemented. The SIB will provide staff with guidance as they start preparing the next budget. The Board asked questions and discussed the compensation study results.

RIO Strategic Plan:

Ms. Murtha presented the RIO strategy review to the Board. The new strategic plan was completed and has been presented to RIO staff, the Governor's Office, and the TFFR Board. RIO's agency priorities are outreach, organizational culture, and technology. One of the requirements for the strategy review were "Big Hairy Audacious Goals" (BHAGS) which look ahead five to ten years. RIO staff received input from board and committee members and included five BHAGs in the plan. These goals include, ND cash management practices, internal investment expansion, benefits administration optimization, financial/retirement literacy, and to be an industry leader. Ms. Murtha provided details for each of these goals including the problems being solved, prioritization, and a long-term timeline and action plan. Ms. Murtha reviewed planned legislative initiatives and a workforce plan. Board discussion followed.

Dr. Simlai left the meeting at 10:45 a.m.

IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE STRATEGIC PLAN AS PRESENTED.

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

NAYS: NONE

ABSENT: DR. SIMLAI

MOTION CARRIED

The Board recessed at 10:55 a.m. and reconvened at 11:05 a.m.

Executive Review and Compensation Committee (ERCC) Update:

Dr. Lech provided an update from the March 22, 2024, ERCC meeting. Mercer presented the compensation study results to the ERCC. The Committee discussed a summary of their key responsibilities and the associated deadlines as established in its charter and approved the format of the ED self-evaluation.

Ms. Seiler reviewed the ERCC charter which outlines the Committee's role in facilitating the performance evaluations for the ED, CIO, and DED/CRO. The SIB will receive surveys today regarding the ED and CIO. The responses will be used in the evaluation process. Board discussion followed.

Investment Committee (IC) Update:

Treasurer Beadle provided an update from the March 15, 2024, IC Meeting. The IC received a private markets strategy review followed by a presentation of guidelines for the high yield mandate. The IC reviewed and approved the request for proposal (RFP) for investment performance measurement reporting and consulting services. Board discussion followed.

Legacy and Budget Stabilization Fund Advisory Board (LBSAFB):

Sen. Klein provided an update from the March 20, 2024, LBSAFB meeting. The Advisory Board received presentations from RIO staff and 50 South Capital with updates on the in-state investment program. The Advisory Board discussed strategies for sharing information about the in-state investment program. Board discussion followed.

QUARTERLY MONITORING REPORTS:

Executive Limitations/Staff Relations:

Ms. Murtha provided the Executive Limitations/Staff Relations report. There are two new board member onboarding sessions scheduled for April. The last section of the SIB Governance Manual will be covered on April 3, 2024, and a Risk Strategy Overview session will be on April 25, 2024. Ms. Murtha reviewed current projects and initiatives. Board discussion followed.

IT WAS MOVED BY DR. LECH AND SECONDED BY MR. THOMPSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORT.

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

NAYS: NONE

ABSENT: DR. SIMLAI

MOTION CARRIED

ADJOURNMENT:

With no further business to come before the SIB, Lt. Gov. Miller adjourned the meeting at 11:28 a.m.

Prepared by: Missy Kopp, Assistant to the Board

INVESTMENT PERFORMANCE

Scott M Anderson, CFA – Chief Investment Officer

April 26, 2024

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Retirement & Investment

THE MARKET

NORTH
Dakota
Be Legendary.

Retirement & Investment

PERFORMANCE – BENCHMARK INDICES

Summary of Returns					
February 28, 2024					
Benchmark Indices (% change, annualized)	YTD	1 Yr	5 Yr	10 Yr	10 Yr Volatility
Russell 1000	6.3%	29.1%	14.3%	12.3%	17.9%
Russell 2000	0.8%	9.2%	6.7%	7.0%	22.6%
S&P 500	6.5%	29.7%	14.6%	12.6%	17.7%
MSCI ACWI IMI Net	4.0%	21.1%	10.0%	8.1%	14.3%
MSCI World ex US	1.9%	13.7%	6.8%	4.4%	14.3%
MSCI Emerging Markets	-0.3%	8.5%	1.8%	3.0%	15.7%
Bloomberg Aggregate	-1.8%	3.2%	0.5%	1.4%	4.6%
Bloomberg Gov/Credit	-1.7%	3.5%	0.8%	1.6%	4.9%
Bloomberg US High Yield	0.2%	10.9%	4.1%	4.3%	5.2%
NCREIF Property Index (12/31/2023)	-7.9%	-7.9%	4.3%	6.8%	4.0%

Source: Bloomberg

PERFORMANCE – BENCHMARK INDICES

Summary of Returns					
April 18, 2024					
Benchmark Indices	YTD	1 Yr	5 Yr	10 Yr	10 Yr
(% change, annualized)					Volatility
Russell 1000	5.0%	22.4%	13.1%	12.2%	17.9%
Russell 2000	-3.8%	9.9%	5.8%	6.9%	22.6%
S&P 500	5.5%	22.4%	13.4%	12.5%	17.7%
MSCI ACWI IMI Net	2.9%	15.2%	9.0%	7.9%	14.2%
MSCI World ex US	1.2%	7.2%	6.0%	4.3%	14.3%
MSCI Emerging Markets	0.1%	4.5%	1.1%	2.5%	15.7%
Bloomberg Aggregate	-3.2%	-0.5%	-0.1%	1.3%	4.6%
Bloomberg Gov/Credit	-3.1%	-0.4%	0.2%	1.4%	5.0%
Bloomberg US High Yield	-0.3%	8.4%	3.6%	4.2%	5.2%
NCREIF Property Index (12/31/2023)	-7.9%	-7.9%	4.3%	6.8%	4.0%

Source: Bloomberg

HAS INFLATION PEAKED?¹



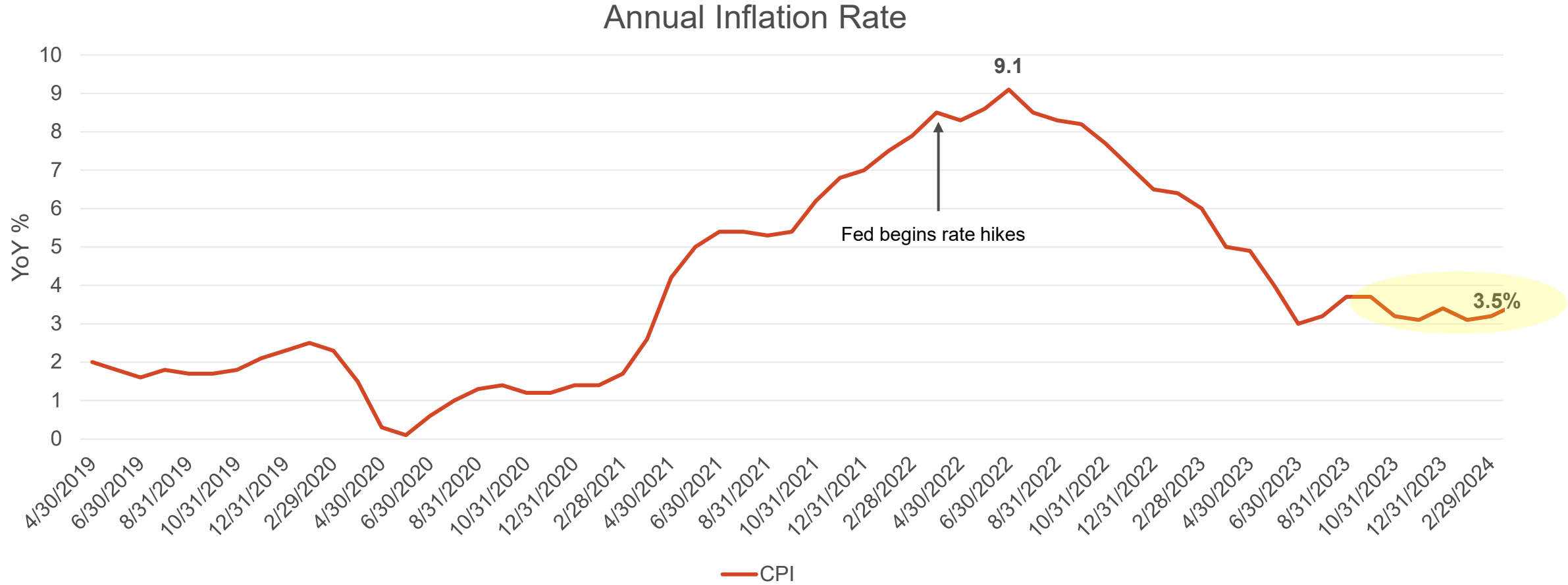
**ANNUAL INFLATION RATE
(June 2021 thru June 2022)**



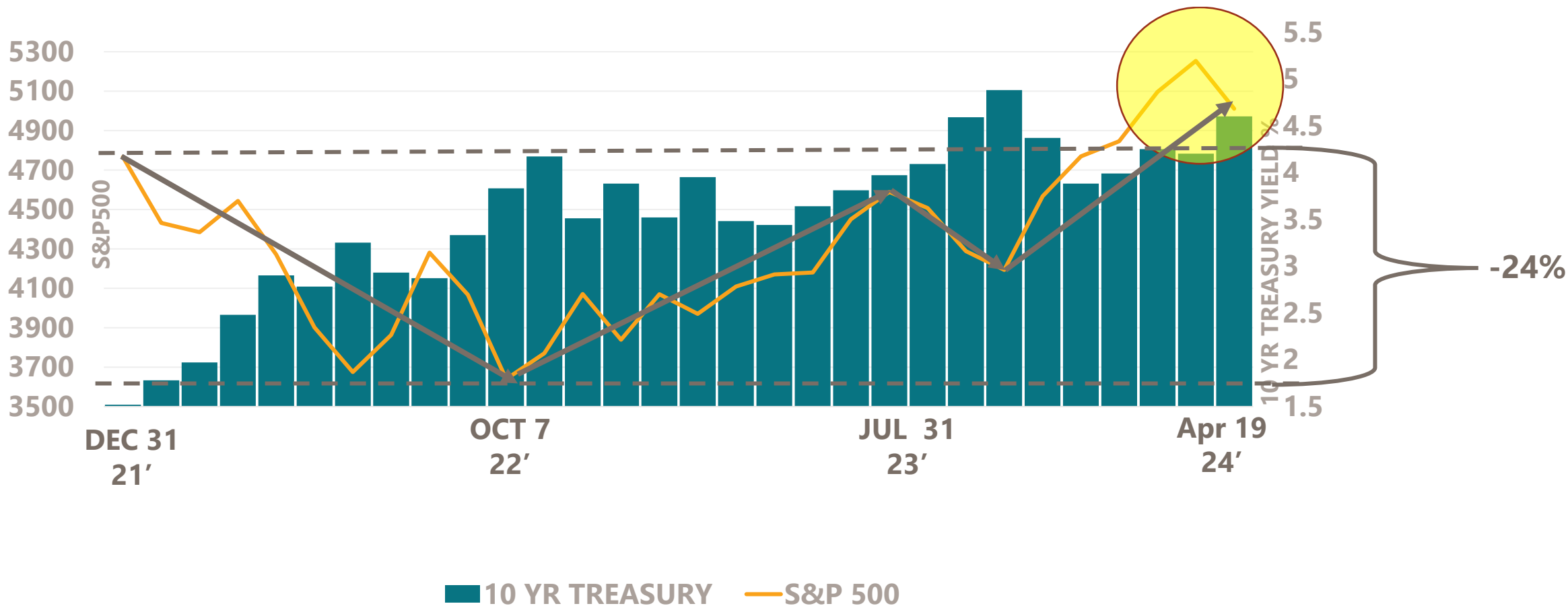
**ANNUAL INFLATION RATE
(March 2023 thru March 2024)
3.8% Ex Food & Energy**

1. Bureau of Labor Statistics
Scott M Anderson, CFA – April 26, 2024

INFLATION PAST 5 YEARS



THE S&P500 HAS TRACKED INFLATION EXPECTATIONS¹



1. FRED

COMPETING NARRATIVES

	LOW GROWTH	HIGHER GROWTH
HIGH INFLATION	<p>(Hard Landing)</p> <ul style="list-style-type: none"> ▪ High Levels of Debt – Higher Interest Rates ▪ Tight Labor Market/Labor Force Growth ▪ Consumer Savings Are Running Out ▪ Higher Energy Prices From Policy ▪ Political Risk ▪ Student Loan Payments Restart Reducing Retail Spending 	<p>(No Landing)</p> <ul style="list-style-type: none"> ▪ Continued Government Spending ▪ Tight Labor Market/Labor Force Growth ▪ Inflation Psychology ▪ Higher Energy Prices From Policy ▪ Millennials in Peak Spending Years ▪ Housing Shortage/Higher Prices ▪ Real Consumer Income Growth
LOW INFLATION	<p>(Soft Landing)</p> <ul style="list-style-type: none"> ▪ Housing Inflation Abates ▪ Lower Interest Rates ▪ Lower Growth/Lower Energy Prices ▪ Student Loan Payments Restart Reducing Retail Spending ▪ Reduced Government Spending ▪ Political Risk Diminish 	<p>(Goldilocks)</p> <ul style="list-style-type: none"> ▪ Low Unemployment Buys Economy ▪ Lower Interest Rates ▪ Millennials in Peak Spending Years ▪ Reduced Government Spending ▪ Global Political Risks Are Resolved/ Peace Dividend ▪ Productivity Boom From AI

GOOD NEWS ¹

BLOOMBERG AGG YIELD¹: 5.27%



**BEST GUESS FOR
FUTURE BOND
RETURN!**

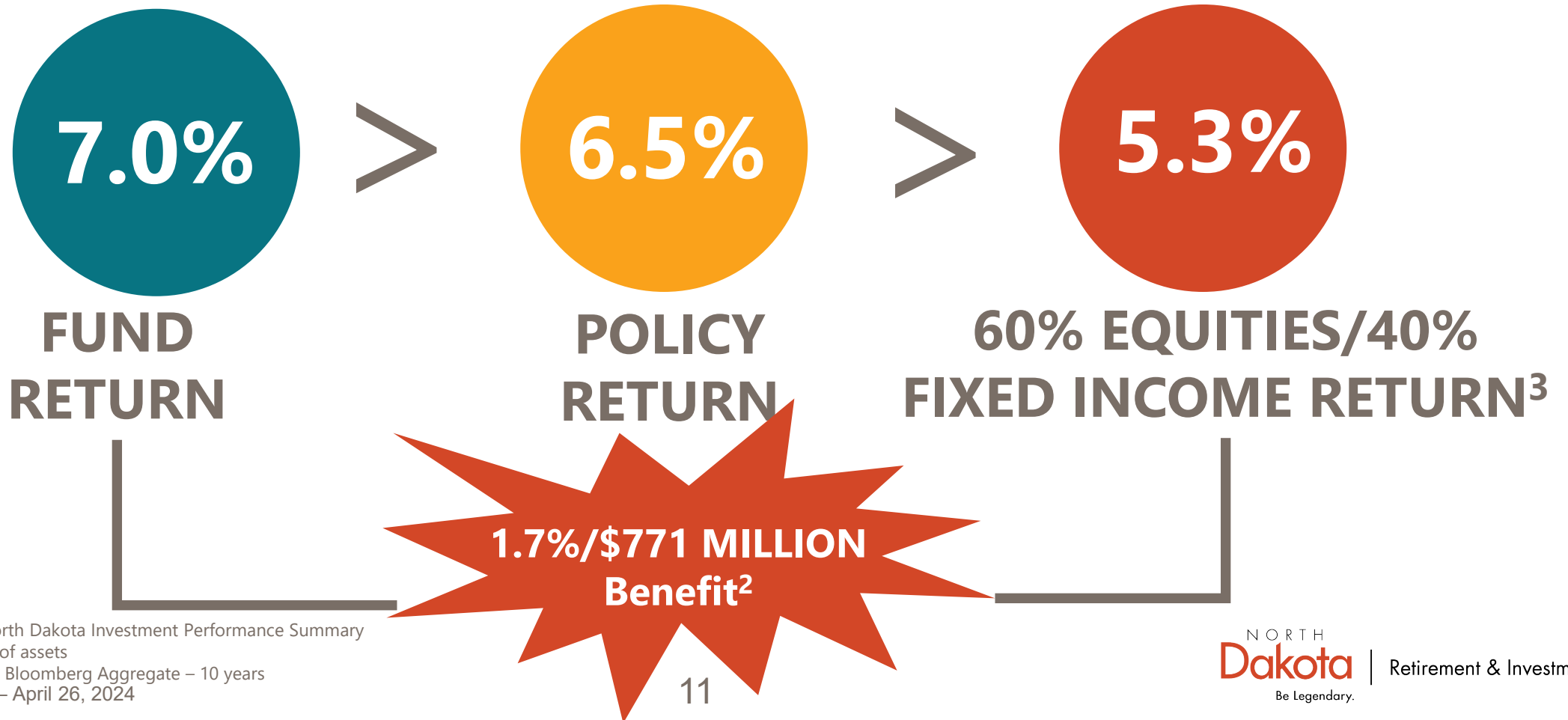
PERFORMANCE

NORTH
Dakota
Be Legendary.

Retirement & Investment

INVESTMENT MANAGEMENT BENEFITS

PERS TEN YEAR AVERAGE RETURN¹

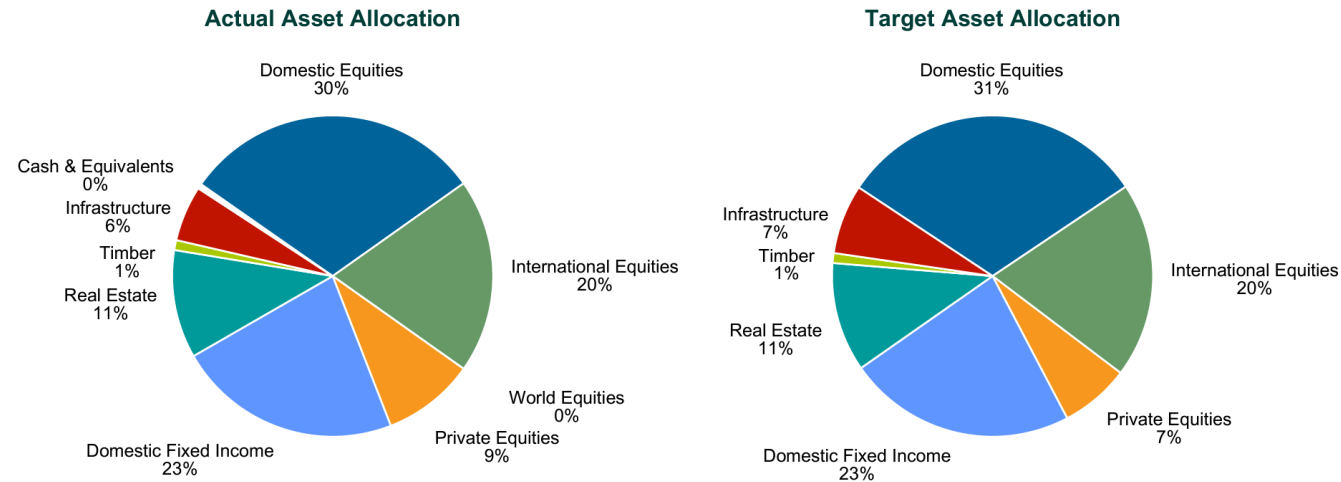


1. Thru December 2023; North Dakota Investment Performance Summary

2. Starting with \$4.2 Billion of assets

3. 60% MSCI ACW IMI/40% Bloomberg Aggregate – 10 years
Scott M Anderson, CFA – April 26, 2024

ASSET ALLOCATION



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equities	1,266,202	30.5%	31.3%	(0.9%)	(36,433)
International Equities	816,896	19.6%	19.7%	(0.0%)	(943)
World Equities	27	0.0%	0.0%	0.0%	27
Private Equities	386,750	9.3%	7.0%	2.3%	95,705
Domestic Fixed Income	941,050	22.6%	23.0%	(0.4%)	(15,242)
Real Estate	455,235	10.9%	11.0%	(0.1%)	(2,122)
Timber	41,529	1.0%	1.0%	0.0%	5
Infrastructure	233,928	5.6%	7.0%	(1.4%)	(57,171)
Cash & Equivalents	16,175	0.4%	0.0%	0.4%	16,175
Total	4,157,792	100.0%	100.0%		

1. September 2023 values – Callan

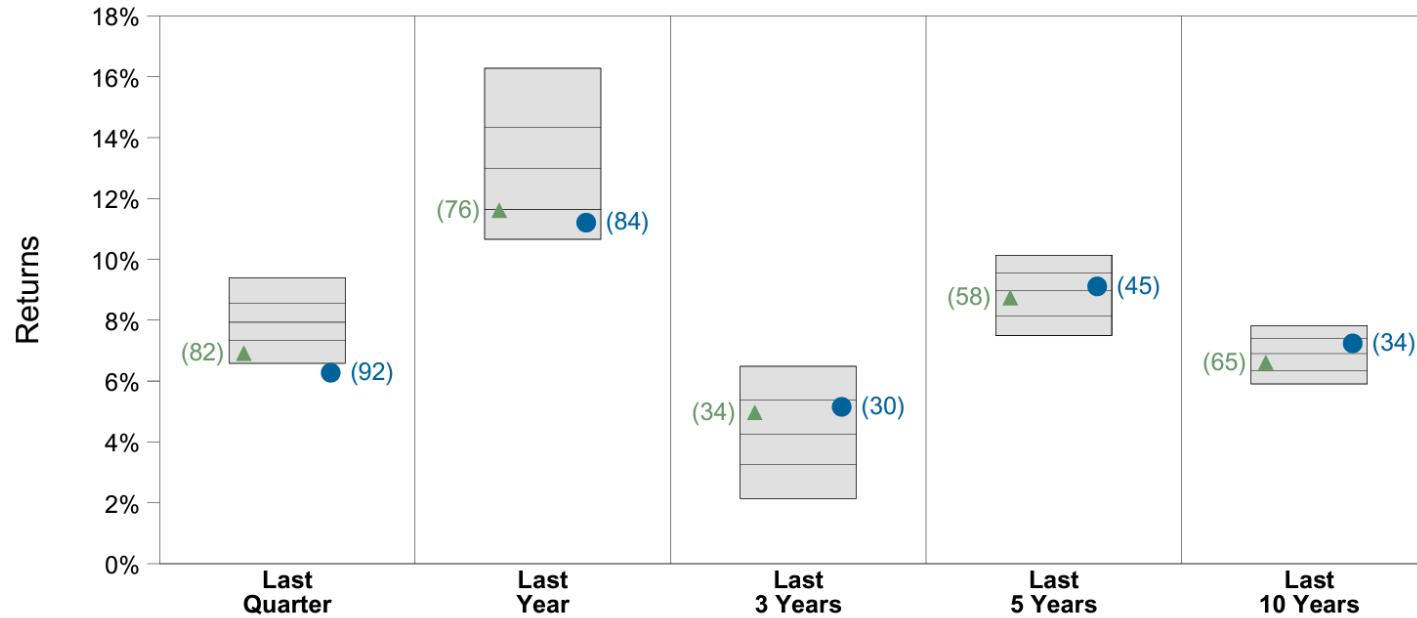
PERS PERFORMANCE

AS OF FEBRUARY 28, 2024 PERS \$4.2 Billion	Year to Date	DECEMBER 31, 2024			Risk (5 Year)
		1 Year	3 year	5 Year¹	
Total Fund Return - Net	2.0%	11.0%	4.9%	8.9%	10.0%
Policy Benchmark Return	1.6%	10.8%	4.4%	8.5%	10.3%
Total Relative Return¹	0.4%	0.2%	0.5%	0.4%	

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

PERS PERFORMANCE

Callan Public Fund Sponsor Database

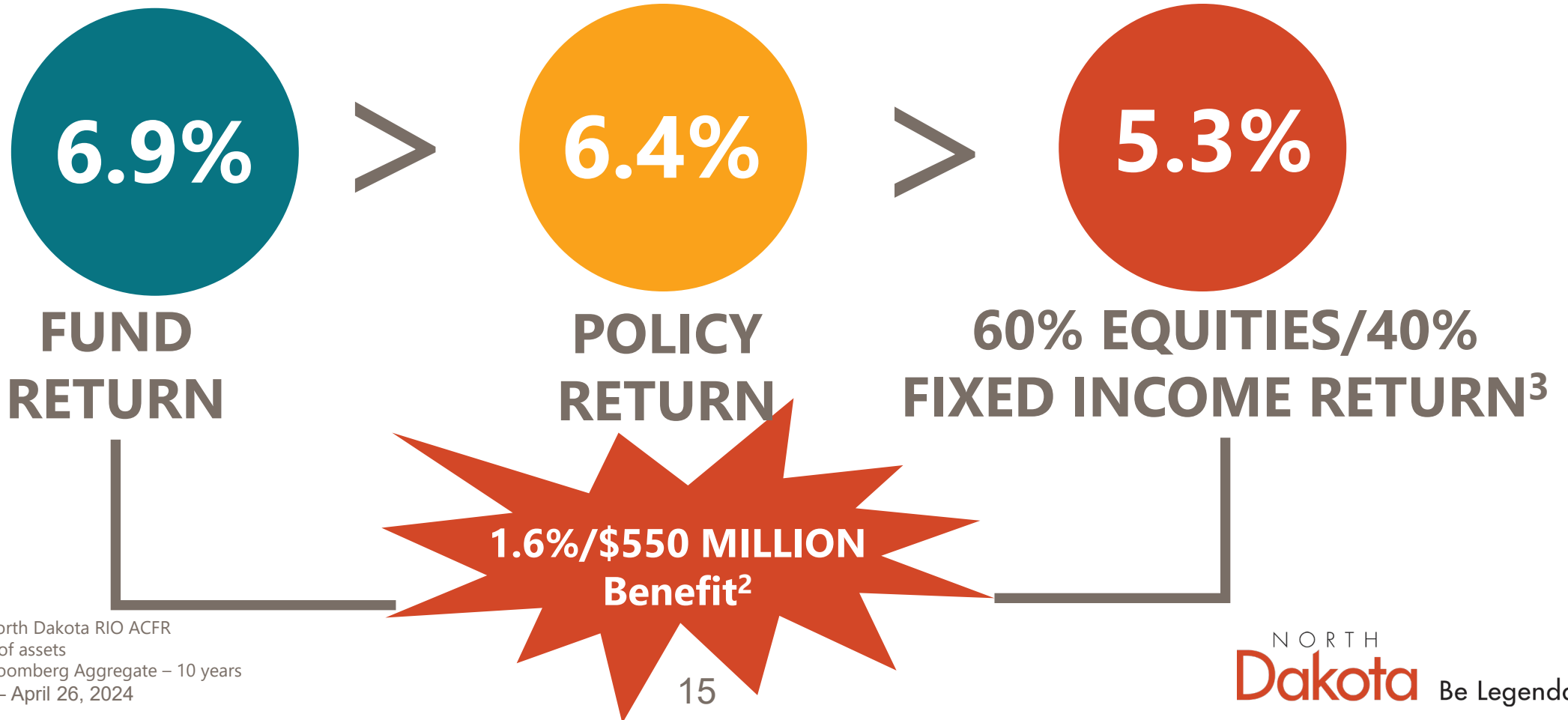


10th Percentile	9.40	16.28	6.49	10.14	7.83
25th Percentile	8.55	14.33	5.38	9.55	7.41
Median	7.93	12.99	4.26	8.97	6.90
75th Percentile	7.35	11.64	3.25	8.13	6.33
90th Percentile	6.58	10.66	2.14	7.50	5.91
Total Fund ●	6.27	11.21	5.15	9.11	7.24
Policy Target ▲	6.91	11.61	4.97	8.74	6.61

1. September 2023 values – C:

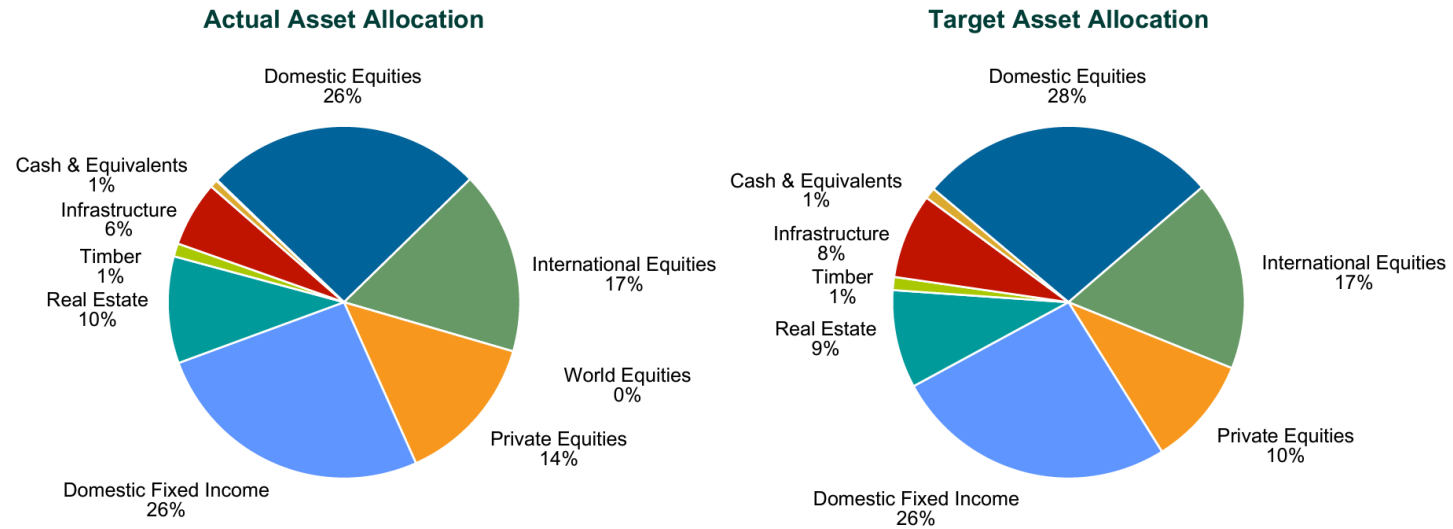
INVESTMENT MANAGEMENT BENEFITS

TFFR TEN YEAR AVERAGE RETURN¹



1. Thru September 2023; North Dakota RIO ACFR
2. Starting with \$3.2 Billion of assets
3. 60% MSCI World/40% Bloomberg Aggregate – 10 years
Scott M Anderson, CFA – April 26, 2024

ASSET ALLOCATION



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equities	809,357	25.5%	27.6%	(2.1%)	(67,512)
International Equities	532,698	16.8%	17.4%	(0.6%)	(17,830)
World Equities	246	0.0%	0.0%	0.0%	246
Private Equities	438,844	13.8%	10.0%	3.8%	121,644
Domestic Fixed Income	827,945	26.1%	26.0%	0.1%	3,226
Real Estate	312,271	9.8%	9.0%	0.8%	26,791
Timber	37,070	1.2%	1.2%	0.0%	48
Infrastructure	191,634	6.0%	7.8%	(1.8%)	(56,824)
Cash & Equivalents	21,930	0.7%	1.0%	(0.3%)	(9,790)
Total	3,171,995	100.0%	100.0%		

1. September 2023 values – Callan

TFFR PERFORMANCE

AS OF FEBRUARY 28, 2024
TFFR \$3.2 Billion

Total Fund Return - Net

Policy Benchmark Return

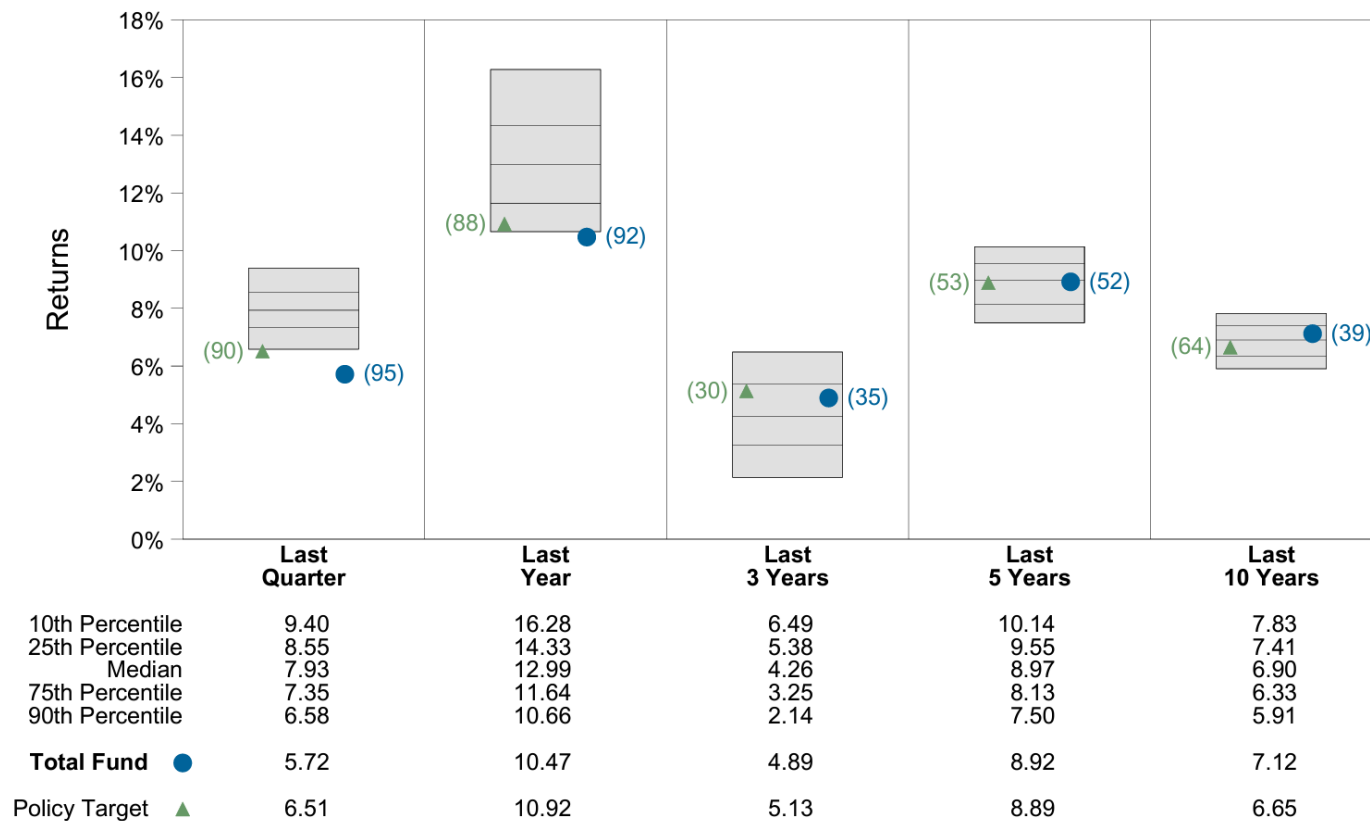
Total Relative Return¹

Year to Date	DECEMBER 31, 2024			Risk (5 Year)
	1 Year	3 year	5 Year¹	
1.7%	10.3%	4.7%	8.7%	9.7%
1.3%	9.9%	4.3%	8.3%	10.0%
0.4%	0.4%	0.4%	0.4%	

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**

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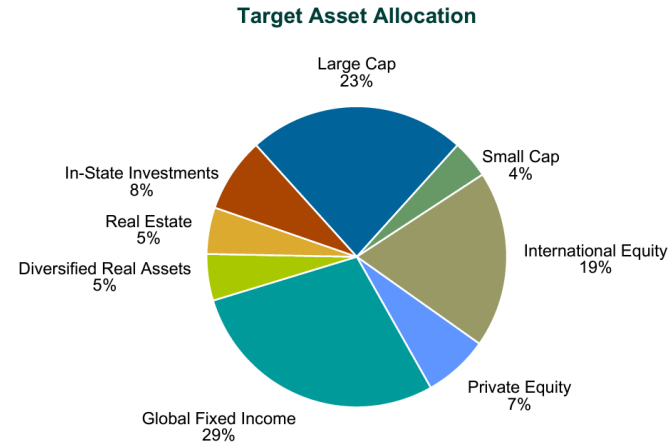


**POLICY
RETURN**

**0.6%/\$610 MILLION
Benefit²**

1. Thru December 2023; North Dakota RIO ACFR
2. Starting with \$9.9 Billion of assets

ASSET ALLOCATION



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Large Cap	2,803,791	28.4%	23.4%	5.0%	497,132
Small Cap	506,272	5.1%	4.1%	1.0%	99,215
International Equity	2,269,619	23.0%	19.0%	4.0%	394,688
Transition Account	45	0.0%	0.0%	0.0%	45
Private Equity	7,965	0.1%	7.0%	(6.9%)	(682,799)
Global Fixed Income	2,925,203	29.6%	28.5%	1.1%	112,807
Diversified Real Assets	502,379	5.1%	5.0%	0.1%	8,977
Cash & Equivalents	46,652	0.5%	0.0%	0.5%	46,652
Real Estate	457,803	4.6%	5.0%	(0.4%)	(35,600)
Residual Holdings	2,214	0.0%	0.0%	0.0%	2,214
In-State Investments	346,114	3.5%	8.0%	(4.5%)	(443,331)
Total	9,868,058	100.0%	100.0%		

1. September 2023 values – Callan

PERFORMANCE – LEGACY

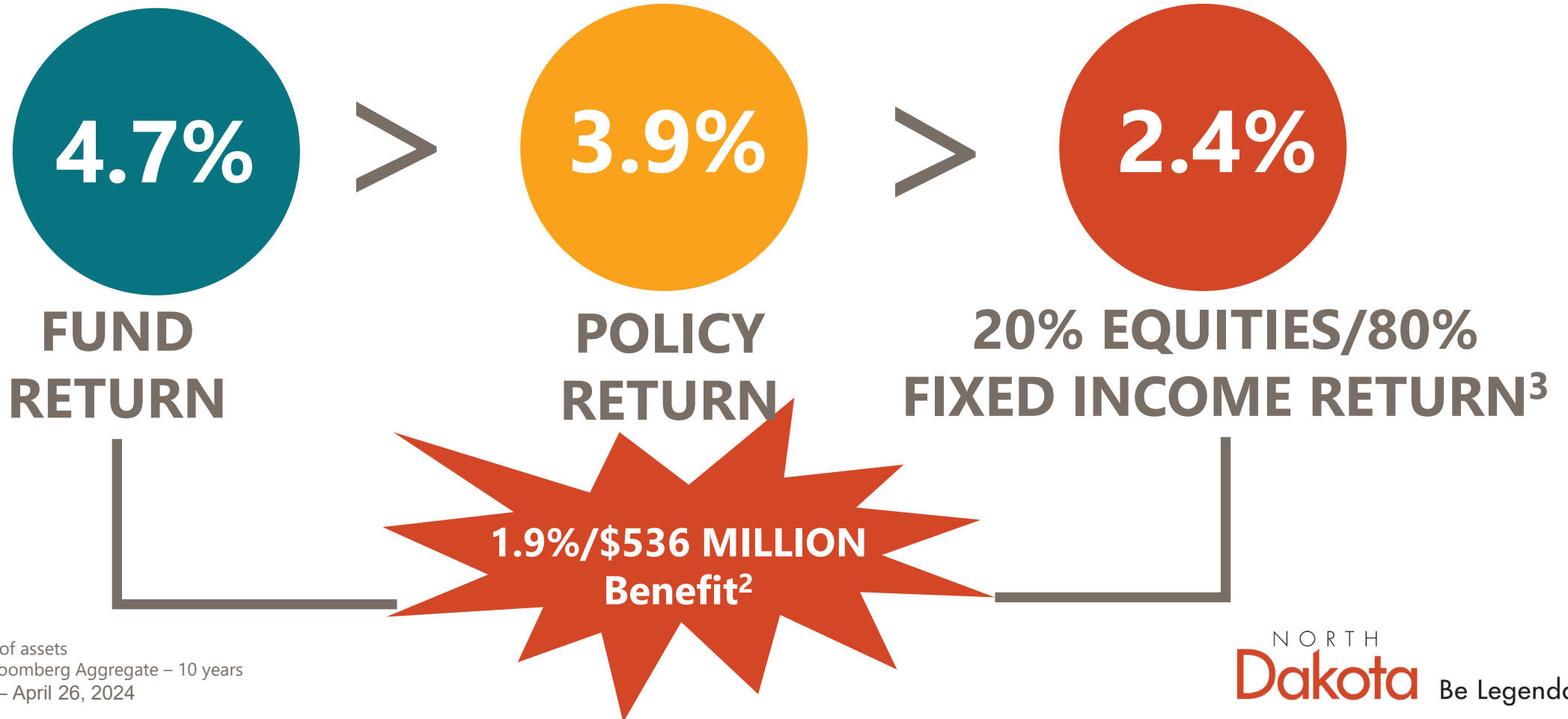
AS OF FEBRUARY 28, 2024
LEGACY \$10.3 Billion

	Year to Date	DECEMBER 31, 2024			Risk (5 Year)
		1 Year	3 year	5 Year ¹	
Total Fund Return - Net	2.4%	12.9%	3.1%	7.7%	10.7%
Policy Benchmark Return	1.6%	12.0%	2.3%	7.1%	10.5%
Total Relative Return	0.8%	0.9%	0.8%	0.6%	

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

INVESTMENT MANAGEMENT BENEFITS

WSI TEN YEAR AVERAGE RETURN¹



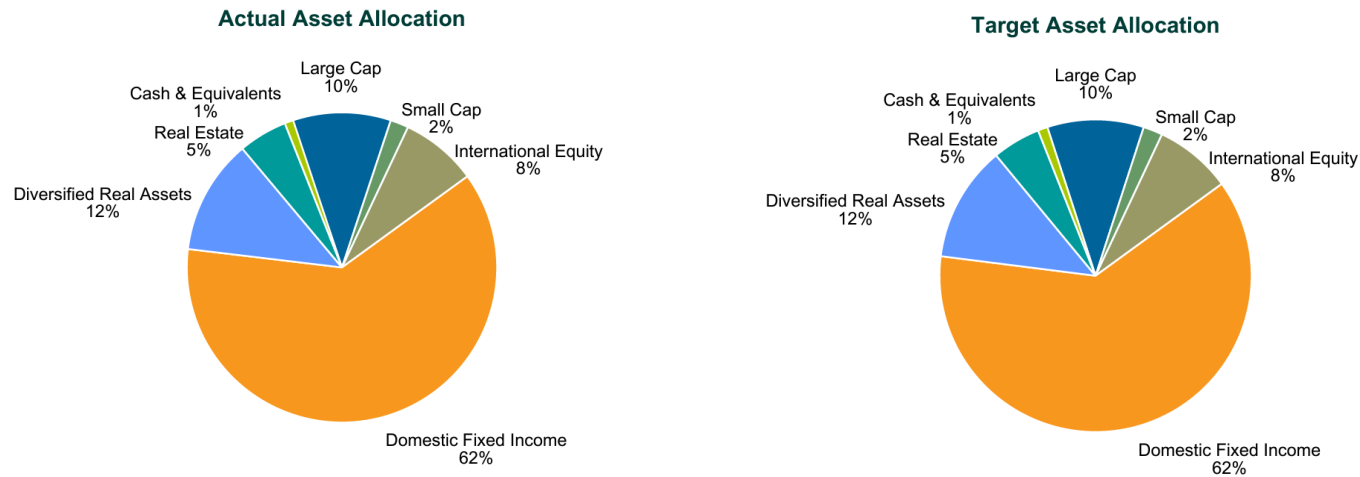
1. Thru December 2023

2. Starting with \$2.1 Billion of assets

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

Scott M Anderson, CFA – April 26, 2024

ASSET ALLOCATION



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Large Cap	217,839	10.3%	10.0%	0.3%	5,567
Small Cap	39,704	1.9%	2.0%	(0.1%)	(2,751)
International Equity	170,247	8.0%	8.0%	0.0%	429
Domestic Fixed Income	1,312,957	61.9%	62.0%	(0.1%)	(3,133)
Diversified Real Assets	254,861	12.0%	12.0%	0.0%	134
Real Estate	108,053	5.1%	5.0%	0.1%	1,917
Cash & Equivalents	19,065	0.9%	1.0%	(0.1%)	(2,162)
Total	2,122,727	100.0%	100.0%		

1. September 2023 values – Callan

PERFORMANCE – WSI

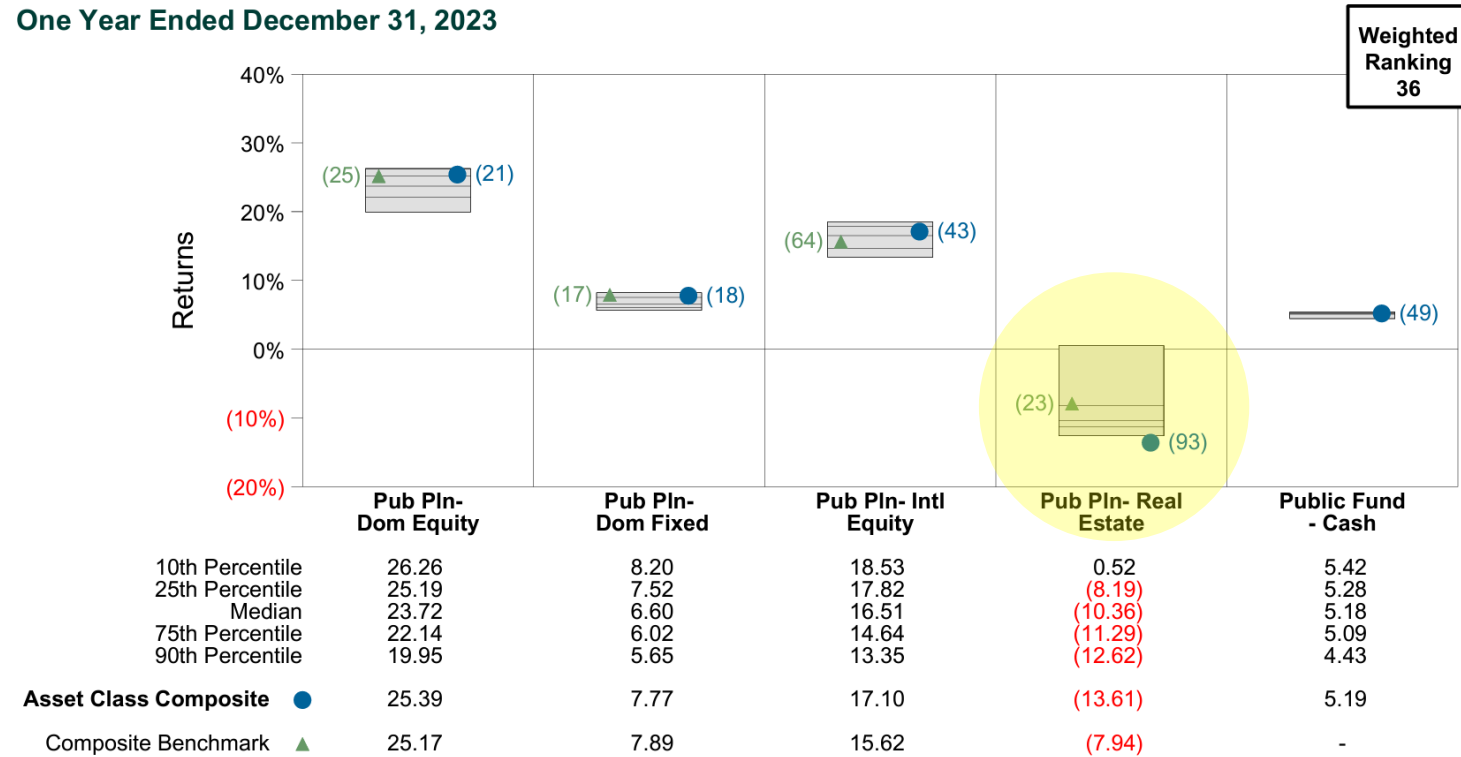
AS OF FEBRUARY 28, 2024
WSI \$2.1 Billion

	Year to Date	DECEMBER 31, 2024			Risk (5 Year)
		1 Year	3 year	5 Year ¹	
Total Fund Return - Net	0.0%	8.4%	0.1%	4.6%	7.5%
Policy Benchmark Return	-0.4%	7.3%	-0.4%	4.0%	7.0%
Total Relative Return	0.4%	1.1%	0.5%	0.6%	

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

ASSET CLASS PERFORMANCE

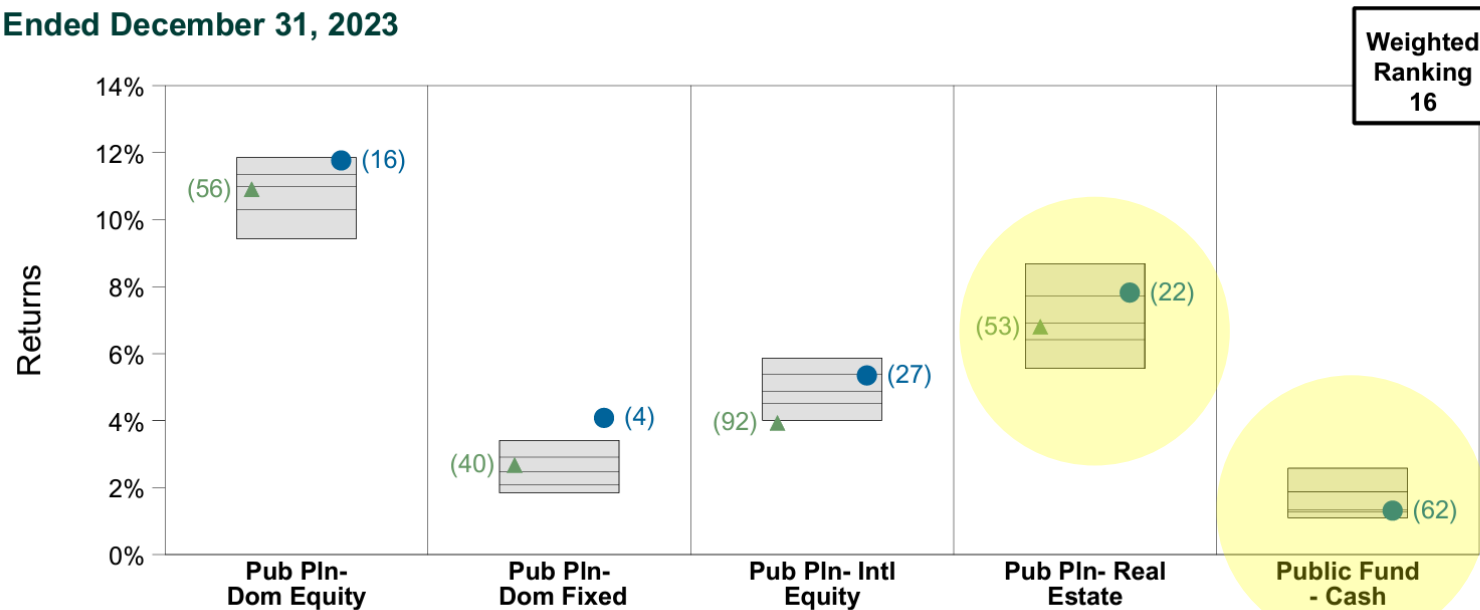
**Total Asset Class Performance
One Year Ended December 31, 2023**



1. September 2023 values – Callan

ASSET CLASS PERFORMANCE

Total Asset Class Performance Ten Years Ended December 31, 2023



	Pub Pln-Dom Equity	Pub Pln-Dom Fixed	Pub Pln- Intl Equity	Pub Pln- Real Estate	Public Fund - Cash
10th Percentile	11.85	3.41	5.87	8.69	2.58
25th Percentile	11.36	2.91	5.38	7.72	1.87
Median	10.98	2.47	4.87	6.91	1.33
75th Percentile	10.30	2.08	4.50	6.42	1.27
90th Percentile	9.43	1.85	4.01	5.55	1.10
Asset Class Composite ●	11.77	4.08	5.35	7.82	1.31
Composite Benchmark ▲	10.90	2.67	3.93	6.80	-

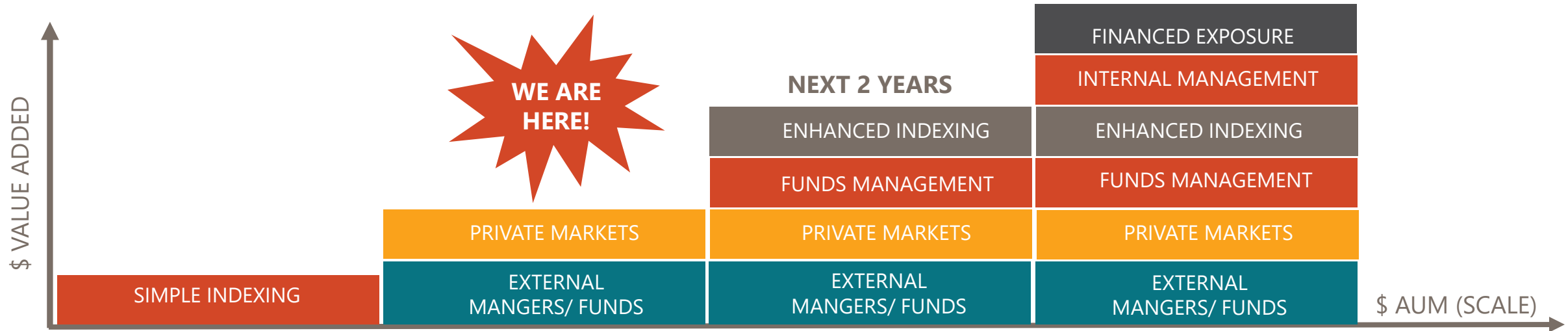
1. September 2023 values – Callan

PATHWAY TO STRATEGY

Scott M Anderson, CFA

April 26, 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

PROJECT COMPLETION GOALS

FIVE YEAR PLAN RETURNS BY POOL

FIVE YEAR RETURN/RISK

FIVE YEAR ACTIVE RETURN

FIVE YEAR ACTIVE RETURN/ACTIVE RISK

HIRE BENCHMARK CONSULTANT

HIRE INCENTIVE COMP CONSULTANT

DEVELOP DIRECT TEAM ROLES AND COMP

DEVELOP BENCHMARK MEMO

DEVELOP INCENTIVE COMP SYSTEM

APPROVE STRATEGIES BY VERTICAL

APPROVE DELEGATION OF AUTHORITY

DEVELOP IT AND DATA STRATEGY

EXPECTED RETURNS (All over five years)

0.35 SHARPE RATIO (All over five years)

0.30% (All greater than 0.4%)

0.40 (All greater than .4)

COMPLETED

COMPLETED

COMPLETED

COMPLETED

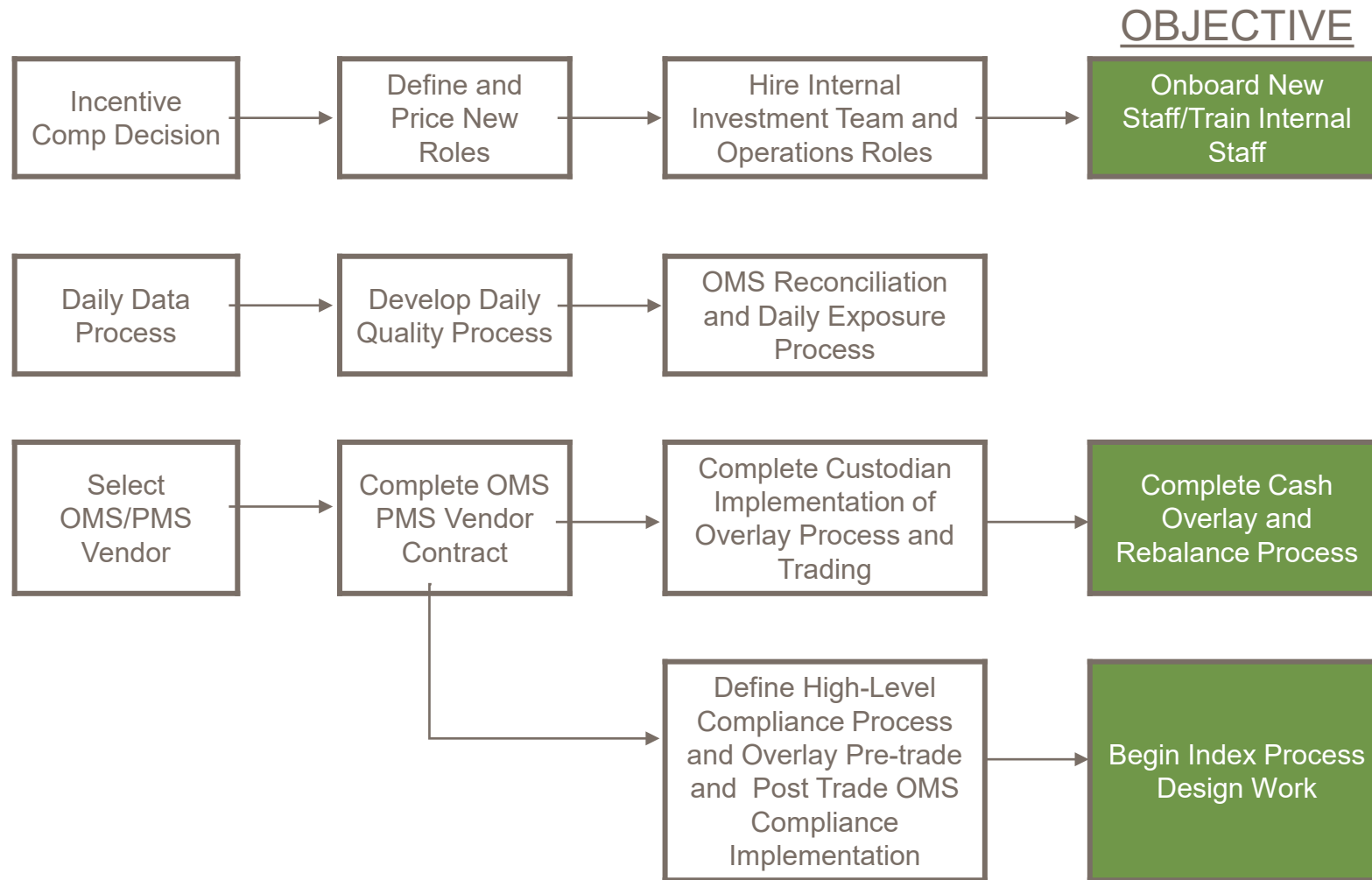
COMPLETED

COMPLETED

COMPLETED

COMPLETED

CRITICAL PATHS OF SUCCESS



INTERNAL INVESTMENT MANAGEMENT INITIATIVE

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"> ✓ Identify Investment Role Titles And Benchmark ✓ Consultant Reviews Incentive Comp Prototype ▪ Complete Daily Allocation Process Design ✓ 	<ul style="list-style-type: none"> ✓ Refine Incentive Comp Plan 1.0, ▪ Receive And Score OMS/PMS RFP Responses ✓ ▪ Select OMS/PMS Vendors For Call Back ✓ 	<ul style="list-style-type: none"> ✓ Issue Compliance Process RFP ✓ Issue Performance Consultant RFP ▪ Approve Incentive Comp 1.0 And Role Comp ✓ ✓ OMS/PMS Vendor Demonstrations ▪ Select OMS/PMS Vendor For Negotiation ✓ ✓ Complete Daily Allocation Process 	<ul style="list-style-type: none"> ▪ Select Performance RFP Consultant Finalists ▪ Select Compliance Process Finalists ▪ Define And Recruit Roles Recruit New Investment Roles ▪ New Role Long List Screening ▪ OMS/PMS Vendor Negotiation ▪ 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 ▪ Hire A Securities Lawyer And Begin FCM And ISDA Negotiations. ▪ Interview And Hire Performance Consultant ▪ Interview And Hire Compliance Consultant ▪ New Role Long List Screening ▪ Begin Compliance Process Design ▪ Sign OMS/PMS Contract ▪ Begin OMS/PMS Incremental Implementation ▪ Hire Ops Roles 	<ul style="list-style-type: none"> ▪ Approve Internal Direct Overlay And Rebalance Strategy ▪ Select And Call Back Second Round Candidates ▪ Interview Second Round Candidates ▪ First Round Interviews Of Long List Screened Candidates ▪ Implement Direct Overlay And Rebalance OMS/PMS Requirements ▪ Develop Large It Project Data Architecture ▪ Select Data Warehouse Solution ▪ Begin Compliance Process Design ▪ Complete Daily Reconciliation Design 	<ul style="list-style-type: none"> ▪ Select And Call Back Final Round Candidates ▪ Interview Final Round Candidates ▪ Complete First FCM Agreement, Continue ISDA And Master Confirm Agreements ▪ 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"> ▪ 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"> ▪ 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 ▪ Continue Recruitment ▪ Continue Data Warehouse Project ▪ Begin Data Exchange RFP 	<ul style="list-style-type: none"> ▪ Develop Tools And Data For <u>Indexing</u> ▪ Continue Legislative Outreach ▪ Complete Second FCM Agreement, Continue ISDA And Master Confirm Agreements ▪ 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 	



RISK ALLOCATION AND MANAGEMENT

COUNTRY RISK ASSESSMENT

Risk Allocation and Management Team
April 26, 2024

NORTH
Dakota
Be Legendary.

Retirement & Investment

AGENDA

- **Background**
- Country Risk Framework at RIO
- China Challenges vs. India Opportunity
- Country Risk Metrics and India Risks
- Key Takeaways

Predicting Geo-Economics Impact on Financial Markets is Challenging

- Geopolitics combines **geography, politics, and military science** in assessment of international relations.
- Geopolitics focuses on **humanity's needs more so than its wants**. Geopolitical analysts assume power-maximization. **Regime security and political self-preservation come first.**
- A geopolitical approach will **emphasize permanent or semi-permanent features, global over local variables and macro over micro variables.**
- Geopolitics can lead to very **different outcomes from region to region**; some fleeting some long term.
- Geo-economics is the inter-play between **geopolitics and economics** and of the impact of that dynamic on financial markets.
- **Traditional methods for measuring risk do not have a good correlation** with the impact of geo-economic risks on financial markets.

VARIATIONS IN QUANTITATIVE COUNTRY RISK MODELS

Each of Type of Model Brings its Own Challenges

Investments Oriented

- View country as an aggregate of economics, financial and political risk factors which assess its viability as an investment destination.

International Cooperation and Security Oriented

- View country as an aggregate of social, political, military and economic risk factors which assess its potential to upend international relationships and commerce and ultimately cause conflict.

Hybrid of Investment and International Cooperation Risks

- View country as an aggregate of investment-oriented risk factors and international-relationships oriented risk factors that gives a single overall assessment of a country.

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COUNTRY RISK FRAMEWORK AT RIO

RIO Framework Utilizes Qualitative and/or Quantitative Models from Several Sources

- Most quantitative models combine investments and international cooperation which likely results in outcomes that could be less meaningful from a market impact perspective.
- While the models generally have Political, Financial and Economic factors, there is dispersion among the factor weights in different models. Further, none of the models are particularly actionable and hard to explain. Single country risk score for each country is often counter-intuitive.
 - We obtained country risk scores from Bloomberg, Stratfor, Eurasia, PRS and GeoQuant.
 - All of them showed scores for China to be better than India even as most strategists are bearish on China while being bullish on India with the latter ranking in the bottom third or even bottom quartile of countries ranked.
- We utilize Bloomberg country risk tool “XCRA” which allows customization of risk factors to user-needs.
- NDRIO is additionally leveraging qualitative and quantitative research from the following sources:
 - GeoPoliticalFutures is oriented towards international relations, security and conflict.
 - BCA is more investment-oriented research organization and attempts to tie geopolitical and macro-economic observations into actionable insight on country risk.
 - Geopolitical risk indicators developed by Blackrock Investment Institute tie such risks to investment implications.

COUNTRY RISK ASSESSMENT

COUNTRY RISK FRAMEWORK AT RIO

From risks time horizons' perspective, we customized the model to sixteen factors and thereafter we assigned the following weights:

- Political: 50% these are perpetual risks
- Economic: 30%
- Financial: 20%
- The latter two are additionally broken down into:
 - 9% to longer term econ/political risk indicators
 - 21% to current macro-economic conditions
 - 20% to near term economic risk indicators
- Quarterly review of risk changes by RIO

Customized Bloomberg Country Risk Quantitative Model

FACTORS	WEIGHT IN GROUP	NET WT.	COMMENTS
<u>Economic</u>	100.0%	30.0%	
GDP	20.0%	6.0%	Current condition
CPI	25.0%	7.5%	Current condition
Unemployment	25.0%	7.5%	Current condition
Budget Surplus	5.0%	1.5%	Longer term economic/political risk indicator
Current Account	5.0%	1.5%	Longer term economic/political risk indicator
Currency Reserves	10.0%	3.0%	Longer term economic/political risk indicator
Total External Debt	10.0%	3.0%	Longer term economic/political risk indicator
<u>Financial</u>	100.0%	20.0%	
5-yr CDS	30.0%	6.0%	Near term economic risk indicator
Sovereign Bond Yield	30.0%	6.0%	Near term economic risk indicator
FX change forecast	30.0%	6.0%	Near term economic risk indicator
3-mo Implied Volatility	10.0%	2.0%	Near term economic risk indicator
<u>Political</u>	100.0%	50.0%	
Rule of Law	30.0%	15.0%	Perpetual risk
Regulatory Quality	10.0%	5.0%	Perpetual risk
Govt. Effectiveness	10.0%	5.0%	Perpetual risk
Corruption	20.0%	10.0%	Perpetual risk
Ease of Doing Business	30.0%	15.0%	Perpetual risk
		100.0%	

COUNTRY RISK ASSESSMENT

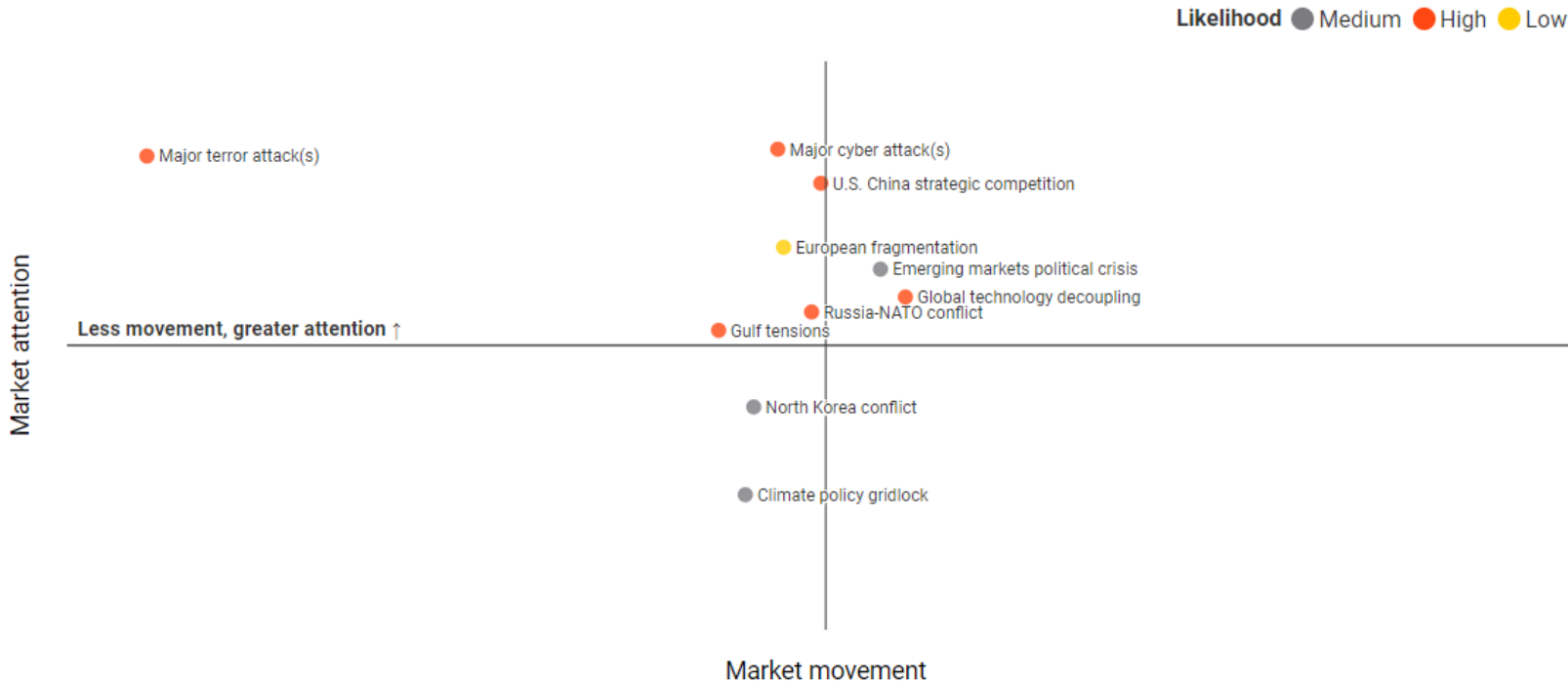
COUNTRY RISK FRAMEWORK AT RIO

Geo-political Risk Map

Risk map

Geopolitical market attention, market movement and likelihood

All



Source: BlackRock Investment Institute, January 2024

Assign highest-level rating on *Gulf tensions* given the ongoing Gaza war and signs of regional escalation. The longer and more lethal the Israeli operation, the greater the chance of escalation, expansion, and contagion. We see this risk in areas like the Red Sea, Iraq, Syria and Lebanon.

The U.S. and China have settled into a long-run, competitive posture. Both sides seek to stabilize the relationship, though any thaw would be fragile, in our view. We do not see military action in the near term but see the risk increasing. Headwinds for Chinese and Taiwanese equities and bonds.

The U.S. and China are pursuing targeted decoupling, focused especially on advanced and military-related technologies. The U.S. is executing a multi-pronged strategy to limit China's access to key technologies and know-how though some Chinese companies have demonstrated an ability to evade western export controls. Headwinds for CNY, US corporate bonds and Chinese technology companies.

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Selected BCA Research Observations on State of Chinese Government and Economy

- “China, like Russia, has reverted to **autocratic government** and lacks domestic political checks and balances. Hence the **odds of a major policy mistake are not low**. The policy mistake could be social repression, economic austerity, foreign aggression, or all three.”
- “China’s first problem is that even if China’s economy were still growing rapidly, its **growing security vulnerabilities and interests would create national security threats and fears that translate into regional insecurity**. Rising import dependency is the critical driver of insecurity.”
- “The second problem is that **property-driven growth has also peaked**, forcing China to transition into an even slower phase of growth.”
- “The **administration’s main priority is different from the past** - to prevent the property bubble from taking down the economy and to prevent the Americans from cutting off China’s access to technology”
- “**China has not rushed to provide major economic stimulus** due to funding constraints, a shrinking pool of projects, and only minor improvement in government revenues.”

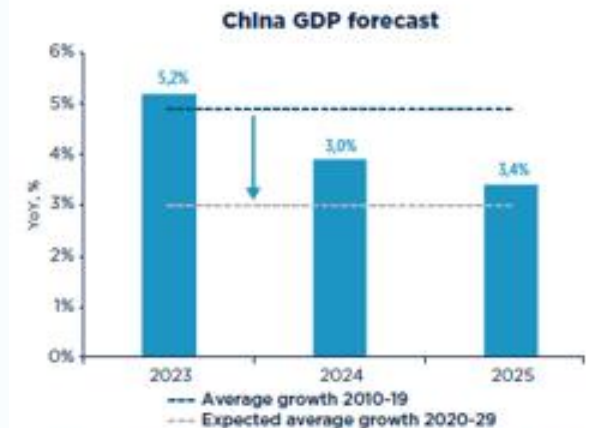
CHINA CHALLENGES VS. INDIA OPPORTUNITY

CHINA: Current Economic and Financial Challenges

- Beijing's long-term vision shifts away from a singular focus on growth and incorporates national security as well as income equality.
- This shift comes as China grapples with secular challenges including demographic ageing, diminishing capital returns, and geopolitical fragmentation.
- High debt weighing on growth in both private and household sectors along with debt deflation.
- Decline in real estate investments as home prices declined into deep recession. Developers have been hit hard.
- Consumer confidence is near record lows and consumption growth has slowed considerably.
- Declining working age population; dependency ratio near 50%. But, unemployed youth at a record high.
- US and China less dependent on each other for trade as US imports more from Mexico. Plunging FDI; declining global holdings of Chinese stocks and bonds.
- Monetary and Fiscal support is subdued.

China: a new growth trajectory

Slower growth with debt discipline



Source: Amundi Investment Institute. Data is as of 25 October 2023. Forecasts are by Amundi Investment Institute as of 24 October 2023.

COUNTRY RISK ASSESSMENT

CHINA CHALLENGES VS. INDIA OPPORTUNITY

Wealth and Pension Funds Survey

- London's Official Monetary and Financial Institutions Forum conducted survey of 100 funds with \$26 trillion in assets

Figure 2.4. India is the most attractive emerging market

What is the most attractive emerging market? Share of respondents, %



Sources: Bloomberg

Current India Advantages

- Broad based economic expansion is ongoing. Composite PMI outperforming China. Most economic metrics are continuing to improve.
- Domestic activity and consumption driving growth. Private sector credit is surging. Business sentiment near record.
- Surge in CAPEX. \$1.2t plan to improve infrastructure including \$125b in 2024 - nearly 20% of federal budget.
- The policy mix is expected to remain supportive on the fiscal side.
- Unlike China there is a growing working age population that should support continued growth.

AGENDA

- Background
- Country Risk Framework at RIO
- China Challenges vs. India Opportunity
- **Country Risk Metrics and India Risks**
- Key Takeaways

COUNTRY RISK ASSESSMENT

COUNTRY RISK METRICS

Current Quarter Scores (2023Q4) – 15 Largest Exposures

- Except for China and India, each of these country exposures is low risk per the country risk scores
 - China has a relatively poor score due to political risks, such as regulatory quality and lack of rule of law.
 - India scores relatively well economically but has a poor score due to political as well as financial risk.
 - Despite Hamas war, Israel continues to score well due to good governance, economic growth and currency reserves even as CDS doubled.

Model Weights

15%
10%
5 - 7.5%
1.5 - 3%

Country	Risk Score	FINANCIAL RISK				ECONOMIC RISK							POLITICAL RISK				
		Near Term Economic Risk Indicators				Current Condition			Longer Term Economic/Political Risk Indicator				Perpetual Risk				
		Credit & Interest Rate Risk		Foreign Exchange Risk		Economic Activity			Sovereign & Fiscal Risk		External Balance & Foreign Exposure		Government Risk			Business Environment	
		5 Year CDS	Local Sovereign Bond Index Yield	Next Period FX Forecast (%Chg)	3 Month Implied Volatility	GDP YOY%	CPI Actual	Unemployment	Budget Surplus/Deficit (% GDP)	Total External Debt (% GDP)	Current Account (% of GDP)	Currency Reserves (% GDP)	WGI Control Of Corruption	WGI Govt Effectiveness	WGI Regulatory Quality	WGI Rule Of Law	Ease Of Doing Business Rank
Australia	89.20	16.6	3.8	(1.5)	9.5	2.1	4.1	3.9	(1.8)	69.4	1.2	3.4	1.8	1.5	1.9	1.5	14
Canada	84.50	24.3	3.4	1.9	5.7	0.5	3.2	5.8	(1.2)	72.1	(0.9)	1.4	1.7	1.6	1.7	1.6	23
China	54.70	60.6	2.5	(0.6)	4.5	5.2	(0.3)	4.0	(4.7)	27.5	1.8	18.0	0.0	0.5	(0.4)	(0.0)	32
France	69.00	24.7	2.5	(0.9)	6.6	0.7	4.2	7.3	(4.8)	123.0	(1.2)	2.5	1.3	1.2	1.2	1.2	33
Germany	86.90	16.6	2.1	(0.9)	6.6	(0.2)	3.0	3.1	(2.5)	153.4	5.9	2.3	1.8	1.3	1.5	1.5	22
India	42.80	44.1	7.1	1.5	3.3	7.6	5.4	4.7	(6.4)	18.6	(1.0)	16.8	(0.3)	0.4	(0.1)	0.1	62
Ireland	85.70	24.1	2.4	(0.9)	6.6	(3.4)	3.1	4.5	1.7	71.6	12.8	2.3	1.7	1.6	1.6	1.5	24
Israel	73.80	111.6	3.9	0.1	10.0	3.3	3.3	3.1	(8.7)	40.2	4.2	40.7	0.8	1.2	1.2	1.0	35
Japan	79.70	24.7	0.6	4.3	10.3	1.5	2.9	2.4	(5.2)	216.3	2.9	7.8	1.5	1.6	1.4	1.6	30
Netherlands	77.30	13.5	2.3	(0.9)	6.6	(0.6)	0.8	3.6	(0.1)	382.9	10.1	2.6	1.9	1.6	1.7	1.7	42
Sweden	88.00	15.8	2.2	(0.5)	11.1	(1.4)	5.6	8.2	1.1	44.0	6.7	9.3	2.1	1.6	1.7	1.7	10
Switzerland	96.40	9.8	0.7	(2.2)	7.8	0.4	1.6	2.2	0.8	20.9	8.3	91.3	2.0	2.1	1.6	1.8	36
Taiwan	92.80	30.8	1.3	(0.0)	8.8	5.1	2.9	3.4	1.3	27.3	12.4	75.4	1.2	1.4	1.4	1.3	15
United Kingdom	82.10	35.6	3.8	(0.8)	7.2	0.3	4.2	4.3	(5.5)	195.4	(2.0)	4.7	1.6	1.2	1.6	1.4	8
United States	83.30	46.4	4.1	1.6	6.6	3.1	3.2	3.8	(6.5)	73.4	(3.1)	0.8	1.1	1.3	1.4	1.4	6
Median (83 Countries)	50.00	63.6	3.4	(0.4)	6.6	1.9	4.4	5.3	(3.4)	57.9	(0.0)	10.1	0.2	0.5	0.5	0.4	52
Average (83 Countries)	49.95	399.6	5.3	0.5	8.0	1.8	14.0	6.3	(3.0)	78.1	1.5	16.7	0.4	0.5	0.5	0.4	56
Std. Dev. (83 Countries)	28.52	989.4	5.1	5.3	4.5	4.3	47.0	4.7	5.2	66.5	5.5	19.8	1.0	0.9	0.9	0.9	40

COUNTRY RISK ASSESSMENT

COUNTRY RISK METRICS

Q/Q Changes (2023Q4 vs. 2023Q3) – 15 Largest Exposures

Model Weights

5 - 7.5%

1.5 - 3%

- Q/Q, political risk factors (50% weights in the score) only change once a year so for this analysis, those are excluded.
- Sovereign bond yields moved to lower risk across the board as inflation started to decline in most countries.
- India worsened relative to other countries as external debt worsened and bond yields decline was muted; that said more recent data points to improving economy.
- Japan improved with lower budget deficit, inflation and unemployment as currency reserves improved.
- China showed improvements as GDP growth was higher, external debt diminished and CNY strengthened in Q4.

Country	Risk Score			Financial Risk												Economic Risk																				
				Near Term Economic Risk Indicators												Current Condition						Longer Term Economic/Political Risk Indicator														
				Credit & Interest Rate Risk						Foreign Exchange Risk						Economic Activity						Sovereign & Fiscal Risk						External Balance & Foreign Exposure								
				5 Year CDS			Local Sovereign Bond Index Yield			Next Period FX Forecast (%Chg)			3 Month Implied Volatility			GDP YOY%			CPI Actual			Unemployment			Budget Surplus/Deficit (%)			Total External Debt (% GDP)			Current Account (% of GDP)			Currency Reserves (% GDP)		
				Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ
Australia	89.2	89.2	0.0	16.6	23.6	-7.0	3.8	4.3	-0.5	(1.5)	(4.3)	+2.9	9.5	9.8	-0.3	2.1	2.1	0.0	4.1	5.4	-1.3	3.9	3.6	+0.3	(1.8)	(1.8)	0.0	69.4	69.4	0.0	1.2	1.2	0.0	3.4	3.0	+0.3
Canada	84.5	84.5	0.0	24.3	29.0	-4.7	3.4	4.4	-1.0	1.9	1.5	+0.4	5.7	5.8	-0.1	0.5	0.5	0.0	3.2	3.7	-0.5	5.8	5.5	+0.3	(1.2)	(3.2)	+2.0	72.1	72.1	0.0	(0.9)	(0.9)	0.0	1.4	1.3	+0.1
China	54.7	53.5	+1.2	60.6	82.7	-22.0	2.5	2.6	-0.1	(0.6)	4.9	-5.5	4.5	5.3	-0.8	5.2	4.9	+0.3	(0.3)	(0.1)	-0.3	4.0	4.0	0.0	(4.7)	(4.7)	0.0	27.5	31.0	-3.5	1.8	1.8	0.0	18.0	17.4	+0.5
France	69.0	70.2	-1.2	24.7	27.0	-2.3	2.5	3.4	-0.9	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	0.7	0.6	+0.1	4.2	5.5	-1.3	7.3	7.3	0.0	(4.8)	(4.8)	0.0	123.0	123.0	0.0	(1.2)	(1.6)	+0.4	2.5	2.5	-0.0
Germany	86.9	88.0	-1.1	16.6	22.4	-5.8	2.1	2.9	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	(0.2)	(0.3)	+0.1	3.0	5.7	-2.7	3.1	3.1	0.0	(2.5)	(2.5)	0.0	153.4	170.0	-16.6	5.9	5.7	+0.2	2.3	2.2	+0.1
India	42.8	45.2	-2.4	44.1	72.6	-28.5	7.1	7.2	-0.1	1.5	0.6	+0.8	3.3	3.9	-0.6	7.6	7.6	0.0	5.4	6.4	-1.1	4.7	4.8	-0.2	(6.4)	(6.4)	0.0	18.6	17.9	+0.7	(1.0)	(1.0)	0.0	16.8	15.9	+0.9
Ireland	85.7	85.7	0.0	24.1	24.4	-0.2	2.4	3.3	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	(3.4)	(5.8)	+2.4	3.1	4.9	-1.7	4.5	4.7	-0.2	1.7	1.7	0.0	71.6	71.6	0.0	12.8	12.8	0.0	2.3	2.2	+0.1
Israel	73.8	72.6	+1.2	111.6	55.7	+56.0	3.9	4.4	-0.5	0.1	3.5	-3.3	10.0	10.0	+0.1	3.3	3.3	0.0	3.3	3.7	-0.4	3.1	3.2	-0.1	(8.7)	(1.1)	-7.6	40.2	38.8	+1.4	4.2	4.2	0.0	40.7	39.4	+1.2
Japan	79.7	75.0	+4.7	24.7	26.5	-1.8	0.6	0.7	-0.1	4.3	8.4	-4.0	10.3	9.3	+1.0	1.5	1.5	0.0	2.9	3.2	-0.3	2.4	2.6	-0.2	(5.2)	(5.8)	+0.6	216.3	216.3	0.0	2.9	2.9	0.0	7.8	7.4	+0.3
Netherlands	77.3	80.9	-3.6	13.5	13.1	+0.4	2.3	3.1	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	(0.6)	(0.6)	0.0	0.8	2.6	-1.8	3.6	3.7	-0.1	(0.1)	(0.1)	0.0	382.9	382.9	0.0	10.1	10.1	0.0	2.6	2.6	-0.0
Sweden	88.0	86.9	+1.1	15.8	15.1	+0.8	2.2	3.1	-0.9	(0.5)	5.5	-5.9	11.1	11.2	-0.1	(1.4)	(1.4)	0.0	5.6	7.7	-2.2	8.2	8.1	+0.1	1.1	1.1	0.0	44.0	44.0	0.0	6.7	6.7	0.0	9.3	8.9	+0.4
Switzerland	96.4	96.4	0.0	9.8	9.4	+0.4	0.7	1.1	-0.4	(2.2)	0.6	-2.8	7.8	7.4	+0.5	0.4	0.4	0.0	1.6	1.6	-0.0	2.2	2.1	+0.1	0.8	1.2	-0.4	20.9	20.9	0.0	8.3	8.3	0.0	91.3	86.8	+4.5
Taiwan	92.8	91.6	+1.2	30.8	41.2	-10.4	1.3	1.3	-0.0	(0.0)	4.0	-4.0	8.8	5.2	+3.6	5.1	2.3	+2.8	2.9	2.5	+0.4	3.4	3.4	-0.0	1.3	1.3	0.0	27.3	27.4	-0.1	12.4	12.4	0.0	75.4	76.3	-0.9
United Kingdom	82.1	83.3	-1.2	35.6	30.1	+5.5	3.8	4.6	-0.8	(0.8)	(1.6)	+0.8	7.2	8.0	-0.8	0.3	0.3	0.0	4.2	6.7	-2.6	4.3	4.3	0.0	(5.5)	(5.5)	0.0	195.4	195.4	0.0	(2.0)	(2.0)	0.0	4.7	4.5	+0.2
United States	83.3	82.1	+1.2	46.4	47.6	-1.2	4.1	4.9	-0.8	1.6	2.7	-1.1	6.6	7.1	-0.5	3.1	2.9	+0.2	3.2	3.5	-0.3	3.8	3.7	+0.1	(6.5)	(6.3)	-0.2	73.4	73.4	0.0	(3.1)	(3.1)	0.0	0.8	0.8	+0.0
Median (83 Countries)	50.0	50.0	0.0	63.6	72.6	-7.2	3.4	4.2	-0.7	(0.4)	0.8	+0.8	6.6	7.1	-0.5	1.9	1.6	0.0	4.4	5.6	-1.1	5.3	5.3	0.0	(3.4)	(3.1)	0.0	57.9	60.4	0.0	(0.0)	(0.0)	0.0	10.1	9.5	+0.1
Average (83 Countries)	50.0	50.0	0.0	399.6	408.8	-21.5	5.3	5.8	-0.6	0.5	0.8	-0.4	8.0	8.5	-0.3	1.8	1.6	+0.1	14.0	12.1	+1.5	6.3	6.4	-0.0	(3.0)	(2.4)	-0.2	78.1	83.4	-0.4	1.5	1.7	+0.0	16.7	16.2	+0.5
Std. Dev. (83 Countries)	28.5	28.5	+0.0	989.4	979.0	+10.3	5.1	5.0	+0.1	5.4	6.1	-0.7	4.5	4.9	-0.5	4.3	4.3	+0.0	47.0	28.3	+18.7	4.7	4.7	-0.0	5.2	4.7	+0.4	66.5	69.1	-2.6	5.5	5.6	-0.1	19.8	19.4	+0.4

COUNTRY RISK ASSESSMENT

COUNTRY RISK METRICS

Current Quarter Scores (2023Q4) – Developed Markets

Model Weights

15%
10%
5 - 7.5%
1.5 - 3%

Country	Risk Score	FINANCIAL RISK				ECONOMIC RISK						POLITICAL RISK					
		Near Term Economic Risk Indicators				Current Condition			Longer Term Economic/Political Risk Indicator			Perpetual Risk					
		Credit & Interest Rate Risk		Foreign Exchange Risk		Economic Activity			Sovereign & Fiscal Risk		External Balance & Foreign Exposure		Government Risk			Business Environment	
		5 Year CDS	Local Sovereign Bond Index Yield	Next Period FX Forecast (%Chg)	3 Month Implied Volatility	GDP YOY%	CPI Actual	Unemployment	Budget Surplus/Deficit (%GDP)	Total External Debt (% GDP)	Current Account (% of GDP)	Currency Reserves (% GDP)	WGI Control Of Corruption	WGI Govt Effectiveness	WGI Regulatory Quality	WGI Rule Of Law	Ease Of Doing Business Rank
Australia	89.20	16.6	3.8	(1.5)	9.5	2.1	4.1	3.9	(1.8)	69.4	1.2	3.4	1.8	1.5	1.9	1.5	14
Austria	78.50	16.3	2.5	(0.9)	6.6	(1.8)	5.4	5.6	(3.5)	99.9	2.1	2.5	1.3	1.5	1.3	1.7	27
Belgium	72.60	22.4	2.6	(0.9)	6.6	1.6	0.8	5.7	(3.5)	119.4	(0.5)	4.2	1.5	1.2	1.3	1.4	46
Canada	84.50	24.3	3.4	1.9	5.7	0.5	3.2	5.8	(1.2)	72.1	(0.9)	1.4	1.7	1.6	1.7	1.6	23
Denmark	97.60	12.1	2.3	(1.2)	6.8	(0.3)	0.5	5.0	3.3	-	10.9	27.3	2.4	2.0	1.8	1.9	4
Finland	90.40	22.7	2.5	(0.9)	6.6	(1.0)	7.2	7.5	(0.8)	-	(1.1)	4.6	2.3	1.8	1.8	2.0	20
France	69.00	24.7	2.5	(0.9)	6.6	0.7	4.2	7.3	(4.8)	123.0	(1.2)	2.5	1.3	1.2	1.2	1.2	33
Germany	86.90	16.6	2.1	(0.9)	6.6	(0.2)	3.0	3.1	(2.5)	153.4	5.9	2.3	1.8	1.3	1.5	1.5	22
Greece	36.90	67.5	2.9	(0.9)	6.6	1.8	3.5	9.2	(2.4)	252.3	-	2.5	0.0	0.5	0.5	0.3	79
Hong Kong	95.20	30.8	3.4	(0.3)	1.1	4.3	2.6	2.9	(4.8)	-	8.5	106.1	1.6	1.6	1.6	1.3	3
Ireland	85.70	24.1	2.4	(0.9)	6.6	(3.4)	3.1	4.5	1.7	71.6	12.8	2.3	1.7	1.6	1.6	1.5	24
Israel	73.80	111.6	3.9	0.1	10.0	3.3	3.3	3.1	(8.7)	40.2	4.2	40.7	0.8	1.2	1.2	1.0	35
Italy	46.40	76.7	3.3	(0.9)	6.6	0.5	1.0	7.2	(8.0)	-	(0.0)	3.9	0.5	0.5	0.5	0.3	58
Japan	79.70	24.7	0.6	4.3	10.3	1.5	2.9	2.4	(5.2)	216.3	2.9	7.8	1.5	1.6	1.4	1.6	30
Netherlands	77.30	13.5	2.3	(0.9)	6.6	(0.6)	0.8	3.6	(0.1)	382.9	10.1	2.6	1.9	1.6	1.7	1.7	42
New Zealand	91.60	15.3	4.4	(1.6)	-	(1.5)	4.7	4.0	(2.8)	46.3	(7.6)	6.3	2.2	1.3	1.9	1.7	1
Norway	94.00	12.9	3.4	4.4	9.5	(1.5)	4.5	3.5	26.0	-	19.6	18.0	2.1	1.9	1.5	1.8	9
Portugal	65.40	42.4	2.5	(0.9)	6.6	2.2	2.4	6.6	(0.3)	-	1.6	3.5	0.7	1.0	0.8	1.1	39
Singapore	98.80	30.9	0.7	0.4	4.7	1.1	4.0	2.0	(1.6)	153.4	18.0	68.5	2.1	2.1	2.2	1.8	2
Spain	59.50	44.6	2.9	(0.9)	6.6	2.0	3.4	11.7	(4.7)	141.2	2.5	5.1	0.7	0.9	0.8	0.8	31
Sweden	88.00	15.8	2.2	(0.5)	11.1	(1.4)	5.6	8.2	1.1	44.0	6.7	9.3	2.1	1.6	1.7	1.7	10
Switzerland	96.40	9.8	0.7	(2.2)	7.8	0.4	1.6	2.2	0.8	20.9	8.3	91.3	2.0	2.1	1.6	1.8	36
United Kingdom	82.10	35.6	3.8	(0.8)	7.2	0.3	4.2	4.3	(5.5)	195.4	(2.0)	4.7	1.6	1.2	1.6	1.4	8
United States	83.30	46.4	4.1	1.6	6.6	3.1	3.2	3.8	(6.5)	73.4	(3.1)	0.8	1.1	1.3	1.4	1.4	6
Median (83 Countries)	50.00	63.6	3.4	(0.4)	6.6	1.9	4.4	5.3	(3.4)	57.9	(0.0)	10.1	0.2	0.5	0.5	0.4	52
Average (83 Countries)	49.95	399.6	5.3	0.5	8.0	1.8	14.0	6.3	(3.0)	78.1	1.5	16.7	0.4	0.5	0.5	0.4	56
Std. Dev. (83 Countries)	28.52	989.4	5.1	5.3	4.5	4.3	47.0	4.7	5.2	66.5	5.5	19.8	1.0	0.9	0.9	0.9	40

- Low political risk a characteristic of developed countries.
- But, many of the erstwhile PIGS countries; namely Greece, Italy and Spain continue to show higher risks.
- Netherlands continues to carry a large external debt that has been decreasing.
- New Zealand current account deficit worsened with COVID but is recovering with recovery in tourism.

COUNTRY RISK ASSESSMENT

COUNTRY RISK METRICS

Q/Q Changes (2023Q4 vs. 2023Q3) – Developed Markets

Model Weights

5 - 7.5%

1.5 - 3%

- Overall scores worsened in most countries due to higher unemployment and weakening currencies.
- Sovereign bond yields moved to lower risk across the board as inflation started to decline in most countries.
- Portugal relative score worsened due to currency and unemployment even as most metrics showed improvement.

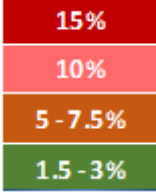
Country	Risk Score			Financial Risk												Economic Risk																						
				Near Term Economic Risk Indicators									Current Condition						Longer Term Economic/Political Risk Indicator																			
				Credit & Interest Rate Risk			Foreign Exchange Risk			Economic Activity						Sovereign & Fiscal Risk			External Balance & Foreign Exposure																			
				5 Year CDS		Local Sovereign Bond Index Yield	Next Period FX Forecast (%Chg)		3 Month Implied Volatility		GDP YOY%			CPI Actual			Unemployment			Budget Surplus/Deficit (%)			Total External Debt (% GDP)			Current Account (% of GDP)			Currency Reserves (% GDP)									
Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ
Australia	89.2	89.2	0.0	16.6	23.6	-7.0	3.8	4.3	-0.5	(1.5)	(4.3)	+2.9	9.5	9.8	-0.3	2.1	2.1	0.0	4.1	5.4	-1.3	3.9	3.6	+0.3	(1.8)	(1.8)	0.0	69.4	69.4	0.0	1.2	1.2	0.0	3.4	3.0	+0.3		
Austria	78.5	79.7	-1.2	16.3	13.6	+2.7	2.5	3.4	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	(1.8)	(1.8)	0.0	5.4	6.9	-1.4	5.6	5.5	+0.1	(3.5)	(3.5)	0.0	99.9	99.9	0.0	2.1	2.1	0.0	2.5	2.7	-0.1		
Belgium	72.6	73.8	-1.2	22.4	22.0	+0.4	2.6	3.4	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	1.6	1.4	+0.2	0.8	3.5	-2.7	5.7	5.4	+0.3	(3.5)	(3.5)	0.0	119.4	119.4	0.0	(0.5)	(0.5)	0.0	4.2	4.0	+0.1		
Canada	84.5	84.5	0.0	24.3	29.0	-4.7	3.4	4.4	-1.0	1.9	1.5	+0.4	5.7	5.8	-0.1	0.5	0.5	0.0	3.2	3.7	-0.5	5.8	5.5	+0.3	(1.2)	(3.2)	+2.0	72.1	72.1	0.0	(0.9)	(0.9)	0.0	1.4	1.3	+0.1		
Denmark	97.6	97.6	0.0	12.1	12.4	-0.3	2.3	3.1	-0.9	(1.2)	1.0	-2.2	6.8	7.3	-0.4	(0.3)	(0.3)	0.0	0.5	2.1	-1.7	5.0	4.7	+0.3	3.3	3.3	0.0	-	-	0.0	10.9	10.9	0.0	27.3	24.9	+2.4		
Finland	90.4	90.4	0.0	22.7	19.8	+2.8	2.5	3.3	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	(1.0)	(1.0)	0.0	7.2	7.2	0.0	7.5	7.4	+0.1	(0.8)	(0.8)	0.0	-	-	0.0	(1.1)	(1.1)	0.0	4.6	4.6	+0.1		
France	69.0	70.2	-1.2	24.7	27.0	-2.3	2.5	3.4	-0.9	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	0.7	0.6	+0.1	4.2	5.5	-1.3	7.3	7.3	0.0	(4.8)	(4.8)	0.0	123.0	123.0	0.0	(1.2)	(1.6)	+0.4	2.5	2.5	-0.0		
Germany	86.9	88.0	-1.1	16.6	22.4	-5.8	2.1	2.9	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	(0.2)	(0.3)	+0.1	3.0	5.7	-2.7	3.1	3.1	0.0	(2.5)	(2.5)	0.0	153.4	170.0	-16.6	5.9	5.7	+0.2	2.3	2.2	+0.1		
Greece	36.9	35.7	+1.2	67.5	86.9	-19.5	2.9	4.1	-1.2	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	1.8	1.8	0.0	3.5	3.1	+0.3	9.2	10.2	-1.0	(2.4)	(2.4)	0.0	252.3	252.3	0.0	-	-	0.0	2.5	2.2	+0.3		
Hong Kong	95.2	95.2	0.0	30.8	41.2	-10.4	3.4	4.2	-0.8	(0.3)	0.3	-0.6	1.1	1.0	+0.2	4.3	4.1	+0.2	2.6	1.9	+0.7	2.9	2.8	+0.1	(4.8)	(4.8)	0.0	-	-	0.0	8.5	8.5	0.0	106.1	106.1	0.0		
Ireland	85.7	85.7	0.0	24.1	24.4	-0.2	2.4	3.3	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	(3.4)	(5.8)	+2.4	3.1	4.9	-1.7	4.5	4.7	-0.2	1.7	1.7	0.0	71.6	71.6	0.0	12.8	12.8	0.0	2.3	2.2	+0.1		
Israel	73.8	72.6	+1.2	111.6	55.7	+56.0	3.9	4.4	-0.5	0.1	3.5	-3.3	10.0	10.0	+0.1	3.3	3.3	0.0	3.3	3.7	-0.4	3.1	3.2	-0.1	(8.7)	(1.1)	-7.6	40.2	38.8	+1.4	4.2	4.2	0.0	40.7	39.4	+1.2		
Italy	46.4	47.6	-1.2	76.7	106.1	-29.4	3.3	4.4	-1.0	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	0.5	0.1	+0.4	1.0	5.8	-4.8	7.2	7.5	-0.3	(8.0)	(8.0)	0.0	-	-	0.0	(0.0)	(0.0)	0.0	3.9	3.8	+0.2		
Japan	79.7	75.0	+4.7	24.7	26.5	-1.8	0.6	0.7	-0.1	4.3	8.4	-4.0	10.3	9.3	+1.0	1.5	1.5	0.0	2.9	3.2	-0.3	2.4	2.6	-0.2	(5.2)	(5.8)	+0.6	216.3	216.3	0.0	2.9	2.9	0.0	7.8	7.4	+0.3		
Netherlands	77.3	80.9	-3.6	13.5	13.1	+0.4	2.3	3.1	-0.8	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	(0.6)	(0.6)	0.0	0.8	2.6	-1.8	3.6	3.7	-0.1	(0.1)	(0.1)	0.0	382.9	382.9	0.0	10.1	10.1	0.0	2.6	2.6	-0.0		
New Zealand	91.6	92.8	-1.2	15.3	21.4	-6.1	4.4	5.5	-1.0	(1.6)	(4.0)	+2.4	-	-	-	(1.5)	(1.5)	0.0	4.7	5.6	-0.9	4.0	3.9	+0.1	(2.8)	(2.8)	0.0	46.3	46.3	0.0	(7.6)	(7.6)	0.0	6.3	6.9	-0.6		
Norway	94.0	94.0	0.0	12.9	12.9	-0.1	3.4	4.1	-0.7	4.4	1.2	+3.3	9.5	8.5	+1.0	(1.5)	(1.5)	0.0	4.5	4.5	+0.0	3.5	3.5	0.0	26.0	26.0	0.0	-	-	0.0	19.6	19.6	0.0	18.0	17.7	+0.4		
Portugal	65.4	69.0	-3.6	42.4	49.8	-7.4	2.5	3.4	-0.9	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	2.2	1.9	+0.3	2.4	4.8	-2.4	6.6	6.6	0.0	(0.3)	(0.3)	0.0	-	-	0.0	1.6	1.6	0.0	3.5	3.4	+0.1		
Singapore	98.8	98.8	0.0	30.9	29.8	+1.0	0.7	0.7	0.0	0.4	1.9	-1.5	4.7	4.7	0.0	1.1	1.1	0.0	4.0	4.1	-0.1	2.0	2.0	0.0	(1.6)	(1.6)	0.0	153.4	153.4	0.0	18.0	18.0	0.0	68.5	68.5	0.0		
Spain	59.5	60.7	-1.2	44.6	52.4	-7.7	2.9	3.7	-0.9	(0.9)	(3.6)	+2.7	6.6	7.1	-0.5	2.0	1.9	+0.1	3.4	2.6	+0.8	11.7	11.9	-0.2	(4.7)	(4.7)	0.0	141.2	141.2	0.0	2.5	2.5	+0.0	5.1	5.3	-0.2		
Sweden	88.0	86.9	+1.1	15.8	15.1	+0.8	2.2	3.1	-0.9	(0.5)	5.5	-5.9	11.1	11.2	-0.1	(1.4)	(1.4)	0.0	5.6	7.7	-2.2	8.2	8.1	+0.1	1.1	1.1	0.0	44.0	44.0	0.0	6.7	6.7	0.0	9.3	8.9	+0.4		
Switzerland	96.4	96.4	0.0	9.8	9.4	+0.4	0.7	1.1	-0.4	(2.2)	0.6	-2.8	7.8	7.4	+0.5	0.4	0.4	0.0	1.6	1.6	-0.0	2.2	2.1	+0.1	0.8	1.2	-0.4	20.9	20.9	0.0	8.3	8.3	0.0	91.3	86.8	+4.5		
United Kingdom	82.1	83.3	-1.2	35.6	30.1	+5.5	3.8	4.6	-0.8	(0.8)	(1.6)	+0.8	7.2	8.0	-0.8	0.3	0.3	0.0	4.2	6.7	-2.6	4.3	4.3	0.0	(5.5)	(5.5)	0.0	195.4	195.4	0.0	(2.0)	(2.0)	0.0	4.7	4.5	+0.2		
United States	83.3	82.1	+1.2	46.4	47.6	-1.2	4.1	4.9	-0.8	1.6	2.7	-1.1	6.6	7.1	-0.5	3.1	2.9	+0.2	3.2	3.5	-0.3	3.8	3.7	+0.1	(6.5)	(6.3)	-0.2	73.4	73.4	0.0	(3.1)	(3.1)	0.0	0.8	0.8	+0.0		
Median (83 Countries)	50.0	50.0	0.0	63.6	72.6	-7.2	3.4	4.2	-0.7	(0.4)	0.8	+0.8	6.6	7.1	-0.5	1.9	1.6	0.0	4.4	5.6	-1.1	5.3	5.3	0.0	(3.4)	(3.1)	0.0	57.9	60.4	0.0	(0.0)	(0.0)	0.0	10.1	9.5	+0.1		
Average (83 Countries)	50.0	50.0	0.0	399.6	408.8	-21.5	5.3	5.8	-0.6	0.5	0.8	-0.4	8.0	8.5	-0.3	1.8	1.6	+0.1	14.0	12.1	+1.5	6.3	6.4	-0.0	(3.0)	(2.4)	-0.2	78.1	83.4	-0.4	1.5	1.7	+0.0	16.7	16.2	+0.5		
Std. Dev. (83 Countries)	28.5	28.5	+0.0	989.4	979.0	+10.3	5.1	5.0	+0.1	5.4	6.1	-0.7	4.5	4.9	-0.5	4.3	4.3	+0.0	47.0	28.3	+18.7	4.7	4.7	-0.0	5.2	4.7	+0.4	66.5	69.1	-2.6	5.5	5.6	-0.1	19.8	19.4	+0.4		

COUNTRY RISK ASSESSMENT

COUNTRY RISK METRICS

Current Quarter Scores (2023Q4) – Emerging Markets

Model Weights



Country	Risk Score	FINANCIAL RISK				ECONOMIC RISK							POLITICAL RISK				
		Near Term Economic Risk Indicators				Current Condition			Longer Term Economic/Political Risk Indicator				Perpetual Risk				
		Credit & Interest Rate Risk		Foreign Exchange Risk		Economic Activity			Sovereign & Fiscal Risk		External Balance & Foreign Exposure		Government Risk			Business Environment	
		5 Year CDS	Local Sovereign Bond Index Yield	Next Period FX Forecast (%Chg)	3 Month Implied Volatility	GDP YOY%	CPI Actual	Unemployment	Budget Surplus/Deficit (% GDP)	Total External Debt (% GDP)	Current Account (% of GDP)	Currency Reserves (% GDP)	WGI Control Of Corruption	WGI Govt Effectiveness	WGI Regulatory Quality	WGI Rule Of Law	Ease Of Doing Business Rank
Argentina	2.30	1,455.8	-	37.9	13.2	(1.0)	225.4	5.7	(4.7)	42.9	(2.3)	0.8	(0.5)	(0.3)	(0.7)	(0.5)	126
Brazil	15.40	132.4	-	(0.0)	13.0	2.0	4.7	7.4	(8.9)	100.6	(1.6)	15.9	(0.6)	(0.6)	(0.2)	(0.3)	124
Chile	48.80	50.1	6.8	2.9	15.7	0.7	4.6	8.5	-	65.1	(3.4)	13.7	1.0	0.6	1.0	0.7	59
China	54.70	60.6	2.5	(0.6)	4.5	5.2	(0.3)	4.0	(4.7)	27.5	1.8	18.0	0.0	0.5	(0.4)	(0.0)	32
Colombia	23.80	157.2	9.6	(1.9)	16.6	(0.3)	10.0	10.0	(3.6)	90.4	(3.4)	15.3	(0.4)	0.0	0.1	(0.4)	67
Czech Republic	67.80	33.0	3.9	1.1	8.9	(0.2)	7.6	2.8	(3.2)	-	(4.2)	45.5	0.7	1.1	1.4	1.1	41
Hungary	45.20	140.2	5.8	(2.5)	11.9	-	7.8	4.2	(6.2)	96.1	-	18.7	(0.1)	0.5	0.4	0.4	52
India	42.80	44.1	7.1	1.5	3.3	7.6	5.4	4.7	(6.4)	18.6	(1.0)	16.8	(0.3)	0.4	(0.1)	0.1	62
Indonesia	35.70	72.0	6.6	2.5	7.2	5.0	2.7	5.3	(3.7)	42.9	0.3	10.2	(0.4)	0.4	0.2	(0.2)	73
Malaysia	66.60	41.9	-	1.1	6.3	3.4	1.6	3.3	(6.4)	62.0	2.8	28.1	0.3	1.0	0.6	0.6	12
Mexico	28.50	88.5	-	(0.4)	11.7	2.4	4.4	2.8	(3.6)	-	(1.0)	3.1	(1.0)	(0.3)	(0.2)	(0.9)	60
Morocco	34.50	-	3.4	-	4.0	2.8	6.3	13.5	(4.3)	46.0	(2.6)	26.6	(0.4)	(0.1)	(0.1)	(0.2)	53
Nigeria	4.70	556.2	15.0	1.9	-	2.5	28.1	3.6	(2.7)	2.0	0.6	0.0	(1.1)	(1.0)	(1.2)	(0.9)	131
Pakistan	3.50	3,309.0	15.8	-	-	6.2	29.2	8.7	(7.4)	43.0	(1.1)	0.8	(0.8)	(0.6)	(0.9)	(0.7)	108
Peru	26.10	69.8	6.3	2.0	7.4	(1.0)	3.7	6.4	-	34.7	(0.7)	26.3	(0.8)	(0.4)	0.2	(0.6)	76
Philippines	32.10	64.0	6.0	(0.5)	6.5	5.6	4.3	3.1	(6.7)	-	(2.5)	21.2	(0.5)	0.1	0.1	(0.5)	95
Poland	60.70	64.8	5.0	(3.8)	10.5	0.5	6.5	2.7	(3.7)	-	1.0	22.0	0.5	0.3	0.7	0.4	40
Romania	50.00	150.5	2.6	0.8	6.4	2.9	7.1	2.9	(6.3)	57.1	(6.5)	17.9	0.0	-	0.4	0.4	55
Russia	29.70	1,500.1	-	(7.1)	29.1	5.5	7.2	3.0	(3.1)	23.1	4.7	24.2	(1.0)	(0.7)	(1.1)	(1.2)	29
Saudi Arabia	51.10	52.7	-	(0.0)	0.0	(3.7)	2.5	4.9	-	23.8	5.4	41.1	0.4	0.6	0.4	0.3	63
South Africa	8.30	203.2	10.8	0.9	14.7	-	5.5	31.9	(5.8)	65.8	(1.6)	-	(0.3)	(0.1)	(0.2)	0.0	84
South Korea	80.90	27.3	-	0.4	9.1	2.2	3.4	3.3	(1.8)	46.4	1.1	24.8	0.8	1.4	1.2	1.2	5
Taiwan	92.80	30.8	1.3	(0.0)	8.8	5.1	2.9	3.4	1.3	27.3	12.4	75.4	1.2	1.4	1.4	1.3	15
Thailand	55.90	41.2	2.8	1.5	9.7	1.5	(0.5)	1.0	(3.4)	50.4	1.2	42.9	(0.5)	0.1	0.2	0.1	21
Turkey	25.00	283.9	-	4.6	13.0	-	62.7	8.8	(2.7)	42.0	(4.9)	6.8	(0.5)	(0.2)	(0.2)	(0.5)	34
Ukraine	7.10	3,657.0	18.2	-	-	9.3	5.2	10.5	(20.4)	58.7	5.2	0.0	(0.6)	(0.5)	(0.3)	(0.9)	64
Vietnam	40.40	121.2	1.7	2.1	-	6.7	3.2	1.7	(2.4)	39.1	2.3	21.0	(0.3)	0.2	(0.4)	(0.2)	70
Median (83 Countries)	50.00	63.6	3.4	(0.4)	6.6	1.9	4.4	5.3	(3.4)	57.9	(0.0)	10.1	0.2	0.5	0.5	0.4	52
Average (83 Countries)	49.95	399.6	5.3	0.5	8.0	1.8	14.0	6.3	(3.0)	78.1	1.5	16.7	0.4	0.5	0.5	0.4	56
Std. Dev. (83 Countries)	28.52	989.4	5.1	5.3	4.5	4.3	47.0	4.7	5.2	66.5	5.5	19.8	1.0	0.9	0.9	0.9	40

- Higher political risk relative to developed countries. Most EM countries do not score well overall.
- Malaysia, Poland, Czech Republic, South Korea and Taiwan are exceptions.
- Argentina, Nigeria, Pakistan, South Africa, Ukraine and Brazil have the lowest scores.
- Some have meaningful foreign currency reserves but a few others face significant challenges.
- But, Ukraine, Pakistan, Argentina and Russia have very large CDS spread.
- Data for EM nations is challenging; it is not often updated and may also be inconsistent depending on the source.

COUNTRY RISK ASSESSMENT

COUNTRY RISK METRICS

Q/Q Changes (2023Q4 vs. 2023Q3) – Emerging Markets

Model Weights

5 - 7.5%

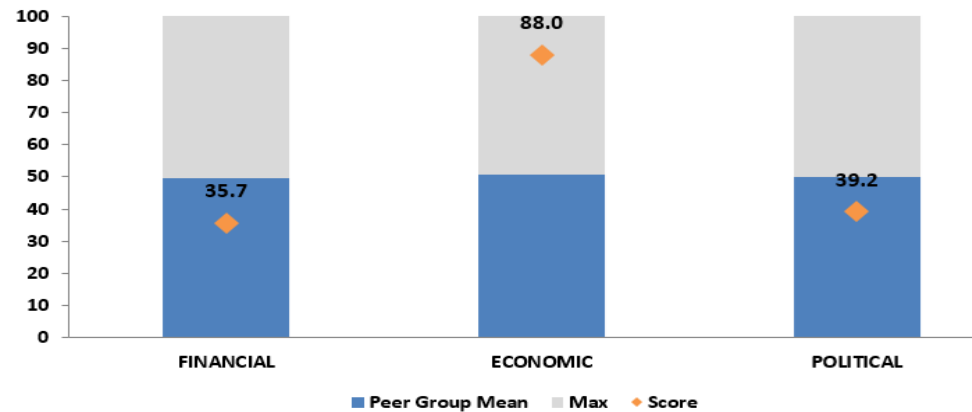
1.5 - 3%

- Overall score changes are more country specific even as bond yield declines are seen in many countries.
- Russia, Poland, Hungary and Philippines show improvement while Brazil, Mexico and Ukraine show declines.
- Argentina and Pakistan CDS lower but continue to have high financial risk, driven by inflation and little FX reserves.

Country	Risk Score			Financial Risk												Economic Risk																				
				Near Term Economic Risk Indicators									Current Condition						Longer Term Economic/Political Risk Indicator																	
				Credit & Interest Rate Risk						Foreign Exchange Risk			Economic Activity						Sovereign & Fiscal Risk			External Balance & Foreign Exposure														
				5 Year CDS			Local Sovereign Bond Index Yield			Next Period FX Forecast (%Chg)			3 Month Implied Volatility			GDP YOY%		CPI Actual		Unemployment		Budget Surplus/Deficit (%)			Total External Debt (% GDP)			Current Account (% of GDP)			Currency Reserves (% GDP)					
Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	Q4	Q3	Δ	
Argentina	2.3	2.3	0.0	1,455.8	1,837.5	-381.6	-	-	-	37.9	31.0	+6.9	13.2	12.4	+0.7	(1.0)	(1.0)	0.0	225.4	137.8	+87.6	5.7	5.7	0.0	(4.7)	(4.7)	0.0	42.9	-	-	(2.3)	(2.3)	0.0	0.8	1.0	-0.2
Brazil	15.4	17.8	-2.4	132.4	188.1	-55.7	-	-	-	(0.0)	(1.9)	+1.9	13.0	13.8	-0.8	2.0	2.0	0.0	4.7	4.6	+0.1	7.4	7.7	-0.3	(8.9)	(7.5)	-1.4	100.6	100.6	0.0	(1.6)	(1.6)	0.0	15.9	15.8	+0.1
Chile	48.8	46.4	+2.4	50.1	73.4	-23.3	6.8	6.8	0.0	2.9	6.2	-3.3	15.7	15.1	+0.6	0.7	0.7	0.0	4.6	5.6	-1.1	8.5	8.9	-0.4	-	-	-	65.1	-	-	(3.4)	(3.4)	0.0	13.7	13.7	0.0
China	54.7	53.5	+1.2	60.6	82.7	-22.0	2.5	2.6	-0.1	(0.6)	4.9	-5.5	4.5	5.3	-0.8	5.2	4.9	+0.3	(0.3)	(0.1)	-0.3	4.0	4.0	0.0	(4.7)	(4.7)	0.0	27.5	31.0	-3.5	1.8	1.8	0.0	18.0	17.4	+0.5
Colombia	23.8	25.0	-1.2	157.2	241.1	-84.0	9.6	11.1	-1.5	(1.9)	(4.4)	+2.5	16.6	16.3	+0.3	(0.3)	(0.3)	0.0	10.0	11.4	-1.4	10.0	9.3	+0.8	(3.6)	(3.6)	0.0	90.4	90.4	0.0	(3.4)	(3.4)	0.0	15.3	14.8	+0.5
Czech Republic	67.8	64.2	+3.6	33.0	34.0	-1.0	3.9	4.9	-1.0	1.1	5.3	-4.2	8.9	9.4	-0.5	(0.2)	(0.8)	+0.6	7.6	8.1	-0.5	2.8	2.7	+0.1	(3.2)	(3.2)	0.0	-	-	-	(4.2)	(4.2)	0.0	45.5	42.8	+2.7
Hungary	45.2	39.2	+6.0	140.2	156.3	-16.1	5.8	7.6	-1.7	(2.5)	3.7	-6.2	11.9	13.9	-1.9	-	(0.4)	-	7.8	15.4	-7.6	4.2	4.0	+0.2	(6.2)	(6.2)	0.0	96.1	96.1	0.0	-	-	-	18.7	17.2	+1.5
India	42.8	45.2	-2.4	44.1	72.6	-28.5	7.1	7.2	-0.1	1.5	0.6	+0.8	3.3	3.9	-0.6	7.6	7.6	0.0	5.4	6.4	-1.1	4.7	4.8	-0.2	(6.4)	(6.4)	0.0	18.6	17.9	+0.7	(1.0)	(1.0)	0.0	16.8	15.9	+0.9
Indonesia	35.7	36.9	-1.2	72.0	92.9	-20.9	6.6	6.7	-0.1	Q3	Q2	-	7.2	6.5	+0.7	5.0	4.9	+0.1	2.7	2.9	-0.2	5.3	5.3	0.0	(3.7)	(3.7)	0.0	42.9	42.9	0.0	0.3	0.3	0.0	10.2	9.5	+0.7
Malaysia	66.6	66.6	0.0	41.9	50.9	-8.9	-	-	-	1.1	1.4	-0.3	6.3	6.6	-0.2	3.4	3.3	+0.1	1.6	2.0	-0.4	3.3	3.4	-0.1	(6.4)	(6.4)	0.0	62.0	62.0	0.0	2.8	2.8	0.0	28.1	27.4	+0.8
Mexico	28.5	32.1	-3.6	88.5	128.2	-39.7	-	-	-	(0.4)	(4.7)	+4.3	11.7	12.3	-0.6	2.4	3.3	-1.0	4.4	4.6	-0.2	2.8	2.7	+0.1	(3.6)	(3.6)	0.0	-	-	-	(1.0)	(1.0)	0.0	3.1	3.1	+0.1
Morocco	34.5	34.5	0.0	-	-	-	3.4	3.8	-0.4	-	-	-	4.0	4.4	-0.3	2.8	2.8	0.0	6.3	6.6	-0.3	13.5	13.5	0.0	(4.3)	-	-	46.0	46.0	0.0	(2.6)	-	-	26.6	25.3	+1.3
Nigeria	4.7	4.7	0.0	556.2	746.2	-190.1	15.0	14.9	+0.1	1.9	-	-	-	-	-	2.5	2.5	0.0	28.1	25.5	+2.6	3.6	3.6	0.0	(2.7)	(2.7)	0.0	2.0	-	-	0.6	-	-	0.0	0.0	0.0
Pakistan	3.5	3.5	0.0	3,309.0	3,971.5	-662.5	15.8	16.6	-0.8	-	-	-	-	-	-	6.2	6.2	0.0	29.2	12.1	+17.0	8.7	8.7	0.0	(7.4)	-	-	43.0	-	-	(1.1)	-	-	0.8	0.8	+0.0
Peru	26.1	27.3	-1.2	69.8	86.4	-16.5	6.3	7.0	-0.7	2.0	1.2	+0.8	7.4	7.2	+0.3	(1.0)	(1.0)	0.0	3.7	5.5	-1.8	6.4	6.7	-0.3	-	-	-	34.7	34.7	0.0	(0.7)	(0.7)	0.0	26.3	26.4	-0.1
Philippines	32.1	29.7	+2.4	64.0	85.0	-21.0	6.0	6.4	-0.4	(0.5)	2.2	-2.7	6.5	6.4	+0.1	5.6	6.0	-0.4	4.3	5.4	-1.1	3.1	4.5	-1.4	(6.7)	(6.7)	0.0	-	-	-	(2.5)	(2.5)	0.0	21.2	20.7	+0.6
Poland	60.7	54.7	+6.0	64.8	69.5	-4.7	5.0	5.2	-0.2	(3.8)	4.2	-8.0	10.5	11.2	-0.7	0.5	0.5	0.0	6.5	9.7	-3.2	2.7	2.8	-0.1	(3.7)	(3.7)	0.0	-	-	-	1.0	1.0	0.0	22.0	20.7	+1.3
Romania	50.0	51.1	-1.1	150.5	168.8	-18.3	2.6	2.6	0.0	0.8	2.4	-1.7	6.4	6.7	-0.3	2.9	2.9	0.0	7.1	9.2	-2.1	2.9	2.9	0.0	(6.3)	(6.3)	0.0	57.1	57.1	0.0	(6.5)	(6.5)	0.0	17.9	17.0	+0.9
Russia	29.7	13.0	+16.7	1,500.1	1,500.1	0.0	-	-	-	(7.1)	17.1	-24.2	29.1	33.3	-4.2	5.5	5.5	0.0	7.2	5.2	+2.1	3.0	3.0	0.0	(3.1)	(3.1)	0.0	23.1	23.1	0.0	4.7	4.7	0.0	24.2	23.4	+0.8
Saudi Arabia	51.1	48.8	+2.3	52.7	53.1	-0.4	-	-	-	(0.0)	-	-	0.0	0.0	0.0	(3.7)	(4.4)	+0.7	2.5	2.5	0.0	4.9	4.9	0.0	-	-	-	23.8	-	-	5.4	5.4	0.0	41.1	41.3	-0.2
South Africa	8.3	7.1	+1.2	203.2	280.9	-77.7	10.8	11.7	-0.8	0.9	1.6	-0.7	14.7	14.9	-0.2	-	-	-	5.5	5.0	+0.5	31.9	31.9	0.0	(5.8)	(5.8)	0.0	65.8	-	-	(1.6)	(1.6)	0.0	-	-	-
South Korea	80.9	77.3	+3.6	27.3	34.4	-7.0	-	-	-	0.4	2.2	-1.8	9.1	8.8	+0.3	2.2	1.4	+0.8	3.4	3.2	+0.3	3.3	2.6	+0.7	(1.8)	(1.8)	0.0	46.4	46.4	0.0	1.1	1.1	0.0	24.8	24.4	+0.4
Taiwan	92.8	91.6	+1.2	30.8	41.2	-10.4	1.3	1.3	-0.0	(0.0)	4.0	-4.0	8.8	5.2	+3.6	5.1	2.3	+2.8	2.9	2.5	+0.4	3.4	3.4	-0.0	1.3	1.3	0.0	27.3	27.4	-0.1	12.4	12.4	0.0	75.4	76.3	-0.9
Thailand	55.9	58.3	-2.4	41.2	52.3	-11.1	2.8	3.1	-0.3	1.5	3.1	-1.7	9.7	8.7	+1.1	1.5	1.5	0.0	(0.5)	0.5	-1.1	1.0	1.0	0.0	(3.4)	(3.4)	0.0	50.4	50.4	0.0	1.2	1.2	0.0	42.9	40.6	+2.3
Turkey	25.0	21.4	+3.6	283.9	399.5	-115.6	-	-	-	4.6	7.7	-3.1	13.0	19.6	-6.5	-	-	-	62.7	56.1	+6.6	8.8	8.9	-0.1	(2.7)	(2.7)	0.0	42.0	42.0	0.0	(4.9)	(4.9)	0.0	6.8	6.8	0.0
Ukraine	7.1	10.7	-3.6	3,657.0	3,657.0	0.0	18.2	18.2	0.0	-	-	-	-	-	-	9.3	9.3	0.0	5.2	9.0	-3.8	10.5	10.5	0.0	(20.4)	-	-	58.7	58.7	0.0	5.2	5.2	0.0	0.0	0.0	+0.0
Vietnam	40.4	44.0	-3.6	121.2	140.7	-19.4	1.7	2.1	-0.4	2.1	1.0	+1.2	-	-	-	6.7	5.3	+1.4	3.2	3.2	0.0	1.7	2.3	-0.6	(2.4)	3.4	-5.8	39.1	39.1	0.0	2.3	-	-	21.0	21.3	-0.4
Median (83 Countries)	50.0	50.0	0.0	63.6	72.6	-7.2	3.4	4.2	-0.7	(0.4)	0.8	+0.8	6.6	7.1	-0.5	1.9	1.6	0.0	4.4	5.6	-1.1	5.3	5.3	0.0	(3.4)	(3.1)	0.0	57.9	60.4	0.0	(0.0)	0.0	0.0	10.1	9.5	+0.1
Average (83 Countries)	50.0	50.0	0.0	399.6	408.8	-21.5	5.3	5.8	-0.6	0.5	0.8	-0.4	8.0	8.5	-0.3	1.8	1.6	+0.1	14.0	12.1	+1.5	6.3	6.4	-0.0	(3.0)	(2.4)	-0.2	78.1	83.4	-0.4	1.5	1.7	+0.0	16.7	16.2	+0.5
Std. Dev. (83 Countries)	28.5	28.5	+0.0	989.4	979.0	+10.3	5.1	5.0	+0.1	5.4	6.1	-0.7	4.5	4.9	-0.5	4.3	4.3	+0.0	47.0	28.3	+18.7	4.7	4.7	-0.0	5.2	4.7	+0.4	66.5	69.1	-2.6	5.5	5.6	-0.1	19.8	19.4	+0.4

INDIA: HIGHER RISKS

RISK SCORES PERFORMANCE
RELATIVE TO MEAN OF PEER GROUP



- Scores well on economic risks but poorly on financial and political risks including persistent risks – Corruption, Rule of Law and Ease of Doing Business.
- Also scores poorly on budget deficit and current account. Current account depends on price of oil as it is a huge importer.
- While demographics is in its favor, female labor participation rate is very low which limits economic growth.
- Being democratic also brings higher risk of policy changes. Oncoming elections are a small risk.

India Ease of Business Remains Challenged

Ease of Doing Business rank for G20 economies in 2019

South Korea	5
United States	6
United Kingdom	8
Australia	14
Germany	22
Canada	23
Russia	28
Japan	29
Spain	30
China	31
France	32
Turkey	33
Italy	58
Mexico	60
Saudi Arabia	62
India	63
Indonesia	73
South Africa	84
Brazil	124
Argentina	126

Source: World Bank

Ned Davis Research

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Sources: NDR, Bloomberg

AGENDA

- Background
- Country Risk Framework at RIO
- China Challenges vs. India Opportunity
- Country Risk Metrics and India Risks
- **Key Takeaways**

KEY TAKEAWAYS

Prudent Risk-Adjusted Approach: Not Just India

- RIO utilizes both quantitative risk models as well as qualitative risk analysis. Quantitative risk factor models provide aggregate country risk scores indicating riskiness of countries.
- Qualitative risk analysis provides insight to the observations in quantitative models explaining the underlying dynamics behind such scores.
- China has moved past its high growth phase and faces several challenges even as its government is constrained in its policy choices. This is further compounded by a higher risk of policy mistakes by an autocratic government. Relationship with other countries is now more strained.
- India has emerged as a viable alternative to China as it sustains a higher growth underpinned by capital expenditure and consumption growth.
- Yet, our risk models show India is not without risks, riskier than China, and rightfully so, in each of economic, financial and political risks.
- Therefore, a one-to-one transition from China to India can be seen as a one that increases risk even as India return opportunity is higher. As investments move away from China, a more prudent risk-adjusted approach may be to not only increase exposure to India but to also diversify exposures to other higher growth economies.

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: April 19, 2024
RE: Governance & Policy Review Committee Update

The GPR Committee met on Thursday April 18, 2024, to discuss the following items and provide recommendations:

- The committee completed its annual review of the SIB Governance Manual and prepared proposed recommendations for changes to the full SIB. The committee intends to present these changes for Introduction and First Reading at the April board meeting. The committee requests board members review the manual and proposed changes for discussion and comment at the meeting. Ms. Murtha will review the proposed changes on behalf of the committee at the meeting.
- The Audit and GPR committee jointly recommended updates to the Internal Audit Charter and Audit Committee Charter. These committees request board members review proposed charter changes for discussion and comment at the meeting. Ms. Seiler will review the proposed changes on behalf of the committee at the meeting.
- The committee recommends the enclosed board meeting and committee calendar. The committee requests board members review proposed calendar for discussion and comment at the meeting. Upon approval staff will prepare a meeting content and education plan for presentation to the committee in May so that the committee may make a recommendation to the full board in May.

Committee materials may be found at [State Investment Board Governance & Policy Review Committee | Retirement Investment Office \(nd.gov\)](#)

COMMITTEE ACTION REQUESTED:

- **Board Discussion followed by Motion to Approve Introduction and First Reading of amendments to the SIB Governance Manual.**
- **Board Discussion followed by Motion to Approve amendments to Audit charters.**
- **Board Discussion followed by Motion to Approve proposed Board and Committee calendar for fiscal year 2024-25.**



State Investment Board

RETIREMENT & INVESTMENT

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Section I: Executive Limitations

A-1:A. General Executive Constraint

The executive director shall not knowingly cause or allow any practice, activity, decision, or organizational circumstance which is either imprudent or in violation of commonly accepted business and professional ethics, state law, rules, and policies.

1. With respect to treatment of staff, the executive director shall not knowingly cause or allow any condition or any communication which is contrary to the agency core values of integrity, accountability and service~~unfair, undignified, or disrespectful~~.
2. In relating to the public and other governmental entities, the executive director may not knowingly cause or allow any action which is contrary to the agency core values of integrity, accountability and service~~unfair, undignified, or disrespectful~~. In addition, the executive director may not allow any communications from the staff which are inaccurate or fail to distinguish between fact and personal opinion.
3. Budgeting for any fiscal year or the remaining part of any fiscal year shall not knowingly deviate materially from board *Ends* priorities, or create fiscal jeopardy, or fail to be derived from the biennial planning calendar.
4. With respect to the actual, ongoing condition of the organization's financial health, the executive director may not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in *Ends* policies.
5. With respect to providing information and counsel to the board, the executive director may not permit the board to be uninformed.
6. The executive director may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.
7. Compensation and benefits for staff shall not deviate from applicable state and federal law, ~~including N.D. Administrative Code, Chapter 4-07-02.~~
8. In order to protect the board from sudden loss of executive services, the executive director may not have fewer than three other executives familiar with board and chief executive issues and processes. The executive director shall not fail to inform the ~~d~~Deputy ~~e~~Executive ~~d~~Director- chief retirement officer, the ~~Deputy~~cChief Investment ~~o~~Officer, and the ~~c~~Chief ~~f~~Financial/chief operating ~~o~~Officer of executive and board issues and processes.

9. The executive director will not allow a conflict of interest in the procurement of goods and services.

10. The executive director will not operate the office without a code of conduct and conflict of interest policy for all RIO Employees. This code of conduct will be a part of the office Administrative Policy Manual.

Policy Implemented: July 23, 1995.

Amended: January 22, 1999; November 19, 1999; September 26, 2014.

A-2:B. Staff Relations Communication and Counsel to Board

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

Accordingly, the executive director may not:

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

Policy Implemented: June 23, 1995.

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

A-3:C. Relating to Public and Government

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

Policy Implemented: June 23, 1995.

A-4:D. Budgeting

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

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

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

Policy Implemented: June 23, 1995.

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

A-5:E. Financial Condition

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

Accordingly, the executive director may not:

1. Make any expenditure that exceeds the appropriation authority authorized by the North Dakota legislature or exceeds the parameters for expenditures authorized by continuing appropriation authority authorized in statute and within the guidelines set forth in the *Ends* policies.
2. Create policies for payment of administrative obligations that are in conflict with the policies of the Office of Management and Budget.
3. Initiate a transfer of appropriation authority between budget line items without board approval and Emergency Commission approval as required by that body.
- ~~4. Allow appropriation expenditures to be made unless reported on PeopleSoft.~~

Policy Implemented: June 23, 1995.

Amended: September 26, 2014.

~~A-6:F.~~ Communication and Counsel to the Board

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

Accordingly, the executive director may not:

1. Neglect to ~~submit~~provide monitoring data required by the board and Ends policies (see policy C-4 on Monitoring Executive Performance) in a timely, accurate, and understandable fashion, directly addressing provisions of the board policies being monitored.
2. Let the board be unaware of relevant trends, anticipated adverse media coverage, material external and internal changes, and particularly changes in the assumptions upon which any board policy has previously been established.
3. Fail to advise the board chair and governance and policy review committee if, in the executive director's opinion, the board is not in compliance with its own policies on Governance Process and Board-Staff Relationship, particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director, and executive director and staff.
4. Fail to ~~marshal for~~provide the board as many with varying staff and external points of view on, issues, and options as ~~prudent~~needed for fully informed board choices.
5. Present information in unnecessarily complex or lengthy form.
6. Fail to provide a mechanism for official board, officer, or committee communications.
7. Fail to deal with the board as a whole except when (a) fulfilling individual requests for information or (b) responding to officers or committees duly charged by the board (c) as otherwise delegated in accordance with board policies.
8. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the board, ~~particularly Ends and Executive Limitations~~.
9. Fail to inform the board chair in a timely manner of any intention to ~~hire or~~ dismiss, or fail to notify the full board of the resignation or hiring of the ~~d~~Deputy ~~e~~Executive ~~d~~Director-chief retirement officer, the ~~Deputy c~~Chief ~~i~~Investment ~~o~~Officer, or the ~~c~~Chief ~~f~~Financial ~~o~~Officer/chief operating officer.
10. Fail to keep the board informed concerning the delegation of fiduciary authority to any staff member in compliance with the Ends policies. Every person to whom such fiduciary responsibility is delegated is ultimately accountable to the board as to the exercise and execution of the delegated authority.

Policy Implemented: June 23, 1995; November 19, 1999.

Amended: September 26, 2014.

A-7:G. Asset Protection

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

1. Fail to implement policies that insure against theft and casualty losses to a level and in a manner appropriate to an institutional investor as set for in Investment Ends policy. to at least 80 percent replacement value and against liability losses to board members, staff, or the organization itself in compliance with the State of North Dakota Risk Management guidelines an amount greater than the average for comparable organizations.
2. Allow individuals not covered by an employment or contractual fiduciary relationship with the agency or board access to funds non-bonded personnel access to funds.
3. Subject plant property and equipment to improper wear and tear or insufficient maintenance.
4. Unnecessarily expose the organization, its board, or staff to claims of liability.
5. Fail to protect intellectual property, information, and files from loss or significant damage in a manner consistent with the process and standard of care required of North Dakota state entities.
6. Receive, process, or disburse funds under controls which are insufficient to meet the state auditor's standards.
7. Invest or hold operating capital in a manner that is inconsistent with state and federal law or board policy.
- ~~8. Acquire, encumber, or dispose of real property.~~
- ~~9-8.~~ Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.
- ~~10-9.~~ Deviate from the investment process set by the State Investment Board (SIB) as contained in the board's policy on investments.

Policy Implemented: June 23, 1995.

A-8:H. Compensation and Benefits

Compensation and benefits, or employment terms for staff shall not deviate from applicable state and

federal law, ~~including N.D. Administrative Code, Chapter 4-07-02.~~

~~Accordingly, the executive director may not:~~

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

Policy Implemented: June 23, 1995.

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

A-9:I. Conflict of Interest

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

The executive director shall not fail to establish policies and procedures for the disclosure of and affirmation of understanding of conflicts of interests by staff.

"Conflict of Interest" means a situation in which a board member or staff member ~~has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.~~ has a conflict of interest as that term is defined in North Dakota statute and rules promulgated by the North Dakota Ethics Commission under N.D.A.C. Chapter 115-04-01.

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

Policy Implemented: June 23, 1995.

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

A-10:J. Unrelated Business Interests

The Executive Director will not allow a situation to exist that presents a conflict of interest to the SIB investment program in the pursuit of personal business interests, or the personal business interests of staff members, nor shall such activity be in violation of RIO Administrative Policy. If the executive director becomes aware of a situation contrary to this policy that is outside the authority and control of the executive director to address, the executive director shall notify the chair.

Policy Implemented: August 18, 2000

K. Code of Conduct

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

Policy Implemented: June 27, 1997.

A-11:K. Unrelated Business Interests

~~In the pursuit of personal business interests, the The Executive Director will not allow a situation to exist that presents a conflict of interest to the SIB investment program in the pursuit of personal business interests, or the personal business interests of staff members, nor shall such activity be in violation of RIO Administrative Policy, Use of Office Facilities and Equipment. If the executive director becomes aware of a situation contrary to this policy that is outside the authority and control of the executive director to address, the executive director shall notify the chair.~~

~~Policy Implemented: August 18, 2000~~

Memorandum

To: RIO Executive Director/~~CIO~~

From: RIO Compliance Officer

Date: ~~July 1, 20—~~

RE: Annual Affirmation of Conflict of Interest Policy

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

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

Name (printed): _____

Signature: _____

Date: _____

Detail of any conflicts of interest (if any):

Section I Exhibit B

Memorandum

To: RIO Executive Director

From: Staff Member

Date:

RE: Annual Affirmation of Conflict of Interest Policy

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

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

Name (printed): _____

Signature: _____

Date: _____

Detail of any conflicts of interest (if any):

Section II: Governance Process

B-1:A. Governance Commitment

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

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

Policy Implemented: June 23, 1995.

B-2:B. Governing Style

- The board will strive to govern with an emphasis on:
- Outward vision rather than an internal preoccupation.
- Encouragement of diversity in viewpoints.
- Strategic leadership more than administrative detail.
- Clear distinction of board and executive director roles.
- Collective rather than individual decisions.
- Future rather than past or present.
- Proactivity rather than reactivity.

The board will:

1. Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will strive to be an initiator of policy, not merely a reactor to staff initiatives. The board will strive to use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.
2. Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be

on the intended long-term impacts outside the operating organization (Ends), not on the administrative or programmatic means of attaining those effects.

3. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.
4. After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will not allow any officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy, position, or decision. Board members will accurately portray board policies and decisions, and a Board member publicly disagreeing with a board policy or position must clearly distinguish between their individual view and the board view.
5. Promote continual board development through: orientation and mentoring of new members in the board's governance process and applicable fiscal and investment concepts; receipt and review of board education; and through periodic board discussion of process improvement. ~~The board shall not delegate new member governance orientation to the executive director or any staff member.~~
 - a. Board mentors are encouraged to assist new members to understand their fiduciary duty and role. ~~Board members may engage the Board Chair if they would like to participate in an optional board mentorship program.~~
 - b. ~~The n~~New board members should read and study Chapter 21-10, North Dakota Century Code and participate in a new board member onboarding curriculum approved by the SIB – GPR committee and administered by RIO staff to completion(~~Section J of the SIB Policy Governance Manual which governs the activities of the boards represented on the SIB: Teachers' Fund for Retirement Board, Public Employees Retirement Systems Board, and the State Investment Board~~).
 - c. ~~The board should receive a glossary of terms used by the retirement and pension fund industry, i.e., Callan Associates Inc. – Glossary of Terms.~~
 - d.c. _____ Newly appointed or elected board members sh~~ould~~ become familiar with the ~~Carver Model of Governance since the SIB directs its activities by this model. They should read Boards That Make a Difference and study the~~ policy manuals that have been developed by the SIB and TFFR Board.
 - e.d. _____ The board members must understand their roles as trustees and fiduciaries, the Prudent Investor Rule, and Procedural Prudence.
 - f.e. A "new trustee book bag" New board member curriculum shall be established by the SIB GPR committee and at minimum must contain education on~~containing~~ the

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

~~g-f.~~ The executive director will provide the SIB with access to a list of periodicals available which would provide current information on investment pension issues. ~~The board members will review and request subscriptions to appropriate periodicals.~~

6. Monitor and regularly discuss the board's process and performance. Self-monitoring will include comparison of board activity and discipline to policies in the Governance Process and Board-Staff Relationship categories through a self-assessment process.
7. Observe Robert's Rules except where the board has superseded them.

Policy Implemented: June 23, 1995.

Amended: June 28, 1996; November 19, 1999, January 26, 2001, February 27, 2015, October 26, 2018, September 27, 2019.

~~B-3~~C. Board Job Description

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

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

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

4. Legislation necessary to achieve the board's Ends.

Policy Implemented: June 23, 1995.

~~B-4:D.~~ Chairperson's Role

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

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

- e. The chairperson is authorized, in consultation with the ~~RIO Executive Director~~, to grant approval for participation in domestic due diligence visits by SIB members with RIO staff members and it shall be the responsibility of the traveling board member to report to the SIB – Investment Committee on the results of the due diligence visits.

Policy Implemented: June 23, 1995.

Amended: August 17, 2001, September 25, 2009.

B-5:E. Board Committee Principles

Unless specifically provided by governance policy, board committees will be assigned to minimally interfere with the wholeness of the board's job and to never to interfere with delegation from board to executive director. Board committees will be used strategically sparingly.

~~Board committees exist to support and advise the board in fulfillment of its roles and responsibilities are to help the board do its job, not to help the staff do its job. Committees ordinarily will assist the board by preparing policy alternatives and implications for board deliberation. Board committees are created to advise the board, not the staff. The Investment Committee is a hybrid committee comprised of Board members, Staff and external investment experts. The investment committee is delegated authority as provided by Board policy.~~

1. Board committees may not speak or act for the board except when formally given such authority for specific ~~and time-limited~~ purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the executive director. Standing committees shall operate in accordance with a committee charter approved by the SIB.
2. Board committees cannot exercise authority over staff however committees will make requests of staff through the executive director unless staff is assigned to the committee. Because the executive director works for the full board, he or she will not be required to obtain approval of a board committee before an executive action. In keeping with the board's broader focus, board committees will normally not have direct dealings with current staff operations, except as specified in the committee charter.
3. Board committees are to avoid over-identification with the committee's assignment. Therefore, a board committee which has helped the board create policy will not be used to monitor organizational performance on that policy. The Investment Committee is chartered to monitor certain investment strategy execution strategies and investment performance in a more detailed way than the Board which receives independent performance appraisals and summarized updates on investment activities. The Board is the ultimate governance authority of the investment program.

4. This policy applies only to committees which are formed by board action, whether or not the committees include non-board members. It does not apply to committees formed under the authority of the executive director.
5. The chairperson will appoint board committees authorized by the board, or as otherwise set forth in the committee charter. The operational life span of a board committee will be defined at the time of appointment.

Policy Implemented: June 23, 1995.

Amended: November 22, 1996, February 27, 2015, November 18, 2022

B-6:-F. Standing Committees

The board's standing committees shall operate under the terms of a charter approved by the board and are set forth in this policy as follows:

1. Audit Committee
- ~~2. Securities Litigation Committee~~
- ~~3.2. Executive Review and Compensation Committee~~
- ~~4.3. Governance and Policy Review Committee~~
4. Investment Committee
5. Securities Litigation Committee
 - ~~a. The Audit Committee, Securities Litigation Committee, Executive Review and Compensation Committee, the Governance and Policy Review Committee, and the Investment Committee shall operate under the terms of a charter approved by the board.~~
 - a. Each committee shall be responsible for reviewing its charter and proposing charter updates to the SIB -GPR committee.

1. Introduction – Audit Committee

An Audit Committee has been established as a standing committee of the State Investment Board (SIB). The Audit Committee will assist the SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities. To this end, internal auditing will furnish them with analyses, appraisals, recommendations, and pertinent information concerning the activities reviewed.

Functions and units within RIO will be reviewed at appropriate intervals to determine whether they are effectively carrying out their responsibilities of planning, organizing, directing, and controlling in

accordance with SIB and management instructions, applicable laws, policies, and procedures, and in a manner consistent with both the RIO objectives and high standards of administrative practice.

Policy of the State Investment Board – Audit Committee

The audit staff shall have full, free, and unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review. The audit function will be conducted in a manner consistent with acceptable professional standards and coordinated with others to best achieve the audit objectives and the RIO objectives.

The Internal Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO. The Internal Audit Services Unit will report administratively to management and functionally to the Audit Committee of the SIB.

The RIO unit supervisors are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from the receipt of a report disclosing those weaknesses if known or applicable. The unit supervisors are also responsible for seeing that a written report of action planned or completed is sent to the executive director. If a plan for action is reported, a second report shall be made promptly upon completion of the plan.

~~— Introduction — Securities Litigation Committee~~

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

~~The SLC will determine when an active role should be pursued in regard to securities litigation affecting investments within the SIB's portfolios based on the SIB approved Securities Litigation Policy and approved SIB Securities Litigation Committee Charter.~~

~~Policy of the State Investment Board — Securities Litigation Committee~~

~~The SLC is authorized to:~~

- ~~• Draft policy (to be formally approved by SIB) regarding dollar and/or risk thresholds for determining when to opt-out of class actions and/or seek direct litigation or lead plaintiff status;~~
- ~~• Based on SIB approved policy make decisions on the level of participation the SIB will take in direct litigation, opt-in or group litigation, anti-trust and other class actions; and~~
- ~~• Approve the selection of special assistant attorneys (in conjunction with the approval of the Office of the Attorney General) in cases of direct litigation.~~

~~RIO's management is responsible for ongoing monitoring of securities litigation and claims filing. RIO management and staff will enable the SLC to provide a periodic update to the SIB on the SLC's activities and related recommendations.~~

~~The SLC has the responsibility to provide oversight in the areas of:~~

- ~~• policy development;~~
- ~~• determination on direct litigation and/or lead plaintiff status; and~~
- ~~• approval of special assistant attorneys (outside counsel) with concurrence of the Attorney General.~~

2. Introduction – Executive Review and Compensation Committee

An Executive Review and Compensation Committee (ERCC) has been established as a standing committee of the SIB. The ERCC will assist the SIB in fulfilling its fiduciary oversight responsibilities of “monitoring executive performance (which) is synonymous with monitoring organizational performance against board policies on Ends and Executive Limitations”. The ERCC will also assist the SIB in developing compensation goals and strategies for the agency as a whole that are in alignment with the strategic plan of the agency. The Chief Financial Officer- Chief Operating Officer (CFO-COO) will be responsible for the preparation of all committee materials with the exception of internal survey and audit materials. Internal audit will be responsible for preparing an annual summary of the required reports submitted to the SIB by the Executive Director and Chief Investment Officer in connection with its review of policy adherence to Ends and Executive Limitations. Internal audit will also assist the ERC in completing annual surveys of the Executive Director with the SIB, SIB clients, and RIO team members, and Executive Director and Deputy Executive Director- Chief Retirement Officer with the TFFR Board, TFFR stakeholders, and RIO team members.

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

Policy of the State Investment Board – Executive Review and Compensation Committee

The ERCC is authorized to:

- Conduct a formal evaluation of the Executive Director annually;
- Obtain SIB approval of the annual performance evaluation of the Executive Director;
- Obtain performance surveys of the Chief Investment Officer and Deputy Executive Director- Chief Retirement Officer;

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

The ERCC and/or RIO will seek SIB approval prior to formally engaging any third-party assistance in conducting the annual executive review process or board self-assessment.

3. Introduction – Governance & Policy Review

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

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

Policy of the State Investment Board – Governance & Policy Review Committee

The Governance & Policy Review Committee is authorized to:

- Review and recommend policies for the governance manual.
- Ensure the governance manual reflects best practices and good governance.
- As directed by the board, review specific governance concerns, and make recommendations for improvement.
- Request RIO staff for specific topic training or education

4. Introduction – Investment Committee

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

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

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

Policy of the State Investment Board - Investment Committee

The Investment Committee is authorized to:

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

5. Introduction – Securities Litigation Committee

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

The SLC will determine when an active role should be pursued in regard to securities litigation affecting investments within the SIB's portfolios based on the SIB approved Securities Litigation Policy and approved SIB Securities Litigation Committee Charter.

Policy of the State Investment Board – Securities Litigation Committee

The SLC is authorized to:

- Draft policy (to be formally approved by SIB) regarding dollar and/or risk thresholds for determining when to opt-out of class actions and/or seek direct litigation or lead plaintiff status;
- Based on SIB approved policy make decisions on the level of participation the SIB will take in direct litigation, opt-in or group litigation, anti-trust and other class actions; and
- Approve the selection of special assistant attorneys (in conjunction with the approval of the Office of the Attorney General) in cases of direct litigation.

RIO's management is responsible for ongoing monitoring of securities litigation and claims filing. RIO management and staff will enable the SLC to provide a periodic update to the SIB on the SLC's activities and related recommendations.

The SLC has the responsibility to provide oversight in the areas of:

- policy development;
- determination on direct litigation and/or lead plaintiff status; and
- approval of special assistant attorneys (outside counsel) with concurrence of the Attorney General.

Policy Implemented: June 23, 1995.

Policy Amended: April 27, 2018, September 27, 2019, February 25, 2022, July 22, 2022.

B-7:G. Annual Board Planning Cycle

To accomplish its job outputs with a governance style consistent with board policies, the board will strive to follow ~~ana biennial~~ annual agenda which (a) completes a re-exploration of Ends policies annually and (b) continually improves its performance through attention to board education and to enriched input and deliberation.

1. ~~An biennial~~ annual calendar will be developed.
2. The cycle will conclude each year on the last day of June in order that administrative budgeting can be based on accomplishing a one-year segment of the most recent board long-range vision.
 - a. In the ~~first~~last three months of the ~~new~~concluding cycle, the board will strive to develop its agenda for the ensuing fiscal one-year period.
 - b. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed.
3. Education, input, and deliberation will receive paramount attention in structuring the series of meetings and other board activities during the year.
 - a. To the extent feasible, the board will strive to identify those areas of education and input needed to increase the level of wisdom and forethought it can give to subsequent choices.
 - b. A board education plan will be developed during ~~July~~April and ~~August~~May of each year for the following year.
4. The sequence derived from this process for the board planning year ending June 30 is as follows: by May of the preceding fiscal year the board shall review and approve a board education and planning calendar. This calendar must provide quarterly investment performance and Investment Ends reports from the Chief Investment Officer, quarterly reports from any consultant retained by the board to monitor investment performance, quarterly fiscal and budget conditions reports, internal audit and TFFR Ends reports; at least quarterly, or as

frequently as needed standing committee and executive limitations reports including a plan for a board self-assessment and review of the executive director, and board education.

- ~~c. **July:** Election of officers, appoints standing committee members, plan annual agenda, begin to develop board education plan, and new board member orientation.~~
- ~~d. **August:** Present education plan and continue new board member orientation.~~
- ~~e. **September:** Annual Review of Governance Manual.~~
- ~~f. **October:** Chief Investment Officer review of investment results. Annual meeting for evaluation of RIO vs. *Ends* policies and annual board evaluation.~~
- ~~g. **November:** Chief Investment Officer report on investment work plan.~~
- ~~h. **January:** During second year of the biennium, begin to develop *Ends* policies for the coming biennium for budget purposes.~~
- ~~i. **February:** Chief Investment Officer present the investment work plan. Evaluation of Executive Director.~~
- ~~j. **March:** Chief Investment Officer review of investment results and report on investment work plan. During first year of biennium, set budget guidelines for budget development.~~
- ~~k. **June:** Chief Investment Officer review of investment results and report on investment work plan.~~

Policy Implemented: June 23, 1995; November 19, 1999.

Amended: September 26, 2014, February 27, 2015, November 18, 2022

B-8:H. Board Members' Code of Conduct

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

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

consideration for advice over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction involving for which the board member has acquired information unavailable to the general public, through participation on the board.

4. "Conflict of Interest" ~~means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter with also involves the member's fiduciary responsibility.~~ means a situation in which a board member has a conflict of interest as that term is defined in North Dakota statute and rules promulgated by the North Dakota Ethics Commission under N.D.A.C. Chapter 115-04-01.
5. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.
- ~~6. Board members must abide by North Dakota Century code 21-10-09, which reads: "No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a Class A misdemeanor."~~
- ~~7.6.~~ Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
- ~~8.7.~~ All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.
- ~~9.8.~~ Prohibited transactions. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.
- ~~10.9.~~ Violation of these rules may result in an official reprimand from the SIB. No reprimand may be issued until the board member or employee has had the opportunity to be heard by the board.
- ~~11.10.~~ Board Members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise ~~(See Exhibit B-I).~~

Policy Implemented: June 23, 1995.

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

B-9:I. Administration of Fiduciary Authority

The board is responsible for:

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

Policy Implemented: June 23, 1995.

B-10:J. Policy Introduction/Amendment/Passage

New policies or policy amendments may be proposed by the Executive Director or a Board member. All new policies or amendments may be submitted to the Board's Legal Counsel for drafting in the approved style.

Upon request of the Executive Director or a Board member a new policy or amendment shall be placed on the Board's agenda for action as follows:

1. Introduction and first reading. A brief explanation or summary of the new policy or amendment shall be presented to the Board. Upon approval of introduction and first reading, the measure shall be placed on the agenda of the next scheduled meeting of the Board for second reading and adoption. When appropriate, the measure shall be distributed to interested parties.
2. Second reading and adoption. Interested parties and the public shall be allowed an opportunity to comment on the policy or amendment before final action by the Board. The measure shall take effect immediately following second reading and adoption by the Board unless a different effective date is stated.
3. Amendments. Amendments may be proposed at any time before final adoption of the measure. Upon determination by the Board that adoption of an amendment constitutes a substantive change that significantly changes the meaning or effect of the measure, the Board shall continue consideration of second reading and adoption to the next meeting to permit further review and comment.

Emergency measures. The Board may, upon determination that an emergency or other circumstances calling for expeditious action exists, waive the requirement of a second reading and immediately approve the new policy or amendment following introduction and first reading.

Policy Implemented: February 27, 2009

Policy Revised: November 18, 2016

Section II Exhibits B-I

1. Annual Affirmation of Code of Conduct Policy

Memorandum

To: State Investment Board
From: RIO Compliance Officer
Date: ~~July 1, 20--~~
RE: Annual Affirmation of Code of Conduct Policy

Governance Process Policy ~~2-HB-8~~, Board Members' Code of Conduct, which is attached to this memorandum, details the Code of Ethical Responsibility for the SIB. Item #10 of this policy indicates that each Board Member is required to reaffirm their understanding of this policy annually and disclose any conflicts of interest. Therefore, please read and sign the statement below to comply with this requirement.

"I have read and understand SIB Governance Process Policy ~~B-8~~ 2-H Board Members' Code of Conduct. I have disclosed any conflicts of interest as required by this policy."

Name (printed) _____
Signature _____
Date _____

Detail of any conflicts of interest (if any):

2. Exhibit II - B Committee Charters

CHARTER OF THE AUDIT COMMITTEE OF THE NORTH DAKOTA STATE INVESTMENT BOARD

PURPOSE AND MISSION

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB) created to fulfill its fiduciary oversight responsibilities of the North Dakota Retirement and Investment Office (RIO) and to serve as a communications link among the SIB, the RIO's management and Internal Audit staff, independent auditors, and others.

The Committee will assist with the ~~SIB in carrying out its integrity oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics. of the RIO's financial reporting process and system of internal controls, the RIO's compliance with legal and regulatory requirements, the performance of the RIO's Internal Audit function and independent auditors, and the RIO's management of risks in the Committee's areas of responsibility.~~ A. The purpose of the internal audit division is to provide an independent, objective assurance and advisory activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit division will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

AUTHORITY

The Committee is authorized to provide oversight to the Internal Audit function and the independent audit for the RIO. These activities provide assurance that RIO's financial condition and results of operations are accomplished in accordance with the RIO's policies and procedures and legal and regulatory requirements. The Committee may investigate any activity of the RIO and may retain persons as necessary from within or outside the RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

The RIO's Supervisor of Internal Audit will be the staff member reporting administratively to the Executive Director/~~Chief Investment Officer~~ and functionally to the Committee.

The Executive Director will supervise the administrative activities of the Internal Audit function and independent audit activities such as securing contracts, paying fees, maintaining official reports, and other appropriate activities.

COMPOSITION

The Committee will consist of five members, selected by and approved by the SIB. Three members of

the Committee will represent the three groups on the SIB: Legacy & Budget Stabilization Fund Advisory Board, a pension representative, member-at-large Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, and elected and appointed officials, and two members selected from outside of the SIB and the RIO. The SIB should select committee members who are both independent and financially literate.

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

The Committee will elect a Chair, and a Vice Chair. A liaison will be appointed by the Chair. The Chair will preside at all meetings of the Committee. In the absence of the Chair, the Vice Chair will perform the duties of the Chair. The liaison will report annually to the SIB on the results of the independent audit and at least four times a year to the SIB and TFFR board on the activities of the Committee and other pertinent information.

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

MEETINGS

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

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

Committee members are expected to attend each meeting, in person or via tele- or video-conference. The Supervisor of Internal Audit, a representative of RIO's management team and others necessary to provide information and to conduct business will attend meetings. The Committee may invite staff of the RIO, auditors or others to attend meetings, as necessary. Meetings will be conducted in accordance with NDCC 44-04-17.1. The Committee may hold executive sessions as allowed under state law.

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

RESPONSIBILITIES

The RIO's management is responsible for financial and other reporting, internal controls, and compliance with laws, regulations, and ethics. The Committee has the responsibility to provide oversight in the areas of:

- ~~the reliability and integrity of financial and operating information;~~
- ~~compliance with policies, plans, procedures, pertinent laws and regulations;~~
- ~~compliance with the Code of Conduct applicable to the SIB, TFFR Board, and RIO employees;~~
- ~~safeguarding of assets;~~
- ~~economical and efficient use of resources; and~~
- ~~effectiveness of achieving desired results from operations.~~
- Internal and external audit programs
 - Includes financial and other reporting practices.
- Internal controls
- Compliance with laws, regulations, and ethics

To this end, the Committee will:

Independent Audit

- Review the independent auditors' proposed audit scope and approach, including coordination of audit effort with RIO's Internal Audit staff and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
- Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.
- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
- Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:
 - The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
 - All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.
- Review non-audit services, if any, performed for the RIO by the independent auditors.

Audit Services

- Consider the effectiveness of the Internal Audit function, within The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing* consisting of the *Definition of Internal Auditing, Code of Ethics and the Standards*.
- Review with the Executive Director and the Supervisor of Internal Audit the audit charter, activities, staffing, and organizational structure of Internal Audit.
- Review and approve the annual risk-based audit work plan and all major changes to the plan.
- Bring to attention of the Board any internal audit issues the Committee determines significant and appropriate for Board consideration.
- Participate with the Executive Director in the appointment and annual evaluation of the Supervisor of Internal Audit. Work with the Executive Director on any changes in staffing, including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Risk Management

- Obtain information and/or training to enhance the Committee's understanding of organization and its related risk management processes.
- Review the adequacy of the organization's policy on risk management.
- Review the effectiveness of the organization's system for assessing, monitoring, and controlling significant risks or exposures.
- Review management's reports on risks and related risk mitigations.
- Hire outside experts and consultants in risk management, as necessary, subject to full board approval.

Compliance

- Review staff compliance with federal and state laws and North Dakota administrative code as applicable to RIO, the SIB and TFFR Board programs, and the process for communicating the code of conduct to the RIO's staff, and for monitoring compliance through the receipt of the audit results.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/recommendations.
- Obtain updates from the RIO's management and legal counsel regarding compliance matters, as deemed necessary.

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.

Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
- Obtain the information and training needed to enhance the committee members' understanding of the role of Internal Audit and the independent auditor, the risk management process, internal controls, and a certain level of familiarity in financial reporting standards and processes so the Committee may adequately oversee.
- Serve as an open avenue of communication among the SIB, the RIO's management and Internal Audit, the independent auditors, and others.
- Serve as an appropriate confidential body for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.
- Inquire of management and Internal Audit regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices.
- Perform other activities related to this charter as requested by the SIB.
- Institute and oversee special investigations as needed.
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually the review of all responsibilities outlined in this charter.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 19, 2006, May 18, 2007, June 26, 2009, May 19, 2016, January 25, 2019.

Executive Review and Compensation Committee Charter

I. PURPOSE

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

II. KEY RESPONSIBILITIES

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

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

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

III. ERCC COMPOSITION AND TERM LIMITS

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

The Chief Financial Officer- Chief Operating Officer (CFO-COO) will be responsible for the preparation of all committee materials with the exception of internal survey and audit materials. Internal audit will be responsible for preparing an annual summary of the required reports submitted to the SIB by the Executive Director in connection with its review of policy adherence to *Ends* and *Executive Limitations*. Internal audit will assist the ERCC in completing annual surveys of the Executive Director and Chief Investment Officer with the SIB, SIB clients, and RIO team members, and Executive Director and Deputy Executive Director- Chief Retirement Officer with the TFFR Board, TFFR stakeholders, and

RIO team members. Internal audit will also assist the SIB and ERCC in administering the annual board self-assessment process.

IV. MEETINGS

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

V. AUTHORIZATION AND LIMITATIONS OF POWER

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

Governance & Policy Review Committee Charter

PURPOSE

The Governance & Policy Review Committee (“Committee”) will assist the State Investment Board (SIB) to fulfill its responsibilities regarding matters that relate to governing the SIB, policies, and identifying and making recommendations to the SIB.

KEY RESPONSIBILITIES

The Governance & Policy Review Committee shall perform all duties as requested or required by the SIB. The Governance & Policy Review Committee will specifically be responsible for the following duties and responsibilities:

1. Advise the SIB about operational strategies relevant to the SIB’s governance manual to strengthen the SIB and empower the Board members to meet its obligations related to sound governance principles and abide by the agency’s mission.
2. Advise the SIB about strategies that strive to increase the individual Board member effectiveness and their abilities to work collaboratively with their peers.
3. Review and make recommendations for policies for the governance manual that reflect best practices for overall good governance.
4. As directed by the board, review specific governance concerns and make recommendations for improvement.
5. Request Retirement and Investment Office staff for specific topic training and education for Board members. Make recommendations regarding an orientation process for newly appointed SIB members.

GOVERNANCE COMMITTEE COMPOSITION AND TERM LIMITS

The Governance Committee shall be composed of at least three members. They will be nominated and approved by a majority vote of the SIB. This is a standing committee with no term limits. The Executive Director will be responsible for meeting preparation.

MEETINGS

The Governance Committee will meet quarterly and hold additional meetings as needed to fulfill its responsibilities as described in this Committee Charter and as called by the Governance Committee Chair.

AUTHORIZATION AND LIMITATIONS OF POWER

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

North Dakota State Investment Board Investment Committee Charter

The North Dakota State Investment Board Investment Committee (SIB Investment Committee), in conjunction with North Dakota Retirement and Investment Office management (RIO) and North Dakota State Investment Board (SIB), has developed the following policies and procedures relating to the prudent management of SIB assets.

COMMITTEE PURPOSE AND CHARTER

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

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

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

The Committee is responsible for (i) proposing to the SIB changes to its Investment Policy including delegation of investment authority to RIO investment staff; (ii) approving the SIB Investment Committee Investment Guidelines (IC Guidelines); (iii) approving the general strategies for each investment division; and (iv) approving new investment instruments. All investment guidelines must be consistent with the investment authority provided in North Dakota Century Code Chapter 21-10.

INVESTMENT COMMITTEE COMPOSITION AND TERM LIMITS

The Investment Committee shall be composed of two members of the SIB board, two external investment professionals and two RIO staff appointed by the SIB Chair. The SIB Chair will also appoint a Chair and a Vice Chair of the Committee. The two external investment professionals may be either currently active or retired and have substantial institutional investment experience.

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

The Chief Investment Officer will be responsible for meeting preparation.

DUTIES AND RESPONSIBILITIES

- A.** The Committee will suggest and recommend changes to the SIB Investment Policy, as necessary including any delegation of authority to RIO investment staff.
- B.** The Committee will review periodically and approve changes and additions to the IC Guidelines and will report any revisions to the SIB.
- C.** The Committee may examine internally (if approved) and externally managed portfolios, individual investments, correlation among portfolios, and such other matters as the Committee deems appropriate for the purpose of understanding, measuring, controlling, monitoring, and reporting SIB investment exposure.

- D.** The Committee will review and approve the use of new investment instruments prior to their implementation in internal (if approved) and external SIB portfolios.
- E.** The Committee will oversee the review and implementation of any other new investment programs or initiatives in all SIB portfolios and will coordinate any necessary related SIB approvals.
- F.** For purposes of fulfilling its risk management and oversight responsibilities, the Committee will act as liaison between the RIO investment Staff and the SIB on issues concerning investment risk management.
- G.** The Committee will review a subset of asset class strategies at least quarterly to assess established risk limits and evaluate strategy and will approve such strategies annually. The relevant Investment Staff shall be responsible for the specific investment decisions and implementations including internally (if approved) and externally managed mandates that are used to execute the approved strategies.
- H.** The Committee will review all compliance-related issues including compliance with statutes, administrative rules, internal and external manager investment guidelines or as otherwise requested.
- I.** The Committee will review asset allocation plans and strategies and will review and approve any proposed changes to SIB's strategic asset allocations and fund-level active risk objectives before they are presented to the Board for approval. The Committee will provide consultation and assistance to the SIB, ED and staff concerning total fund allocation changes or rebalance decisions, as needed.
- J.** The Committee will review and act on all requests from investment managers, both internal (if approved) and external for waivers to provisions in their investment guidelines. On an emergency basis when it is impractical to timely convene a meeting of the Investment Committee, either the Chair or Vice Chair of the committee with the concurrence of the Chief Investment Officer of the Committee or the Executive Director, may approve a waiver. That waiver will be brought to the Committee for ratification at its next regularly scheduled meeting.
- K.** The Committee may review and analyze other compliance-, risk- or derivative-related (if approved) matters that are directed to the attention of the Committee by the SIB, external auditors, the Internal Audit group, and RIO investment and accounting staff.
- L.** The Committee will receive quarterly reports regarding transitions (if any) and shall review with the applicable Investment Staff the costs and impacts associated with the transitions. It will also from time-to-time review reports on the trading effectiveness of investment execution of internal investment strategies (if approved).
- M.** The Committee will review annual benchmark recommendations from a Board-appointed benchmark consultant and will provide its evaluation and recommendation to the Board.
- N.** The Committee will review and revise portfolio guidelines as necessary.
- O.** The Committee will establish procedures for the methodology and frequency of review of (i) fund, asset class and portfolio performance, (ii) performance attribution, (iii) allocation within asset classes and (iv) risk levels. Procedures will be shared with the Board of Trustees.
- P.** The Committee will conduct periodic round table discussions of the economic and investment environment.

GENERAL COMMITTEE PROCEDURES

- Q.** A majority of the voting members of the Committee constitute a quorum. A majority of a quorum is required to take any Committee action or approve any motion. If an approved motion lacked the support by the Committee Chair, the results of the vote shall be reported in a separate report to the Board of Trustees at its next regularly scheduled meeting. Any member proposing or responsible for oversight of an investment being brought to the Committee for approval will be recused from the vote.
- R.** The Committee shall establish a regular monthly meeting schedule. Non-routine meetings may be called by any Committee member with sufficient lead time to provide appropriate notice of the meeting under ...
- S.** The Committee Charter shall be approved by the SIB.
- T.** Minutes of Committee meetings shall be kept and be provided to SIB. Regular Board meetings shall include an agenda item for discussion of Committee actions and proceedings.
- U.** The Committee may establish standing subcommittees or temporary working groups to carry on assigned activities. Such subcommittees or working groups will report on their activities to the Committee as requested by the Committee.

DERIVATIVE INVESTMENTS

- V.** Procedures for review, processing, and monitoring of derivative investments (if approved) will be established by the Committee.
- W.** Specific investment policies regarding the use of derivative instruments (if approved) are determined for each portfolio by the IC Guidelines. Such policies, as amended from time to time, are officially contained in the IC Guidelines or external manager contracts.
- X.** The Chief Financial Officer or designee will review with the Committee any changes in the accounting treatment and required note disclosures for external reporting purposes used for derivative instruments, based on the applicable fund, the characteristics of the instrument and any underlying assets or liabilities.

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

I. PURPOSE

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

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

II. AUTHORITY

The Committee is authorized to:

- draft policy (to be formally approved by SIB) regarding dollar and/or risk thresholds for determining when to opt-out of class actions and/or seek direct litigation or lead plaintiff status;
- based on SIB approved policy, make decisions on the level of participation the SIB will take in direct litigation, opt-in or group litigation, anti-trust and other class actions; and
- approve the selection of special assistant attorneys in cases of direct litigation.

III. COMPOSITION

The Committee will consist of three members of the SIB appointed by the Chair.

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

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

IV. MEETINGS

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

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

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

V. RESPONSIBILITIES

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

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

To this end, the Committee will:

- Develop initial policy and periodically review policy to determine if changes are needed.
- Review reports from RIO staff and third parties in order to maintain awareness of potential and actual securities litigation affecting the SIB portfolios.
- Make decisions on whether to pursue direct litigation and/or lead plaintiff status on cases exceeding policy thresholds for passive participation.
- Select third party litigation firms when deemed appropriate.
- Perform other activities related to this charter as requested by the SIB.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually the review of all responsibilities outlined in this charter.

Date of Creation of Committee Amendments: February 16, 2018

Date Securities Litigation Committee Charter Adopted and Approved: April 27, 2018

Revised: March 24, 2023

Section III: Board-Staff Relationship

C-1:A. Chief Executive Role

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

Policy Implemented: June 23, 1995.

C-2:B. Delegation to the Executive Director

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

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

Policy Implemented: June 23, 1995.

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

~~C-3:C.~~ Executive Director Job Description

As the board's single official link to the operating organization, the executive director's performance will be considered to be synonymous with the RIO's total performance. It is the responsibility of the board to establish and maintain a job description for the executive director.

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

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

Policy Implemented: June 23, 1995.

~~C-4:D.~~ Monitoring Executive Performance

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

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

3. The board will monitor each *Ends* and *Executive Limitations* policy according to the following frequency and method:

Quarterly internal reports for policies:

~~A-2I-B: Staff Relations~~ Communication and Counsel to Board
A-4I-D: Budgeting
A-5I-E: Financial Condition
~~D-3IV-C: Investment Services~~
D-4: ~~Investment Performance~~

Annual external reports for policies:

A-2: ~~Staff Relations~~
A-4I-D: Budgeting
A-7I-G: Asset Protection
~~D-3IV-C: Investment Services~~
D-4: ~~Investment Performance~~

Annual internal reports for policies under Section I Executive Limitations will be assessed and provided as part of the annual Executive Limitations Audit referred to under Subsection 4 C of this policy.:

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

4. The Executive Director will submit required monitoring reports at regular meetings of the board. The board will act on those reports by voting on one of the following motions:
 - A. A motion to accept the report.
 - B. A motion to conditionally accept the report, with a statement of the revisions or additional information that is necessary for the report to be accepted without condition.
 - C. The internal audit staff will be responsible for preparing an annual summary of the board's action concerning required reports submitted by the Executive Director, and the summary will be made available as a part of the formal evaluation of the Executive Director.

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

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

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

Policy Implemented: June 23, 1995

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

Section IV: Ends

D-1:A. Mission

The Retirement and Investment Office exists in order that:

- Prudent and transparent investment services are provided to SIB client funds and North Dakota public school educators are supported with responsible benefit administration.

The execution of this mission will be evaluated on the following:

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

Policy Implemented: October 27, 1995.

Amended: January 27, 2012.

D-2:B. Organizational Beneficiaries

RIO beneficiaries (clients) are those which are statutorily defined and those which have contracted for services under statutory authority. ~~Exhibit D-1 lists the o~~Organizational beneficiaries during any fiscal year may be found in the annual financial report.

Policy Implemented: October 27, 1995.

D-3:C. Investment Services

The Retirement and Investment Office exists in order that:

1. SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost-effective manner and under the Prudent Investor Rule.

- a. This “End” will be evaluated based on the following:
- i. Comparison of client fund’s rate of return NET of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.
 - ii. Comparison of the client fund’s risk, measured by standard deviation of NET returns, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.
 - iii. Comparison of the risk adjusted performance of the client fund, NET of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.

Policy Implemented: October 27, 1995.
Amended: November 22, 1996, January 27, 2012.

~~D-4: Information on Available Services Combine with D-3~~

~~The Retirement and Investment Office exists in order that:~~

- 2. Potential SIB clients have access to information regarding the investment services provided by the SIB.

Policy Implemented: October 27, 1995.

~~D-5:~~ D. Retirement Services

The Retirement and Investment Office exists in order that:

1. TFFR benefit recipients receive their retirement benefits in a cost-effective and timely manner.
 - a. Retirement program performance quality will be measured against the Ends and retirement policies and administrative rules adopted by the Teachers' Fund for Retirement Board.

Policy Implemented: October 27, 1995.

~~D-6: Information on Retirement Services Combine with D-5~~

~~The Retirement and Investment Office exists in order that:~~

~~3. 2. TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.~~

Policy Implemented: October 27, 1995.

~~D-7:~~**E. Customer Satisfaction**

The Retirement and Investment Office exists in order that:

1. SIB clients and TFFR benefit recipients receive high quality~~satisfactory~~ services from the boards and staff of the office.
 - a. The quality of services will be assured ~~by direct board contact and~~ by surveying clients ~~and beneficiaries~~ at least annually and beneficiaries upon receipt of services and promptly addressing identified client/beneficiary concerns.

Policy Implemented: December 1, 1995.

New Section

F. Fiscal Services

The Retirement and Investment Office exists in order that:

The funds and accounts of SIB clients and TFFR beneficiaries are managed prudently under applicable accounting standards and practices.

This End will be evaluated based on the following:

Internal and external audit reports, internal compliance controls, the publishing of timely and accurate financial statements, and responsiveness and accuracy of reporting to oversight authorities.

G. Internal Audit Services

The purpose of the internal audit division is to provides an independent, objective assurance and advisory activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations.

This End will be evaluated based on the following:

Internal audit reports, the timely completion of internal audit activities, audit committee reports, and responsiveness and accuracy of reporting.

Section IV Exhibits

Exhibit D-I:~~1. Organization Beneficiaries~~

INVESTMENT CLIENTS:

Statutory:

- ~~1. Budget Stabilization Fund~~
- ~~2. Cultural Endowment Fund~~
- ~~3. Insurance Regulatory Trust Fund~~
- ~~4. Petroleum Tank Release Compensation Fund~~
- ~~5. Public Employees Retirement System Fund~~
- ~~6. State Risk Management Fund~~
- ~~7. State Bonding Fund~~
- ~~8. State Fire and Tornado Fund~~
- ~~9. Teachers' Fund for Retirement~~
- ~~10. The Legacy Fund~~
- ~~11. Workforce Safety & Insurance Fund~~

Contractual:

- ~~1. City of Bismarck Deferred Sick Leave Fund~~
- ~~2. City of Bismarck Employees Retirement Fund~~
- ~~3. City of Bismarck Police Retirement Fund~~
- ~~4. City of Fargo Dome Permanent Fund~~
- ~~5. City of Grand Forks Park District Pension Fund~~
- ~~6. City of Grand Forks Pension Fund~~
- ~~7. ND Association of Counties Fund~~
- ~~8. ND Job Service Retirement Fund~~
- ~~9. Public Employees Retirement System Group Health Insurance Fund~~
- ~~10. Public Employees Retirement System Retiree Health Insurance Fund~~
- ~~11. ND State Board of Medicine~~
- ~~12. Tobacco Prevention and Control Fund~~
- ~~13. ND Parks and Recreation~~

14. ~~ND Office of the Attorney General~~

15. ~~Veterans' Cemetery Trust Fund~~

~~ADMINISTRATIVE CLIENTS:~~

~~Statutory:~~

~~1. Teachers' Fund for Retirement Beneficiaries~~

Exhibit D-II-2. Governance Policy Monitoring Summary

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

Interests	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up
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~~Audit Supervisor = Report to State Investment Board Audit Committee with a Summary Report to the SIB~~

~~FYE = Fiscal Year End — CYE = Calendar Year End — N/A = Not Applicable —~~

~~Amended September 26, 2014³.~~

Add Exhibits for Monitoring Summary and Delegation Matrix

Section V: Investments

E-1:A. Fiduciary Duties

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

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

North Dakota state law provides broad fiduciary guidelines for the SIB members. NDCC 21-10-07 specifies that "the state investment board shall apply the prudent investor rule in investing for funds under its supervision except that Section 21-10-07.1 requires the SIB to give preference to qualified investment firms and financial institutions with a presence in the state for legacy fund investment purposes. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not regarding speculation but regarding the permanent disposition of funds, considering probable safety of capital as well as probable income."

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

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

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

Policy Implemented: September 20, 1995.

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

E-2:B. Investment Process

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

- Setting asset allocation targets
- Setting appropriate benchmarks
- Finding the right managers
- Funds implementation and ongoing execution
- Monitoring the program
- Searching for appropriate new opportunities

Asset allocation targets:

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

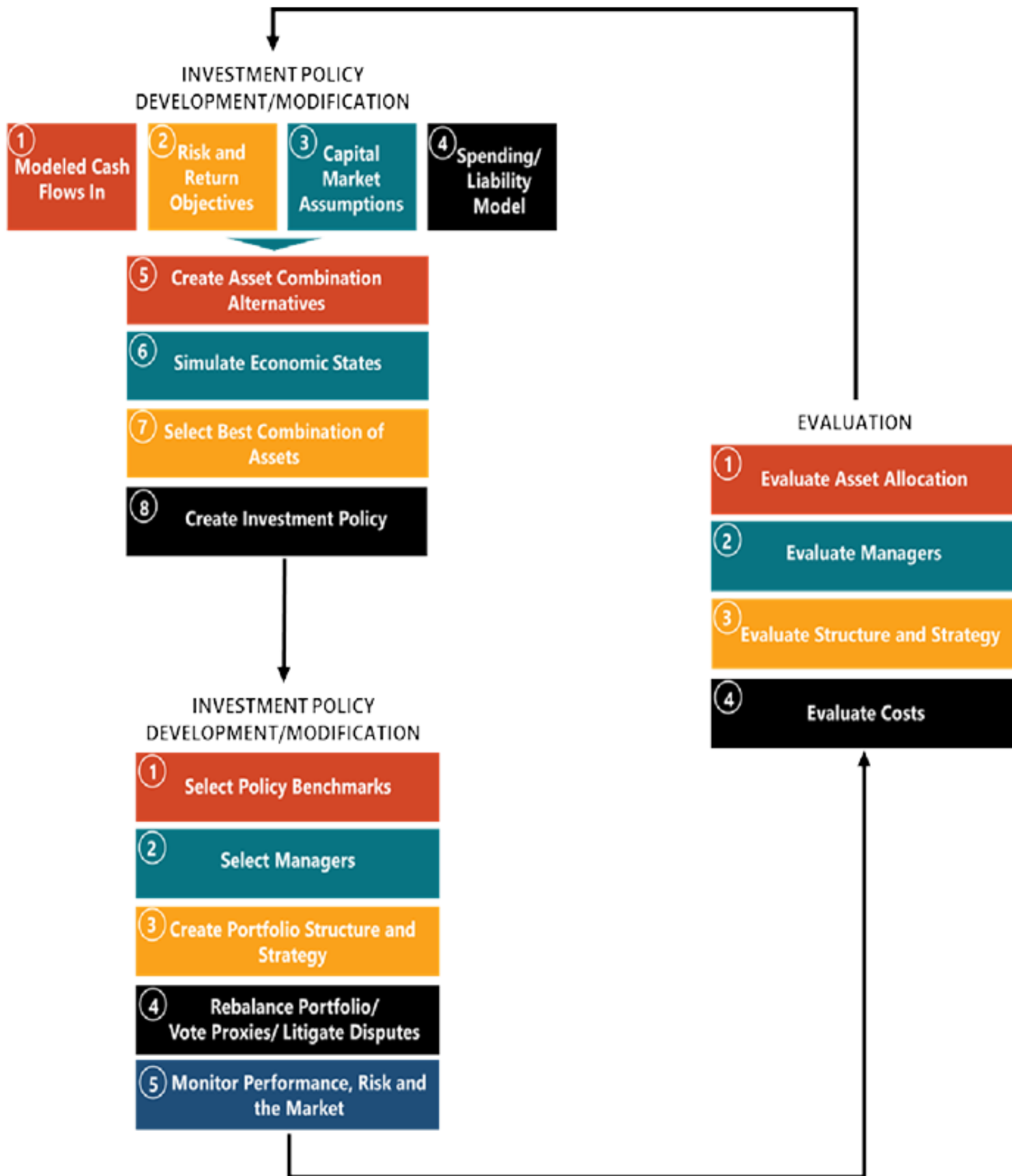
To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process, described by the diagram on the following page, involves three phases:

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

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

Policy Implemented: September 20, 1995.

Amended: November 18, 2022



E-3:C. Key Program Entities and Responsibilities

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

Fund Governing Bodies

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

SIB

1. Invest funds entrusted by statute and contracted entities, delegating investment authority to either the Investment Committee or staff when deemed appropriate.
2. Set policies for appropriate investments and investment practices of entrusted funds.
3. Approve asset allocation and investment policies of participating trust funds or establish pool asset allocation previously recommended by the Investment Committee.
4. Monitor the progress of the implementation of the investment strategy.
5. Monitor the performance and risk of the investment program provided by an independent third-party performance appraisal.
6. The Board will receive program updates, training regarding investment topics, market updates, investment performance/risk, investment procedures, program costs and updates on investment execution of investment strategies from Investment Committee representatives.
7. Approve benchmark recommendations from an independent third-party benchmark consultant previously recommended by the Investment Committee.
8. Review summaries of Investment Committee proceedings.
9. Review updates regarding specific investment strategies, manager selection, termination, guideline changes and changes to instrument usage.
10. The Board may choose to have decision authority over specific Investment Committee decisions when deemed appropriate including new investment programs, strategies, techniques, instruments, and initiatives.

Investment Committee

1. The Committee will suggest and recommend changes to the SIB Investment Policy, as necessary including any delegation of authority to RIO investment staff.
2. The Committee will review periodically and approve changes and additions to the IC Guidelines and will report any revisions to the SIB.

3. The Committee may examine internally (if approved) and externally managed portfolios, individual investments, correlation among portfolios, and such other matters as the Committee deems appropriate for the purpose of understanding, measuring, controlling, monitoring, and reporting SIB investment exposure.
4. The Committee will review and approve new investment strategies (both internal direct and external), portfolios, and the use of new investment instruments prior to their implementation.
5. The Committee will oversee the review and implementation of any other new investment programs or initiatives in all SIB portfolios and will coordinate any necessary related SIB approvals.
6. For purposes of fulfilling its risk management and oversight responsibilities, the Committee will act as liaison between the RIO investment Staff and the SIB on issues concerning investment risk management.
7. The Committee will review subset of asset class strategies at least quarterly to assess established risk limits and evaluate strategy and will approve such strategies annually. The relevant Investment Staff shall be responsible for the specific investment decisions and implementations including internally (if approved) and externally managed mandates that are used to execute the approved strategies.
8. The Committee will review all compliance-related issues including compliance with statutes, administrative rules, internal and external manager investment guidelines or as otherwise requested.
9. The Committee will review asset allocation plans and strategies and will review and approve recommend any proposed changes to SIB's strategic asset allocations and fund-level active risk objectives before they are presented to the Board for approval. The Committee will provide consultation and assistance to the SIB, ED and staff concerning total fund allocation changes or rebalance decisions, as needed.
10. The Committee will review and act on all requests from investment managers, both internal (if approved) and external for waivers to provisions in their investment guidelines. On an emergency basis when it is impractical to timely convene a meeting of the Investment Committee, either the Chair or Vice Chair of the committee with the concurrence of the Chief Investment Officer of the Committee or the Executive Director, may approve a waiver. That waiver will be brought to the Committee for ratification at its next regularly scheduled meeting.
11. The Committee may review and analyze other compliance-, risk- or derivative-related (if approved) matters that are directed to the attention of the Committee by the SIB, external auditors, the Internal Audit group, and RIO investment and accounting staff.
12. The Committee will receive quarterly reports regarding transitions (if any) and shall review with the applicable Investment Staff the costs and impacts associated with the transitions. It will also from time-to-time review reports on the trading effectiveness of investment execution of internal investment strategies (if approved).
13. The Committee will review annual benchmark recommendations from a Board-appointed benchmark consultant and will provide its evaluation and recommendation to the Board.
14. The Committee will review and revise portfolio guidelines as necessary.

15. The Committee will establish procedures for the methodology and frequency of review of (i) fund, asset class and portfolio performance, (ii) performance attribution, (iii) allocation within asset classes and (iv) risk levels. Procedures will be shared with the Board.
16. The Committee will conduct periodic round table discussions of the economic and investment environment.
17. Report the investment performance of the funds to each fund's governing authority.
18. Hire and terminate money managers, custodians, and consultants.

Chief Investment Officer and RIO Staff

1. Participate on the Investment Committee and report to the Board as required.
2. Implement investment policies approved by the Investment Committee and the Board.
3. Provide research and administration for SIB client funds and client projects.
4. Recommend investment policies and procedures appropriate for governing the investment of entrusted funds.
5. Lead the development of asset allocations, investment strategies, manager mandates, manager guidelines, investment implementations and investment policies to be approved by the Investment Committee and Board.
6. Negotiate manager contract terms and conditions as delegated by the Investment Committee and Board.
7. Evaluate money manager adherence to investment objectives, mandate requirements and guidelines.
8. Provide performance reports to the Investment Committee, the Board and Boards of participating funds as a representative of the Investment Committee and the SIB.
9. Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.
10. Develop and maintain appropriate accounting policies and investment systems for the funds entrusted to the SIB.
11. Recommend to the investment committee new investment strategies (both internal direct and external), portfolios, and the use of new investment instruments prior to their implementation.
12. Manage direct investment strategies approved by the investment committee including the allocation of capital within the strategies, as well as security selection, weighting, and trading.
13. Provide rebalance instructions to the fiscal team that comply with client policy statements.

Investment Consultant

1. Measure money manager performance and monitor adherence to investment goals, objectives, and policies.
2. Assist in the annual evaluation of program policies, results, and the development of annual work plan.

3. Work with Staff to develop the asset allocation or asset/liability studies.
4. Provide information for requested money manager searches.
5. Assist in development of investment policies and manager structure and rebalancing guidelines.
6. Extension of staff for special projects.

Actuary

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

Auditor

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

Master Custodian

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

Portfolio Managers

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

Policy Implemented: September 20, 1995.

Amended: February 27, 2009, November 18, 2022.

E-4:D. Investment Policy Development – Trust Funds

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

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

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

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

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

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

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

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

The results of the optimizations are a description of the range of financial results that might realistically be expected to occur. These results provide the basis for determining an asset allocation. In accordance with NDCC 21-10-02.1, RIO staff works with each fund's governing authority, and consultants as needed, to develop an investment policy, which includes an appropriate asset allocation, for each of the statutory funds. Contracted entities are responsible for their own policy development. Pooling of funds is allowed by statute. A pooled allocation will have an investment policy that can be approved by each fund's governing authority.

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

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

Policy Implemented: September 20, 1995.

Amended: February 27, 2009, November 18, 2022.

E-5:E. Investment Policy Development – Investment Pools

Asset Class Implementation

The SIB may internally manage investment of funds as by the Investment Committee and if there is a policy approval for internal investment management by the Board. Within each asset class there are numerous manager strategies, internal and external that may be employed by the SIB to affect exposure to the various asset classes as well as achieve an excess return to the policy benchmark.

Investment Pools

Investment pools may be defined for asset allocations as well as individual asset classes, sub-asset classes, manager portfolios or transactions and unitized for allocation to client funds.

SIB investment pool policy statements will define the following:

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

Policy Implemented: September 20, 1995.

Amended: February 27, 2009, November 18, 2022.

E-6:F. Monitoring

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

- Accounting
- Auditing
- Performance Measurement

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

Accounting

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

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

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

Compliance

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

Auditing

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

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

Performance Measurement and Reporting

The third element of monitoring entails measuring the performance of the individual investment managers and the total fund performance of each of the funds under the SIB. The SIB will retain reputable investment consultants or performance measurement services to provide comprehensive quarterly performance measurement information. This information will include data on the capital markets, other plan sponsors, and other investment managers. Performance results for SIB accounts will be calculated from data provided by the master custodian and compared to relevant capital market benchmarks, other public funds, manager peer groups, and investment goals specified in the asset class investment policy. Time periods covered by the report may vary but generally will include the most recent quarter, last 12 months, last three years, five years, and longer time periods (as data is available).

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

Policy Implemented: September 20, 1995.

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

E-7:G. Proxy Voting

STATEMENT OF POLICY

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

The objectives of these policies are as follows:

1. Exercise the value empowered in proxies.
2. Maintain or improve share value for the exclusive benefit of the participants.

PROCEDURES

DISTINCTION OF RESPONSIBILITIES

Master Custodian

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

Managers

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

Staff

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

Board

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

REPORTING

Master Custodian

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

Managers

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

Staff

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

Policy Implemented: September 20, 1995.

Amended: February 27, 2009, October 26, 2018, November 18, 2022.

E-8:H. Implementation – Investment Manager Selection

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

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

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

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

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

1. Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.
 2. Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls.
 3. Organizational factors such as type and size of firm, ownership structure, client servicing capabilities, ability to obtain and retain clients, and fees.
- Staff will provide a written report to the Investment Committee as required on the due diligence process conducted during the selection process. This report will include selection steps followed and process steps excluded.

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

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

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

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

Policy Implemented: September 20, 1995

Amended: February 27, 2009, November 18, 2022

~~E-9:1.~~ Implementation – Portfolio Rebalancing

Portfolio Rebalancing

The need to rebalance the portfolio can arise from a new asset allocation or because market activity has driven the actual distribution of assets away from the desired mix. To minimize transaction costs

from rebalancing, RIO develops appropriate ranges around the target mix (which are specified in the policy statement). Rigidly adhered to, such a policy is a valuable risk control tool. By maintaining asset mix within reasonably tight ranges, the SIB avoids making unintentional "bets" in the asset mix and avoids market- timing decisions.

All funds the SIB oversees have an asset allocation with minimum and maximum limits assigned. RIO's rebalancing policy requires the asset mix to be determined at the end of each month and that appropriate rebalancing takes place.

Policy Implemented: September 20, 1995.

Amended: November 18, 2022.

E-10:J. Evaluation

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

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

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

Evaluation of Money Managers

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

- Has the manager achieved the SIB's performance objectives?
- Has the firm adhered to the investment philosophy for which it was hired?

- Have there been any organizational or personnel changes that may negatively affect future performance?
- Are areas of concern being adequately addressed?
- Can the manager perform well in the future, regardless of whether extraordinary events, long-term performance, and/or short-term performance argue for termination?

These criteria are assessed by quantitative and qualitative means:

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

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

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

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

Evaluation of Program Costs

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

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

Policy Implemented: September 20, 1995.

Amended: October 26, 2018, July 22, 2022, November 18, 2022

E-41:K. Performance Related Investment Manager Review

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

Factors which may result in a Manager Review:

- Significant changes in organizational structure
- Significant changes in investment philosophy
- Significant deviation in portfolio management from stated philosophy (style drift)
- Substandard investment performance
- Diminished confidence in manager

Manager Review Procedures:

- Information is submitted to, or generated by, the Board which initiates consideration of a Manager Review.
- If warranted, the Board takes action to initiate a Manager Review.

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

The ~~Chief Investment Officer and staff~~Investment Director report’s findings to SIB at a subsequent meeting.

After considering findings of the Manager Review, SIB may:

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

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

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

In every case, the ~~Investment Director~~Chief Investment Officer and staff is responsible for documenting the Manager Review process including recognition of:

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

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

Policy Implemented: June 27, 1997.

E-12:L. Bank of North Dakota Match Loan Program

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

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

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

Policy Implemented: April 24, 1998.

Amended: February 27, 2009

E-13:M. Accepting New Clients

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

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

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

Policy Implemented: November 20, 2009

E-14:N. Securities Monitoring and Litigation

General Purpose

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

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

Non-Active Recovery and Filing

1. SIB will require as part of its agreement with its custodial bank or other designated agent, that adequate securities class action monitoring is maintained on an ongoing basis, sufficient to assure that most of the actual awards and settlements for such cases are tracked and identified and that proof of claim forms, including supporting documentation, will be properly and timely filed.

2. SIB may engage one or more legal firms that specialize in prosecuting security class-action cases; any such engagement is subject to the special appointment requirements of N.D.C.C. § 54-12-08. For these purposes only, such firm(s) may be granted ongoing access to security holdings information through the custodian bank or other designated agent.
3. An agreement with any law firm for non-litigation services will not commit SIB to employing said firm in the event that it seeks to represent SIB as an active participant in any securities related litigation. Such representation must be effected by a separate retainer agreement between the SIB and said firm, or another, depending on such factors as the potential monetary scope, the nature of the case and industry specialty that may be required, the allocation of current or past cases among candidate firms, the likely duration and cost of prosecuting such a case, retainer fees or contingency splits, the venue in which the case is to be filed, and other considerations.
4. The custodial bank or other designated agent will be required to provide the Retirement and Investment Office (“RIO”) with periodic reports that detail class action cases monitored, claims filed, and award or settlement distributions received. RIO will maintain these records and provide an update to the SIB or Securities Litigation Committee (Committee) with regards to accounting information on distributions received on claims filed by the custodian bank or other designated agent on our behalf.

Active Participation in Cases

1. The Executive Director will initiate active participation in securities cases only upon prior review and approval of the SIB or Committee. Before bringing any recommendations to the SIB or Committee, the Executive Director, with significant assistance from legal counsel from the Office of the Attorney General, will assess the merits and prospects for active participation by reference to the criteria and factors outlined in this section.
2. Decision Criteria and Factors:
 - a. The decision to participate in an active capacity in security litigation should be based on the totality of the circumstances. Dollar loss amounts are important, but not the sole or overriding factor to consider in making such recommendations by the Executive Director, or determinations by the SIB or Committee.
 - b. Potential losses to SIB clients must be significant in order to warrant participation as a lead plaintiff, co-lead plaintiff, or separate litigant in U.S. or Canadian cases. Generally, in cases where the potential loss does not exceed the \$5 million, the SIB will generally avoid active participation.
 - c. The *prima facie* merits of the claim for loss, and the factual basis for the action, recognizing that the full discovery process will not commence until the class has been certified by the court in which such case is to be filed.

- d. The availability of witnesses, and possible support that may be obtained from investment managers, consultants, and the custodial bank through discovery.
 - e. The potential that any defendants or insurers will be able to pay an adequate recovery to the class, without impairing the value of any current security holdings SIB may yet hold in the issuer in the portfolio.
 - f. The ability of the law firm recommending action on the part of SIB to prosecute the case effectively, in the venue where such case is likely to be filed, and the experience of the firm in managing such cases individually or in partnership with other firms.
 - g. Potential long-term benefits from corporate governance changes from pursuing litigation.
 - h. The ability of SIB to serve as a fiduciary on behalf of all class members in the case, especially in relative terms to other institutional investors that may be considering the same case.
 - i. Potential costs that may be incurred. Special consideration must be given to any case that must be filed in a non-U.S. venue under the “Morrison” criteria established by the U. S. Supreme Court in a 2010 decision, since costs of litigation and potential liabilities of unsuccessful claims may be significant.
 - j. Current workload and staffing resources required for the fulfillment of SIB’s primary member service functions, and whether participation might displace time and staff resources needed for core business functions.
3. Decision Criteria and Factors for cases filed in a non-U.S. venue: In addition to the Criteria and Factors set forth in Subsection 2, the SIB or Committee may consider the following:
- a. The proposed funding arrangements for the action.
 - b. Evaluate the merits and risks of the case in light of the law of the jurisdiction in which the action would be brought. Generally, in cases where the potential loss does not exceed the Jurisdictional Thresholds referenced in Exhibit A, the SIB will avoid opt-in or group litigation participation.

Roles in Managing & Monitoring Litigation

1. The SIB or Committee will make the final determination of whether it is in the SIB’s best interest to pursue active participation in any case and whether to engage any law firm and the terms of such engagement.
2. Decisions regarding the conduct and implementation of the SIB’s or Committee’s decision to participate will be the responsibility of the Executive Director, or an approved member of the management staff if he so delegates. When feasible and advisable, the Executive Director shall seek advice and direction from the SIB or Committee on strategic and legal issues that

may arise in prosecuting the action on behalf of the SIB and its clients. The Executive Director shall timely report to the SIB or Committee on the progress of the litigation.

3. The Executive Director shall be responsible for management of the relationship with any portfolio monitoring law firm or organization for such purpose. Based on the need for additional coverage, the Executive Director and Committee will determine whether one or several firms are needed to fulfill the goals of this Policy and may terminate such monitoring agreements as judgment advises.
4. Any agreement for portfolio monitoring services that includes a fee or subscription cost must first be approved by the SIB or Committee before execution by the Executive Director.

Policy Review

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

Non-US Opt-In and Group Litigation
Jurisdictional Thresholds

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

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

Policy Implemented: November 20, 2015

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

M. Incentive Compensation Program

NDCC 54-52.5-04 authorizes the retirement and investment office to develop an incentive compensation program for positions necessary for the investment of funds under control of the board. The board must approve the plan provisions annually and the agency must report to legislative management on the status of the program each interim. The provisions of the plan may be found in the following Exhibit.

Section V Exhibits

Exhibit E-11. State Investment Board Members

State Investment Board Members 2023-2024:

Position	Incumbent	Designation	Term Expiration
Lt. Governor	Tammy Miller	Statutory	12/31/24
State Treasurer	Thomas Beadle	Statutory	12/31/24
State Insurance Commissioner Executive Director Office of Management & Budget	Jon Godfread Susan Sisk	Statutory	12/31/24
Commissioner University & School Lands	Joe Heringer	Statutory	Open
Executive Director Workforce Safety & Insurance	Art Thompson	Statutory	Open
Trustee, TFFR	Rob Lech	Appointed by TFFR Board	6/30/25
Trustee, TFFR	Cody Mickelson	Appointed by TFFR Board	6/30/26
Trustee, TFFR	Mel Olson	Appointed by TFFR Board	6/30/23
Trustee, PERS	Adam Miller	Appointed by PERS Board	6/30/2227
Trustee, PERS	Claire Ness Joe Morrissette	Appointed by PERS Board	6/30/2628
Trustee, PERS	Yvonne Smith	Appointed by PERS Board	6/30/24
Legacy & Budget Stabilization Fund	Glenn Bosch	Appointed by LBSFAB	

<u>Advisory Board (LBSFAB)</u>			
<u>Legacy & Budget Stabilization Fund Advisory Board</u>	<u>Jerry Klein</u>	<u>Appointed by LBSFAB</u>	
<u>Institutional Investment Professional</u>	<u>Pete Jahner</u>	<u>Appointed by Governor</u>	<u>6/30/26</u>
<u>Institutional Investment Professional</u>	<u>Prodosh Simlai</u>	<u>Appointed by Governor</u>	<u>6/30/28</u>

Exhibit E-II2. Retirement and Investment Office Staff

Retirement and Investment Office Staff

Position	Incumbent
Executive Director	Jan Murtha
Chief Investment Officer	Scott Anderson
Deputy Executive Director/ Chief Retirement Officer	Chad Roberts
Deputy Chief Investment Officer	Eric Chin
Chief Financial Officer/Chief Operations Officer	Ryan Skor

External3. External

Function	Firm	Date Hired
Investment Consultant	Callan Associates Inc.	April 1984
Actuary (TFFR)	SegalGabriel, Roeder, Smith & Company (GRS)	July 2011July 2023
Auditor	CliftonLarsonAllen	April 2012
Master/Global Custodian	The Northern Trust Company	December 1983

Exhibit E-III

1. Delegation Matrix

<u>Activity</u>	<u>Recommend</u>	<u>Approve for Recommendation</u>	<u>Approve</u>	<u>Oversight</u>	<u>Implement</u>
Investment Policy	Staff/IC	IC	Board	IC and Board	Staff
Asset Allocation	Staff	IC	Board	IC and Board	Staff
Third Party Performance Assessment	Third Party			IC and Board	
Program Updates/Training				IC and Board	Staff/IC
Benchmarks	Third Party	IC	Board	IC and Board	Staff
IC Proceedings		IC	Board	Board	Staff
Any Authority			Board	Board	Staff/IC
Manager Guidelines	IC/Staff		IC	IC and Board	Staff
Monitor Funds and Portfolios				IC and Board	Staff
New Investment Strategies	Staff		IC	IC and Board	Staff
New Investment Portfolios	Staff		IC	IC and Board	Staff
New Investment Instruments	Staff		IC	IC and Board	Staff
Compliance	Staff		IC	IC and Board	Staff
Waivers	Staff		IC	IC and Board	Staff
Transitions			Staff	IC and Board	Staff
Rebalance			Staff	IC and Board	Staff
Hire/Terminate Managers	Staff		IC	IC and Board	Staff
Hire/Terminate Benchmark, Hurdle Rate Consultants	Staff	IC	Board	IC and Board	Staff
Hire/Terminate Custodians, Staff Consultants	Staff		Staff	IC and Board	Staff
Negotiate Manager Contracts				IC and Board	Staff
Manage Approved Direct Strategies				IC and Board	Staff

2. Incentive Compensation Program Policy

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		
Weight	Performance Component	Allocation Method
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.

Section VI: TFFR Program

Reference: Teachers' Fund for Retirement Program Manual

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/TFFR/teachersprogrammanual.pdf>

Section VII: Trust Fund Investment Guidelines

AG Settlement Fund

Bismarck Deferred Sick Leave

Bismarck Employees

Bismarck Police

Bonding

Budget Stabilization

Cultural Endowment Fund

Fargo – FargoDome Permanent Fund

Fire and Tornado

City of Grand Forks

Park District of the City of Grand Forks

Insurance Regulatory

Job Service

Legacy Fund

ND Association of Counties

ND Board of Medicine

ND Parks and Recreation

PERS

PERS Group Insurance

PERS Prefunded Health

Petroleum Tank

Risk Management

Risk Management Workers Comp

Teachers' Fund for Retirement

Tobacco Prevention and Control Fund

Veterans' Cemetery Trust Fund

Workforce Safety & Insurance

Section VIII: By-Laws

CHAPTER 1 - AUTHORITY

Section 1-1. The State Investment Board (SIB) has the authority to maintain an administrative office under

Chapter 54-52.5, North Dakota Century Code.

Section 1-2. The SIB has the authority and responsibility for providing administrative services to the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board. This includes organizing, staffing, and maintaining an administrative office.

Section 1-3. The SIB has the authority and responsibility for developing and monitoring the agency budget. Section 1-4. The SIB has the authority and responsibility to maintain office records, an accounting system, and data processing support services.

Section 1-5. The SIB has the authority to pay all claims and investment expenses filed with TFFR and the SIB.

Policy Implemented: June 23, 1995.

CHAPTER 2 - BOARD

~~Section 2-1.—Members of the State Investment Board (SIB) are the Governor, State Treasurer, Commissioner of University and School Lands, director of Workforce Safety & Insurance, Commissioner of Insurance, three members of the Teachers' Fund for Retirement (TFFR) Board, two of the elected members and one member of the Public Employees Retirement System (PERS) Board as selected by those boards. The PERS and TFFR Boards may appoint an alternate designee with full voting privileges to attend meetings of the SIB when a selected member is unable to attend. The director of Workforce Safety and Insurance may appoint a designee, subject to approval by the Workforce Safety and Insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. Members of the State Investment Board (SIB) are sent forth in Chapter 21-10 of the North Dakota Century Code.~~

Section 2-21. The SIB will have general charge and management of the business of TFFR and the SIB, subject to law, administrative rules and regulations, and governance policies. The SIB will make such policy as necessary to fulfill this obligation.

Section 2-32. When the statutes allow a Deputy to represent a member of the SIB or an alternate to represent the TFFR or PERS Board, the Chair will recognize the individual for the record, and the individual(s) will then have the right to vote on matters before the SIB.

Section 2-~~43~~. The SIB will be responsible for the operation of an administrative office that will provide support services to TFFR and the SIB.

Policy Implemented: June 23, 1995.

CHAPTER 3 - OFFICERS AND DUTIES

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

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

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

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

Policy Implemented: June 23, 1995.

CHAPTER 4 - MEETINGS

Section 4-1. Regular meetings of the SIB to conduct business are to be held as often as necessary. The SIB will meet at least once each quarter. ~~Notice of all meetings will be made in accordance with North Dakota Century Code, Section 44-04-20.~~

Section 4-2. Meetings of the SIB may be called by the Chair or two members of the SIB upon reasonable notice in writing to the other members of the Board. (NDCC 21-10-04)

Section 4-3. A quorum will be ~~six (6)~~ seven (7) members of the SIB.

Section 4-4. Voting on matters before the SIB will be contained in the minutes which will show the recorded vote of each SIB member.

Section 4-5. All meetings of the SIB are open to the public, except as allowed under North Dakota law.

Section 4-6. A record of procedures will be kept by the Executive Director on all meetings of the SIB. The records of these proceedings are public documents, and copies will be distributed to the TFFR, SIB, and PERS Boards and upon request.

Section 4-7. Public participation during meetings of the SIB may be allowed at the discretion of the Chair. Section 4-8. SIB members, except elected and appointed officials, will be paid the amount specified in NDCC

21-10-01 per SIB meeting attended.

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

Policy Implemented: June 23, 1995.

Amended: July 22, 2011.

CHAPTER 5 - COMMITTEES

~~Section 5-1. The SIB has five standing committees: Audit, Executive Review and Compensation, Governance and Policy Review, Investment, and Securities Litigation.~~

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

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

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

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

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

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

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

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

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

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

~~Section 5-4.—Executive Review & Compensation Committee: See Executive Review & Compensation Committee Charter~~

~~Section 5-5.—Governance and Policy Review Committee: See Governance and Policy Review Committee Charter~~

~~Section 5-6.—Investment Committee: See Investment Committee Charter~~

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

~~**Amended:** October 26, 2018, July 22, 2022~~

CHAPTER 65 - RULES OF ORDER

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

Policy Implemented: June 23, 1995.

CHAPTER 76 - ADMINISTRATIVE OFFICE

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

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

Policy Implemented: June 23, 1995.

CHAPTER 8Z - AMENDMENTS

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

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

Policy Implemented: June 23, 1995.

Section IX: Century Code

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**INTERNAL AUDIT CHARTER
NORTH DAKOTA STATE INVESTMENT BOARD**

I. Purpose and Mission

- A. The purpose of the internal audit division is to provide an independent, objective assurance and advisory activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The internal audit division will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- B. The internal audit division is established by the State Investment Board (SIB). The internal audit division's responsibilities are defined by the SIB and the Audit Committee as part of their oversight role.

II. Standards for the Professional Practice of Internal Auditing

- A. The internal audit division will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing to the best of their ability. The Supervisor of Internal Audit will report periodically to the Executive Director and the State Investment Board (SIB) Audit Committee regarding the internal audit division's progress to conformance to the Code of Ethics and the Standards.

III. Authority

- A. The Supervisor of Internal Audit will report functionally to the SIB Audit Committee and administratively (i.e., day-to-day operations) to the Executive Director. To establish, maintain, and assure that RIO's internal audit division has sufficient authority to fulfill its duties, the SIB Audit Committee will:
 - 1. Approve the internal audit division charter.
 - 2. Approve the risk-based internal audit plan.
 - 3. Provide input to the Executive Director on the internal audit division's resource plan.
 - 4. Receive communications from the Supervisor of Internal Audit on the internal audit division's performance relative to its plan and other matters.
 - 5. The SIB Audit Committee Chair will participate in the hiring of the Supervisor of Internal Audit.
 - 6. The SIB Audit Committee Chair will participate in the annual evaluation of the Supervisor of Internal Audit.
 - 7. Make appropriate inquiries of management and the Supervisor of Internal Audit to determine whether there is inappropriate scope or resource limitations.
 - B. The Supervisor of Internal Audit will have unrestricted access to, and communicate and interact directly with, the State Investment Board and the SIB Audit Committee, including in executive session and between Board meetings, as appropriate.
 - C. The SIB authorizes the internal audit division to:
-

- D. Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- E. Develop and direct a broad, comprehensive program of internal auditing within RIO.

IV. Independence and Objectivity

- A. The Supervisor of Internal Audit will ensure that the internal audit division remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Supervisor of Internal Audit determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.
- B. Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgement on audit matter to others.
- C. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
 - 1. Accessing specific operations for which they had responsibility within the previous year.
 - 2. Performing any operational duties for RIO.
 - 3. Initiating or approving transactions external to the internal audit division.
 - 4. Directing the activities of any RIO employee not employed by the internal audit division, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.
- D. Where the Supervisor of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence and objectivity.
- E. Internal auditors will:
 - 1. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
 - 2. Exhibit professional objectivity in gathering and communicating information about the activity or process being examined.
 - 3. Make balanced assessments of all available and relevant facts and circumstances.
 - 4. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgements.
- F. The Supervisor of Internal Audit will confirm to the SIB Audit Committee, at least annually, the organizational independence of the internal audit division.
- G. The Supervisor of Internal Audit will disclose to the SIB Audit Committee any interference and related implications and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

V. Confidentiality

- A. Documents and information given to the internal audit division shall be handled in the same prudent and confidential manner as by those employees normally accountable for them. The Supervisor of Internal Audit shall ensure that internal audit staff is instructed in the handling and safeguarding of confidential information. North Dakota's laws state that all government records must be open to the public unless otherwise authorized by a specific law as outlined in North Dakota Century Code §44-04. Internal Audit will follow North Dakota open records laws.

VI. Scope of Internal Audit Activities

- A. The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments of the State Investment Board, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for RIO. Internal audit assessments include evaluating whether:
 - 1. Risks relating to the achievement of RIO's strategic objectives are appropriately identified and managed.
 - 2. The actions of RIO's officers, directors, employees, and contractors are in compliance with RIO's policies, procedures, and applicable laws, regulations, and governance standards.
 - 3. The results of operations or programs are consistent with established goals and objectives.
 - 4. Operations or programs are being carried out effectively and efficiently.
 - 5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact RIO.
 - 6. Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
 - 7. Resources and assets are acquired economically, used efficiently, and protected adequately.
- B. The Supervisor of Internal Audit shall report periodically to the Executive Director and the SIB Audit Committee regarding:
 - 1. The internal audit division's purpose, authority, and responsibility
 - 2. The internal audit division's plan and performance relative to its plan.
 - 3. The internal audit division's status on conformance progress with the IIA's Code of Ethics and Standards, and action plans.
 - 4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the SIB Audit Committee
 - 5. Results of audit engagements or other activities.
 - 6. Resource requirements.
 - a) If external assistance is needed to fulfill an engagement.
 - 7. Any responses to risk by that may be unacceptable to RIO.
- C. The Supervisor of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and advisory service providers as needed. The internal audit division may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided internal audit division does not assume management responsibility.

- D. Opportunities for improving the efficiency of control processes, governance, and risk management may be identified during engagements. These opportunities will be communicated to the to appropriate levels of management.
- E. Advisory Services: RIO's internal audit provides advisory services in an advisory capacity and are generally performed at the specific request of the Executive Director or other senior management. The nature and scope of an advisory engagement are subject to agreement with management. Advisory services may range from formal engagements with defined scopes and objectives to advisory activities such as providing informal guidance in response to general inquiries. When performing advisory services, the internal auditor should maintain objectivity and not assume management responsibility.

VII. Responsibilities

- A. The Supervisor of Internal Audit is responsible to:
 - 1. Submit, at least annually, to the Executive Director and the SIB Audit Committee a risk-based internal audit plan for review and approval.
 - 2. Communicate to the Executive Director and the SIB Audit Committee the impact of resource limitations on the internal audit plan.
 - 3. Review and adjust the internal audit plan, as necessary, in response to changes in RIO's business, risks, operations, programs, systems, and controls.
 - 4. Communicate to the Executive Director and the SIB Audit Committee any significant interim changes to the internal audit plan.
 - 5. Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
 - 6. Follow up on engagement findings and corrective actions, and report periodically to Executive Director and the SIB Audit Committee any corrective actions not effectively implemented.
 - 7. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
 - 8. Ensure the internal audit division collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
 - 9. Ensure trends and emerging issues that could impact RIO are considered and communicated to Executive Director and the SIB Audit Committee as appropriate.
 - 10. Ensure emerging trends and successful practices in internal auditing are considered.
 - 11. Establish and ensure adherence to policies and procedures designed to guide the internal audit division.
 - 12. Ensure adherence to RIO's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to Executive Director and the SIB Audit Committee.
 - 13. Work towards conformance of the internal audit division with the Standards, with the following qualifications:
 - a) If the internal audit division is prohibited by law or regulation from conformance with certain parts of the Standards, the supervisor of internal audit will ensure

appropriate disclosures and will ensure conformance with all other parts of the Standards.

- b) If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Supervisor of Internal Audit will ensure that the internal audit division conforms with the Standards the best to their ability, even if the internal audit division also conforms with the more restrictive requirements of other authoritative bodies.

VIII. Quality Assurance and Improvement Program

- A. The internal audit division will develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit division. The program will include an evaluation of the internal audit division's conformance with the Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit division and identify opportunities for improvement.
- B. The Supervisor of Internal Audit will communicate to the Executive Director and the SIB Audit Committee on the progress of the internal audit division's quality assurance and improvement program, including internal assessments. It should be noted that the RIO's internal audit division has not had a quality assurance review and it not in compliance with IIA Standards.

DATE INTERNAL AUDIT CHARTER ADOPTED AND APPROVED:

CHARTER OF THE AUDIT COMMITTEE OF THE NORTH DAKOTA STATE INVESTMENT BOARD

PURPOSE AND MISSION

The Audit Committee (the Committee) is a standing committee of the North Dakota State Investment Board (SIB) created to fulfill its fiduciary oversight responsibilities of the North Dakota Retirement and Investment Office (RIO) and to serve as a communications link among the SIB, the RIO's management and Internal Audit staff, independent auditors, and others.

The Committee will assist with the SIB in carrying out its integrity oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics. of the RIO's financial reporting process and system of internal controls, the RIO's compliance with legal and regulatory requirements, the performance of the RIO's Internal Audit function and independent auditors, and the RIO's management of risks in the Committee's areas of responsibility. A. The purpose of the internal audit division is to provide an independent, objective assurance and advisory activity designed to add value and improve North Dakota Retirement and Investment Office (RIO's) operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. The Internal Audit division will assist RIO in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

AUTHORITY

The Committee is authorized to provide oversight to the Internal Audit function and the independent audit for the RIO. These activities provide assurance that RIO's financial condition and results of operations are accomplished in accordance with the RIO's policies and procedures and legal and regulatory requirements. The Committee may investigate any activity of the RIO and may retain persons as necessary from within or outside the RIO having special competence to assist the Committee in the accomplishment of its responsibilities.

The RIO's Supervisor of Internal Audit will be the staff member reporting administratively to the Executive Director/~~Chief Investment Officer~~ and functionally to the Committee.

The Executive Director will supervise the administrative activities of the Internal Audit function and independent audit activities such as securing contracts, paying fees, maintaining official reports, and other appropriate activities.

COMPOSITION

The Committee will consist of five members, selected by and approved by the SIB. Three members of the Committee will represent the three groups on the SIB: Legacy & Budget Stabilization Fund Advisory Board, a pension representative, member-at-large Teachers' Fund for Retirement (TFFR) Board, Public Employees Retirement System (PERS) Board, ~~and elected and appointed officials~~, and two members selected from outside of the SIB and the RIO. The SIB should select committee members who are both independent and financially literate.

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

The Committee will elect a Chair, and a Vice Chair. A liaison will be appointed by the Chair. The Chair will preside at all meetings of the Committee. In the absence of the Chair, the Vice Chair will perform the duties of the Chair. The liaison will report annually to the SIB on the results of the independent audit and at least four times a year to the SIB and TFFR board on the activities of the Committee and other pertinent information.

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

MEETINGS

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

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

Committee members are expected to attend each meeting, in person or via tele- or videoconference. The Supervisor of Internal Audit, a representative of RIO's management team and others necessary to provide information and to conduct business will attend meetings. The Committee may invite staff of the RIO, auditors or others to attend meetings, as necessary. Meetings will be conducted in accordance with NDCC 44-04-17.1. The Committee may hold executive sessions as allowed under state law.

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

RESPONSIBILITIES

The RIO's management is responsible for financial and other reporting, internal controls, and compliance with laws, regulations, and ethics. The Committee has the responsibility to provide oversight in the areas of:

- ~~the reliability and integrity of financial and operating information;~~
- ~~compliance with policies, plans, procedures, pertinent laws and regulations;~~
- ~~compliance with the Code of Conduct applicable to the SIB, TFFR Board, and RIO employees;~~
- ~~safeguarding of assets;~~
- ~~economical and efficient use of resources; and~~
- ~~effectiveness of achieving desired results from operations.~~
- Internal and external audit programs
 - Includes financial and other reporting practices.
- Internal controls
- Compliance with laws, regulations, and ethics

To this end, the Committee will:

Independent Audit

- Review the independent auditors' proposed audit scope and approach, including coordination of audit effort with RIO's Internal Audit staff and any developments in accounting principles and auditing standards that may affect either the financial statements or the audit.
- Inquire as to any proposed changes in accounting or financial reporting procedures and of any unusual events that could impact the financial statements.
- Review the results of the financial statements report with the independent auditors and the RIO's management, prior to the release of the financial statements report to the SIB and other officials. This review will include the following, as applicable:
 - Any major problems encountered by the independent auditors and the resolution thereof;
 - The effect on the audit of any developments;
 - Any unresolved differences between the independent auditors and the RIO's management;
 - Any other significant comments or recommendations of the independent auditors or the RIO's management;
 - The adequacy of the RIO's internal accounting controls and accounting policies, procedures, and practices; and
 - Understand the scope of independent auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with the RIO's management responses.

- Consider the effectiveness of the RIO's internal control system, including information technology security and control.
- Consider whether the financial statements are complete, consistent with information known to committee members, and reflect appropriate accounting principles. This will include the following, as applicable:
 - The accuracy and completeness of the information in other sections of the annual report and related regulatory filings;
 - The significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements; and
 - All matters required to be communicated to the Committee under generally accepted auditing standards with the RIO's management and the independent auditors.
- Review non-audit services, if any, performed for the RIO by the independent auditors.

Audit Services

- Consider the effectiveness of the Internal Audit function, within The Institute of Internal Auditors' *International Professional Practices Framework for Internal Auditing* consisting of the *Definition of Internal Auditing, Code of Ethics and the Standards*.
- Review with the Executive Director and the Supervisor of Internal Audit the audit charter, activities, staffing, and organizational structure of Internal Audit.
- Review and approve the annual risk-based audit work plan and all major changes to the plan.
- Bring to attention of the Board any internal audit issues the Committee determines significant and appropriate for Board consideration.
- Participate with the Executive Director in the appointment and annual evaluation of the Supervisor of Internal Audit. Work with the Executive Director on any changes in staffing, including the addition, termination, or replacement of auditors, and the approval of salary increases and/or promotions other than those authorized by the legislature.

Risk Management

- Obtain information and/or training to enhance the Committee's understanding of organization and its related risk management processes.
- Review the adequacy of the organization's policy on risk management.
- Review the effectiveness of the organization's system for assessing, monitoring, and controlling significant risks or exposures.

- Review management's reports on risks and related risk mitigations.
- Hire outside experts and consultants in risk management, as necessary, subject to full board approval.

Compliance

- Review staff compliance with federal and state laws and North Dakota administrative code as applicable to RIO, the SIB and TFFR Board programs, and the process for communicating the code of conduct to the RIO's staff, and for monitoring compliance through the receipt of the audit results.
- Review the process for communicating and monitoring compliance with the code of ethics, code of conduct, and fraud policies.
- Review the findings of any examinations by regulatory agencies, any auditor observations related to compliance, and the responsiveness and timeliness of management's actions to address the findings/recommendations.
- Obtain updates from the RIO's management and legal counsel regarding compliance matters, as deemed necessary.

Reporting Responsibilities

- Report to the SIB about the Committee's activities, issues, and related recommendations.

Provide a written report annually to the SIB, describing the Committee's composition, responsibilities and how they were discharged, and any other information required.

Other Responsibilities

- Make recommendations to the North Dakota State Auditor's Office, when appropriate, as it relates to selection, evaluation, and termination of independent auditors.
- Obtain the information and training needed to enhance the committee members' understanding of the role of Internal Audit and the independent auditor, the risk management process, internal controls, and a certain level of familiarity in financial reporting standards and processes so the Committee may adequately oversee.
- Serve as an open avenue of communication among the SIB, the RIO's management and Internal Audit, the independent auditors, and others.
- Serve as an appropriate confidential body for individuals to provide information on potentially fraudulent financial reporting or breaches of internal control.

- Inquire of management and Internal Audit regarding the procedures in place for the prevention of illegal payments, conflicts of interest, or other questionable practices.
- Perform other activities related to this charter as requested by the SIB.
- Institute and oversee special investigations as needed.
- Review any other reports the RIO issues that relates to the Committee's responsibilities.
- Review and assess the adequacy of the Committee charter annually, requesting the SIB approval for proposed changes.
- Confirm annually the review of all responsibilities outlined in this charter.

DATE OF CREATION OF COMMITTEE AMENDMENTS: December 14, 1993

DATE AUDIT COMMITTEE CHARTER ADOPTED AND APPROVED: June 24, 1994

REVISED: November 22, 1996, February 13, 1997, November 6, 2001, May 19, 2006, May 18, 2007, June 26, 2009, May 19, 2016, January 25, 2019.

SIB & TFFR Board/Committee Calendar 2024-25

July 2024

July 12, 2024 – Investment Comm @ 9:00 a.m.
July 25, 2024 – TFFR @ 1:00 p.m.
July 26, 2024 – SIB @ 8:30 a.m.

August 2024

August 9, 2024 – Investment Comm @ 9:00 a.m.
August 14, 2024 – SIB Audit Committee @ 2:30 p.m.

September 2024

September 10, 2024 – SIB GPR @ 10:00 a.m.
September 12, 2024 – TFFR GPR @ 3:30 p.m.
September 13, 2024 – Investment Comm @ 9:00 a.m.
September 17, 2024 – SIB Securities @ 10:00 a.m.
September 26, 2024 – TFFR @ 1:00 p.m.
September 27, 2024 – SIB @ 8:30 a.m.

October 2024

October 11, 2024 – Investment Comm @ 9:00 a.m.
October 25, 2024 – SIB @ 8:30 a.m.

November 2024

November 6, 2024 – TFFR GPR @ 3:30 p.m.
November 8, 2024 – Investment Comm @ 9:00 a.m.
November 13, 2024 – SIB GPR @ 10:00 a.m.
November 18, 2024 – SIB Audit Committee @ 2:30 PM
November 21, 2024 – TFFR @ 1:00 p.m.
November 22, 2024 – SIB @ 8:30 a.m.

December 2024

December 5, 2024 – SIB Securities (Tentative) @ 9:00 a.m.
December 13, 2024 – Investment Comm @ 9:00 a.m.

January 2025

January 10, 2025 – Investment Comm @ 9:00 a.m.
January 15, 2025 – SIB ERCC @ 10:00 a.m.
January 23, 2025 – TFFR @ 1:00 p.m.
January 24, 2025 – SIB @ 8:30 a.m.

February 2025

February 4, 2025 – TFFR GPR @ 3:30 p.m.
February 6, 2025 – SIB GPR @ 10:00 a.m.
February 14, 2025 – Investment Comm @ 9:00 a.m.
February 19, 2025 – SIB Audit Committee @ 2:30 p.m.
February 20, 2025 – TFFR (Tentative) @ 1:00 p.m.
February 21, 2025 – SIB (Tentative) @ 8:30 a.m.

March 2025

March 14, 2025 – Investment Comm @ 9:00 a.m.
March 18, 2025 – SIB Securities @ 10:00 AM
March 27, 2025 – TFFR @ 1:00 p.m.
March 28, 2025 – SIB @ 8:30 a.m.

April 2025

April 8, 2025 – SIB GPR @ 10:00 a.m.
April 9, 2025 – SIB ERCC @ 10:00 a.m.
April 10, 2025 – TFFR GPR @ 3:30 p.m.
April 11, 2025 – Investment Comm @ 9:00 a.m.
April 24, 2025 – TFFR @ 1:00 p.m.
April 25, 2025 – SIB @ 8:30 a.m.*
*Meeting time may be adjusted due to Leg. Session

May 2025

May 7, 2025 – SIB ERCC @ 10:00 a.m.
May 8, 2025 – SIB Audit Committee @ 2:30 p.m.
May 9, 2025 – Investment Comm @ 9:00 a.m.
May 16, 2025 – SIB @ 8:30 a.m.

June 2025

June 13, 2025 – Investment Comm @ 9:00 a.m.
June 17, 2025 – SIB Securities (Tentative) @ 10:00 a.m.
June 19, 2025 – TFFR Board Retreat (Tentative) @ 1:00 p.m.

MEMORANDUM

TO: State Investment Board
FROM: Dr. Rob Lech, Chair and Ryan Skor, CFO/COO
DATE: April 16th, 2024
RE: Executive Review and Compensation Committee Update

The Executive Review and Compensation Committee met Tuesday, April 16th, 2024. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the March 13th, 2024, meeting.

The Committee was provided survey results from several stakeholders to assist in the performance evaluation of the Executive Director. Individual surveys of the SIB and TFFR Board members along with manager and staff level RIO team members were all compiled and shared with the committee. The Committee discussed the results of the surveys in-depth and used the information as formative feedback to incorporate into its summative performance evaluation. Additionally, the Committee discussed incorporating a written response from the ED into the formal evaluation process going forward. The Committee will continue its work at its next meeting and will present the formal evaluation for full SIB approval at the May board meeting.

The Committee then moved into discussions around the desired compensation of the executive director position. As part of this process, information from the Mercer compensation study was used to provide external comparison data. Along with that, agency head data from HRMS was provided to offer an in-state comparison of potentially comparable North Dakota state government positions. Understanding that any significant movement of the ED salary within the relevant market percentiles will take a concerted effort over multiple biennia to fully realize, the Committee discussed creating both a target salary percentage in relation to the market and a time horizon in which to reach this goal.

Finally, the Committee transitioned to an agency-wide compensation discussion. Staff provided several observations on the current status of positions across the agency including a recommendation of increases to three non-incentive eligible roles to bring them closer to the market median. Additional observations were made regarding the salary levels for the remaining non-incentive eligible positions, the incentive eligible positions, and the executive level positions.

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:

- Discussion regarding an agency wide compensation strategy.
- Approval of a target range and time horizon for the Executive Director salary.

MEMORANDUM

TO: SIB
FROM: Scott Anderson, Chief Investment Officer
DATE: April 26, 2024
RE: Investment Committee Update

April 12, 2024, Investment Committee Meeting

The Investment Committee met Friday, April 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 March 15, 2024, meeting.

Mr. Browning and Mr. Kloepfler of Callan presented an asset allocation expectations update. This presentation was followed by an investment strategy review presented by Mr. Anderson. The meeting then proceeded in a closed session to discuss a manager recommendation led by George Moss and Lance Zietlow which was approved by the Investment Committee but remains confidential pending the negotiation of a manager agreement.

Mr. Chin then presented a manager update announcing that one of the newly approved high yield mandate managers, Pine Bridge has signed an agreement. Lastly, George Moss and Lance Zietlow presented a legacy fund in-state strategy that was approved by the investment committee.

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Investment/Board/Materials/sibinvestmat20240412.pdf>

BOARD ACTION REQUESTED: Information Only.

Quarterly Report on Ends Quarter ending March 31, 2024

Investment Program

Portfolio Changes & Investment Consultant

- Portfolio Advisors GP Solutions

Public Markets:

Over the past quarter, the AFM team successfully completed the High Yield manager search. After an exhaustive search, that included screens on over 190 managers, due diligence on 20 candidate managers, and onsite meetings with eight managers, the Team recommended, and the Investment Committee approved two high yield managers: PineBridge Investments and Nomura Capital Management. This initiative addresses the Legacy Fund's underweight to high yield that arose from the Legacy Fund's new Investment Policy Statement. With respect to the Pension Pool, the new managers replace the Loomis Sayles High Yield mandate. Significant progress has been made towards onboarding the two new managers, with expected funding in mid-April.

In parallel, significant progress has been made on the Equity 2.0 project. The team conducted numerous due diligence meetings with candidate managers, exploring potential strategies. The Team has identified a number of top prospects and expects to conduct onsite due diligence visits in the coming months. Over the past quarter, the team had over 20 diligence meetings with prospective and existing equity managers.

Private Markets:

The private equity manager that was recommended in January (Portfolio Advisors GP Solutions) was approved, legal review completed, and officially hired. The manager that was recommended in February included two separate strategies that were both approved, however, the legal review process for one of these strategies is still ongoing.

In total, the private markets team conducted approximately 130 introductory, due diligence, and monitoring meetings with current and prospective managers and strategies. The team conducted more in-depth due diligence on two private credit managers. One was presented to the Investment Committee for approval in April (legal review in process), and the other will be presented for approval at the May meeting. The team has also been working on the in-State program within the Legacy Fund and expects to work with a consultant to survey the market for additional managers and strategies that can be hired by calendar year-end.

The team continues to work on solutions to harmonize the private market assets across the various RIO pools of capital. In the interim, there were some partial transfers of private credit holdings from the Pension Pool to the Legacy Fund which were processed during the quarter and made effective in April. This was done in order to reduce the private credit exposure

within the Pension Pool to make room for the High Yield managers brought on by the public markets team, which also helped bring the Legacy Fund's allocation up closer to target.

The private markets team presented an update to the Investment Committee that demonstrated some of the capabilities of the Hamilton Lane technology that was fully onboarded last quarter. The team expects to work with the Committee and use that technology to develop a regular quarterly report.

Risk:

This past quarter a key involvement of the risk team has been procurement of an Order and Execution Management System (OEMS) and Portfolio Management System (PMS) platforms for our forthcoming Internal Direct Investment Team. We are serving on the Executive Steering Committee, have helped formulate the RFP, evaluated vendor responses, narrowed the susceptible vendors down to two and sought revised pricing proposals from those two vendors. Further engagement with the vendors is ongoing to finalize selection of the two platforms. We expect to begin implementation shortly after reaching agreement with the vendors.

The team has also been engaged in continued enhancements of our Country Risk Assessment framework and a development of a Market risk Dashboard. Automation of Country Risk Assessment has been challenging due to different sources of country risk metrics, missing country risk metrics or outdated data. As a part of the Market Risk Dashboard, we have developed a composite Market Risk Indicator which provides an aggregate view of the market participants perception of risk. This is nearing completion, and we plan to present updates at future meetings of the investment committee.

The team has also research feasibility of CLOs and Bank Loans as a part of our High Yield (HY) allocation. We worked closely with the AFM team on selection of two new HY managers and have helped define portfolio management guidelines for the two managers. Work on automation of portfolio risk and attribution reports is ongoing. Enhancing data quality has also been a part of the effort. Challenges with third party data sources remain but we hope to have a resolution on these soon.

Other

- Staff has begun exploring cash overlay implementation requirements.
- 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.

MEMORANDUM

TO: SIB
FROM: Ryan K. Skor, CFO/COO
DATE: April 19th, 2024
RE: Quarterly Budget/Expense Report

Enclosed are the following quarterly budget and expense reports for the quarter ended March 31, 2024:

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

In addition to the budget and expense reports, staff wanted to provide an update on the potential new client funds that were discussed in previous board meetings. All three potential client funds are moving forward and are all currently in the process of drafting investment policy statements. For the one requiring Industrial Commission approval, approval is being sought at the upcoming meeting. For all three, the intent is to request board approval of final investment policy statements at the next regular meeting.

Board Action Requested: Board acceptance.

BUDGET APPROPRIATION STATUS

AS OF MARCH 31, 2024

	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 ^	\$ 3,310,038.77	\$ 6,156,112.53	65.03%	62.50%
OPERATING EXPENDITURES	2,869,937.00	4,277,560.00	985,285.41	3,292,274.59	76.97%	62.50%
CAPITAL ASSETS	0.00	4,150,213.50	758,992.50	3,391,221.00	81.71%	62.50%
CONTINGENCY	200,000.00	200,000.00	0.00	200,000.00	100.00%	62.50%
TOTAL	<u>\$ 11,979,984.00</u>	<u>18,093,924.80</u>	<u>\$ 5,054,316.68</u>	<u>13,039,608.12</u>	<u>72.07%</u>	<u>62.50%</u>

* 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 MARCH 31, 2024

	<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	\$ 0	\$ 0	\$ 0	\$ 34,703,234	\$ 34,703,234
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0	65,836,558	65,836,558	199,226,168	199,226,168
2. REFUND PAYMENTS	0	2,032,894	2,032,894	9,103,125	9,103,125
TOTAL MEMBER CLAIMS	0	67,869,452	67,869,452	208,329,293	208,329,293
OTHER CONTINUING APPROPRIATIONS	254,108	26,821	280,929	737,368	737,368
TOTAL CONTINUING APPROPRIATIONS	254,108	67,896,273	68,150,381	243,769,895	243,769,895
<u>BUDGETED EXPENDITURES</u>					
1. SALARIES & BENEFITS					
SALARIES	554,559	270,319	824,878	2,428,766	2,428,766
OVERTIME/TEMPORARY	554	12,723	13,277	39,860	39,860
TERMINATION SALARY & BENEFITS	0	0	0	0	0
FRINGE BENEFITS	192,443	98,427	290,870	841,413	841,413
TOTAL SALARY & BENEFITS	747,556	381,469	1,129,025	3,310,039	3,310,039
2. OPERATING EXPENDITURES					
DATA PROCESSING	24,962	107,826	132,788	370,532	370,532
TELECOMMUNICATIONS - ISD	1,721	1,419	3,140	9,469	9,469
TRAVEL	1,019	4,209	5,227	26,018	26,018
IT - SOFTWARE/SUPPLIES	0	0	0	0	0
POSTAGE SERVICES	1,127	16,530	17,657	20,405	20,405
IT - CONTRACTUAL SERVICES	205	51,861	52,066	175,153	175,153
EQUIPMENT RENTS AND LEASES	0	0	0	0	0
BUILDING/LAND RENT & LEASES	12,835	12,984	25,819	79,031	79,031
DUES & PROF. DEVELOPMENT	3,183	9,850	13,033	38,786	38,786
OPERATING FEES & SERVICES	537	513	1,050	9,523	9,523
REPAIR SERVICE	0	0	0	0	0
PROFESSIONAL SERVICES	0	128,357	128,357	244,506	244,506
INSURANCE	0	0	0	1,467	1,467
OFFICE SUPPLIES	53	84	137	595	595
PRINTING	0	6,376	6,376	8,545	8,545
PROFESSIONAL SUPPLIES & MATERIALS	164	11	175	397	397
MISCELLANEOUS SUPPLIES	64	82	146	582	582
IT EQUIPMENT UNDER \$5000	0	65	65	245	245
OFFICE EQUIP. & FURNITURE UNDER \$5000	0	30	30	30	30
TOTAL OPERATING EXPENDITURES	45,870	340,194	386,065	985,285	938,941
3. CAPITAL ASSETS	0	404,640	404,640	758,992	758,992
4. CONTINGENCY	0	0	0	0	0
TOTAL BUDGETED EXPENDITURES	793,427	1,126,303	1,919,730	5,054,316	5,054,316
TOTAL EXPENDITURES	\$ 793,427	\$ 68,995,755	\$ 70,070,110	\$ 248,824,211	\$ 248,824,211

PAS MODERNIZATION PROJECT STATUS

AS OF AND FOR THE QUARTER ENDED MARCH 31, 2024

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	82,719	514,215
PROFESSIONAL SERVICES	1,875,000	810,690	381,572	429,118
CAPITAL ASSETS	6,300,000	4,150,214	758,993	3,391,221
TOTAL PAS PROJECT BUDGET	<u>9,000,000</u>	<u>5,607,837</u>	<u>1,223,283</u> *	<u>4,384,554</u>

* 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: Chad R. Roberts, DED/CRO
DATE: April 8, 2024
RE: TFFR Ends Report 3rd QTR ending March 31, 2024

This report highlights exceptions to the normal operating conditions of the TFFR program for the period spanning January 1, 2024, through March 31, 2024.

NDRIO staff completed the admin rule change advertisement, public hearing, and legislative submission process for changes to admin rules related to the administration of the TFFR program.

NDRIO staff published an active TFFR member newsletter in late March 2024. Active member newsletters were produced up until 2021 when staff shortages and other factors caused a pause in the publication. The newsletter was produced in a digital format and published electronically.

Phase 1 of user acceptance testing was started in January of 2024 and completed in March of 2024. The testing resulted in no notable issues in development, although some enhancements and corrections in the design were discovered by staff. Those corrections have been completed by the vendor.

The position of temporary part-time administrative support specialist was filled on March 4, 2024. The position was previously held by a staff member who was promoted to the full-time temporary member specialist position effective the 2nd of January 2024.

In February of 2024, the TFFR GPR Committee reviewed recommended changes and edits to sections of the TFFR Manual. The Review will continue through the 2024 fiscal year with all recommended changes and edits to be presented to the full TFFR Board at the completion of the manual review.

Board Action Requested: Board acceptance.

MEMORANDUM

TO: State Investment Board

FROM: Sarah Mudder, communications and outreach director

DATE: April 26, 2024

RE: 2024 Q1 Communications and Outreach Conducted

MEDIA – Subject, Publication and Date

- Legacy Fund Op Ed; Bismarck Tribune, Forum, Grand Forks Herald, Jamestown Sun and Williston Herald; March 21, 22 and 25
- In-state investment program; Pensions & Investments; March 21
- General consultant RFP; with Intelligence; March 11
- Steve Hallstrom Show; AM 1100 The Flag; Feb. 16
- Officials defend ND Legacy Fund decisions; ND News Coop, Bismarck Tribune, Dickinson Press, Forum, Grand Forks Herald, and Jamestown Sun; Feb. 14
- In-state investment program; ND Monitor; Feb. 12
- New client funds; Mandatewire; Feb. 9
- Investment consultants; with Intelligence ;Feb. 6
- Investment consultants; FIN NEWS; Jan. 29
- New investment strategy for ND Legacy Fund; Bismarck Tribune, Dickinson Press, Forum, Grand Forks Herald and Jamestown Sun; Jan 27 and Feb. 13

MEETINGS – Boards and Committees, Client Funds, Legislative, Steering, Etc.

March

- City of Grand Forks (pension funds), March 25
- SIB Meeting, March 22
- TFFR Board Meeting, March 21
- Legislative Audit and Fiscal Review, Committee, March 21
- Legacy and Budget Stabilization Advisory Board, March 20
- SIB Investment Committee, March 15
- SIB Exec Review & Compensation Committee, March 13
- Strategy Review with Governor's Office, March 13
- ESG Steering Committee, March 8
- Legislative Administrative Rules Committee, March 5

February

- SIB Meeting, Feb. 23
- WSI Board Meeting, Feb. 21
- Financial Literacy Collaborative, Feb. 21
- SIB Exec Review & Compensation Committee, Feb. 20
- SIB Investment Committee, Feb. 20
- ESG Steering Committee, Feb. 15
- SIB Audit Committee, Feb. 15
- PERS Board Meeting, Feb. 13
- SIB Governance & Policy Review Committee, Feb. 13
- SIB Investment Committee, Feb. 9
- TFFR Governance and Policy Review, Feb. 8
- Cash Management Study Project, Feb. 7

January

- SIB Meeting, Jan. 26
- TFFR Board Meeting, Jan. 25
- State of the State, Jan. 23
- SIB Audit Committee, Jan. 18
- JEL Employee Engagement, Jan. 17
- SIB Investment Committee, Jan. 12
- Cash Management Study Project Kickoff, Jan. 12
- SIB Exec Review & Compensation Committee, Jan. 9
- City of Fargo (FargoDome), January

OUTREACH

Board Education

- Governance Manual Part #2, March 6
- Fiscal Operations Overview, Jan. 29

Conferences

- Scott Anderson, "Re-strategizing the portfolio and optimizing due diligence in the market landscape," Private Equity International NEXUS 2024, March 6-8
- Lance Zietlow, "Manager Selection: Everybody Sounds the Same," Pension Bridge Private Credit, Feb. 26-27
- Jan Murtha, attendee, NCTR/NASRA winter joint meeting, Feb. 24-26
- Jan Murtha, "Participant Education and Communication," NAPPA Winter Seminar, Feb. 21-23

TFFR Business Partner Webinars

- Final Pension Administration System Preview, Feb. 22
- Models, Salaries and Retirements, Jan. 18

PUBLICATIONS (GovDelivery)

TFFR Active Member

- Newsletter to 11,749 subscribers (47% Open Rate), March 27

TFFR Retired Member

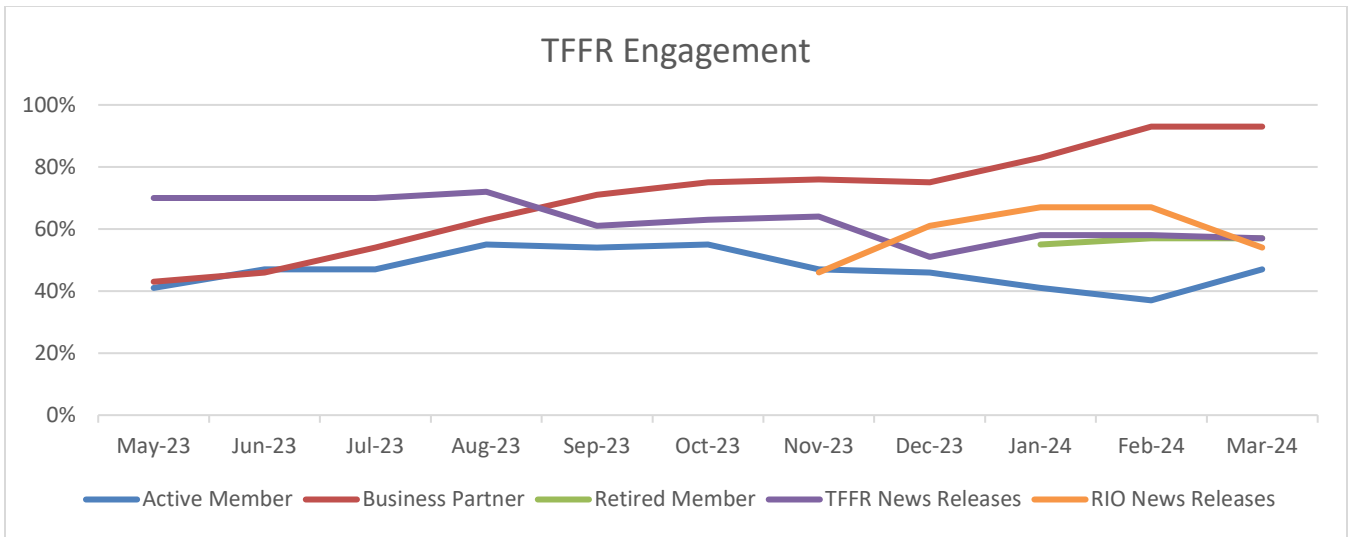
- Update to 5,034 Subscribers (60% Open Rate), Jan. 25

TFFR Business Partners

- Newsletters to 465 subscribers (54% Open Rate), Jan. 9

TFFR Engagement Rate Monthly Metrics

As of March 31, most to least engaged TFFR topics were Business Partner at 93%, Retired Member at 57%, and Active Member at 47%. Per GovDelivery, the median engagement rate for education communications in 2023 was 66%.

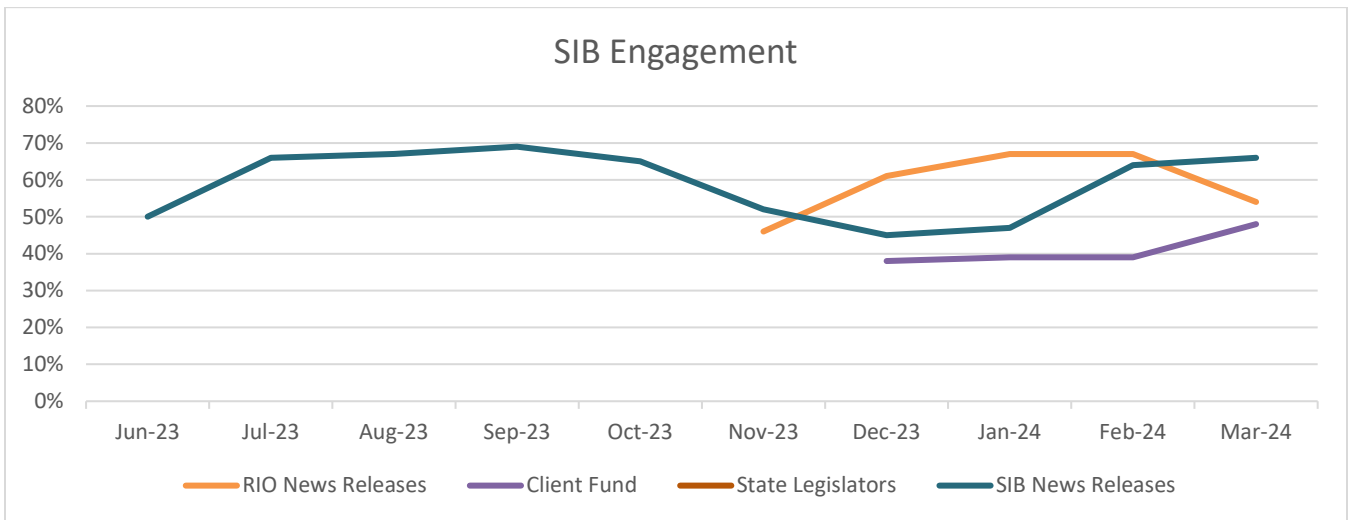


SIB/Fiscal News Releases and Updates

- More than \$395 million of Legacy Fund invested in ND, March 21 with 785 Subscribers (50% Open Rate)
- RIO issues statement on Legacy Fund Poll, Feb. 13 with 423 Subscribers (53% Open Rate)
- FY2023 ACFR published, Jan. 23 with 435 Subscribers (53% Open Rate)

SIB Engagement Rate Monthly Metrics

As of March 31, most to least engaged SIB topics were SIB News Releases at 66%, Client Funds at 48%, and State Legislators at 45%. Per GovDelivery, the median engagement rate for Finance & Commerce communications in 2023 was 56%.



BOARD ACTION REQUESTED: Information Only

MEMORANDUM

TO: SIB
FROM: Jan Murtha, Executive Director
DATE: April 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. New Board & Committee Member Update

The next new board member onboarding meeting is scheduled for Thursday, April 25, 2024, at 10amCT, respectively. The April 25, 2025, meeting will be in person with a virtual option; the topic of this training is Risk Strategy, Nitin Vaidya, Chief Risk Officer presenting.

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

Position Title*	Status
Investment Intern	Posted
Accounting Intern	Posted

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

III. Current Project Activities/Initiatives:

- **BND Study:** RIO is participating in the investment working group for the BND led study related to examining the impact of ESG related factors on state policy and industries. The working group prepared draft recommendations which I presented to the steering committee meeting this month. The steering committee will meet again to finalize the recommendations.
- **Cash Management Study:** RIO is participating in the OMB led cash management study. RVK has been contracted as the consultant to perform the study. RIO has participated in the kick-off and initial information gathering meetings related to the study. The study is ongoing.
- **TFFR Pioneer Project** – The TFFR Pioneer Project continues with implementation consistent with the project plan. The project is currently on time and on budget with an expected launch date by end of 2024.
- **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 still working with NDIT and State Procurement through the procurement process. The procurement process is pending.
- **Northern Trust Initiative** – In an effort to enhance the infrastructure for the investment program the Investment and Fiscal teams continue to coordinate with Northern Trust for additional functionality/capabilities. This effort should be finalized coincident with the full implementation of the new investment program infrastructure.

- **Internal Audit Co-Sourcing:** The ED, CFO/COO, and Supervisor of Internal Audit will meet with Weaver at least bi-monthly if not more frequently to coordinate consultant co-sourcing activities. Currently Weaver is performing a risk assessment for the agency.
- **Other Agency Collaborations:** Members of RIO's fiscal team were invited and are participating on compensation related committees/groups for both Trust Lands and HRMS.

Board Action Requested: Board acceptance.

BOARD LEADERSHIP

March–April 2024 • No. 192

INNOVATIVE APPROACHES TO GOVERNANCE

EDITOR: NICHOLAS KING

Lessons From OpenAI in Fostering Effective CEO-Board Dynamics

BY DR. MATTHEW PAESE, SVP OF LEADERSHIP INSIGHTS AT DDI

Dr. Matthew Paese is senior vice president of Leadership Insights at global leadership company DDI. In this article, he discusses the lessons learned from OpenAI and its abrupt removal of its CEO—and subsequent efforts to reinstate him.

In a painfully memorable executive session several quarters ago, the meeting began with the most tenured and influential board member asking for a moment of the group's attention. He stood, visibly trembling, with fists clenched and eyes narrowed. Looking across the table, he stared down the CEO, extended his index finger, and said, "You betrayed us."

Executive sessions preserve a critical venue for confidential topics, like audits and CEO performance reviews. But in a more practical sense, members use the time to tell the CEO what they're really thinking. The full measure of opinion, doubt, and dissent is aired here in the interest of ensuring that the most sensitive decisions are good ones. It's in these dialogues where the strength or dysfunction in the relationship between the CEO and board is on display.

It doesn't always go well. Sam Altman posted on X, formerly known as Twitter, at the end of November 2023, "it's been a crazy year [*sic*]." For him and the OpenAI board, that might have been the understatement of the year. Having fired and then reinstated Altman under the equivalent of an ultimatum by nearly

the entire workforce, the board-CEO bond at OpenAI might not be a candidate for any peace and harmony awards this year.

The arranged marriages between CEOs and their boards have been publicly scrutinized¹ time and again, with OpenAI being only one of the most recent. Musk and Tesla. Kalanick and Uber. Iger and Disney. Holmes and Theranos. Choose any example and you'll find no shortage of soap-opera-worthy remarks, behaviors, decisions, and outcomes. CEOs and board chairs of companies large and small, famous and unknown, face a common challenge in facilitating effectiveness in the boardroom.

Resistance, scrutiny, pushback—they all go with the territory of board relations. And as long as it stays clean and respectful, most would agree that vigorous debate, open disagreement, and the occasional skirmish are all essential ingredients to healthy board functioning. But not all board pushback is healthy.

The *good resistance* tends to be about the future, when boards hammer at business proposals, high-risk investments, or other strategic alternatives. That's what they're paid to do after all. But when the board confronts actions or decisions that have taken place in the past, it's worth pausing to consider what might have been missed. And when those retrospective challenges become routine, it signals a much deeper level of misalignment.

"Why did we...?" "Help me understand how we ended up..." "What was the rationale that led to..." Each of these questions is an attempt to understand past thinking and logic trails, and with them comes an implicit mistrust. It may be subtle or even unintentional, but it is mistrust, and for any CEO to achieve a high-functioning relationship with the board, it must be rooted out.

continued on page 2

Inside This Issue

4 Purpose-Driven Leadership: How Authentic Leaders Can Deliver Results for a Nonprofit

6 Evolved Roles and Sustainability Challenges for Boards in 2024

LESSONS

continued from page 1

To do so, there are several practices CEOs can leverage to minimize interrogations of past leadership actions, strengthen relations with management, elevate board trust in the CEO and senior team, and keep boards focused on the path ahead.

Mine for Passion: Learn What Board Members Feel Most Strongly About

The betrayed, finger-wagging board member from earlier is a true account, and while perhaps more dramatic than most, it is not as rare as some might imagine. The CEO had, the previous day, fired the EVP of the company's largest business unit. Numbers had been slipping, and urgent change wasn't happening. The EVP's underperformance was called out in board discussions and acknowledged among several members of the C-suite. The CEO and board chair had maintained a running dialogue about the depth of the problem and the growing need to do something about it.

Blindsided by the backlash, the CEO reflected afterward, "I thought I did everything right." He hadn't. Beneath the surface, there was much more than leadership gaps and lost profits. The "betrayal" was associated with strongly held, but seldom-spoken beliefs about how things should be done. The enraged board director did not actually dispute the termination decision. He disputed its abrupt delivery and absence of pre-communication. He and others expected a heads-up. "Decisions like these have ripples." "People know people." "This is the kind of thing we talk about before we do it." So went the grievances.

One might contend that this scenario is atypical, or that the board's expectations were inappropriate. But strong passions lie beneath the surface of many board conversations and routinely

catch CEOs by surprise, making it prudent for them to do more than simply glad-hand and make friendly relationships with board members. Intentionally mining for the private passions and strongly held views of board members can be transformational in how conflict is both anticipated and managed.

As the CEO of a large engineering firm put it, "I found out that it pays to be curious about them as individuals." For each director, she wants to know their proudest personal contributions to the board, their biggest regrets, and what they see as the organization's biggest strategic blind spot. Getting to the answers has seldom happened immediately, but with some patience and persistence, she has found that these conversations predictably take relationships to a more candid level and enable her to better anticipate where sensitivities or strong reactions might emerge. She doesn't use the meetings to persuade. She calls it "research," and in it she has unearthed enlightening and instructive perspectives. Frustrations. Uncertainties. Non-negotiables. Contempt for certain topics, or other board members.

There are obviously limits to the time CEOs can devote to one-on-ones, but a modicum of proactive outreach is far preferable to reactive damage control. Board members are no different from all other human beings in their need to feel heard and seen. So, making an authentic effort to learn about board members' passions is just as important as actually knowing them. It's when CEOs don't try that reactions become unpredictable and extreme.

Drill the Basics: Allow No One to Be Ignorant of Critical Business Fundamentals

Part of every CEO's job is to enable the board to fulfill its duties effectively, so it is foundational for CEOs to maintain high respect for the board and its accountabilities.² This respect, however, does not require CEOs to assume that all board members are savvy about the business. Many are not, and these knowledge gaps can badly inhibit board effectiveness.

It took the new CEO of a large health system over a year to discover this reality. When odd, illogical questions began to emerge in the first several board meetings, he wondered if he was missing something. After all, inside the madness of the US health system, even the experts struggle to keep up. So maybe some board members had a deeper understanding of how the system worked than he did.

It was near the end of his first year when it became clear that he wasn't missing anything. He and his senior management team were presenting their long-range strategy to the board. They spent a full day walking through the business, operations, finance, investment, regulatory, and people aspects of a plan that they had crafted for months. Two board members, both former CEOs, engaged actively. Their questions occupied well over 75% of a two-hour open dialogue while the remaining board members were largely silent.

BOARD LEADERSHIP

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That made the CEO uncomfortable. He probed for unasked questions, concerns, and hesitations. What followed was a wide-ranging conversation about “everything but the business logic,” as he put it. From then forward, he uncovered the grim reality that a significant proportion of his board—over half—was dangerously ignorant of how the *business* of the health system worked, and more importantly, how the proposed strategy would make it work differently and better.

Many CEOs make this same discovery and conclude that their boards are not useful as business advisors. To be sure, businesses can be complex, and the rate of change in modern markets shortens the shelf life of knowledge and understanding for non-insiders. But as CEOs discover these gaps in business insight, many make a critical error in deciding what to do about them.

Increasing transparency and involvement of a board that lacks business understanding runs the risk of bad strategic decision making. So, to protect the organization and its shareholders, many CEOs adopt a different approach in which only select board members (those who understand the business) are brought into the most consequential decision space. The remainder of the board is involved minimally over time, which leads to one of two outcomes: (1) tacit acceptance of this implicit board hierarchy and reduced influence among lower-tier (non-expert) members or (2) frustration among the lower tier members for the lack of involvement leading to heightened resistance, scrutiny, and over time, mistrust. Both outcomes are suboptimal and avoidable.

Some CEOs have shown that not only is it unnecessary to live with a board that lacks business insight, but it can also be a force multiplier when the entire board is elevated to a common understanding of business basics. As one veteran board chair and former pharmaceutical CEO contended, “Every board needs rigorous and regular tutorials.” For CEOs who have not seen the plain evidence that the healthcare CEO encountered, this may require shedding worries about “talking down” to the board, or insulting board members by spending time “teaching” fundamental business principles.

Seeing no other alternative, the healthcare CEO orchestrated a series of education sessions. The first, a 20-minute segment led by the CFO, covered the fundamentals of health system financials. The CEO coached him not to simply teach finance, but to teach *our* finance. He asked the CFO to lead the group to an understanding of the most significant factors affecting the system’s profits, and how the strategy was aiming to affect them.

The response was electric. Every board member dove in. Q&A was spirited, and even the former CEOs felt the time and content was value-added. The energy triggered additional sessions focused on safety, access, physician and nurse engagement, and follow-ons to advance topics that needed more depth, or had changed.

The value of *drilling the basics* has been repeated with boards in finance, manufacturing, technology, pharma, and numerous others. Few boards, including those with a predominance of business experts, can achieve a common understanding of the most crucial needs of the business without a discipline for presenting and discussing the basics regularly.

Measure Your Leadership Duo: Evaluate the Partnership Between the CEO and Board Chair

Most organizations have formalized an annual CEO evaluation.³ Most also conduct annual board evaluations, both facilitated by the board chair. And as leader of the board, an evaluation of the chair is usually a component of the board evaluation. Some organizations extend evaluations to determine the effectiveness of senior management as well.

Altogether, this covers the full range of top leadership. No one is exempt from evaluation. But if we endorse Peter Drucker’s axiom that *you can’t manage what you don’t measure*, there may be one costly omission in the measurement and management of leadership.

The partnership between the CEO and board chair could be the most consequential alliance in any company. Along with the litany of CEO versus board battles, there have likewise been parallel sagas of tension, dispute, and dysfunction between CEOs and board chairs. Zuckerberg and Andreeson famously battled over personal investments. Jack Dorsey stepped down at Twitter (temporarily) amid protracted battles with Omid Kordestani over strategy and governance. And on and on.

Could a formal evaluation prevent these battles? Maybe not. But evaluations are more than levers to keep current leaders in check. They also communicate values, provide signals to incoming leaders, and make expectations transparent (as a side note, this topic becomes irrelevant when organizations appoint one leader to occupy both the CEO and board chair roles. They conveniently sidestep any risks associated with a troubled CEO-board chair partnership. The risks introduced by that approach are for another article, and have been the subject of critique). Over time, and with repeated application, what is being measured becomes more manageable.

The addition of a formal evaluation of the CEO-board chair partnership need not add additional friction. It can easily be conducted in conjunction with the annual board or CEO evaluation, or simplified to be a routine check that takes place one or more times annually.

Two evaluation points are critical to ensure positive impact. First, the CEO and board chair must together develop a list of criteria for how they will evaluate each other. Factors like openness, respect, support, and trust are essential starting points. Next, they develop and propose a list of criteria that all board members will use to evaluate areas for which the CEO

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Purpose-Driven Leadership: How Authentic Leaders Can Deliver Results for a Nonprofit

BY DR. DIANE ROSEN

Dr. Diane Rosen is a principal at Compass Consultants, a business consultancy. In this article, she discusses how nonprofit leadership is different from the for-profit sector and how to optimize impact through authentic leadership.

Nonprofits exist to provide benefits to their constituencies in alignment with their mission and purpose. That mission may be to advance social justice, serve, or advocate on behalf of particular individuals or groups; create safety nets; further specific initiatives; support research; promote civil engagement; or provide and/or deliver educational, religious, legal, social, or a multitude of other services to defined populations or the public at large.

Unlike private sector organizations, nonprofits rely on funding from outside sources, including individual donors; grants from foundations, businesses, or the public sector; and income from endowments. Rather than profit maximization, nonprofits must raise sufficient funds to not only keep the lights on, but to do the work of and sustain the organization.

As a result, nonprofit organizations face distinct challenges not present in the private sector. Budgeting can become complicated to the extent dependent on meeting fundraising targets that can impact everything from hiring and operational resources (e.g., technology, office space, consultants) to the quality of and ability to deliver services to relevant populations or otherwise do the work of the organization. Also, it can be difficult to attract and retain quality employees who cannot be compensated at the same rate they might be paid in for-profit companies.

On the contrary, nonprofits have certain advantages. For example, many people look to work at nonprofits because of their personal commitment to the issues addressed by such organizations despite lower compensation or challenging working conditions. With staff and leadership united around the purpose and mission of the organization, they can potentially become a highly engaged, intrinsically motivated workforce with an *esprit de corps* not often found in the private sector.

Additionally, nonprofits have the unique opportunity to be so-called zebra organizations. Unlike disruptive and profit-oriented, win-at-all-cost private companies, zebra organizations are those that do well (function effectively) and do good (providing something valuable to their constituencies).

A nonprofit with a clearly articulated and lived mission and set of values, the organization is primed to align how it functions as a workplace and how it interfaces with stakeholders, funders, and the public.

Leaders of nonprofits are tasked with spearheading the effort to operationalize and realize the organizational mission as well as to create a functional workplace. Board members, as stewards of

the nonprofit, function as leaders of the organization. They are critical to the organization's success, and they have a fiduciary obligation to be sure that the organization is run properly.

Board members have an important role in maximizing advantages and minimizing challenges. According to the National Council of Non Profits,

“[b]oard members are the fiduciaries who steer the organization towards a sustainable future by adopting sound, ethical, and legal governance and financial management policies, as well as by making sure the non-profit has adequate resources to advance its mission.”¹

This responsibility includes everything from hiring executive directors, setting/approving budgets, shepherding fundraising efforts, and advocating on behalf of the organization. In smaller organizations with limited resources, board members may also be actively engaged in day-to-day operations and take on roles that are typically filled by employees. In some cases, board leaders may have to manage relationships with founders who may be wedded to “what was,” such as the original mission or ways of operating, rather than what could be going forward, adding another layer of need for clear leadership.

While the board president is the named leader of the board, as a practical matter, all board members are leaders in their own right, whether with a title (such as a committee chair) or as regular voting members.

What is leadership?

To set up nonprofit board leaders for success, it is important to consider how to frame leadership.

Hogan and Kaiser² describe leaders as the organizers of collective effort in pursuit of shared objectives. Good leaders have integrity, vision, and good interpersonal skills. They build teams; are decisive, trustworthy, competent, and able to learn from mistakes; lack a sense of entitlement; get things done; and are not overly ambitious at the expense of others.

Northouse³ defines leadership as *process of influencing* others to achieve a common goal. As a process, leadership is not a personal trait or characteristic of the leader but rather is an interactive dynamic between the leader and followers. Influencing others relates to both communications between leaders and followers and how the leader affects followers. The value of this definition is that it looks at leadership as an ever-evolving role that adapts in real time to changing circumstances. Thus,

leadership is not just a top-down way to run things but reflects the reciprocity between leaders and followers. The idea then is that leaders do not exist in an ivory tower—their effectiveness is grounded in their ability to marshal and motivate others in service of organizational goals.

About authentic leadership

Organizational scholars have identified various styles of leadership such as transactional, transformational, positive, authoritarian, and authentic. I am focusing here on authentic leadership because it is consistent with leading a purpose-driven nonprofit organization.

Authenticity is more than sincerity; it contemplates owning and acting in accord with one's thoughts, emotions, beliefs, wants, and needs. It is self-referential, not based on what others need or believe. Authenticity is the manifestation of self-awareness and the balanced processing of information (accounting for the fact that it is not possible to be unbiased).⁴

Grounded in the domain of positive organizational behavior, the concept of authentic leadership focuses on leader self-knowledge, positive modeling, follower self-determination, and co-creation of collective values. Authentic leadership stresses reciprocity and relationships between leader and followers, transparency, a strengths-based orientation, and follower development and authenticity. The strengths-based approach of authentic leadership emphasizes what elevates, what goes well, what is experienced as good, and what inspires; developing new leaders; and bringing humanity and ethics to the enterprise.⁵

As with our definition of leadership writ large, authentic leadership is seen as a process (as distinguished from an outcome), and the expression of authentic relationships, behaviors, and actions. The process incorporates leader self-efficacy and self-regulated behaviors while the outcome is authentic leaders who are confident, ethical, future-oriented, hopeful, optimistic, and resilient; have an internal moral perspective; and who want to develop other leaders. Authentic leadership is a continuum rather than an is/is not proposition. An individual is not totally authentic or inauthentic—the degree of authenticity shifts in context, in time, and by domain.⁶

Authentic leaders lead by example, which stimulates collaboration and creates conditions for positive emotional contagion. They inspire followers and build trust, engagement, a sense of well-being, and sustainable performance. The integrity, balance of fairness and justice, trust, and transparency of the authentic leader encourage mutuality with others and an organizational culture where sharing, openness, and ongoing learning and development are the norms and generate an upward spiral. And, when authentic leaders helm organizations, there is increased potential for employee job satisfaction, improved individual and group task performance, and positive organizational citizenship behaviors.⁷

Putting it together

Nonprofits are most successful when they are internally and externally integrated. For example, if a nonprofit focused on delivering compassionate service to its constituents is run by an authoritarian leader, there is a mismatch in how employees are treated in the office and how they are expected to treat the people they serve. This can create a workforce that is not motivated or loyal to the organization even if they are passionate about the cause. If the work environment is unpleasant, and employees are not treated respectfully, the organization is likely to see high turnover that ultimately impacts the services they render and potentially their fundraising.

Alternatively, an authentic leader understands himself, is confident and invested in fostering upcoming leaders, and facilitates employees (including everyone from the executive director and below) autonomy to do their work with support to do it well, thus establishing the foundation for a positive work environment. Employees feel free to share their ideas, collaborate, help each other, and pull together to achieve organizational goals.

As a veteran of many nonprofit boards as well as my professional experience as a coach, organizational consultant, lawyer, and mediator, I have seen a wide variety of board leaders and members who have run boards in many ways, from highly collaborative and inclusive to personal fiefdoms, and from well organized to chaotic. Some examples.

Some years ago, I served on the board of an organization in the education sector. The organization was well respected and known for quality services. The board chair had held the title for many years and had strict control over the board nominating process, assignment of committee chairs, fundraising activities, and personally engaging with the organization's top donors. The chair essentially terrorized the executive director, frequently threatening termination, and constantly meddling in the executive director's decisions. Because it was a small organization and the chair was a major donor, it was hard to wrest authority from the person or institute new ideas. The result was that the organization went through several executive directors and lost quite a few board members over time. The upshot was that the organization had to engage outside counsel for certain compliance work that led to an update of governance documents. By an almost unanimous vote of the board (the chair did not vote for the update), the chairmanship became term limited and the chair had to step down.

Compare that with another organization with which I consulted in a different sector. The organization delivered services in connection with a highly polarized issue. They had protesters outside of their office, bomb threats, and were subject to vitriol in the community. However, they had a beloved CEO and a board chair who was committed to a collaboration between the CEO and the board. Both the leader and entire

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Evolved Roles and Sustainability Challenges for Boards in 2024

BY CHRISTINE SPADAFOR

Christine Spadafor is an experienced management consultant with expertise in risk management, regulatory compliance, ESG, and DEI, as well as extensive experience serving on the board of directors of various institutions. In this article, she discusses how to balance short-term and long-term goals for sustainability, and the evolving roles and responsibilities of a board of directors.

As the chair of the board of director's Nominating and Governance Committee for a NYSE-traded company, I am regularly asked questions about topics such as the roles and responsibilities of a board compared to management's, traits to consider when recruiting new directors, what boards typically get wrong, and how boards can balance short-and long-term goals of the company. All are discussed below.

1. Evolving roles and responsibilities of a board of directors

The key difference between what a board does and what other leaders do is that the board is responsible for oversight of the organization. It is not involved in the day-to-day management of the company, including staffing decisions other than the CEO. It's "nose in, fingers out." Other leaders—management—are responsible for day-to-day operations and execution of strategic goals.

So, what is the role of the board? For years, it was oversight of strategy, budget, CEO succession planning, and enhancing shareholder value.

The role of the board, however, has evolved exponentially in recent years to include:

- Shaping and demonstrating a healthy culture in the organization; oversight of strategy and budget; CEO succession planning; considering all stakeholders to include community, employees, society, investors, suppliers, in addition to shareholders; fiduciary responsibility for long-term growth and profitability; sustainability; maintaining legal compliance; enterprise risk management; cybersecurity; human capital equity; capital structures; resource allocation; monitoring management's execution; long-term talent development; and greater independence.

2. Traits to consider when recruiting for a new director

Not everyone is cut out to be a board member. But first, what makes someone a successful candidate?

Traits that increase the likelihood a person will be a successful board member:

- Being a good colleague—"cultural fit" is #1 priority—but not at the expense of poor qualifications; trust, integrity, and candor; respectful, ethical, collaborative; demonstrated

experience and skills required to achieve the company's strategy; strategic thinker; independent thinker; ability to make tough decisions; leadership skills; effective communicator; an engaged participant; and a continuous learner.

The type of person who should avoid aspiring to be a board director:

- Not a good colleague—not being a good "cultural fit" is an immediate disqualifier; disruptive, and with a need to dominate conversations; a bully, yeller, or screamer; micro-manager; ignores risks; disrespectful of others; needs to be the smartest person and loudest voice in the room; not committed to the company or its vision, mission, purpose; insufficient time to participate fully in meetings; being unprepared for meetings; breaches confidentiality; untrustworthy, questionable ethics; and has a personal agenda.

As chair of the Nom/Gov Committee, my first candidate "screen" is to try to determine if the person is qualified and a good "cultural fit" for the organization. If yes to both, then subsequent conversations take place starting with the Committee.

As to the type of board member to avoid ... in my first assignment as a management consultant, the project manager asked me to attend a client breakfast board meeting and report back on the discussion about our engagement. Before I knew it, the CEO hurled a blueberry muffin across the table at a board member, whereupon the recipient of the tossed muffin immediately did a frisbee-throw of his cream cheese-covered bagel at the CEO. Yelling accompanied the food fight. Those of us attending ducked for cover. A memorable experience about "worst practice," dysfunctional board dynamics and how board meetings should not be conducted.

3. What boards get wrong (and how to fix them)

A. Having a homogenous, "group think" board of directors.

Fix: A high-functioning, productive, effective board requires recruiting directors for diversity of thought, skills, experience, age, race, ethnicity, gender, geography (if applicable). Diverse composition fosters the exchange of new ideas, innovations, and deeper insights, such as the changing preferences and needs of the customer base. Younger generation prospective job seekers review company websites and C-suite social media

deciding whether to apply. Employees and customers are increasingly vocal about having a board that looks like them, and many investors now expect diversity—and will decide to invest accordingly.

B. Focusing only on shareholders and not stakeholders.

Fix: In the past, one of the sole responsibilities of a board was to enhance shareholder value. The responsibility of boards has evolved and expanded to include a duty to stakeholders—employees, customers, communities, society, investors, suppliers. This should be reflected in the board's charter and reviewed at least annually.

C: Ignoring human capital issues.

Fix: Include human resource topics as a standing board agenda meeting item. I applaud my board clients who, as part of regular meeting agendas, include a report from the chief human resources officers on topics such as wage equity analyses; gender/race/ethnicity statistics, including diversity at every level in the organization; employee well-being; progress on the war for talent; execution of salary increases; professional development programs; employee satisfaction survey reports, etc. This keeps the status of the workforce front and center, as part of the board's evolving responsibilities regarding human capital and long-term talent development.

D: Failing to have a CEO succession plan.

Fix: Having a CEO succession plan is a core responsibility of a board of directors ... and I've been surprised how many board clients did not have a plan when I arrived. (case in point: I recently had dinner with two CEOs, and both told me they have no succession plan.) The solution is to have the lead director or the chair of the Governance Committee, in partnership with the CEO, develop a succession plan. The plan is then reviewed by the full board annually—and is accompanied by a strategic, detailed crisis communication plan in the unfortunate event the current CEO is suddenly unable to serve.

4. Balance short-term and long-term goals for sustainability

Boards need to ensure short-term goals do not overshadow the long-term vision. Key factors include the board and management being aligned; having a three-year strategic plan and overseeing execution of progress against long-term and short-term strategic goals; having a CEO succession plan for seamless, ongoing leadership and operational continuity; and considering long-term approaches/experience when interviewing for new board directors.

At the same time, boards need to find a balance between short-term and long-term goals. It's not either/or. It's both

simultaneously. This can be particularly challenging in an increasingly disruptive, uncertain, and shifting business environment coupled with volatile macroeconomic impacts.

There are short-term pressures on quarter-by-quarter earnings and constant attention to compliance and regulatory requirements. And typically, compensation incentives are linked to quarterly share prices, which may skew management's focus. Overly focusing on the short-term can be to the detriment of long-term growth and divert attention from achieving strategic goals in order to achieve quick wins.

Keep in mind a fundamental responsibility of a board is sustainability of the enterprise, which requires simultaneous short-term and long-term views. According to the Harvard Law School Forum on Corporate Governance, companies that employ a long-term view outperform peers, have increased revenues and earnings, a higher market cap, and create more jobs. All critical components for sustainability. ■

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and chair have shared accountability. Examples include alignment in purpose and mission, communication consistency and clarity, dialogue facilitation and quality, fostering board cohesion, and so on.

For instance, an energy sector CEO and board chair have created their own version of this approach. They meet annually in preparation for the year-end board event and collaborate to facilitate a structured evaluation of their partnership using criteria like those outlined earlier. They then distribute their "self-evaluation" to the full board as part of the pre-read packet. Board members are invited to provide written feedback in advance, or remark verbally in the meeting, one or the other. It is not an option to abstain from giving feedback.

The board chair's introduction in the meeting clarifies that this is neither an evaluation of a person nor a group. It is an evaluation of the outputs of a partnership, and how each board member feels it is contributing to (or inhibiting) board effectiveness. Feedback is documented, and following the review discussion, the CEO and board chair construct an action plan for board review in the subsequent meeting. Both have found the dialogue and feedback to offer substantively unique input from their other evaluations.

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A Strong Foundation Prepares for Pressure

In the forest of complex tasks that CEOs traverse, facilitating board effectiveness is often the one that feels most dangerous and unfamiliar. Competing agendas, power dynamics, and the heat of scrutiny can make the most capable leaders lose their sense of direction. While much is out of their control, CEOs can grab hold of a few basic practices that provide a firmer foothold. Learning the hidden passions and motivations of board members, prioritizing the board's understanding of business fundamentals, and formalizing the evaluation of the alliance between the CEO and board chair are all simple, actionable, high-return efforts that every CEO should consider among their most trusted leadership tools. ■

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board cared deeply about the safety and well-being of the staff. The CEO and board chair both had open communication styles. The board chair delegated much of the board work to committees and arranged for board member training. There were frequent town halls led by the CEO and chair (as well as committee chairs as applicable to the topic), and staff were kept informed of the organization's finances and fundraising results. The staff knew that the organizational leadership, including the board, was passionate about the issues, advocated on behalf of the organization, and collaborated with peer organizations. The board members were actively engaged with the leader and staff and together developed strategic plans for delivery of services, fundraising, and advocacy. The authenticity, accessibility, and willingness to invite input from the staff of the organization leadership, the board chair, and the rest of the board pulled the employees together in challenging circumstances, and they volunteered to go the extra mile when needed. As a result, turnover was low, morale was high, and there was a great deal of camaraderie among staff and board members at all levels.

Conclusion

When leaders lead with authenticity, heart, intention, and a growth mentality, they inspire others to stay on mission, do their best, exceed expectations, work as a team for the greater good, and deliver high-quality services/performance. When the organization operates effectively, ready and able to pivot as needed, learn from setbacks, act decisively, board members,

pioneer of many of today's leading approaches for helping leaders succeed at the top. He is the lead author of *Leaders Ready Now: Accelerating Growth in a Faster World* (2016) and co-author of its award-winning predecessor, *Grow Your Own Leaders* (2002), which have shaped over two decades of impact in growing leaders into skilled enterprise executives.

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donors, and staff have confidence in the organization to meet its objectives and thrive. ■

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