INVESTMENT POLICY STATEMENT

North Dakota Legacy Fund

I. Plan and Fund Overview

The North Dakota Legacy Fund (Fund) was created in 2010 when the voters of North Dakota approved a constitutional amendment—Article X, Section 26, of the North Dakota Constitution—directing 30% of oil and gas gross production and oil extraction taxes on oil and gas produced after June 30, 2011, be transferred to the Legacy Fund. The principal of the Legacy Fund may be expended if approved by a vote of at least two-thirds of the members elected to each house of the Legislative Assembly. Not more than 5% of the principal of the Legacy Fund may be spent during a biennium. The Legislative Assembly may transfer funds from any source to the Legacy Fund, and such transfers become part of the principal of the fund. The State Investment Board (SIB) is responsible for investment of the Legacy Fund.

The distribution from the Legacy Fund on July first of each odd-numbered year must be equal to 8% of the 5-year average value of the Legacy Fund balance as reported by the SIB. The average value of the Legacy Fund balance must be calculated using the fund balance at the end of each fiscal year for the 5-year period ending with the most recently completed even-numbered fiscal year.

North Dakota Century Code (NDCC) § 21-10-11 provides that the goal of investment for the Legacy Fund is principal preservation and growth while maximizing total return for an appropriate level of risk and to provide a direct benefit to the state by investing a portion of the principal in the state. Preference must be given to qualified investment firms and financial institutions with a presence in the state for investment of the Legacy Fund.

The Legacy and Budget Stabilization Fund Advisory Board (Advisory Board) is charged by law under NDCC § 21-10-11 with the responsibility of recommending policies on investment goals and asset allocation of the legacy fund.

Client Investment Objectives

The Legacy Fund was created, in part, due to the recognition that state revenue from the oil and gas industry will be derived over a finite timeframe. The Legacy Fund defers the recognition of 30% of this revenue for the benefit of future generations.

<u>Risk Tolerance:</u> The Advisory Board's risk tolerance with respect to the real value of principal and growth while maximizing total return for an appropriate level of risk of the Legacy Fund's

mission is low. The Advisory Board is unwilling to undertake investment strategies that might jeopardize the ability of the Legacy Fund to maintain the real value of principal over time. The Advisory Board recognizes that the plan will evolve as the Legacy Fund matures and economic conditions and opportunities change.

II. Responsibilities and Discretion of the State Investment Board

The State Investment Board (SIB) is established under NDCC § 21-10 and is charged with investing and managing the assets of the funds enumerated in NDCC § 21-10-06, including the Legacy Fund. The SIB acts as a fiduciary and must invest, reinvest, and manage such assets in accordance with the Prudent Investor Rule and the policies adopted by each fund's governing body. Pursuant to NDCC § 21-10-07.1 the SIB must also give preference to qualified investment firms and financial institutions with a presence in the state.

Pursuant to NDCC § 21-10-02 and NDCC § 21-10-02.1, the SIB shall:

- Implement investment policies and asset allocations established by each fund's governing body.
- Approve investment guidelines, procedures, and permissible securities for the funds under its management.
- Serve as custodian of securities purchased on behalf of such funds or designate a qualified custodian.
- Establish written policies on investment goals, objectives, and asset allocation, including liquidity requirements, diversification, and acceptable levels of risk.
- Develop procedures for the selection, retention, evaluation, and termination of professional money managers, consultants, and custodians.

Delegation and Oversight

The SIB may delegate investment responsibility for all or part of a fund to professional money managers that meet established qualifications. When such delegation occurs, the SIB's role is supervisory rather than advisory, ensuring that each manager operates within approved guidelines and performance expectations.

The SIB may also pool assets of this Fund with other funds having similar objectives and time horizons to enhance diversification, reduce costs, and improve returns. In pooling fund assets, the SIB must ensure compliance with the Prudent Investor Rule and the objectives of all participating funds.

III. Investment Performance Objective

The Fund’s investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

- The Fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of 5 years.
- The Fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of 5 years.

IV. Asset Allocation

The Advisory Board establishes the Fund’s asset allocation, with input from consultants and/or the Retirement and Investment Office (RIO). The following allocation was established. The asset allocation will be reviewed periodically and updated when appropriate.

At its discretion, the SIB advised by the Advisory Board may adjust these targets on an interim or a long-term basis to account for (a) extreme market conditions, (b) the specific composition of Legacy Fund assets deployed via the In-State Investment Program (ISIP), (c) a decision by the North Dakota State Legislature to withdraw and spend an amount up to but not exceeding 5% of the Fund and (d) the long-term implementation nature of alternative assets (such as private equity and private real assets).

	Target Allocation	Minimum Allocation	Maximum Allocation
Global Equity	**53.5%**	**32%**	**76%**
Public Equity	46.5%	32%	64%
Private Equity	7%	0%	12%
Global Fixed Income	**28.5%**	**23%**	**34%**
Investment Grade Fixed Income	13.5%	10%	17%
High Yield Fixed Income	5%	0%	7%
Private Credit	10%	0%	13%
Private Real Assets	**10%**	**5%**	**15%**
In-state Fixed Income	**5%**	**0%**	**8%**
In-state Infrastructure Loan	1%	0%	2%
BND CD Match Program	4%	0%	6%
In-state Equity	3%	0%	7%

Corridor Benchmark/Allocations: Long-term target allocations utilizing alternative asset classes can take several years to implement prudently. To ensure portfolio exposures remain aligned with the Fund's strategic objectives during this period, the SIB may employ a corridor methodology. Under this approach, allocations to private market asset classes (such as private equity, private credit, or real assets) that cannot be immediately adjusted—due to the illiquid nature of the assets—will be temporarily reallocated to corresponding public market asset classes that serve as suitable proxies. Both the target and ranges are adjusted based on the corridor methodology.

The proxy allocations are utilized such that the overall portfolio continues to reflect, as closely as practical, the intended risk–return characteristics around the long-term targets, until private market commitments are fully funded and capital is called.

Corridor Guidelines:

- Private Equity will be proxied with public equity
- Private Credit will be proxied with half public equity and half public investment grade fixed income
- Private real assets will be proxied with half public equity and half public investment grade fixed income
- In-state Fixed Income will be proxied with investment grade fixed income
- In-state Equity will be proxied with public equity

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.

V. In-State Investment Program

In 2021, House Bill 1425 was approved by the North Dakota legislature and signed into law. It establishes a program for the investment of a portion of Legacy Fund assets within the state and empowers the SIB advised by the Advisory Board to execute that program.

In 2023, Senate Bill 2330 amended NDCC § 21-10-11 by directing the SIB advised by the Advisory Board to invest the ISIP funds in the following way:

- A target allocation of seven hundred million dollars to fixed income investments within the state, including:
  - Up to one hundred fifty million dollars for infrastructure loans to political subdivisions, with the fixed net return to the Legacy Fund of 1.5%.
  - A minimum of four hundred million dollars million for the Bank of North Dakota's ("BND") certificate of deposit match program with an interest rate fixed at the equivalent yield of the United State treasury bonds having the same term, up to a maximum term of 20 years; and
  - Other qualified fixed income investments within the state based on guidelines developed by the Legacy and Budget Stabilization Advisory board.
- A target allocation of six hundred million dollars to equity investments in the state, including:
  - Investment in one or more equity funds, venture capital funds, or alternative investment funds with a primary strategy of investing in emerging or expanding companies in the state. Equity investments must:
    - Be managed by qualified investment firms, financial institutions, or equity funds which have a strategy to invest in qualified companies operating or seeking to operate in the state and which have a direct connection to the state.
    - Have a benchmark investment return equal to the 5-year average net return for the Legacy Fund, excluding in-state investments.
  - Other eligible investments under this subdivision based on guidelines developed by the Advisory Board.

Policies Specific to the ISIP Include:

a) Specific to the assessment of acceptable risk and return targets for the ISIP in total and all ISIP investments, in-state investments should offer credible evidence that they will meet or exceed the forward expected returns of similar investments with similar levels of risk and liquidity present in the assets that are not invested under the ISIP referred to here as the Core Legacy Fund.

b) All proposed investments will be made using third party asset managers. Direct investments by the SIB advised by the Advisory Board are not contemplated.

c) All investments must be subject to the same level of due diligence as similar investments considered for funding using Core Legacy Fund assets.

d) The SIB at its discretion may choose to direct asset managers retained in the ISIP to utilize either equity, fixed income, convertible debt, debt with warrants or a combination of any of these securities to best meet the risk, return and prudency in the ISIP investments.

e) The SIB will create and maintain an annual investment pacing schedule that - subject to the successful sourcing, due diligence and deal structuring that meets the SIB's policy requirements for the ISIP, fluctuations in market values and distributions back to the Legacy Fund - will create the opportunity to commit funds at a rate such that the full amount of the equity capital limit for the ISIP set in statute is reached within ten years.

f) The SIB will direct asset managers retained in the ISIP to:

   i. Require in the structuring of transactions that the State never becomes a majority equity owner of a business.

   ii. Require that private capital provided by independent third parties always be invested alongside capital provided from Legacy Fund assets.

   iii. Give strong preference for investments that provide the SIB the ability to exit from the investment to recycle capital into new ISIP opportunities.

   iv. The SIB, to the extent prudent, will give special consideration to qualified and experienced institutional asset managers domiciled or having operating offices within the state for participation in implementation of the ISIP.

   v. Capital provided to any single direct investment by an in-state portfolio fund manager may not exceed $10 million; however, for each fund commitment, up to two direct investments may receive up to $25 million each.

VI. General Restrictions and Guidelines

While the SIB determines quality, diversification, and performance standards for investments, the following restrictions apply:

1. Derivatives may be used to manage and replicate systematic exposures, for fund rebalancing, and for risk management, which includes overlays (i.e. cash overlay program).
2. Derivatives, short selling, and security margining may be used in a manner consistent with approved manager guidelines.
3. Derivatives use will be monitored to ensure that undue risks are not taken.
4. No investment may jeopardize the tax-exempt status of the Fund.

5. All assets must be held by the SIB's master custodian or an approved sub-custodian.
6. Social investment is prohibited, except as expressly authorized under Section V (In-State Investment Program) and applicable law, including NDCC §§ 21-10-07.1, 21-10-08.1 and 21-10-11.
    a. For purposes of this Investment Policy Statement, "social investment" has the meaning set forth in NDCC § 21-10-08.1.
    b. Outside of investments authorized under Section V, the SIB may not invest Fund assets for the purpose of social investment unless the SIB determines that the investment would provide an equivalent or superior rate of return compared to a similar investment that is not a social investment and has a similar time horizon and risk.
7. Economically targeted investment is prohibited, except as expressly authorized under Section V (In-State Investment Program) and applicable law, including NDCC §§ 21-10-07.1 and 21-10-11.
    a. For purposes of this Investment Policy Statement, "economically targeted investment" means an investment designed to produce a competitive rate of return commensurate with the risk involved and create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.
    b. Investments made pursuant to Section V are permitted notwithstanding their in-state economic benefit purpose, provided they are made in accordance with Section V and applicable law.

All investments shall be made in compliance with applicable laws, regulations, and policies governing the State Investment Board.

VII. Internal Controls

The SIB shall maintain a system of internal controls designed to prevent loss of funds arising from fraud, error, or mismanagement.

Key controls include the segregation of duties, which ensures that no single individual has authority or control over all phases of an investment transaction. Specifically, the responsibilities for initiating investment purchases, recording and reconciling investment activity, and custodial safekeeping of assets are separated among different staff, functional areas, or service providers to provide independent checks and balances.

Other critical controls include maintaining written or electronic confirmations of all investment transactions and establishing formal criteria for broker relationships and trading counterparties. Annual financial audits will include a comprehensive review of the portfolio, accounting procedures for security transactions, and verification of compliance with this Investment Policy.

VIII. Evaluation and Review

The Fund's performance will be evaluated against its investment objectives, with emphasis on rolling 5-year results and 10-year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy statement for achieving those objectives.

Performance reports will be provided to the Advisory Board periodically, but not less than quarterly. Quarterly reports to the Advisory Board will include:

1. A list of investment managers and their performance relative to benchmarks net of fees
2. Earnings, percentage earned and change in market value of each mandate
3. Current portfolio allocations and performance summaries by asset class

Annual reports will contain information regarding all significant and/or material matters and changes pertaining to the investment of the Legacy Fund. These reports will include:

1. Changes in asset class portfolio structures, tactical approaches, and market values.
2. Loss of principal, if any.
3. Provide details of fees and costs.
4. All material legal or legislative proceedings affecting the SIB.
5. Compliance with this investment policy statement.
6. A general market overview and market expectations.
7. Management of risk by the SIB.

Lastly, the SIB shall notify the Advisory Board within 30 days of any substantial or notable deviation from the normal management of the Legacy Fund, including any anomalies, notable losses, gains, or liquidation of assets affecting the fund. This includes changes in money managers, performance measurement services, or consultants, including the hiring or termination of a money manager, performance measurement service, or consultant.

IX. Withdrawals

Withdrawals or distributions from the Legacy Fund shall be made only in accordance with Section 26 of Article X of the North Dakota Constitution and the applicable provisions of the North Dakota Century Code.

Approved by the LBSFAB: 3/31/2026

Approved by the SIB: 4/27/2026