



Be Legendary.

Teachers' Fund For Retirement

RETIREMENT & INVESTMENT

**TFFR BOARD GOVERNANCE & POLICY REVIEW COMMITTEE MEETING**

**Thursday, November 10, 2022, 3:30 p.m.**

**RIO Conference Room ([Virtual Meeting Host](#))**

**1600 East Century Avenue, Suite 3, Bismarck, ND**

**[Click here to join the meeting](#)**

AGENDA

- I. **CALL TO ORDER AND ACCEPTANCE OF AGENDA**
- II. **ACCEPTANCE OF MINUTES (SEPTEMBER 7, 2022)**
- III. **LEGISLATION UPDATE & DISCUSSION – MS. MURTHA (45-60 MIN)**
- IV. **SIB GOVERNANCE POLICY CHANGES – MS. MURTHA (5-10 MIN)**
- V. **COMMITTEE WORKPLAN ITEMS – MR. ROBERTS (15-20 MIN)**
- VI. **ADJOURNMENT**

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT  
GOVERNANCE & POLICY REVIEW COMMITTEE  
MINUTES OF THE SEPTEMBER 7, 2022, MEETING (VIRTUAL)**

**BOARD MEMBERS PRESENT:** Cody Mickelson, Chair  
Rob Lech, TFFR Board  
Mike Burton, TFFR Board

**STAFF PRESENT:** Missy Kopp, Exec Assistance  
Jan Murtha, Exec Director  
Chad Roberts, DED/CRO

**CALL TO ORDER:**

Mr. Cody Mickelson, Chair of the Teachers' Fund for Retirement (TFFR) Governance & Policy Review (GPR) Committee, called the meeting to order at 3:00 p.m. on Wednesday, September 7, 2022, at the Retirement and Investment Office (RIO), Bismarck, ND.

**AGENDA:**

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. BURTON AND CARRIED BY A VOICE VOTE TO ACCEPT THE AGENDA FOR THE SEPTEMBER 7, 2022, MEETING.**

**AYES: MR. BURTON, DR. LECH, AND MR. MICKELSON**

**NAYS: NONE**

**MOTION CARRIED**

**MINUTES:**

**IT WAS MOVED BY MR. BURTON AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE JULY 7, 2022, MINUTES AS DISTRIBUTED.**

**AYES: DR. LECH, MR. BURTON, AND MR. MICKELSON**

**NAYS: NONE**

**MOTION CARRIED**

**REVIEW AND DISCUSS FY 2023 COMMITTEE WORKPLAN:**

Mr. Roberts presented the fiscal year (FY) 2023 GPR Committee Workplan. The workplan outlines the sections of the TFFR Policy Manual that the Committee will review at each meeting. Staff grouped policies together with similar topics for each meeting. Staff recommend adding one more GPR meeting to discuss all recommendations that will be brought to the TFFR Board. The Committee indicated that an additional meeting in June would work better than the suggested May date.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. BURTON AND CARRIED BY A VOICE VOTE TO APPROVE THE FY2023 COMMITTEE WORKPLAN WITH AMMENDMENT.**

**AYES: DR. LECH, MR. BURTON, AND MR. MICKELSON**

**NAYS: NONE**

**MOTION CARRIED**

**ADJOURNMENT:**

With no further business to come before the Committee, Mr. Mickelson adjourned the meeting at 3:17p.m.

Submitted by:

Missy Kopp, Assistant to the Board

# 2023 Legislative Session Planning - TFFR

TFFR – GPR Committee

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## Topics & Guidance

### TFFR Technical Bill

#### Retirement Plan Design Changes

- TFFR
- PERS

#### Investment Program Changes

- SIB Governance
- RIO Initiatives

- Staff Guidance/Parameters
  - Support
  - Neutral
  - Negative

Technical Bill  
Draft 53  
23.0053.01000 –  
Employee  
Benefits  
Programs  
Committee  
6/21/22

<https://ndlegis.gov/assembly/67-2021/interim/23-0053-01000.pdf>

TFFR Technical Bill

Submitted by the TFFR Board

Includes:

- Clarification of Statutory Provisions.
- Easing of Re-employed Retiree restrictions.
- Pioneer Project Budget hearing Support?

- Staff Guidance
  - Known Support
- Parameters
  - Proposed amendments
    - Definitions
    - Re-employed Retiree Plan Policy
    - Actuarial Impact

# Retirement Plan Design Changes - TFFR

## Known Bills:

- Military Exemption

## EBPC 6-21-22:

<https://ndlegis.gov/assembly/67-2021/interim/23-0016-02000.pdf>

## Anticipated Topics:

- Exemption - Other Groups.
- Plan Design Changes.

- Staff Guidance
  - Neutral
  - Negative
- Parameters
  - Plan Risks associated with Exemptions from participation.
  - Public Policy concerns.
  - Actuarial Impact.

# Retirement Plan Design Changes - PERS

## Known Bills:

- DB Plan Closure

## Retirement Comm. 10-31-22:

- <https://ndlegis.gov/assembly/67-2021/interim/23-0280-02000.pdf>

## Anticipated Topics:

- Plan Design Changes.

## • Staff Guidance

- Neutral
- Negative

## • Parameters

- Public Policy concerns.

Note: Opportunity for Board Discussion relating to Plan Design Analysis.



# Investment Program Changes

## RIO Initiatives - Known

- Internal Investment Opportunities

## SIB Governance - Anticipated

- Board Composition
  - Land Assets

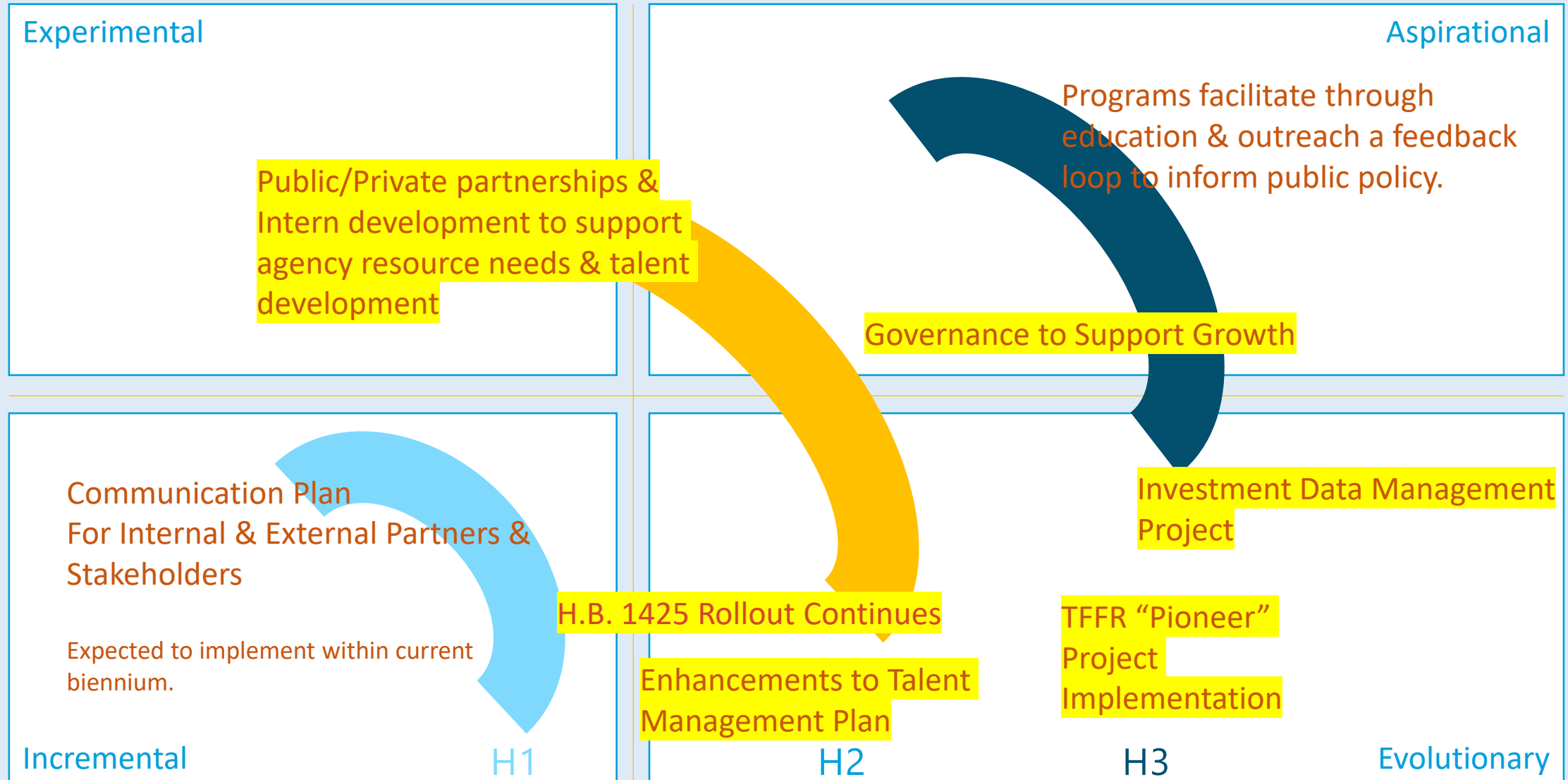
- Staff Guidance

- Support
- Neutral
- Negative

- Parameters

- Client Fund Benefits
- Agency HR Impact
- Governance & Control

# Horizon-Based Transformation



# ORGANIZATION CULTURE – WORKFORCE INITIATIVE

## SALARIES

- ED/CIO SPLIT AND OTHER AGENCY RE-ORGANIZATION INCLUDING ACCOUNTING MANAGER, CFO-COO.
- SUPPORT INTERN PROGRAM

## SUPPORT

- 1 ADDITIONAL ADMIN TO SUPPORT 5 NEW FTE'S.
- CURRENTLY HAVE 3 FULL TIME AND 1 TEMP PART-TIME TO SUPPORT 17.

## CERTIFICATIONS


- COST OF PROFESSIONAL CERTIFICATIONS THAT ARE EITHER REQUIRED OR ENCOURAGED TO PERFORM DUTIES
- SUPPORT HIGH PERFORMANCE AND GROWTH MINDSET.

## INFLATION

- COST OF TRAVEL, TRAINING, AND SUPPORT OF A HYBRID/REMOTE WORKPLACE.

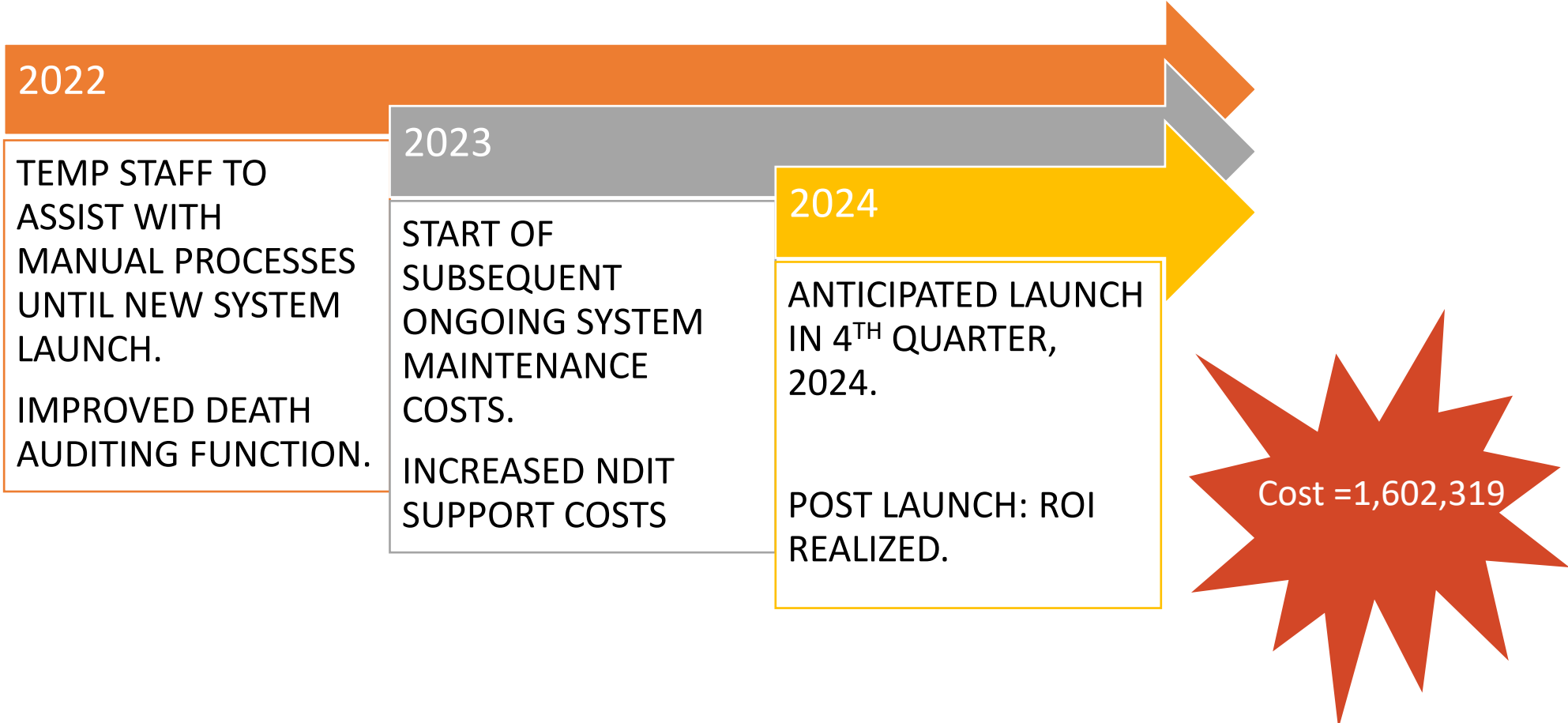
## CONTINGENCY

- REQUEST FOR CONTINGENCY FUNDS.



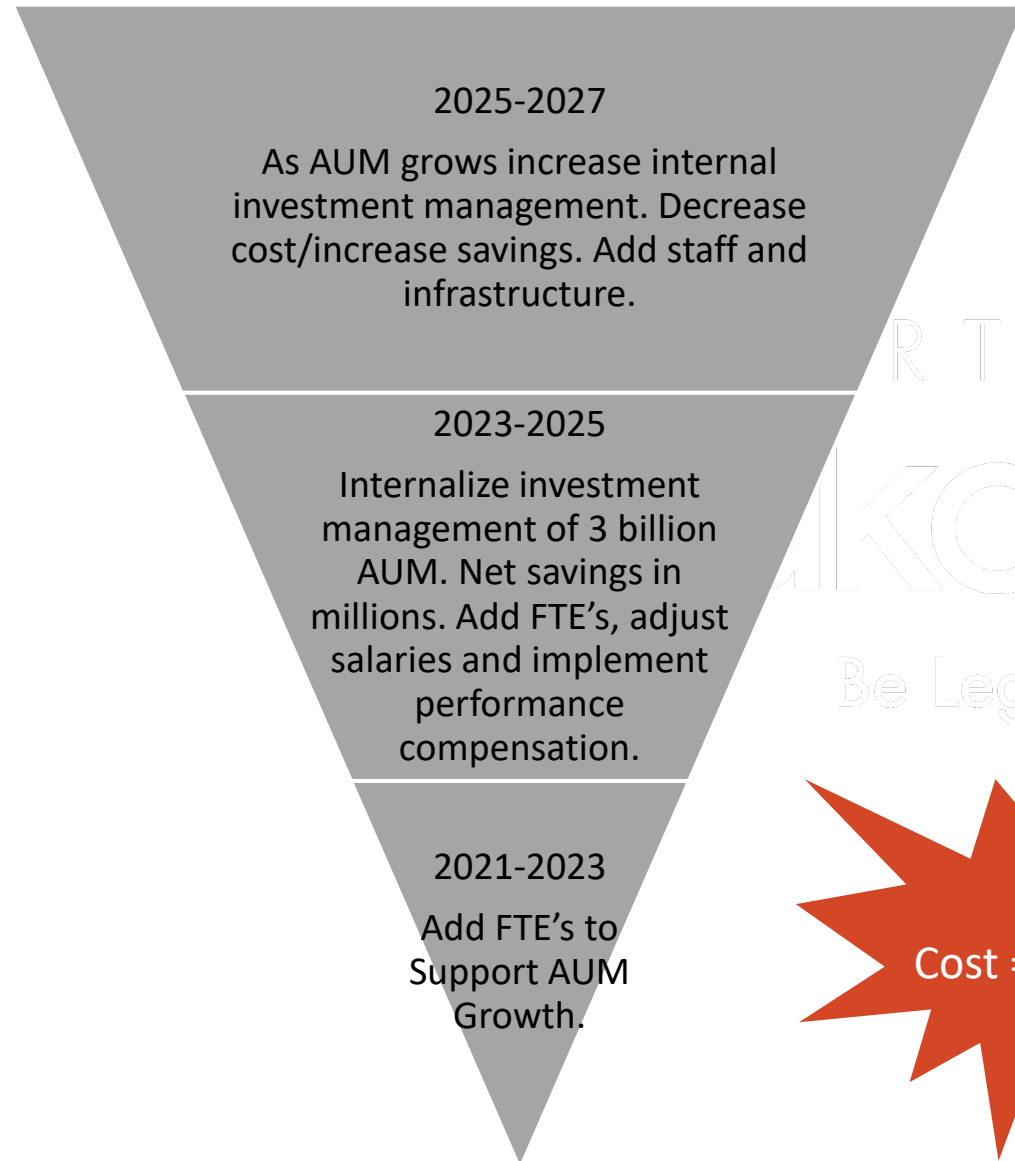
Cost =  
667,256

# TFFR "PIONEER" PROJECT INITIATIVE



# TALENT MANAGEMENT & INTERNAL INVESTMENT INITIATIVE

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**Cost = 1,671,836**

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N O R T H  
Dakota

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## MEMORANDUM

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**TO:** TFFR – GPR Committee  
**FROM:** Jan Murtha, Executive Director  
**DATE:** November 4, 2022  
**RE:** Policy Changes to Support Investment Committee Operations.

The SIB Investment Committee and Governance and Policy Review Committee have reviewed and recommend changes to the SIB Governance Manual to facilitate Investment Committee operations.

Mr. Anderson reviewed these changes with the SIB for First Reading at the October meeting. Additional amendments may be accepted up to and at the time of Second Reading and Final Adoption tentatively scheduled for the November SIB meeting.

Prior to a second reading before the SIB, comment will be sought from the TFFR-GPR committee and the full TFFR Board during their regular scheduled meetings in November. The proposed changes and any amendments will also be submitted to AAG DePountis for legal review prior to second reading and final adoption.

**Committee action: Review proposed amendments to SIB Governance Manual for additional comments and make recommendation to the full TFFR Board. Amended sections include: B-5, B-7, E-1, E-2, E-3, E-4, E-5, E-7, E-7, E-8, E-9, and E-10.**

## POLICY TYPE: GOVERNANCE PROCESS

### POLICY TITLE: *BOARD COMMITTEE PRINCIPLES*

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

1. Board committees 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.
2. 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.
3. 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.
4. 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 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.
5. 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.
6. The chairperson will appoint board committees authorized by the board. 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



## POLICY TYPE: GOVERNANCE PROCESS

### POLICY TITLE: ANNUAL BOARD PLANNING CYCLE

To accomplish its job outputs with a governance style consistent with board policies, the board will strive to follow a biennial 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. A biennial 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 three months of the new cycle, the board will strive to develop its agenda for the ensuing 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 and August of each year.
4. The sequence derived from this process for the board planning year ending June 30 is as follows: (Additional comments forthcoming)
  - A. July: Election of officers, appoints audit and investment committee, plan annual agenda, begin to develop board education plan, and new board member orientation.
  - B. August: Present education plan and continue new board member orientation.
  - C. September: Annual Review of Governance Manual.
  - D. October: Chief Investment Officer review of investment results. Annual meeting for evaluation of RIO vs. *Ends* policies and annual board evaluation.
  - E. November: Chief Investment Officer report on investment work plan.
  - F. January: During second year of the biennium, begin to develop *Ends* policies for the coming biennium for budget purposes.
  - G. February: Chief Investment Officer present the investment work plan. Evaluation of Executive Director.
  - H. 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.

## POLICY TYPE: GOVERNANCE PROCESS

I. June: Chief Investment Officer review of investment results and report on investment work plan

4. The sequence derived from this process for the board planning year ending June 30 is as follows:
- A. July: Election of officers, appoints audit committee, plan annual agenda, begin to develop board education plan, and new board member orientation.
  - B. August: Investment Director review of investment results, establish investment work plan, add investment education to education plan, and continue new board member orientation.
  - C. September: Annual Review of Governance Manual.
  - D. October: Annual meeting for evaluation of RIO vs. *Ends* policies and annual board evaluation.
  - E. November: Investment Director report on investment work plan.
  - F. January: During second year of the biennium, begin to develop *Ends* policies for the coming biennium for budget purposes.
  - G. February: Investment Director report on investment work plan.  
Evaluation of Executive Director.
  - H. March: During first year of biennium, set budget guidelines for budget development.
  - I. May: Investment Director report on investment work plan.

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

**Amended:** September 26, 2014, February 27, 2015.

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: *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 ~~twelve~~ 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 ~~in regard to~~ regarding speculation but ~~in regard to~~ 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.

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: 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:~~

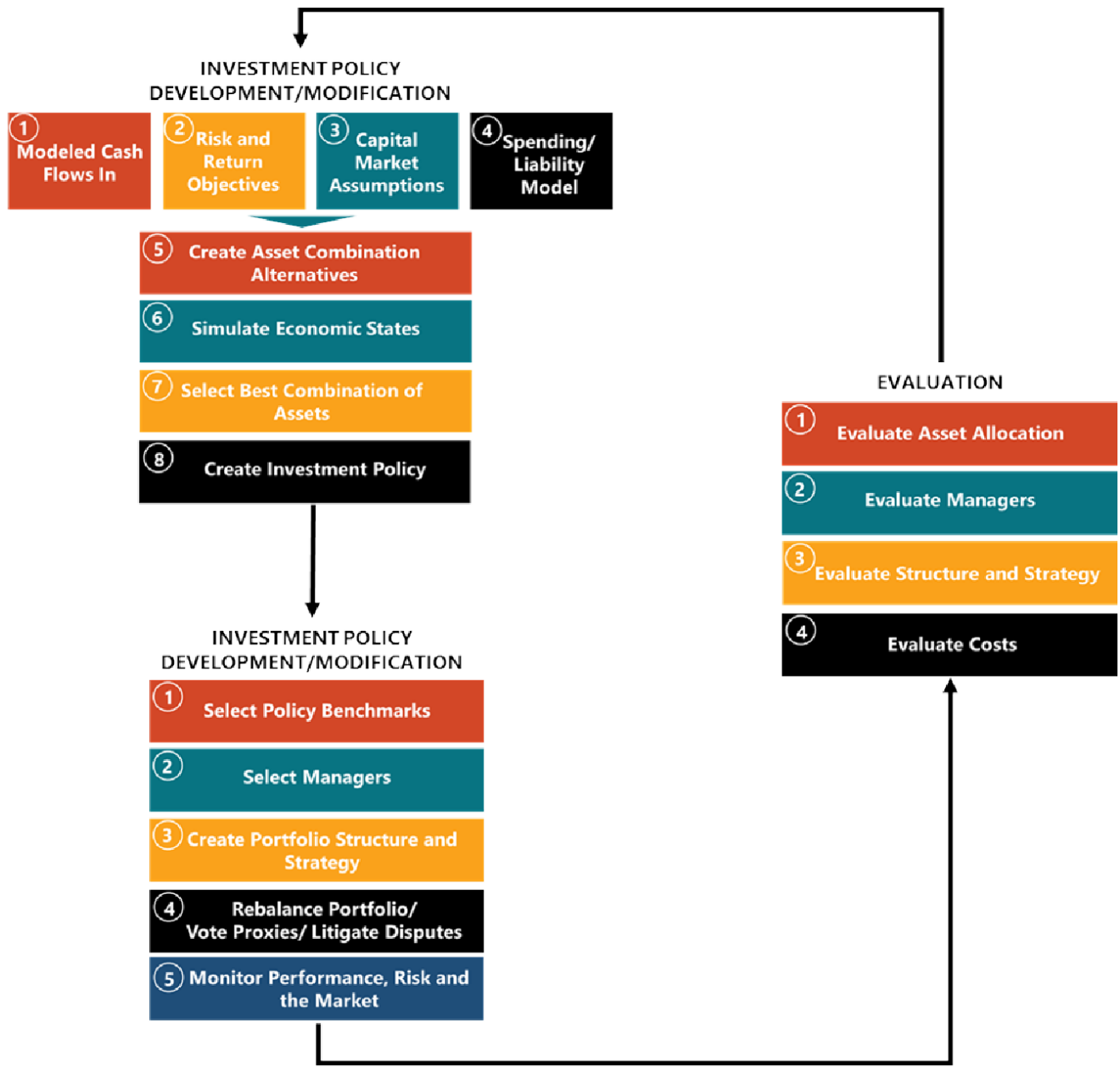
- ~~• Setting appropriate benchmarks.~~
- ~~• Finding the right managers.~~
- ~~• Monitoring the program.~~
- ~~• Searching for appropriate new opportunities.~~

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:

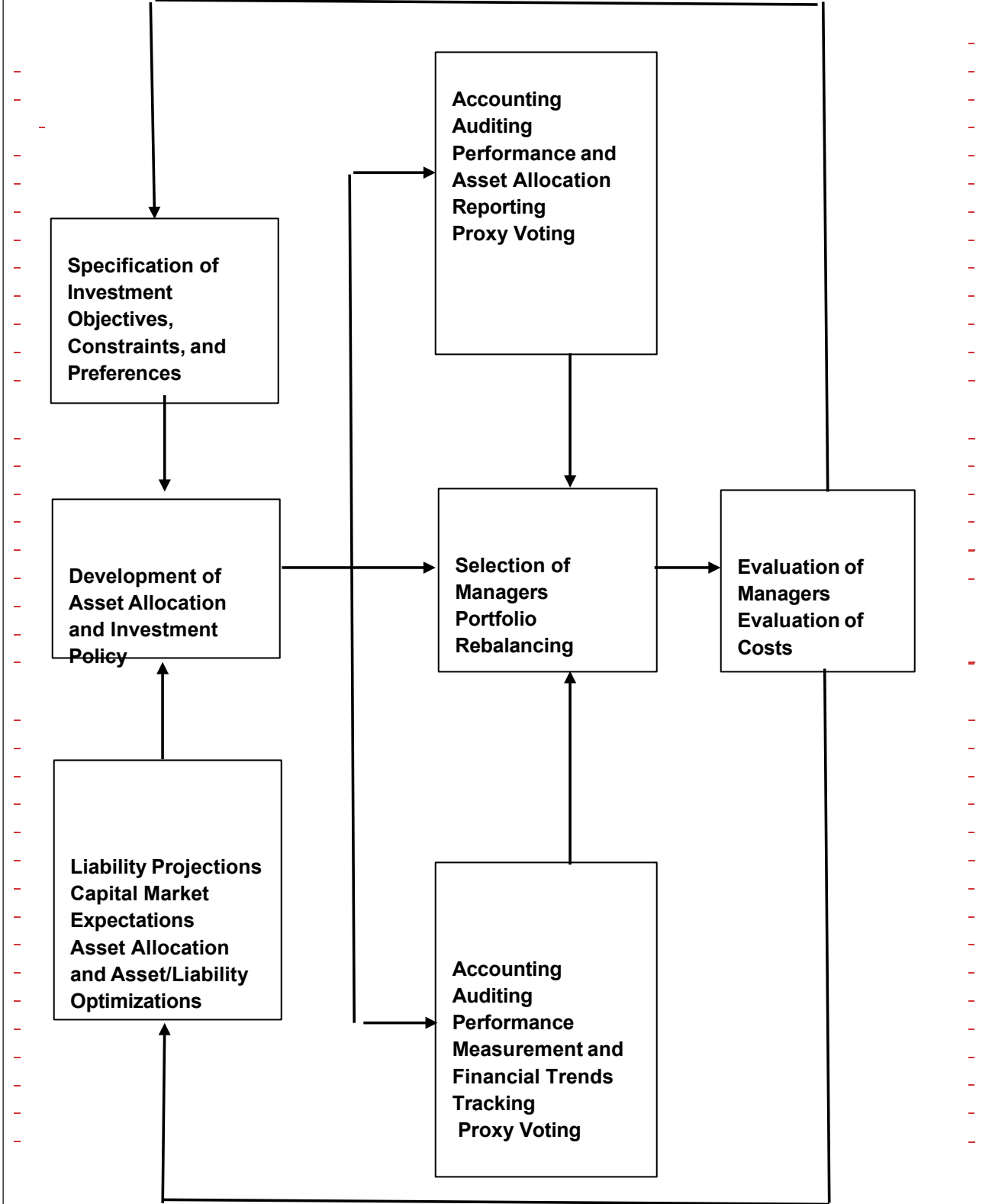
- Investment policy development/modification.
- Implementation/monitoring.
- Evaluation.

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.



**INTERNAL ENTITIES**



**EXTERNAL ENTITIES**

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: 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 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 approved 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 approved 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

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: *KEY PROGRAM ENTITIES AND RESPONSIBILITIES*

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 the use of new investment instruments prior to their implementation in internal (if approved) and external SIB portfolios.
  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 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.
4. Report the investment performance of the funds to each fund's governing authority.



## POLICY TYPE: INVESTMENTS

### POLICY TITLE: *KEY PROGRAM ENTITIES AND RESPONSIBILITIES*

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5. 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 administrative 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. Hire and terminate money managers, custodians, and consultants as delegated by the Investment Committee and Board.
- 7.6. Negotiate manager contract terms and conditions as delegated by the Investment Committee and Board.
- 8.7. Evaluate money manager adherence to investment objectives, mandate requirements and guidelines.
- 9.8. Provide performance reports to the Investment Committee, the Board and Boards of participating funds as a representative of the Investment Committee and the SIB.
- 10.9. Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.
- 11.10. Develop and maintain appropriate accounting policies and investment systems for the funds entrusted to the SIB.

#### 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 developmental of annual work plan.
6. Assist in implementation of annual work plan.

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

#### 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

#### SIB

- ~~1. Invest funds entrusted by statute and contracted entities.~~
- ~~2. Set policies on appropriate investments and investment practices for entrusted funds.~~
- ~~3. Approve asset allocation and investment policies of participating trust funds.~~
- ~~4. Report the investment performance of the funds to each fund's governing authority.~~
- ~~5. Hire and terminate money managers, custodians, and consultants. Investment Officer and~~

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

#### RIO Staff

- ~~1. Implement investment policies approved by the SIB.~~
- ~~2. Provide research and administrative support for SIB projects.~~
- ~~3. Recommend investment regulations appropriate for governing the investment of entrusted funds.~~
- ~~4. Assist fund governing bodies in developing asset allocation and investment policies.~~
- ~~5. Evaluate money manager adherence to investment objectives.~~
- ~~6. Provide performance reports to the SIB and boards of participating funds.~~
- ~~7. Recommend hiring or terminating money managers, custodians, consultants, and other outside services needed to effectively manage the investment funds.~~
- ~~8. Develop and maintain appropriate accounting policies and systems for the funds entrusted to the SIB.~~

#### Investment Consultant

- ~~1. Measure money manager performance and monitor adherence to investment goals, objectives, and policies.~~
- ~~2. Conduct annual evaluation of program policies and results, and assist in development of annual work plan.~~
- ~~3. Assist in implementation of annual work plan.~~
- ~~4. Conduct asset allocation or asset/liability studies.~~
- ~~5. Conduct requested money manager searches.~~
- ~~6. Assist in development of investment policies and manager structure and rebalancing guidelines.~~
- ~~7. 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 and results and assist in developmental 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.~~

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES**

- ~~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

## **POLICY TYPE: INVESTMENTS**

### **POLICY TITLE: 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.

## **POLICY TYPE: INVESTMENTS**

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### ***POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS***

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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

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – INVESTMENT POOLS

#### Asset Class Implementation

The SIB may internally manage investment of funds as approved 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:

~~The SIB does no in-house investment of funds. All investment activity is delegated to outside money managers. Within each asset class there are numerous manager styles (i.e. market sector specializations) that may be employed by the SIB to affect exposure to the various asset classes.~~

~~SIB investment pool policy statements will define the following for each asset class:~~

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.
  - b. Ranges for rebalancing.

**POLICY TYPE: INVESTMENTS**

5. 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



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.
3. ~~Achieve changes for the common good whenever these do not conflict with the exclusive benefit objective.~~

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 requires 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.

**GUIDELINES**

~~The Board believes that good corporate investment decisions require good corporate governance, and that social responsibilities cannot be ignored in these decision processes. Accordingly, the practice of faithfully voting with management will *not* be tolerated, nor will the "Wall Street Rule" which advocates the sale of shares if there is disagreement with management.~~

~~In keeping with the Board's philosophy, the managers are encouraged to vote *for* proposals that *increase* or enhance the following, and against those that decrease or diminish the same:~~

- ~~• Health of the population~~
- ~~• Environmental conditions~~
- ~~• Management and Board accountability~~
- ~~• Abolition of management entrenchment~~
- ~~• Control of executive compensation~~
- ~~• Shareholder rights and ownership~~
- ~~• Fair labor practices~~

~~Guidelines may be altered periodically by the Board as situations warrant.~~

**Policy Implemented:** September 20, 1995.

**Amended:** February 27, 2009, October 26, 2018.

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: 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.

~~Some manager selections are conducted by the consultant while others may be directed by the staff in coordination with the SIB. Ultimately, the selection process is often a team effort involving the investment consultants, SIB members, and RIO staff. A consultant may be invaluable in this activity due to the large volume of data that needs to be collected, verified, and summarized. Also, their ongoing dialogue with money management firms provides useful qualitative input.~~

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~~ 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.

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION

~~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:~~

~~Quantitative characteristics, such as GIPS-compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics.~~

~~Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls.~~

~~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. The Investment Officer will give a written report to the SIB on the due diligence process conducted by the Investment Officer, RIO staff, and the SIB in the manager 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 guidelines-requirements and objectives.

The Investment Officer will schedule manager interviews with the SIB. Following these interviews, the Investment Officer, 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 approval review, and executed.
- Accounts are set up at the master custodian and on the internal general ledger.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION**

- 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

## POLICY TYPE: INVESTMENTS

### POLICY TITLE: IMPLEMENTATION – PORTFOLIO REBALANCING

#### Portfolio Rebalancing

The need to rebalance the portfolio can arise ~~due to~~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 ~~due to~~from rebalancing, RIO ~~works with the investment consultants to determine~~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 ~~of the~~ 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.

~~RIO's rebalancing policy requires the asset mix to be determined at the end of each month. At the end of each quarter, all portfolios deviating from the target beyond the acceptable limits are rebalanced to target.~~

**Policy Implemented:** September 20, 1995.

**The Board and the Investment Committee** The SIB 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.

**POLICY TYPE: INVESTMENTS**

**POLICY TITLE: *EVALUATION***

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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.



## MEMORANDUM

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**TO:** TFFR GPR Committee Members  
**FROM:** Chad R. Roberts, DED/CRO  
**DATE:** October 30, 2022  
**RE:** Suggested TFFR Policy Manual Revisions for November 2022 Meeting

As part of the TFFR GPR Committee workplan adopted at the September 7, 2022, meeting, suggested policy changes for the following sections are scheduled to be reviewed at the November 10, 2022, meeting. Below are the sections for review and a summary of the changes to each.

- **Section 1, subsection I:** Clarifies roles between Executive Director and Deputy Executive Director. Bullet point (p) clarifies succession of responsibility in the event of vacancies or absences.
- **Section 1, subsection J:** Reflects division of ED and CIO roles. Also incorporates changes in line with SIB governance changes.
- **Section 1, subsection K:** No suggested changes to section.
- **Section 1, subsection O:** No suggested changes to section.
- **Section 1, subsection P:** Clarifies roles and authorities regarding Board communications, specifying that the board and Executive Director are the first level of communication.
- **Section 1, subsection S:** Clarifies the Executive Director will be the primary lead to work with the TFFR Board on the development of a strategic plan.
- **Section 2, subsection A:** Signing authorities changed to reflect Executive Director and Chief Investment Officer
- **Section 2, subsection B:** Deleted wording regarding how many years of amortization is remaining as of date
- **Section 2, subsection C:** No suggested changes to section

As determined in the development of the TFFR GPR Committee workplan established at the September 7, 2022, meeting, the committee will address suggested changes for identified sections over the course of the fiscal year. A finalized report of all suggested changes will be provided to the TFFR Board of Trustees for consideration upon completion of the full review by the TFFR GPR Committee.

**COMMITTEE ACTION REQUESTED: Committee Acceptance.**



Teachers' Fund For Retirement  
RETIREMENT & INVESTMENT

# Board Program Manual

# ND TEACHERS' FUND FOR RETIREMENT (NDTFFR) BOARD PROGRAM MANUAL

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# ND TEACHERS' FUND FOR RETIREMENT (NDTFFR) BOARD PROGRAM MANUAL

## SECTION I: TFFR GOVERNANCE POLICIES

### A. Introduction and Purpose

The ND Teachers' Fund for Retirement (TFFR) Board of Trustees is dedicated to ethically serving the members and stakeholders of the TFFR pension plan and ensuring that the plan is effectively managed. The Board is committed to excellence in Board governance. An effective governance structure is essential to fulfilling fiduciary duties and Board responsibilities in accordance with the highest standards of professional responsibility, accountability, and transparency.

The Board developed and adopted this TFFR Board Program Manual to establish the framework within which the Board intends to set governance and oversight policy.

The purpose of the Manual is to:

1. Provide orientation material and exhibits for new TFFR trustees and executive staff as to the roles, responsibilities, policies, procedures, and activities in the governance and oversight of the TFFR plan.
2. Serve as an ongoing reference manual for current trustees and staff.
3. Describe the roles and responsibilities of the Board of Trustees as a Board, individual Trustees, Committees, Staff, and Service Providers.
4. Describe the relationship between the TFFR Board, the State Investment Board (SIB), and the Retirement and Investment Office (RIO) as it relates to the administration of the TFFR plan.
5. Establish a Board meeting protocol that outlines the manner in which the Board will conduct itself to enable the Board to carry out its responsibilities as effectively and efficiently as possible, and in accordance with state and federal law.
6. Facilitate the organized, efficient, and cohesive functioning of the Board.
7. Facilitate effective communication among the Trustees, staff, plan members, employers, and other external parties.
8. Define responsibility and accountability for hiring and monitoring outside service providers.
9. Document the method by which the Board will conduct a Board self- assessment.

10. Document Board governance and program policies, administrative rules, and state statutes governing the plan.

The TFFR Board Program Manual is an evolving set of documents that reflect the Board's current governance practices. The Manual will be reviewed by the Board on an annual basis. Board trustees, the Deputy Executive Director-Chief Retirement Officer, and/or legal counsel may recommend modifications for Board consideration and approval.

The contents of the TFFR Board Program Manual are intended to be consistent with state and federal laws, rules, and regulations. If there is any conflict between the provisions included in this Manual and state or federal law, the law prevails.

## **B. TFFR Program Overview**

### **1. History**

The ND Teachers' Fund for Retirement (NDTFFR) (formerly the ND Teachers' Insurance and Retirement Fund or NDTIRF) was created by the ND Legislature in 1913. The defined benefit plan provides lifetime retirement, disability and survivor benefits for ND public school educators.

Membership participation, benefits provided, contribution requirements, and plan provisions are described in State Law and the TFFR Member Handbook.

### **2. Legal Framework**

ND Century Code (NDCC) Chapter 15-39.1 contains the legal authority and statutory language governing the TFFR plan, and is supplemented by ND Administrative Code Title 82. TFFR is a qualified (tax exempt) defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code (IRC).

## **C. TFFR Mission, Vision, and Values**

### **1. Our Mission**

To administer a comprehensive retirement program that provides North Dakota public educators with a foundation for retirement security.

### **2. Our Vision**

To be a trusted leader in the administration of a financially sound retirement program for North Dakota educators by providing exceptional customer service, professional plan management, and organizational effectiveness by adhering to the principles of good governance, transparency, and accountability.

### **3. Our Core Values**



- a. Customer Satisfaction and Commitment to Excellence which are demonstrated by our trustworthiness, accountability, and respectfulness.
- b. Strong Governance and Operational Effectiveness through our strategic leadership, fiduciary responsibility, ethical practices, and transparency.

## **D. TFFR Board Authority, Composition, Appointment, Terms**

### **1. Board Authority**

TFFR is governed by a 7-member TFFR Board of Trustees who are charged with oversight, policy making, and administration of the TFFR retirement program as provided under NDCC 15-39.1-05. The trustees are fiduciaries, and as such have the highest standard of law placed on them.

### **2. Board Composition**

- a. The Board is composed of seven trustees consisting of:
  - 1) Two elected state officials:
    - State Treasurer (ex officio)
    - State Superintendent of Public Instruction (ex officio)
  - 2) Five members appointed by the Governor:
    - Two board members who are actively employed as elementary or secondary teachers in full-time positions not classified as school administrators. The appointment is made from a list of three nominees submitted to the Governor by ND United (NDU).
    - One board member who is actively employed as a full-time school administrator. The appointment is made from a list of three nominees submitted to the Governor by the ND Council of Educational Leaders (NDCEL).
    - Two board members who are retired members of the Fund. The appointment is made from a list of three nominees submitted to the Governor by the ND Retired Teachers Association (NDRTA).

### **3. Board Trustee Desired Attributes**

Board trustees should possess or develop the following desired attributes in order to become an effective board trustee.

- a. Unwaveringly ethical
- b. Perpetually inquisitive

- c. Knowledgeable about the membership
- d. Ability to understand complex actuarial, financial, and investment concepts
- e. Committed to strong board governance practices
- f. Diligent and willing to spend time to learn best pension practices
- g. Professional, respectful, and courteous demeanor
- h. Proactive and responsive approach to member needs
- i. Committed and engaged
- j. Active listening and communication skills
- k. Critical thinking skills
- l. Ability to make fair and timely decisions
- m. Open and accountable to stakeholders

#### **4. Board Appointment Process**

When a TFFR Board trustee term expires or vacancy occurs, the Chief Retirement Officer will notify the Governor's Office and the applicable stakeholder group (ND United, ND Council of Educational Leaders, or ND Retired Teachers Association) of the vacancy. Board trustee desired attributes and board responsibilities will be provided to the Governor's Office and applicable stakeholder group to assist them in making board nominee or trustee selection.

NDU, NDCEL, or NDRTA will submit a list of three Board nominees to the Governor's Office, as required by state law. Board nominees must complete the "Application for Boards and Commissions" from the Governor's Office in order to be considered for TFFR Board appointment. This application contains information about the nominee's background, education, experience, financial disclosures, and references.

After reviewing the Board nominee applications, the Governor will make the trustee appointment, and will notify the selected nominee and the Chief Retirement Officer. The Governor's Office will send the newly appointed trustee a Certificate of Appointment which provides formal documentation of appointment to the TFFR Board. The Governor's office will also send an Oath of Office and Statement of Intent which must be signed by the trustee and returned to the Governor's Office. These documents confirm the trustee's appointment is official. Trustees can then carry out their official duties as a Board member and can be paid for authorized expenses.

#### **5. Trustee Terms, Resignations and Vacancies**

The State Treasurer is an ex-officio member of the Board, and serves on the Board throughout the term of the State Treasurer's elected position. A lawful Deputy of the State Treasurer (pursuant to NDCC 44-03-01) may act with the full authority of the State Treasurer, and may vote when serving as the State Treasurer's official designee on the Board.

The State Superintendent of Public Instruction is an ex-officio member of the Board, and serves on the Board throughout the term of the State Superintendent's elected position. The State Superintendent may designate an individual to attend and participate in Board meetings, however the designee may not vote since the designee does not have the lawful authority to vote on behalf of the State Superintendent.

Each of the five Governor-appointed trustees are appointed for a term of five years. The terms of office are staggered with the five appointed trustee positions beginning July 1 and expiring on June 30 of each successive year. There is no limit to the number of terms a trustee may serve on the Board. Trustees may remain on the Board until they are reappointed or until their successors are appointed.

Appointed active trustees who terminate employment may not continue to serve on the Board as active teacher representatives. Appointed active and retired trustees may resign from the Board by providing written notice to the Governor and the TFFR Board.

Appointed trustee position vacancies which occur before the expiration of a term will be filled by the Governor, and the new appointee will complete the term for which the original trustee was selected.

## **E. TFFR Board - Duties and Responsibilities**

### **1. Fiduciary Duties**

TFFR trustees are fiduciaries, and as such, have the highest standard of law placed upon them. Trustees are expected to discharge their duties with the utmost honesty and integrity and to act solely in the interest of the members, retirees, and beneficiaries for the exclusive purpose of providing benefits and paying reasonable expenses of administering the TFFR program.

Fiduciary duties include the following:

- a. Duty of loyalty. The obligation to act for the exclusive benefit of the plan participants and beneficiaries. Regardless of how trustees are selected, trustees must put the interests of all plan participants and beneficiaries above their own interests or those of any third parties.
- b. Duty of care. The responsibility to administer the plan efficiently and properly. The duty of care includes consideration and monitoring of the financial sustainability of funding practices and the effective administration of plan benefits in compliance with applicable laws.
- c. Duty of prudence. The obligation to act prudently in exercising power or discretion over the interests that are subject of the fiduciary relationship. A trustee should act in a manner consistent with a reasonably prudent person exercising care, skill, and caution.

## 2. Board Responsibilities

The TFFR Board of Trustees is responsible for oversight, policy making, and administration of the TFFR plan as provided under NDCC 15-39.1-05.2.

Board responsibilities include:

- a. Establish and monitor policies for the administration of the TFFR plan.
- b. Set legislative priorities and positions, submit legislative proposals, and monitor legislation affecting the plan.
- c. Develop and adopt administrative rules and board policies to administer the plan.
- d. Establish and monitor TFFR plan funding policy and progress.
- e. Establish and monitor TFFR investment policies and asset allocation under NDCC 21-10-02.1.
- f. Select and monitor the performance of consultants, advisors, and service providers for the plan.
- g. Select and monitor actuarial consultant(s) to provide actuarial and technical consulting services including: annual actuarial valuations and GASB reports, periodic actuarial experience studies, independent actuarial audits, and other special projects and studies; develop and monitor actuarial funding policy, assumptions, methods, and factors; analyze proposed legislative changes; and advise the Board on actuarial, technical, and administrative issues.
- h. Select and monitor medical consultant to conduct disability reviews.
- i. Select and monitor investment consultant to perform asset allocation and liability studies.
- j. Monitor and pay plan benefits, consulting fees, administrative and investment expenditures.
- k. Administer the plan so as to maintain the plan's qualified status under Internal Revenue Code requirements.
- l. Review and approve applications for disability retirement, Qualified Domestic Relations Orders (QDROs), and other special benefit payments.
- m. Review and decide board appeals.
- n. Determine appropriate levels of service and monitor outreach programs provided to members and employers.
- o. Monitor RIO budget, expenditures, financial reporting system, and financial audit.
- p. Monitor RIO information technology systems, projects, and security.
- q. Select TFFR representatives to serve on SIB and monitor investment program activities and fund performance.

- r. Select TFFR representative to serve on SIB Audit Committee and monitor audit program activities.
- s. Inform the State Investment Board (SIB), which is the administrative board of the Retirement and Investment Office (RIO), of the TFFR program needs, policies, and services expected to be provided through RIO.
- t. Participate with the RIO Executive Director in the hiring, evaluation, and termination of the TFFR Chief Retirement Officer – RIO Deputy Executive Director.

## **F. TFFR Board Trustees and Officers – Duties and Responsibilities**

### **1. TFFR Trustee**

Trustees must be willing and able to devote the necessary time to fulfill their duties on the Board. This commitment includes the responsibility to:

- a. Act as a member of a seven-member Board of Trustees to provide leadership, oversee plan administration, and set the strategic direction for the TFFR program.
- b. Prepare for and attend Board and Committee meetings.
- c. Be an informed and active member of the Board, fully participating in the decisions and actions of the Board and its Committees by making independent assessments and reasonable judgments.
- d. Acquire and maintain the knowledge and skills necessary to perform trustee duties.
- e. Follow Board policies and procedures, applicable state and federal laws and rules.
- f. Be accurate when communicating with other trustees, members, beneficiaries, interested parties, the public, and RIO staff.
- g. Act collegially with the other trustees and staff in the conduct of TFFR business.
- h. Bring to the attention of the Board matters of concern that affect the TFFR plan.
- i. Seek the advice of the Chief Retirement Officer, legal advisor, and other trustees when necessary to fulfill their fiduciary duties.
- j. Comply with the Board's Code of Conduct and Ethics.
- k. Adhere to state law regarding confidentiality of member records and benefits.
- l. Adhere to state law regarding Open Meetings and Open Records.
- m. Evaluate trustee's individual performance and the Board's performance as a whole.

### **2. TFFR Board President**

The Board President's principal role is to lead the Board in the conduct of Board business by managing the affairs of the Board and ensuring the integrity of the Board's process. The Board President must be willing and able to devote the time necessary to fulfill these special responsibilities. This commitment includes the responsibility to:

- a. Convene and preside over all Board meetings in a collegial, fair, and efficient manner following Board policies, procedures, and applicable state laws and rules.
- b. Review and approve the agenda for regular and special Board meetings.
- c. Ensure proper and timely flow of adequate information to the Board.
- d. Solicit input from trustees regarding matters before the Board.
- e. Ensure adequate time is provided for effective study and discussion of business.
- f. Make Committee assignments.
- g. Execute documents and other legal instruments on behalf of TFFR as required by state law, authorized by the Board, or determined in conjunction with the Chief Retirement Officer.
- h. Represent the Board to outside parties and organizations.
- i. Lead the Board's self-assessment and self-development processes.
- j. Perform all other duties identified by the Board.

### **3. TFFR Board Vice President**

The Vice President will perform the duties of the President in the absence of the President.

### **4. TFFR Representatives to SIB**

The TFFR Board selects three trustees to represent TFFR on the SIB. TFFR representatives to the SIB must include one active teacher, one active administrator, and one retired member.

The TFFR representatives to the SIB have the same authority and responsibilities as do other SIB trustees as provided in NDCC 21-10 and outlined in the SIB Governance Manual.

### **5. Alternate TFFR Representative to SIB**

The TFFR Board selects one alternate TFFR representative to serve on the SIB.

The Alternate TFFR representative to the SIB will perform the duties of the regular TFFR representative on the SIB in the absence of that trustee.

### **6. TFFR Representative to SIB Audit Committee**

The TFFR Board selects one TFFR representative on the SIB to serve on the SIB Audit Committee, subject to official appointment by SIB Chair.

The TFFR representative on the SIB Audit Committee has the same authority and responsibilities as do other trustees on the SIB Audit Committee which are outlined in the SIB Audit Committee Charter.

## G. State Investment Board

The ND State Investment Board (SIB) is responsible for oversight, policy making, and administration of the SIB investment program as provided under NDCC 21-10. As such, TFFR assets, as well as other state pension, insurance, and other state funds, are invested by the SIB.

The SIB is composed of twelve trustees consisting of:

- a. Lt. Governor of the State of ND
- b. State Treasurer
- c. State Insurance Commissioner
- d. Director of Workforce Safety & Insurance
- e. Commissioner of University and School Lands
- f. Three TFFR trustees
- g. Three PERS trustees
- h. One Legacy & Budget Stabilization Fund Advisory Board trustee (nonvoting)

Investment of TFFR assets is based on the asset allocation and investment policy statement approved by the TFFR Board and accepted by the SIB. Funds are invested following the “prudent investor rule” and must be invested exclusively for the benefit of TFFR members.

The SIB is also the governing body of the ND Retirement and Investment Office (RIO).

## H. Retirement and Investment Office

The ND Retirement and Investment Office (RIO) coordinates the activities of the TFFR retirement program and SIB investment program as provided under NDCC 54-52.5. The governing body of RIO is the SIB, although the TFFR Board and SIB each maintain their legal identities and authority under state law.

RIO is responsible for developing the agency budget, providing the staff, and allocating necessary resources to administer both the TFFR and SIB programs, subject to budget approval by the Legislature. The TFFR Board and SIB provide input to RIO Executive Management to ensure retirement and investment program needs, policies, and services are considered.

RIO Executive Director ~~– Chief Investment Officer~~ is the administrator of RIO and is responsible for ~~the SIB investment program oversight and administration of all RIO operations~~. RIO Deputy Executive Director – Chief Retirement Officer assists in the administration of RIO and ~~is responsible for~~ the TFFR retirement program.

RIO is an administrative agency of the State of North Dakota and operates from an office located at 3442 East Century Avenue in Bismarck, North Dakota.

## I. Delegation to Staff and Organizational Structure

The TFFR Board delegates administration of the TFFR program to the RIO ~~Deputy~~ Executive Director. Daily operations of the program are delegated to the RIO Deputy Executive Director -- TFFR Chief Retirement Officer, subject to approval by the RIO Executive Director.

The RIO Deputy Executive Director – TFFR Chief Retirement Officer reports directly to the RIO Executive Director ~~– Chief Investment Officer~~ and functionally to the TFFR Board. See *RIO Organizational Chart (Exhibit 1)*.

## J. Staff - Duties and Responsibilities

### ~~3.~~ 1. Deputy Executive Director – Chief Retirement Officer Update in Coordination with SIB

The RIO Deputy Executive Director – Chief Retirement Officer is hired by the RIO Executive Director ~~– Chief Investment Officer~~, serves in an unclassified position, and is paid such salary as the Executive Director determines. The Board delegates responsibility for administering the TFFR program to the Deputy RIO Executive Director ~~– Chief Retirement Officer, subject to approval by the Executive Directors~~ some or all of those duties may be delegated to the RIO Deputy Executive Director – Chief Retirement Officer by the RIO Executive Director. The Board will participate with the Executive Director in the hiring, evaluation, and termination of the Deputy Executive Director-Chief Retirement Officer.

Duties and responsibilities include:

- a. Assist the Executive Director in planning, supervising, and directing overall RIO programs in accordance with the SIB ~~\_~~ governance policies and state laws and rules, and represent the Executive Director in his/her absence.
- b. ~~Administer~~ Assist the Executive Director in administering the TFFR retirement program in accordance with governing statutes, rules, and TFFR Board policies and perform related work as assigned by the TFFR Board, including interpretation of the state and federal law which governs the retirement program.
- c. Assist the Executive Director in d ~~Developing~~ annual and long-range plans for the retirement program.
- ~~d. Interpret state and federal law which governs the retirement program.~~
- ~~e.~~ d. Assist the Executive Director in the d ~~Development of~~ administrative rules, policies, and procedures necessary to administer the program.
- ~~f.~~ e. In the absence of or at the direction of the Executive Director, r ~~Represent~~ the TFFR Board on retirement program issues.
- ~~g.~~ f. Assist the Executive Director in the d ~~Direction of~~ TFFR legislative agenda and process.



~~h.g.~~ Maintain effective relationships with TFFR members, beneficiaries, employers, state officials, legislators and legislative committees, member and employer stakeholder groups, the media, and the public at large.

~~h.~~ Work with actuarial consultant, medical consultant, legal counsel, auditor, investment consultant, and other service providers in administering the plan, and keep staff and Board members apprised of consultant services and recommendations.

~~i.~~ Assist the Executive Director in the formulation of RIO's budget, including staffing needs, program costs, operating costs, information technology requirements, and resources to assure that retirement program obligations are met.

~~k.j.~~ Assist the Executive Director in the development and preparation of Board and Committee meeting agendas and materials, ~~attend all Board and Committee meetings, responsible for preparation of~~ meeting minutes, required notices, procedures, and applicable rules and regulations of the fund, and attend all Board and Committee meetings.

~~l.~~ ~~Provide the Board with relevant, appropriate, and timely information to enable it to properly carry out its oversight responsibilities.~~

~~m.k.~~ In coordination with the Executive Director, Advise the Board on significant issues, problems or developments pertaining to the plan, and provide recommended courses of action as appropriate ~~regarding Board policy or action.~~

~~n.l.~~ Maintain the data, records, and files of TFFR members, beneficiaries, and employers including membership data, salary, service, contributions, and benefit payments.

~~o.m.~~ Ensure the accurate and timely collection of member and employer contributions, maintenance of member accounts, processing of account claims, and payment of pension, disability, death and refund benefits as allowed under state and federal law.

~~p.n.~~ In the absence of the ~~Deputy~~ Executive Director the Deputy Executive Director- Chief Retirement Officer, the Retirement Program Manager will be responsible for the administration of the TFFR program. In the absence of both the Executive Director and the Deputy Executive Director – Chief Retirement Officer, the TFFR Board may recommend to the SIB that another RIO staff member serve as Interim Deputy Executive Director- Chief Retirement Officer.

## **2. Executive Director – ~~Chief Investment Officer~~ Update in Coordination with SIB**

The Executive Director ~~– Chief Investment officer~~ (ED-CIO) is hired by the SIB, serves in an unclassified position at the SIB's pleasure, and is paid such salary as the SIB determines.

Duties and Responsibilities include:

- a. Administer the investment and retirement programs of RIO, ~~Oversee~~ oversee planning, supervising, and directing overall RIO programs in accordance with SIB and TFFR governance policies, ~~and federal and state laws,~~ and rules, and perform related work as assigned by the SIB and TFFR Board.
- b. Responsible for the developing the annual, biannual and strategic long range plans for RIO and both the SIB and TFFR Board.
- ~~b. Administer the investment and programs of RIO and perform related work as assigned by the SIB and TFFR Board.~~
- c. Develop administrative rules, policies and procedures necessary to administer the retirement and investments programs and seek committee and board approval for changes when appropriate.
- ~~c.d. Direct the preparation and execution of the RIO budget and legislative agenda for the agency and both the SIB and TFFR boards and ~~evaluates and monitors financial and operational programs.~~~~
- ~~d.e. Represent RIO, promote RIO programs, and has the authority and responsibility to carry out the day-to-day administrative duties for RIO including developing and approving policies relating to the effective operation of the Office.~~
- ~~e.f. Develop and prepare or direct the preparation of agendas and materials, meeting minutes, required notices, procedures, and applicable rules and regulations for the retirement and investment programs and Attend all meetings of the SIB and TFFR Board and corresponding committees.~~
- ~~f.g. Hire staff as necessary to carry out the responsibilities of RIO. Provides leadership, coaching and feedback to assigned staff, recommending measures to improve performance and increase efficiency.~~
- ~~h. The TFFR Board will participate with the Executive Director in the hiring, ~~evaluation, and termination~~ of the Deputy Executive Director-Chief Retirement Officer, and participate in any surveys conducted by the SIB – Executive Review and Compensation Committee for executive team members.~~
- ~~i. Maintain effective relationships with clients, members, beneficiaries, employers, state officials, legislators and legislative committees, member and employer stakeholder groups, the media, and the public at large relevant to both the retirement and investment programs.~~
- ~~g.j. Advise the SIB and TFFR Board on significant issues, problems or developments pertaining to the plan, and provide recommended courses of action as appropriate regarding Board policy or action.~~

## K. Service Providers – Duties and Responsibilities

## 1. Actuary

The TFFR Board is responsible for selecting and monitoring the actuarial consultant for the plan.

Duties and responsibilities include:

- a. Provide actuarial and technical consulting services for the plan.
- b. Prepare annual actuarial valuation and GASB reports, periodic actuarial experience studies, and other special projects and reports.
- c. Develop and monitor actuarial funding policy, assumptions, methods, factors, etc.
- d. Analyze proposed legislative changes.
- e. Advise the Board on actuarial, technical, and administrative issues.

The Board utilizes a request for proposal (RFP) process to periodically select and approve the plan's consulting actuary. It is the Board's intent to issue RFP's every 6 to 10 years, however the timing may be adjusted at the Board's discretion.

The Board monitors actuarial costs and services and may extend the actuarial consulting service contract for 2 year terms, as approved by the TFFR Board.

The Board also hires an independent actuary to periodically perform an actuarial audit of the plan's consulting actuary. The Board utilizes an RFP process to select and approve the plan's actuarial auditor.

## 2. Medical Consultant

The TFFR Board is responsible for selecting and monitoring a medical consultant for the plan to conduct disability reviews, disability re-certifications, and perform other medical reviews as necessary.

The Board monitors medical consulting costs and services and may extend the medical consulting contract for 2-year terms, as approved by the TFFR Board. The Board may delegate this responsibility to the Chief Retirement Officer.

## 3. Legal Counsel

The ND Attorney General's Office (AGO) provides legal services to the TFFR Board and staff. The AGO assigns an assistant attorney general to advise the Board on legal issues related to plan administration.

Duties and Responsibilities include:

- a. Represent the Board and staff in all legal matters.
- b. Draft proposed legislation, administrative rules, and other legal documents.
- c. Review and advise on retirement program issues.
- d. Research and interpret state statutes and federal regulations.
- e. Review Board policies, procedural issues, contracts, and other legal documents.
- f. Respond to legal questions from staff, members, employers, and other individuals.

- g. Advise and educate the Board and staff on legal matters that relate to the administration of the retirement system including Board appeals, fiduciary duties, ethics, open records and meetings, potential litigation, and other legal issues.
- h. Work with staff from the AGO in representing the retirement plan in administrative hearings, litigation, and other matters involving the AGO.
- i. Work with outside legal counsel on application of Internal Revenue Code technical requirements and plan qualification issues.

#### **4. Auditor (External financial)**

The ND State Auditor's Office selects the external financial auditor for RIO, with input from the SIB Audit Committee.

Duties and Responsibilities include:

- a. Perform annual audit of RIO's financial statements.
- b. Perform annual audit of TFFR's GASB 68 schedules.
- c. Provide report on internal controls and compliance.
- d. Provide required written communications.

Results of the annual financial audit are reported directly to SIB Audit Committee and communicated to the TFFR Board in conjunction with annual audit services report.

#### **5. Investment Consultant, Managers, and Advisors**

The SIB is responsible for investment of TFFR trust fund assets, and selects the investment consultant, managers, custodian, and advisors for the SIB program.

The governing body of each fund invested by the SIB is required to use RIO staff and consultants in developing asset allocation and investment policies. The TFFR Board has contracted with the SIB investment consultant to perform asset allocation and liability modeling studies in the past.

## **L. Election of TFFR Board Officers and SIB trustee positions**

### **1. Board Officers**

The TFFR Board will elect the following Board officers each year. Any trustee may serve as a TFFR Board officer.

- Board President
- Board Vice President

The TFFR Board will select the following representatives to the SIB each year. Any trustee may serve as a TFFR representative to the SIB, except the State Treasurer is required to be an ex officio member of both the TFFR Board and SIB so may not be selected as a TFFR representative to the SIB.

- Three TFFR representatives to SIB (representatives must include one active teacher, one active administrator, and one retired member)
- One TFFR alternate representative to SIB
- One TFFR representative to SIB Audit Committee (from SIB)

### **2. Election Procedure**

The TFFR Board will elect the Board officers and TFFR representatives to the SIB at the first regular Board meeting immediately following July 1 of each year. There must be a quorum of four board members in attendance to elect officers.

Four affirmative votes are required to elect Board officers and TFFR representatives to the SIB.

### **3. Term**

Board officers and TFFR representatives to SIB will hold office for one year, or until their successors are elected.

There is no limit to the number of years a trustee may hold office.

### **4. Vacancies**

A Board officer or TFFR representative to the SIB may resign from their position by providing written notice to the Board and Chief Retirement Officer.

Board officer or TFFR representative to the SIB vacancies that occur before the expiration of a term will be filled by the Board at the next regular meeting of the Board following the vacancy.

## **M. Board and Committee Meetings**

### **1. Open Meetings**

All Board and Committee meetings are open to the public in accordance with ND Open Meetings laws pursuant to NDCC 44-04-17.1.

Meetings include any gathering of a quorum of the members of the Board (four members constitute a quorum for TFFR Board) regarding public business, and includes committees, subcommittees, informal gatherings or work sessions, and discussions where a quorum of members are participating by phone or any other electronic communication (either at the same time or in a series of individual contacts).

Emails or text messages between Board members regarding public business may constitute a meeting and violate open meeting laws even if done on personal devices.

Training seminars and purely social gatherings attended by a quorum of the Board or Committee are not meetings, however, as soon as the members discuss any public business, it becomes a meeting.

### **2. Rules of Order**

All Board and Committee meeting will be conducted in accordance with Robert's Rules of Order Newly Revised, except as superseded by state law and Board governance policies.

### **3. Meeting Schedule**

The Board will hold meetings as often as necessary for the transaction of business, but will conduct a minimum of six Board meetings each year.

The Board will approve an annual Board meeting schedule identifying the time, date, and location of regular Board meetings. Board meetings will generally be scheduled for the Thursday afternoon preceding SIB meetings beginning in July of each year, unless a different day is determined. (Note: SIB meetings are generally scheduled for the 4th Friday of each month.) The Board or Board President may modify this schedule, if needed. This schedule must be filed annually with the Secretary of State's office.

The Board President, or any two members of the Board, may call for special or emergency Board meetings.

At the July Board meeting each year, the Board will elect officers, review governance and program policies, and develop the annual board agenda and education plan.

The Board may hold an annual offsite Board retreat to focus on board development, strategic planning, legislative planning, developments in public pension administration, and other topics as determined by the Board. A Board Retreat must also be noticed as a meeting of the Board.

## 4. Meeting Notice

Public notice of all Board and Committee meetings is made in accordance with state law pursuant to NDCC 44-04-20.

Meeting notices are posted on the Secretary of State website, RIO public website, RIO office, and the meeting location.

## 5. Meeting Agendas

An annual schedule of agenda topics, reports, and education items for each regular board meeting will be developed by the Chief Retirement Officer and approved by the Board. The annual schedule will also include review of the Board Governance Manual over several meetings.

Board meeting agendas will be prepared by the Chief Retirement Officer and approved by the Board President using the annual schedule as a basis for topics to be included on each regular meeting agenda. Additional topics may be added by the Chief Retirement Officer, Board President, and Board trustees subject to approval by the Board President.

The meeting agenda should contain enough detail so trustees, members, interested parties, and the general public can understand the nature of each agenda item.

Any individual or organization who desires to appear on the agenda of a Board or Committee meeting must notify the Chief Retirement Officer in writing at least ten working days prior to the meeting date. The request must include the reason or topic to be discussed with the Board. Subject to approval by the Board President, the individual will be placed on a Board meeting agenda.

Regular Board meeting agendas may be added to or altered at the time of the meeting. For special or emergency meetings, only the specific topics included in the meeting notice may be discussed.

The meeting agenda will identify if the item requires Board action, information only, consent agenda, or executive session. The agenda will also note the estimated amount of time expected for each topic.

- a. **Action** items on the agenda contain information that require Board discussion and vote (annual reports, policy changes, benefit determinations, legislative positions, etc.)
- b. **Information** only items contain information that it is important for the Board to know, but do not require Board action or a Board vote (project updates, status reports, education, etc.)
- c. **Consent agenda** items will primarily consist of approval of disability applications, QDROs, employer reviews, or other routine administrative matters that require Board action as recommended by staff, but which typically do not require Board discussion. Trustees may request any item to be removed from the Consent agenda to allow for Board discussion and action.

- d. If an **Executive session** is required or anticipated, the Executive session must be listed as an agenda item (i.e., confidential member information, attorney consultation, etc.)

## 6. Meeting Materials

The Chief Retirement Officer will coordinate the preparation of Board meeting materials and develop an Executive Summary.

Meeting materials will generally be sent to trustees 5-7 days before the meeting, unless otherwise indicated.

Materials will be posted on the public RIO website, except for Executive Session or confidential items which will be sent via secure email to the trustees only.

## 7. Meeting Attendance and Quorum

Attendance at Board meetings is an essential element of a trustee's fiduciary responsibility. Therefore, Board members are expected to attend all Board and applicable Committee meetings.

Board members may attend meetings in person, by telephone or video conference.

A quorum of four members must be present for the Board to conduct business.

Board members should come to meetings having read the materials prepared and circulated by staff and/or consultants.

Board members should be inquisitive, and should appropriately question staff, advisors, and fellow trustees as circumstances require.

Board members should conduct themselves with integrity and dignity, maintaining the highest ethical conduct at all times.

Board members should make every effort to engage in collegial deliberations and to maintain an atmosphere in which trustees can speak freely and explore ideas before becoming committed to positions.

## 8. Voting

Voting on matters before the Board will be by roll call vote, except for procedural matters.

Board members have a duty to vote unless there is an applicable statute that would require or permit abstention.

Each Board member is entitled to one vote. Proxy voting is not allowed.

Four members constitutes a quorum.



Four votes are required for resolution or action by the Board.

Board minutes will show the recorded vote of each Board member.

## 9. Public Access and Comment

All Board and Committee meetings are open to the public and all persons who wish to attend may do so in accordance with ND Open Meeting laws, NDCC 44-04-17.1.

Public participation or comments during Board meetings may be allowed and limited to reasonable time limits at the discretion of the Board president as follows:

- a. By written request to appear on a Board meeting agenda.
- b. By written request to speak on a specific Board meeting agenda topic.
- c. By written request to speak on any TFFR related topic which is not on a regular Board meeting agenda.
- d. By submitting a letter or written document for distribution to the Board.

See *TFFR Board Public Participation Guidelines (Exhibit 2)*.

## 10. Executive Sessions

The Board or Committee may conduct business in Executive Session only as permitted by state law, NDCC 44-04-19.2. Executive sessions shall be presided over by the Board President or Committee Chair.

Only the portions of a public meeting that are specifically confidential or exempt from the Open Meetings law may be closed to the public and held in Executive Session. The remainder of the meeting must be open to the public.

Reasons a meeting may not be open to the public includes Board discussion of:

- a. Confidential member records or information under NDCC 15-39.1-30 (examples include member benefit appeals, benefit determinations, disability applications, QDROs, etc.)
- b. Attorney's advice regarding a "pending or reasonably predictable" lawsuit involving TFFR.
- c. Attorney's assessment of the risks, strengths or weaknesses of an action of the TFFR Board or negotiating strategy if holding the discussion in an open meeting would have an adverse effect on the bargaining or litigating position of the Board.

## 11. Closed Meeting Procedures

State law specifies the following general procedure for holding an executive session.

- a. Convene meeting in an open session preceded by public notice.

- b. Announce during the open portion of the meeting the topics to be considered during the Executive Session and the legal authority for holding an Executive Session on those topics.
- c. Pass a motion to hold an Executive session, unless motion is unnecessary because a confidential meeting is required to discuss confidential information.
- d. Record the Executive Session electronically.
- e. Limit the topics considered during the Executive Session to the announced, authorized topics.
- f. Take final action on the topics considered in the Executive Session during the open portion of a meeting.
- g. All substantive votes must be recorded by roll call.

## 12. Meeting Minutes and Records

Minutes will be taken at all Board and Committee meetings and presented for approval at the next regular meeting. The Board President or Committee Chair will sign the minutes after Board approval.

At a minimum, minutes must include:

- a. The names of the members attending the meeting.
- b. The date and time the meeting was called to order and adjourned.
- c. A list of topics discussed regarding public business.
- d. A description of each motion made at the meeting and whether the motion was seconded.
- e. The results of every vote taken at the meeting; and
- f. The vote of each member on every recorded roll call vote.

Approved meeting minutes will be made available on the RIO-TFFR website, or upon request. Meeting minutes and records of the Board and Committee activities and actions will be maintained as required by state law.

## 13. Meeting Payment and Travel Expense Reimbursement

Board members, excluding ex-officio members, will receive compensation and travel expenses for attending Board and Committee meetings as provided in state law, NDCC 15-39.1-08.

Board members will be paid \$148 for each Board or Committee meeting attended. Board members will be paid the full amount for each meeting attended that lasts for two or more hours. Meetings lasting less than two hours will be paid at one half the amount. Mileage and travel expense reimbursement will be paid as provided in state law.

Board members may not lose regular salary, vacation pay, vacation or any personal leave, or be denied attendance by the state or political subdivision while serving on official business of TFFR.

To receive meeting payment, Board members must complete a travel expense form and submit it to RIO. See *RIO Board Meeting In-State Travel Expense Voucher (Exhibit 3)*.

## N. Committees

### 1. Standing Committees

The TFFR Board may establish permanent standing committees. ~~The Board currently has no standing committees.~~ The TFFR Board has created a permanent standing Governance and Policy Review Committee.

a. POLICY OF THE TFFR 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 governance.
- As directed by the board, review specific governance concerns, and make recommendations for improvement.
- Request RIO staff for specific topic training or education

### 2. Special Committees

The Board may establish special ad hoc committees as needed to carry out duties specified by the Board.

The Board President will appoint the Committee Chair and Committee members for special committees.

Committee Chairs are responsible for organizing the work of the Committee. In fulfilling this function, Committee Chairs:

- a. Schedule Committee meetings as often as necessary.
- b. Consult with the Chief Retirement Officer in setting the meeting agenda in accordance with the Committee's delegated responsibilities.
- c. Conduct Committee meetings in a collegial, fair, and efficient manner following Board policies, procedures, and applicable state law such as the open meetings law.
- d. Ensure the Committee operates to assist the Board consistent with its delegation.
- e. Provide Committee updates and reports to the Board.

When the Committee's duties are completed, the Committee automatically ceases to exist.

### 3. Audit Committee

The SIB Audit Committee also functions as the Audit Committee for the TFFR Board since the SIB is the governing body of the RIO agency and RIO administers both the TFFR retirement program and SIB investment program.

The TFFR Board selects one TFFR representative on the SIB to serve on the SIB Audit Committee, subject to official appointment by SIB Chair. This representative will act as the TFFR Board's liaison to the SIB Audit Committee.

The TFFR Board's representative on the SIB Audit Committee and/or the Audit Supervisor, will provide Audit Committee updates and monitoring reports to the Board.

## O. Board Appeals

Any member, beneficiary, employer, or affected individual may appeal a determination made by the Chief Retirement Officer regarding TFFR eligibility, benefits, or other plan provisions with which the individual does not agree.

The affected individual must file a written request for Board review within thirty days after notice of the determination of the Chief Retirement Officer has been mailed to the affected individual. If a request for Board review is not filed within the thirty-day period, the decision of the Chief Retirement Officer is final. The request for Board review must include the decision being appealed, the reason(s) the individual believes the decision should be reversed or modified, and any relevant documentation.

To review the matter, an appeal hearing will be scheduled as part of a regularly scheduled Board meeting. A summary of the relevant facts and documentation will be presented. The affected individual and/or designee may attend and speak at the hearing. After review of the facts, documentation, and testimony, the Board will make its decision. The Board's decision will be communicated in writing to the affected individual within 30 days of the decision.

Any individual aggrieved by a decision of the Board may initiate a formal administrative action against the Board in accordance with ND Administrative Code Chapter 82-10 and ND Century Code Chap. 28-32.

## P. Board Communications

The TFFR Board President and ~~Chief Retirement Officer~~Executive Director; or Deputy Executive Director – Chief Retirement Officer in the absence of or at the direction of the Executive Director; are authorized to represent the Board on retirement program issues and in announcing Board positions and decisions, unless otherwise determined by the Board.

Board members may respond to general inquiries about the TFFR retirement program, however specific questions from members, beneficiaries, employers, and the public should be referred to the Deputy Executive Director - Chief Retirement Officer or the Retirement and Investment Office staff to provide more detailed information about the retirement program.

## Q. Trustee Orientation and Education Program

Trustees are responsible for making policy decisions affecting all major aspects of TFFR plan administration. Therefore, trustees should acquire and maintain an appropriate level of knowledge that provides and improves core competencies necessary to govern a large, complex pension fund.

### 1. Board Member Core Competencies

Board members should develop and maintain their knowledge and understanding of the issues involved in the prudent management of the retirement plan. Specific areas include:

- a. Public pension plan governance
- b. Asset allocation and investment management
- c. Actuarial principles and funding policies
- d. Financial reporting, controls, and audits
- e. Benefits administration
- f. Open meeting and open records laws
- g. Fiduciary responsibilities
- h. Ethics and conflicts of interest

## 2. Board Member Education

To permit Board members to develop core competencies, discharge their fiduciary duties, and ensure Board members have a full understanding of the issues facing the TFFR plan, the Board encourages trustee education including:

- a. New trustee orientation
- b. Mentoring program
- c. Educational conferences, workshops, and other training programs
- d. In-house education sessions
- e. Fiduciary education and ethics training
- f. Open meeting and open records training
- g. Webinars, Reports, and Studies

Board members should identify areas in which they might benefit from additional education, and work with the Chief Retirement Officer to find or develop educational opportunities to best address those needs.

Board members must annually report trustee education received each year. See *TFFR Board Education Report Form (Exhibit 4)*.

## 3. New Trustee Orientation

Each new Board member should attend a new trustee orientation session(s) as soon as possible after appointed to the Board or elected to office. The orientation sessions will be developed by the Chief Retirement Officer, and will include, at minimum, review of the following topics and materials:

- a. Introduction to RIO staff
- b. Tour of RIO office
- c. Board Governance Manual
- d. Board duties and responsibilities
- e. History and overview of the plan
- f. Overview of TFFR-SIB-RIO organizational structure
- g. Laws, rules, and board policies governing the plan
- h. Benefit structure, administration, outreach services
- i. Fiduciary responsibilities, conflict of interests, and ethics

- j. Open meetings and open records
- k. Board meeting schedule and protocol
- l. Board meeting minutes and materials
- m. Actuarial valuation report, assumptions, methods, and funding policy
- n. Actuarial experience report
- o. Actuarial audit report
- p. Annual financial report
- q. Investment program, investment policy statement, asset allocation, and performance
- r. RIO website – TFFR and SIB sections
- s. Legislative issues
- t. List of educational conferences and training sessions
- u. Other relevant information or materials deemed appropriate

#### **4. Mentoring Program**

The Board President will assign each new trustee an experienced Board mentor to assist the new trustee in becoming familiar with Board responsibilities. The Board mentor should have at least two years of experience on the Board.

The Board mentor should contact the new Board member periodically outside of regularly scheduled Board meetings for consultation or discussion related to Board member duties and responsibilities. The new Board member should contact the Board mentor as often as necessary.

Appointment of a Board mentor does not constitute appointment of a Committee and does not implicate open meeting notice requirements.

#### **5. Educational Conferences, Workshops, and other Training Programs**

The Chief Retirement Officer will maintain a list of educational conferences, workshops, and other training programs appropriate for Board members to attend. The list will be provided at least annually to Board members. Board members may attend such conferences or others deemed to be appropriate by the Chief Retirement Officer.

Subject to budget availability, Board members may attend at least one out of state educational conference each year. New trustees, or trustees with investment or other specialized Board responsibilities, may attend additional educational training sessions to help develop core competencies and become proficient in performing their duties.

The Chief Retirement Officer will review conference agendas and materials to ensure they are geared toward trustee education, and subject to budget availability, will approve Board travel requests. Board travel outside of the continental United States must be approved by the Board President and Chief Retirement Officer.

Any Board member who attends a conference, workshop, or other training program will present an oral report to the Board.

The Chief Retirement Officer will inform the Board of educational conferences, workshops, or other training programs attended by trustees on an annual basis.

## 6. In-House Education Sessions

Based on the education needs identified by Board members, the Chief Retirement Officer will arrange for staff or outside service providers to conduct educational sessions at regularly scheduled Board meetings. Topics may include pension board governance, actuarial and funding issues, investments, retirement operations and benefits, workforce demographics and shortages, and other topics determined by the Board.

## 7. Fiduciary Education and Ethics Training

At least every two years, a fiduciary education and ethics training session will be conducted at a regularly scheduled Board meeting. The session will review and update trustees regarding fiduciary issues and ethical conduct affecting their service on the Board.

## 8. Open Meetings and Open Records Training

At least every two years, an open meetings and open records training session will be conducted at a regularly scheduled Board meeting. The session will review and update trustees regarding open meetings and open records requirements affecting their service on the Board.

## 9. Webinars, Reports, and Studies

Board members are encouraged to subscribe to mailing lists and review websites for information about public pension plan conferences, webinars, reports, and studies from pension and investment organizations. Examples include:

- a. National Council on Teacher Retirement (NCTR)
- b. National Institute on Retirement Security (NIRS)
- c. National Education Association-Retired (NEA-R)
- d. National Retired Teachers Association (NRTA-AARP)
- e. International Foundation for Employee Benefit Plans (IFEBC)
- f. Center for State and Local Government Excellence (SLGE)
- g. Center for Retirement Research at Boston College (CRR)
- h. Callan Investment Institute (Callan)
- i. Council of Institutional Investors (CII)

The Chief Retirement Officer will also provide links to recent published reports and studies with Board meeting materials.

## 10. Reimbursement of Education Expenses

Trustees must request approval for travel to educational conferences or other educational programs. Trustees should notify the Chief Retirement Officer of their interest in attending an educational conference or other program. RIO will complete the travel authorization form which must be signed by the trustee and approved by the Chief Retirement Officer. See *ND Authorization for Out of State Travel (Exhibit 5)*.

RIO will make all travel arrangements and pay conference registration fees, unless otherwise agreed to by the Chief Retirement Officer and trustee.

Payment of travel-related expenses for trustee education will be in accordance with state of ND travel policies. Trustees will be reimbursed for travel related expenses including lodging, meals, transportation, etc. In order to receive reimbursement, a trustee must complete an expense form and attach receipts as required. See *RIO Conference Expense Voucher – Board Members (Exhibit 6)*.

## **R. Code of Conduct, Ethics, and Conflicts of Interest**

Following is the Code of Conduct, Ethics, and Conflicts of Interest policy for the TFFR Board of Trustees:

1. Board members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the TFFR members and to strive to avoid not only professional impropriety, but also the appearance of impropriety.
2. Board members shall perform the duties of their offices impartially and diligently. Board members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and to refrain from any form of dishonest or unethical conduct. Board members shall be unswayed by partisan interest, public sentiment, or fear of criticism.
3. Conflicts of interest and the appearance of impropriety shall be avoided by Board members. Board members shall not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members shall refrain from financial and business dealings that tend to reflect adversely on their impartiality or interfere with the proper performance of their duties. If a conflict of interest unavoidably arises, the Board member shall immediately disclose the conflict to the Board. The Board must vote on whether the member can vote. 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 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 for which the Board member has acquired information unavailable to the general public, through participation on the Board. "Conflict of interest" means a situation in which a Board member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.
4. The Board shall 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.
5. Board members shall abide by NDCC 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."



6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
7. Political contributions are regulated under NDCC 16.1-08-03 and are not restricted under this policy.
8. 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. 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 averse to the plan; or receiving personal consideration in connection with any planned transaction.
10. Violation of these rules shall result in an official reprimand from the TFFR Board. No reprimand shall be issued until the board member has had the opportunity to be heard by the Board.
11. 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 TFFR Code of Conduct Annual Affirmation (Exhibit 7)*
12. RIO Deputy Executive Director- Chief Retirement Officer is required to affirm his/her understanding of RIO Administrative Policy – Code of Conduct for RIO Employees – annually, in writing, and must disclose any conflicts of interest that may arise.

## S. Strategic Planning

The Board and ~~Chief Retirement Officer~~RIO Executive Director will work collaboratively to develop a long-term strategic plan which may:

1. Identify and prioritize TFFR program issues and initiatives.
2. Assess the strengths, weaknesses, opportunities, and threats for TFFR.
3. Focus resources on high value activities.
4. Develop strategies to address priorities.
5. Monitor the progress and implementation of the strategic plan.
6. Work with RIO to ensure adequate resources are in place to support the successful execution of the plan.

## T. Board Policy Approval Process

Board governance and program policies may be adopted or amended from time to time based on the following process.

New policies or policy amendments may be proposed by the Chief Retirement Officer or a Board member. All new policies or amendments must be submitted to the Board's legal counsel at the Attorney General's office for review prior to Board approval.

Upon request of the Chief Retirement Officer 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 policy shall be placed on the agenda of the next scheduled meeting of the Board for second reading and adoption. When appropriate, the policy 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 policy 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 policy. Upon determination by the Board that adoption of an amendment constitutes a substantive change that significantly changes the meaning or effect of the policy, the Board shall continue consideration of second reading and adoption to the next meeting to permit further review and comment.
4. Emergency measures. Upon determination that an emergency or other circumstances calling for expeditious action exists; the Board may waive the requirement of a second reading and immediately approve the new policy or amendment following introduction and first reading.

Board policies will be reviewed at least annually, or more often as needed.

## U. Board Self-Assessment

On an annual basis, the Board will engage in a self-assessment process to evaluate the trustee's individual performance and the Board's overall performance. The Board President is responsible for overseeing implementation of this assessment, with assistance of the Chief Retirement Officer and Supervisor of Audit Services.

Individual Trustee and Overall Board Assessments may contain topics including:

1. Board and staff roles
2. Board and Committee structure
3. Board meetings
4. Policy making and reviews
5. Financial management practices
6. Pension plan administration practices

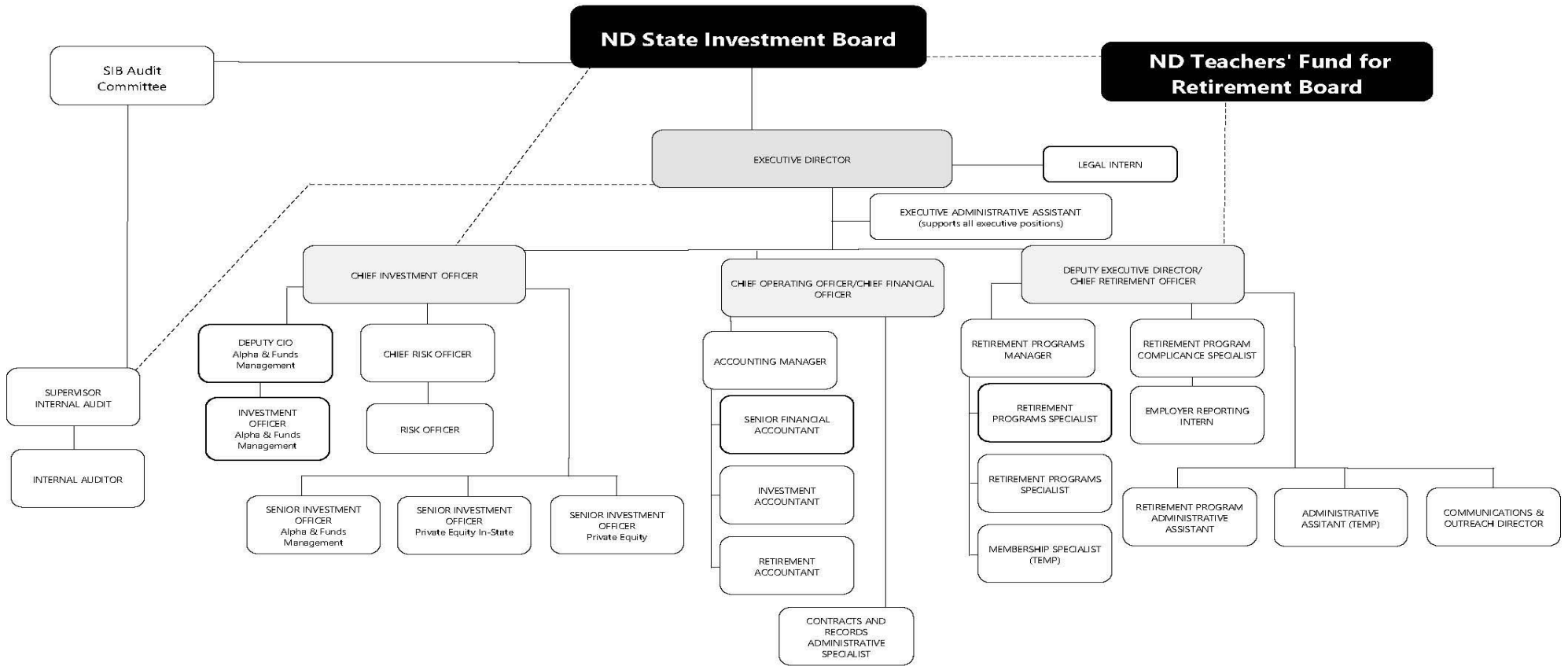
*See TFFR Board Self- Assessment (Exhibit 8 Process and Survey To Be Developed).*

**Board Governance Policies Approved** \_\_\_\_\_  
**Date**

# Board Governance Section Exhibits

## 1. RIO Organizational Chart

### RETIREMENT AND INVESTMENT OFFICE



## 2. TFFR Board Public Participation Guidelines



Teachers' Fund For Retirement  
RETIREMENT & INVESTMENT

### TFFR Board Meeting

### Public Participation Guidelines

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All TFFR Board and Committee meetings are open to the public and all persons who wish to attend may do so in accordance with ND Open Meetings laws, NDCC 44-04-17.1.

The Board is responsible for oversight, policy making, and administration of the TFFR plan. The Board may seek public input to assist in making decisions, but time spent answering routine questions or criticisms must not be taken from Board business. Generally, if an individual has a question or concern about the operation of the TFFR program or a specific member or employer issue, he/she is encouraged to contact the Chief Retirement Officer to get the needed response directly.

Although there is no legal requirement that the public be given an opportunity to speak at TFFR Board meetings, it is the Board's policy that public participation or comments during Board meetings may be allowed and limited to reasonable time limits at the discretion of the Board President. (See TFFR Board and Committee Meetings – Public Access and Comment, Policy M-9.)

**Subject to approval of the Board President, public participation or comments may be provided to the Board as follows:**

- 1) **By written request to appear on a Board meeting agenda.** The request must include the topic to be discussed and must be provided to the Chief Retirement Officer at least ten working days prior to the meeting date.
- 2) **By written request to speak on a specific Board meeting agenda topic at the meeting.** The request must include the topic to be discussed and must be provided to the Chief Retirement Officer at least two hours prior to the meeting.
- 3) **By written request to speak on any TFFR related topic which is not on a regular Board meeting agenda under "Other Business."** The request must include the topic to be discussed and must be provided to the Chief Retirement Officer at least two hours prior to the meeting.
- 4) **By submitting a letter or written document** to the Chief Retirement Officer for distribution to the Board.

#### **SPEAKER INFORMATION**

- Speaker should stand (if able to do so) and be recognized by the Board President.
- Speaker should state Name and Organization Representing (if applicable).
- Speaker should state agenda number and topic which the speaker will address.
- 5-minute time limit for speaker unless additional time is allowed by Board President.
- No undue interruption, disorderly conduct or remarks made out of order.
- No charges or complaints against staff will be allowed.
- Questions and comments by the Board and Chief Retirement Officer will be allowed.
- Board or Staff response to the Speaker's remarks will be allowed but is not required.

**TFFR BOARD**  
**PUBLIC PARTICIPATION REQUEST FORM**

Date and Time Submitted \_\_\_\_\_

Name \_\_\_\_\_

Organization Representing (if applicable) \_\_\_\_\_

Contact Information (phone number, email, or mailing address) \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Topic or Agenda Item \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

### 3. RIO Board Meeting In-State Travel Expense Voucher

**RETIREMENT AND INVESTMENT OFFICE**  
Board Meeting Travel Expense Voucher

\_\_\_\_\_  
Name (please print)

**MEETING ATTENDED:**

- TFFR  
Date \_\_\_\_\_
- SIB  
Date \_\_\_\_\_
- Audit Committee  
Date \_\_\_\_\_
- Securities Litigation Committee  
Date \_\_\_\_\_
- Executive Review Committee  
Date \_\_\_\_\_
- TFFR Governance & Policy Review Committee  
Date \_\_\_\_\_
- SIB Governance & Policy Review Committee  
Date \_\_\_\_\_

Time	Office Use

**TRAVEL EXPENSES**

**MEALS (Reimbursed at state rate effective 8/1/15):**

- |            |  |         |
|------------|--|---------|
| Date _____ | <input type="checkbox"/> Breakfast (1st Qtr - 6am) | \$7.00  |
|            | <input type="checkbox"/> Lunch (2nd Qtr - Noon)    | \$10.50 |
|            | <input type="checkbox"/> Dinner (3rd Qtr - 6pm)    | \$17.50 |
| Date _____ | <input type="checkbox"/> Breakfast (1st Qtr - 6am) | \$7.00  |
|            | <input type="checkbox"/> Lunch (2nd Qtr - Noon)    | \$10.50 |
|            | <input type="checkbox"/> Dinner (3rd Qtr - 6pm)    | \$17.50 |

- |            |  |         |
|------------|--|---------|
| Date _____ | <input type="checkbox"/> Breakfast (1st Qtr - 6am) | \$7.00  |
|            | <input type="checkbox"/> Lunch (2nd Qtr - Noon)    | \$10.50 |
|            | <input type="checkbox"/> Dinner (3rd Qtr - 6pm)    | \$17.50 |
| Date _____ | <input type="checkbox"/> Breakfast (1st Qtr - 6am) | \$7.00  |
|            | <input type="checkbox"/> Lunch (2nd Qtr - Noon)    | \$10.50 |
|            | <input type="checkbox"/> Dinner (3rd Qtr - 6pm)    | \$17.50 |

**MILEAGE (Round trip):**

FROM: \_\_\_\_\_

TO: \_\_\_\_\_

Total Miles: \_\_\_\_\_ @58.5¢/mile Effective 1/1/22

**LODGING (Attach Receipts - reimbursed at actual cost up to \$86.40/night + tax)**

Effective 10/1/19:

Number of Nights: \_\_\_\_\_

**MISCELLANEOUS (Attach Receipts):**

Telephone Calls \_\_\_\_\_

Taxi, car rental, etc \_\_\_\_\_

Other \_\_\_\_\_

SIGNATURE:
DATE:

Office Use
521020/521035 Total Meals \$ _____
521030 Total Mileage \$ _____
521015 Total Lodging \$ _____
Total Misc. \$ _____
<b>TOTAL TRAVEL \$ _____</b>

## 4. ND Authorization for Out of State Travel

### AUTHORIZATION FOR OUT OF STATE TRAVEL

STATE OF NORTH DAKOTA

SFN 2564 (8-96)

<b>Department or Institution</b> ND RETIREMENT AND INVESTMENT OFFICE		<b>Dept. No.</b> 190
<b>Mailing Address (If not "Inside Capitol" mail)</b> 3442 EAST CENTURY AVENUE, PO BOX 7100, BISMARCK ND 58507 7100		
<b>Person Traveling (Last Name)</b>		<b>(First Name)</b>
<b>Destination(s) (City and State)</b>		
<b>METHOD OF TRAVEL:</b>		
<input type="checkbox"/> Train (1)	<input type="checkbox"/> State Vehicle (3)	<input type="checkbox"/> Commercial Air (5)
<input type="checkbox"/> Bus (2)	<input type="checkbox"/> Personal Vehicle (4)	<input type="checkbox"/> Charter Plane (5)
<input type="checkbox"/> State Plane (6)		<input type="checkbox"/> Other (Explain)
<b>Date to depart from home</b>	<b>Date to return home</b>	<b>Does trip include vacation days?</b>
		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>REASON FOR TRIP:</b>		
<input type="checkbox"/> Conference/Meeting (C)	<input type="checkbox"/> Seminar/Workshop/Training (T)	<input type="checkbox"/> Routine Work (W)
<input type="checkbox"/> Other (X)		
<b>NAME OF MEETING (DO NOT Abbreviate)</b>		
<b>TOTAL NUMBER OF PERSONS FROM YOUR AGENCY FOR THIS TRIP/MEETING:</b>		<b>NOTE: Submit a separate SFN 2564 for each person at the same time.</b>

ESTIMATED COST OF TRIP (To Nearest Dollar)					COSTS WILL BE PAID BY
Transportation	Meals, Lodging, Etc.	Registration	Rental Car/Taxi	TOTAL	Department
\$	\$	\$	\$	Estimated \$	<input type="checkbox"/> Other (Explain in Remarks)
<b>REMARKS</b>					

\_\_\_\_\_  
Signature of Person Traveling

\_\_\_\_\_  
Date

\_\_\_\_\_  
Supervisor Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Deputy Executive Director

\_\_\_\_\_  
Date

\_\_\_\_\_  
Executive Director

\_\_\_\_\_  
Date

# 5. ND Travel Expense Voucher

## TRAVEL EXPENSE VOUCHER

STATE OF NORTH DAKOTA  
SFN 52785 (03-2015)

Month		Year		Department Name						Official Position									
Employee Name				Employee ID			Business Unit			Fiscal Month			Biennium						
Day	Points Covered By Travel	Hour (Show AM or PM)		Vehicle Miles	R e f	Comm'l Air Trans.	R e f	Taxi & Other Air Trans.	R e f	Misc. Exp.	Meals In State	Meals Out of State	R e f	Lodging In State	Lodging Out of State				
		Depart	Arrive																
Purpose of Travel and Explanation of Expenses:				Lodg. in State				521015											
				Lodg. out of State				521075											
				Meals in State				521020											
				Meals out of State				521080											
				IRS Meals-Taxable				521035											
				Miscellaneous Expenses															
				Other Transportation in State						521025									
				Other Transportation out of State						521085									
				Air Transportation in State						521010									
				Air Transportation out of State						521070									
				Vehicle Miles in State						521030		<input checked="" type="checkbox"/>							
				Vehicle Miles out of State						521090		<input checked="" type="checkbox"/>							
				Total Expenses															
(Ref. Doc. No. of Advance):						Less Travel Advance													
<b>NET EXPENSES</b>																			
Line	Due Date	Dept. ID	Account	Oper. Unit	Class	Fund	Project ID	Activity ID	Resource Type	Resource Category	Amount								
I hereby certify that the within itemized statement representing a claim for payment or per diem, mileage or travel expenses or a combination thereof, truthfully and accurately states the days of service and the mileage traveled, and the purpose thereof.										<b>TOTAL</b>									
Employee Signature										Date									
Departmental Approval										Date									



## INSTRUCTIONS FOR THE TRAVEL EXPENSE VOUCHER

**Be sure to “Tab” from one field to another, rather than using the mouse.**

Month – Enter the month of travel.

Year – Enter the year of travel.

Department Name – Enter the name of your Agency.

Official Position – Enter your job title.

Employee Name – Enter your name.

Employee ID – This number is assigned by payroll.

Business Unit – Your agency’s 5-digit number.

Fiscal Month – Enter the fiscal month.

Biennium – Enter the biennium.

Day - Enter the day of the month in which the activity occurred.

Points Covered By Travel – Enter the departure/destination points.

Hour – Enter the departures and arrival time for the actual travel day (example: 7:00 am).

Vehicle Miles – Enter the number of vehicle miles traveled. If you have in state and out of state miles, separate them and list them on separate lines.

Ref – Enter an “I” for in-state travel or an “O” for out-of-state travel. **If this is not entered, the form will not calculate correctly.**

Comm'l Air Trans. – Enter the amount of commercial air transportation.

Ref – Enter an “I” for in-state travel or an “O” for out-of-state travel. **If this is not entered, the form will not calculate correctly.**

Taxi & Other Air Trans. – Enter taxi fares and any other air transportation.

Ref – Enter an “I” for in-state travel or an “O” for out-of-state travel. **If this is not entered, the form will not calculate correctly.**

Misc. Exp – Enter your other expenses that do not belong in any other column. Explain these expenses in the “Purpose of Travel and Explanation of Expenses” section.

Meals In State – Enter the dollar amount of the meals in state.

Meals Out of State – Enter the dollar amount of the meals out-of-state.

Ref – Enter a “T” if your meals are taxable. Meals are taxable if no overnight stay is involved.

Lodging in State – Enter the dollar amount of lodging in state.

Lodging Out of State – Enter the dollar amount of lodging out-of-state.

Purpose of Travel and Explanation of Expenses – Enter the reason for travel and any explanations for your miscellaneous expenses.

The amounts entered in the top section of the form will automatically be totaled and filled in the appropriate fields of the middle section, as long as the correct reference codes were entered and you used the tab key to navigate between fields. The only exceptions are the following two fields:

Vehicle Miles in State – Calculates the total vehicle miles traveled within the state. You will need to enter the current rate. The total will then automatically calculate.

Vehicle Miles out of State – Calculates the total vehicle miles out of state. You will need to enter the current rate. The total will automatically calculate.

Total Expenses – Calculates the total expenses automatically.

Ref. Doc. No. of Advance – Enter the document number if you received a travel advance and the dollar amount.

Net Expenses – Calculates the net expenses automatically.

Print two copies of the Travel Expense Voucher.

Sign one copy, attach all of your receipts, and submit it for approval. Once approved and forwarded to accounting, the bottom fields will be cost-coded and entered. Remember to keep copies of the receipts for yourself as well.

## 6. TFFR Code of Conduct Annual Affirmation



Retirement and Investment

### MEMORANDUM

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**To:** TFFR Board

**From:**

**Date:**

**RE:** Annual Affirmation of Code of Conduct Policy

The *TFFR Board Members' Code of Conduct and Ethics Policy*, which is attached to this memorandum, details the Code of Ethical Responsibility for the TFFR Board. Item #11 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 TFFR Board Members' Code of Conduct and Ethics Policy. 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: TFFR Program Policies

### A. Investment Policy Statement

#### 1. Plan Characteristics and Fund Constraints

The North Dakota Teachers' Fund for Retirement (TFFR) is a successor pension benefit plan to the Teachers' Insurance and Retirement Fund (TIRF). TIRF was established in 1913, 24 years after North Dakota became a state, to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. TIRF became TFFR in 1971. The plan is administered by a seven-member Board of Trustees comprised of: two active teachers, two retired teachers and one school administrator appointed by the Governor of North Dakota and two elected officials - the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit public pension plan that provides retirement, disability, and death benefits in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of service X 2.0% X Final Average Salary. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee and employer contributions scheduled to increase as follows:

	7/1/11	7/1/12	7/1/14
Employee	7.75%	9.75%	11.75%
Employer	8.75%	10.75%	12.75%

Employee and employer contributions will be reduced to 7.75% each when TFFR reaches 100% funded level on an actuarial value basis.

The TFFR Board has an actuarial valuation performed annually and an Experience Study and Asset Liability Study performed every five years. The actuarial assumed rate of return on assets was reduced to 7.25% from 7.75% as of July 1, 2020. Key plan and financial statistics are recorded in the most recent valuation report on file at the North Dakota Retirement and Investment office (RIO).

#### 2. Fund Goals

The Plan benefits are financed through both statutory employer and employee contributions and the investment earnings on assets held in the Fund. The TFFR Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- a. Improve the Plan's funding status to protect and sustain current and future benefits.
- b. Minimize the employee and employer contributions needed to fund the Plan over the long term.
- c. Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- d. Accumulate a funding surplus to provide increases in retiree annuity payments to

preserve the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State/School District's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places a greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important state/local projects.

### **3. Responsibilities and Discretion of the State Investment Board (SIB)**

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, 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 in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

#### **4. Risk Tolerance**

The Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants.

However, funding the pension promise in an economical manner is critical to the State/School Districts ability to continue to provide pension benefits to plan participants. Thus, the Board actively seeks to lower the cost of funding the Plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the Board believes that such an approach, prudently implemented, best serves the long-run interests of the State/School District and, therefore, of plan participants.

#### **5. Investment Objective**

The Board'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.

- a. 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 five years.
- b. 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 five years.
- c. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

#### **6. Policy Asset Mix**

Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the Board approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target (%)
Public Equity	45%
- Broad U.S. Equity	27%
- Global ex-U.S. Equity	18%
Fixed Income	27%
- Core Fixed Income	18%
- High Yield	8%
- Cash Equivalents	1%
Alternatives	28%
- Real Estate	9%
- Private Infrastructure	9%
- Timber	0%
- Private Equity	10%
Total	100%

An allocation to Global Alternatives of up to 10% is authorized but shall not increase the expected volatility of the portfolio as measured in Section 5; and if utilized, all other targets will be adjusted pro-rata. The Board does not endorse tactical asset allocation, therefore, it is anticipated the portfolio be managed as close to the policy target as is prudent and practicable while minimizing rebalancing costs. Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

## 7. Restrictions

- a. While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- 1) Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- 2) Derivatives use will be monitored to ensure that undue risks are not taken by the money managers
- 3) No transaction shall be made which threatens the tax-exempt status of the Fund.
- 4) All assets will be held in custody by the SIB's master custodian, or such other custodians as are acceptable to the SIB.
- 5) No unhedged short sales or speculative margin purchases shall be made.
- 6) Social investing is prohibited unless it meets the Exclusive Benefit Rule, and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

- b. For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- 1) Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.



c. For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- 1)The cost does not exceed the fair market value at the time of investment.
- 2)The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar task.
- 3)Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- 4)The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

## **8. Internal Controls**

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## **9. Evaluation and Review**

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five-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 TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

A list of the advisory services managing investments for the board.

A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.

Earnings, percentage earned, and change in market value of each fund's investments.



Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.

All material legal or legislative proceedings affecting the SIB.

Compliance with this investment policy statement.

TFFR Board Adopted: May 25, 1995.

Amended: November 30, 1995; August 21, 1997; July 15, 1999; July 27, 2000; September 18, 2003; July 14, 2005; September 21, 2006; September 20, 2007; October 27, 2011; September 26, 2013; January 21, 2016; September 21, 2017; January 25, 2018; November 19, 2020, April 22, 2021.

Approved by SIB: November 18, 2011, February 26, 2016, September 22, 2017, February 23, 2018, November 20, 2020, May 21, 2021.

~~Change Signatures to be updated: ED & CIO or ED CRO or just ED signature with Board approval dates?~~

ND Teachers' Fund for Retirement

ND State Investment Board

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

\_\_\_\_\_  
~~Janilyn Murtha  
Executive Director  
Deputy Executive Director/  
Chief Retirement Officer~~

\_\_\_\_\_  
~~Scott Anderson  
Chief Investment Officer~~ ~~Janilyn Murtha  
Executive Director~~

## B. Plan Management Policy Overview

The North Dakota Teachers' Fund for Retirement (TFFR) Plan Management Policy is a risk assessment and management tool that monitors the ongoing health of TFFR using the most recent actuarial valuation results and stochastic projections. The objective of the Plan Management Policy is to provide a basis for balancing the Fund's obligations with current assets and expected future contributions in order to maintain its long-term health and viability. The Policy also provides a framework that the Board can follow in establishing metrics for future funding and benefit changes. The Plan Management Policy is based upon metrics and a scoring system that were established at the July 24, 2019, Board meeting. The Plan Management Policy Score will be updated subsequent to each annual actuarial valuation.

### 1. Background

The Plan Management Policy is different from the Funding Policy. The Funding Policy sets parameters for the determination of the actuarially determined contribution (ADC) as of each actuarial valuation date. The Plan Management Policy establishes the parameters for a forward-looking assessment of TFFR.

An ADC is used as a benchmark to compare to the statutory contribution rate. An ADC reflects an asset valuation method (i.e., smoothing method), actuarial cost method (e.g., entry age normal), and amortization method for paying down unfunded liabilities or recognizing surplus assets. A description of the ADC is contained in a separate document ("Actuarial Funding Policy Statement"). In summary, the current TFFR funding policy relies on an ADC that is equal to the sum of (a) the employer normal cost rate and (b) the level percentage of pay required to amortize the unfunded actuarial accrued liability over the 30-year closed period that began July 1, 2013 ~~(24 years remaining as of July 1, 2019)~~.

### 2. Risk Assessment and Management

The Plan Management Policy is a risk assessment tool. The risks facing TFFR can be broadly classified into three categories: risks related to economic variables, risks related to demographic events, and risks related to external forces. An overview of the primary risks facing TFFR stakeholders follows.

#### a. *Risks related to economic variables:*

- 1) Investment return – the risk that actual returns will be different than expected and more volatile than desired.
- 2) Inflation (price inflation, wage inflation) – the risk that measures of inflation will be inconsistent with other economic measures.

#### b. *Risks related to demographic events:*

- 1) Mortality/longevity – the risk that participants will live longer than expected
- 2) Payroll and/or population growth – the risk that aggregate payroll will increase at a rate less than expected. This is relevant since contributions to TFFR are collected as a percentage of member payroll.
- 3) Retirement/disability/termination experience – the risk that members leave active service in a manner than generates actuarial gains or losses relative to the assumptions.

There are even risks related to external forces (e.g., governance risk, regulatory risk, litigation risk, political risk), but these risks are difficult – or impossible – to manage.

The Plan Management Policy is a tool that measures investment return risk since investment return risk has the most significant impact on TFFR’s long term financial health.

### 3. Scoring System Metrics

The scoring system metrics that will be monitored on a periodic basis are:

- a. **The current funded ratio:** This is equal to the ratio of the market value of assets to the actuarial accrued liability as of the latest actuarial valuation date. The purpose of this metric is to assess the current funded status of TFFR.
- b. **The downside funded ratio as of July 1, 2030:** Based on stochastic projections, determine the probability that the funded ratio will be less than 65%. The purpose of this metric is to assess the likelihood of the funded ratio not improving over the short term. The lower the likelihood that the funded ratio will not increase, the higher the score.
- c. **The target funded ratio as of July 1, 2040:** Based on stochastic projections, determine whether the funded ratio is projected to increase above certain thresholds over a longer time horizon with 51% or more probability.
- d. **Improvement in the funded ratio over a 10-year period:** Based on stochastic projections, determine the probability that the funded ratio will improve by 5% over the following 10 years.
- e. **Ability to recover/withstand from a market downturn:** Based on stochastic projections, determine the probability that the funded ratio improves by 5% over 10 years following a market downturn. A market downturn is defined as a two-year period with a compound average return of -10% or worse.

### 4. Policy Score

The Policy Score is the sum of the points that have been assigned to each metric and can range from 0 to 14 and correspond to a color ranging from red to green. A higher score indicates better overall health of TFFR. The Policy Score is grouped into the following categories:

Color	Policy Score	Indication
Green	11 to 14	TFFR objectives are being met or likely to be met
Yellow	7 to 10	TFFR objectives may be met over a longer period
Orange	4 to 6	Continue to monitor TFFR
Red	0 to 3	Changes to TFFR should be considered



## 5. Policy Scoring System

Each metric is assigned a score based upon the results of the annual actuarial valuation and resulting analysis as follows:

<b>Metric</b>	<b>Criteria</b>	<b>Score</b>
The current funded ratio	<ul style="list-style-type: none"> <li>Funded ratio of 90% or higher</li> <li>Funded ratio between 80% and 90%</li> <li>Funded ratio between 70% and 80%</li> <li>Funded ratio less than 70%</li> </ul>	<ul style="list-style-type: none"> <li>+3</li> <li>+2</li> <li>+1</li> <li>+0</li> </ul>
The downside funded ratio as of July 1, 2030	<ul style="list-style-type: none"> <li>Under 65% funded ratio with less than 20% probability</li> <li>Under 65% funded ratio with less than 30% probability</li> <li>Under 65% funded ratio with less than 40% probability</li> <li>Under 65% funded ratio with more than 40% probability</li> </ul>	<ul style="list-style-type: none"> <li>+3</li> <li>+2</li> <li>+1</li> <li>+0</li> </ul>
The target funded ratio as of July 1, 2040	<ul style="list-style-type: none"> <li>85% or higher with 51% or more probability</li> <li>Between 80% and 85% with 51% or more probability</li> <li>Between 75% and 80% with 51% or more probability</li> <li>Between 70% and 75% with 51% or more probability</li> <li>Not more than 70% with 51% or more probability</li> </ul>	<ul style="list-style-type: none"> <li>+4</li> <li>+3</li> <li>+2</li> <li>+1</li> <li>+0</li> </ul>
Improvement in the funded ratio over a 10-year period	<ul style="list-style-type: none"> <li>Funded ratio improves by +5% over 10 years with 66% probability</li> <li>Funded ratio improves by +5% over 10 years with 50% probability</li> <li>Funded ratio does not improve by +5% over 10 years with 50% probability</li> </ul>	<ul style="list-style-type: none"> <li>+2</li> <li>+1</li> <li>+0</li> </ul>
Ability to recover from or withstand a market downturn	<ul style="list-style-type: none"> <li>Funded ratio after downturn improves by +5% over 10 years with 50% probability</li> <li>Funded ratio after downturn improves by +5% over 10 years with 33% probability</li> <li>Funded ratio after downturn does not improve by +5% over 10 years with 33% probability</li> </ul>	<ul style="list-style-type: none"> <li>+2</li> <li>+1</li> <li>+0</li> </ul>

For purposes of scoring, probabilities and funded ratios will be rounded to the nearest whole percentage. For example, a probability of 49.6% would be rounded up to 50%.

## 6. Outside Factors

Other factors outside of TFFR could have an effect on the directional trend of future Policy Scores. These factors include, but are not limited to:

- a. Projected economic conditions
- b. Market cycles
- c. North Dakota economy

TFFR Staff and the actuary will discuss the appropriate outside factors and determine whether these factors are expected to potentially improve or worsen the Policy Score.

## 7. Actuarial Assumptions

The actuarial assumptions used will be the same as those used for the annual actuarial valuation. The actuarial assumptions are described in detail in the actuarial valuation report. The funded ratio used in the plan management policy is based upon the market value of assets.

In order to stochastically model investment returns, Capital Market Assumptions are used. Capital Market Assumptions are developed by investment firms and represent expectations for future risk and returns for different asset classes. The Capital Market Assumptions used for the analysis are those published in the most recently available Horizon's Annual Survey of Capital Market Assumptions. If Horizon discontinues the publication of this survey, a suitable replacement or alternative will be used.

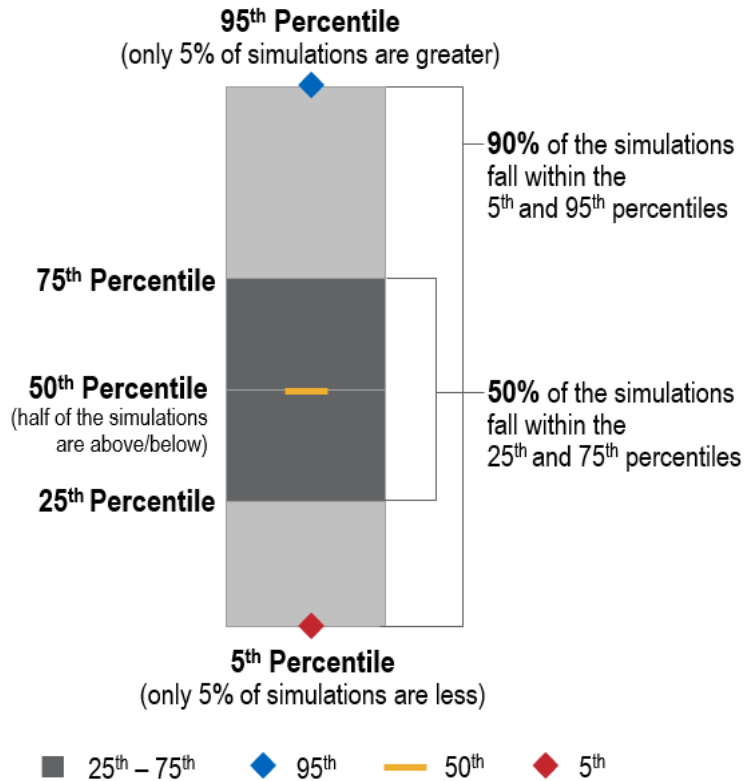
Projected liabilities are based upon an "open group" liability forecast. An open group projection generates projected populations for each future valuation date based on assumptions related to retirement, termination, salary increases, mortality, etc. New entrant records are generated to replace active members that decrement in the model in order to maintain a level active membership in the future. The profile of new entrants is based on recent demographics of new hires, subject to input from TFFR staff and Board.

## 8. Stochastic Modeling

The Capital Market Assumptions are used with TFFR's target asset allocation in order to simulate 5,000 investment portfolio return scenarios, each simulation representing a 20-year period. The simulated investment returns, along with open group liability forecasts, are used to model the projected funded ratio. The results are grouped into percentiles and summarized as a range:

- a. **Best Case:** Better cases would occur only 5% of the time (above the 95<sup>th</sup> percentile in the example below)
- b. **Most Likely:** Better or worse cases (50<sup>th</sup> percentile) are equally likely
- c. **Worst Case:** Worse cases would occur only 5% of the time (below the 5<sup>th</sup> percentile in the example below)

## Sample Funded Ratio



**TFFR Board Adopted:** October 24, 2019

**Amended:** January 23, 2020

## C. Actuarial Funding Policy Statement

### 1. Introduction

The purpose of this Actuarial Funding Policy is to record the funding objectives and policy set by the Board of Trustees (Board) for the North Dakota Teachers' Fund for Retirement (TFFR). Effective with the July 1, 2013, actuarial valuation, the Board establishes this Actuarial Funding Policy to help ensure the systematic funding of future benefit payments for members of TFFR. The contributions made to TFFR are set by statute. These statutory contributions will be compared to the contributions determined under the funding policy in order to assess the appropriateness of the statutory contributions. Based upon this comparison, the Board will decide what action to take, if any. The employer contribution determined under the funding policy is called the actuarially determined employer contribution (ADEC). In addition, this document records certain guidelines established by the Board to assist in administering TFFR in a consistent and efficient manner.

This Actuarial Funding Policy supersedes any previous Actuarial Funding Policies and may be modified as the Board deems necessary.

## **2. Goals of Actuarial Funding Policy**

- a. To achieve long-term full funding of the cost of benefits provided by TFFR;
- b. To seek reasonable and equitable allocation of the cost of benefits over time;
- c. To maintain a policy that is both transparent and accountable to the stakeholders of TFFR, including plan participants, employers, and residents of the State of North Dakota.

## **3. Actuarially Determined Employer Contribution and Funding Policy Components**

TFFR's actuarially determined employer contribution is comprised of the Normal Cost and an amortization of the Unfunded Actuarial Accrued Liability (UAAL). The Normal Cost and the amortization of the UAAL are determined by the following three components of this funding policy:

- a. Actuarial Cost Method: the techniques to allocate the cost/liability of retirement benefits to a given period;
- b. Asset Smoothing Method: the techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation process; and
- c. Amortization Policy: the decisions on how, in terms of duration and pattern, to reduce the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets in a systematic manner.

### **4. Actuarial Cost Method:**

The Entry Age Normal method shall be applied to the projected benefits in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined as a level percentage of pay on an individual basis for each active member.

### **5. Asset Smoothing Method:**

The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over 5 years in calculating the Actuarial Value of Assets. Deferred investment gains or losses cannot exceed 20% of the Market Value of Assets (i.e., the Actuarial Value of Assets cannot be more than 120%, nor less than 80%, of the Market Value of Assets as of any valuation date).

### **6. Amortization Policy:**

- a. The UAAL, (i.e., the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets), as of July 1, 2013, shall be amortized over a "closed" 30-year period. In other words, the UAAL as of July 1, 2014 shall be amortized

over 29 years, the UAAL as of July 1, 2015 shall be amortized over 28 years, etc.

- b. Beginning with the July 1, 2024, valuation, the Board shall have the discretion to continue the “closed” amortization period, or instead to amortize the UAAL over another period, not to exceed 20 years.
- c. Any new UAAL as a result of change in actuarial assumptions or methods will be amortized over a period equal to the amortization period of the UAAL. The Board shall have the discretion to amortize the new UAAL as a result of change in actuarial assumptions or methods over a period of 20 years.
- d. Unless an alternative amortization period is recommended by the Actuary and accepted by the Board based on the results of an actuarial analysis, the increase in UAAL as a result of any plan amendments will be amortized over a period not to exceed 20 years.
- e. In a situation where the amortization of the UAAL has more than one component, a single equivalent amortization period will be determined by the Actuary.
- ~~e.~~
- f. UAAL shall be amortized as a level percentage of payroll so that the amortization amount in each year during the amortization period shall be expected to be a level percentage of covered payroll, taking into consideration the current assumption for general payroll increase.
- g. If an overfunding exists (i.e., the UAAL becomes negative so that there is a surplus), such surplus and any subsequent surpluses will be amortized over an “open” amortization period of 30 years. Any subsequent UAAL will be amortized over 20 years as the first of a new series of closed period UAAL amortization.

d.

g.

## 7. Actuarial Assumptions Guidelines

The actuarial assumptions directly affect only the timing of contributions; the ultimate contribution level is determined by the benefits and the expenses actually paid offset by actual investment returns. To the extent that actual experience deviates from the assumptions, experience gains and losses will occur. These gains (or losses) then serve to reduce (or increase) the future contribution requirements.

Actuarial assumptions are generally grouped into two major categories:

- a. Demographic assumptions – including rates of termination, retirement, disability, mortality, etc.
- b. Economic assumptions – including investment return, salary increase, payroll growth, inflation, etc.

The actuarial assumptions are described in detail in the actuarial valuation report. They represent the Board’s best estimate of anticipated experience under TFFR and are intended to be long term in nature. Therefore, in developing the actuarial assumptions, the Board considers not only past experience but also trends, external forces and future expectations.

Actuarial experience studies are completed every five years or at the Board’s direction.



## 8. Glossary of Funding Policy Terms

- a. **Present Value of Benefits (PVB) or total cost:** the “value” at a particular point in time of all projected future benefit payments for current plan members. The “future benefit payments” and the “value” of those payments are determined using actuarial assumptions as to future events. Examples of these assumptions are estimates of retirement patterns, salary increases, investment returns, etc. Another way to think of the PVB is that if the plan has assets equal to the PVB and all actuarial assumptions are met, then no future contributions would be needed to provide all future service benefits for all current members, including future service and salary increases for current active members.
- b. **Actuarial Cost Method:** allocates a portion of the total cost (PVB) to each year of service, both past service and future service.
- c. **Normal Cost:** the cost allocated under the Actuarial Cost Method to each year of active member service.
- d. **Entry Age Normal Actuarial Cost Method:** A funding method that calculates the Normal Cost as a level percentage of pay or level dollar amount over the working lifetime of the plan’s members.
- e. **Actuarial Accrued Liability (AAL):** the value at a particular point in time of all past Normal Costs. This is the amount of assets the plan would have today if the current plan provisions, actuarial assumptions and participant data had always been in effect, contributions equal to the Normal Cost had been made and all actuarial assumptions came true.
- f. **Market Value of Assets (MVA):** the fair value of assets of the plan as reported in the plan’s audited financial statements.
- g. **Actuarial Value of Assets (AVA):** the market value of assets less the deferred investment gains or losses not yet recognized by the asset smoothing method.
- h. **Unfunded Actuarial Accrued Liability (UAAL):** the portion of the AAL that is not currently covered by the AVA. It is the positive difference between the AAL and the AVA.
- i. **Surplus:** the positive difference, if any, between the AVA and the AAL.
- j. **Actuarial Value Funded Ratio:** the ratio of the AVA to the AAL.
- k. **Market Value Funded Ratio:** the ratio of the MVA to the AAL.
- l. **Actuarial Gains and Losses:** changes in UAAL or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets earn more than the investment return

assumption, the amount of earnings above the assumption will cause an unexpected reduction in UAAL, or “actuarial gain” as of the next valuation. These include contribution gains and losses that result from actual contributions made being greater or less than the level determined under the policy.

m. **Valuation Date:** July 1 of every year.

## D. Operations

### 1. Membership Data and Contributions

- A. Ensure the security and accuracy of the members’ permanent records and the collection of member and employer contributions from every governmental body employing a TFFR member.
- B. Accordingly, the administrative means will be to:
1. Retain member and employer documents applicable to the retirement program.
  2. Safeguard TFFR database files.
  3. Protect the confidential information contained in member and employer files.
  4. Collect the member and employer contributions from the employers based on retirement salary earned by the member.
  5. Monitor the employer reporting process including the timely filing of information, consistency of month-to-month data, and changes in the employer payment plan models.
  6. Review the individual member data, salary, and service credit for accuracy.
  7. Post and validate the data received from the employer to the individual member accounts.
  8. Provide annual statements to every member.
  9. Summarize the member data reported and notify the employers annually of the prior fiscal year information.

10. Perform reviews to monitor whether individuals employed as “teachers” in North Dakota school districts, political subdivisions, and state institutions are reported to TFFR in compliance with the North Dakota Century Code (NDCC).
11. Provide publications and reporting instructions to employers on TFFR.
- ~~12.~~ Transfer member and employer contributions to the investment program in a timely manner.

### C. **Monitoring** (Method, Responsibility, Frequency)

1. Internal Report
  - a. Disclosure of compliance to the board from RIO’s internal auditors.
  - b. Compliance for individual accounts is monitored through internal audits of staff compliance with state laws, rules, board policy, and procedures.
2. External Report
  - a. Disclosure of compliance to the board by RIO’s external auditors as a part of the annual audit.
  - b. Disclosure of compliance to members through annual statements.

## 2. Member Services

Provide direct services and public information to members of TFFR.

A. Accordingly, the **administrative** means **will** be to:

1. Enroll, update, maintain, and certify all member accounts.
2. Respond to member inquiries on the retirement program.
3. Provide statewide benefits counseling services to members.
4. Make group presentations and distribute information at conferences and conventions throughout the state.
5. Coordinate and conduct retirement education programs for members on a statewide basis.

6. Certify eligibility for TFFR benefits and purchase of service credit.
7. Calculate and process claims for refund, retirement, disability, survivor, and Qualified Domestic Relations Order (QDRO) benefits, as well as claims for purchasing credit.
8. Permit members to change designated beneficiaries in the event of life occurrences identified in the administrative rules.
9. Close retirement accounts of deceased teachers.
10. Develop and distribute information to the members on the retirement program and related topics through newsletters, annual reports, member handbooks, brochures, and retirement planning materials.
11. Maintain a website and provide online services to provide members with a variety of access methods for TFFR information.

B. **Monitoring** (Method, Responsibility, Frequency)

1. Internal Report
  - a. Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.
  - b. Periodic presentations by staff at board meetings.
2. External Report
  - a. Receive annual reports from leadership of groups representing the plan's beneficiaries.
  - b. RIO's annual audit by independent auditor.
  - c. Written and oral communication with board members from teachers regarding payment and processing of benefit claims.

### 3. Disclosure of Confidential Information for Treatment, Operational, or Payment Purposes

The TFFR Board of Trustees has determined that confidential information for treatment, operational, or payment purposes under NDCC 15-39.1-30(12) includes:

- A. Information related to enrollment, participation, benefits, ~~or~~ contributions, and otherwise necessary for the administration and operation of the program may be shared with participating employers or TFFR contractors, attorneys, and consultants. ~~for purposes of maintaining a member's participation and benefits in the TFFR program. Such sharing of information is limited to that information which is necessary to assure that a member's participation and benefits are properly handled. All such information remains confidential whether in the possession of TFFR, its participating employers, or~~

~~its contractors.~~

~~1. Information necessary for the administration and operation of the program may be shared with TFFR attorneys and consultants. To the extent such information is shared, it remains confidential.~~

~~2. Information relating to the death benefits and beneficiary designations of a deceased member or beneficiary may be shared with an ex-spouse if listed as a beneficiary on a designation of beneficiary form, subsequent to the death of the applicable member or beneficiary, but in advance of a final determination regarding the applicable beneficiary, only to the extent necessary to accurately identify the appropriate beneficiary.~~

B. Information relating to the death benefits and beneficiary designations of a member or beneficiary may be shared with any other person if the beneficiary is unknown or unable to be located, only to the extent necessary to accurately identify the appropriate beneficiary or to close an account subsequent to the death of a member or beneficiary.

~~All other requests for confidential information under this policy must first be submitted to the Deputy Executive Director/Chief Retirement Officer and then reviewed by the TFFR Board of Trustees.~~

**TFFR Board adopted:** September 25, 2014

#### 4. Account Claims

A. **Ensure the payment of benefit claims to members of TFFR.**

Accordingly, the administrative means will be to:

1) Pay retirement benefits based on an estimated final salary for members retiring upon completion of their teaching contract and whose final salary has not been reported to TFFR.

2) Allow retired members receiving an annuity from TFFR to have payroll deductions subtracted from their monthly benefit, pursuant to section II.D.5. including: , but not limited to: health, life, and other insurance premiums payable to NDPERS, North Dakota Retired Teachers Association (NDRTA) dues, North Dakota United (ND United) Retired dues, and federal and North Dakota income tax withholdings.

3) Distribute payments for benefit claims (annuities, PLSOs, refunds, and rollovers) once per month. ~~Benefit payments made by Electronic Funds Transfer (EFT) will be deposited and payable on the first working day of each month. Benefit payments made by check will be mailed on the last working day of the previous month payable on the first working day of each month.~~

4) Distribute special payments for benefit claims in the event of unforeseen circumstances (i.e., death, disability, Court Order, staff processing delay, etc.) if approved by the Deputy Executive Director-Chief Retirement Officer.

5) Mail Produce and make available new account notices and account change notices to retired members and beneficiaries receiving benefits.

B. **Monitoring (Method, Responsibility, Frequency)**

1) Internal Report

- i. Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.

2) External Report

- ii. Disclosure of compliance to the board through annual audit by RIO external auditors.

## 5. Deductions from Annuity Checks

- A. It shall be the policy of the TFFR Board of Trustees to allow retirees and beneficiaries receiving annuity payments to have payroll deductions subtracted from their monthly payments.
- B. To initiate, change, or stop a deduction, the retiree must notify the administrative office in writing at least ten working days prior to the date the monthly benefit is issued. All deductions withheld will be forwarded to the appropriate entity within three working days after the first of the month or as required by federal/North Dakota state law. Authorization forms are to be kept on file at the administrative office.
- C.

The following deductions are available to retirees and beneficiaries receiving monthly annuity benefits:

- 1) Health, life, and other insurance premiums payable to the NDPERS.
- 2) Annual dues payable to the NDRTA and the ND United Retired organization.
- 3) Federal and North Dakota income tax withholdings.
- 4) Court ordered payments including child support orders, Qualified Domestic Relations Orders (QDRO), IRS tax levies, federal garnishments, and other court ordered payments, subject to approval by the Attorney General's office.
- 5) Additional deductions may be added upon approval by the board.

## 6. Military Service Credit

It shall be the policy of the TFFR Board of Trustees that a teacher purchasing military service be credited with a full year of credit if the service was rendered for at least 175 school days or a period of nine months within any fiscal year.

## 7. Payment of Benefits

It shall be the policy of the TFFR Board of Trustees to distribute payments for benefit claims (annuities, refunds/rollovers) once per month. Distributions will be mailed on the last working day of the previous month payable on the first working day of each month.

In order for a teacher to assure receipt of a benefit payment on the first working day of the month, the required information and forms must be filed with the administrative office at least ten working days prior to the distribution date.

The Deputy Executive Director/Chief Retirement Officer may authorize special payments to pay benefit claims due to unforeseen circumstances that delay the processing of the claim.

Payments to a teacher approved for a refund/rollover will include all contributions and interest paid by a teacher for the purchase and repurchase of service credit. This is in addition to the entitled refund of member contributions plus interest. The Deputy Executive Director/Chief Retirement Officer may waive the 120-day waiting period for refunds/rollovers based on necessary documentation.

## 8. Retirement Benefit Payments

A. It is the policy of the TFFR Board of Trustees that new retirees will have their initial retirement benefit payment calculated using either estimated or final salary and service credit information:

1) Estimated salary and service credit information

The member's initial retirement benefit is calculated using 90% of the estimated current year salary for final average salary calculation purposes. If the final information reported by the employer is different than the estimated information, the member's monthly retirement benefit will be adjusted retroactive to the member's retirement date. Using estimated information allows a member to begin receiving retirement benefits sooner but results in correction of benefits at a later date retroactive to the member's retirement date.

2) Finalized salary and service credit information

The member's retirement benefit is calculated using finalized current year salary and service credit information. After salary, service credit, and last date of employment are reported by the employer and verified by TFFR, the member's retirement benefit is calculated, and claim is processed. Using finalized information delays a member's first retirement benefit payment, but when payment is made, it is retroactive to the member's retirement date.

B. Under all circumstances, if any change or error in the records of TFFR or a participating employer or if any calculation results in a member receiving more or less in benefits than the member is entitled to receive, TFFR will correct the error and adjust the benefit (NDCC 15-39.1-31 and 32).

## 9. Voiding Checks

It shall be the policy of the TFFR Board of Trustees to void any uncashed benefit checks for the payment of retirement, disability, survivor, and refund benefits after six months. Should the payee request payment after six months, the RIO will reissue a check, but without additional interest.

## 10. In-Staff Subbing Contract Period – Per Board action on 7-22-21 the policy is suspended as it applies to rehired retirees until further Board action.

It is the policy of the TFFR Board of Trustees that the following guidelines apply for the purpose of determining the contract period for in-staff subbing for active members and re-employed



retirees as provided for in NDCC 15-39.1-04 (4) and (12), 15-39.1-19.1, 15-39.1-19.2, and NDAC 82-05-06-01.

A. In-staff subbing is defined as substitute teaching duties performed by a contracted teacher for the contracting TFFR participating employer.

B. If the active member or re-employed retiree has a contract or written agreement with the participating employer for full or part time work, TFFR will view the beginning and ending calendar dates indicated on the contract as the contract term to determine the contract period, unless the contract period is otherwise specifically detailed in the active member or re-employed retiree's contract.

1) If substitute teaching duties are performed during the contract term, those duties are considered in-staff subbing, and retirement contributions are required to be paid on the substitute teaching pay. The in-staff subbing hours are reported as compensated hours for active members and are counted toward the annual hour limit for re-employed retirees (700 – 1000 hours depending upon length of contract).

2) If substitute teaching duties are performed before the beginning calendar date or after the ending calendar date of the contract term, those duties are not considered in-staff subbing, and no retirement contributions are required to be paid on the substitute teaching pay. The subbing hours are not reported as compensated hours for active members and are not counted toward the annual hour limit for re-employed retirees.

C. If the active member or re-employed retiree does not have a contract or written agreement with the participating employer, then no retirement contributions are required to be paid on the substitute teaching pay. The subbing hours are not reported as compensated hours for active members and are not counted toward the annual hour limit for re-employed retirees.

D. This policy does not prohibit the Board from making an eligible salary determination for an individual member pursuant to N.D.A.C. 82-04-02-01.

## 11. Plan Beneficiaries

TFFR beneficiaries are:

### A. Plan Members:

1) Active – all persons who are licensed to teach in North Dakota and who are contractually employed in teaching, supervisory, administrative, or extracurricular services:

- i. Classroom teachers
- ii. Superintendents, assistant superintendents, county superintendents
- iii. Business managers
- iv. Principals and assistant principals
- v. Special teachers
- vi. Superintendent of Public Instruction, professional employees of Dept. of Public Instruction and Dept. of Career and Technical Education, unless transferred to North Dakota Public Employees Retirement System (NDPERS)



- vii. Professional or teaching staff of Center for Distance Education, Youth Correctional Center, School for the Blind and School for the Deaf.
- viii. Other persons or positions authorized in state statutes
- 2) Annuitants – All persons who are collecting a monthly benefit:
  - i. Retirees
  - ii. Disabilitants
  - iii. Survivors/Beneficiaries
- 3) Inactive members:
  - i. Vested
  - ii. Nonvested

**B. Employers:**

- 1) School districts, special education units, vocational centers, County superintendents, Regional Education Associations (REA)
- 2) State institutions and agencies defined in state statutes
- 3) Other TFFR participating employers

**12. Head Start Program Employees**

It shall be the policy of the TFFR Board of Trustees that employees of a Head Start Program who are certified to teach and contracted with a school district or other participating employer, are members of TFFR if the following conditions are met:

- A. Grantee agency for the Head Start Program is the school district which is governed by the local school board.
- B. Head Start Program employees are on the school district teaching or administrative faculty in positions such as coordinator, director, teacher, or home visitor.
- C. Head Start Program employees are on the school district salary schedule and negotiate for salary and benefits like other school district teaching faculty.

**13. PERS Retirement Plan Election (DPI and CTE)**

A. NDCC 15-39.1-09(3) allows new employees of the Department of Public Instruction (DPI), who are eligible for TFFR coverage and hired after January 6, 2001, excluding the State Superintendent of Public Instruction, to elect to become participating members of ND Public Employees Retirement System (PERS). NDCC 15-39.1-09(4) allows new employees of the Department of Career and Technical Education (CTE) who are eligible for TFFR coverage and hired after July 1, 2007, to elect to become participating members of PERS.

B. It is the policy of the TFFR Board of Trustees to allow the PERS retirement plan election by eligible new DPI and CTE employees under the following guidelines:

- 1) Any new employee who is required to participate in TFFR under NDCC 15-39.1-04(11)(b) and who is entered onto the payroll of DPI after January 6, 2001 (except the Superintendent of Public Instruction), or CTE after July 1, 2007, is eligible to make the election to become a participating member of NDPERS.

2) If eligible, the new employee must complete the “NDPERS/TFFR Membership Election” form within ninety days of hire. Until this election is made, the employee will be enrolled in the NDPERS retirement plan. If no election is made, the employee will be transferred to TFFR.

3) If the new employee is a former DPI employee or is retired from DPI and receiving TFFR benefits, the employee must have a one-year break in service to be eligible to elect participation in PERS. If the new employee is a former CTE employee or is retired from CTE and receiving TFFR benefits, the employee must have a one-year break in service to elect participation in PERS.

4) If the new employee is a TFFR retiree (but not a former DPI or CTE employee), the retiree may elect participation in PERS upon date of hire. The retiree is not subject to the one-year waiting period and is not subject to the TFFR retiree annual hours limit.

## E. Employer Policies

### 1. Employer Payment Plan Models

A. The TFFR Board has developed models relating to employer payment of member contributions as provided for in NDCC 15-39.1-09 and NDAC 82-04-01. The models are outlined in employer instructions prepared by the fund. Special provisions apply to state agencies and institutions, and employers that have not adopted a model.

B. Employers must select the employer payment plan model under which they will pay member contributions on a form provided by the administrative office. The model selected by the employer can only be changed once each year at the beginning of the fiscal year.

C. The following employer payment plan models are available to participating employers:

1) Model 1: Member contributions are paid by the member through a salary reduction and remitted to TFFR by the employer as tax deferred contributions.

2) Model 2 All: Member contributions are paid by the employer as a salary supplement and remitted to TFFR as tax deferred contributions.

3) Model 2 Partial (%): A fixed percentage (1% minimum) of the member contributions are paid by the employer as a salary supplement and remitted to TFFR as tax deferred contributions. The remaining member contributions are paid by the member and remitted by the employer as tax deferred contributions.

4) Model 3 Partial (\$): A fixed dollar amount of the member contributions are paid by the employer as a salary supplement and remitted to TFFR as tax deferred contributions. The remaining member contributions are paid by the member and remitted by the employer as tax deferred contributions. Effective July 1, 2003, employers may no longer select Model 3. Any employers currently paying member contributions under this model may continue as a closed group, but Model 3 will no longer be available to other employers. Effective July 1, 2019, Model 3 will be eliminated, and no employers will be allowed to utilize this model.

5) Model 4 State Agencies: Four Percent (4%) of the member contributions (or the % of member contributions the State agrees to pay) are paid by the State as a salary supplement and remitted to TFFR as tax deferred contributions. The remaining member contributions are paid by the member and remitted by the employer as tax deferred contributions.

- D. Employers who do not select one of the above models must report member contributions paid by the member and remitted by the employer as taxed contributions. Payment of member contributions cannot be made on a tax deferred basis unless one of the above approved models is selected in writing.

## 2. Employer Reporting Errors

It is the policy of the TFFR Board of Trustees that when an unintentional error in the reporting of retirement contributions by a TFFR participating employer is discovered during an employer audit, the following guidelines will apply:

- a. The employer will be billed for all material shortages due plus interest or refunded for all material overpayments.
- b. Materiality limit to be used in determining if a member's account will be corrected is an aggregate total of ~~\$300~~ \$500 in a fiscal year for salary per individual member per year, unless otherwise approved by the Deputy Executive Director-Chief Retirement Officer.
- c. The interest charged to the employer will be the actuarial
  - i. investment return assumption.
- ~~d. The time period will be from the onset of the error or three years prior to the beginning of the current school year.~~
- e. Failure of the employer to pay the required shortages or provide required information will constitute "failure to make required reports and payments" and require application of section 15-39.1-23, NDCC.
- f. The TFFR board reserves the right to negotiate with an employer.
- g. The employer must respond in writing to the ~~audit~~ finding(s) and/or recommendation(s) within 30 days of ~~being notified the report~~.
- ~~h. NDRIIO will conduct a follow-up review of the audit finding(s) and/or recommendation(s) once one year of unaudited salary is available or as determined by the Deputy Executive Director/Chief Retirement Officer.~~

## 3. Employer Reports

- A. It shall be the policy of the TFFR Board of Trustees to require all participating employers to file reports and make payment of member and employer contributions on a monthly basis to the RIO. Both payment and report are due by the 15th day of the month following the end of the reporting period.
- B. The administrative office will monitor late TFFR employer reports and payments and establish procedures for minor processing delays. Except for unintentional reporting errors, employers that do not meet the established deadlines for filing required reports shall be assessed a civil penalty as required in NDCC 15-39.1-23 unless the Deputy

Executive Director/Chief Retirement Officer approves a request for a waiver of the penalty under special circumstances such as:

- 1) Death, surgery, or illness of the individual responsible for TFFR reports or their family.
  - 2) "Acts of God" that require an employer to close school such as blizzards, storms, or floods.
  - 3) Unforeseen events such as resignation of the individual responsible for TFFR reports, computer malfunction, etc.
- C. The request for a waiver must be in writing and signed by the administrator.

#### **4. Ineligible TFFR Salary**

The TFFR Board desires to provide guidance to TFFR employers regarding how eligible salary shall be determined for payments made to licensed teachers for performing certain duties.

NDCC 15-39.1-04(10)(h) provides that eligible salary does not include "*other benefits or payments not defined in this section which the board determines to be ineligible teachers' fund for retirement salary.*"

It is the policy of the TFFR Board of Trustees that effective July 1, 2016, additional payments made by a TFFR participating employer to a licensed TFFR member for equipment maintenance and repair, jobsite prep and finish work, and similar types of nonteaching duties are not eligible salary for TFFR purposes if the duties are not included on the member's regular teaching contract(s).

This policy does not prohibit the Board from making an eligible salary determination for an individual member pursuant to N.D.A.C. § 82-04-02-01.

#### **F. Member Communication**

##### **1. Disclosure to Membership**

It shall be the policy of the TFFR Board of Trustees that member handbooks, member statements, member newsletters, and financial reports be prepared and made available for TFFR members. RIO staff will prepare, and the TFFR Board of Trustees will review for approval at least once a biennium a communications plan that summarizes the content and method for providing member and employer education and publications.

##### **2. Information Dissemination**

It is the policy of the TFFR Board of Trustees to allow member and employer interest groups and other approved third parties to send specific information to the TFFR membership using a "blind mailing" method. The information to be mailed and third party organization must be approved by the RIO Deputy Executive Director/Chief Retirement Officer in advance. Member

and employer interest groups include, but are not limited to, North Dakota Council of Educational Leaders (NDCEL), ND United, NDRTA, and North Dakota School Boards Association (NDSBA).

Under the “blind mailing” method, the third party must submit information or materials they wish to send to TFFR members. The third party must sign an agreement that they will not use the mailing to engage in partisan political activities.

If approved, the third party will forward the materials to an independent mailing company approved by TFFR. The mailing company must sign a “no disclosure” agreement with TFFR.

TFFR will then supply membership mailing information to the mailing company. The mailing company will combine the material from the third party with the mailing list and send to TFFR members. The cost of the mailing will be paid by the third party.

**TFFR Board Adopted:** July 15, 1999.

**Amended:** November 15, 2001.

### 3. Outreach Program Facilities

It shall be the policy of the TFFR Board of Trustees that school district facilities used for TFFR outreach programs must meet ADA requirements. In addition, authorized school district employees must be present to direct guests to the proper meeting room and lock the building at the close of the program. RIO employees who are conducting outreach programs for TFFR members are not allowed to be in school district buildings without the presence of an administrator, teacher, or other authorized school district employee.

RIO staff will not be able to conduct outreach programs at that site if the above conditions are not met.

## G. Other Policies – Recommended for Removal

### 1. Trust Fund Evaluation/Monitoring

~~Ensure actuarial consulting and accounting services are provided to the retirement program. The TFFR Board of Trustees will select the independent actuary for consulting and actuarial purposes and direct a contract be executed by the Deputy Executive Director/ Chief Retirement Officer.~~

~~Accordingly, the administrative means will be to:~~

- ~~1. Have an annual actuarial valuation (July 1 to June 30) performed on the retirement program. The valuation must be performed by an independent actuary who is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems. The valuation must be prepared in accordance with principles of practice prescribed by the Actuarial Standards Board. The calculations must be performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the system.~~
- ~~2. Have an actuarial review or audit of TFFR's actuarial valuation performed at least every five years by an independent actuary. The review should include an evaluation by an independent actuary, other than the one who performs the plan's actuarial valuation, for the purposes of expressing an opinion on the reasonableness or accuracy of the actuarial assumptions, actuarial cost methods, valuation results, contribution rates and certifications as described above. If there is a change in actuaries, a full replication of the previous actuarial valuation should be conducted and will serve as an actuarial audit.~~
- ~~3. Have an actuarial experience study performed on TFFR every five years. The experience study should include a review of demographic and economic assumptions and compare to actual experience. The study should analyze plan experience relating to assumed rates of mortality, disability, retirement, employment turnover, investment returns and other cost factors.~~
- ~~4. Have an asset liability study performed on TFFR every five years. The study should identify the optimal distribution of funds among the various asset classes that offers the highest probability of consistently achieving investment objectives within the confines of a predetermined level of risk. Projected changes in active and retired membership should also be considered.~~
- ~~5. Prepare financial statements in accordance with generally accepted accounting principles for defined benefit public pension plans.~~
- ~~6. Have a financial audit conducted annually in accordance with generally accepted auditing standards (as established by the AICPA) by an independent auditor. Receive an unqualified opinion by the independent auditor regarding the audited financial statements.~~
- ~~7. Perform internal audits on the retirement program which provide the board with reasonable assurance that TFFR is being administered in compliance with federal and state laws, administrative rules, board policy, and established procedures.~~

#### **Monitoring (Method, Responsibility, Frequency)**

- Internal Report

- Disclosure of compliance to the Board through periodic presentations by staff at Board meetings.

- ~~External Report~~
  - ~~Disclosure of compliance to the Board through annual audit and actuarial reports.~~

## 2. Level Income Option

### **(May be Removed Pending Legislation)**

It shall be the policy of the TFFR Board of Trustees to allow members who select the level income retirement option:

1. To level to age 62 or normal retirement age (including any fractional age from age 65 to 67).
2. To combine the level income option with the service retirement options offered (single life annuity, 100% and 50% joint and survivor, 10 and 20 year term certain and life annuity).
3. To reduce a member's retirement benefit the second month following the month the member reaches age 62 or normal retirement age.
4. To apply postretirement legislative benefit increases to the teacher's non-level income monthly retirement benefit.

## Section II Program Policies Section Exhibits

### Asset Allocation Definitions

#### Overview of Asset Class Definitions

**There are three major asset classes:**

1. **Equity**
2. **Debt**
3. **Real Assets** (or Other)

*Alternative Investments* are often cited as the fourth major asset class, but can frequently be re-classified into one of the other three categories with some exceptions (i.e. total return strategies using debt and equity).

**Equity investments represent an ownership claim on the residual assets of a company after paying off debt.**

Equities should be segregated into two major sectors, Public and Private, given major differences in liquidity:

1. Public equities are generally highly liquid and *valued on a daily basis* in the financial markets. Examples include common stock (Apple, Coca-Cola or McDonalds), options and futures.
2. Private equities are generally less liquid and often *valued on a less frequent basis*



(quarterly).

Public equity markets are often sub-classified by geographic region (U.S., International or Global), market capitalization (Large, Medium or Small), investment style (core, growth or value) and level of economic development (developed or emerging markets). The top U.S. and global equity benchmarks are discussed below.

**Five major U.S. equity benchmarks** include the **S&P 500**, **Russell 1000**, **2000** and **3000**, and **Dow Jones Industrial Average (“Dow”)**. The **S&P 500** is based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The **Russell 1000** represents the highest-ranking 1,000 stocks in the Russell 3000 Index, and represents about 90% of the total market capitalization of that index. The Russell 1000 has a weighted average market capitalization of over \$100 billion with a median of approximately \$8 billion. The **Russell 2000 Index** is a small-cap index and represents the bottom 2,000 stocks in the Russell 3000 Index. The Russell 2000 has a weighted average market capitalization of less than \$2 billion with a median of less than \$1 billion. The Russell 2000 is the most common benchmark for funds that identify themselves as “small-cap”, while the **S&P 500** index is used primarily for large capitalization stocks. The **Dow** is a price-weighted measure of 30 U.S. blue-chip companies. **The Dow** covers all industries with the exception of transportation and utilities, which are covered by the Dow Jones Transportation Average and Dow Jones Utility Average. While stock selection is not governed by quantitative rules, a stock typically is added to The Dow only if the company has an excellent reputation, demonstrates sustained growth and is of interest to a large number of investors. Maintaining adequate sector representation within the indices is also a consideration in the selection process.

**The MSCI All Country World Index (or “ACWI”)** measures the equity market performance of developed and emerging markets and consists of 47 country indexes comprising 23 developed and 24 emerging market country indexes. The ACWI includes approximately 2,500 large and mid-cap equity securities and covers 85% of the global investable market. The **MSCI ACWI Investible Market Index** (or “ACWI IMI”) captures large, mid and small cap securities across 23 developed and 24 emerging market countries with over 8,700 constituents and covering approximately 99% of the global investment opportunity set. The **MSCI EAFE Index (Europe, Australasia, Far East)** measures the equity market performance of the developed market countries, excluding the US & Canada. The **MSCI Emerging Markets Index** measures equity market performance of emerging markets and consists of 24 countries.

Public equity has historically provided **high investment returns with high volatility and high liquidity when compared to Bonds or Real Assets**. Most investment consultants believe that Private Equity can provide an even higher investment return than Public Equity, albeit with significant less liquidity and potentially higher volatility.

**Debt represents a legal obligation between a borrower and a lender for a stated period of time and rate.**

Debt or “Bonds” are classified as fixed or floating depending upon whether the interest rate is derived using a fixed rate (i.e. 5%) or a floating rate (i.e. Prime + 1.00%). Duration risk within fixed income is a major driver of investment risk and return particularly for longer term securities, including U.S. Treasury bonds.

Debt is often sub-classified into investment grade (rated BBB- or better) or non-investment grade (rated less than BBB- or non-rated) or by geographic region (U.S., International,



Developed Markets or Emerging Markets). Debt can be issued by governments, agencies or companies and represent general obligations of the issuer or be backed by a specified pool of assets (i.e. mortgage backed securities). Bonds serve to diversify a portfolio by offering **lower volatility** than equities along with a **lower expected return and generally high liquidity**. **Real Assets represent an ownership interest in physical assets** such as real estate, infrastructure (airports, electrical grids, energy pipelines, information technology data centers and systems, shipping ports, toll roads, and water supply and treatment facilities), timberland and certain commodities (gold, oil, wheat). Real assets are expected to provide inflation hedging characteristics in periods of unanticipated inflation and diversify a portfolio consisting of debt and equity.

**Alternative Investments** can include precious metals, art, antiques, and financial assets such as derivatives, commodities, private equity, distressed debt and hedge funds. Real estate, infrastructure and forestry/timber are also often termed alternative. Alternatives are sometimes used as a tool to reduce overall investment risk through diversification and may offer lower correlation with traditional financial investments such as stocks and bonds, although it may be difficult to determine the current market value of the asset, may be illiquid, purchase and sales costs may be high, and there may be limited historical risk and return data, all of which makes analysis complex.

## Asset Class Definitions

### Global Equity

#### Definition

Investment represents an ownership claim on the residual assets of a company after the discharge of all senior claims such as secured and unsecured debt.

### Public Equity

Public equity is traded on a national exchange. Includes common stock, preferred stock, convertible to stock, options, warrants, futures and other derivatives on equities or composites of equities, exchange-traded funds and equity-linked notes, units and partnership shares representing ownership interests in an underlying equity investment.

### Private Equity

Private equity represents equity or equity linked securities in operating companies that are not publicly traded on a stock exchange.

#### Types of investment strategies

- *Leveraged buyout (LBO)* – Acquisition of a company with the use of financial leverage
- *Growth capital* – Investment in mature companies looking for capital to expand, restructure, enter new markets
- *Venture capital* – Investment in typically less mature companies, for launch, early development, or expansion
- *Mezzanine* – Subordinated debt/preferred equity used to reduce amount of equity capital required to finance LBOs
- *Distressed* – Equity securities of financially stressed companies
- *Secondary* – Investment in existing private equity assets

#### Types of structures

- *Direct investment* – Direct purchase of equity securities of a private company
- *Co-investments* – Investments in equity securities of a private company alongside the manager of a direct fund
- *Direct fund* – Pool of capital formed to make direct investments
- *Fund-of-funds* – Pool of capital formed to make investments in direct funds

#### *Strategic Role*

- High long-term real returns
- Hedge against active (pre-retirement) liabilities
- Private equity enhances total portfolio return as a tradeoff for illiquidity

#### Characteristics

##### **Public Developed Markets**

- Relatively high returns (long-term) as compared to fixed income and real assets
- Relatively high volatility (standard deviation of returns) as compared to fixed income and real assets
- Relatively high liquidity
- Diversification
- Historically, public developed equities exhibit high correlation with private equity and high yield bonds, moderate correlation with investment grade corporate bonds and real assets, and negative correlation with sovereign debt.
- Currency adds to volatility but can be hedged, which mutes the diversification benefits

##### **Public Emerging Markets**

- Higher expected returns due to economic growth potential
- Liquidity risk is significant, particularly in frontier markets
- High volatility, particularly in frontier markets
- Historically, public emerging equities exhibit high correlation with high yield bonds, moderate correlation with investment grade corporate bonds and real assets, and negative correlation with sovereign debt.
- FX markets not sufficiently developed to hedge currency risk
- Limited access to markets
- Market information less abundant than for developed markets
- Counterparty risk and settlement delays pronounced in frontier markets

##### **Private Equity**

- Illiquid, long-term time horizon (7-12 year closed-end partnerships)
- Quality of the managers selected is the key determinant of success
- High volatility of returns compensated by higher expected returns
- Historically, public emerging equities exhibit high correlation with high yield bonds, moderate correlation with investment grade corporate bonds and real assets, and negative correlation with sovereign debt.
- Encompasses three stages: fundraising, portfolio construction and investment, exit and return realization

#### Risks

##### **Public Equity**

- *Absolute risk* – Possible magnitude of price decline

- *Liability hedging risk* – Risk that assets will not increase when liabilities increase
- *Regulatory risk* – Changes may adversely affect markets
- *Tax risk* – Changes may adversely affect markets
- *Liquidity risk* – Difficulty trading securities under adverse market conditions
- *Firm specific risk* – Unique risks associated with a specific firm
- *Tracking risk* – Magnitude of performance deterioration from a benchmark
- *Time horizon* – Horizon too short to weather cycles
- *Benchmark risk* – Benchmark not appropriate proxy
- *Market risks* – Price decline
- *Currency risk* – Unanticipated changes in exchange rate between two currencies
- *Counterparty risk* – Counterparty does not live up to its contractual obligations

### Private Equity

- *Liquidity risk* – Absence of liquidity and appropriate exits could significantly increase time horizon
- *Firm specific risk* – Unique risks associated with a specific firm
- *Leverage risk* – Historical excess use of leverage and current inability to secure financing may adversely affect LBOs
- *Manager selection risk* – Selecting managers that fail to deliver top performance results
- *Diversification risk* – Inability to properly diversify the portfolio by vintage year, industry groups, geography
- *Tax risk* – Changes may adversely affect markets
- *Regulatory risk* – Changes may adversely affect markets
- *Strategy risk* – Continuing applicability of investment strategy in context of capital flows
- *Market risks* – Price decline

### Global Fixed Income

#### Definition

Investment represents a legal obligation between a borrower and the lender with a maturity in excess of one year. Evidence of indebtedness and securities that evidence an ownership interest in debt obligations that are issued, insured, guaranteed by, or based on the credit of the following: companies, governmental entities or agencies, banks and insurance companies. Includes agency and non-agency mortgage-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, private placements, and options, futures or other derivatives on fixed income securities or components of fixed income.

#### Strategic Role

- Diversification within a multi-asset class, total return portfolio
- Hedge against a long duration accrued liability
- Current income
- Non-U.S. provides hedge against unanticipated domestic inflation and diversification to U.S. assets

#### Characteristics

- Medium volatility asset class
- Relatively high liquidity
- Broadly diversified by market sector, quality, and maturity

- Historically, developed sovereign debt exhibits low to negative correlation with real assets and negative correlation with equities; investment grade corporate bonds exhibit moderate correlation with equities and low correlation with real assets; high yield exhibits high correlation with equities and moderate correlation with real assets.
- A large currency component exists within international fixed income returns
- Developed markets are extremely liquid. Many issues of less developed markets are also relatively liquid.

#### Risks

- *Duration risk* – Price volatility from a change in overall interest rates
- *Convexity risk* – Negative convexity is the risk of price declines being greater than the price increase due to interest rates moving equally up versus down
- *Default or credit risk* – The uncertainty surrounding the borrower's ability to repay its obligations
- *Structure risk* – Risk that arises from the options implicit in bonds (like call ability and sinking funds) or the rules that govern cash flow differ from expectations
- *Sector risk* – Risk of holding sectors that are in different proportions than the benchmark
- *Liquidity risk* – Cost of trading in a security which is reflected in the bid-ask spread or the cost of selling due to cash flow needs
- *Reinvestment risk* – The uncertainty surrounding future yield opportunities to invest funds which come available due to call, maturities, or coupon payments
- *Benchmark risk* – Risk of the benchmark being inappropriate
- *Yield curve risk* – Price changes induced by changes in the slope of the yield curve
- *Currency risk* – The risk of currency movements vs. the dollar for each market. Currency may contribute greatly to return and lower correlation.

### Global Real Assets

#### Definition

Investment represents an ownership interest in real return assets that provide inflation hedging characteristics in periods of unanticipated inflation. Includes inflation-linked securities, private or public real estate equity or equity-linked investments, private or public real estate debt, infrastructure, timber, real asset mezzanine debt or equity, non-fixed assets and other opportunistic investments in real assets.

#### Strategic Role

- Reduces risk of composite multi-asset portfolios through diversification
- Relatively low correlations to traditional asset classes
- Can serve as a possible inflation hedge during periods of high inflation
- Provides an attractive return relative to fixed income asset class in periods of low to moderate inflation
- Infrastructure provides inflation protection as the revenues of the underlying assets are typically linked to CPI
- Potential for high returns in niche opportunities

#### Characteristics

##### Real Estate

- *Risk* – Volatility of private real estate falls between publicly-traded debt and publicly-traded equities

- *Returns* – Nominal returns are expected to fall between equities and fixed income
- *Correlation* – Expected to exhibit low to no correlation with government and investment grade corporate bonds, and moderate correlation with high yield and equities.
- *Illiquidity* – Transactions require a significantly longer period to execute than other asset classes
- *Inefficient Market* – Information affecting real estate asset valuation and market trading is not rapidly, accurately, or efficiently reflected or interpreted in its pricing

### Infrastructure

- *Long life assets* – Capital intensive assets with 25 to 99 year concessions, match for liability duration
- *Inflation protection* – Revenues typically linked to CPI
- *Monopoly or quasi monopoly* – High barriers to entry due to scale and capital cost
- *Steady and predictable cash flow* – Produce strong and predictable yields
- *Low correlation* – Provides portfolio diversification, low beta; expected to exhibit low to no correlation with fixed income and equities
- *Inelastic demand* – Predictable demand with little volatility, less susceptibility to economic downturns
- *Limited commodity risk* – Not subject to commodity pricing
- *Insensitive to changes in technology* – Low risk of redundancy or technology obsolescence
- Investments are usually illiquid and involve a long (10 to 20 year) holding period

### Timberland

- *Return* – Low correlation with other asset classes, returns stem from four distinct sources: biological growth, timber prices, land values and management strategy
- *Income* – Driven almost entirely by the sale of harvested mature trees
- *Correlation* – Expected to exhibit low to no correlation with government and investment grade corporate bonds, and moderate correlation with high yield and equities.
- *Appreciation* – Driven by increased volume and value on timber and appreciation of underlying land
- Categorized by type of land (e.g. plantation, natural forest), type of tree (e.g., hardwood, softwood), country and region

### Commodities

- *Real assets* – Raw materials that are the physical inputs of production, relatively homogenous in nature, lending itself to be traded via contracts with standardized terms
- *Inflation protection* – Storable commodities (such as energy) directly related to the intensity of economic activity exhibit positive correlation with unexpected inflation
- *Insurance risk premium* – Commodity futures prices tend to be priced at a discount to spot prices in order to induce speculators to bear volatile commodity price risk that inventory holders and producers wish to lay off
- *Positive event risk* – Surprises that occur in the commodities markets tend to be those that unexpectedly reduce the supply of the commodity to the market, resulting in price spikes
- *Negatively correlated with financial assets* – Unlike stocks and bonds, commodities are not as directly impacted by changes in discount rates as they are by the current supply and demand of the underlying commodity, thus they should be expected to have little or even negative correlation with capital assets.

## Risks

### Real Estate

- *Property type risks* – Negative changes in demand/supply conditions by property type (e.g., office, industrial, retail, lodging, mixed-use, multi-family)
- *Location risks* – Local market condition relative to the adverse changes surrounding a property, or in discovery of hazardous underlying conditions, such as toxic waste
- *Tenant credit risks* – Failure by a tenant to pay what is contractually owed
- *Physical/functional obsolescence* – Negative influences on buildings due to technological changes, outdated layout and design features, and physical depreciation
- *Interest rate risk* – Higher rates can negatively impact both sales strategies and leveraged properties at refinancing
- *Reinvestment risk* – In a declining rental rate market, cash flow received may not be reinvested at the same level
- *Business cycle risk* – As economies slow down, there may be less demand for space
- *Inflationary risk* – Rent levels may not always keep up with rising operating expense levels
- *Illiquidity* – Inability to effectively liquidate a property into cash
- *Natural disaster risk* – Weather, floods, earthquake
- Regulatory concerns are critical, especially in emerging markets
- Capital and managerial intensive

### Infrastructure

- *Leverage* – Deals with leverage between 40% and 80% can transform low risk assets into risky investments. Changes in the credit environment alter refinancing risk.
- *Market inefficiencies* – Competitive auctions lead to overpaying. There is a limited history and track record in the U.S. infrastructure space.
- *Political and headline risk* – Public acceptance and understanding of infrastructure needs to expand. In addition, the political landscape in every state and municipality differs.
- *Regulatory risk* – Regulated assets are subject to government changes
- *Construction and development* – Project overruns and delays should be shared with construction partners. Volume/demand risk for new developments can vary.
- *Labor issues* – Greenfield projects could generate new jobs while the privatization of brownfield assets could eliminate skilled labor members
- *Asset control* – Stipulations via concession agreements limit some management control (pricing, growth, decision approvals, etc.). Asset control needs to be appropriately priced.
- *Firm specific risk* – Unique risks are associated with specific firm

### Timberland

- *Liquidity risk* – Liquidity is thin, marketplace characterized by few buyers and sellers, transactions are complicated and can take many months to execute
- *Valuation risk* – Annual appraisal process can lead to disparities between carrying value and realized sales prices during downturns
- *Physical risk* – Subject to losses from natural and human-caused events such as fire, insect and vermin infestations, disease, inclement weather, and theft
- *Political and regulatory risk* – Environmental regulations can restrain or prohibit timberland management activities



- *Leverage* – Can amplify volatility and potentially lead to an inability to refinance properties or lead to a distressed sale, requires a minimum level of generated income
- *Location risks* – Real estate dispositions may also be impacted by weakness in local residential real estate markets

### Commodities

- *Price risk* – Commodities with difficult or non-existent storage situations (heating oil, live cattle, live hogs, copper) coupled with a long-lead time between the production decision and the actual production of the commodity can lead to very volatile spot prices
- *Negative futures roll* – When the future contract's price is at a premium to the spot price, the cost to roll contracts forward is negative: an investor continuously locks in losses from the futures contracts converging to a lower spot price
- *Regulatory risk* – Concerns about the role played by investors in commodity markets could lead to new regulations impacting available investment opportunities, ultimately affecting investors' "license to invest".
- *Leverage* – A commodity futures program that is not fully collateralized (for every desired \$1 in commodity futures exposure, an investor sets aside \$1 in cash) can amplify volatility and potentially lead to greater losses
- *Implementation* – Because futures contracts are levered, cash management for the collateral is an important consideration due to the value

### Global Alternatives

#### Definition

Investment has a distinct return/risk factor profile as compared to other specified broad asset class groupings. Examples: Low market exposure/absolute return strategies such as market neutral, and other niche strategies with low asset class beta such as insurance-linked investments, volatility, intellectual property, healthcare royalty, shipping, litigation finance and fine art.

#### Strategic Role

- More robust diversification achieved through the introduction of non-traditional return driver/risk factors
- Low or negative correlations to other asset classes
- Return profile less dependent on economic growth and interest rates
- Potential for attractive risk-adjusted returns

#### Characteristics

- *Returns* – Exhibits lower correlations to broader equity and credit markets in periods of market distress
- *Illiquidity* – Transactions may require a longer period to execute than other asset classes
- *Inefficient Market* – Information affecting asset valuation and market trading may not be accurately or efficiently reflected or interpreted in its pricing

#### Risks

- *Market risk* – Cost of carry on being long volatility
- *Natural disaster risk* – Weather, floods, earthquake affect natural catastrophe-based insurance-linked products
- *Due diligence* – Complicated to evaluate and monitor

- *Illiquidity* – Transactions may require a longer period to execute than other asset classes
- *Implementation* – Complexity of implementation may be an impediment

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