

Agenda

ND Teachers' Fund for Retirement Special Board Meeting

Friday, July 22, 2016 - 8:30 am
Bismarck State College
National Energy Center of Excellence
Energy Generation Conference Room, #335
1500 Edwards Avenue, Bismarck, ND

1. Attendance at ND State Investment Board Meeting to listen to Pension Plan Governance educational presentation by Jeanna Cullins, Aon Hewitt

Next Board Meeting: September 22, 2016

Any person who requires an auxiliary aid or service should contact the Deputy Executive Director of the Retirement and Investment Office at 701-328-9885 at least three (3) days before the scheduled meeting.

MEMORANDUM

TO: TFFR Board
FROM: Fay Kopp
DATE: July 18, 2016
SUBJ: SPECIAL Board Meeting

The TFFR Board has been invited to attend a presentation on board governance at the SIB meeting which will be held on Friday, July 22, 2016 at 8:30 a.m. at Bismarck State College (SIB agenda and meeting directions attached).

The guest presenter is Jeanna Cullins, Partner – Fiduciary Services Practice with Aon Hewitt Investment Consulting. She has been a leader in board governance practices for over 20 years (presentation and bio attached).

Please note there will be no TFFR business conducted at this meeting, but because there will be a quorum of TFFR board members in attendance, this will be posted as a Special TFFR board meeting.

BOARD INFORMATION ONLY.

Attachments:
SIB agenda
Directions to BSC
Board governance presentation
Jeanna Cullins bio



ND STATE INVESTMENT BOARD MEETING

Friday, July 22, 2016, 8:30 a.m.
Bismarck State College
National Energy Center of Excellence
Energy Generation Conference Room #335
1500 Edwards Avenue Bismarck, ND

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (May 27, 2016)

III. ELECTION OF OFFICERS 2016-17

- A. Chair
- B. Vice Chair
- C. Parliamentarian (Appointed by Chair)

IV. AUDIT COMMITTEE MEMBERSHIP 2016-17 (Board Acceptance) - Mr. Hunter (enclosed) (5 min)

V. GOVERNANCE

- A. Strategic Investment Beliefs - Mr. Hunter (enclosed) (10 minutes)
- B. Governance Education - Jeanna Cullins, Aon Hewitt (enclosed) (90 minutes)

===== Suggested Break from 10:15 to 10:30 am =====

- C. Board Education: Open Records - Ms. Janilyn Murtha (to follow) (45 minutes)
- D. Code of Conduct Affirmation - Mr. Schmidt (enclosed) (5 min) *Informational*
- E. Investment Manager Catalog - Mr. Schmidt (enclosed) (5 min) *Informational*
- F. 2016-17 Planning Cycle/Meeting Schedule - Mr. Hunter (enclosed) (5 min) *Informational*

VI. INVESTMENTS (30 minutes)

- A. PERS & Highway Patrol Investment Policy Statement - Mr. Hunter (enclosed) **Board Acceptance**
- B. Legacy Fund Investment Policy Statement - Mr. Hunter (enclosed) **Board Acceptance**
- C. Budget Stabilization Investment Policy Statement - Mr. Hunter (enclosed) **Board Acceptance**
- D. Private Equity, Fixed Income and Risk Update - Mr. Hunter (enclosed) *Informational*
- E. Litigation Update: GM and VW - Ms. Janilyn Murtha *Informational*
Possible Executive Session for Attorney Consultation Pursuant to 44-04-19.2 and 44-04-19.1(2) and (5)

VII. OTHER

Next Meetings: SIB - August 26, 2016, 8:30 am - State Capitol, Peace Garden Room
SIB Audit Committee - September 23, 2016, 1:00 pm - State Capitol, Peace Garden Room

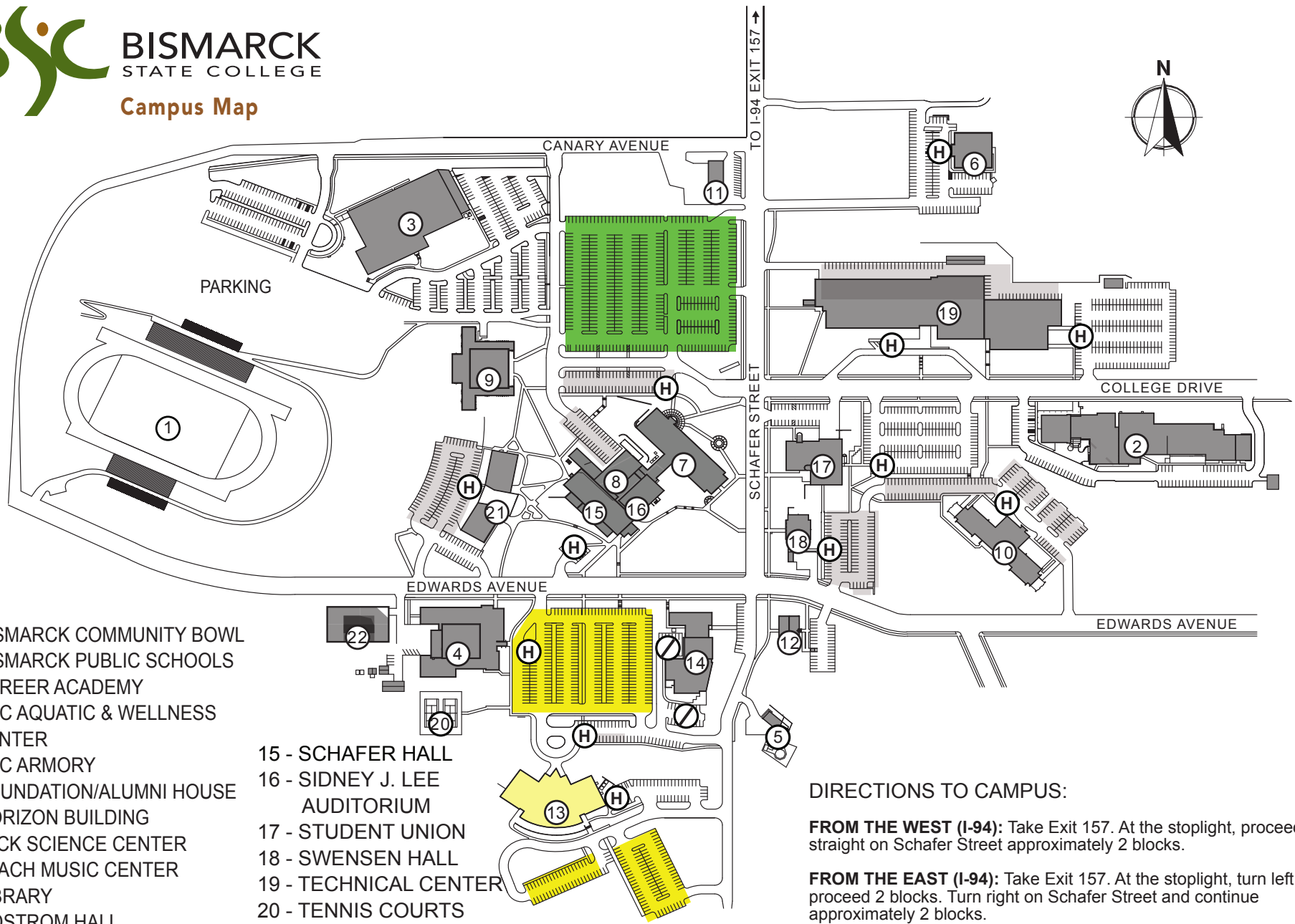
VIII. ADJOURNMENT

Note: The meeting is scheduled to adjourn at approximately 12:00 pm CT.

**SPECIAL TFFR BOARD MEETING
FRIDAY - JULY 22, 2016
8:30 A.M.**






**National Energy Center of Excellence
Energy Generation Conference Room #335**

Parking is available on the north side of the building. Entrance to the building is on 3rd floor where the conference room is located. The conference room is past the reception desk and auditorium.



- 1 - BISMARCK COMMUNITY BOWL
- 2 - BISMARCK PUBLIC SCHOOLS CAREER ACADEMY
- 3 - BSC AQUATIC & WELLNESS CENTER
- 4 - BSC ARMORY
- 5 - FOUNDATION/ALUMNI HOUSE
- 6 - HORIZON BUILDING
- 7 - JACK SCIENCE CENTER
- 8 - LEACH MUSIC CENTER
- 9 - LIBRARY
- 10 - LIDSTROM HALL
- 11 - MEADOWLARK BUILDING
- 12 - MYSTIC HALL
- 13 - NATIONAL ENERGY CENTER OF EXCELLENCE
- 14 - ND LAW ENFORCEMENT TRAINING ACADEMY

- 15 - SCHAFER HALL
- 16 - SIDNEY J. LEE AUDITORIUM
- 17 - STUDENT UNION
- 18 - SWENSEN HALL
- 19 - TECHNICAL CENTER
- 20 - TENNIS COURTS
- 21 - WERNER HALL
- 22 - ROBERT A. KUNTZ PHYSICAL PLANT

-  - ACCESSIBLE PARKING
-  - PERMIT-ONLY PARKING
-  - NO BSC PARKING
-  - PRIMARY PARKING
-  - SECONDARY PARKING

DIRECTIONS TO CAMPUS:

FROM THE WEST (I-94): Take Exit 157. At the stoplight, proceed straight on Schaffer Street approximately 2 blocks.

FROM THE EAST (I-94): Take Exit 157. At the stoplight, turn left, proceed 2 blocks. Turn right on Schaffer Street and continue approximately 2 blocks.

FROM THE NORTH (HWY 83): Turn right (west) on I-94 (Exit 159) and proceed to Exit 157. Take Exit 157. At the stoplight turn left, proceed 2 blocks. Turn right on Schaffer Street and continue approximately 2 blocks.

FROM THE SOUTH (HWY 83): Turn left (west) on I-94 (Exit 182) proceed to Exit 157. Take Exit 157. At the stoplight turn left, proceed 2 blocks. Turn right on Schaffer Street and continue approximately 2 blocks.



Board Governance Session

North Dakota State Investment Board

Friday, July 22, 2016

Presented by: Jeanna M. Cullins, Partner – Fiduciary Services Practice

Prepared by Aon Hewitt Investment Consulting

Retirement and Investment

North Dakota State Investment Board, July 22, 2016



Agenda

1 What is Governance

2 Common Board Governance Models

3 Discussion: Current Governance Model in Light of Other Models



What Is Governance?

What is Governance?

- Governance is the structure, manner, and process -- the framework - by which an organization exercises authority or control -- the process of decision-making and the process by which decisions are implemented (or not implemented)
 - Good governance begins with a **clear** understanding of fiduciary duty
 - Unless **all** involved share the **same** understanding, governance problems could arise
 - Good governance practices institutionalize behavior and facilitate the ability to meet fiduciary standards
 - Poor governance practices introduce risk and can leave an organization open to criticism

What are Some Essential Elements of “Good” Governance?

- Accountability
- Transparency
- Accurate documentation
- Adherence to rules (applicable law(s) and policies)
- Effectiveness and efficiency
- A participatory process (Inclusiveness)
- Consensus oriented
- Fairness
- Responsiveness (designed to serve best interest of beneficiaries and participants)

What are Some Characteristics of “Poor” Governance?

- Lack of transparency and accountability
 - Inadequate reporting and oversight
 - Roles are not properly defined and understood
- Poor documentation
- Inconsistent decision-making
- High tolerance for conflicts
- Micromanagement
- No strategic plan/direction

Why is Good Governance Important?

- Good governance helps boards to meet their fiduciary responsibilities
- Good governance helps to prevent fiduciary breaches and minimize risk
- Good governance fosters stakeholder confidence
- Good governance adds tangible value*
 - Studies show that good governance is associated with increased returns

* “Good Governance Adds Value”, a study published by Rotman International Journal of Pension Management, found that better governed pension funds outperformed poorly governed funds by 2.4% per annum during the 4-year period ending 12/2003. A similar study for the period 1993-1996 found a 1% annual good governance performance dividend. Capelle, Ronald, Lunn, Hubert and Ambachtsheer, Keith, “The Pension Governance Deficit: Still with Us” (October, 2008), Rotman International Journal of Pension management, Vol. 1, 2008, at SSRN: <http://ssrn.com/abstract=1280907>.

Why is Good Governance Important?

“Good governance helps to ensure better organizational performance, fewer conflicts of interest, higher probability that goals and objectives will be attained, and less opportunity for misuse of corporate or fund assets.”

*The Stanford Institutional Investors' Forum
Peter Clapman, Chair, May 31, 2007*



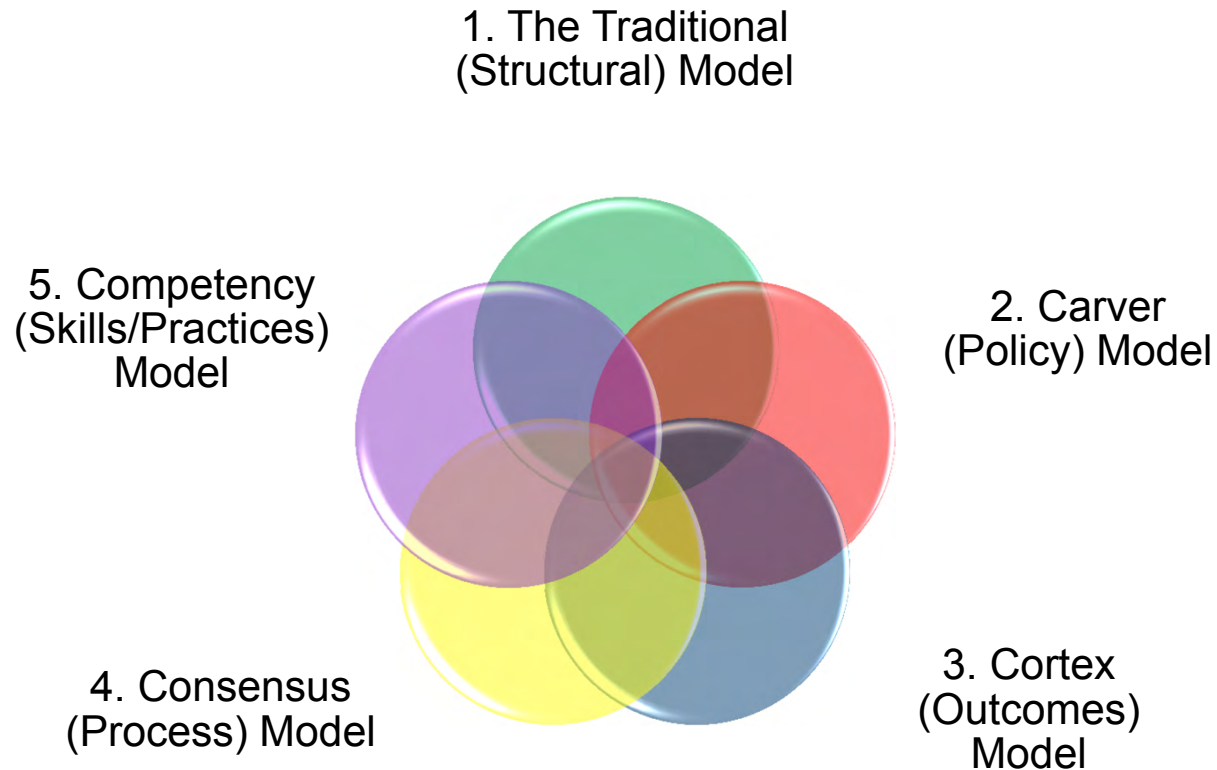


Common Board Governance Models

How is Governance Determined in the Public Fund Environment?

- The basic legal tenets of governance are typically defined in a statewide public fund's governing statutes, including:
 - Board size;
 - Composition;
 - Required qualifications and experience;
 - Degree of authority regarding budget, personnel and procurement matters;
 - Key responsibilities;
 - Accountability;
 - Reporting requirements; and
 - High level meeting protocols such as open meetings applicability and meeting frequency, among others
- The degree of statutory detail varies from state to state; boards typically address gaps through policy and/or regulations
- The method by which a board chooses to govern is generally a policy decision

Five Common Governance Models



In practice, many boards adopt a combination of these models, in a mix that is appropriate to the unique culture and features of their organization and board composition.

1. The Traditional (Structural) Model

- Description

- Oldest Model
- Board is legal ownership entity
- Evolved to limit the liabilities of corporations and directors
- Often large in size

- Primary Features

- Assists organizations with defining board structure (i.e., decision-making process, meeting structure, governance structure are put into bylaws or an approved policy)
- The board only speaks as a board with one voice
- The board Chair is usually the official “voice” of the board and speaks only as authorized by the board
- Defines the delegation of responsibilities from the board to: the Executive Director and and/or the board Committees

1. The Traditional (Structural) Model cont'd

- Common Challenges
 - Silent on the accountability mechanisms and expectations for reporting back when the board delegates powers
 - Creation of operating committees of management/staff by the Executive Director that interface with board committees with similar sounding responsibility may lead to confused staff and board members crossing the boundary between governance and operational management
 - Board representing constituents as opposed to abiding by its legal fiduciary duty to avoid conflicts of interest, focus on the whole, and be consensus driven

- Where this governance model can be observed in practice
 - Corporations and law firms
 - Charitable organizations and non-profits
 - State-owned enterprises, including a number of large public retirement systems

2. The Carver (Policy) Model

- Description

- Board’s main role is to create policy to guide management in its operational work, and to guide the board in its governance work
- Board’s focus is on defining the “**ends**” of the organization

- Primary Features

- Board’s policies define what the Executive Director is not allowed to do, the “**limits**” to his/her decision-making, and the parameters within which he/she must operate
- As long as the Executive Director does not violate the parameters, he/she has broad discretion
- All board members are equally accountable for the decision-making of the board; the board should function as much as possible as a “board of the whole”, and reduce and/or eliminate board committees

2. Carver (Policy) Model cont'd

- Common Challenges

- If a board is overly focused on policy-development and refinement, it can reduce the time available for other board actions and responsibilities
- Does not assist the board in establishing clear, strategic/annual expectations or outcomes / measures of success; a board needs to supplement this approach with the development and approval of a strategic plan, annual business plan, and budget process

- Where this governance model can be observed in practice

- Non-profits
- Some large public retirement system and public fund investment boards, like the North Dakota State Investment Board

3. Cortex (Outcomes) Model

- Description

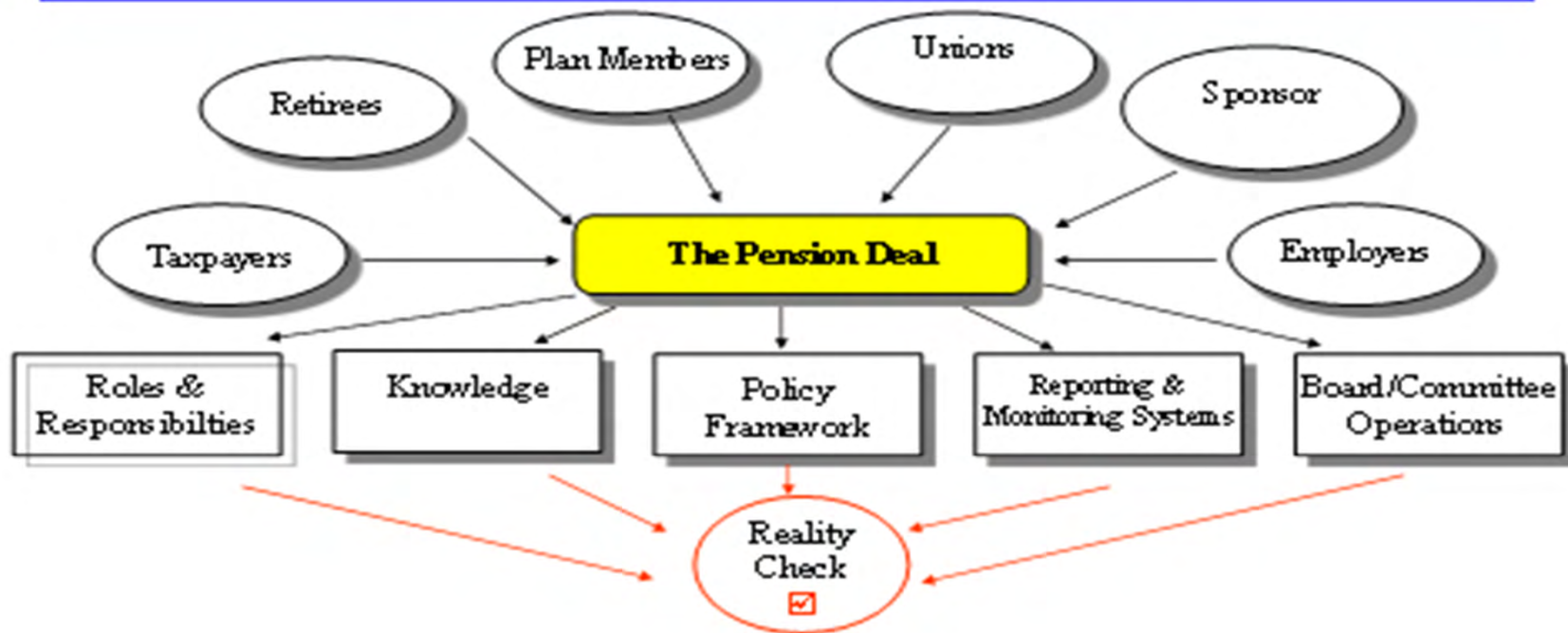
- Focus of board is on its: stakeholders, the Pension Deal, internal board governance structure, and periodically engaging in a “reality check”
- Defines the standards, expectations and performance outcomes to which the organization aspires

- Primary Features

- Board clarifies and sets the outcomes measures of success
- Board creates an accountability framework around the outcomes measures, and identifies who is responsible for leading/taking action in each area (i.e. board, CEO, staff, or even a third party)
- Board ensures the capacity of resources exists in each group, and a mechanism for each group to report-back to the board on its progress

Primary Feature of the Cortex Model

Cortex Governance Model



Prepared by [CORTEX](#)

3. Cortex (Outcomes) Model cont'd

- Challenges (Common)
 - Board's ability to understand the "pension deal" well enough to clearly articulate success measures; must rely on management to do much of the research and develop draft performance statements
 - Ensuring the governance structure is clearly defined
 - Having current mechanisms or reporting structures in place to measure performance against the approved outcomes
 - Having the necessary autonomy to carry out its mission

- Where this governance model can be observed in practice
 - Public Funds
 - Useful in establishing a framework for assessing performance of a board/board committees, CEO and/or staff
 - Beneficial in helping organizations become more transparent and accountable

4. Consensus (Process) Model

■ Description

- The model addresses how decision-making is achieved by the board and how issues will be discussed, different experiences and insights contributed; differences of opinion or concerns will be handled; agreement is reached and timeliness and agenda management is handled
- It supports contribution from all board members, and expects others to listen, respect, and consider their colleagues' input

■ Primary Features

- This model is anchored by the understanding that all board members are equal – with an equal vote, equal responsibility, equal liability for decision-making, and equal accountability for the actions of the organization/board
- Board members have different areas of expertise, knowledge and wisdom to bring to the table

4. Consensus (Process) Model cont'd

- Challenges (Common)
 - Characteristics of model can slow the proceedings of a board
 - Due to the focus of the model on the way decision-making is made within the board, the board will have to develop policy or by-laws to convey its important processes, and then add attention to strategy, planning, reporting on operational issues, etc. in addition to the decision-making framework

- Where this governance model can be observed in practice
 - This model is valuable for the not-for-profit sector, family-owned businesses, as well as widely held corporations with no majority shareholder

5. Competency (Skills/Practices) Model

■ Description

- A developmental model
- Defines the style of behavior and frequency/or level of engagement for board members in their work

■ Primary Features

- Ensures all members of the board have the appropriate knowledge, skills and attitudes to be a good board member
- Addresses board as a team – communications, trust, relationships etc.
- Seeks to continuously improve the performance of the board over time
- Prescribes behavior expectations through the implementation of board assessments (either external or self-driven) and ensures they have a common context for their work together
- Assist new board members by giving them a picture of the practices they should strive to adopt; and if combined with some mentorship from more experienced board members, can bring new members up to speed fairly quickly to more fully discharge their fiduciary, trusteeship, community interface and other duties

5. Competency (Skills/Practices) Model cont'd

- Challenges (Common)
 - Model doesn't drive policy creation, establishment of strategy, or monitoring of practice per se and doesn't prescribe them through legal structure

- Where you would typically see this model
 - Strong model for recruiting and developing board members



Discussion: Current Governance Model in Light of Other Models

Open Discussion/Questions for Consideration: Pros and Potential Cons

- 1) How would the Board best describe its current governance model? Is it pure Carver, or does it reflect a blend of several models?
- 2) Is the Board still satisfied with its current approach to governance?
 - a) What aspects are working well?
 - b) In what areas might there be room for enhancement?
- 3) Are there elements of the other models that are attractive to the Board, and would be beneficial to explore further?
- 4) Next steps?

Presenter Biography



Jeanna Cullins, JD
Partner
Fiduciary Services
Practice Leader

- Works with a wide array of institutional investor clients with a primary focus in the areas of fiduciary and management reviews, policy development, compliance, strategic planning, trustee education, and other board and plan governance matters
- Has worked with over 50 public fund boards, corporate pension funds, endowments and foundations to enhance their governance and management processes
- Served as the Executive Director and General Counsel for a public retirement board
- Over 30 years of industry experience
- Holds a BA, cum laude, from Brooklyn College, City University of New York; and a J.D. from Georgetown University Law Center
- Licensed to practice law in Washington, D.C.
- NACD Member

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