

**Investment Committee**  
**Friday, May 10, 2024, 9:00 a.m.**

**Virtual Only**

[Click here to join the meeting](#)

**AGENDA**

- I. **CALL TO ORDER AND ACCEPTANCE OF AGENDA – (Committee Action)**
- II. **ACCEPTANCE OF MINUTES (APRIL 12, 2024) – (Committee Action)**
- III. **STRATEGY REVIEW (45 MINUTES)**
  - A. Market Risk Dashboard – (Information) – Mr. Vaidya, Mr. Yu
  - B. Internal IT Strategy Update<sup>1</sup> – (Committee Action) – Mr. Anderson, Mr. Vaidya
- (Break)
- IV. **BENCHMARK IMPLEMENTATION UPDATE (15 MINUTES) – (Information)**
  - A. Public Markets – Mr. Posch
  - B. Private Markets – Mr. Moss, Mr. Zietlow
- V. **BROKER/DEALER ARRANGEMENTS<sup>2</sup> (15 MINUTES) – (Committee Action) – Mr. Anderson**
- VI. **NEW CLIENT FUNDS (15 MINUTES) – (Committee Action)**
  - A. Investment Policy Statement Review – Mr. Anderson, Mr. Skor
- VII. **MANAGER RECOMMENDATION<sup>3</sup> (30 minutes) – (Committee Action)**
  - A. Private Markets – Mr. Moss, Mr. Zietlow
- VIII. **MANAGER UPDATES (15 MINUTES) – (Information)**
  - A. Public Markets – Mr. Posch
  - B. Private Markets – Mr. Zietlow
- IX. **COMMITTEE MEETING SCHEDULE - FY2025 (5 minutes) – (Committee Action) – Mr. Anderson**
- X. **DISCUSSION**
- XI. **ADJOURNMENT**

<sup>1</sup> Executive Session pursuant to N.D.C.C. 44-04-18.4(6)(a), N.D.C.C. 44-04-19.1(9), and N.D.C.C. 44-04-19.2(1) to discuss exempt procurement information during a competitive bidding process.

<sup>2</sup> Executive Session pursuant to N.D.C.C. 44-04-19.1(9) and N.D.C.C. 44-04-19.2(1) to discuss negotiating strategy.

<sup>3</sup> Executive Session pursuant to N.D.C.C. 44-04-19.2, 44-04-18.4 (2)(a) and N.D.C.C. 44-04-18.4(2)(d) to review and discuss confidential commercial information and trade secrets.

**STATE INVESTMENT BOARD  
INVESTMENT COMMITTEE MEETING  
MINUTES OF THE  
APRIL 12, 2024, MEETING**

**MEMBERS PRESENT:** Thomas Beadle, State Treasurer, Chair  
Joseph Heringer, Trust Lands Commissioner, Vice Chair  
Scott Anderson, Chief Investment Officer  
Eric Chin, Deputy Chief Investment Officer  
Dr. Prodosh Simlai, External Representative  
Dr. Ruilin Tian, External Representative

**STAFF PRESENT:** Derek Dukart, Investment Officer  
Jennifer Ferderer, Fiscal Investment Admin  
George Moss, Senior Investment Officer  
Jan Murtha, Executive Director  
Matt Posch, Senior Investment Officer  
Emmalee Riegler, Procurement/Records Mgmt. Coordinator  
Chad Roberts, Deputy Executive Director/Chief Retirement Officer  
Ryan Skor, Chief Financial Officer/Chief Operating Officer  
Jason Yu, Risk Officer  
Lance Zietlow, Senior Investment Officer

**GUESTS:** Alexander Browning, Callan  
Jay Kloepfer, Callan  
Members of the public

**CALL TO ORDER:**

Treasurer Beadle called the State Investment Board (SIB) Investment Committee (IC) meeting to order at 1:05 p.m. on Friday, April 12, 2024. The meeting was held virtually.

The following Investment Committee members were present representing a quorum, Mr. Anderson, Treasurer Beadle, Mr. Chin, Commissioner Heringer, Dr. Simlai, and Dr. Tian.

**AGENDA:**

The agenda was considered for the April 12, 2024 meeting.

**IT WAS MOVED BY MR. ANDERSON AND SECONDED BY DR. TIAN AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE APRIL 12, 2024, MEETING AS DISTRIBUTED.**

**AYES: MR. ANDERSON, MR. CHIN, COMMISSIONER HERINGER, DR. SIMLAI, DR. TIAN, AND TREASURER BEADLE**

**NAYS: NONE**

**MOTION CARRIED**

**MINUTES:**

The minutes were considered for the March 15, 2024, meeting.

**IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY DR. TIAN AND CARRIED BY A VOICE VOTE TO APPROVE THE MINUTES FOR THE MARCH 15, 2024, MEETINGS AS DISTRIBUTED.**

**AYES: MR. ANDERSON, MR. CHIN, COMMISSIONER HERINGER, DR. SIMLAI, DR. TIAN, AND TREASURER BEADLE**

**NAYS: NONE**

**MOTION CARRIED**

### **ASSET ALLOCATION EXPECTATIONS UPDATE**

Mr. Browning and Mr. Kloepfler of Callan presented an asset allocation expectations update. Mr. Kloepfler noted current market conditions, capital market projections, fixed income return projections, and equity forecasts. Mr. Kloepfler presented North Dakota Investment Trust Projections for PERS, TFFR, Legacy Fund, and Insurance. Committee discussion followed.

The Committee recessed at 2:24 p.m. and reconvened at 2:32 p.m.

### **INVESTMENT STRATEGY REVIEW**

Mr. Anderson provided information on the market, including benchmark indices and inflation expectations. A detailed review of the investment performance was provided, and included performance for PERS, TFFR, the Legacy Fund, and WSI. Mr. Anderson discussed the agency's roadmap for success and near-term timeline of activities and provided an update on the Internal Investment Management Initiative. Committee discussion followed.

### **MANAGER RECOMMENDATION**

Mr. Moss and Mr. Zietlow presented the committee with a manager recommendation. The update was received in executive session.

**IT WAS MOVED BY MR. CHIN AND SECONDED BY DR. TIAN AND CARRIED BY A ROLL CALL VOTE TO ENTER INTO EXECUTIVE SESSION PURSUANT TO N.D.C.C. 44-04-19.2, 44-04-18.4 (2)(a) AND N.D.C.C. 44-04-18.4(2)(d) TO REVIEW AND DISCUSS CONFIDENTIAL COMMERCIAL INFORMATION AND TRADE SECRETS.**

**AYES: MR. ANDERSON, DR. TIAN, MR. CHIN, COMMISSIONER HERINGER, DR. SIMLAI, AND TREASURER BEADLE**

**NAYS: NONE**

**MOTION CARRIED**

The executive session began at 3:11 p.m. and ended at 3:47 p.m. The session was attended by Committee members, Mr. Dukart, Ms. Ferderer, Mr. Moss, Ms. Murtha, Mr. Posch, Mr. Skor, Mr. Yu, and Mr. Zietlow

**IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY MR. CHIN AND CARRIED BY A ROLL CALL VOTE TO APPROVE STAFF RECOMMENDATIONS TO THE ADJUSTMENTS TO THE PRIVATE MARKET MANAGERS, PENDING LEGAL REVIEW AND DIRECT THE STAFF TO REPORT BACK AT A FUTURE COMMITTEE MEETING.**

**AYES: MR. CHIN, MR. ANDERSON, COMMISSIONER HERINGER, DR. TIAN, AND TREASURER BEADLE**

**ABSTAINED: DR. SIMLAI**

**NAYS: NONE**

**MOTION CARRIED**

### **MANAGER UPDATES**

Mr. Chin provided the committee with a verbal announcement that PineBridge, one of the newly approved high yield mandate managers, has been contracted and is on track for funding. The committee can expect an update for the second high yield manager at the next meeting.

**LEGACY FUND IN-STATE STRATEGY**

Mr. Moss and Mr. Zietlow presented a legacy fund in-state strategy, providing details on commitment pacing analysis, addressable markets, representative managers, example projects, and a representative timeline. The strategy was approved by the investment committee.

**IT WAS MOVED BY MR. CHIN AND SECONDED BY COMMISSIONER HERINGER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE STAFF MOVING FORWARD WITH RVK FOR THE DEVELOPMENT OF THE SCOPE OF WORK.**

**AYES: COMMISSIONER HERINGER, MR. ANDERSON, MR. CHIN, DR. TIAN, AND  
TREASURER BEADLE**

**ABSENT: DR. SIMLAI**

**NAYS: NONE**

**MOTION CARRIED**

**DISCUSSION**

Mr. Anderson provided the committee with plans of reaching out to legal counsel to start discussions of procuring a futures commission merchant.

**ADJOURNMENT**

With no further business to come before the Investment Committee, Treasurer Beadle adjourned the meeting at 4:09 p.m.

Prepared by:

Jennifer Ferderer, Assistant to the Board



# RISK ALLOCATION AND MANAGEMENT

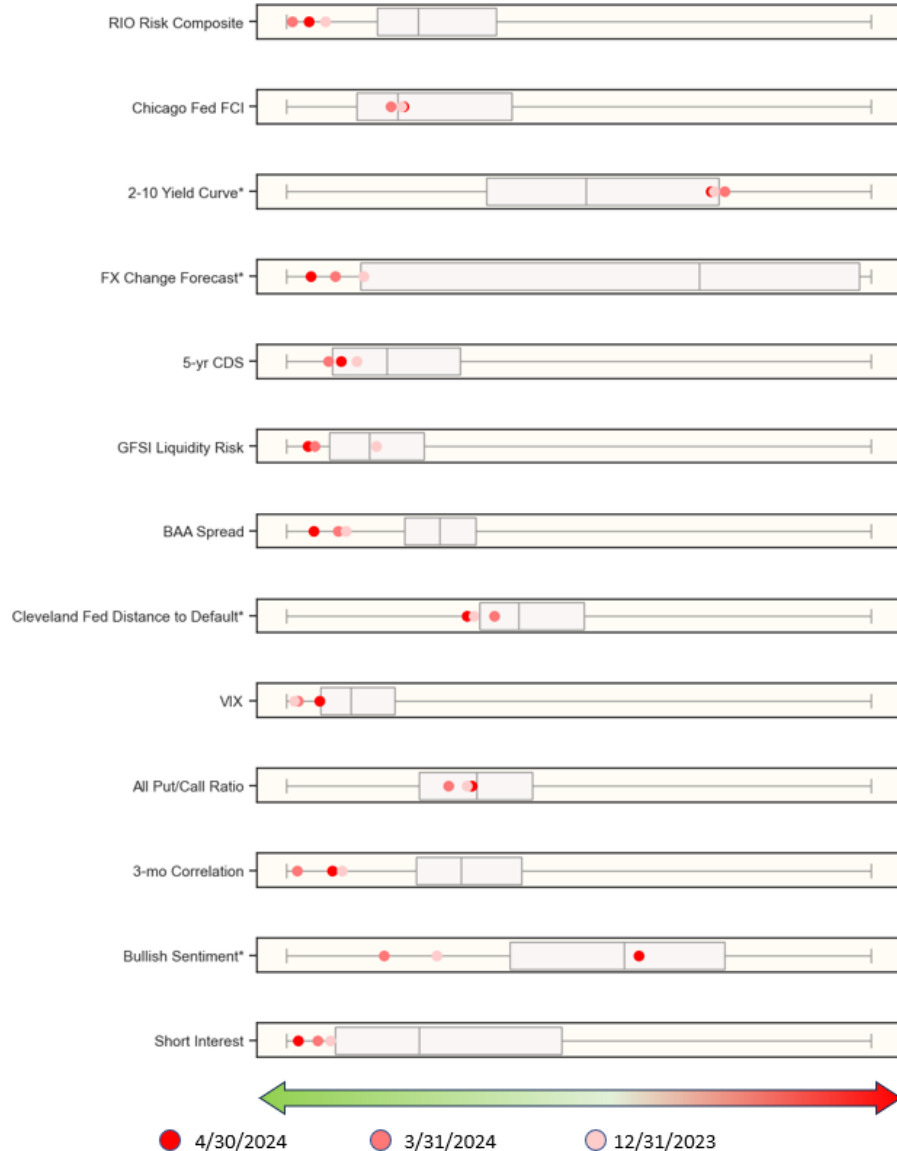
## MARKET RISK DASHBOARD

Risk Allocation and Management Team  
May 10, 2024

NORTH  
**Dakota**  
Be Legendary.

Retirement & Investment

- Purpose is to develop a simple visual summary of market perception of risks that would help guide our asset allocation decisions and also provide clarity on market risk perspective to the stakeholders.
- The risk dashboard consists of a set of indicators which include the following:
  - Macro-Economic indicators
  - Systemic Financial Risk indicators
  - Capital Market Dynamics indicators
  - Sentiment indicators
- To provide greater transparency into the metrics the one-page is additionally followed by time series charts, including a frequency distribution, on each of these metrics.
- We have also created a composite risk indicator whose oscillations provide a measure of aggregate risk perception relative to normal.
- We intend for this to become a part of our regular engagement with the Investment Committee.



## RIO Risk Composite

### Macro-Economic indicators

- Chicago Fed Financial Conditions Index
- 2-10 Yield Curve
- FX Change Forecast

### Systemic Financial Risk indicators

- 5-yr Credit Default Swaps
- Bank of America GFSI Liquidity Risk
- BAA 10-yr Spread
- Cleveland Fed Average Distance to Default

### Capital Market Dynamics indicators

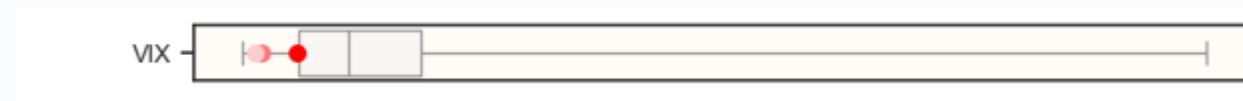
- CBOE VIX (Volatility) Index
- US Composite Put/Call Ratio
- CBOE 3-mo Correlation

### Sentiment indicators

- AAll Bullish Sentiment
- High Short Interest Basket Performance

## DASHBOARD EXPLANATION

- Data for each indicator is sourced from Bloomberg using available indices.
- Each indicator is visually normalized and represents the 5-yr range for the indicator. For each bar, left hand side indicates low risk perception while the right hand side indicates a high risk perception. However, the scale for each bar is different.



- The grey rectangle inside each bar indicates the 25<sup>th</sup> to 75<sup>th</sup> percentile range; i.e. the range within which the metric commonly lies. It also shows a median value for the metric.
- Three values for each metric are shown on the bar to indicate how the metric has changed over time.

● 4/30/2024      ● 3/31/2024      ● 12/31/2023

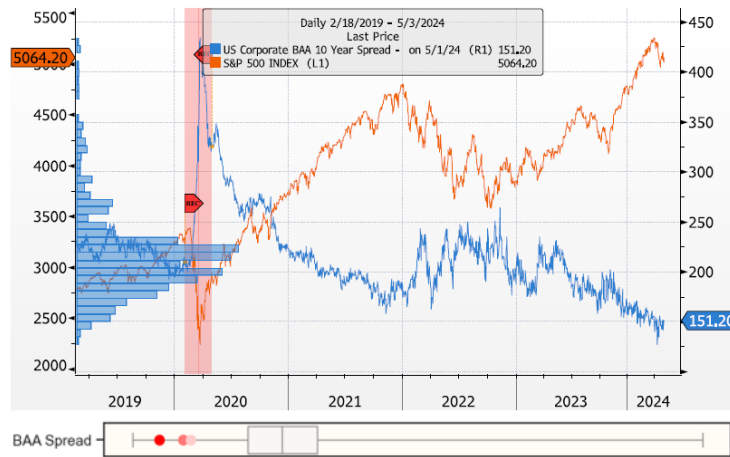
- The supporting charts depict time series of raw observations for each metric.



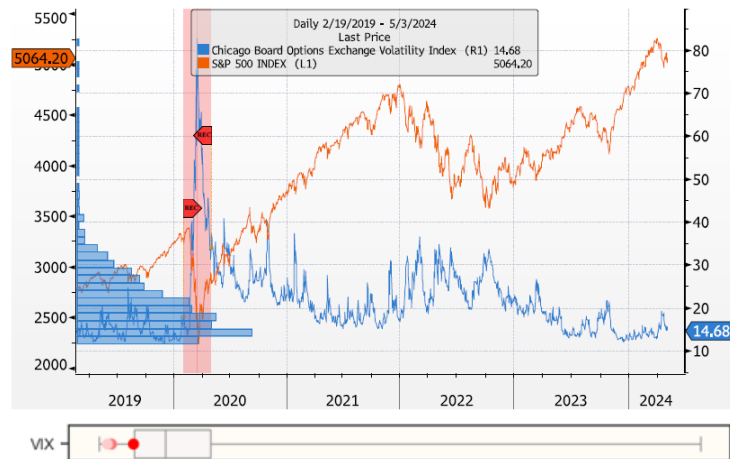
# MARKET RISK DASHBOARD

## Risk Indicator Details: Time Series Charts Explanation

### BAA 10-yr Spread



### CBOE VIX (Volatility) Index



- Each of the charts depicts a 5-yr time series of the underlying raw data for that indicator.
- Each chart shows S&P 500 performance (in amber) for the previous five years (using left-axis) along with the value of the risk indicator (in blue) over the same period.
- Additionally, a histogram shows the frequency distribution over time of the risk indicator. Most indicators are not normally distributed.
- For example, in the top left chart, low credit spread suggests credit risk is perceived to be low.
- Similarly, low levels of VIX index in the bottom left chart suggests market discounting a low risk.

# MARKET RISK DASHBOARD

## Risk Indicator Details: Macro-Economic Indicators

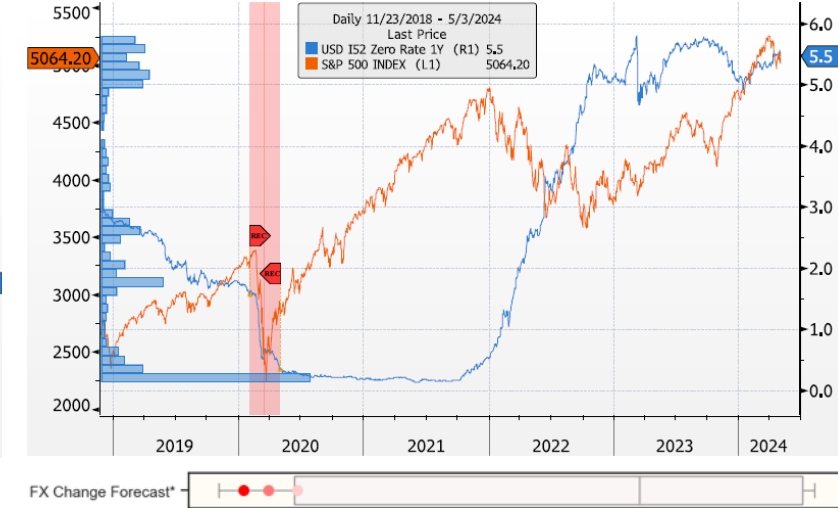
### Chicago Fed Financial Conditions Index



### 2-10 Yield Curve



### FX Change Forecast

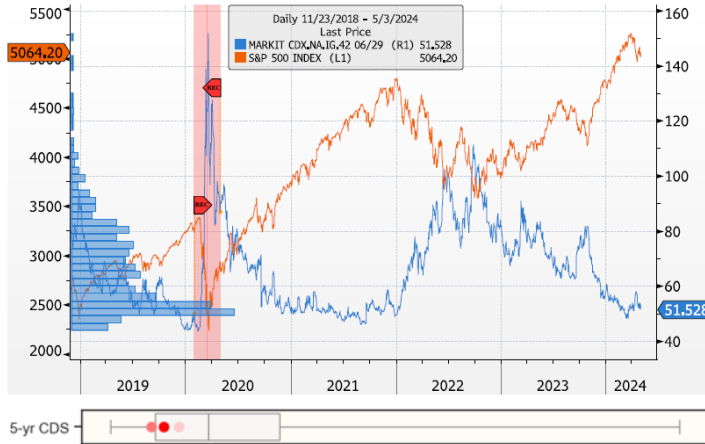


- Financial Conditions have plateaued after improving for several quarters.
- Yield curve steepening has stalled as odds of Fed rate cuts have diminished this quarter and it remains inverted.
- Dollar is expected to continue to strengthen.
- Together, these indicate benign perception of the macro-economic environment.

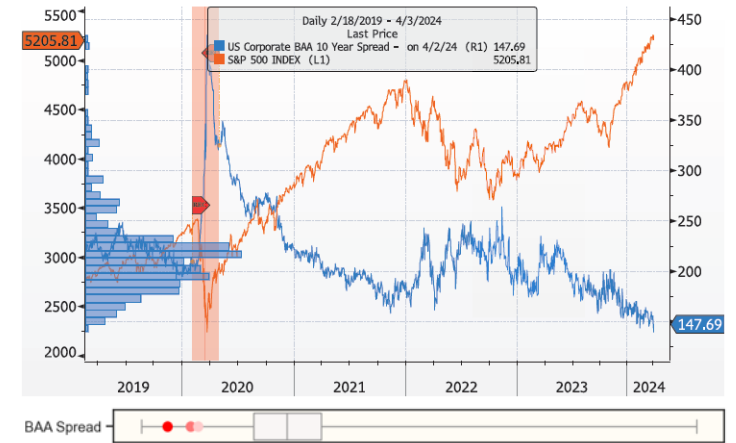
# MARKET RISK DASHBOARD

## Risk Indicator Details: Systemic Financial Risk Indicators

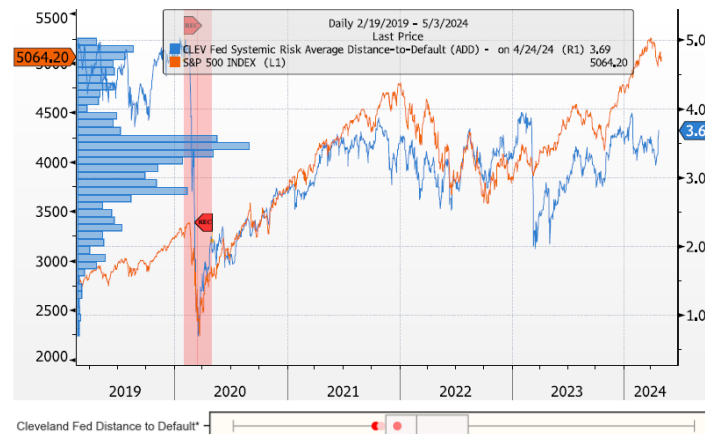
### 5-yr Credit Default Swaps



### BAA 10-yr Spread



### Cleveland Fed Avg Distance to Default



### BofA GFSI Liquidity Risk

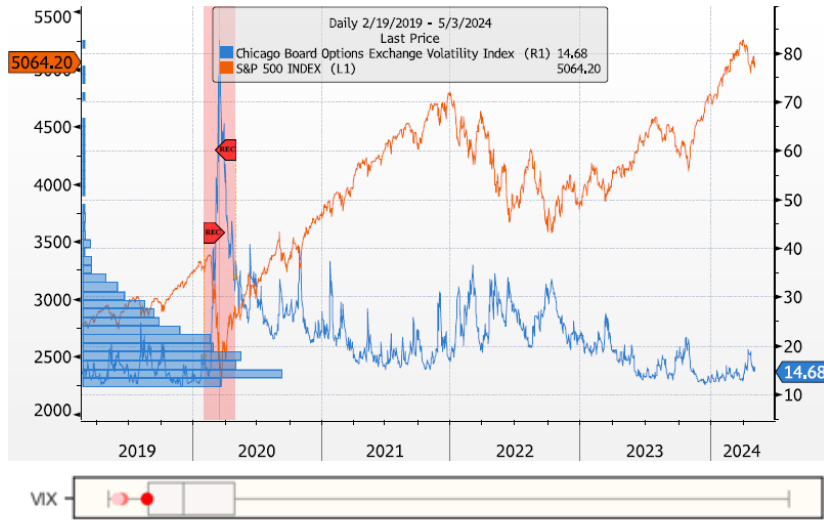


- Current state of systemic financial risk indicators is benign.
- System Financial Risk Indicators are at low to mild levels.
- Cheap credit default swaps, narrow credit spreads, level of liquidity risk.
- Range-bound average distance to default.

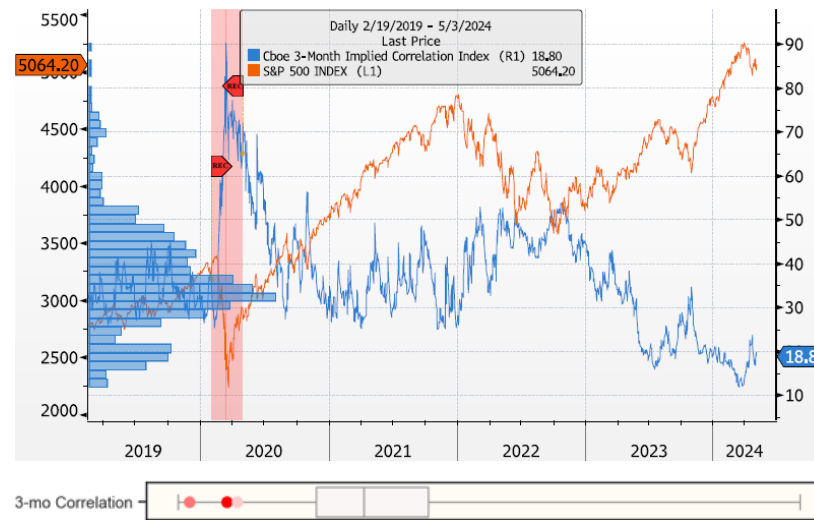
# MARKET RISK DASHBOARD

## Risk Indicator Details: Capital Market Dynamics Indicators

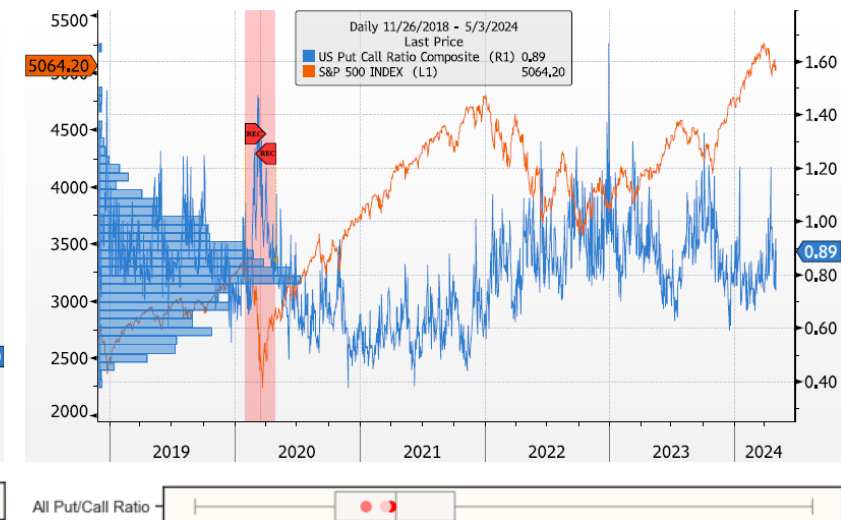
### CBOE VIX (Volatility) Index



### CBOE 3-mo Implied Correlation Index



### US Put Call Ratio Composite

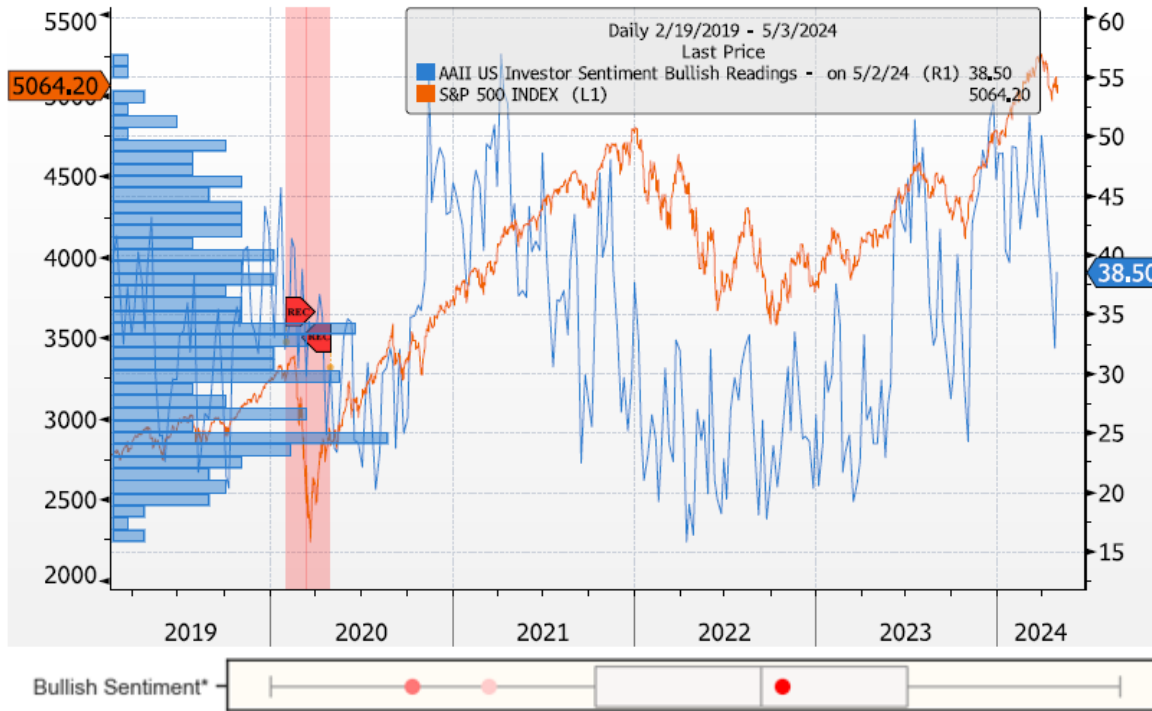


- VIX index at historically low levels.
- Security correlations are also at historically low levels.
- Put call ratio is within the market range.
- Together, capital market dynamics indicators are showing a low perception of risk.

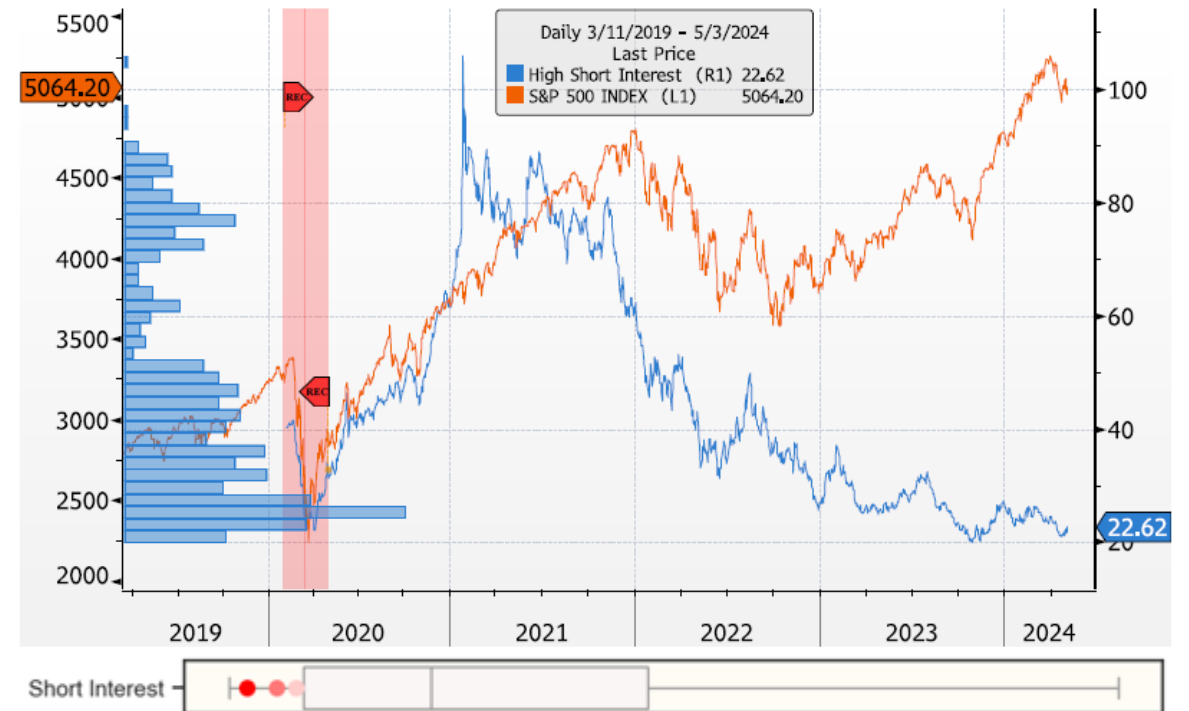
# MARKET RISK DASHBOARD

## Risk Indicator Details: **Sentiment Indicators**

### AAII US Investor Sentiment



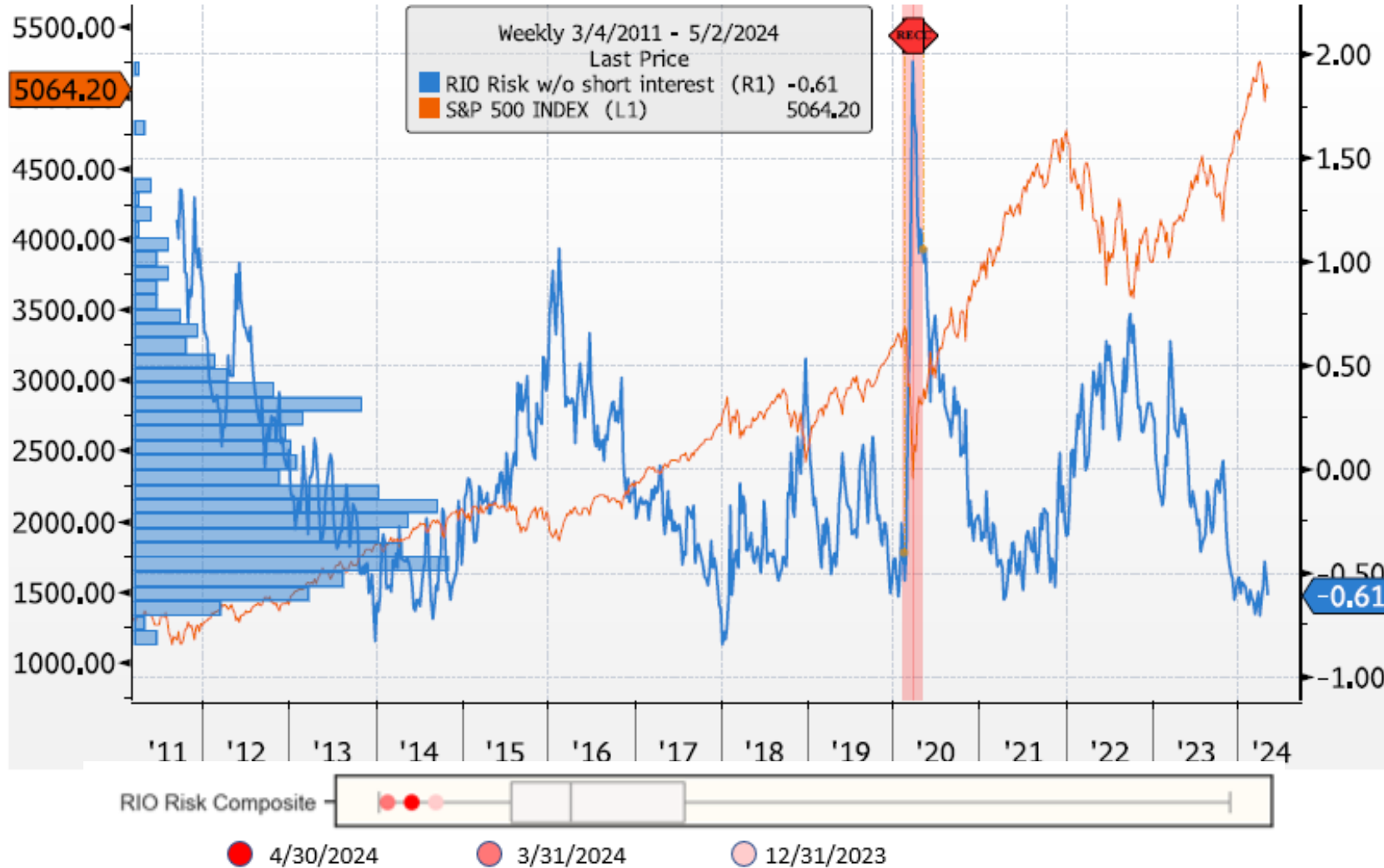
### High Short Interest Basket Performance



- Investor sentiment dropped in April in response to market decline last month but remains in normal range.
- Short interest has not been rewarded for over a year.
- Together, these indicate that sentiment is somewhat biased towards risk-taking rather than risk-averse.

# MARKET RISK DASHBOARD

## RIO Composite Risk Indicator



- Composite of Individual Market Risk Indicators.
- Weighted as below:
  - Macro-Economic indicators – 30%
  - Systemic Financial Risk indicators – 50%
  - Capital Market Dynamics indicators – 10%
  - Sentiment indicators – 10%
- More correlated with the past than with the future.
- Yet, has a marginal negative correlation with SPX future performance.
- Current value closer to historical lows.

## Market Risk Dashboard

- A simple visual summary of indicators of market perception of risks to behavior of the capital markets:
  - Macro-Economic indicators
  - Systemic Financial Risk indicators
  - Capital Market Dynamics indicators
  - Sentiment indicators
- A new composite risk indicator whose oscillations collectively provide a measure of aggregate risk perception relative to normal.
- An additional tool to help make more informed asset allocation decisions.
- A new tool that provides clarity on market risks to all stakeholders.

# Memorandum

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

**From:** Verus

**Date:** May 10, 2024

**RE:** Updated Strategic Benchmark Recommendations

The purpose of this memorandum is to provide the North Dakota State Investment Board (“SIB”) updated benchmark recommendations for the strategic asset classes which comprise the asset allocation policies for the respective Plans under the SIB’s purview. The updated policies have been highlighted.

## Summary of Recommendations<sup>1</sup>

Asset Class	Current Benchmark	Recommended Benchmark
Total Fund	Custom asset class weighted policy index	Custom asset class weighted policy index
Total Equity	Roll-up of underlying strategy benchmarks	Roll-up of asset class strategy benchmarks
Total Public Equity	Roll-up of underlying strategy benchmarks	MSCI ACWI IMI
U.S. Equity	Custom weighted policy index (85% Russell 1000/ 15% Russell 2000)	Russell 3000
Non-U.S. Equity	MSCI ACWI World ex-US IMI	MSCI ACWI World ex-US IMI
Private Equity	Roll-up of underlying strategy benchmarks	Hamilton Lane Private Equity Index <sup>1</sup>
Total Income	No benchmark	Roll-up of asset class strategy benchmarks
Inv. Grade Fixed Income	Bloomberg Aggregate Bond Index	Bloomberg Aggregate Bond Index
U.S. Government Securities (State Historical Society)	<i>New Fund</i>	Bloomberg U.S. Government Bond Index
Non-Inv. Grade Bonds	Bloomberg HY 2% Issuer Constrained	Bloomberg HY 2% Issuer Constrained
Private Credit	No benchmark	Bloomberg HY 2% Issuer Constrained
Private Credit (Legacy Fund)	No benchmark	Morningstar LSTA Leveraged Loan Index + 100 bps
Total Real Assets	No benchmark	Roll-up of asset class strategy benchmarks
Core Real Estate	NCREIF NPI Total Index	NCREIF ODCE
Timber	NCREIF Timberland Index	NCREIF Timberland Index
Infrastructure	50%/50% NCREIF ODCE/CPI-U (lagged 1 Qtr)	NCREIF ODCE + 100 bps
TIPS (Workforce Safety and Insurance Fund)	Bloomberg US Government Inflation Linked Bond Index	Bloomberg US Government Inflation Linked Bond Index
Short Term Fixed Income	Bloomberg 1-3 Year US G/C Index	Bloomberg 1-3 Year US G/C Index
In-State Equity	No benchmark	Benchmark against itself
In-State Infrastructure Loan	No benchmark	Benchmark against itself
BND CD Match Program	No benchmark	Benchmark against itself
Cash	90-day T-Bills	90-day T-Bills

<sup>1</sup> SIB adopted three-tiered approach to benchmarking private equity. For new or start up PE funds (Tier 1), accounts will be benchmarked against themselves; between years 4 and 9 (Tier 2), PE fund accounts will be benchmarked against the Hamilton Lane Private Equity Index, weighted by vintage year; year 10 and afterwards (Tier 3), PE fund accounts will be benchmarked against the Hamilton Lane Private Equity Index, aggregate version.



## Overview

Selecting benchmarks is among the most important decisions the SIB makes behind setting asset allocation policy for the Plans under its purview. Benchmarks provide the mechanism through which to evaluate the success of the respective investment program in meeting its stated policy objectives. They provide the link between expectations and success.

Benchmarks serve essential functions in the realm of investment program oversight for fiduciaries. From a policy viewpoint, they reflect the desired asset class risk, or 'beta' exposures. The overarching goal of SIB's benchmarks should be to provide the SIB a measurement tool in order to evaluate and understand the degree to which the Plans, asset classes and strategies are successful in meeting policy objectives over both the short term (i.e., 3 or less years) and long term (i.e., 5 or more years).

Benchmarks provide insight into how capital markets are performing, in general, and help the Board understand how individual asset classes, sub-asset classes and strategies are contributing to overall results. The qualities that are desirable in benchmarks used to evaluate investment performance are typically<sup>2</sup>:

- Representative of the opportunity set
- Investable and known and set *ex ante* (before the fact)
- Transparent
- Measurable
- Unambiguous

Other desirable qualities are:

- Consistent with the proxies used in asset allocation policy development
- Reflective of risk as well as the return of the asset class
- Available in a timely, cost-efficient manner
- Commonly used by public fund and other institutional investor peers

Asset classes are defined by the asset allocation policy; thus, the benchmarks for asset classes need to be reflective of the benchmarks used in the policy setting process. The goal of the SIB should be to ensure SIB's benchmarks meet industry standards for benchmark quality and that these benchmarks fairly and accurately represent the asset classes and strategies employed in the various Plans. Benchmarks for the most liquid asset classes (Global Public Equities, Public Fixed Income and Cash) tend to meet all of the benchmark quality criteria. For Private Equity, Private Credit, Real Estate and Real Assets, some of the above criteria cannot be fully met and choosing which items to emphasize entails subjective judgement, including the tradeoff between short-term tracking error and long-term compatibility with the desired outcomes.

The recommended strategic asset class benchmarks are summarized in Exhibit 1 below. The main rationale in support of these recommended benchmarks is that the respective benchmarks provide the best representation of capital market "beta" for that market segment as well as reflect the proxies that were employed in the asset allocation policy development process. Additionally, most of the recommended benchmarks are widely utilized by SIB's peers for those same market segments. The recommended public markets benchmarks are all published

---

<sup>2</sup> While these characteristics align with benchmark standards published by the CFA Institute, as a public pension plan, SIB is not, and is not required to be, GIPS compliant.

benchmarks which meet the preferred benchmark quality standards articulated earlier in this memorandum. Lastly, the benchmarks are simple and easy to understand. Exhibit 1 summarizes how the respective recommended benchmarks align with the aforementioned benchmark quality criteria.

**Exhibit 1: Summary of Recommended Public Markets Strategic Asset Class Benchmarks**

Asset Class	Current Benchmark	Recommended Benchmark	Benchmark Quality Summary of Recommended Benchmarks (Yes/ No/ NA (Not Applicable))					
			Opportunity Set / Investment Guideline Alignment	Investable and Known Ex-Ante	Transparent/ Measurable/ Unambiguous/ Available in a Timely, Cost Efficient Manner	Consistent with Proxies in Asset Allocation Policy	Reflective of Asset Class or Portfolio Risk/Return	Commonly Used by Similar Investors
Total Fund	Custom asset class weighted policy index	Custom asset class weighted policy index	N/A	No	Yes	N/A	N/A	Yes
Total Equity	Roll-up of underlying strategy benchmarks	Roll-up of asset class strategy benchmarks	N/A	No	Yes	N/A	N/A	Yes
Total Public Equity	Roll-up of underlying strategy benchmarks	MSCI ACWI IMI	Yes	Yes	Yes	Yes	Yes	Yes
U.S. Equity	Custom weighted policy index (85% Russell 1000/ 15% Russell 2000)	Russell 3000	Yes	Yes	Yes	Yes	Yes	Yes
Non-U.S. Equity	MSCI ACWI World ex-US IMI	MSCI ACWI World ex-US IMI	Yes	Yes	Yes	Yes	Yes	Yes
Private Equity	Roll-up of underlying strategy benchmarks	Hamilton Lane Private Equity Index	Yes	No	Yes	Yes	Yes	No
Total Income	No benchmark	Roll-up of asset class strategy benchmarks	N/A	No	Yes	N/A	N/A	Yes
Inv. Grade Fixed Income	Bloomberg Aggregate Bond Index	Bloomberg Aggregate Bond Index	Yes	Yes	Yes	Yes	Yes	Yes
U.S. Government Securities (State Historical Society)	New Fund	Bloomberg U.S. Government Bond Index	Yes	Yes	Yes	Yes	Yes	Yes
Non-Inv. Grade Bonds	Bloomberg HY 2% Issuer Constrained	Bloomberg HY 2% Issuer Constrained	Yes	Yes	Yes	Yes	Yes	Yes
Private Credit	No benchmark	Bloomberg HY 2% Issuer Constrained	Yes	Yes	Yes	N/A	No	Yes
Private Credit (Legacy Fund)	No benchmark	Morningstar LSTA Leveraged Loan Index + 100 bps	No	No	Yes	Yes	No	Yes
Total Real Assets	No benchmark	Roll-up of asset class strategy benchmarks	N/A	No	No	N/A	N/A	Yes
Core Real Estate	NCREIF NPI Total Index	NCREIF ODCE	Yes	No	No	Yes	Yes	Yes
Timber	NCREIF Timberland Index	NCREIF Timberland Index	Yes	No	No	Yes	Yes	Yes
Infrastructure	50%/50% NCREIF ODCE/CPI-U (lagged 1 Qtr)	NCREIF ODCE + 100 bps	No	No	Yes	N/A	No	No
TIPS (Workforce Safety and Insurance Fund)	Bloomberg US Government Inflation Linked Bond Index	Bloomberg US Government Inflation Linked Bond Index	Yes	Yes	Yes	Yes	Yes	Yes
Short Term Fixed Income	Bloomberg 1-3 Year US G/C Index	Bloomberg 1-3 Year US G/C Index	Yes	Yes	Yes	Yes	Yes	Yes
In-State Equity	No benchmark	Benchmark against itself	Yes	No	Yes	N/A	Yes	Yes
In-State Infrastructure Loan	No benchmark	Benchmark against itself	Yes	No	Yes	N/A	Yes	Yes
BND CD Match Program	No benchmark	Benchmark against itself	Yes	No	Yes	N/A	Yes	Yes
Cash	90-day T-Bills	90-day T-Bills	Yes	Yes	Yes	Yes	Yes	Yes

Rationale Supporting Recommended Benchmarks

*Public Equity* – Three new benchmarks are being proposed for the Equity asset class.

- *Total Equities* – The current benchmark is a roll-up of the individually managed account benchmarks within the Equity asset class. This approach is non-standard in the industry for this asset class. Instead, Verus recommends a benchmark which is a roll-up of the two Equity sub-asset class (i.e., Public Equities and Private Equities) benchmarks. This represents a more industry standard approach to benchmarking an aggregate asset class.
- *Total Public Equity* – The recommended Total Public Equity benchmark is the MSCI ACWI IMI, which is the broadest published global equity benchmark and is widely used by SIB’s peers to benchmark their respective global (or total) public equity asset classes.
- *U.S. Equity* – For U.S. Equities, Verus recommends adoption of the Russell 3000, the broadest published U.S. equity benchmark and which is also widely used by SIB’s peers to benchmark their respective U.S. equity sub-asset class portfolios.

These two recommended sub-asset class benchmarks represent a best practices consideration under prevailing investment theory that the broad capital market benchmarks represent the best ‘portfolio’ in terms of return to risk relationship. Additionally, these benchmarks are typical proxies employed for these sub-asset classes within the asset allocation policy setting process, so they provide for good alignment with the Plans’ various asset allocation policy targets.

*Private Equity* – Verus’ recommended benchmark, Hamilton Lane Private Equity Index, represents an appropriate strategic and implementation benchmark for Private Equities. The current benchmark is more reflective of an implementation, or bottom-up, benchmark and is not typically employed by peers. The recommended benchmark reflects the fact that Private Equity is a distinct equity implementation approach from public markets equities. While the recommended benchmark does not capture all the qualities desired in a benchmark, it is consistent with the private equity proxy used in the SIB’s 2022 asset allocation policy setting process.

*Public and Private Markets Fixed Income* – Verus recommends three benchmark changes in this asset class.

- *Total Fixed Income* – There is currently no benchmark for the overall asset class. Verus recommends a roll-up of the four asset class strategy benchmarks, similar to the recommended Total Equities benchmark.
- *U.S. Government Securities* – A new fund recently joined the SIB portfolio (State Historical Society). The draft investment policy statement requires the assets of this fund to be 100% invested in high quality fixed income investments as approved by the SIB. Verus recommends the Bloomberg U.S. Government Index as the appropriate index for this fund’s risk profile and commensurate with the Board’s approved policy objective.
- *Private Credit (ex-Legacy Fund)* – Currently, there is no benchmark for this sub-asset class. Verus recommends the Bloomberg HY 2% issuer Constrained index for this sub-asset class. This recommended benchmark reflects the fact that Private Credit is viewed as an alternative exposure to public market non-investment grade bonds. Thus, we are recommending the non-investment grade bonds benchmark as the Private Credit benchmark as the Board should regularly be monitoring and evaluating the decision to strategically employ Private Credit versus public market non-investment grade bonds.
- *Private Credit (Legacy Fund)* – Currently, there is no benchmark for this asset class. However, it is a discreet, strategic exposure within the Legacy Fund asset allocation policy. Thus, Verus is recommending an industry standard benchmark for this asset class, the Morningstar LSTA Leveraged Loan Index + 100 basis points. Similar to the recommended benchmark for Private Equity, this benchmark enables the Board to evaluate the decision to employ a private markets asset class versus a public markets alternative.

*Real Assets* – Verus recommends no change to the current Timber or TIPS sub-asset class benchmarks. However, we recommend adoption of new benchmarks for the remaining two Real Assets sub-asset classes (Core Real Estate and Infrastructure).

- *Core Real Estate* – The current benchmark is a non-standard benchmark in that it is an aggregation of the returns of individual real estate properties. The recommended benchmark is a pooled benchmark comprised of institutional, managed Real Estate commingled funds similar to the SIB’s real estate portfolio. The recommended benchmark, NCREIF ODCE (i.e., Open-end Diversified Core Equity), is a capitalization-weighted, time-weighted return series of open-end, diversified core real estate funds. Thus, it better

represents the core real estate universe and performance of the asset class. It is the most widely employed Core Real Estate benchmark by SIB's peers and is the asset class proxy employed in the typical asset allocation policy setting process.

- *Infrastructure* – The current benchmark is a non-standard benchmark that is made complex through the incorporation of a lagged CPI return. The CPI is non-investable and Core Real Estate is not generally used as a proxy for infrastructure by SIB's peers. The difficulty with Infrastructure is that it is a relatively nascent sub-asset class and there currently does not exist a widely accepted 'industry standard' benchmark. A public Listed Infrastructure benchmark is often employed as both an asset class proxy in the asset allocation policy setting process as well as an asset class benchmark. However, SIB is unique in that it has a well-developed Infrastructure investment program, which is ahead of most peers. Given the existence of multiple strategies and the fact that the program was developed to be income oriented with a return/risk profile similar to a 75%/25% Core/Value-add Real Estate program. Thus, Verus is recommending the same benchmark as for SIB's Core Real Estate program (NCREIF ODCE) plus a 100 basis points premium to capture both the value-added component and the idiosyncrasies of an infrastructure portfolio. While imperfect, the benchmark does capture the strategic objective of this sub-asset class (real income generation), which is the goal for the strategic benchmarks being recommended to the Board.

*In-State Investments* – The In-State investment program is relatively new and in the process of being built. Additionally, in-state investments are idiosyncratic in nature and do not lend themselves to traditional benchmarks, particularly at the very immature stage. Thus, Verus recommends to benchmark these investments against themselves in the initial years. Benchmarking idiosyncratic assets against themselves is not uncommon in institutional investments. Benchmarks should be re-visited every 3 years or so as a matter of industry best practice. At the next strategic benchmark review, these three program components will be evaluated to determine what alternative benchmarks may be appropriate to consider based upon the composition of the respective investment portfolios at that time.

While the Board does not currently set asset allocation policy for total asset class exposures (i.e., Total Equities, Total Fixed Income and Total Real Assets), we believe that all measurable asset class exposures should be benchmarked and monitored. Thus, we recommend that benchmarks be adopted at these total asset class levels. The respective benchmarks would simply be roll-ups of the underlying sub-asset class strategy benchmarks. The Total Fund benchmark for each plan would continue to be a custom asset class weighted benchmark based upon the respective Plan's asset allocation policy as articulated in their investment policy statement ("IPS"). This would serve as the policy benchmark against which to measure total fund actual performance and the respective Plan liability discount rate or real return objective, to the extent one exists and is incorporated within the respective IPS.

Verus additionally recommends that each Plan's investment policy statement be amended to reflect the strategic benchmarks for each asset class and sub-asset class as summarized in Exhibit 1. Given the statement earlier that benchmark selection is an important fiduciary decision, it is a best practice to articulate asset class and sub-asset class benchmarks within the investment policy statement. This is because the investment policy statement should provide a transparent 'road map' of the Board's decision-making processes and how it implements its fiduciary duties; in this case, the duty to regularly conduct investment program monitoring and evaluation versus policy objectives.

# PUBLIC EQUITY BENCHMARK IMPLEMENTATION

AFM Team

May 10<sup>th</sup>, 2024

NORTH  
**Dakota** Be Legendary.

# EXECUTIVE SUMMARY

- Verus presented and the SIB approved the new strategic benchmarks in Nov. 2023
- The new benchmarks will be fully implemented as of the beginning of the new fiscal year (July 1, 2024)
- The new equity benchmark is market cap weighted. This benchmark change requires an adjustment to the existing equity portfolios.
  - The current equity policy benchmark is 85% Russell 1000 (large cap)/15% Russell 2000 (small cap). The new benchmark is the Russell 3000, which is ~95% large cap/5% small cap
  - The Team will adjust the equity portfolio to match the new market cap weights

# NEW VS OLD EQUITY BENCHMARKS

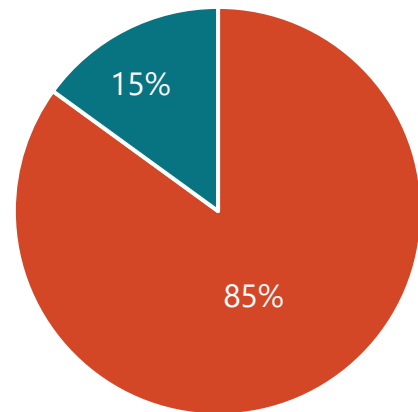
- Total Public Equity benchmark is now the MSCI ACWI IMI
- US Equity benchmark is now the Russell 3000

<b>Asset Class</b>	<b>Current Benchmark</b>	<b>New Benchmark</b>
Total Equity	Roll-up of asset class strategy benchmarks	Roll-up of asset class strategy benchmarks
Total Public Equity	Roll-up of asset class strategy benchmarks	MSCI ACWI IMI
US Equity	Custom weighted policy index (85% Russell 1000/15% Russell 2000)	Russell 3000
Non-US Equity	MSCI ACWI ex-US IMI	MSCI ACWI ex-US IMI

# BENCHMARK EXPOSURE IMPACT

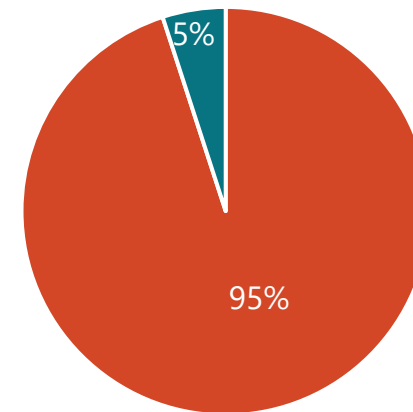
- Domestic Equity Benchmark is changing from 85% Russell 1000 & 15% Russell 2000 to the Russell 3000
- The Russell 3000 is currently 95% Russell 1000 and 5% Russell 2000. This will lead to a 2/3 reduction in Small Cap exposure
- Going forward the weights for large cap and small cap will adjust slightly each month

Old Benchmark Weight



■ Russell 1000 ■ Russell 2000

New Benchmark Weight



■ Russell 1000 ■ Russell 2000



# PORTFOLIO IMPACT

- The Team will reduce the SIB's Domestic Small Cap Portfolio by approximately two thirds (~\$600 million)
- Domestic Large Cap will increase ~\$600 mm
- The increase in the Domestic Large Cap allocation will be distributed pro-rata, subject to rebalancing requirements and with consideration for future portfolio changes

<b>Asset Class</b>	<b>Old Policy Target</b>	<b>New Policy Target</b>
Large Cap US Equity	85%	95%
Small Cap US Equity	15%	5%
Atlanta Capital HQ Small Cap	4.5%	1.5%
Riverbridge Small Cap Growth	4.5%	1.5%
VCM Sycamore Small Cap Value	4.5%	1.5%
NTAM R2000 Index	0.8%	0.3%

# NEXT STEPS

- New equity benchmarks will be implemented as of July 1, 2024
- The AFM Team will reduce exposure to existing small cap managers and increase exposure to large cap managers to reflect benchmark changes
- The Team expects to complete the portfolio changes as of July 1, 2024
- The Team is also conducting due diligence on U.S. equity managers and expects to bring recommendations to the Investment Committee in June 2024
- Some clients have an Investment Policy Statement that has specific target weights to U.S. large cap and small cap. The Team is actively reaching out to these clients to update their Investment Policy Statements prior to implementing the benchmark and portfolio changes.

Confidential materials will be sent to Committee members via a secure link.

## MEMORANDUM

**TO:** Investment Committee  
**FROM:** Ryan K. Skor, CFO/COO  
**DATE:** May 6, 2024  
**RE:** New Client Fund Investment Policy Statements

As was discussed in previous State Investment Board meetings, the Retirement and Investment Office has been in discussions with three new clients to have the SIB perform investment management services for their funds. Two of these new funds are statutorily mandated under NDCC 21-10-06 to be invested by the SIB while the third is a state agency looking to contract with the SIB for investment services.

### Water Projects Stabilization Fund

The Water Projects Stabilization Fund is included under NDCC 21-10-06(1) and is overseen by the North Dakota Department of Water Resources. Moneys in the fund may be used for defraying planning and construction expenses of water-related projects. The current risk tolerance for the fund is very low as almost the entire amount has been appropriated for water-related projects over the next few years. After considering all the related inputs and having a discussion concerning their risk tolerance, the Trustee has requested an allocation to cash equivalents until more certainty of variables is achieved during the next legislative session.

### Opioid Settlement Fund

The Opioid Settlement Fund is also included under NDCC 21-10-06(1) and is overseen by the North Dakota Department of Health and Human Services. Moneys in the fund may be used in compliance with any court-ordered restrictions and as authorized by legislative appropriation and NDCC 50-36; however, legislative appropriations from the fund may not exceed eight million dollars in a biennium.

### State Historical Society of North Dakota Endowment Funds

The SHSND is looking to enter into a contract with the SIB for investment services of their endowment funds. The ND Industrial Commission gave its approval of the relationship at their April 30, 2024, meeting. Due to limitations spelled out in each of the individual endowment agreements, investments are limited to US government securities, US savings bonds, or other low risk or insured securities.

**COMMITTEE ACTION REQUESTED: Recommendation for approval of new client fund IPSs to the full SIB.**

# **WATER PROJECTS STABILIZATION FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS**

The Water Projects Stabilization Fund (Fund) is a special fund, created in 2021 under Chapter 61-01-26.3 of the North Dakota Century Code (NDCC). The Fund consists of all money transferred into the Fund and all interest and earnings upon moneys in the Fund. Moneys in the fund may be used for defraying planning and construction expenses of water-related projects.

The North Dakota Department of Water Resources (Trustee) is charged with the administration of the Fund and determines cash-flow and other liquidity needs of the Fund.

### **2. FUND GOALS**

The investment objectives of the Fund reflect a low risk tolerance and short-term liquidity needs. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Sufficient liquidity must be maintained as the Fund may be drawn down over the next few years. Cash equivalent and/or short-term fixed income shall be used to achieve this objective.

Objective #2: Growth of capital is minimal to preserve the real purchasing power of Fund assets as the potential exists for the investment term to be less than a few years.

Objective #3: Investment income may be used as a funding source. This will be achieved through a diversified portfolio of high quality, short-term fixed income and/or cash.

### **3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT CLIENT (SIB)**

The Fund 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. INVESTMENT PERFORMANCE AND RISK OBJECTIVES**

The Trustee'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.

1. 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.
2. Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 150 basis points over a minimum evaluation period of five years.

The Trustee's risk tolerance with respect to the management of the Fund's asset is low. The Trustee is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to maintain principal value over time.

## 5. POLICY ASSET MIX

After consideration of all the inputs and a discussion concerning risk tolerance, the Trustee approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target (%)
Cash Equivalents	100%
Total	100%

While the Trustee recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Trustee does not intend to engage in tactical asset allocation. Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

## 6. RESTRICTIONS

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:

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

For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.

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

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 risk.

- (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 Trustee's policy favors investments which will have a positive impact on the economy of North Dakota.

## 7. 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 investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

## 8. EVALUATION AND REVIEW

Investment management of the Fund will be evaluated against the vehicle's investment objectives and investment performance standards. 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 Trustee periodically, but not less than quarterly. These reports will include:

- 1) A list of the advisory services managing investments for the board.
- 2) A list of investments at fair value, compared to previous reporting period, of each fund managed by each advisory service.
- 3) Earnings, percentage earned, and change in fair value of each fund's investments.
- 4) 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.

Annually, a report will be provided to the Trustee that includes:

- 1) All material legal or legislative proceedings affecting the SIB.
- 2) Confirmation that the Fund is in compliance with this investment policy statement and/or any exceptions.

---

**Andrea Travnicek**  
**Director, ND Department of Water Resources**

Date: \_\_\_\_\_

---

**Jan Murtha**  
**Executive Director, RIO**

Date: \_\_\_\_\_

**Approved by ND Dept of Water Resources:**

**Approved by SIB:**

# **OPIOID SETTLEMENT FUND**

## **INVESTMENT POLICY STATEMENT**

### **1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS**

The 68<sup>th</sup> Legislative Assembly created the Opioid Settlement Fund (“Fund”) and directed moneys recovered as a result of opioid litigation be deposited into the Fund. Moneys in the fund may be used in compliance with any court-ordered restrictions and as authorized by legislative appropriation and NDCC 50-36; however, legislative appropriations from the fund may not exceed eight million dollars in a biennium.

The Opioid Settlement Advisory Committee was created in NDCC 50-36-03 to forward recommendations to the North Dakota Department of Health and Human Services (“DHHS”) on spending decisions of the legislatively appropriated funds for remediation or abatement of the opioid crisis in this state.

### **2. FUND GOALS**

The investment objectives of the Fund reflect a low risk tolerance and short-term liquidity needs. Operating considerations shape the Fund’s policies and priorities as outlined below:

Objective #1: Sufficient liquidity must be maintained as the Fund may be drawn down over the next few years. Short-term fixed income and/or cash equivalent investments shall be used to achieve this objective.

Objective #2: Growth of capital is minimal to preserve the real purchasing power of Fund assets as the potential exists for the investment term to be less than a few years.

Objective #3: Investment income may be used as a funding source. This will be achieved through a diversified portfolio of high quality, short-term fixed income and/or cash.

### **3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB):**

The North Dakota Department of Health and Human Services (“DHHS”) is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Opioid Settlement 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 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. 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.

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

### **4. INVESTMENT PERFORMANCE AND RISK OBJECTIVES**

DHHS’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.

- 1) 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.
- 2) Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 200 basis points over a minimum evaluation period of five years.



## 5. ASSET ALLOCATION

After consideration of all the inputs and discussion of its own risk tolerance, DHHS has chosen the following asset allocation:

Asset Class	Policy Target (%)
Short-term Fixed Income	100%
Total	100%

Rebalancing of the Fund to this target allocation will be done in accordance with the SIB's rebalancing policy but not less than annually.

## 6. FUND SPECIFIC REQUIREMENTS

DHHS may spend from the fund up to the approved legislative appropriation each biennium exclusively for purposes of remediating or abating the opioid crisis in this state.

## 7. RESTRICTIONS

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:

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

For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.

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

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 risk.
- (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 Trustee's policy favors investments which will have a positive impact on the economy of North Dakota.

## 8. INTERNAL CONTROLS

The SIB must have a system of internal controls in place to prevent losses of public funds arising from fraud or employee error. The 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 vehicle's investment objectives and investment performance standards. 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 DHHS periodically, but not less than quarterly. These reports will include:

- 1) A list of the advisory services managing investments for the board.
- 2) A list of investments at fair value, compared to previous reporting period, of each fund managed by each advisory service.
- 3) Earnings, percentage earned, and change in fair value of each fund's investments.
- 4) 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.

Annually, a report will be provided to DHHS that includes:

- 1) All material legal or legislative proceedings affecting the SIB.
- 2) Confirmation that the Fund is in compliance with this investment policy statement and/or any exceptions.

---

**Wayne Salter**

**Commissioner, ND Department of Health and Human Services**

**Date:** \_\_\_\_\_

---

**Jan Murtha**

**Executive Director, RIO**

**Date:** \_\_\_\_\_

**Approved by ND DHHS:**

**Approved by SIB:**

# **STATE HISTORICAL SOCIETY OF NORTH DAKOTA ENDOWMENT FUNDS**

## **INVESTMENT POLICY STATEMENT**

### **1. FUND CHARACTERISTICS AND CONSTRAINTS**

The State Historical Society of North Dakota Endowment Funds (“Fund”) were created between 1979 and 2006 exclusively for use of projects carried out for the benefit of the public by the State Historical Society as directed under individual endowment agreements. There are specific individual endowment agreements that restrict projects to the Marquis de Mores home in Medora, ND; Pembina State Museum in Pembina, ND; and Missouri – Yellowstone Confluence Interpretative Center and Fort Buford State Historic Site in Williston, ND. Another specific individual endowment agreement restricts projects to reference services in the State Archives.

Pursuant to terms detailed in individual endowment agreements with the Trustee, investments of the endowment funds are limited to “United States government securities, U.S. Savings Bonds, or other low risk or insured securities.”

### **2. FUND GOALS**

It is the intention of the Fund to be supplemental to appropriations of the state legislature and to fund special projects, not day-to-day operations.

### **3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD (SIB):**

SHSND’s 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 SHSND Endowment 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 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. 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.

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

### **4. INVESTMENT PERFORMANCE AND RISK OBJECTIVES**

SHSND’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.

- 1) 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.
- 2) Risk, as measured by the annual standard deviation of net returns for the Fund, should not exceed that of the policy portfolio by more than 150 basis points over a minimum evaluation period of five years.

## 5. ASSET ALLOCATION

After consideration of all the inputs and discussion of its own risk tolerance, SHSND's board has chosen the following asset allocation:

Asset Class	Policy Target (%)
US Gov't Securities	100%
Total	100%

Rebalancing of the Fund to this target allocation will be done in accordance with the SIB's rebalancing policy but not less than annually.

## 6. FUND SPECIFIC REQUIREMENTS

SHSND may spend the income from the fund exclusively for projects carried out for the benefit of the public as directed under individual endowment agreements.

## 7. RESTRICTIONS

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:

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

For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the Fund.

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

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 risk.
- (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 Trustee's policy favors investments which will have a positive impact on the economy of North Dakota.

## 8. INTERNAL CONTROLS

The SIB must have a system of internal controls in place to prevent losses of public funds arising from fraud or employee error. The 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 vehicle's investment objectives and investment performance standards. 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 SHSND's board periodically, but not less than quarterly. These reports will include:

- 1) A list of the advisory services managing investments for the board.
- 2) A list of investments at fair value, compared to previous reporting period, of each fund managed by each advisory service.
- 3) Earnings, percentage earned, and change in fair value of each fund's investments.
- 4) 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.

Annually, a report will be provided to SHSND's board that includes:

- 1) All material legal or legislative proceedings affecting the SIB.
- 2) Confirmation that the Fund is in compliance with this investment policy statement and/or any exceptions.

---

**William Peterson**  
Executive Director, State Historical Society of ND

---

**Jan Murtha**  
Executive Director, RIO

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Approved by SHSND:

Approved by SIB:

Confidential materials will be sent to Committee members via a secure link.

# SIB & TFFR Board/Committee Calendar 2024-25

## **July 2024**

July 12, 2024 – Investment Comm @ 9:00 a.m.

July 25, 2024 – TFFR @ 1:00 p.m.

July 26, 2024 – SIB @ 8:30 a.m.

## **August 2024**

August 9, 2024 – Investment Comm @ 9:00 a.m.

August 14, 2024 – SIB Audit Committee @ 2:30 p.m.

## **September 2024**

September 10, 2024 – SIB GPR @ 10:00 a.m.

September 12, 2024 – TFFR GPR @ 3:30 p.m.

September 13, 2024 – Investment Comm @ 9:00 a.m.

September 17, 2024 – SIB Securities @ 10:00 a.m.

September 26, 2024 – TFFR @ 1:00 p.m.

September 27, 2024 – SIB @ 8:30 a.m.

## **October 2024**

October 11, 2024 – Investment Comm @ 9:00 a.m.

October 25, 2024 – SIB @ 8:30 a.m.

## **November 2024**

November 6, 2024 – TFFR GPR @ 3:30 p.m.

November 8, 2024 – Investment Comm @ 9:00 a.m.

November 13, 2024 – SIB GPR @ 10:00 a.m.

November 18, 2024 – SIB Audit Committee @ 2:30 PM

November 21, 2024 – TFFR @ 1:00 p.m.

November 22, 2024 – SIB @ 8:30 a.m.

## **December 2024**

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

December 13, 2024 – Investment Comm @ 9:00 a.m.

## **January 2025**

January 10, 2025 – Investment Comm @ 9:00 a.m.

January 15, 2025 – SIB ERCC @ 10:00 a.m.

January 23, 2025 – TFFR @ 1:00 p.m.

January 24, 2025 – SIB @ 8:30 a.m.

## **February 2025**

February 4, 2025 – TFFR GPR @ 3:30 p.m.

February 6, 2025 – SIB GPR @ 10:00 a.m.

February 14, 2025 – Investment Comm @ 9:00 a.m.

February 19, 2025 – SIB Audit Committee @ 2:30 p.m.

February 20, 2025 – TFFR (Tentative) @ 1:00 p.m.

February 21, 2025 – SIB (Tentative) @ 8:30 a.m.

## **March 2025**

March 14, 2025 – Investment Comm @ 9:00 a.m.

March 18, 2025 – SIB Securities @ 10:00 AM

March 27, 2025 – TFFR @ 1:00 p.m.

March 28, 2025 – SIB @ 8:30 a.m.

## **April 2025**

April 8, 2025 – SIB GPR @ 10:00 a.m.

April 9, 2025 – SIB ERCC @ 10:00 a.m.

April 10, 2025 – TFFR GPR @ 3:30 p.m.

April 11, 2025 – Investment Comm @ 9:00 a.m.

April 24, 2025 – TFFR @ 1:00 p.m.

April 25, 2025 – SIB @ 8:30 a.m.\*

\*Meeting time may be adjusted due to Leg. Session

## **May 2025**

May 7, 2025 – SIB ERCC @ 10:00 a.m.

May 8, 2025 – SIB Audit Committee @ 2:30 p.m.

May 9, 2025 – Investment Comm @ 9:00 a.m.

May 16, 2025 – SIB @ 8:30 a.m.

## **June 2025**

June 13, 2025 – Investment Comm @ 9:00 a.m.

June 17, 2025 – SIB Securities (Tentative) @ 10:00 a.m.

June 19, 2025 – TFFR Board Retreat (Tentative) @ 1:00 p.m.