

**Friday, July 26, 2024, 8:30 a.m.**

**WSI Board Room (In-Person), 1600 E Century Ave, Bismarck, ND**

[Click here to join the meeting](#)

AGENDA

- I. CALL TO ORDER AND ACCEPTANCE OF AGENDA - (*Board Action*)**
  - A. Pledge of Allegiance
  - B. Conflict of Interest Disclosure
  - C. Executive Summary
  
- II. ACCEPTANCE OF MINUTES (May 17, 2024) – (*Board Action*)**
  
- III. ELECTION OF OFFICERS & COMMITTEE APPOINTMENTS (15 minutes) – Ms. Murtha**
  - A. Chair – *Board Action*
  - B. Vice Chair – *Board Action*
  - C. Parliamentarian – *Appointed by Chair*
  - D. Audit Committee – *Board Action*
  - E. Governance & Policy Review Committee – *Board Action*
  - F. Executive Review & Compensation Committee – *Appointed by Chair*
  - G. Investment Committee – *Appointed by Chair*
  - H. Securities Litigation Committee – *Appointed by Chair*
  
- IV. EDUCATION (30 minutes) – (*Information*)**
  - A. Investment Performance Metrics – Mr. Anderson
  
- V. INVESTMENTS (60 minutes)**
  - A. Staff Quarterly Performance Update (*Board Action*) – Mr. Anderson
  - B. Internal Investment Initiative Update (*Information*) – Mr. Anderson
  
- VI. GOVERNANCE (40 minutes)**
  - A. Investment Committee Update (*Information*) – Treasurer Beadle, Mr. Anderson
  - B. Annual Governance & Policy Review Committee Report (*Board Action*) – Treas. Beadle, Ms. Murtha
  - C. Audit Committee Update (*Information*) – Treasurer Beadle, Ms. Seiler
  - D. Annual SIB Customer Satisfaction Survey (*Board Action*) – Ms. Mudder
  - E. Code of Conduct Affirmation (*Information*) – Mr. Skor
  - F. Budget Update (*Information*) – Mr. Skor

(Break)

- VII. QUARTERLY MONITORING REPORTS (20 minutes) – (*Board Action*)**
  - A. Quarterly Investment Ends – Mr. Chin
  - B. Quarterly Outreach Report – Ms. Mudder
  - C. Executive Limitations/Staff Relations – Ms. Murtha

**VIII. OTHER**

**Next Meetings:**

Investment Committee – August 9 & September 13, 2024, at 9:00 a.m.

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

SIB GPR Committee – September 10, 2024

Securities Litigation Committee – September 17, 2024, at 10:00 a.m.

TFFR Board – September 26, 2024, at 1:00 p.m.

SIB Meeting – September 27, 2024, at 8:30 a.m.

**IX. ADJOURNMENT**

# EXECUTIVE SUMMARY

## SIB Regular Meeting July 26, 2024 – 8:30 a.m. CT

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- I. **Agenda:** The July Board Meeting will be held at the WSI Conference room to accommodate in person attendance; however, a link will also be provided so that Board members and other attendees may join via video conference.
  - Attendees are invited to join the Board Chair in the Pledge of Allegiance.
  - Conflict of Interest Disclosure: For best practice board members are asked to review the agenda and note any potential conflicts of interest for an item in advance of or at the start of the meeting. Conflicts can be documented using the following form: [Conflict of Interest Disclosure Form 8 17 2022 .pdf \(nd.gov\)](#)
- II. **Minutes (Board Action):** The May 17, 2024, Board meeting minutes are included for review and approval.
- III. **Election of 2024-2025 Officers and Appointment of Committees (Board Action):** Election of Board Chair and Vice Chair. Appointment of Parliamentarian by Chair. Election of members of Audit and Governance and Policy Review Committees by SIB; and appointment of members of Executive Review & Compensation, Investment and Securities Litigation Committees by Chair.
- IV. **Education (Information):** CIO Anderson will provide the board with education on investment performance metrics. This presentation provides information regarding how performance return and risk is calculated. The presentation also discusses how to interpret performance reports to determine whether an investment program is meeting or exceeding its investment performance goals.
- V. **Investments A. Staff Quarterly Performance Update (Board Action):** Staff will present quarterly investment performance for board acceptance.  
**B. Internal Investment Initiative Update (Information):** CIO Anderson and Deputy CIO Chin will provide the Board with an update on current activities related to implementation of the internal investment initiative.
- VI. **Governance A. Investment Committee Update (Information Only):** The Committee Chair and Mr. Anderson or Mr. Chin will provide an update on recent committee activities.  
**B. Annual Governance & Policy Review Committee Report (Information):** The committee Chair and Ms. Murtha will provide the Board with an update on committee activities over the prior fiscal year resulting in changes to the SIB Governance Manual.  
**C. Audit Committee Update (Information):** The committee Chair and Ms. Seiler will provide the Board an update on recent committee activities.  
**D. Annual SIB Customer Satisfaction Survey (Board Action):** Ms. Mudder will present the results of the annual SIB customer satisfaction survey for board acceptance. Ms. Murtha will provide information on the actions staff is taking in response to the feedback provided in the survey. Mr. Anderson and Mr. Chin will be available for questions.  
**E. Code of Conduct Affirmation (Information):** Mr. Skor will discuss the annual code of conduct affirmation requirements and process required by the SIB Governance Manual as applied to board and committee members. The affirmation will be distributed to board and committee members.

- F. Budget Update (Information):** Mr. Skor will provide the Board an update on the status of RIO's budget submission to OMB.
- VII. A. Reports (Board Action):** Staff will provide monitoring reports for quarterly Investment Ends, quarterly outreach activities and executive limitations/ staff relations.

**Adjournment.**

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
MAY 17, 2024, BOARD MEETING (IN-PERSON)**

**MEMBERS PRESENT:** Tammy Miller, Lt. Governor, Chair  
Dr. Rob Lech, TFFR Board, Vice Chair  
Thomas Beadle, State Treasurer, Parliamentarian  
Joseph Heringer, Commissioner of Univ. & School Lands  
Pete Jahner, Investment Professional  
Sen. Jerry Klein, LBSFAB  
Cody Mickelson, TFFR Board  
Adam Miller, PERS Board  
Joe Morrissette, PERS Board  
Dr. Prodosh Simlai, Investment Professional  
Susan Sisk, Director of OMB  
Art Thompson, Director of WSI

**MEMBERS ABSENT:** Rep. Glenn Bosch, LBSFAB

**STAFF PRESENT:** Scott Anderson, CIO  
Eric Chin, Deputy CIO  
Derek Dukart, Investment Officer  
Jennifer Ferderer, Fiscal/Investment Admin.  
Rachel Kmetz, Accounting Mgr.  
Missy Kopp, Exec. Assistant  
Robbie Morey, Investment Accountant  
George Moss, Sr. Investment Officer  
Sarah Mudder, Communications/Outreach Dir.  
Jan Murtha, Exec. Dir.  
Matt Posch, Sr. Investment Officer  
Emmalee Riegler, Procurement/Records Coord.  
Chad Roberts, DED/CRO  
Sara Seiler, Internal Audit Supvr.  
Ryan Skor, CFO/COO  
Dottie Thorsen, Internal Auditor  
Nitin Vaidya, Chief Risk Officer  
Tami Volkert, Compliance Spec.  
Susan Walcker, Sr. Financial Accountant  
Jason Yu, Risk Officer  
Lance Zietlow, Sr. Investment Officer

**GUESTS:** Alex Browning, Callan  
Dean DePountis, Attorney General's Office  
Chad Keech, State Procurement  
Members of the Public

**CALL TO ORDER:**

Lt. Gov. Miller, Chair, called the State Investment Board (SIB) regular meeting to order at 8:30 a.m. on Friday, May 17, 2024. The meeting was held in the Workforce Safety and Insurance Board Room, 1600 E Century Ave., Bismarck, ND.

**The following members were present representing a quorum: Treasurer Beadle, Commissioner Heringer, Mr. Jahner, Sen. Klein, Dr. Lech, Mr. Mickelson, Mr. Miller, Lt. Gov. Miller, Mr. Morrissette, Dr. Simlai, Ms. Sisk, and Mr. Thompson.**

**ACCEPTANCE OF AGENDA:**

The Board considered the agenda for the May 17, 2024, meeting.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MS. SISK AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA AS DISTRIBUTED.**

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

**NAYS: NONE**

**ABSENT: REP. BOSCH**

**MOTION CARRIED**

**MINUTES:**

The Board considered the minutes of the April 26, 2024, SIB meeting.

**IT WAS MOVED BY DR. LECH AND SECONDED BY MR. JAHNER AND CARRIED BY A VOICE VOTE TO APPROVE THE APRIL 26, 2024, MINUTES AS DISTRIBUTED.**

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

**NAYS: NONE**

**ABSENT: REP. BOSCH**

**MOTION CARRIED**

**EDUCATION:**

**Fiduciary Duties and Ethics:**

Mr. DePountis, Assistant Attorney General, presented education on Fiduciary Duties and Ethics. Mr. DePountis reviewed terminology and Century Code language that establishes the SIB and the responsibilities of the Board. The definition of a fiduciary was discussed and included an explanation of who a fiduciary is and their duties and responsibilities under the law. Mr. DePountis described the types of conflict of interest and how board members should prepare for meetings, so they are aware of possible conflicts. Board discussion followed.

**GOVERNANCE:**

**Executive Review & Compensation Committee (ERCC):**

Dr. Lech provided a summary of the Executive Director (ED) evaluation. Areas of strength include strategic visioning, professionalism, integrity, and communication to stakeholders. Opportunities for development were identified as maintaining a balance between future and present operations and growing additional stakeholder relationships. Sen. Klein commented that the ED and staff have been able to educate legislators on RIO's programs and increase understanding about the program's needs. Board discussion followed.

**IT WAS MOVED BY DR. LECH AND SECONDED BY SEN. KLEIN AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE ANNUAL PERFORMANCE EVALUATION OF THE ED.**

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

**NAYS: NONE**

**ABSENT: REP. BOSCH**

**MOTION CARRIED**

ED Compensation:

Ms. Murtha thanked Board members and staff for their responses to the ED surveys which are used in the evaluation process. The surveys are meaningful, and she takes action based on the feedback. Dr. Lech thanked the Board for the formalized goal and time horizon for the ED compensation. This provided guidance for the ERCC which is recommending a 4% legislative increase and an additional 4% equity increase to work towards the Board's goal. Board discussion followed.

**IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO APPROVE A 4% LEGISLATIVE INCREASE WITH AN ADDITIONAL 4% EQUITY INCREASE FOR THE ED SALARY TO WORK TOWARDS THE SIB'S STRATEGIC GOAL OF REACHING THE MEDIAN SALARY WITHIN TEN YEARS.**

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

**NAYS: NONE**

**ABSENT: REP. BOSCH**

**MOTION CARRIED**

Investment Committee (IC) Update:

Treasurer Beadle provided an update from the May 10, 2024, and May 14, 2024, IC meetings. At the regular meeting on May 10 the IC received a presentation on the risk dashboard, a procurement update regarding the investment IT strategy and ongoing procurement project, and a recommendation for the procurement of legal services for broker/dealer agreements. Staff provided updates on benchmark changes, new client fund investment policy statements, and a private markets manager recommendation.

The IC had a special meeting on May 14, 2024, to receive finalist presentations for the Performance Measurement Consultant.

Performance Measurement Consultant Recommendation:

**IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER HERINGER AND CARRIED BY A VOICE VOTE TO ENTER INTO EXECUTIVE SESSION PURSUANT TO NDCC 44-04-19.2(6) AND 54-44.4-10(2) TO RECEIVE AND DISCUSS EXEMPT PROPOSAL PROCUREMENT INFORMATION DURING A COMPETITIVE BIDDING PROCESS.**

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

**NAYS: NONE**

**ABSENT: REP. BOSCH**

**MOTION CARRIED**

The executive session started at 9:28 a.m. and ended at 10:09 a.m. and was attended by Board members, staff, A.A.G. DePountis, and Mr. Chad Keech, State Procurement.

**IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER HERINGER AND CARRIED BY A ROLL CALL VOTE TO DIRECT STAFF TO BEGIN CONTRACT NEGOTIATIONS WITH THE FIRM MOST SUSCEPTIBLE FOR AWARD.**

**AYES: SEN. KLEIN, MS. SISK, COMMISSIONER HERINGER, DR. LECH, MR. MILLER, TREASURER BEADLE, DR. SIMLAI, MR. MICKELSON, MR. JAHNER, MR. THOMPSON, MR. MORRISSETTE, AND LT. GOV. MILLER**  
**NAYS: NONE**  
**ABSENT: REP. BOSCH**  
**MOTION CARRIED**

Benchmark Consultant Recommendation:

Mr. Chin reviewed updates to the benchmark memo recommended by Verus. Board discussion followed.

**IT WAS MOVED BY COMMISSIONER HERINGER AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE BENCHMARK CONSULTANT RECOMMENDATIONS.**

**AYES: DR. SIMLAI, MS. SISK, TREASURER BEADLE, COMMISSIONER HERINGER, SEN. KLEIN, MR. THOMPSON, DR. LECH, MR. JAHNER, MR. MORRISSETTE, MR. MICKELSON, MR. MILLER, AND LT. GOV. MILLER**  
**NAYS: NONE**  
**ABSENT: REP. BOSCH**  
**MOTION CARRIED**

New Client Funds Update:

Mr. Skor provided an update on the three new client funds. The Board was provided with Investment Policy Statements (IPS) for each new client. The IPS's have been approved by the client boards and the IC has reviewed them and recommended approval.

**IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY SEN. KLEIN AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE INVESTMENT POLICY STATEMENTS FOR THE WATER PROJECTS STABILIZATION FUND, OPIOID SETTLEMENT FUND, AND STATE HISTORICAL SOCIETY OF ND ENDOWMENT FUND.**

**AYES: MR. THOMPSON, MS. SISK, MR. MORRISSETTE, MR. MILLER, MR. JAHNER, MR. MICKELSON, DR. SIMLAI, COMMISSIONER HERINGER, DR. LECH, SEN. KLEIN, TREASURER BEADLE, AND LT. GOV. MILLER**  
**NAYS: NONE**  
**ABSENT: REP. BOSCH**  
**MOTION CARRIED**

Governance and Policy Review (GPR) Committee Update:

Dr. Lech provided an update from the May 8, 2024, GPR meeting. The Committee reviewed two additional exhibits for the SIB governance manual. The Board approved the introduction and first reading of the amended governance manual at their April meeting. The GPR recommends approval of the second reading and final adoption. Board discussion followed.

**IT WAS MOVED BY DR. LECH AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE SECOND READING AND FINAL ADOPTION OF AMENDMENTS TO THE SIB GOVERNANCE MANUAL.**

**AYES: DR. LECH, TREASURER BEADLE, DR. SIMLAI, COMMISSIONER HERINGER, MR. MILLER, MS. SISK, MR. JAHNER, MR. MICKELSON, MR. MORRISSETTE, MR. THOMPSON, SEN. KLEIN, AND LT. GOV. MILLER**  
**NAYS: NONE**

**ABSENT: REP. BOSCH  
MOTION CARRIED**

The Board recessed at 10:30 a.m. and reconvened at 10:43 a.m.

Audit Committee Update:

Ms. Seiler provided an update from the Audit Committee meeting on May 15, 2024. The Committee received an update from Weaver on the Internal Audit (IA) Modernization project. The new external auditor will be UHY. The procurement for those services is completed by the State Auditor's Office. Board discussion followed.

Board Education and Planning Calendar:

**IT WAS MOVED BY DR. LECH AND SECONDED BY COMMISSIONER HERINGER AND CARRIED BY A ROLL CALL VOTE TO APPROVE THE 2024-25 BOARD EDUCATION AND PLANNING CALENDAR.**

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

**NAYS: NONE**

**ABSENT: REP. BOSCH  
MOTION CARRIED**

INVESTMENTS:

Quarterly Performance Update:

Mr. Browning, Callan, provided a performance update as of March 31, 2024, including an overview of the economy and how that has affected performance. Each of the Trust's asset allocations were within policy ranges and cash flows were managed to rebalance towards strategic targets. All Total Fund returns have each exceeded their respective corridor benchmarks on a net-of-fee basis for the trailing five-year period ended March 31, 2024. In most cases, Total Fund net-of-fee results exceed their corridor benchmark. Board discussion followed.

**IT WAS MOVED BY DR. SIMLAI AND SECONDED BY MR. JAHNER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE QUARTERLY PERFORMANCE UPDATE.**

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

**NAYS: NONE**

**ABSENT: REP. BOSCH  
MOTION CARRIED**

Internal Investment Initiative Update:

Mr. Chin provided an update on activities relating to the internal investment management initiative. The procurement process for the investment IT project is moving forward. Staff are working on the internal direct overlay and rebalance strategy and are in the final steps of hiring a securities lawyer. Staff are developing the job descriptions for the new positions for the program. Board discussion followed.



## **QUARTERLY MONITORING REPORTS:**

### **Executive Limitations/Staff Relations:**

Ms. Murtha provided the Executive Limitations/Staff Relations report. The last two sessions for the new board member orientation curriculum have been scheduled in June and July covering the retirement and internal audit programs. An Investment Intern was hired and will start at the end of the month. The Accounting Intern recruitment was unsuccessful so that will be reposted in the fall. Ms. Murtha summarized the current projects and initiatives and the upcoming conferences and meetings that RIO staff will participate in. Ms. Murtha thanked Ms. Riegler, the procurement and records management coordinator, for all her work on the numerous procurements for the agency. Board discussion followed.

**IT WAS MOVED BY SEN. KLEIN AND SECONDED BY TREASURER BEADLE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE EXECUTIVE LIMITATIONS/STAFF RELATIONS REPORT.**

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

**NAYS: NONE**

**ABSENT: REP. BOSCH**

**MOTION CARRIED**

### **ADJOURNMENT:**

With no further business to come before the SIB, Lt. Gov. Miller adjourned the meeting at 11:23 a.m.

Prepared by: Missy Kopp, Assistant to the Board

## MEMORANDUM

**TO: SIB**  
**FROM: Jan Murtha, Executive Director**  
**DATE: July 17, 2024**  
**RE: Election and Appointment of SIB Officers**

Pursuant to the SIB Governance Manual By-Laws Chapter 3, the SIB must elect a Chair and Vice Chair at the first meeting of each fiscal year. The newly elected Chair must appoint a Parliamentarian. For the 2024-25 year, the Board will need to select:

- **SIB Chair**  
(Currently Lt. Governor Miller)
- **SIB Vice Chair**  
(Currently Dr. Lech – TFFR Trustee)

Either the Chair or Vice-Chair must be a member of the TFFR or PERS Board per Section 3.1 of the SIB By-Laws.

- **Parliamentarian – Appointed by SIB Chair**  
(Currently Treasurer Beadle)

The relevant By-Laws and Governance Policy of the SIB are below:

By-Laws Chapter 3:

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

Policy Section II (D)(1)(d): The chairperson shall appoint a Parliamentarian.

**Board Action Requested: Nominate and approve Chair and Vice-Chair. Chair to appoint Parliamentarian.**

## MEMORANDUM

**TO: SIB**  
**FROM: Jan Murtha, Executive Director**  
**DATE: July 17, 2024**  
**RE: Audit Committee Appointments**

### **SIB Governance Manual Section II F on Standing Committees states:**

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

### **The committee charter states:**

The Committee will consist of five members, selected by and approved by the SIB. Three members of the Committee will represent the three groups on the SIB: Legacy & Budget Stabilization Fund Advisory Board, a pension representative, member-at-large, and two members selected from outside of the SIB and the RIO. The SIB should select committee members who are both independent and financially literate.

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

### **Current Committee members are:**

Treasurer Beadle (Chair)

Cody Mickelson (TFFR Trustee);

Adam Miller (PERS Trustee);

Dina Cashman (External); and

Todd Van Orman (External).

**Board Action Requested:** Board to elect Audit Committee members.

## MEMORANDUM

**TO: SIB**  
**FROM: Jan Murtha, Executive Director**  
**DATE: July 17, 2024**  
**RE: GPR Committee appointments**

**SIB Governance Manual Section II F on Standing Committees states:**

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

**The committee charter states:**

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

**Current Committee members are:**

Dr. Lech (TFFR Trustee) Chair;  
Thomas Beadle (State Treasurer);  
Susan Sisk (OMB Director).

**Board Action Requested:** Board to elect GPR Committee members.

## MEMORANDUM

**TO: SIB**  
**FROM: Jan Murtha, Executive Director**  
**DATE: July 17, 2024**  
**RE: Executive Review and Compensation Committee appointments**

### **SIB Governance Manual Section II F on Standing Committees states:**

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

### **The ERCC Charter states:**

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

### **Current board members assigned are:**

- Dr. Rob Lech (TFFR Trustee) - Chair
- State Treasurer Thomas Beadle (Elected Official)
- Senator Jerry Klein

**Board Action Requested:** Chair to appoint.

## MEMORANDUM

**TO: SIB**  
**FROM: Jan Murtha, Executive Director**  
**DATE: July 17, 2024**  
**RE: Investment Committee appointments**

### **SIB Governance Manual Section II F on Standing Committees states:**

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

### **The Investment Committee Charter states:**

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

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

### **Current board members assigned are:**

- State Treasurer Thomas Beadle – Board Member (as Chair)
- Commissioner Joseph Heringer – Board Member (as Vice Chair)
- Prodosh Simlai – External professional
- Ruilin Tian – External professional
- CIO Scott Anderson – RIO Staff
- Deputy CIO Eric Chin – RIO Staff

**Board Action Requested:** Chair to appoint members, Chair, and Vice-Chair of committee.

## MEMORANDUM

**TO: SIB**  
**FROM: Jan Murtha, Executive Director**  
**DATE: July 17, 2024**  
**RE: Securities Litigation Committee appointments**

### **SIB Governance Manual Section II F on Standing Committees states:**

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

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

### **The committee charter states:**

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

### **Current Committee members are:**

Land Commissioner Joe Heringer;  
WSI Director Art Thompson; and  
Joe Morrissette (PERS Trustee).

**Board Action Requested:** Chair to appoint.

# INVESTMENT PERFORMANCE METRICS

Scott M Anderson, CFA – Chief Investment Officer

July 26, 2024

NORTH  
**Dakota**  
Be Legendary.

Retirement & Investment



# THE FRAMEWORK

NORTH  
**Dakota**  
Be Legendary.

Retirement & Investment

# INVESTMENT PERFORMANCE FRAMEWORK

- Performance calculation
- Benchmark selection
- Calculation of excess return
- Performance attribution
- Risk analysis

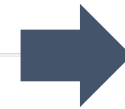
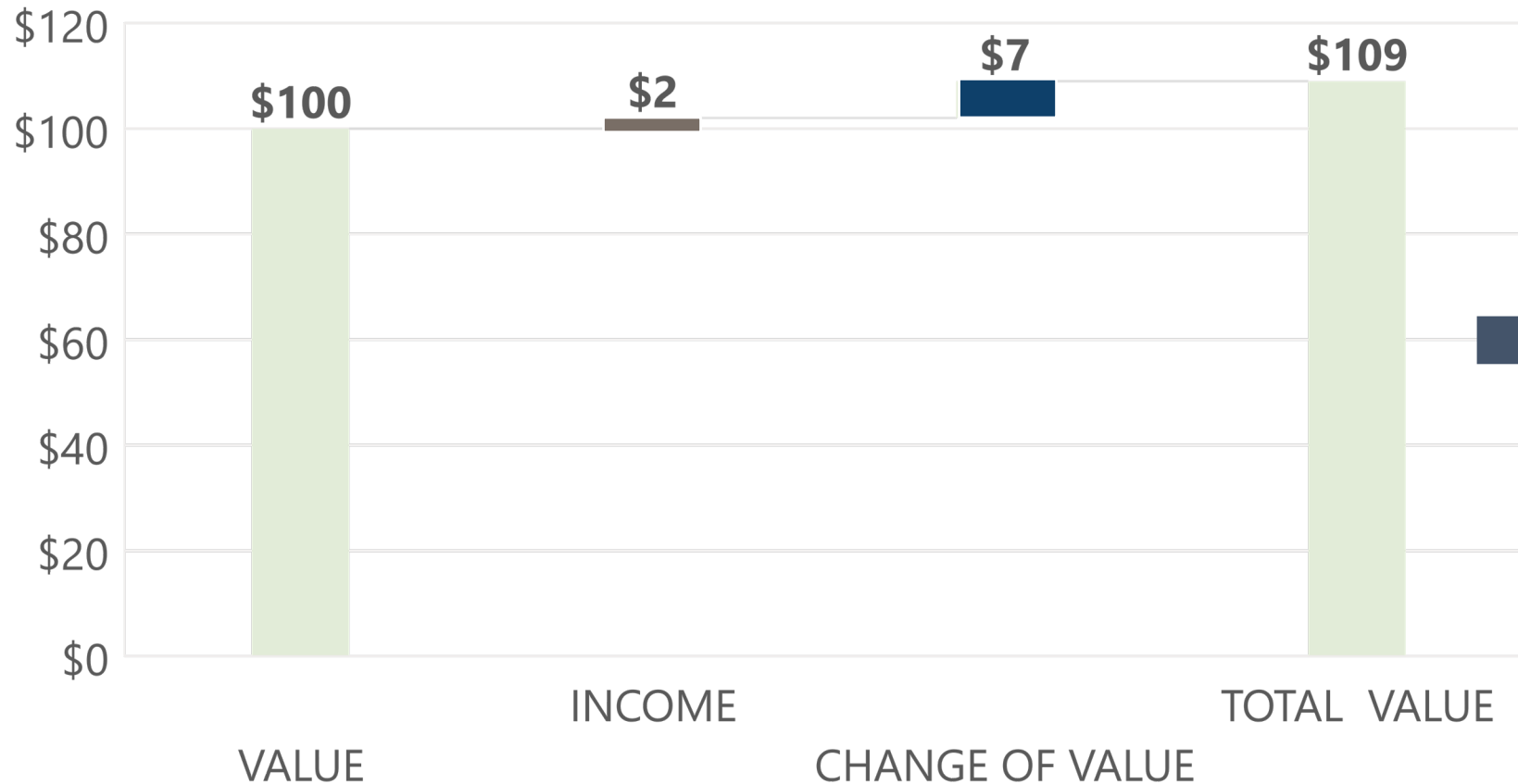
# PERFORMANCE CALCULATION

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# RETURN CALCULATION

## TOTAL VALUE CHANGE



$$\frac{(\$2 + \$7)}{\$100} = 9\%$$

# BENCHMARK SELECTION

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# CHARACTERISTICS OF A GOOD BENCHMARK

- **Specified in advance**
  - The benchmark is specified prior to the start of the evaluation period.
- **Appropriate**
  - The benchmark is consistent with the manager's investment style or area of expertise.
- **Measurable**
  - The benchmark's return is readily calculable on a reasonably frequent basis.
- **Unambiguous**
  - The identities and weights of securities are clearly defined.
- **Reflective of current investment opinions**
  - The manager has current knowledge of the securities in the benchmark.
- **Accountable**
  - The manager is aware and accepts accountability for the constituents and performance of the benchmark.
- **Investable**
  - It is possible to simply hold the benchmark

# CALCULATION OF EXCESS RETURN

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# CALCULATION OF EXCESS RETURN

	<b>1 Year</b>
<b>Total Fund Return – Net (+)</b>	<b>7.5%</b>
<b>Policy Benchmark Return (-)</b>	<b>7.1%</b>
<b>Total Relative Return (Excess Return) (=)</b>	<b>0.4%</b>



# PERFORMANCE REPORT

	Total value of fund		Performance of the Fund			Risk
	Year to Date	1 Year	3 year	5 Year	(5 Year)	
<b>PERS \$3.9 Billion</b>						
<b>Total Fund Return - Net</b>	<b>7.1%</b>	<b>8.7%</b>	<b>8.6%</b>	<b>7.2%</b>	<b>10.2%</b>	
<b>Policy Benchmark Return</b>	<b>7.1%</b>	<b>8.0%</b>	<b>8.3%</b>	<b>6.9%</b>	<b>10.4%</b>	
<b>Total Relative Return</b>	<b>0.0%</b>	<b>0.7%</b>	<b>0.3%</b>	<b>0.3%</b>		

Opportunity Cost Benchmark

Excess Return (Uncertainty of Excess Return is Tracking Error)

# PERFORMANCE ATTRIBUTION

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# PERFORMANCE ATTRIBUTION

- **Holdings based attribution - allocation and selection**
- Transaction based attribution – includes costs; reconciles
- Returns based attribution -factor

# PERFORMANCE ATTRIBUTION

Actual Return less  
Benchmark Return at  
Benchmark Weight

Actual Weight less  
Benchmark Weight at  
Benchmark Return

## Five Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	9%	9%	12.36%	11.92%	0.03%	(0.05%)	(0.02%)
Small Cap	2%	2%	3.74%	4.21%	(0.04%)	(0.01%)	(0.04%)
International Equity	6%	6%	4.33%	3.80%	0.03%	(0.04%)	(0.01%)
Domestic Fixed Income	47%	47%	1.57%	0.77%	0.37%	0.01%	0.38%
Diversified Real Assets	9%	9%	3.16%	3.30%	(0.02%)	0.00%	(0.02%)
Real Estate	4%	4%	5.87%	5.90%	0.01%	0.00%	0.01%
Short Term Fixed Income	21%	21%	1.72%	1.13%	0.14%	(0.03%)	0.10%
Cash & Equivalents	2%	2%	1.46%	1.55%	(0.00%)	(0.03%)	(0.03%)
Transition Account	0%	0%	-	-	0.00%	(0.00%)	(0.00%)
Residual Holdings	0%	0%	-	-	0.00%	0.00%	0.00%
<b>Total</b>			<b>3.16%</b>	<b>= 2.81%</b>	<b>+ 0.50%</b>	<b>+ (0.14%)</b>	<b>0.36%</b>

# RISK ANALYSIS

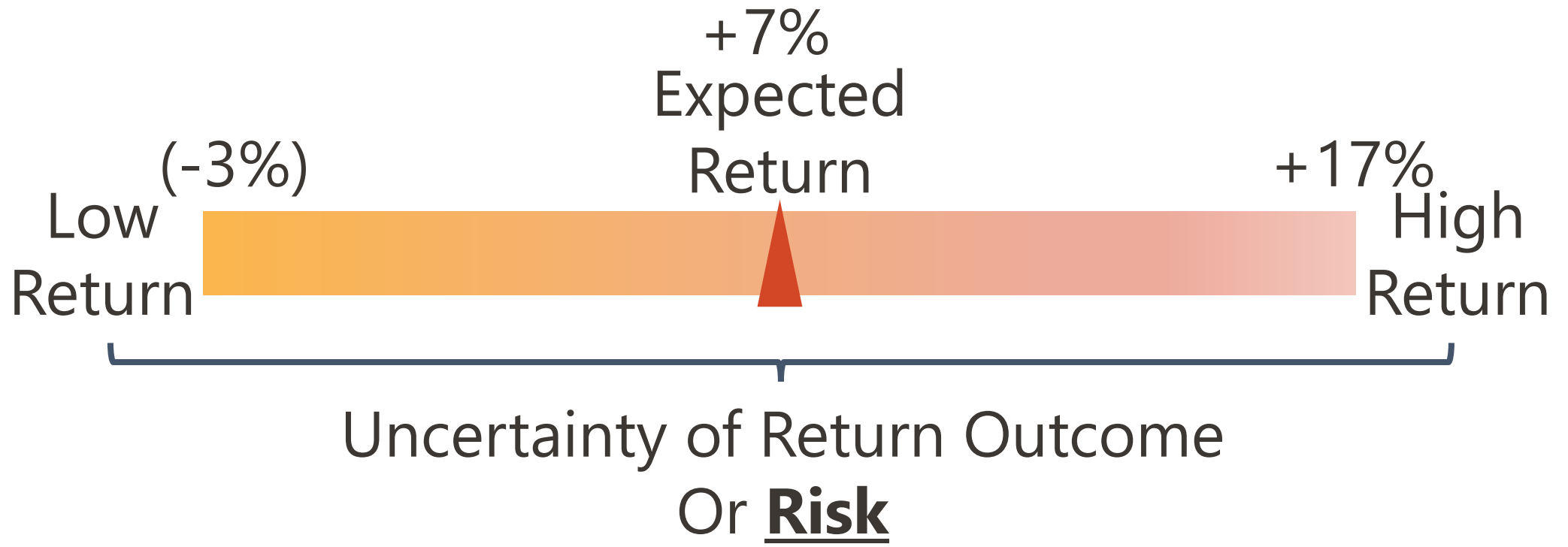
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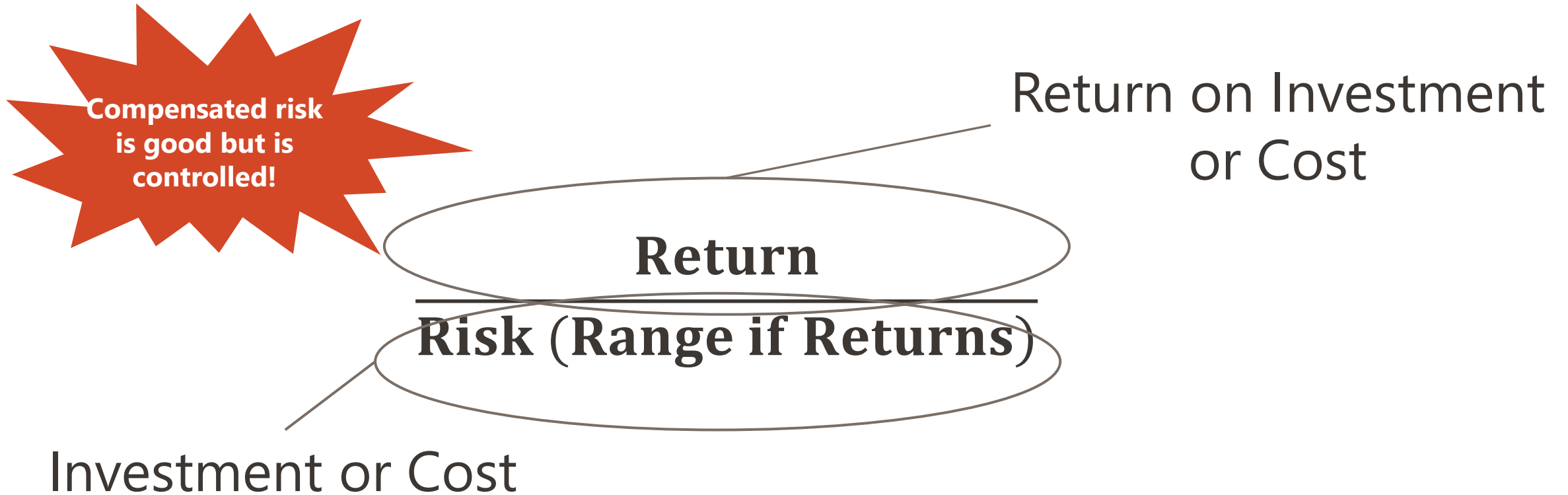
# FUND LEVEL RISK (ABSOLUTE RISK)

Illustration

A PENSION PORTFOLIO RETURN



# RISK IS AN INVESTMENT



# RETURN EFFICIENCY

Return Efficiency =  $\frac{\text{Return}}{\text{Risk (Range if Returns)}}$        $\frac{5\%}{10\%}$  is better than  $\frac{5\%}{20\%}$

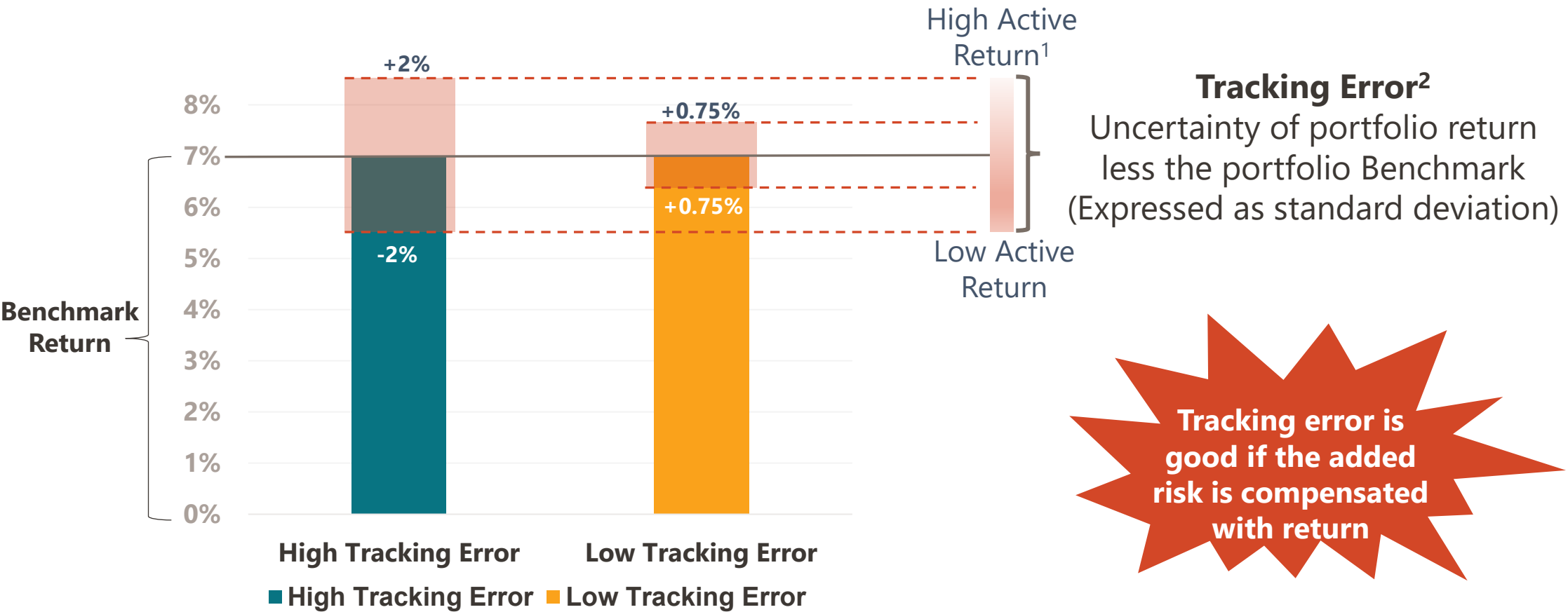
## Example:

1 Year Expected Return	Risk	Return/Risk	Average Compound Return (Many Years)
5%	10%	.5	4.5%
5%	20%	.25	3.0%

**33% lower long-term return because of the doubling of risk!**




# ACTIVE RETURN RISK (TRACKING ERROR)



1. Active return is the portfolio return less the benchmark return or how much does the portfolio earn above the benchmark.  
 2. Tracking error is the variation or uncertainty of active return

# ACTIVE RETURN EFFICIENCY

**Active Return Efficiency** =  $\frac{\text{Active Return}}{\text{Tracking Error}}$    $\frac{0.7\%}{1.5\%}$  is better than  $\frac{0.7\%}{3.0\%}$

	1 Year Active Return	Tracking Error	Active Return/ Risk	Level of Skill
	0.5%	1%	0.5	Top Quartile
Target 	0.25%	1%	0.25	Upper Mid Quartile
	0.0%	1%	0.0	Average

**Skill to create active return is rare but a valuable investment!**

# INVESTMENT PERFORMANCE

Scott M Anderson, CFA – Chief Investment Officer

July 26, 2024

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# THE MARKET

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# PERFORMANCE – BENCHMARK INDICES

<b>Summary of Returns</b>						
<b>March 31, 2024</b>						
<b>Benchmark Indices</b>						
<b>(% change, annualized)</b>	<b>YTD</b>	<b>1 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>10 Yr</b>	<b>Volatility</b>
Russell 1000	10.3%	29.8%	14.7%	12.7%	17.9%	
Russell 2000	5.2%	19.6%	8.1%	7.6%	22.6%	
S&P 500	10.6%	29.8%	15.0%	12.9%	17.7%	
MSCI ACWI IMI Net	7.7%	22.4%	10.6%	8.4%	14.2%	
MSCI World ex US	5.6%	15.2%	7.5%	4.8%	14.3%	
MSCI Emerging Markets	2.4%	8.1%	2.2%	2.9%	15.7%	
Bloomberg Aggregate	-0.8%	1.7%	0.4%	1.5%	4.6%	
Bloomberg Gov/Credit	-0.7%	1.7%	0.6%	1.7%	4.9%	
Bloomberg US High Yield	1.5%	11.1%	4.2%	4.4%	5.2%	
NCREIF Property Index (03/31/2024)	-1.0%	-7.1%	3.8%	6.4%	4.1%	

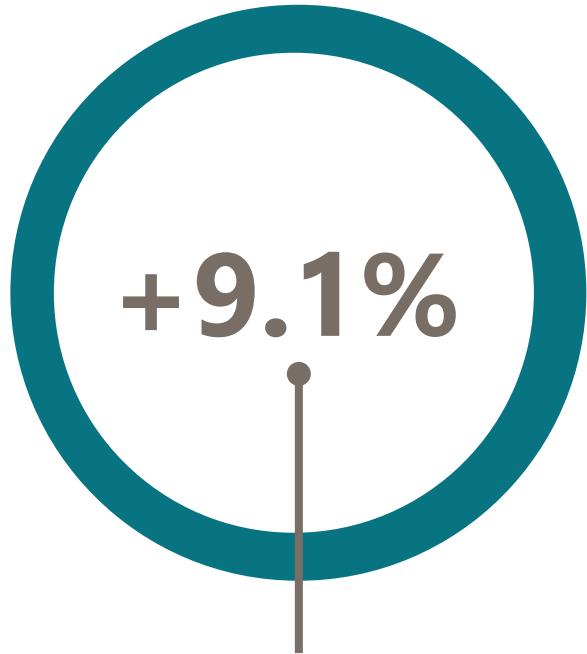
Source: Bloomberg

# PERFORMANCE – BENCHMARK INDICES

<b>Summary of Returns</b>					
<b>July 16, 2024</b>					
<b>Benchmark Indices</b>					
<b>(% change, annualized)</b>	<b>YTD</b>	<b>1 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>10 Yr Volatility</b>
Russell 1000	18.8%	26.9%	15.0%	12.8%	17.9%
Russell 2000	12.5%	18.9%	9.2%	8.5%	22.7%
S&P 500	19.7%	27.6%	15.4%	13.1%	17.7%
MSCI ACWI IMI Net	14.7%	20.4%	10.9%	8.5%	14.3%
MSCI World ex US	8.6%	12.2%	7.3%	4.6%	14.4%
MSCI Emerging Markets	11.0%	11.4%	3.6%	2.9%	15.7%
Bloomberg Aggregate	0.9%	4.1%	0.2%	1.5%	4.7%
Bloomberg Gov/Credit	0.9%	4.2%	0.4%	1.7%	5.0%
Bloomberg US High Yield	4.1%	11.0%	4.2%	4.5%	5.2%
NCREIF Property Index (03/31/2024)	-1.0%	-7.1%	3.8%	6.4%	4.1%

Source: Bloomberg

# HAS INFLATION PEAKED?<sup>1</sup>



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

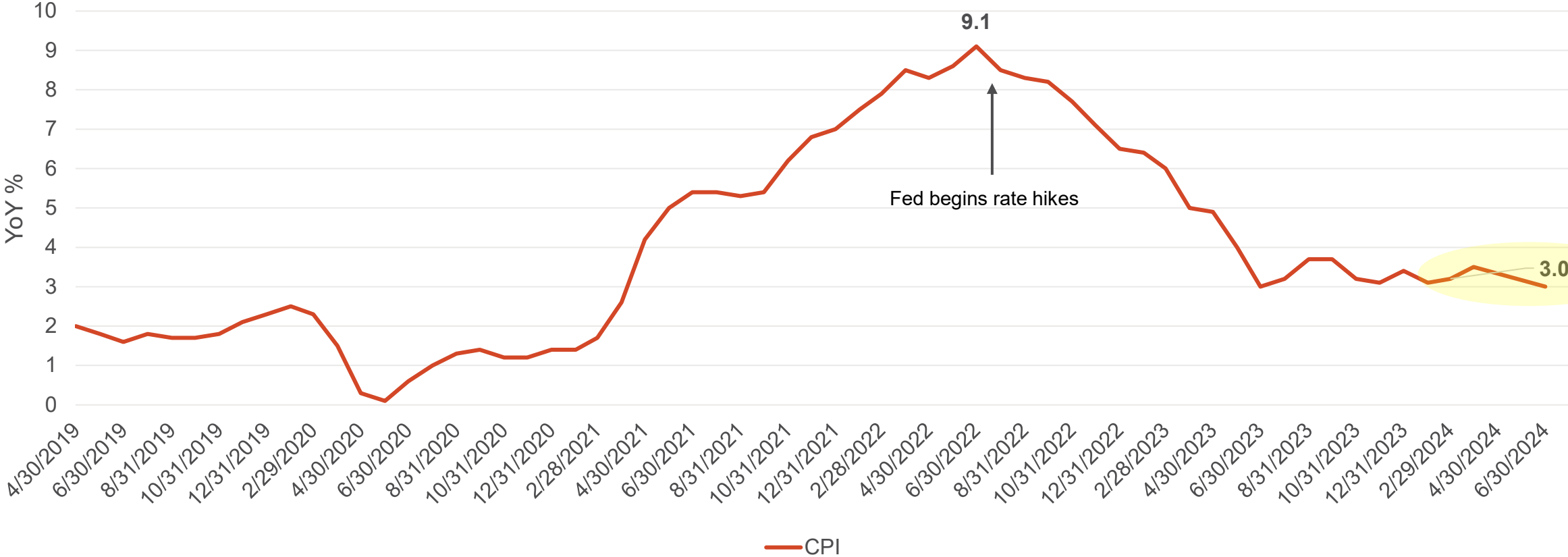


**ANNUAL INFLATION RATE  
(June 2023 thru June 2024)**  
**3.3% Ex Food & Energy**

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

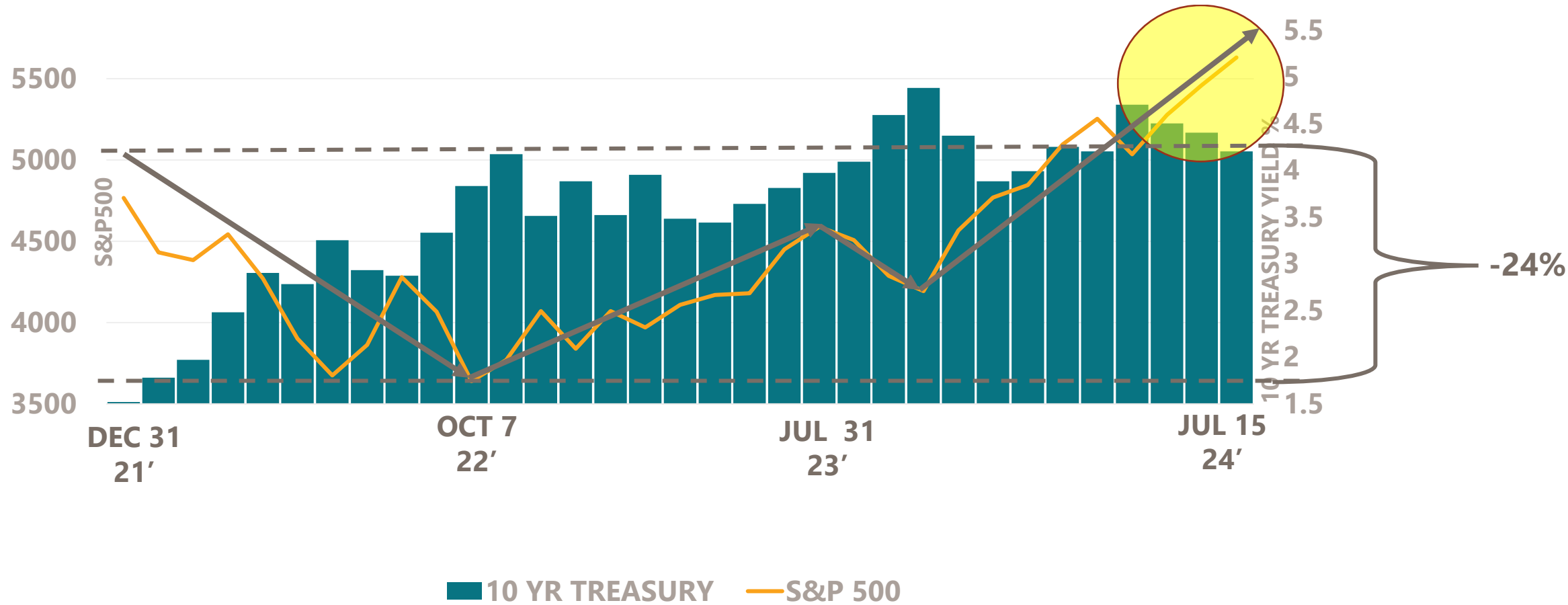
# INFLATION PAST 5 YEARS

### Annual Inflation Rate



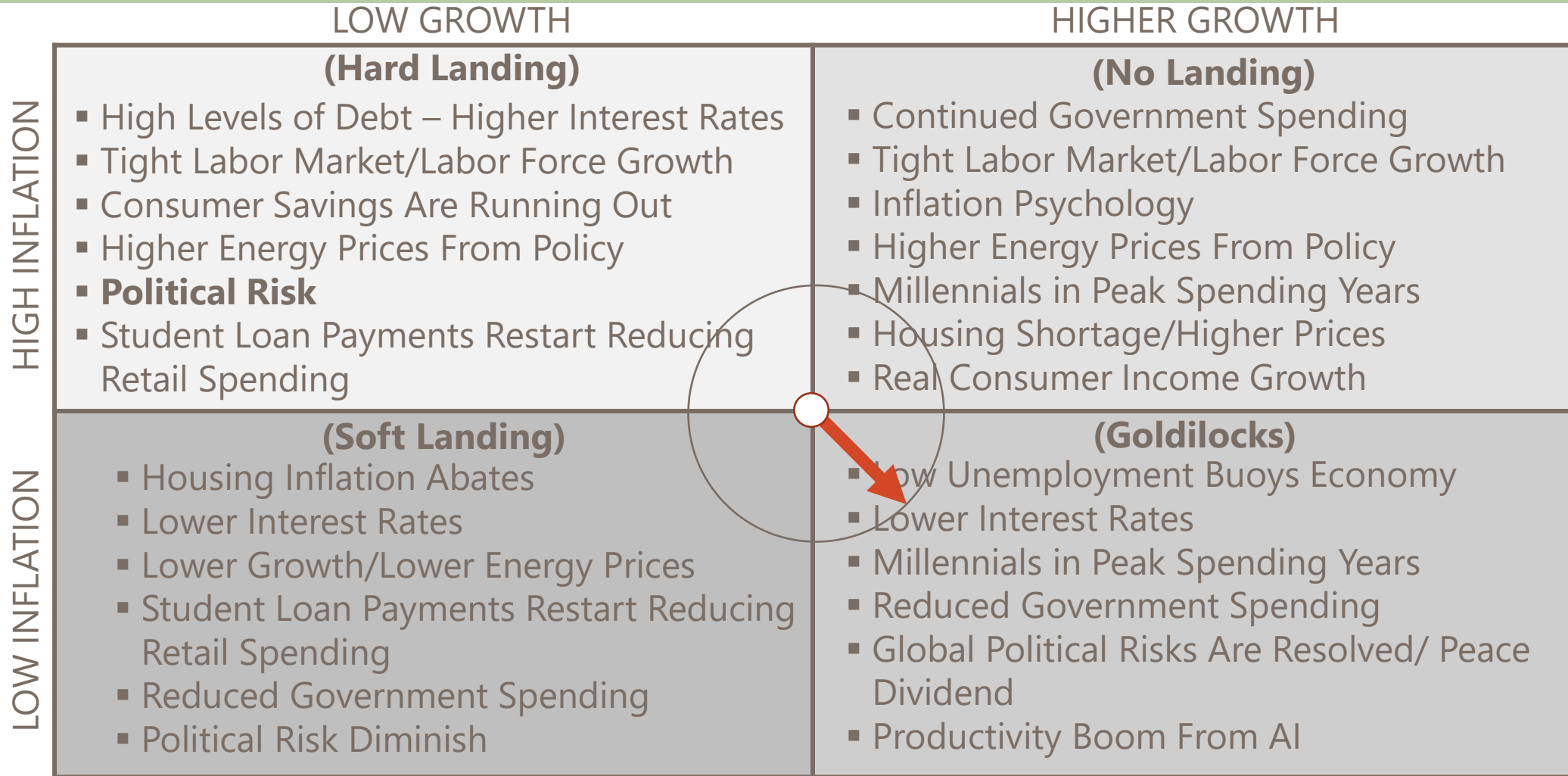


# THE S&P500 HAS TRACKED INFLATION EXPECTATIONS<sup>1</sup>



1. FRED

# COMPETING NARRATIVES



# GOOD NEWS <sup>1</sup>

BLOOMBERG AGG YIELD<sup>1</sup>: 4.74%



**BEST GUESS FOR  
FUTURE BOND  
RETURN!**

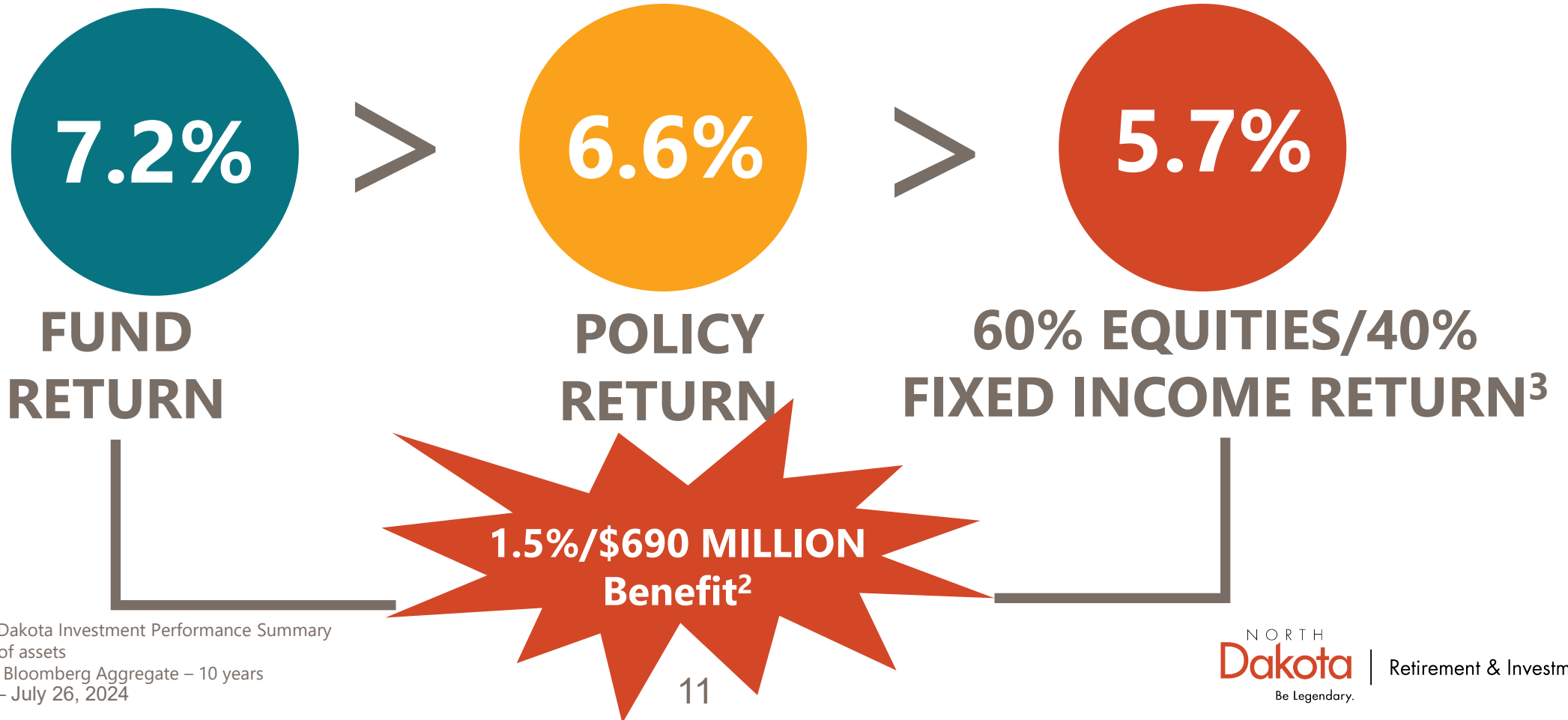
# PERFORMANCE

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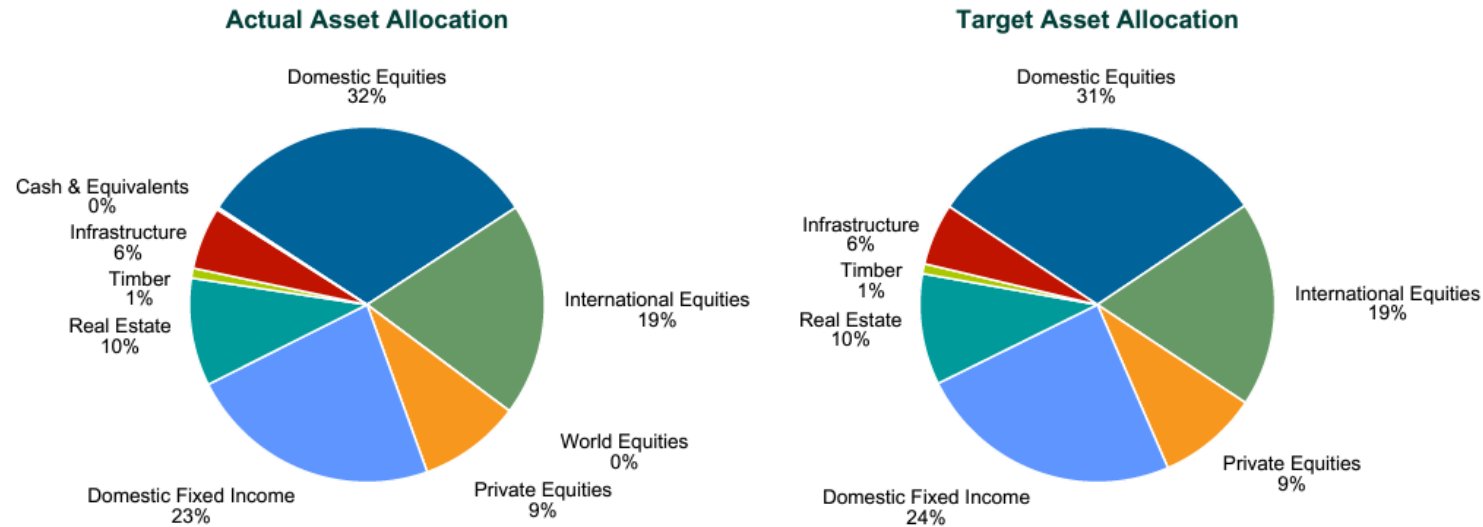
# INVESTMENT MANAGEMENT BENEFITS

## PERS TEN YEAR AVERAGE RETURN<sup>1</sup>



1. Thru March 2024; North Dakota Investment Performance Summary  
2. Starting with \$4.3 Billion of assets  
3. 60% MSCI ACW IMI/40% Bloomberg Aggregate – 10 years  
Scott M Anderson, CFA – July 26, 2024

# ASSET ALLOCATION



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equities	1,359,582	31.6%	31.3%	0.3%	14,806
International Equities	833,891	19.4%	18.7%	0.7%	30,965
World Equities	26	0.0%	0.0%	0.0%	26
Private Equities	401,406	9.3%	9.2%	0.1%	3,871
Domestic Fixed Income	992,973	23.1%	24.2%	(1.1%)	(46,281)
Real Estate	423,055	9.8%	10.1%	(0.3%)	(13,392)
Timber	38,804	0.9%	0.9%	(0.0%)	(632)
Infrastructure	244,879	5.7%	5.6%	0.1%	2,447
Cash & Equivalents	8,190	0.2%	0.0%	0.2%	8,190
<b>Total</b>	<b>4,302,807</b>	<b>100.0%</b>	<b>100.0%</b>		

1. March 2024 values – Callan

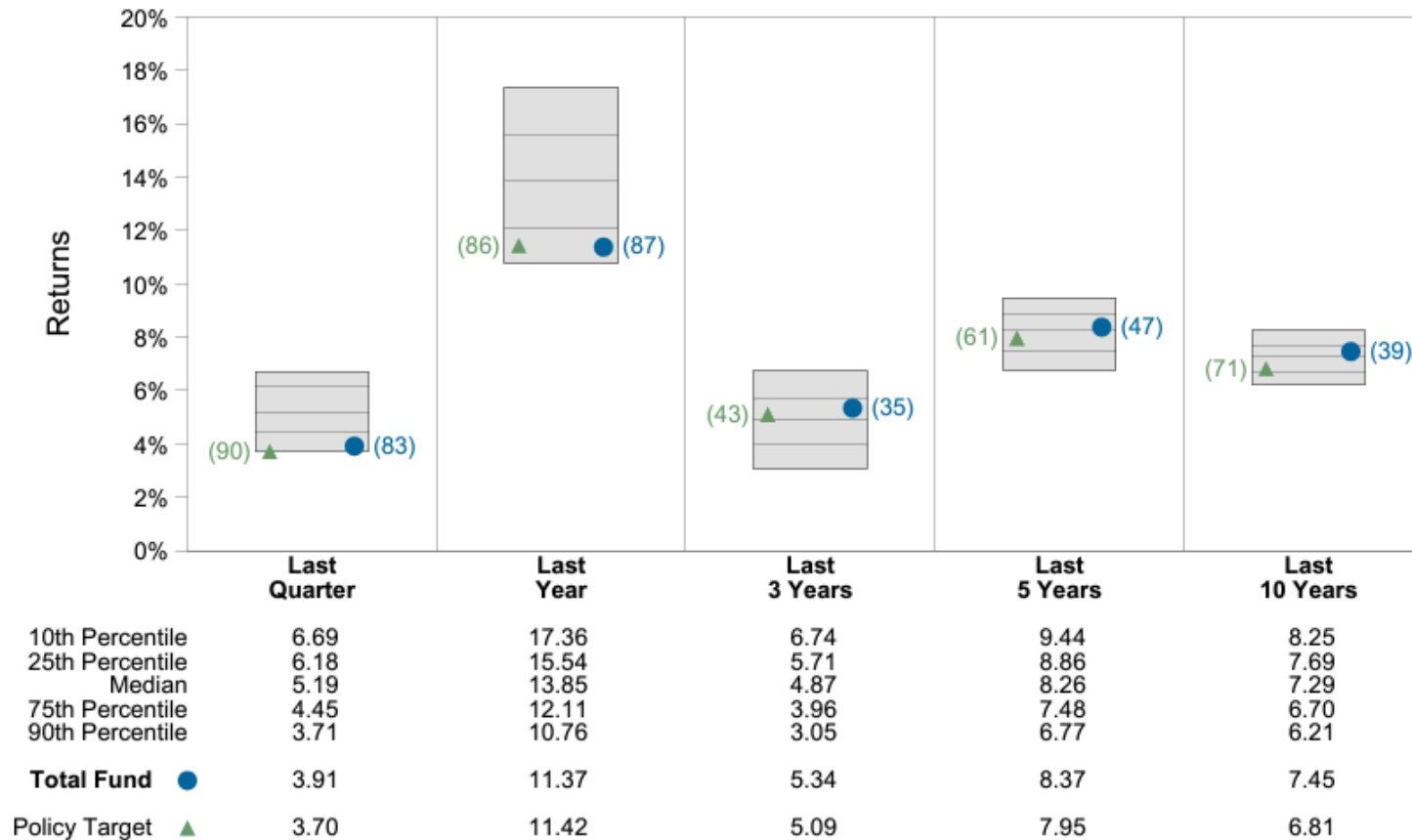
# PERS PERFORMANCE

<b>AS OF May 31, 2024</b> <b>PERS \$4.2 Billion</b>	<b>Year to Date</b>	March 30, 2024			<b>Risk (5 Year)</b>
		<b>1 Year</b>	<b>3 year</b>	<b>5 Year<sup>1</sup></b>	
<b>Total Fund Return - Net</b>	<b>4.2%</b>	<b>11.2%</b>	<b>5.1%</b>	<b>8.1%</b>	<b>10.0%</b>
<b>Policy Benchmark Return</b>	<b>3.8%</b>	<b>11.0%</b>	<b>4.5%</b>	<b>7.5%</b>	<b>10.3%</b>
<b>Total Relative Return<sup>1</sup></b>	<b>0.4%</b>	<b>0.2%</b>	<b>0.6%</b>	<b>0.6%</b>	

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

# PERS PERFORMANCE

## Callan Public Fund Sponsor Database

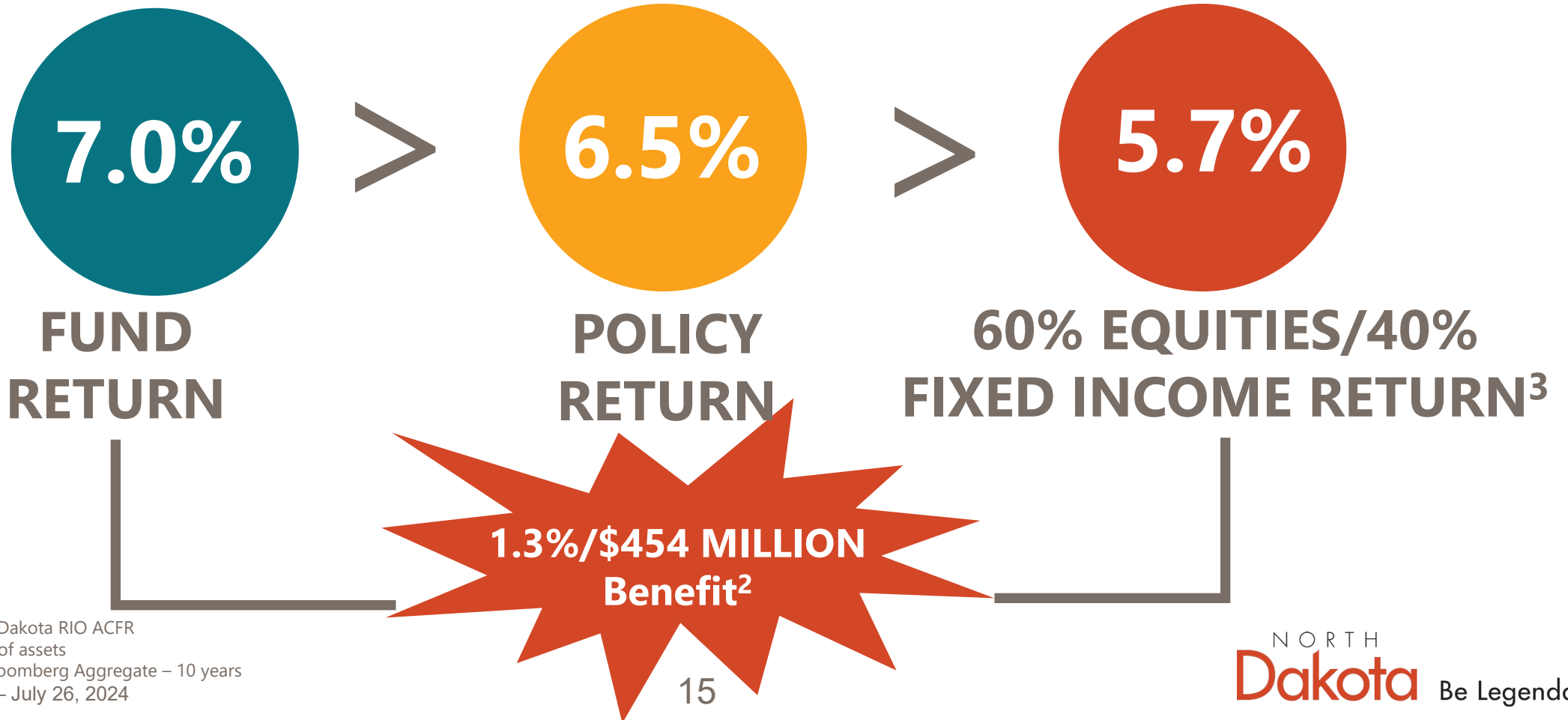


1. March 2024 values – Callan



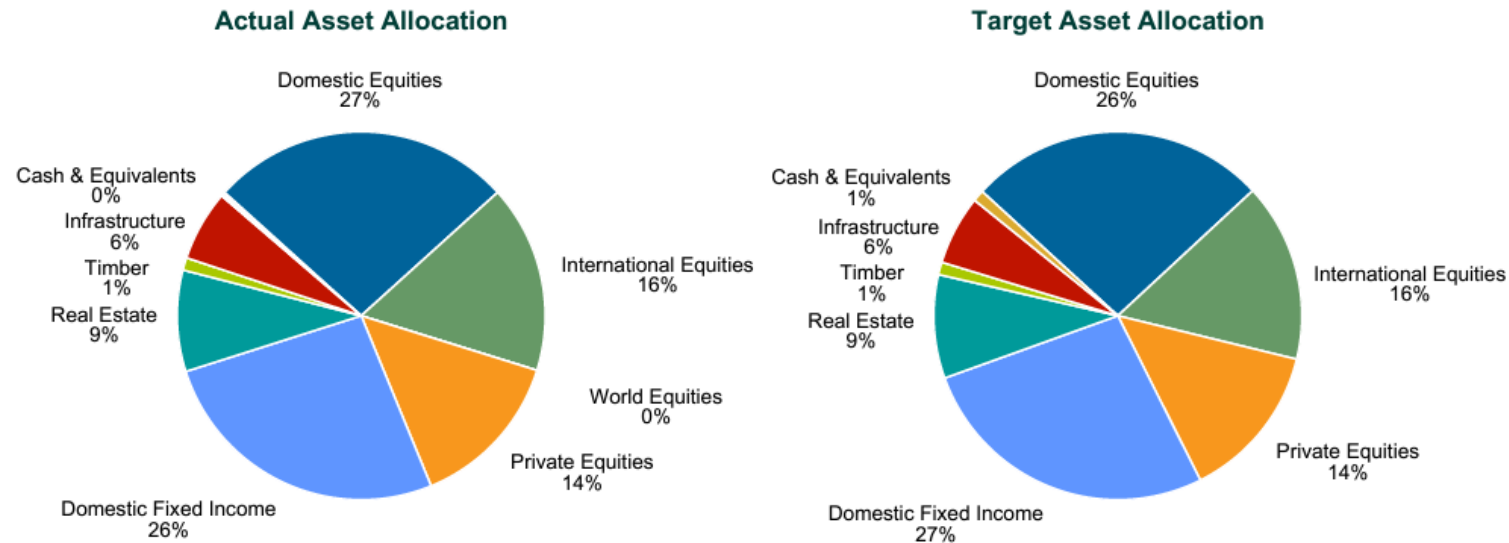
# INVESTMENT MANAGEMENT BENEFITS

## TFFR TEN YEAR AVERAGE RETURN<sup>1</sup>



1. Thru March 2024; North Dakota RIO ACFR  
2. Starting with \$3.3 Billion of assets  
3. 60% MSCI World/40% Bloomberg Aggregate – 10 years  
Scott M Anderson, CFA – July 26, 2024

# ASSET ALLOCATION



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equities	871,015	26.7%	26.3%	0.4%	11,831
International Equities	537,128	16.5%	15.7%	0.7%	24,135
World Equities	238	0.0%	0.0%	0.0%	238
Private Equities	455,354	14.0%	13.8%	0.2%	6,210
Domestic Fixed Income	858,289	26.3%	26.9%	(0.5%)	(17,434)
Real Estate	290,197	8.9%	9.1%	(0.2%)	(7,980)
Timber	34,637	1.1%	1.1%	(0.0%)	(422)
Infrastructure	200,605	6.2%	6.1%	0.1%	2,806
Cash & Equivalents	13,224	0.4%	1.0%	(0.6%)	(19,383)
<b>Total</b>	<b>3,260,687</b>	<b>100.0%</b>	<b>100.0%</b>		

1. March 2024 values – Callan

# TFFR PERFORMANCE

**AS OF May 31, 2024**

**TFFR \$3.3 Billion**

**Total Fund Return - Net**

**Policy Benchmark Return**

**Total Relative Return<sup>1</sup>**

**Year to  
Date**

March 30, 2024

**1 Year**

**3 year**

**5 Year<sup>1</sup>**

**Risk  
(5 Year)**

**3.7%**

**10.1%**

**4.7%**

**7.8%**

**9.6%**

**3.4%**

**9.8%**

**4.3%**

**7.3%**

**10.0%**

**0.3%**

**0.3%**

**0.4%**

**0.5%**

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

# PERFORMANCE – TFFR

## Callan Public Fund Sponsor Database



1. March 2024 values – Callan

# INVESTMENT MANAGEMENT BENEFITS

## LEGACY TEN YEAR AVERAGE RETURN<sup>1</sup>



**FUND  
RETURN**

>

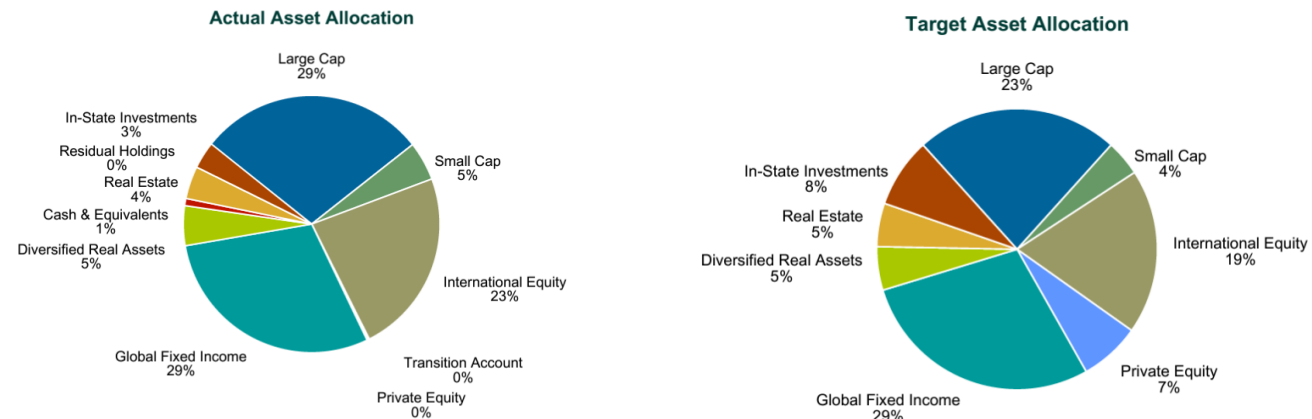


**POLICY  
RETURN**

**0.6%/\$653 MILLION  
Benefit<sup>2</sup>**

1. Thru March 2024; North Dakota RIO ACFR  
2. Starting with \$10.6 Billion of assets

# ASSET ALLOCATION



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Large Cap	3,039,654	28.8%	23.4%	5.4%	571,843
Small Cap	514,995	4.9%	4.1%	0.8%	79,499
International Equity	2,458,896	23.3%	19.0%	4.3%	452,975
Transition Account	45	0.0%	0.0%	0.0%	45
Private Equity	26,622	0.3%	7.0%	(6.7%)	(712,402)
Global Fixed Income	3,107,383	29.4%	28.5%	0.9%	98,501
Diversified Real Assets	527,202	5.0%	5.0%	(0.0%)	(672)
Cash & Equivalents	96,542	0.9%	0.0%	0.9%	96,542
Real Estate	428,299	4.1%	5.0%	(0.9%)	(99,575)
Residual Holdings	1,961	0.0%	0.0%	0.0%	1,961
In-State Investments	355,882	3.4%	8.0%	(4.6%)	(488,716)
<b>Total</b>	<b>10,557,479</b>	<b>100.0%</b>	<b>100.0%</b>		

1. March 2024 values – Callan

# PERFORMANCE – LEGACY

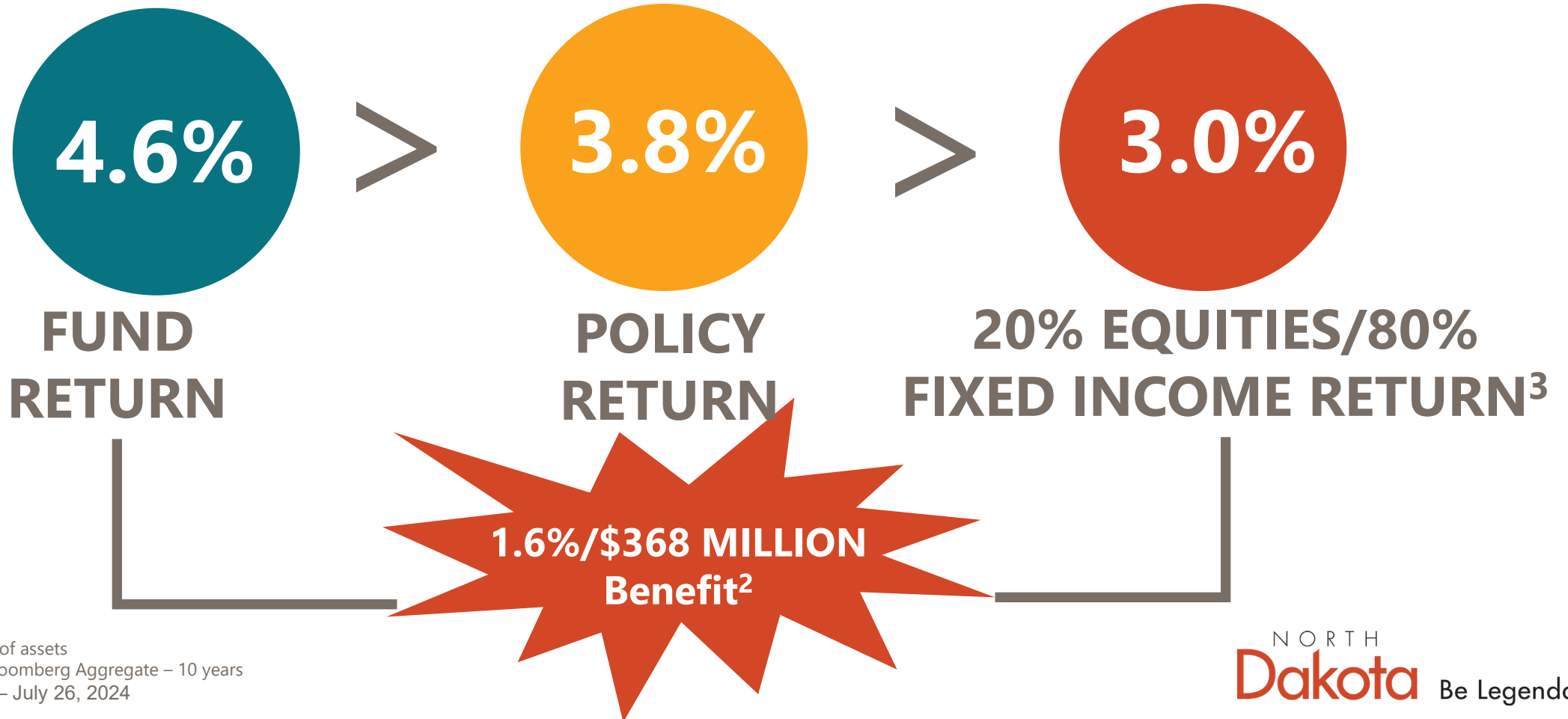
**AS OF May 31, 2024**  
**LEGACY \$10.3 Billion**

	<b>Year to Date</b>	March 30, 2024			<b>Risk (5 Year)</b>
		<b>1 Year</b>	<b>3 year</b>	<b>5 Year<sup>1</sup></b>	
<b>Total Fund Return - Net</b>	<b>4.7%</b>	<b>13.0%</b>	<b>4.0%</b>	<b>7.1%</b>	<b>10.7%</b>
<b>Policy Benchmark Return</b>	<b>4.0%</b>	<b>11.3%</b>	<b>2.9%</b>	<b>6.3%</b>	<b>10.6%</b>
<b>Total Relative Return</b>	<b>0.7%</b>	<b>1.7%</b>	<b>1.1%</b>	<b>0.8%</b>	

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

# INVESTMENT MANAGEMENT BENEFITS

## WSI TEN YEAR AVERAGE RETURN<sup>1</sup>



1. Thru March 2024  
2. Starting with \$2.1 Billion of assets  
3. 20% MSCI World/80% Bloomberg Aggregate – 10 years  
Scott M Anderson, CFA – July 26, 2024



# ASSET ALLOCATION



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Large Cap	229,678	10.7%	10.0%	0.7%	15,181
Small Cap	39,418	1.8%	2.0%	(0.2%)	(3,481)
International Equity	174,174	8.1%	8.0%	0.1%	2,577
Domestic Fixed Income	1,326,209	61.8%	62.0%	(0.2%)	(3,672)
Diversified Real Assets	258,124	12.0%	12.0%	0.0%	727
Real Estate	101,131	4.7%	5.0%	(0.3%)	(6,118)
Cash & Equivalents	16,236	0.8%	1.0%	(0.2%)	(5,214)
<b>Total</b>	<b>2,144,970</b>	<b>100.0%</b>	<b>100.0%</b>		

1. March 2024 values – Callan

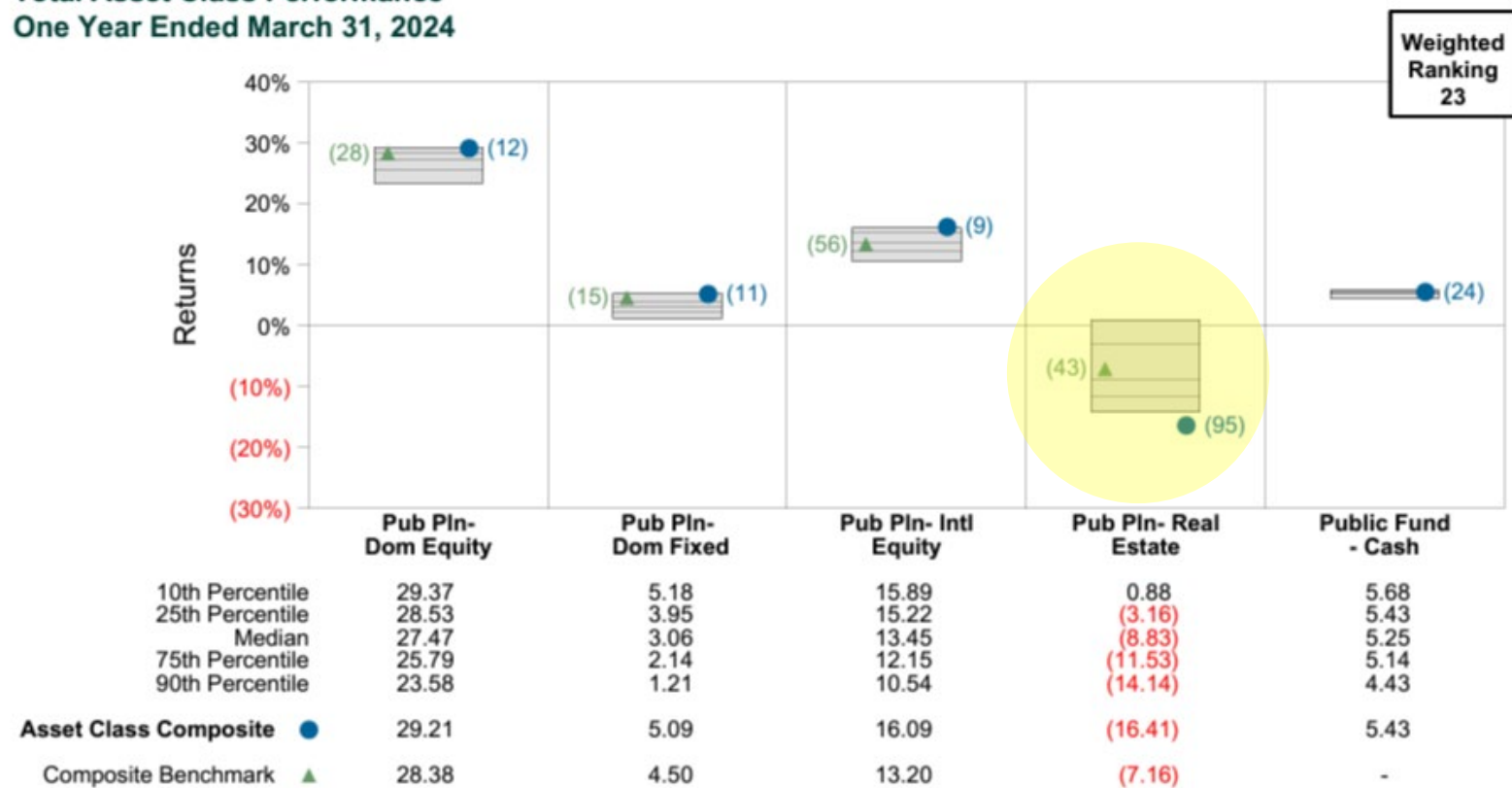
# PERFORMANCE – WSI

<b>AS OF March 30, 2024</b> <b>WSI \$2.1 Billion</b>	<b>Year to Date</b>	March 30, 2024			<b>Risk (5 Year)</b>
		<b>1 Year</b>	<b>3 year</b>	<b>5 Year<sup>1</sup></b>	
<b>Total Fund Return - Net</b>	<b>0.9%</b>	<b>6.2%</b>	<b>0.8%</b>	<b>3.8%</b>	<b>7.6%</b>
<b>Policy Benchmark Return</b>	<b>0.4%</b>	<b>4.9%</b>	<b>0.2%</b>	<b>3.2%</b>	<b>7.1%</b>
<b>Total Relative Return</b>	<b>0.5%</b>	<b>1.3%</b>	<b>0.6%</b>	<b>0.6%</b>	

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

# ASSET CLASS PERFORMANCE

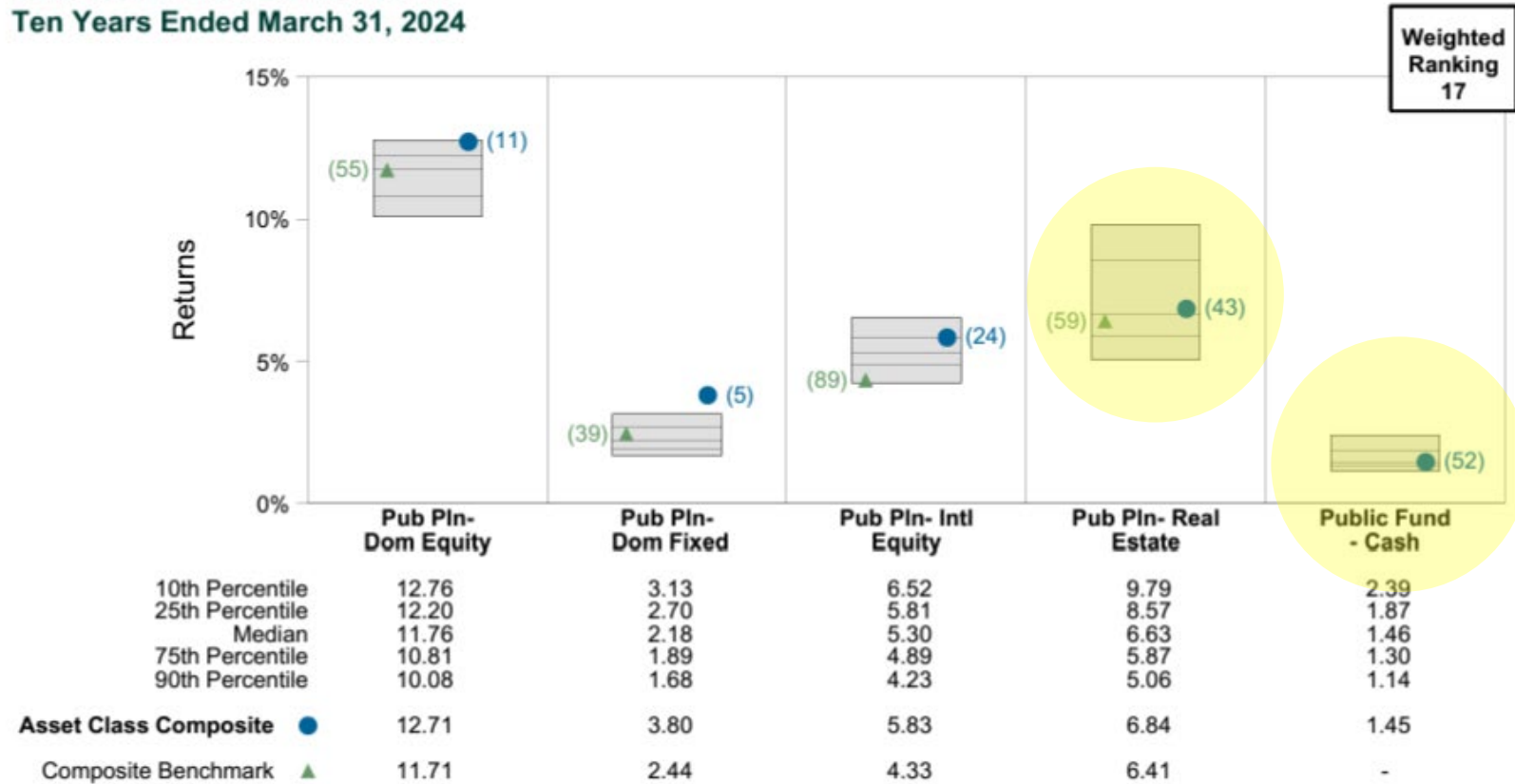
**Total Asset Class Performance  
One Year Ended March 31, 2024**



1. March 2024 values – Callan

# ASSET CLASS PERFORMANCE

**Total Asset Class Performance  
Ten Years Ended March 31, 2024**



1. March 2024 values – Callan

# ALLOCATION CONSULTANT

Scott M Anderson, CFA

June 14, 2024

NORTH  
**Dakota** Be Legendary.

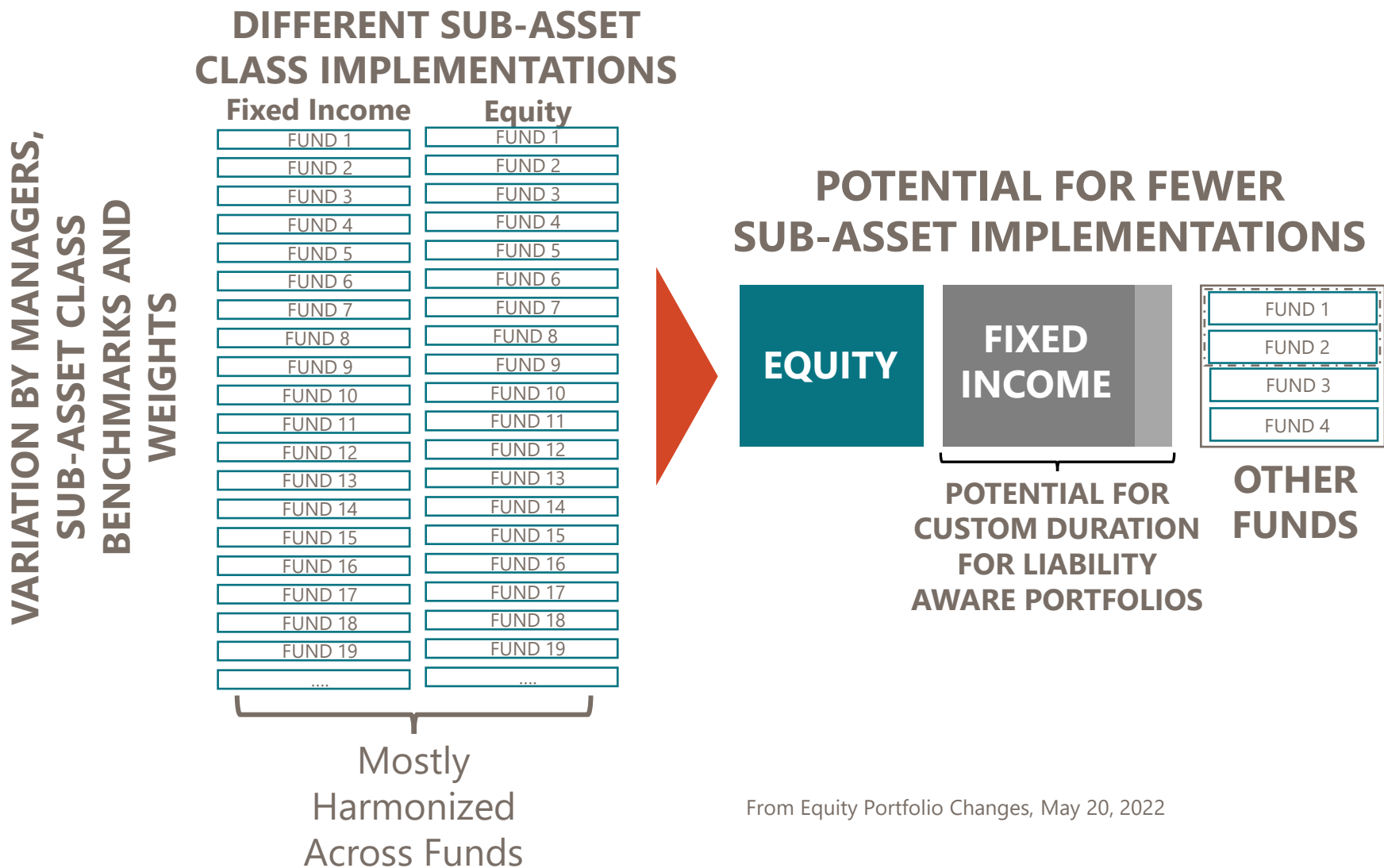
# EXISTING CONSULTANT CONTRACTS

MANDATE	CURRENT CONSULTANT	RENEWAL DATE
✓ Performance and Project Consultant <sup>1</sup>	Callan	July 1, 2024
✓ Compensation Consultant	Mercer	July 1, 2024
✓ Benchmark Hurdle Rate Consultant	Verus	July 1, 2025
→ ✓ Performance Consultant <sup>2</sup>	-	July 1, 2024
<b><u>Allocation Consultant<sup>3</sup></u></b>	-	<b><u>July 1, 2024</u></b>
✓ Cost and FTE Benchmark Consultant	CEM Benchmarking	In Discussion
* Compliance Consultant Service <sup>4</sup>	-	April 2024
Public or Private Market Manager Specialist <sup>5</sup>	-	?
→ [Contracted Consulting Projects	-	?

+ 2025?

1. The performance and process consulting contract includes quarterly investment performance reports and evaluation of manager performance/attendance at board meetings quarterly; 2 consulting projects; access to specialty consulting staff – can be unbundled into separate performance consulting and project consulting arrangements
2. A general performance consulting contract that provides quarterly performance assessment of client funds and managers; potential to provide annual performance and independent performance checks of fiscal staff generated performance
3. Potential for a retained allocation consultant that provides for fee allocation project consulting, portfolio construction advice and manager search expertise
4. A retained compliance consultant would provide advice and compliance services including legal/regulatory compliance, personal trading policy, trading processes controls/compliance, high level compliance processes
5. Potential for public and private market manager specialist consulting contracts

# IMPLEMENTATION OPPORTUNITY<sup>1</sup>



From Equity Portfolio Changes, May 20, 2022

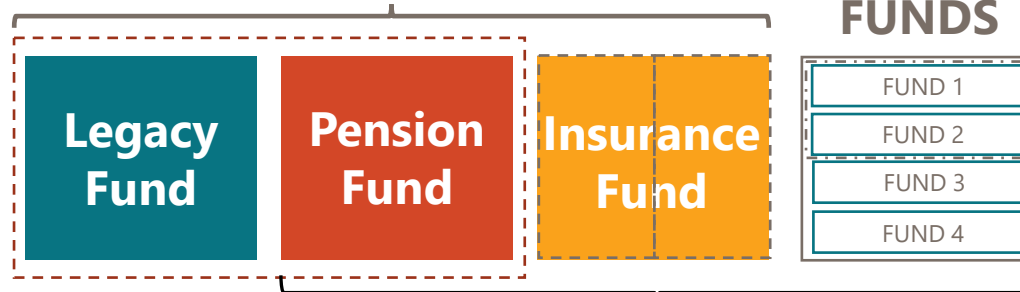
# FUND LEVEL OPPORTUNITY

## 31 DIFFERENT ASSET ALLOCATIONS

FUND 1
FUND 2
FUND 3
FUND 4
FUND 5
FUND 6
FUND 7
FUND 8
FUND 9
FUND 10
FUND 11
FUND 12
FUND 13
FUND 14
FUND 15
FUND 16
FUND 17
FUND 18
FUND 19
....



## POTENTIAL FOR POOLING



**TWO OR THREE FUND SEPARATION ENABLES POTENTIAL FOR LIABILITY AWARE PORTFOLIOS**

## OTHER FUNDS

- **SCALE**
- **REDUCED OPERATIONAL COMPLEXITY**
- **IMPLEMENTATION TIME SAVINGS**
- **FEWER ALLOCATIONS**



# PENSION FUND LEVEL STUDIES

## ACTUARIAL EXPERIENCE STUDY

### Objectives:

1. Plan Assumption Accuracy
2. Risk Management
3. Adapting Funding and Investment Policies
4. Plan Design Enhancements

### Components:

1. Data Collection/Analysis
2. Review Benefit Payments and Participant Behavior
3. Recommend Adjustments to the Actuarial Calculation of Liabilities and Costs

## ASSET/LIABILITY STUDY

### Objectives:

1. Establish Current Capital Market Assumptions
2. Incorporate Material Changes to Plan Policies and Demographics
3. Evaluate Impact on Assets and Liabilities With New Capital Market Assumptions Given a Liability Model and an Asset Allocation
4. Confirm Current Asset Allocation is Suitable

### Components:

1. Liability Model
2. Asset Projections
3. Simulations of a range of high-level asset allocations including the current asset allocation
4. Plan asset/liability results across scenarios

## ASSET ALLOCATION STUDY

### Objectives:

1. Determine Optimal Asset Allocation Given a Required Return and Risk Assumptions
2. Determine Optimal Sub-Asset Class Structure and Platform for Allocation Implementation
3. Determine Appropriate Plans and Allocation Sequence for Transitioning an Allocation
4. Determine Suitability for Funding and Policy Goals

### Components:

1. Capital Market Assumptions
2. Comprehensive Asset Allocation
3. Allocation Implementation Plan
4. Asset/Liability Study Light

ASSET/LIABILITY STUDY HEAVY,  
ASSET ALLOCATION LIGHT  
(For Major Plan Changes or Major  
Assumption Changes)



ASSET ALLOCATION HEAVY  
ASSET/LIABILITY STUDY LIGHT  
(Major Allocation Structure Changes  
and Continuous Improvements)

# RETAINED ASSET ALLOCATION CONSULTANT

- Assist with determining the best asset allocation for similar required returns and risk (coordinated with client boards) – reduces the number of plan allocations at the asset class and sub-asset class level
- Update the Legacy Fund allocation when initiated by the Legacy Fund Board
- Provide periodic capital market assumptions to understand asset allocation drift, for exposure management and to trigger new allocation structure studies
- Assist to continuously improve the allocation process and employ better allocation structures as number of allocations is reduced
- Assist with sub-asset analysis including portfolio construction and manager opinions
- Explore liability aware overlay options by pension plan to reduce asset/liability risk

## **Fewer Dimensions/Better Allocation/Lower Costs**

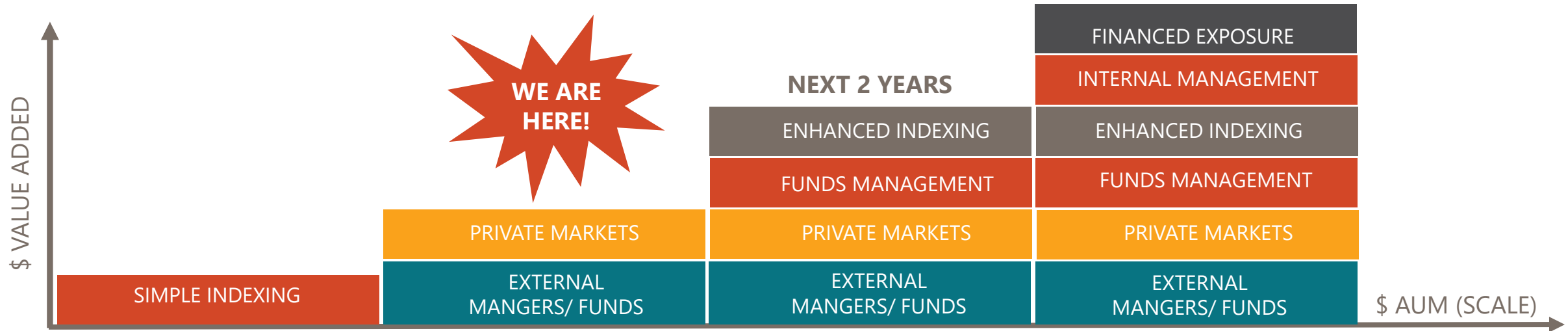
- 
- **One consistent set of capital market assumptions**
  - **One allocation philosophy**
  - **Fewer sub-asset structures**
  - **Consistent implementation across funds**
  - **Reduced cost of allocation and implementation**

# PATHWAY TO STRATEGY

Scott M Anderson, CFA

July 26, 2024

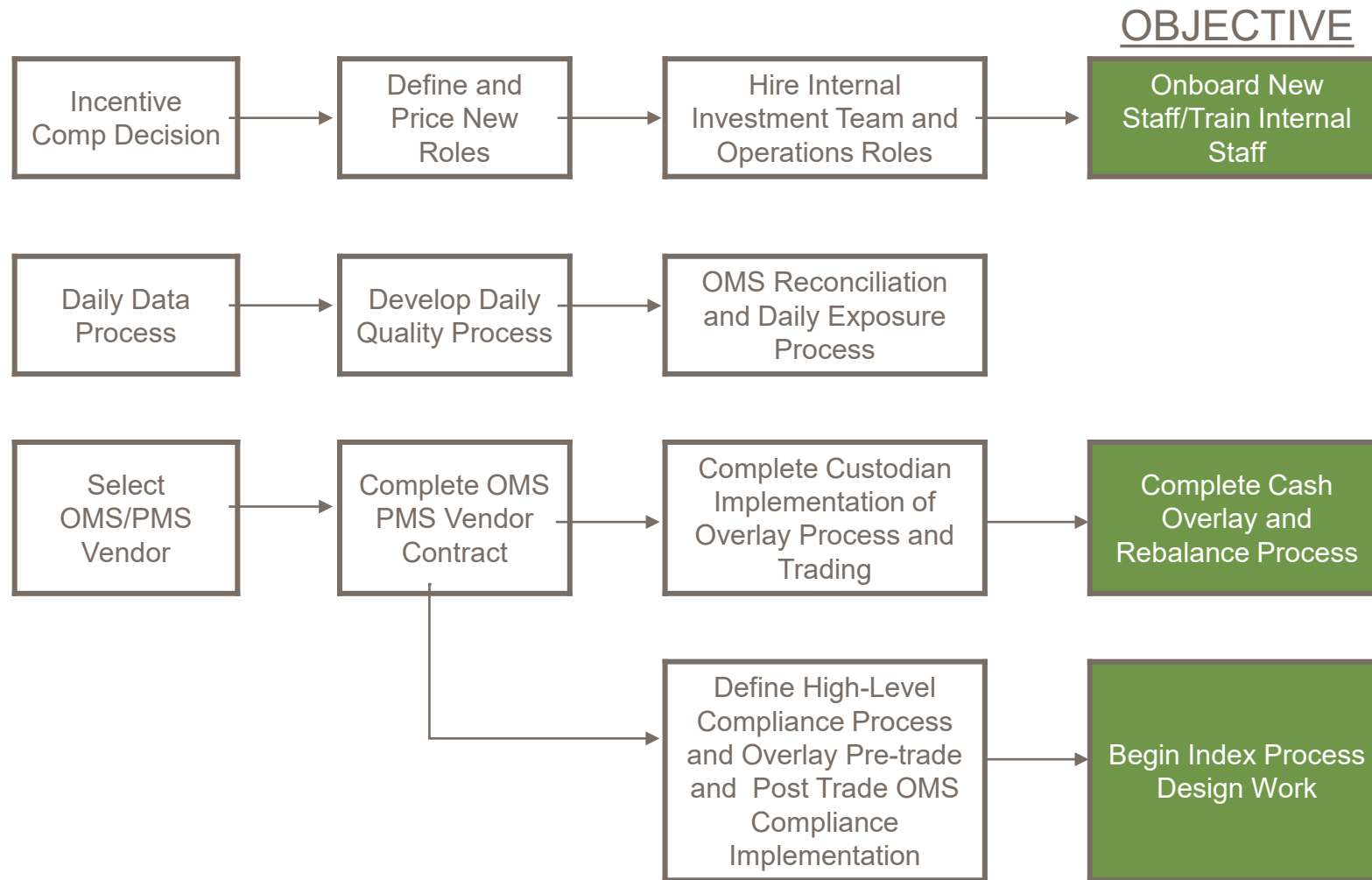
# ROADMAP FOR SUCCESS



## CAPABILITIES FOR SUCCESS

- DELEGATED AUTHORITY
- INCENTIVE COMP SYSTEM
- DIRECT INVESTMENT TEAM
- INDEPENDENT BENCHMARK CONSULTANT
- PRIVATE MARKETS BENCHMARK CORRIDOR
- FUND POOLING
- DAILY FUND VALUES AND RETURNS
- ADVANCED OPERATIONS
- AUDIT PROCESSES AND COMPLIANCE
- NEW INVESTMENT PROCESSES
- FUND AND LIQUIDITY MANAGEMENT
- DERIVATIVES OVERLAYS
- VALUATION AND EXPOSURE MANAGEMENT
- INVESTMENT DATA WAREHOUSE
- ORDER MANAGEMENT SYSTEM
- PORTFOLIO MANAGEMENT ANALYTICS
- INTEGRATED DATA AND MESSAGES
- KNOWLEDGE MANAGEMENT SYSTEM

# CRITICAL PATHS OF SUCCESS



# INTERNAL INVESTMENT MANAGEMENT INITIATIVE

NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
<ul style="list-style-type: none"> <li>▪ <b>Begin Incentive And Unclassified Role Project</b></li> <li>✓</li> <li>▪ <b>Board Approves Benchmark Memo</b></li> <li>✓</li> <li>▪ <b>Coordinate Hurdle Rate Discussions With Incentive Comp And Unclassified Role Project</b></li> <li>✓</li> <li>▪ <b>Establish Executive Steering Committee For IT Project.</b></li> <li>✓</li> <li>▪ <b>Approve Alternative It Procurement</b></li> <li>✓</li> <li>▪ <b>Issue It Rfp</b></li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Identify Investment Role Titles And Benchmark</b></li> <li>✓ <b>Consultant Reviews Incentive Comp Prototype</b></li> <li>▪ <b>Complete Daily Allocation Process Design</b></li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Refine Incentive Comp Plan 1.0,</b></li> <li>▪ <b>Receive And Score MS/PMS RFP Responses</b></li> <li>✓</li> <li>▪ <b>Select OMS/PMS Vendors For Call Back</b></li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Issue Compliance Process RFP</b></li> <li>✓</li> <li>▪ <b>Issue Performance Consultant RFP</b></li> <li>✓</li> <li>▪ <b>Approve Incentive Comp 1.0 And Role Comp</b></li> <li>✓</li> <li>▪ <b>OMS/PMS Vendor Demonstrations</b></li> <li>✓</li> <li>▪ <b>Select OMS/PMS Vendor For Negotiation</b></li> <li>✓</li> <li>▪ <b>Complete Daily Allocation Process</b></li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Select Performance RFP Consultant Finalists</b></li> <li>✓</li> <li>▪ <b>Select Compliance Process Finalists</b></li> <li>✓</li> <li>▪ <b>Refine And Recruit Roles Recruit New Investment Roles</b></li> <li>✓</li> <li>▪ <b>New Role Long List Screening</b></li> <li>✓</li> <li>▪ <b>OMS/PMS Vendor Negotiation</b></li> <li>✓</li> <li>▪ <b>Launch Data Warehouse Project</b></li> <li>✓</li> <li>▪ <b>Begin To Develop Data Warehouse Strategy</b></li> <li>✓</li> <li>▪ <b>Complete Daily Data Quality Process</b></li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Begin Internal Direct Overlay And Rebalance Strategy</b></li> <li>✓</li> <li>▪ <b>Hire A Securities Lawyer And Begin FCM And ISDA Negotiations.</b></li> <li>✓</li> <li>▪ <b>Interview And Hire Performance Consultant</b></li> <li>✓</li> <li>▪ <b>Interview And Hire Compliance Consultant</b></li> <li>✓</li> <li>▪ <b>New Role Long List Screening</b></li> <li>✓</li> <li>▪ <b>Begin Compliance Process Design</b></li> <li>✓</li> <li>▪ <b>Sign OMS/PMS Contract</b></li> <li>✓</li> <li>▪ <b>Begin OMS/PMS Incremental Implementation</b></li> <li>✓</li> <li>▪ <b>Hire Ops Roles</b></li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>▪ <b>Approve Internal Direct Overlay And Rebalance Strategy</b></li> <li>✓</li> <li>▪ <b>Select And Call Back Candidates</b></li> <li>✓</li> <li>▪ <b>Interview Second Round Candidates**</b></li> <li>✓</li> <li>▪ <b>Implement Direct Overlay And Rebalance OMS/PMS Requirements</b></li> <li>✓</li> <li>▪ <b>Develop Large It Project Data Architecture</b></li> <li>✓</li> <li>▪ <b>Select Data Warehouse Solution</b></li> <li>✓</li> <li>▪ <b>Begin Compliance Process Design</b></li> <li>✓</li> <li>▪ <b>Complete Daily Reconciliation Design</b></li> <li>✓</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Select And Call Back Final Round Candidates**</b></li> <li>✓</li> <li>▪ <b>Interview Final Round Candidates**</b></li> <li>✓</li> <li>▪ <b>Complete First FCM Agreement, Continue ISDA And Master Confirm Agreements</b></li> <li>✓</li> <li>▪ <b>Finalize Compliance Process Design</b></li> <li>✓</li> <li>▪ <b>Begin Design Custodian Feed To Data Warehouse</b></li> <li>✓</li> </ul>
<p>**Equity Portfolio Manager and Senior Analyst Overlays</p>							

# NEAR TERM TIMELINE OF ACTIVITIES - CONTINUED

JUL	AUG	SEPT	OCT	NOV	DEC	JAN	FEB
<ul style="list-style-type: none"> <li>Hire Initial Internal Direct Team**</li> <li>Continue Recruitment</li> <li>Onboard Initial Internal Direct Team</li> <li>Incorporate Compliance Into OMS Implementation</li> <li>Finalize OMS Integration With Custodian</li> <li>Roll-out PMS Daily Reconciliation</li> </ul>	<ul style="list-style-type: none"> <li>Pilot Internal Direct Cash Overlay And Rebalance</li> <li>Test OMS And Integration With Custodian/External Traders On Internal Direct Overlay And Rebalance Pilot</li> <li>Hire Initial Internal Direct Team</li> <li>Continue Recruitment</li> <li>Continue Data Warehouse Project</li> <li>Begin Data Exchange Project</li> </ul>	<ul style="list-style-type: none"> <li>Develop Legislative Strategy</li> <li>Begin Legislative Outreach</li> <li>Begin To Develop Index Strategy</li> <li>Scale Up Overlay And Rebalance Strategy</li> <li>Continue Recruitment</li> <li>Continue Data Warehouse Project</li> <li>Begin Data Exchange RFP</li> </ul>	<ul style="list-style-type: none"> <li>Develop Tools And Data For Indexing</li> <li>Continue Legislative Outreach</li> <li>Complete Second FCM Agreement, Continue ISDA And Master Confirm Agreements</li> <li>Continue Recruitment</li> <li>Continue Data Warehouse Project</li> <li>Select Data Exchange Vendor</li> </ul>	<ul style="list-style-type: none"> <li>Develop Tools And Data For Indexing</li> <li>Continue Legislative Outreach</li> <li>Continue Recruitment</li> <li>Continue Data Warehouse Project</li> <li>Negotiate Data Exchange Contract</li> <li>Update Compliance For Internal Indexing</li> </ul>	<ul style="list-style-type: none"> <li>Approve Indexing Policy</li> <li>Continue Legislative Outreach</li> <li>Continue Recruitment</li> <li>Continue Data Warehouse Project</li> <li>Launch Data Exchange Project</li> <li>Incorporate Indexing Into OMS Implementation Including Compliance</li> </ul>	<ul style="list-style-type: none"> <li>Continue Legislative Outreach</li> <li>Continue Recruitment</li> <li>Continue Data Warehouse Project</li> <li>Continue Data Exchange Project</li> <li>Test OMS For Indexing With Custodian On A Small Pilot</li> </ul>	

## MEMORANDUM

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

### **July 10, 2024, Investment Committee Meeting**

The Investment Committee met Wednesday, July 10, 2024. The meeting was called to order and there was an acceptance of the agenda followed by an acceptance of the minutes from the June 14, 2024, meeting.

Mr. Zietlow and Mr. Moss presented an update regarding the private market strategy. Mr. Chin then presented manager guidelines for one of the recently approved new public markets equities managers. The presentation was conducted in closed session because negotiations of the investment management agreement were not yet completed.

Mr. Anderson then provided an update regarding the asset allocation consultant search process. An interim Investment Committee meeting will be held in August for interviews asset allocation consultant so that a recommendation to approve can be made at an upcoming board meeting.

<https://www.rio.nd.gov/sites/www/files/documents/PDFs/SIB%20Investment/Board/Materials/sibinvestmat20240710.pdf>

**BOARD ACTION REQUESTED: Information Only.**



## MEMORANDUM

**TO:** SIB  
**FROM:** Jan Murtha, Executive Director  
**DATE:** July 19, 2024  
**RE:** GPR Committee Annual Report

Over the course of the prior fiscal year the GPR committee met to review and recommend changes to the SIB Governance Manual. The committee discussed changes at its meetings in September, October, and November of 2023, as well as at its meetings in February, April, and May of 2024. Recommended changes were presented to the full SIB for Introduction and First Reading in April 2024, and Second Reading for final approval in May 2024. All sections of the manual and exhibits were reviewed. The updated manual is now available on the RIO website. The work of the GPR committee and subsequent approval by the SIB of proposed changes reflects the SIB's commitment to annual review its governance and policies.

**Board Action Requested:** Board acceptance.

## MEMORANDUM

**TO:** State Investment Board  
**FROM:** Sara Seiler, Supervisor of Internal Audit  
**DATE:** July 15, 2024  
**RE:** Audit Committee Special Meeting

The SIB Audit Committee met for a special meeting on June 21, 2024. It was the kick-off meeting for the external auditors, UHY, LLP, for the July 1, 2023, to June 30, 2024, fiscal year financial statement audit and the GASB 68 audit. The engagement scope, workplan, and timeline was presented and approved. Both audits are scheduled to be completed by the end of the calendar year 2024.

**Board Action Requested:** Information only.

## MEMORANDUM

**TO:** State Investment Board

**FROM:** Sarah Mudder, communications and outreach director

**DATE:** July 26, 2024

**RE:** 2024 SIB Client Fund Survey

The Retirement and Investment Office conducted a survey of the State Investment Board's (SIB) client funds in June.

Evaluation forms sent: 40 individuals (28 funds)

Responses received: 16 individuals (20 funds)

Attached are the 2024 survey results. A summary of the 2024 survey ratings and two prior years are provided below.

### 2024 Summary of Client Satisfaction Survey Ratings

	Excellent	Good	Fair	Poor	Very Poor
Totals	67	27	2	0	0
Weight	5	4	3	2	1
Percent	75%	24%	1%	0%	0%
<b>Average</b>	<b>3.74 on 4 pt scale (4.68 on 5 pt scale)</b>				

### 2023 Summary of Client Satisfaction Survey Ratings

	Excellent	Above Average	Average	Poor	N/A
Totals	16	22	1	0	0
Weight	4	3	2	1	0
Percent	40%	55%	3%	3%	0%
<b>Average</b>	<b>3.33 on a 4 pt scale</b>				

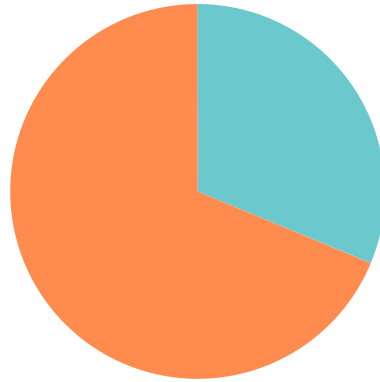
### 2022 Summary of Client Satisfaction Survey Ratings

	Excellent	Above Average	Average	Poor	N/A
Totals	31	19	5	0	0
Weight	4	3	2	1	0
Percent	56%	35%	9%	0%	0%
<b>Average</b>	<b>3.47 on a 4 pt scale</b>				

**BOARD ACTION REQUESTED:** Board Acceptance

## Q1 Overall, how satisfied are you with the services overseen by the SIB?

Answered: 16 Skipped: 0

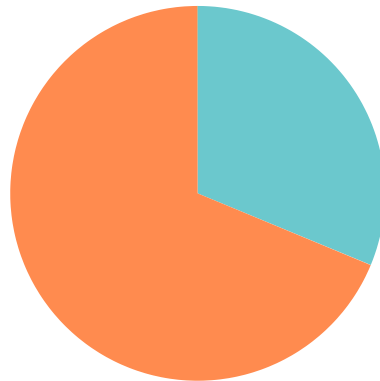


■ Very Dissat... ■ Dissatisfied ■ Neutral ■ Satisfied  
■ Very Satisfi...

	VERY DISSATISFIED	DISSATISFIED	NEUTRAL	SATISFIED	VERY SATISFIED	TOTAL	WEIGHTED AVERAGE
☆	0.00% 0	0.00% 0	0.00% 0	31.25% 5	68.75% 11	16	4.69

## Q2 How would you rate the value of the SIB's services?

Answered: 16 Skipped: 0

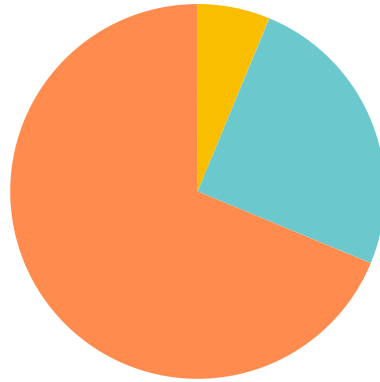


■ Very Poor ■ Poor ■ Fair ■ Good  
■ Excellent

	VERY POOR	POOR	FAIR	GOOD	EXCELLENT	TOTAL	WEIGHTED AVERAGE
☆	0.00% 0	0.00% 0	0.00% 0	31.25% 5	68.75% 11	16	4.69

### Q3 How would you rate presentations by the investment staff?

Answered: 16 Skipped: 0

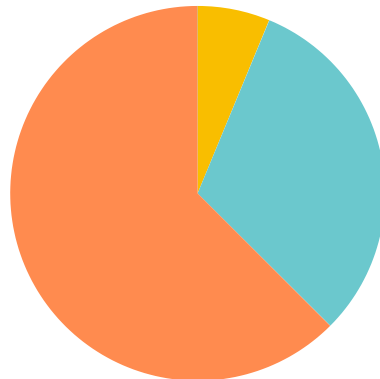


■ Very Poor   
 ■ Poor   
 ■ Fair   
 ■ Good  
■ Excellent

	VERY POOR	POOR	FAIR	GOOD	EXCELLENT	TOTAL	WEIGHTED AVERAGE
☆	0.00% 0	0.00% 0	6.25% 1	25.00% 4	68.75% 11	16	4.63

### Q4 How would you rate reports provided by the fiscal staff?

Answered: 16 Skipped: 0

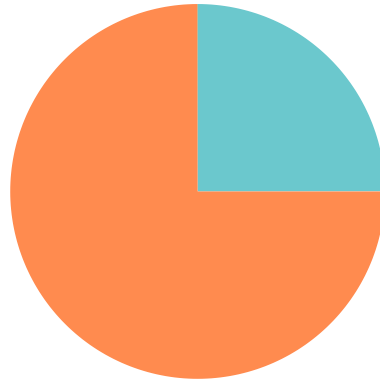


■ Very Poor   
 ■ Poor   
 ■ Fair   
 ■ Good  
■ Excellent

	VERY POOR	POOR	FAIR	GOOD	EXCELLENT	TOTAL	WEIGHTED AVERAGE
☆	0.00% 0	0.00% 0	6.25% 1	31.25% 5	62.50% 10	16	4.56

### Q5 How would you rate staff knowledge of the investment program?

Answered: 16 Skipped: 0

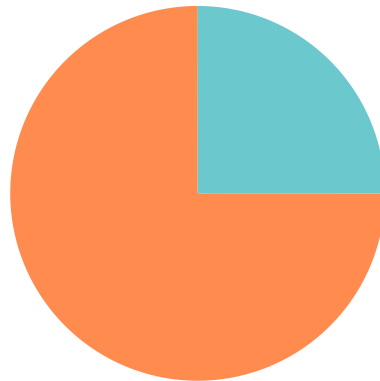


■ Very Poor   
 ■ Poor   
 ■ Fair   
 ■ Good  
■ Excellent

	VERY POOR	POOR	FAIR	GOOD	EXCELLENT	TOTAL	WEIGHTED AVERAGE
☆	0.00% 0	0.00% 0	0.00% 0	25.00% 4	75.00% 12	16	4.75

### Q6 How responsive is RIO's staff to your questions or concerns?

Answered: 16 Skipped: 0



■ Very Poor   
 ■ Poor   
 ■ Fair   
 ■ Good  
■ Excellent

	VERY POOR	POOR	FAIR	GOOD	EXCELLENT	TOTAL	WEIGHTED AVERAGE
☆	0.00% 0	0.00% 0	0.00% 0	25.00% 4	75.00% 12	16	4.75

## Q7 Do you have any specific suggestions for how the SIB or RIO can better serve you?

Answered: 9 Skipped: 7

#	RESPONSES	DATE
1	No.	7/14/2024 8:45 AM
2	n/a - no issues of concern	7/12/2024 2:05 PM
3	I truly appreciate the prompt and thorough guidance whenever I reach out with questions.	7/12/2024 2:04 PM
4	My only feedback is that it would be nice to receive the monthly reports timelier. We rely on these reports to finish our monthly financial statements/reports.	7/12/2024 12:21 PM
5	Overall, the services received from RIO are invaluable to our agency. We appreciate the expertise and have full confidence that our trust funds are being managed based on a prudent investor philosophy. Some observations I would pass along: 1) CIO has not been able to attend our Investment Subcommittee meetings the last 2-3 times. Senior Investment Officer does a great job presenting to our committee; however, officer doesn't always have the answers to questions presented by our Board members. We are able to get by and satisfy the committee members at the end of the day, but having the expertise at the table to be confident in the answers we are providing would be beneficial. (This was feedback/an observation made by one of the committee members as well). 2) There has been talk about trying to lump all DB Plans managed by the SIB into a similar asset allocation strategy. I'm having a hard time grasping how this can benefit the PERS Funds, given the drastically differentiating long term goals of our DB plans. Even as they sit today, our plans have different long-term rate of return assumptions than other RIO funds. To this day we get pressure that our conservative return assumption (compared to the other pension funds managed by RIO) lingers on the edge of being too aggressive. I have a hard time understanding this strategy being presented, have asked for more information to be presented to our subcommittee so we can all understand the goals better, but haven't received further education other than it saves fees. That trade-off to me doesn't make sense as the long-term strategy should have a higher priority of protecting the fund (at least to some extent) since there isn't an indefinite life any longer. 3) I was a bit nervous at the potential change in direction in our Asset Allocation/Liability study that we are out to bid on. We worked collaboratively with RIO on soliciting the consultants we are required to use under statute, so RIO was aware of what PERS was doing in regard to the study. The potential to ask us to change direction at the 11th hour was a bit frustrating, although I think we are all on the same page and comfortable with the approach we are taking. In full transparency, I honestly don't know for sure. There was discussion about having RIO present at the Board meeting in June, which didn't happen, and we haven't heard anything since late May/early June on the topic. I really have no idea what RIO expects from us, or if you are comfortable with the path as we are heading towards. 4) I don't know if it is a timing issue on when we receive RIO's monthly financial statements or if OMB changed the timing on when they close prior months. In the past I don't recall having to reach out to OMB to open a month for us to post our RIO entries because they've been lagging about 6 weeks from the prior month end. I feel like it used to be closer to 4 weeks, because I feel like we used to be able to balance on a monthly basis without having to get OMB involved. This isn't a huge concern by any means, just an observation I'd pass along.	7/12/2024 8:45 AM
6	Periodic review of investment mix or assurances that investments remain appropriate for the Funds.	7/11/2024 3:48 PM
7	Not at this moment. RIO is always very responsive to any questions and very helpful.	7/11/2024 2:54 PM
8	Doing a great job!	6/13/2024 3:17 PM
9	Continue to invest in opportunities to communicate to stakeholders and spread the effective work being completed by the SIB.	6/13/2024 11:59 AM

## MEMORANDUM

**TO:** SIB  
**FROM:** Ryan K. Skor, CFO/COO  
**DATE:** July 18, 2024  
**RE:** Code of Conduct Affirmation

Governance Process Policy 2-H, Board Members' Code of Conduct details the Code of Ethical Responsibility for the SIB. Item #10 of the policy indicates that each Board Member is required to reaffirm their understanding of this policy annually and disclose any conflicts of interest.

Enclosed in the board materials is a copy of the above policy along with a blank copy of the memorandum used for each board member's affirmation.

**Board Action Requested:** Information only.



## H. Board Members' Code of Conduct

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

1. SIB members owe a duty to conduct themselves so as to inspire the confidence, respect, and trust of the SIB members and to strive to avoid not only professional impropriety but also the appearance of impropriety.
2. SIB members should perform the duties of their offices impartially and diligently. SIB members are expected to fulfill their responsibilities in accord with the intent of all applicable laws and regulations and to refrain from any form of dishonest or unethical conduct. Board members should be unswayed by partisan interest, public sentiment, or fear of criticism.
3. Conflicts of interest and the appearance of impropriety shall be avoided by SIB members. Board members must not allow their family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. Board members must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the board member shall immediately disclose the conflict to the SIB. A board member must abstain in those situations where the board member is faced with taking some official action regarding property or a contract in which the board member has a personal interest. Conflicts of interest to be avoided include but are not limited to: receiving consideration for advice over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction involving for which the board member has acquired information unavailable to the general public, through participation on the board.
4. "Conflict of Interest" means a situation in which a board member has a conflict of interest as that term is defined in North Dakota statute and rules promulgated by the North Dakota Ethics Commission under N.D.A.C. Chapter 115-04-01.
5. The board should not unnecessarily retain consultants. The hiring of consultants shall be based on merit, avoiding nepotism and preference based upon considerations other than merit that may occur for any reason, including prior working relationships. The compensation of such consultants shall not exceed the fair value of services rendered.
6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
7. All activities and transactions performed on behalf of public pension funds must be for the exclusive purpose of providing benefits to plan participants and defraying reasonable expenses of administering the plan.
8. Prohibited transactions are those involving self-dealing. Self-dealing refers to the fiduciary's use of plan assets or material, non-public information for personal gain; engaging in transactions on behalf of parties whose interests are adverse to the plan; or receiving personal consideration in connection with any planned transaction.
9. Violation of these rules may result in an official reprimand from the SIB. No reprimand may be issued until the board member or employee has had the opportunity to be heard by the board.

10. Board Members are required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise.

Policy Implemented: June 23, 1995.

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

**Memorandum**

**To: State Investment Board**  
**From: RIO Compliance**  
**Date: July 26<sup>th</sup>, 2024**  
**RE: Annual Affirmation of Code of Conduct Policy**

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

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

Name (printed) \_\_\_\_\_

Signature \_\_\_\_\_

Date \_\_\_\_\_

Detail of any conflicts of interest (if any):

## MEMORANDUM

**TO:** SIB  
**FROM:** Ryan K. Skor, CFO/COO  
**DATE:** July 18, 2024  
**RE:** Budget Update

As part of the formulation of the Governor's biennial budget recommendation to the Legislature, each agency is required to submit a budget request to the Office of Management and Budget following specific guidelines laid out by the Governor and OMB.

For the upcoming biennium, guidelines from the Governor required agencies to identify a 3% reduction in base budget appropriations. Any asks for resources above this reduced base amount must be included in the form of decision packages.

For RIO, we have been able to identify several items we could reduce to accomplish this required base budget reduction. However, there are a few ongoing factors that necessitate the need for a couple of decision packages asking for additions to this base budget. Two of which are specifically related to ongoing projects, one within the investment program and one within retirement.

For the internal investment program, during the last legislative session we intentionally only asked for salary funding for the second half of the biennium knowing that we wouldn't be able to begin hiring those positions until then. Similarly, with the ongoing PAS project, we only asked for the second year of hosting costs as the first half of the biennium was still covered under the initial project costs. While the appropriation for both amounts remains in our base budget, we will need to ask for the second year of funding for each to be appropriately funded for the 2025-2027 biennium.

We have worked closely with OMB and our Budget Analyst to ensure these decision packages are as clear and transparent as possible to show the continuation of costs approved during the last legislative session.

We also plan to include decision packages that line up specifically with the strategic plan initiatives approved by the board throughout the year. These will include asks for new FTE authorization within the communications and internal audit areas of RIO as well as the potential expansion of the internal investment program.

We are currently working to finalize our budget request for the 2025-2027 biennium and plan to have it completed and submitted before our extended deadline of July 31, 2024.

**Board Action Requested:** Information only.

# Quarterly Report on Ends

## Quarter ending June 30, 2024

### Investment Program

#### **Portfolio Changes & Investment Consultant**

- PineBridge Investments High Yield
- Nomura Capital Management (NCRAM) High Yield
- Verus – Performance Consultant

#### **Public Markets:**

Over the past quarter, the AFM team has made significant progress on the Equity 2.0 project. At the June Investment Committee meeting, the team proposed, and the committee approved, substantial changes to the U.S. Equity Portfolio. These changes include the addition of five new U.S. equity managers, that had been vetted through an extensive due diligence process. Collectively, the recommended changes should improve the risk adjusted excess return profile of the equity portfolio.

Onboarding of these new managers is planned over the summer to ensure a smooth transition and integration into the portfolio. Additionally, the team successfully completed the onboarding of two new high yield managers, PineBridge Investments and NCRAM, further enhancing the fixed income portfolio.

In parallel, the team continues its due diligence efforts on international equity managers. The team has identified strong candidate managers and will conduct onsite diligence over the summer. Recommended changes to the International Equity Portfolio are anticipated to be presented to the Investment Committee early this fall. This ongoing work is part of the AFM Team's comprehensive strategy to optimize equity investments across both domestic and international markets. This quarter's efforts reflect our commitment to enhancing the public market portfolio and achieving our long-term investment objectives.

#### **Private Markets:**

Two private credit managers, Cerberus NPL Global Fund II and Fortress Credit Opportunities Fund VI, were recommended and approved by the Investment Committee and officially hired during the quarter. Additionally, the final legal review was completed on H.I.G. Capital Partners Fund VII (which had received IC approval in February), and the fund has now been hired. Lastly, another private equity manager was recommended and approved at the June Investment Committee meeting and is currently undergoing legal review.

The Private Markets Team conducted over 150 introductory, due diligence, and monitoring meetings with prospective and current managers and strategies. The team attended multiple Annual General Meetings and LPAC meetings for existing managers. The team continues its work on the In-State program within the Legacy Fund and has hired RVK to assist in onboarding additional managers and strategies.

**Risk:**

This past quarter the Risk Team has continued its efforts on the procurement of an Order and Execution Management System (OEMS) and Portfolio Management System (PMS) platforms. Negotiations with the preferred vendor are in the final stages and we expect to reach agreement in July. Implementation is expected to commence thereafter and is expected to last 7 months.

The Risk Team was also collaborated with the AFM team in the selection of and allocation to different managers towards the Equity 2.0 implementation. Quantitative optimization was utilized as a tool to help make suitable allocations among the managers selected.

The Risk Team continues maintaining and updating the current Country Risk Assessment on a quarterly basis, while efforts to automate the process continue. Work on automation of portfolio risk and attribution reports from the Aladdin system is ongoing. At the same time, risk and analytics dashboards for the AFM team are being developed in Aladdin. The Risk Team continues to work on enhancing data quality.

The team has also worked on developing an Interest Rate Model to estimate probabilities of forward interest rates and term structures. The aim is to potentially use Monte Carlo simulation results to formulate investment strategies in the future.

**Other**

- Staff continues to conduct due diligence on prospect managers/products for future consideration.
- Staff continues to monitor each client's asset allocation monthly and makes rebalancing decisions based on rebalancing policy and cash flow requirements.
- Staff attended meetings with many SIB client boards, sub-committees and/or legislative committees or representatives including TFFR, PERS, and WSI.
- There are currently no managers on the watch list.

## MEMORANDUM

**TO: State Investment Board**

**FROM: Sarah Mudder, communications and outreach director**

**DATE: July 26, 2024**

**RE: 2024 Q2 Communications and Outreach Conducted**

### **MEDIA RESPONSE – Date, Subject, and Publication**

- April 15, 2024, In-state investment program pacing plan and manager selection, Financial Investment News
- April 16, 2024, In-state investment program pacing plan, Mandatewire
- April 23, 2024, Manager selection, commitments and materials, 9fin
- April 24, 2024, In-state investment program, ND News Monitor
- April 29, 2024, In-state investment program, ND News Cooperative
- May 1, 2024, Investment program, Dakota live podcast
- May 10, 2024, Manager selection, Financial Investment News
- May 21, 2021, New client funds and performance consultant, Mandatewire
- May 21, 2024, Legacy fund reaches \$10 billion, InForum
- May 22, 2024, Legacy fund reaches \$10 billion, ND News Monitor
- May 23, 2024, Legacy fund reaches \$10 billion, KFYP TV
- June 17, 2024, Performance consultant, manager selection, equity 2.0., Financial Investment News
- June 19, 2024, Performance consultant, Pensions & Investments
- June 19, 2024, Performance consultant, ND News Cooperative
- June 27, 2024, Performance consultant and manager selection, Mandatewire

### **MEETINGS – Date, Activity**

- April 2, 2024, Smart with My Money Financial Literacy Press Conference
- April 8, 2024, Cash Management Study Steering Committee Meeting
- April 10, 2024, ESG Study Steering Committee Meeting
- April 12, 2024, SIB Investment Committee Meeting
- April 16, 2024, Financial Literacy Meeting
- April 18, 2024, SIB GPR Committee Meeting
- April 25, 2024, TFFR Board Meeting
- April 26, 2024, SIB Meeting
- May 1, 2024, TFFR GPR Committee Meeting
- May 2, 2024, SIB Securities Litigation Committee Meeting
- May 6, 2024, ESG Steering Committee Meeting
- May 8, 2024, SIB GPR Committee Meeting
- May 9, 2024, Governor's Budget Guidelines
- May 10, 2024, SIB Investment Committee Meeting
- May 13, 2024, JEL Leadership Meeting
- May 14, 2024, SIB Investment Committee Special Meeting
- May 15, 2024, SIB Audit Committee Meeting
- May 16, 2024, PERS Portfolio Allocation and IPS Discussion
- May 17, 2024, SIB Meeting
- June 11, 2024, Cash Management Study Steering Committee Meeting
- June 14, 2024, SIB Investment Committee Meeting
- June 19, 2024, Legacy and Budget Stabilization Fund Advisory Board – Status Report to Budget Section
- June 19, 2024, City of Bismarck Pension Trustees Presentation
- June 21, 2024, SIB Audit Committee Meeting
- June 26, 2024, Financial Literacy Meeting

## OUTREACH

### Board Education

- April 3, 2024, Governance Manual Part #3
- April 25, 2024, Risk Strategy, April 25
- May 8, 2024, Understanding Internal Investment Management
- June 18, 2024, Retirement Program

### Conferences

- May 15, 2024, Scott Anderson (presenter), Leadership Roundtable: Decision-making in disruptive times, 10<sup>th</sup> Annual Midwest Institutional Forum, Chicago, IL
- June 11, 2024, Scott Anderson (presenter), Leadership Roundtable: Decision-making in disruptive times, 5<sup>th</sup> Annual Michigan Institutional Forum, Detroit, MI
- June 17, 2024, Sarah Mudder (tradeshow), Governor's Summit on Innovative Education, Bismarck, ND
- June 25-28, 2024, Jan Murtha (presenter), NAPPA Legal Education Conference, Ft. Lauderdale, FL

### TFFR Business Partner Webinars

- April 11, 2024, Year-end Reporting Simplified

## PUBLICATIONS (GovDelivery)

### TFFR Business Partners newsletters and updates

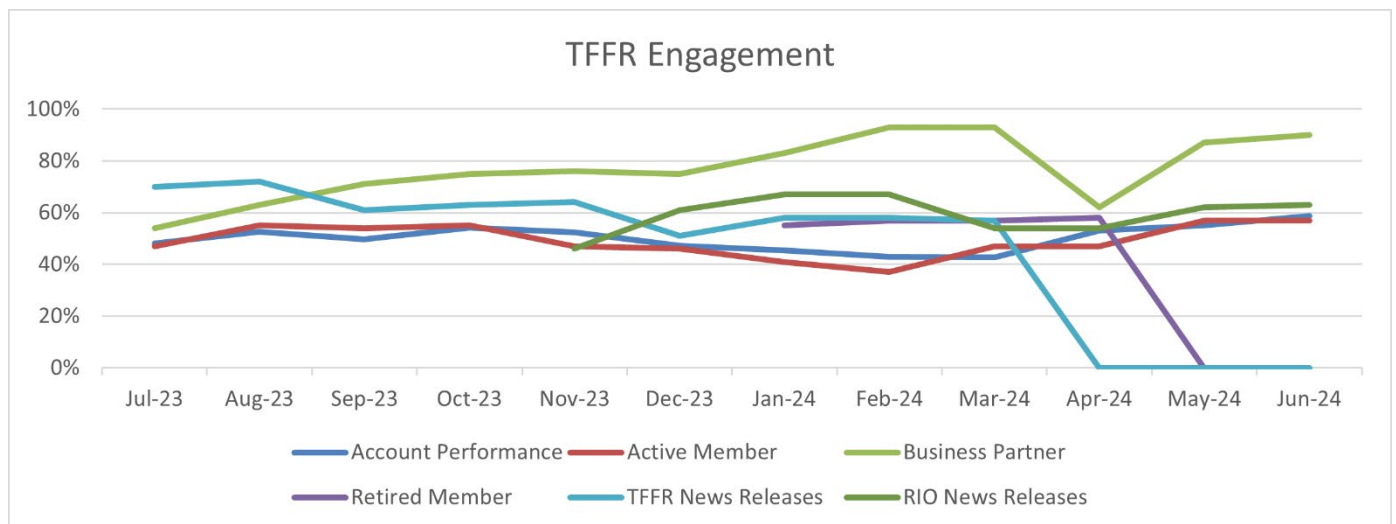
- May 1, 2024, newsletter sent to 467 subscribers (64% Open Rate)
- May 15, 2024, update (payment plan deadline) sent to 472 subscribers (38% Open Rate)
- May 21, 2024, update (fiscal year-end checklist) sent to 472 subscribers (68% Open Rate)
- June 25, 2024, update (payment plan deadline) sent to 472 subscribers (50% Open Rate)

### TFFR Active Members newsletters and events

- May 7, 2024, Retirement Education Workshop (registration open) sent to 11,697 (26% Open Rate)
- May 21, 2024, Retirement Education Workshop (waitlist) sent to 11,682 (25% Open Rate)

### TFFR Engagement Rate Monthly Metrics

As of June 30, most to least engaged TFFR topics were Business Partner at 90% and Active Members at 57%. Retired Members dropped off due to lack of communications. Overall Account Performance was 59%. Per GovDelivery, the median engagement rate for education communications in 2023 was 66%.



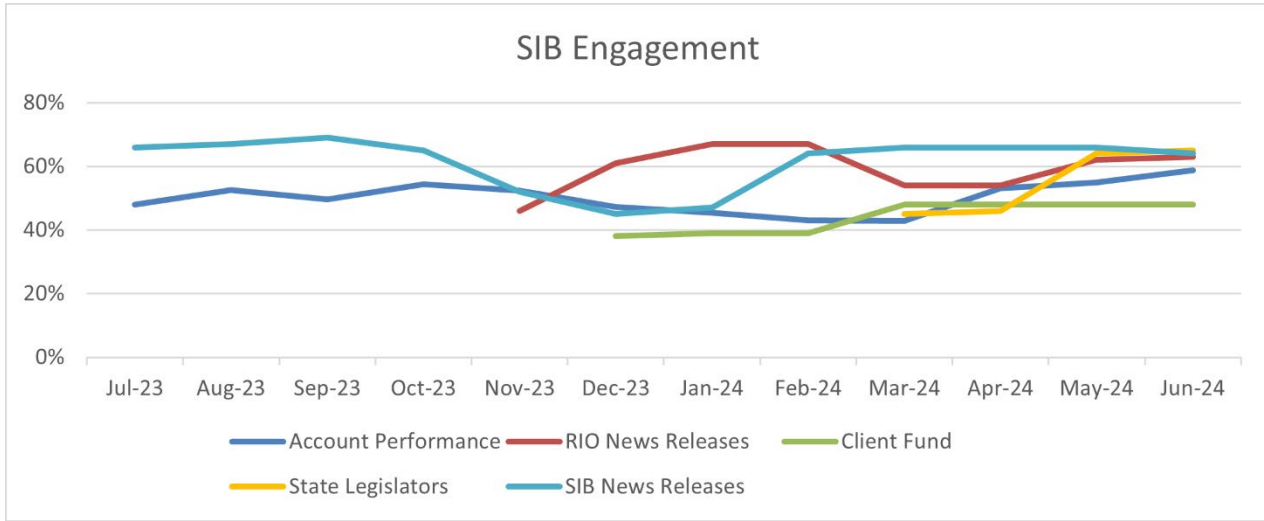
### SIB/Fiscal news releases and updates

- May 20, 2024, news release (new client funds) sent to 533 subscribers (43% Open Rate)
- May 22, 2024, news releases (Legacy Fund reaches \$10B) sent to 684 subscribers (41% Open Rate)
- June 19, 2024, news releases (performance consultant) sent to 529 subscribers (44% Open Rate)



### SIB Engagement Rate Monthly Metrics

As of June 30, most to least engaged SIB topics were State Legislators at 65%, SIB News Releases 64%, and Client Funds 48%. Overall Account Performance was 59%. Per GovDelivery, the median engagement rate for Finance & Commerce communications in 2023 was 56%.



**BOARD ACTION REQUESTED: Board Acceptance**

**MEMORANDUM**

**TO: SIB**  
**FROM: Jan Murtha, Executive Director**  
**DATE: July 17, 2024**  
**RE: Executive Limitations**

A verbal update will be provided at the meeting on staff relations and strategic planning. Including updates on the following topics:

**I. New Board & Committee Member Update**

Our inaugural year of the new board member onboarding curriculum was completed on July 17<sup>th</sup>, 2024 with the presentation of the overview of the Internal Audit division and its functions. RIO staff will review any feedback from board and committee members for the onboarding program with the GPR committee at a future meeting for updates and enhancements. All sessions were recorded so that they could be made available for future use to new board members. Thank you to all board and staff members who made this onboarding program so successful!

The TFFR Board has a vacancy in the active teacher representation category. An update will be provided once a new member is appointed by the Governor.

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

<b>Position Title*</b>	<b>Status</b>
Internal Equity Portfolio Manager (new)	Offer pending.
Internal Equity Senior Analyst (new)	Offer pending.
Internal Fixed Income Portfolio Manager (new)	Posting closed. Applicant review pending.
Investment Accountant (new)	Interviews pending.

\*RIO has begun posting for new FTEs related to the Internal Investment program. Further updates will be provided at the meeting.

**III. Current Project Activities/Initiatives:**

- **BND Study:** The full study was presented to the Energy Development and Transmission Committee on June 12, 2024. A recording of the committee meeting can be viewed here: [North Dakota Legislative Branch Video \(ndlegis.gov\)](https://www.ndlegis.gov/branch-video).

- **Cash Management Study:** RIO is participating in the OMB led cash management study. The study is nearing conclusion. A further update will be provided at the September SIB meeting.
- **Internal Audit Co-Sourcing:** The ED, CFO/COO, and Supervisor of Internal Audit meet with Weaver at least bi-monthly if not more frequently to coordinate consultant co-sourcing activities.
- **Investment Program Software Solutions:** A notice of award issued. Members of the investment and fiscal divisions, with the support of NDIT are preparing for implementation.
- **Northern Trust Initiative:** In an effort to enhance the infrastructure for the investment program the Investment and Fiscal teams continue to coordinate with Northern Trust for additional functionality/capabilities. This effort should be finalized coincident with the full implementation of the new investment program infrastructure.
- **Retirement Literacy Initiative:** RIO team members continue to coordinate with other state agencies in the financial literacy initiative. Most recently we have met with representatives from DPI to discuss opportunities for collaboration that are directed toward teacher retirement topics.
- **TFFR Pioneer Project:** The TFFR Pioneer Project continues with implementation consistent with the project plan. The project is currently on time and on budget with an expected launch date by end of 2024.

#### **IV. Executive Director Activities**

Subsequent to the May 17, 2024 SIB meeting activities:

- Prepared materials for and/or attended the following meetings:
  - 6-12-24 through 6-14-24 - Attended the NCTR Director's Meeting
  - 6-17-24 - Employee Benefits Programs Committee
  - 6-19-24 - Budget Section Presentation
  - 6-21-24 - SIB Audit Committee meeting
  - 6-25-24 through 6-28-24 - NAPPA Legal Education Conference
  - 7-3-24 and 7-16-24 - Two Investment large IT Project ESC meetings
  - 7-10-24 – Investment Committee meeting
  - 7-18-24 – Retirement Education Workshop
- During this time I also had several external meetings and discussions with legislators and other agency leaders on program operations and state wide initiatives, as well as internal meetings with consultants, direct reports, executive team and division specific meetings, and offered in person and virtual office hours.
- I also presented a training to the New Member Section at the NAPPA Legal Education. This session was prepared for attorneys new to the NAPPA organization and was intended to provide an overview of fiduciary duties and benefits administration.

**Board Action Requested:** Board acceptance.

# BOARD LEADERSHIP

July–August 2024 • No. 194

## INNOVATIVE APPROACHES TO GOVERNANCE

EDITOR: NICHOLAS KING

### AI governance check: Navigating compliance and essential queries for board discussions

BY JULIE MYERS WOOD, CEO, GUIDEPOST SOLUTIONS

*Julie Myers Wood is CEO of Guidepost Solutions, a global leader in domestic and international investigations, compliance solutions, monitoring, and security and technology consulting. In this article, she discusses how boards can best manage the legal and compliance risks associated with the use of artificial intelligence.*

In recent years, the artificial intelligence (AI) technology landscape has undergone a remarkable transformation, experiencing explosive growth and unprecedented advancements. From self-driving cars to personalized recommendation systems, AI applications are revolutionizing industries and reshaping the way we interact with technology. Only two months after its introduction, ChatGPT, a popular generative AI tool, achieved 100 million monthly active users, making it the fastest-growing consumer application in history.<sup>1</sup> The meteoric rise of the new generative AI tools is easily understood. Their ease of use, combined with the increased productivity and efficiency across so many disciplines, is quite compelling. As with all new technology, however, the use of AI comes with significant risks that must be managed. Executive management, and boards of directors that provide oversight, must ensure that the use of all AI tools is managed in a way that is consistent with the

company's values, and based on the risks each company faces.

The promise and risk of advanced AI capability have captivated the public consciousness for decades, albeit primarily in the realm of rather compelling science fiction, such as M3GAN or SkyNet from the *Terminator* movies. In the current moment, however, reality has (almost) caught up with fiction, and the advent of generative AI as a part of our everyday world requires that we shift our thought processes and approaches to adapt to this groundbreaking technology. Accordingly, governments are focused on ensuring that this new technology achieves its potential for benefiting society while reducing the likelihood that science fiction nightmares (and other potential harms) do not occur. Similarly, board members must understand the current legal and enforcement framework, and ensure they are knowledgeable enough to provide effective oversight during this exciting, but challenging, time.

#### Inside This Issue

- 4 The board must make its own decisions
- 8 A designated crisis response team is best for managing board's crisis management duties

#### Current legal and regulatory trends

While there is currently no federal US legislation specifically addressing AI, there are several key bills pending and numerous executive branch regulatory efforts. All board members should be aware of President Biden's Executive Order on Safe, Secure, and Trustworthy Artificial Intelligence, issued on October 30, 2023.<sup>2</sup> The order's "whole of Government approach" directs multiple federal agencies to develop new standards for AI safety and security, and to create regulatory regimes that will

*continued on page 2*

## AI

*continued from page 1*

require companies to create and implement compliance and risk management programs to address the risks. Among the many objectives set forth in the executive order are:

- Reducing AI-enabled fraud and deception by creating standards and best practices for detecting AI-generated content and authenticating official content.
- Using AI tools to improve cybersecurity by finding and fixing vulnerabilities in critical software.
- Prioritizing federal support for privacy-preserving techniques.
- Advancing equity and civil rights by providing guidance to reduce discrimination that could result from using AI in housing, benefits, and criminal justice situations.
- Promoting the responsible use of AI in health care and education.

While it will take some time for the directives set forth in the executive order to be completed, the work has already begun, and the risks to companies for failing to address AI risks are already coming into focus.

On March 28, 2024, the Office of Management and Budget released a supporting memorandum for the heads of executive departments and agencies<sup>3</sup> directing them to strengthen AI governance, advance responsible innovation, and manage the risks of using AI in a responsible manner. While this directive applies only to US government departments and agencies, it serves as a bellwether for requirements that will eventually apply more broadly, including a focus on keeping the “human in the loop” for critical AI use.

The lack of a specific US federal framework is not deterring

regulators from examining the improper use of AI. On February 13, 2024, Securities and Exchange Commission (SEC) chair Gary Gensler stated that enforcement emphasis would be placed not only on financial firms and individuals that *misuse* AI for fraud but also on those who *recklessly* deploy AI systems without proper testing and vetting of the technology. He also described proposed SEC rules that could go into effect by the end of the year that would prohibit brokerage and investment advisers from using AI tools that put their interests over those of investors.<sup>4</sup> On March 18, 2024, the SEC announced a settlement with two investment advisers for misrepresenting their use of, and expertise in, AI in violation of provisions of the Investment Advisors Act of 1940, a practice now referred to as “AI Washing.” Following this pattern, in several recent public speeches, Department of Justice (DOJ) deputy attorney General Lisa Monaco revealed that the department would be seeking substantially greater sentences when criminal acts are made more harmful through the misuse of AI.

More broadly, companies must also recognize and account for the fact that the improper use of AI may also violate existing laws (ex., unfair trade practices under Sec. 5 of the Federal Trade Commission [FTC] act). States like New York and California have also enacted state laws governing specific uses of AI.

There are also other efforts globally to regulate AI that may have significant impact on US and multinational companies. A prominent example is the EU AI Act, a legislative framework in the European Union (EU) to regulate AI.<sup>1</sup> The goal of this framework is to manage the risks associated with AI systems and ensure they are safe and trustworthy. The AI Act classifies AI systems into risk categories from minimal to unacceptable risk, with stricter requirements for higher-risk categories. This

## BOARD LEADERSHIP

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**WILEY**

## When We Say...

*Board Leadership's* mission is “to discover, explain and discuss innovative approaches to board governance with the goal of helping organizations achieve effective, meaningful and successful leadership to fulfill their missions.”

Board Leadership aims to fulfill this mission by engaging its readers in a lively and illuminating inquiry into how board governance can be made more effective. This inquiry is based on three key assumptions:

- Boards exist to lead organizations, not merely monitor them.
- Effective board governance is not about either systems, structures, processes, theories, practices, culture, or behaviors—it is about all of them.
- Significant improvements are likely to come only through challenging the status quo and trying out new ideas in theory and in practice.

Uniquely among regular publications on board governance, *Board Leadership* primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.

Over time, *Board Leadership* will provide a repository of different approaches to governance created through its regular “One Way to Govern” feature.

Here's what a few of the key terms we use mean to us:

- **Innovative:** Creating significant positive change
- **Approaches:** Principles, theories, ideas, methodologies and practices.
- **Board governance:** The job of governing whole organizations.

includes obligations for transparency, data governance, and accountability. The act aims to protect EU citizens from potential harms caused by AI technologies while fostering innovation and competitiveness in the AI sector.

Similar efforts are underway in the United Kingdom, which is also actively developing its own framework for AI regulation, though it approaches the matter differently from the EU. The UK government has proposed a more decentralized and sector-specific regulatory approach, focusing on outcome-based categorization of AI risks rather than strict risk-based categorization like the EU AI Act. This approach leverages existing regulatory authorities and frameworks, with key principles including safety, security, transparency, fairness, and accountability.

Additional general and industry-specific AI regulations are clearly forthcoming. The current absence of US comprehensive laws and regulations specifically addressing AI is only temporary. As referenced above, regulators are already scrutinizing companies' use of AI, evaluation of AI products, and event statements about their use of AI technologies when enforcing existing laws and regulations. Boards of directors should encourage management to focus on compliance with all relevant federal, state, and local laws with an eye toward how their use of AI tools might affect their overall compliance status. In addition, monitoring legislative and regulatory developments related to AI creation and use will prevent surprises and will allow companies to prepare for new requirements more thoughtfully and economically.

AI regulation will never evolve as quickly as the technology itself. However, organizations that wait for a more settled environment before acting do so at their peril. Proactive approaches will inevitably be essential in a market where the rate of technology development can outpace the ability of the government to oversee it. In this respect, boards should not wait to exercise vigilance and oversight with respect to companies' development, purchase, deployment, and use of AI tools.

### Existing best practices and frameworks

Understanding best practices and current risk frameworks will help board members exercise their AI oversight. A key best practice relates to the organization of a company's AI efforts. Before deploying generative AI technologies, whether purchased/licensed, developed in-house, or obtained from a third-party service provider, companies should create a cross-functional steering committee of various stakeholders or retain a third-party assessment firm to understand the risks associated with such technologies. Understanding these risks will guide the creation of a governance structure and includes establishing, documenting, and socializing policies and procedures to address those risks. Such a governance structure will set forth the requirements for testing, evaluation, approval, and operation of AI tools and the associated controls used to

mitigate those risks. This is an ongoing process, and the documentation will have to be periodically updated as the technologies, the risks, and the regulations change over time.

It is important for board members to understand that all companies engaging with AI-based products and services must be well versed in the technological bases and utilizations of these tools to withstand scrutiny and support their knowledgeable and well-intentioned practices. In the absence of specific prescriptive regulatory requirements, companies that can demonstrate the use of "best practices" and implementation of industry accepted frameworks are in a much better position to withstand regulatory scrutiny and avoid civil liability. In January 2023, the National Institute of Standards and Technology ("NIST") released the Artificial Intelligence Risk Management Framework ("AI RMF"), the goal of which is "to offer a resource to the organizations designing, developing, deploying, or using AI systems to help manage the many risks of AI and promote trustworthy and responsible development and use of AI systems."<sup>5</sup> Using the AI RMF and other supporting documentation NIST provides to develop an AI governance structure would certainly be considered a best practice and demonstrates the type of thoroughness and diligence regulators will expect.

Companies should also track the work of the NIST-run AI Safety Institute Consortium,<sup>6</sup> a public/private sector initiative that will be creating new best practices and standards for the safe and responsible use of AI technology.

### Board organization for AI oversight

When considering the board's role in AI oversight, a threshold question is how a board of directors should structure its oversight. Given the ongoing changes in this sector, the board must develop a governance structure that is both general and flexible enough to address current requirements and those expected to arise over time. There is no perfect answer for the right board committee to exercise the oversight role. Currently, in some companies, the audit committee addresses AI oversight issues. In others, the board's governance or compliance committee addresses the issues. Finally, some companies with a specialized cybersecurity committee have included AI oversight within that committee's remit. Whatever the board decides, it is expected that AI governance will be integrated into, or otherwise leverage, existing governance frameworks to the greatest extent possible. Boards of directors can, and should, guide their management teams toward this approach.

### Alignment on governing principles

It is helpful for a board and management to think about the use of AI tools in the context of some governing principles. Some key principles include the following:

- **Fairness**—When applicable, are controls in place to

*continued on page 6*

# The board must make its own decisions

BY RICK WILLIAMS

*Rick Williams is a leadership expert and founder and managing director of Boston-based consulting firm Williams Advisory Partners. In this article, he discusses the importance of an independent board exercising its own judgment in decision-making.*

The full board of directors is the decision-maker. Yes, we delegate our work to board committees, hire independent consultants and advisers, and look to management for information and recommendations.

But, our job as the board is to make decisions as a board. Too often, boards and board members rely on the recommendations of committees, consultants, and task forces to make decisions for them.

After Silicon Valley Bank's collapse, some argued that bank regulators should have intervened earlier and saved the bank. I disagree. Bank regulators protect small depositors and are not risk analysts for the bank's leadership and its board. The threat to the bank's net assets at a time of rapidly rising interest rates was obvious to anyone paying attention.

I served as chair of a bank board. I did not rely on government regulators to tell me whether the bank was about to collapse. If I didn't know the bank was in trouble before the regulators, I was not doing my job as a board member.

Boards cannot do their governance work providing higher-level supervision to the company and its operating leadership without relying on information from many sources. These could be management presentations, auditor reports, legal council reports, and outside consultant reports. For many reasons, these reports can be incomplete or self-serving. In all cases, these reports are not a substitute for the independent judgment of board members and the full board.

A colleague told me the story of Tupperware's rapid decline after Amazon came into the market offering essentially the same home products at lower prices. The Tupperware board did not see Amazon as a competitor because Amazon was not an "authorized" Tupperware representative selling products at house parties. The board accepted management's rationale for the old business model when Amazon's threat was obvious to anyone going to a Tupperware house party.

My colleague spoke of the reluctance of individual board members to be "the skunk at the lawn party." Boards try to work through consensus and collegiality. Courage was required to be the first board member to say Amazon looks like a real threat to the Tupperware business model or that Silicon Valley Bank is going under if we don't change our financing model.

Because I write and speak about empowering an engaged board of directors, I am challenged to put up or shut up. Some have challenged me with the question, "What would you have done as an SVB board member?" I served on a board when

management advocated for a high-risk proposal. With details changed for confidentiality, here is what happened.

The company CEO mentioned during a board meeting that a bank had contacted him about a piece of real estate the bank acquired through foreclosure. The bank offered to sell the property at an attractive price to get it off its foreclosed asset list. I told the CEO that I knew the property and had concerns about potential contamination liabilities. I asked him to let me know how the discussions progressed.

Over several months, the CEO reported more progress toward purchasing the site. The company could expand its operations onto the site, but I suspected the property had contamination risks that would be expensive to remediate. I asked the CEO to investigate possible hazardous waste contamination on the property.

Each time the possibility of purchasing the property was on the board agenda, I asked for an update on possible hazardous waste contamination issues. Each time, the CEO assured me that the bank and local government were saying that there were no material risks. We also heard that the bank had no independent analysis of possible contamination.

The CEO presented a handsome rendering depicting the company's new facilities on the property and asked the board to approve a motion to buy the property. From the discussion, I could see that other board members were inclined to go along with the CEO's motion and approve the proposal. The question for me was whether I should go along with the CEO's recommendation and the preference of other board members.

I said that I would vote NO on the motion and that I wanted a summary of my reasons for voting NO in the minutes. Board members have personal liability for some decisions in this area. The CEO tabled the motion and withdrew the proposal. Further analysis identified contamination on the property and the eventual acquisition price factored in the remediation costs.

Here is the rest of the story. The company had a ribbon-cutting ceremony after it purchased the property, and I was asked to be the master of ceremonies. Dignitaries from local and state governments spoke, as did company leaders. When the city's mayor got to the microphone, one of his first comments was thanking the company for agreeing to clean up the hazardous waste on the site.

I did not feel particularly courageous saying that I wanted my No vote recorded in the board minutes. I did not know for certain that the company was about to take on a costly

hazardous waste cleanup obligation. However, I did know for certain that the board and I did not understand the risks in the decision it was about to make. My asking that the board minutes record my request for more information was enough to pause the project and convince the CEO to do a more complete analysis of the property's potential liabilities.

Consider the position of Boeing's board of directors and its board members. Airlines and air passengers worldwide depend on Boeing as a primary supplier of high-tech, safe airplanes. The door blew out of a Boeing plane, and safety issues grounded the new 737 Max. Board members cannot become domain experts in aircraft technology, the economics of air travel, manufacturing culture, and government regulation. But the board must make decisions for the direction of the company drawing on information from these areas and their judgment about how this information relates to the future of the company.

We know in our own lives that we place more value on what our spouse says happened last night than on what our six-year-old says happened. We also consider what our spouse needs to keep coping and our six-year-old needs to keep growing.

As a Boeing board member, you must learn from the information given to you. But, you must also put the information in the context of what you know, your obligations as a board member, and your goals for the company. You also must use your judgment about priorities, risks, and the capabilities of those who must execute on the decisions you make.

Boeing CEO Dave Calhoun announced that he is stepping down, and the independent board chair Larry Kellner announced that he will not stand for re-election at the annual board meeting. The board must select a new CEO, one or more new board members, and new board leadership. A board committee will take the lead on these search efforts and will hire a search consultant to identify and recruit candidates for the CEO position and board membership.

When the full board meets to select a new CEO and new board members, board members will be under pressure to accept the recommendations of the board committee and the consultant. *"We hired an expert consultant to tell us what to do. Why would you go against their recommendations?"* Or, *"The Nominating Committee examined the candidates and considered what Boeing needs for leadership. Why would you question our recommendations?"*

My view is that moments like this are when independent judgment is required by each board member. Rather than just going along with the recommendation on the table, this is the moment when each board member must apply their experience and judgment when deciding what the company needs to be successful over the next three to five years. What skills and experience should the new CEO have to lead the company, and what type of board member is needed to guide the CEO? From the candidates available, who best matches these criteria?

Consultant be damned. Each board member and the board

as a whole must decide who will be the best CEO to lead the company for the next three to five years on the path forward that the board has chosen. Boeing board members are deeply experienced, including the former CEO of Continental Airlines and the former CEO of KPMG. They are on the board to make important decisions. These are moments when their responsibility is to listen and learn from other board members and then make their own independent judgments.

I want to share a quick story about getting this wrong. I served on a company's board whose CEO resigned with little notice because of personal family issues. We formed a board search committee and hired a respected search consultant.

The search did not coincide with a review of the company's strategic plan or business model. Nevertheless, as we reviewed the candidate qualifications, we were forced to think about where the company was going over the next few years and what kind of leadership it needed. We narrowed the search to several strong candidates with quite different styles and experience. Selecting from among these candidates was selecting very different leadership for the company.

Several board members, particularly the chair, wanted a quick return to "normal." They wanted the lowest-risk candidate who could immediately engage with company affairs. The chair assumed important leadership responsibilities after the CEO left. Responding to the board chair's preferences, the search consultant proposed a candidate with experience in the business sector but no CEO-level leadership experience.

The board went with the low-risk candidate who had the most direct experience with the company's business sector rather than a candidate with stronger leadership skills but less sector experience.

The CEO we selected lasted less than one year. Think of a good COO who cannot make the step to CEO. We, the board, selected a candidate with domain experience rather than a candidate with the leadership qualities needed to run the company and guide it through its competitive landscape.

High-function boards of directors work by consensus where possible. And, we must rely on the work of the board committees and the information and recommendations that company management brings to the board. Nevertheless, when important decisions come before the board, our obligation as individual board members and the board as a whole is to apply our judgment and make decisions we believe are in the best interests of the company.

We can learn from other board members, board committee recommendations, and management recommendations, but the value we bring to the board is our independent judgment. And, the responsibility of the board as a whole is to bring its collective judgment to the decisions it must make. Consider committee and outside recommendations, but be clear that the board as a whole will make the final decisions. ■



**AI**

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ensure that outputs are impartial and avoid bias (i.e., avoiding systemic advantages for privileged groups over others)?

- **Robustness**—Are the AI tools secure against a variety of threats? Is it reliable and accountable?
- **Explainability**—Can you explain how the AI tool arrived at its outcomes/decisions?
- **Transparency**—Can you describe how the AI tool was created, and its intended purpose?
- **Privacy**—Do data owners retain control over their data?

**Specific board areas of inquiry**

In addition to alignment on general principles and a basic understanding of AI enforcement frameworks and best practices, Boards can further enhance their oversight through targeted inquiry in specific areas relating to AI use and compliance.

While board members are not required to be AI experts, asking appropriate questions of their management team can yield a two-way benefit, serving to inform the board while simultaneously ensuring company management focuses on core compliance issues around AI tools. Active board engagement is also important as publicly traded companies are starting to face new pressure to document their governance processes relating to transparency and responsible AI, including in response to shareholder proposals. There will undoubtedly be different considerations and different risks for companies creating AI tools as compared to companies that deploy those created by others, but in any case, boards should ensure that management is prepared to address both general and specific questions related to the company's use of AI tools.

The following questions are examples of those that would help any board better understand management's use of AI tools and its enterprise-wide:

**Board reporting and involvement**

- What board committee has responsibility for overseeing business and compliance issues relating to AI, particularly generative AI?
- Who are the board members with expertise in AI?
- What issues relating to the company's use of AI tools, including generative AI, will the board regularly be briefed on?
- What is the cadence of regular board reporting?

**Governance**

- Does the company have an AI governance structure?
- How is responsibility for AI use allocated within company (chief AI officer, CIO, business leaders, others)?
- Is there a cross-functional working group (or other mechanism) that brings together AI specialists, business executives, and important stakeholders to:

- Understand and track current AI demand and use throughout the company?
- Define objectives, roles, and responsibilities related to AI governance and risk management?
- Does the company utilize a risk management framework for AI use? If so, which one?
- Has the company conducted an AI risk assessment?
- Does the company have a process to monitor developments in key global regulations such as GDPR, CCPA, the EU AI Act, and the US executive branch regulatory efforts, as well as how they impact AI projects, staying updated with evolving laws and their implications for AI?
- Does the company have a specific AI policy or procedures in place?
  - If so, do they address risk and mitigation, data privacy, acceptable use and approval processes, oversight roles and responsibilities, training, testing, inventory, ethics, change management, and incident response?
    - Are they reviewed and revised/updated periodically to ensure that they evolve with changing technology, use cases and privacy laws?
    - How often?
  - Do the company's policies and procedures clearly outline the roles and responsibilities for:
    - AI approval?
    - AI risk mitigation?
  - Does the company have clear descriptions of acceptable and unacceptable use cases?
  - Have other policies and procedures been updated to reflect AI-specific concerns? For example, is there a component of the incident response plan that incorporates a well-defined plan for responding to AI-related incidents?
  - Is there AI-specific training for employees and contractors to ensure they understand the company policies and applicable regulations, as well as potential implications of their AI use, including impact to individuals and the company?

**For each AI use case ("AI tool")**

- Will AI tools be used to make decisions that will affect people's lives (e.g., automated decision-making regarding employment, financial, health/safety)?
  - If applicable, how does the company address the issue of bias in AI outputs?
  - Does the company require that a person validate and verify AI-generated output?
    - How is that managed? Can it be audited?
  - What is the source of the data used for the training/testing of the model(s) used?
  - Are diverse datasets used to reduce bias in AI models?
  - Does the company have access to the underlying algorithms/code?

- What data were used to train and test the AI model? Does the company have appropriate rights to that data? Are there any intellectual property or privacy concerns with such data?
- Is personally identifiable information (“PII”) or other personal data being fed into the AI tool?
- How are the outputs being used?
- Is there a company employee that can explain them to a regulator or is a third-party expert required?

### Risks/liability

- What is/will be the frequency of the company’s AI risk assessment?
- Does the risk assessment map vulnerabilities for specific use cases to threats, and existing or potential safeguards?
  - Do these include AI-specific vulnerabilities, including security vulnerabilities, such as prompt injection/jailbreaking, adversarial input/poisoning of training data, hallucination?
- Have all identified risks been mitigated, transferred, or accepted?
- Do the company’s policies and procedures outline how to document and escalate AI incidents?
- For each AI use case:
  - What are the risks associated with this specific AI use case?
    - Who is using it?
    - Have employees been trained?
    - Is PII being input?
    - Are outputs reviewed by humans?

### Data privacy

- What data sources (e.g., third-party data or first-party data) and types (e.g., personal information, product usage information, or confidential information) of data will be used or captured?
- How are these data types identified and categorized accurately and comprehensively?
- Are privacy enhancing technologies (e.g., federated learning), security tools (e.g., DLP) and anonymization leveraged where appropriate to help ensure the privacy of personal information and to keep these data secure?
- Does the company design AI systems that protect user privacy, transparency, and accountability, documented at every stage of the system lifecycle?
- If the company handles PII:
  - Who in the organization has access to this information?
  - Who will PII be shared with (employees, contractors, customers, partners, or other third parties)?
  - What is the planned retention period and delete method for the personal data?
  - How does the company respond to requests to delete

personal data?

- Are there transparent and accurate policies made available to consumers describing how consumer data are used and protected, including use by AI?

### Third-party vendors

- Will a third-party vendor be used to create and/or service AI products?
- Will AI products use third-party components?
- How does the company conduct thorough risk assessments of third-party AI providers/vendors with AI-specific analysis to ensure the same level of governance as with internal AI use cases?
- Does the company track its use of third-party components and other products, and maintain documentation of each vendor’s evidence of risk management and compliance?

### Review/testing/processes

- What testing is performed on each AI tool before it is put into production?
  - Who performs such testing?
  - What criteria are used?
  - What methodologies for testing and identifying bias in AI systems are used?
- How does the company review/monitor the use of AI within the company?
  - What triggers a review?
  - Do the reviews address ongoing adherence to data protection laws as well as evolving AI regulation?
    - Who conducts reviews?
    - After an AI tool is in production, does the company regularly monitor AI outputs to ensure they are not inadvertently revealing sensitive information, exhibiting bias, regression, hallucination, etc.?

Corporate boards of directors that are most familiar with challenges for safe and productive AI engagement can utilize effective oversight to best position their companies to succeed in this changed environment. In addition, proactive engagement by board members provides support for management teams to conduct safe business and reduce regulatory drag. A little investment now will yield dramatic results down the road and will establish a level of expertise in the area that will place these companies in high regard with shareholders and the regulatory agencies that conduct oversight in their areas of business. ■

**Julie Myers Wood** has more than 25 years of experience in the public and private sector working on regulatory and enforcement issues from many perspectives, including as a federal prosecutor, defense counsel, government investigator, and compliance consultant. Key highlights include leading 15,000

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special agents, lawyers, and officers at the U.S. Department of Homeland Security (DHS); helping the president choose cabinet members to serve in his administration; and co-founding a compliance software and consulting startup, which was later acquired by Guidepost Solutions. At Guidepost, Ms. Wood provides practical advice to help transform companies. She focuses on regulatory compliance and investigative work and regularly serves as an independent monitor/consultant appointed by the U.S. government. *Visit the Guidepost Solutions website to learn more.*

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## News

# A designated crisis response team is best for managing board's crisis management duties

**B**oards of directors from organizations of all types and stripes have a wide range of duties and responsibilities to stay on top of. But one that might not get as much attention as it should is crisis response.

According to Adam Wire, content marketing manager at board management consulting firm OnBoard, there are any number of situations that fall under the “crisis” moniker, including natural disasters, public health emergencies, conflicts, or other catastrophic incidents. Crisis response is the catch-all term for the immediate actions taken when confronted with such scenarios—and the strategies put in place prior to address or mitigate their impacts.

In a recent blog post on this topic, Wire explained the key role a board plays in crisis response—namely, preparing in advance by having a solid plan and team in place.

“The best way for any board of directors to plan for risks and emergencies is to build a crisis response plan and assign the right people to response teams,” Wire said.

In his blog post, Wire laid out the key steps involved in establishing your crisis response team. They include:

- **Assessing risks and needs.** This critical first step requires the board and organizational leadership to brainstorm what would be the potential crises that would impact the organization, be it natural disasters like earthquakes and wildfires, or security threats such as data breaches, cyberattacks and the like.

Then, evaluate each of these potential scenarios in terms of what it could mean for your organization, he said—for

example, would there be property damage? Short- or long-term loss of revenue? Potential reputational harm?

- **Define the objectives and scope of the response team.**

Next up, Wire said, is to identify the key goals and scope of the crisis response team's work. For example:

- Ensuring the safety of employees and clients.
- Minimizing damage to the organization's property and assets.
- Protecting the group's public reputation.

As far as scope, Wire said, the team must have clear guidance on what types of crises they are equipped to handle, what level of authority the team has in such circumstances, and any communication protocols that need to be followed, among other considerations.

- **Select the team.** For this step, he said, be sure to identify team members with the appropriate skills and experience to handle the crisis situations that will fall under the team's purview, such as those with backgrounds in communications, human resources, IT, and operations.

- **Develop plans and procedures.** This is the “meat and potatoes” portion of the process, where the team works to create a comprehensive crisis management plan for each of the different crisis scenarios under discussion, Wire said. This should encompass everything from communication strategies and resource allocation to the formal decision-making processes to be followed, he said.

For additional information, visit <https://www.onboardmeetings.com>. ■