

STATE OF NORTH DAKOTA  
DEFERRED COMPENSATION  
PROGRAM

PUBLIC EMPLOYEE  
RETIREMENT SYSTEM  
COMPANION PLAN

Statement of Investment Policy

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# STATE OF NORTH DAKOTA DEFERRED COMPENSATION PROGRAM PUBLIC EMPLOYEE RETIREMENT SYSTEM COMPANION PLAN STATEMENT OF INVESTMENT POLICY

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## **INTRODUCTION**

The Public Employees Retirement System Board (Board) hereby adopts this Statement of Investment Policy for the Deferred Compensation Companion Plan (Plan).

### **Objectives of the Plan**

The Plan is a long-term retirement savings vehicle and is intended as a source of retirement income for eligible participants. The investment options available from the Plan cover a broad range of investment risk and rewards appropriate for this kind of retirement savings program. Participants bear the risk and reap the rewards of investment returns that result from the investment options which they select.

This Statement of Investment Policy serves the following purposes:

- To establish an investment program that will allow plan participants the opportunity to structure an investment strategy that meets their individual return objectives and risk tolerances.
- To define the investment categories offered by the Plan;
- To establish benchmarks and performance standards for each investment category by which to evaluate each fund's performance;
- To establish a procedure for reporting and monitoring of the various funds and a methodology for monitoring their performance; and
- To define the procedures for investment fund evaluation and formal fund review.

## **SELECTION OF INVESTMENT OPTIONS**

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Each investment option offered under the Plan shall:

- Operate under its published prospectus;
- Have its performance results measured against the applicable performance standards described herein for that investment category.

The Board may add or replace investment options in any category using the following general criteria:

- A. Historical performance over a reasonable time frame.
- B. Investment manager performance and tenure.
- C. Costs, including the expense ratio and any other fees.

Mutual fund options are selected through a comprehensive search process. Generally, the Board will first review the suitable offerings from the vendor's alliance family of funds. Absent a competitive offering from the vendor's list of alliance funds, the Board will select from qualified non-alliance funds.

**INVESTMENT CATEGORIES:**

Responsibility for the number, types, and status of individual investment offerings rests upon judgment of the Board. In general, the Board will seek to offer a sufficient number of investment funds to allow each participant the ability to construct a diversified portfolio consistent with his/her reasonable investment objective. The selection and elimination of investment options will be guided by the following philosophies and principles:

- A. The menu of offerings will be sufficient to allow each participant the ability to construct a diversified portfolio consistent with a reasonable investment goal. (See *Appendix 1* for a classification of the current offerings.) The menu will include at least one offering in each of the following asset categories:

- Stable Value Account
- Fixed Income
- Balanced

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- Large Cap Equity
- Mid Cap Equity
- Small Cap Equity
- International Equity
- Asset Allocation

**B.** Within the domestic equity categories, the offerings may include funds that represent style subsets (value, growth, blend) of the broad market.

**C.** The offerings will include funds that offer pre-determined asset allocations of various risk tolerances or investment horizons.

**D.** The self-directed brokerage option is designed for a sophisticated, experienced and knowledgeable investor. Participants selecting this option will be required to sign an election form containing the following:

- (a) The participant understands and accepts any and all risks associated with this selection;
- (b) The participant understands and accepts that none of the mutual funds available in the self-directed brokerage option have been reviewed for suitability by the Board;
- (c) The participant is solely responsible for determining the suitability or appropriateness of any selected mutual fund; and
- (d) The participant agrees to hold the Plan and the Board harmless as to any negative consequences resulting from use of the self-directed brokerage option.

## REPORTING AND MONITORING PROCEDURES

The Board will designate the status of each investment fund offered as either open or closed:

- **Open** – Eligible for new investments.
- **Closed** – Not eligible for new contributions.

## INVESTMENT FUND EVALUATION

The Board will periodically (at least annually) review the plan and its investment funds, including investment performance. The investment performance review will include

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comparisons against the appropriate benchmark indices and peer groups over relevant time frames. The focus of the review will be to ensure that the Board is offering funds with competitive (average or above) performance within each category over reasonable measurement periods, typically encompassing a market cycle (3 to 5 years). The Board will also review the fund's investment style relative to its mandate and the stability of the personnel responsible for investment results. As the investment funds are retail mutual funds, the Board may rely on ratings produced by recognized performance evaluation services to evaluate long-term risk-adjusted performance relative to peers. For performance benchmarks on current offerings, see *Appendix 1*. The Board has developed the following policies with respect to closing any Fund.

- A.** Funds rated as meeting performance standards and policy objectives will be designated as open.
- B.** Funds rated as not meeting performance standards and policy objectives will, in the Board's discretion, either be placed in a closed status or on a "formal fund review list".
- C.** The Board, at its discretion, may remove funds from the "formal fund review list" should the fund's performance recover sufficiently to meet performance standards.
- D.** Funds that do not meet performance standards and/or policy objectives may be placed in the "Closed" status.
- E.** Failure by a fund to comply with these policy objectives and guidelines will be cause for the Board to reexamine that fund's continuing appropriateness.

In addition the Board may place a fund under formal fund review, or immediately close a fund, for any of the following reasons:

- A.** The fund has made significant changes in its investment management, or such change appears imminent;
- B.** The fund has had a significant change in ownership or control;
- C.** The fund has significantly changed investment focus or has experienced style drift, departing from the investment objectives;
- D.** The fund has violated a SEC rule or regulation;
- E.** The fund has experienced difficulty in transacting trades, fund transfers, or pricing;

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- F. The fund has experienced other changes or problems in its procedures, operations, investing, or reporting which, in the Board's view, has or could detract from the objectives of the Plan.
- G. The fund has increased its fees or expenses.

The Board retains the right to waive any of the above policies if it deems that such waiver is in the best interest of the plan and/or its participants

**FORMAL FUND REVIEW**

When a fund has been placed under formal review, the Board shall monitor the fund, its operations, and its performance. During this period the Board may close the fund.

**CLOSED FUNDS**

When the Board closes a fund it may direct any or all of the following:

- A. No new contributions may be made to the fund after a specified date:
- B. Participant account balances must be transferred to another fund option.

If the Board closes a fund to new contributions it shall:

- A. Promptly notify the Plan provider of the action;

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- B.** Promptly notify plan participants who are currently investing in the fund or who have assets in the closed fund of the Board's action and if applicable that new investment monies must be redirected to another fund option under the Plan within a time specified by the Board.

If the Board closes a fund by terminating its participation in the plan and requires all account balances to be transferred to another fund it shall:

- A.** Promptly notify the Plan provider the fund has been terminated;
- B.** Promptly notify plan participants who are currently investing in the fund or who have assets in the closed fund that the Board has terminated the fund as an investment option under the Plan and that:
- New investment monies must be redirected to another fund option under the Plan within a time specified by the Board and
  - Upon 90 days notice to an effected member by the Board, all assets in the terminated fund must be transferred to another fund option.

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**APPENDIX 1**

**Companion Plan Investment Options by Investment Category**

<b>Asset Class</b>	<b>Sector</b>	<b>Fund(s)</b>	<b>Benchmark(s)</b>
Balanced	Balanced	Fidelity Puritan	60% Large Cap Value Fund Universe and 40% Taxable Bond Fund Universe  60% Russell 3000 Value and 40% Lehman Aggregate Bond Index
Large Cap Equities	Value	Fidelity Equity-Income	Large Cap Value Fund Universe Russell 1000 Value
	Blend	Fidelity Dividend Growth	S&P 500 Large Cap Blend Fund Universe
		Fidelity Spartan US Equity Index	S&P 500 Large Cap Blend Fund Universe
	Growth	Fidelity Growth Company	Russell 3000 growth Large Cap Growth Fund Universe
		Fidelity Blue Chip Growth	Russell 1000 growth Large Cap Growth Fund Universe
	Mid Cap Equities	Value	Mutual Shares A
Blend		Dreyfus Mid Cap Index	Mid Cap Blend Universe S & P Mid Cap 400
		Fidelity Spartan Extended Index	Mid Cap Blend Universe Wilshire 4500 Index
Growth		Fidelity Mid Cap Stock	Mid Cap Growth Universe Russell Mid Cap Growth

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Small Cap Equities	Value	PIMCO Small Cap Value	Small Value Universe Russel 2000 Value
	Blend	Dreyfus Small Cap Index	Small Cap Blend Universe Russel 2000 Index
	Growth	MSDW Small Co B	Small Cap Growth Universe Russel 2000 Growth
Fixed Income		Fidelity Managed Income Portfolio PIMCO Total Return Bond Fund	GIC 5 yr Lehman Aggregate Bond Index Taxable Bond Fund Universe
International Equities		Fidelity Diversified International	MSCI EAFE Index International Stock Fund Universe
Asset Allocation		<u>Fidelity Freedom Funds</u> Income Fund Benchmark 2000 Fund Benchmark 2005 Fund Benchmark 2010 Fund Benchmark 2015 Fund Benchmark 2020 Fund Benchmark 2025 Fund Benchmark 2030 Fund Benchmark 2035 Fund Benchmark 2040 Fund Benchmark	The Fidelity Freedom Funds will be benchmarked using the Wilshire 5000 Index, EAFE Index, LB Aggregate Bond Index, High Yield Index, and 3-Month T-Bill Index. Each fund benchmark will be based on the fund allocation in Domestic Equity, International Equity, Investment Grade Fixed-Income, High Yield Fixed-Income, and Money Market stated in the fund prospectus.