



ND STATE INVESTMENT BOARD MEETING

Friday, September 26, 2014, 8:30 a.m.
Peace Garden Room, State Capitol
600 E Blvd., Bismarck, ND

I. APPROVAL OF AGENDA

II. APPROVAL OF MINUTES (August 22, 2014)

III. INVESTMENTS

- A. Investment Management Fees and Expenses - Mr. Hunter (to follow) (30 min)
- B. Callan Custody and Fee Preview - Mr. Hunter (to follow) (15 min)
- C. Bank of North Dakota Initiatives - Mr. Hardmeyer (enclosed) (30 min)

IV. GOVERNANCE

- A. Annual Governance Manual Review - Mr. Hunter (enclosed) (60 min) **(First Reading)**
- B. RIO Budget Review - Ms. Flanagan (to follow) (10 min) **(Board Acceptance)**
- C. RIO Staffing Update - Mr. Hunter (enclosed) (5 min)
- D. Executive Review Committee Update - Mr. Lech (5 min)
- E. Certificate of Achievement for Excellence in Financial Reporting - Mr. Hunter (enclosed) (5 min)

V. OTHER

Next Meeting: SIB meeting - October 24, 2014, 8:30 a.m. - Peace Garden Room
SIB Audit Committee meeting - October 24, 2014, 1:00 p.m. - Peace Garden Room

VI. ADJOURNMENT

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 22, 2014, BOARD MEETING**

MEMBERS PRESENT: Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, Parliamentarian, TFFR Board
Lance Gaebe, Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (TLCF)
Rob Lech, TFFR Board
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

BOARD MEMBERS ABSENT: Kelly Schmidt, State Treasurer

STAFF PRESENT: Connie Flanagan, Fiscal & Invt Op Mgr
Bonnie Heit, Assist to the SIB
David Hunter, ED/CIO
Cody Schmidt, Compliance Officer
Darren Schulz, Deputy CIO
Susan Walcker, Invt Acct

OTHERS PRESENT: Sam Brindley, BlackRock
Jim Cavanaugh, JP Morgan
Paul Erlendson, Callan Associates
Matt Kraeger, BlackRock
Jan Murtha, Attorney General's Office
Linh Pham, BlackRock
Bryan Reinhardt, PERS
Jim Sakelaris, JP Morgan
Katy Speer, Public Citizen
Bryan Summers, Callan Associates

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 22, 2014, at the Peace Garden Room, State Capitol, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 22, 2014, MEETING AS DISTRIBUTED.

AYES: COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. TRENBEATH, MR. LECH, MS. SMITH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

MINUTES:

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE JULY 25, 2014, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MS. TERNES, MR. LECH, COMMISSIONER HAMM, MR. CORNEIL, MR. TRENBEATH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

MORTGAGE BACKED SECURITIES:

The Board received presentations on Agency Mortgage Backed Securities strategies from BlackRock and JP Morgan representatives.

The Board recessed at 10:05 a.m. and reconvened at 10:17 a.m.

Staff reviewed their due diligence process in conjunction with Callan Associates and recommended the SIB award the Agency Mortgage Backed Securities mandate to JP Morgan. Staff is basing their recommendation on the strategy's complementary fit with the existing PIMCO MBS mandate in the Pension Trust. JP Morgan will be replacing Western Asset Management's MBS mandate.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND AWARD THE AGENCY MORTGAGE BACKED SECURITIES MANDATE IN THE PENSION TRUST TO JP MORGAN.

AYES: MR. CORNEIL, MR. TRENBEATH, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MS. SMITH, MR. SANDAL, MS. TERNES, MR. LECH, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

The SIB is of the understanding that staff will attempt to negotiate a lower fee with JP Morgan other than the proposed 21-22 basis points on the mandate.

ASSET/PERFORMANCE OVERVIEW:

Mr. Hunter provided an update on the SIB client assets. Net investment returns for the year ended June 30, 2014, were realized for the following funds; TFFR (16.5%), PERS (16.4%), WSI (11.7%) Insurance Trust (8.3%), and Legacy Fund (6.6%).

He also provided an update on staffing. Interviews were conducted for the Audit Supervisor vacancy on August 21 and the Investment Analyst interviews will be conducted the early part of September.

Updates were also provided on the following:

The emerging market equity transition to Axiom was completed on August 1, 2014.

Callan Associates custody and fee review results of Northern Trust will be available at the September 26, 2014, meeting.

Staff will continue to review the Private Capital and Global Fixed Income mandates in the 3rd and 4th quarters for efficiencies.

ASSET CLASS DEFINITIONS:

Mr. Hunter provided a summary of asset class definitions as a reference to the Board. The definitions were prepared by staff in conjunction with the PERS Investment Sub-Committee.

SIB AUDIT COMMITTEE MEMBERSHIP:

At the July 25, 2014, meeting, the SIB approved the following membership of the Audit Committee for the period of July 1, 2014 - June 30, 2015; Ms. Becky Dorwart (External Rep.), Mr. Gessner (TFFR Rep.), Mr. Sandal (PERS Rep.), and Ms. Ternes (Elected and Appointed Officials Rep.).

Staff recommended Ms. Karol Riedman, to serve as one of two external representatives on the Committee. Ms. Riedman is currently the Chief Audit Executive for the Office of Internal Audit of the ND Dept. of Health.

IT WAS MOVED BY MR. LECH AND SECONDED BY MS. TERNES TO ACCEPT STAFF RECOMMENDATION AND APPOINT MS. KAROL RIEDMAN TO SERVE ON THE SIB AUDIT COMMITTEE AS AN EXTERNAL REPRESENTATIVE FOR THE PERIOD OF JULY 1, 2014 - JUNE 30, 2015.

AYES: MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, MS. SMITH, MR. LECH, MR. SANDAL, MR. TRENBEATH, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY

NAYS: COMMISSIONER GAEBE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

EXECUTIVE REVIEW COMMITTEE:

Executive Review Report - At the SIB's July 25, 2014, meeting, the Board accepted an evaluation plan and timeline for completion of the annual performance review of the Executive Director/CIO. The Board also made revisions to a proposed evaluation survey. Mr. Lech, Chair of the Executive Review Committee, along with Mr. Sandal and Ms. Ternes presented the revised evaluation survey for the SIB's consideration and acceptance.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE REVISED EVALUATION SURVEY PROPOSED BY THE EXECUTIVE REVIEW COMMITTEE TO UTILIZE IN CONDUCTING THE ANNUAL PERFORMANCE REVIEW OF THE ED/CIO.

AYES: MS. SMITH, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER HAMM, COMMISSIONER GAEBE, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

MONITORING REPORTS:

Pension/Insurance Trust Performance Measurement - Callan representatives reviewed the asset allocation, money manager performance, and consolidated

performance results for the Pension Trust and Insurance Trust for the period ending June 30, 2014. Callan also reviewed the economic and market environment for the same time period.

Watch List - Staff is conducting additional due diligence and monitoring of the following firms; Western Asset Management (MBS mandate), PIMCO (all strategies), and Timberland Investment Resources.

Compliance Reports - Ms. Flanagan reviewed the following compliance reports for FY2014 from the SIB investment managers; Certification of Compliance with Investment Guidelines, Exceptions to Investment Guidelines, and Audit and Internal Control (SSAE 16) Reports.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MONITORING REPORTS.

AYES: MR. TRENBEATH, MR. CORNEIL, COMMISSIONER GAEBE, MR. LECH, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MS. SMITH, MS. TERNES, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT

The Board recessed at 11:55 a.m. and reconvened at 12:07 p.m.

EDUCATION:

Representatives of Callan Associates presented a Callan College session on Performance Monitoring and Fund Sponsor Trends.

OTHER:

Next SIB Meeting - September 26, 2014, 8:30 a.m. - State Capitol, Peace Garden Room

Next SIB Audit Committee meeting - October 24, 2014, 1:00 p.m. - State Capitol, Peace Garden Room

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 1:03 p.m.

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

HIGH LEVEL SUMMARY OF FEE SAVINGS IMPACT

TABLE 1

		2013	2014		
		Fiscal Year End	Fiscal Year End	Increase or	Change
<u>COMPARISON OF FISCAL 2013 and 2014 ACTUAL RESULTS:</u>		<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>(Decrease)</u>	
Investment Management Fees and Expenses	a	\$ 44,703,232	\$ 43,233,477	\$ (1,469,755)	-3%
Average Assets Under Management ("AUM") for all SIB Clients	b	\$ 6,905,312,561	\$ 8,632,237,726	\$ 1,726,925,165	25%
Investment Manager Fees & Expenses as a % of Average AUM	a / b	0.65%	0.50%	-0.15%	-23%
Current Year Fee Reduction (of 14.65 basis points)				0.15%	
Current Year Average AUM (of approximately \$8.6 billion)				\$ 8,632,237,726	
Extrapolated Impact of Current Year Fee Reductions				\$ 12,649,428	

TABLE 2

	(i)	(ii)	(i) x (ii)
<u>SCENARIO ASSUMPTIONS:</u>	<u>Future AUM</u>	<u>2014 Fee Reduction</u>	<u>Projected Savings</u>
Projected Future Savings assuming Average AUM declines to \$8 billion >>>	\$ 8,000,000,000	0.15%	\$ 12,000,000
Projected Future Savings assuming Average AUM increases to \$9 billion >>>	\$ 9,000,000,000	0.15%	\$ 13,500,000
Projected Future Savings assuming Average AUM increase to \$10 billion >>>	\$ 10,000,000,000	0.15%	\$ 15,000,000

TABLE 3

	<u>Future AUM</u>	<u>2014 Fee Reduction</u>	<u>Projected Savings</u>
Performance Fee Reductions (Non-Structural)	\$ 10,000,000,000	0.11%	\$ 11,000,000
Structural Fee Reductions (Negotiated and economies of scale)	\$ 10,000,000,000	0.04%	\$ 4,000,000
TOTAL FEE REDUCTIONS (based on \$10 billion in average AUM)	\$ 10,000,000,000	0.15%	\$ 15,000,000

SUMMARY:

- 1) SIB Client Fees declined by nearly 15 basis points from 0.65% (or 65 bps) to 0.50% (or 50 bps) during the last two fiscal years.
- 2) Performance fees represented about 75% of the fee reductions whereas structural reductions accounted for 25% of savings.
- 3) Based on average assets under management of \$8.6 billion for fiscal 2014, this translates into approximately **\$12.6 million** of fee savings during the most recent fiscal year end (or \$8.6 billion x 0.1465% = \$12.6 million).

State Investment Board

Investment Management Fees and Expenses

September 26, 2014

Dave Hunter, Executive Director / CIO
Darren Schulz, Deputy Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Investment Management Fee and Expense Overview

➤ Overall, investment management fees and expenses declined by \$1.47 million from **\$44.7 million** in fiscal 2013 to **\$43.2 million** in fiscal 2014, which is noteworthy given that average assets under management increased by 25% between years (and management fees are generally based on average assets).

➤ Investment management fees and expenses as a % of average assets under management declined from **0.65%** to **0.50%** between the last two fiscal year ends.

➤ During the last year, RIO identified over \$2.2 million in structural cost savings including \$900,000 in global equity, \$400,000 in fixed income, \$300,000 in international equities and \$600,000 in custody and trust services. Trust income could also be enhanced by \$700,000 by adopting a conservative securities lending program.

Comparison of Investment Management Fees and Expenses for the fiscal years ended June 30, 2013 and 2014

All State Investment Board Clients

	Assets under management (Average)	Fees	Basis points
<u>Fiscal Year Ended June 30, 2013:</u>			
Investment manager fees	\$ 6,905,312,561	\$ 43,068,872	62
Total investment expenses		\$ 1,634,360	2
	\$ 6,905,312,561	\$ 44,703,232	65
<u>Fiscal Year Ended June 30, 2014:</u>			
Investment manager fees	\$ 8,632,237,726	\$ 41,503,309	48
Total investment expenses		\$ 1,730,168	2
	\$ 8,632,237,726	\$ 43,233,477	50

Amounts in the table above may not foot due to rounding.

Pension and Insurance Trust Fee Comparisons

Comparison of Investment Management Fees and Expenses for the fiscal years ended June 30, 2013 and 2014

	Pension Investment Pool			Insurance Investment Pool & Individual Investment Account			All State Investment Board Clients		
	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points
Fiscal Year Ended June 30, 2013:									
Investment manager fees	\$ 4,036,387,762	\$ 31,292,634	78	\$ 2,868,924,799	\$ 11,776,238	41	\$ 6,905,312,561	\$ 43,068,872	62
Total investment expenses		\$ 1,031,504	3		\$ 602,856	2		\$ 1,634,360	2
	\$ 4,036,387,762	\$ 32,324,138	80	\$ 2,868,924,799	\$ 12,379,094	43	\$ 6,905,312,561	\$ 44,703,232	65
Fiscal Year Ended June 30, 2014:									
Investment manager fees	\$ 4,470,165,619	\$ 29,750,027	67	\$ 4,162,072,107	\$ 11,753,282	28	\$ 8,632,237,726	\$ 41,503,309	48
Total investment expenses		\$ 1,071,465	2		\$ 658,703	2		\$ 1,730,168	2
	\$ 4,470,165,619	\$ 30,821,492	69	\$ 4,162,072,107	\$ 12,411,985	30	\$ 8,632,237,726	\$ 43,233,477	50
Decline in Investment Manager Expenses during last year (basis points)			11			13			15
Decline in Investment Manager Expenses during last year (basis points %)			14%			31%			23%

Notes: Preliminary data is deemed to be materially accurate, but unaudited and subject to change. Amounts in the table above may not foot due to rounding.

- **Pension Trust** - Investment management fees and expenses as a % of average assets under management declined by **14%** or 11 basis points between years.
- **Insurance Trust** - Investment management fees and expenses as a % of average assets under management declined by **31%** or 13 basis points between years.

A basis point (or "bp") is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points ("bps") is equivalent to 1%.

Comparison of Total and Structural Fee Reductions

Summary:

Structural related investment management fees and expenses declined from 45 basis points to 41 basis points during the last year (as a % of average assets under management).

Performance fees (excluding private equity) declined by nearly \$5.9 million or 42% between years which translated into an approximate 11 basis reduction in total fees between the prior two fiscal years.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

Comparison of Investment Management Fees and Expenses for the fiscal years ended June 30, 2013 and 2014

All State Investment Board Clients

	Assets under management (Average)	Fees	All Fees (in basis points)	Structural (in basis points)
<u>Fiscal Year Ended June 30, 2013:</u>				
Investment manager fees	\$ 6,905,312,561	\$ 43,068,872	62	
Total investment expenses	<u>\$ 6,905,312,561</u>	<u>\$ 44,703,232</u>	<u>65</u>	a
Performance fees (excluding private equity)		\$ 13,968,846		b 20
				a - b 45
<u>Fiscal Year Ended June 30, 2014:</u>				
Investment manager fees	\$ 8,632,237,726	\$ 41,503,309	48	
Total investment expenses	<u>\$ 8,632,237,726</u>	<u>\$ 43,233,477</u>	<u>50</u>	c
Performance fees (excluding private equity)		\$ 8,102,143		d 9
				c - d 41
Decline of investment manager fees between year (in basis points)			15	4

PERS: Investment Manager Fees by Asset Class

ND Public Employees Retirement System Schedule of Investment Expenses

	FY 2014				FY 2013			
	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	365,981,245	2,955,213	0.81%	0.13%	217,968,250	1,547,875	0.71%	0.08%
Domestic large cap equity managers	384,861,486	1,147,029	0.30%	0.05%	370,889,384	728,603	0.20%	0.04%
Domestic small cap equity managers	120,164,086	634,024	0.53%	0.03%	112,632,847	727,665	0.65%	0.04%
Developed international equity managers	256,155,282	870,056	0.34%	0.04%	239,724,479	956,631	0.40%	0.05%
Emerging markets equity managers	76,989,246	345,776	0.45%	0.02%	74,001,347	511,527	0.69%	0.03%
Investment grade domestic fixed income managers	275,056,490	1,693,310	0.62%	0.08%	236,797,254	3,086,432	1.30%	0.16%
Below investment grade fixed income managers	112,518,187	829,449	0.74%	0.04%	92,929,915	1,785,211	1.92%	0.09%
Developed international fixed income managers	107,270,172	379,087	0.35%	0.02%	98,547,090	354,027	0.36%	0.02%
Real estate managers	207,258,155	2,089,297	1.01%	0.09%	189,031,136	2,036,459	1.08%	0.11%
Timber managers	98,298,540	376,571	0.38%	0.02%	100,781,985	389,485	0.39%	0.02%
Infrastructure managers	84,925,843	756,442	0.89%	0.03%	72,367,259	1,032,097	1.43%	0.05%
Private equity managers	104,032,964	2,652,948	2.55%	0.12%	104,506,668	1,996,034	1.91%	0.10%
Cash & equivalents managers	25,974,562	35,935	0.14%	0.00%	19,981,961	31,361	0.16%	0.00%
Total investment managers' fees	2,219,486,259	14,765,138	0.67%		1,930,159,576	15,183,406	0.79%	
Custodian fees		322,750	0.01%	0.01%		279,055	0.01%	0.01%
Investment consultant fees		191,403	0.01%	0.01%		208,647	0.01%	0.01%
Total investment expenses		15,279,291	0.69%			15,671,109	0.81%	
Total Performance Fees Paid (excludes private equity)		3,268,117	0.15%			4,571,896	0.24%	
			0.54%				0.58%	
Actual Investment Performance (Net of Fees)			16.38%				13.50%	
Policy Benchmark			15.67%				11.84%	
Outperformance			0.71%				1.66%	

➤ **PERS investment fees declined to 69 bps from 81 bps due to a sharp decline in performance fees (9 bps) while benefitting from recent asset growth and structural fee savings (3-4 bps).**

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

TFFR: Investment Manager Fees by Asset Class

ND Teachers' Fund for Retirement Schedule of Investment Expenses

	FY 2014				FY 2013			
	Average Market Value	Fees in \$	Fees as % of Average MV	Contribution to Total Fees	Average Market Value	Fees in \$	Fees as % of Average MV	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	326,235,450	2,605,453	0.80%	0.13%	197,566,458	1,403,825	0.71%	0.08%
Domestic large cap equity managers	340,895,908	1,018,026	0.30%	0.05%	336,258,113	661,279	0.20%	0.04%
Domestic small cap equity managers	105,239,002	551,815	0.52%	0.03%	102,229,770	656,041	0.64%	0.04%
Developed international equity managers	242,199,904	822,849	0.34%	0.04%	228,746,539	911,366	0.40%	0.05%
Emerging markets equity managers	57,526,583	258,679	0.45%	0.01%	54,745,552	378,684	0.69%	0.02%
Investment grade domestic fixed income managers	242,206,182	1,491,703	0.62%	0.08%	214,323,703	2,787,286	1.30%	0.16%
Below investment grade fixed income managers	100,794,001	747,407	0.74%	0.04%	82,893,062	1,604,541	1.94%	0.09%
Developed international fixed income managers	96,622,044	340,634	0.35%	0.02%	88,751,191	317,489	0.36%	0.02%
Real estate managers	188,509,149	1,899,944	1.01%	0.10%	173,804,190	1,863,035	1.07%	0.11%
Timber managers	89,210,349	341,757	0.38%	0.02%	90,497,383	349,639	0.39%	0.02%
Infrastructure managers	76,493,621	681,088	0.89%	0.03%	65,804,876	939,370	1.43%	0.05%
Private equity managers	95,436,733	2,433,316	2.55%	0.12%	97,761,570	1,850,618	1.89%	0.11%
Cash & equivalents managers	15,765,017	23,964	0.15%	0.00%	19,877,190	26,873	0.14%	0.00%
Total investment management fees	1,977,133,942	13,216,635	0.67%		1,753,259,597	13,750,046	0.78%	
Custodian fees		293,776	0.01%	0.01%		257,367	0.01%	0.01%
Investment consultant fees		172,148	0.01%	0.01%		198,775	0.01%	0.01%
Total investment expenses		13,682,559	0.69%			14,206,188	0.81%	
Total Performance Fees Paid (excludes private equity)		2,914,666	0.15%			4,155,080	0.24%	
			0.54%				0.57%	
Actual Investment Performance (Net of Fees)			16.53%				13.63%	
Policy Benchmark			15.74%				11.95%	
Outperformance			0.79%				1.68%	

➤ TFFR's fees also declined to 69 bps from 81 bps due to a sharp decline in performance fees (9 bps) while benefitting from recent asset growth and structural fee savings (3 bps).

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

Legacy Fund: Investment Manager Fees by Asset Class

Legacy Fund Schedule of Investment Expenses

	FY 2014				FY 2013			
	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Domestic large cap equity managers	221,898,125	502,317	0.23%	0.03%	-	-	0.00%	0.00%
Domestic small cap equity managers	80,140,583	350,670	0.44%	0.02%	-	-	0.00%	0.00%
International equity managers	208,777,033	884,793	0.42%	0.05%	-	-	0.00%	0.00%
Domestic fixed income managers	341,169,338	1,199,773	0.35%	0.07%	-	-	0.00%	0.00%
Diversified real assets managers	8,725,730	33,040	0.38%	0.00%	-	-	0.00%	0.00%
Real estate managers	48,719,775	490,567	1.01%	0.03%	-	-	0.00%	0.00%
Short-term fixed income managers	854,086,155	1,053,958	0.12%	0.06%	847,626,340	881,957	0.10%	0.10%
Cash & equivalents managers	57,174,100	60,350	0.11%	0.00%	49,301	-	0.00%	0.00%
Total investment managers' fees	1,820,690,839	4,575,468	0.25%		847,675,641	881,957	0.10%	
Custodian fees		216,970	0.01%	0.01%		84,539	0.01%	0.01%
Investment consultant fees		68,630	0.00%	0.00%		104,210	0.01%	0.01%
Total investment expenses		4,861,068	0.27%			1,070,706	0.13%	
Total Performance Fees Paid		558,086	0.03%			-	0.00%	
Actual Investment Performance (Net of Fees)				6.64%				1.17%
Policy Benchmark				5.54%				0.34%
Outperformance				1.10%				0.83%

- Investment fees for the Legacy Fund increased to 0.27% from 0.13% during the last year as the approved asset allocation strategy (of 50% equity, 35% fixed income and 15% real assets) is being implemented.
- As a result of implementing the new asset allocation strategy, net investment returns for the Legacy Fund increased to 6.64% in fiscal 2014 from 1.17% in fiscal 2013.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

WSI Fund: Investment Manager Fees by Asset Class

WSI Fund Schedule of Investment Expenses

	FY 2014				FY 2013			
	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees	Average Market Value	Fees in \$	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Domestic large cap equity managers	166,986,900	378,036	0.23%	0.02%	157,675,575	341,230	0.22%	0.02%
Domestic small cap equity managers	56,832,544	155,764	0.27%	0.01%	54,075,290	236,376	0.44%	0.02%
International equity managers	120,576,064	446,643	0.37%	0.03%	105,150,858	540,741	0.51%	0.04%
Domestic fixed income managers	827,438,595	2,756,064	0.33%	0.17%	773,893,212	5,995,874	0.77%	0.39%
Diversified real assets managers	355,360,774	1,465,980	0.41%	0.09%	326,065,359	1,763,718	0.54%	0.12%
Real estate managers	103,075,513	748,284	0.73%	0.05%	103,176,095	907,413	0.88%	0.06%
Cash & equivalents managers	14,893,021	22,587	0.15%	0.00%	12,491,724	-	0.00%	0.00%
Total investment managers' fees	1,645,163,411	5,973,359	0.36%		1,532,528,115	9,785,352	0.64%	
Custodian fees		204,289	0.01%	0.01%		256,974	0.02%	0.02%
Investment consultant fees		61,050	0.00%	0.00%		63,486	0.00%	0.00%
Total investment expenses		6,238,698	0.38%			10,105,812	0.66%	
Total Performance Fees Paid		820,266	0.05%			4,014,017	0.26%	
			0.33%				0.40%	
Actual Investment Performance (Net of Fees)				11.71%				8.31%
Policy Benchmark				9.95%				3.99%
Outperformance				1.76%				4.32%

➤ WSI's investment management fees declined to 38 bps from 66 bps between years primarily due to a \$3.2 million decline in performance fees.

➤ Non-performance related management fees declined to 33 basis points from 40 basis points between years.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

Active Management Incremental Returns Exceed Investment Fees

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs End. 6/30/2014
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)				
\$ 2,332,744,038				115% Limit
Total Fund Return - Net	16.38%	9.66%	12.70%	9.5%
Policy Benchmark Return	15.67%	9.35%	12.33%	9.0%
Attribution Analysis				105%
Asset Allocation	0.15%	-0.06%		Actual Risk /
Manager Selection	0.56%	0.37%		Policy Risk
Total Relative Return	0.71%	0.31%	0.37%	

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs End. 6/30/2014
TEACHERS' FUND FOR RETIREMENT (TFFR)				
\$ 2,061,684,912				115% Limit
Total Fund Return - Net	16.53%	9.38%	13.07%	10.5%
Policy Benchmark Return	15.74%	8.73%	12.23%	10.0%
Attribution Analysis				105%
Asset Allocation	0.23%	0.18%		Actual Risk /
Manager Selection	0.56%	0.47%		Policy Risk
Total Relative Return	0.79%	0.65%	0.83%	

Risk: Investment performance has been achieved while adhering to prescribed risk management guidelines which limit portfolio risk (as measured by standard deviation) to 115% of policy, as the actual level of **105%** is within the approved limit.

- Active management has generated over \$30 million of incremental income for the fiscal year ended June 30, 2014.

- This translates into a return of \$2 for every \$1 paid for investment management fees during the past fiscal year.

- PERS generated **0.71%** of excess return during the past year. Based on average invested assets of \$2.22 billion, this translates into \$15.7 million of incremental plan income.

- TFFR generated **0.79%** of excess return for the last year. Based on \$1.98 billion on average assets, this translated into \$15.6 million of additional investment income.

State Investment Board

Callan Custody Preview and Review of Strategic Initiatives

September 26, 2014

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Callan Custody and Fee Preview

- Overall, Callan believes that Northern Trust's current services are sufficient and responsive to our trust requirements in addition to being competitive with the other three major trust providers (BNY Mellon, JPMorgan Chase and State Street Bank and Trust Co.).
- The 43% reduction in Northern Trust's annual fee is estimated to generate over \$600,000 in annual savings including over \$340,000 for Pension Trust clients and over \$260,000 for Insurance Trust clients.

Total Trust and Custody Fees	Northern Trust Fee Schedule as of 4/1/2014	Northern Trust Fee Schedule Prior to 4/1/2014	Difference	% Change
Pension Trust				
Total Pension Fees	\$414,430	\$758,364	\$343,934	-45.35%
Insurance Trust				
Total Insurance Fees	\$355,969	\$621,563	\$265,594	-42.73%
Total	\$770,399	\$1,379,927	\$609,528	-44.17%

Compliance Monitoring Fee Comparison				
Compliance Monitoring Fees	Northern Trust Fee Schedule as of 4/1/2014	Northern Trust Fee Schedule Prior to 4/1/2014	Difference	% Change
Pension and Insurance Trusts	\$20,000	\$20,000	\$0	0.00%
Total	\$20,000	\$20,000	\$0	0.00%

Trust, Custody and Compliance Monitoring Total Fee Comparison				
Grand Total	Northern Trust Fee Schedule as of 4/1/2014	Northern Trust Fee Schedule Prior to 4/1/2014	Difference	% Change
Pension and Insurance Trusts	\$790,399	\$1,399,927	\$609,528	-43.54%
Aggregate Cost	\$790,399	\$1,399,927	\$609,528	-43.54%

- At a future SIB meeting, Callan will also review the risks and rewards of adopting a conservative securities lending program which is estimated to generate over \$700,000 of incremental income.

Note: Callan will formally present its findings of Northern Trust's custody, trust and securities lending services at the October 24th SIB meeting.

Strategic Initiatives - Executive Summary September 26, 2014

1. **Custody and Fee Review (4Q)** – Callan will present the results from a recently completed custody and fee review of Northern Trust to confirm performance standards including an incremental income opportunity using a conservative securities lending program.
2. **Governance (4Q)** – Review our Governance Manual so as to confirm it is aligned with the SIB’s current expectations. Additional governance education can be provided by Miriam Carver in the November 21, 2014 meeting if the SIB concurs.
3. **Client Presentations (4Q)** – RIO recently provided an investment overview to “Study Council” and intends to present to the Legacy Fund and Budget Stabilization Advisory Board on October 28th and the Employee Benefits Program Committee on October 29th.
4. **Mortgage Backed Securities (4Q)** – RIO will complete the MBS transition during the next 30 to 60 days.
5. **Global Fixed Income (4Q)** – RIO will commence a review of our fixed income strategies within the Insurance Trust so as to confirm sector allocations in light of our long-term strategic goals and strong performance.
6. **Private Capital (4Q and 2015)** – After review of the Callan investment management fee study in the 4th quarter, RIO intends to request the SIB approve a third party operational review of our private equity and/or infrastructure mandates so as to confirm our investment approach while seeking to reduce fees. RIO also intends to focus on our infrastructure investments in the near term so as to expand our investment universe to include more liquid alternatives due to continuing asset growth. Ideally, we intend to work with our existing investment managers to enhance our investment flexibility. Timber Investment Resources, who was recently added to our Watch List, will be requested to supply an investment update at our January SIB meeting.
7. **Legacy Fund (2015)** – RIO will explore interest in developing a plan to transition the Legacy Fund into a separate Trust between July 1, 2015 and June 30, 2016, given the significant growth in this fund which is expected to continue into the future.
8. **Board Education (Ongoing)** - Introductory “Callan College” sessions were presented to the SIB in July and August. Investment topics included Asset Allocation, Capital Markets Theory, Fiduciary Role, Performance Measurement and Current Trends. Two-day sessions are also offered by Callan in San Francisco on October 28-29, 2014.
9. **Watch List (Ongoing)** – There are no recommended watch list actions at this time (Timber Investments, PIMCO and WAMCO).



September 19, 2014

Mr. David Hunter, Executive Director
ND Retirement and Investment Office
1930 Burnt Boat Drive
Bismarck, ND 58507-7100

Dear David;

Thanks again to you and Darren for meeting with us a few weeks ago to discuss the Bank of North Dakota's (BND) Match Program. Per our discussion, BND is formally requesting that the State Investment Board (SIB) consider increasing its commitment to provide funding for the Match Program from \$200 million on a revolving basis to \$300 million. Additionally, BND is requesting increased flexibility from SIB for the interest rate terms offered. Currently, BND can provide up to a 5 year fixed-rate option; we would like at a minimum to increase that to 10 years.

Along with this request I think it is important to provide you with background information about the program:

- It is called the Match Program because we "match fund" the loan request with a certificate of deposit from the ND Retirement and Investment Office. (BND does not have a low-cost, long term source of funds within its deposit structure to fund these loan requests).
- The Match Program is intended to fund large scale projects with companies that are financially strong and viable. This is generally demonstrated with an investment grade credit rating by a national rating agency.
- The Match program has existed since 1993. Since that time we have funded 25 loans totaling \$243 million. (See attached list).
- The current outstanding balance for the program is \$95 million.

While a balance remains of \$105 million that can be drawn down on the current commitment, BND is aware of several large projects that could request a total of \$120 million in Match funding. These projects have been approved and financing details are being completed.

We view this program as a very important tool in the economic development efforts of North Dakota and it is imperative that we have funding that enables us to continue to market this successful program.

Sincerely,

Eric Hardmeyer
President

MATCH PROGRAM

BANK OF NORTH DAKOTA

MATCH PROJECTS - FUNDED, COMMITTED & PENDING

8/31/2014

NOTE NUMBER	APP DATE	COMMIT DATE	DATE FUNDED	CURRENT RATE	MATURITY DATE	TOTAL BND LOAN AMT PENDING	TOTAL BND LOAN AMOUNT	CURRENT BND LOAN BALANCE	RATE STRUCTURE	PRINCIPAL PAYMENT AMOUNT	PRINCIPAL PAYMENT DUE	LOCATION	TOTAL PROJECT
1			02/08/93	PAID	06/01/03		\$4,500,000	\$0	PAID	PAID	PAID	BISMARCK	\$5,000,000
2			02/23/94	PAID	02/23/09		\$12,000,000	\$0	PAID	PAID	PAID	DRAY/ HILLSBO	\$14,500,000
3			12/27/96	PAID	01/01/12		\$6,600,000	\$0	PAID	PAID	PAID	FARGO	\$20,000,000
4			01/29/98	PAID	02/01/13		\$3,200,000	\$0	PAID	PAID	PAID	FARGO	\$7,500,000
5			07/29/98	PAID	09/30/08		\$12,000,000	\$0	PAID	PAID	PAID	CARRINGTON	\$20,492,000
6			06/28/99	PAID	06/15/11		\$18,000,000	\$0	PAID	PAID	PAID	BISMARCK	\$18,000,000
7	03/02/01	03/27/01	05/16/01	PAID	05/16/11		\$4,000,000	\$0	PAID	PAID	PAID	FARGO	\$14,500,000
8	11/14/01	11/21/01	12/13/01	PAID	12/01/06		\$406,000	\$0	PAID	PAID	PAID	DICKINSON	\$406,000
9	05/14/01	05/24/01	01/17/02	5.68%	01/31/17		\$4,600,000	\$122,352	15 YR.FIXED	\$122,352	01/31	AYR	\$4,600,000
10	09/19/01	11/21/01	05/13/02	PAID	04/10/15		\$3,300,000	\$0	PAID	PAID	PAID	GRAND FORKS	\$3,250,000
11	03/22/00	04/05/00	12/03/02	4.45%	12/03/22		\$5,310,000	\$0	PAID	\$0	12/03	WAHPETON	\$10,100,000
12	03/13/03	03/26/03	10/01/03	4.55%	10/01/18		\$825,000	\$128,842	15 YR.FIXED	\$54,992	10/01	AYR	\$825,000
13	04/05/04	04/23/04	05/10/04	PAID	09/15/19		\$5,000,000	\$0	PAID	PAID	PAID	AYR	\$5,000,000
14	06/28/04	07/15/04	07/19/04	5.28%	07/01/19		\$15,000,000	\$5,000,000	15 YR.FIXED	\$1,000,000	07/01	BISMARCK	\$15,000,000
15	09/06/05	09/30/05	01/13/06	4.85%	05/01/21		\$2,500,000	\$1,166,667	15 YR.FIXED	\$166,667	01/01	GRAND FORKS	\$12,000,000
16	01/09/06	01/20/06	04/13/06	5.13%	04/13/16		\$17,115,000	\$0	PAID	PAID	PAID	VELVA	\$40,000,000
17	05/22/06	05/22/06	06/20/06	5.38%	06/20/17		\$5,000,000	\$364,186	11 YR FIXED	\$364,186	06/20	AYR	\$7,000,000
18	08/01/06	08/17/06	09/15/06	5.05%	09/30/17		\$7,100,000	\$1,716,042	10 YR.FIXED	\$640,844	09/30	FARGO	\$7,443,383
19	02/12/07	03/20/07	05/30/07	5.32%	06/01/27		\$25,000,000	\$16,250,000	20 YR FIXED	\$1,250,000	04/01	BISMARCK	\$100,000,000
20	03/06/08	03/25/08	10/17/08	4.42%	12/10/28		\$15,000,000	\$11,250,000	20 YR FIXED	\$750,000	12/10	BISMARCK	\$20,500,000
21	03/11/08	04/20/08	06/18/08	4.45%	06/18/18		\$2,300,000	\$347,758	10 YR FIXED	\$230,000	06/18	ARTHUR	\$2,300,000
22	04/11/08	05/22/08	09/12/08	3.0999%	07/01/23		\$25,000,000	\$15,000,000	5 YR FIXED	\$1,666,667	07/01	SPIRITWOOD	\$287,000,000
23	05/24/12	05/24/12	05/31/12	1.0120%	05/31/27		\$15,000,000	\$13,000,000	5 YR FIXED	\$1,000,000	05/31	WEST FARGO	\$61,300,000
24	01/01/13	02/20/13	04/22/13	1.21%	04/28/23		\$30,000,000	\$27,000,000	5 YR FIXED	\$3,000,000	04/30	DICKINSON	\$300,000,000
25 (7/13/2012)	PENDING		PENDING			\$50,000,000						SPIRITWOOD	\$3,000,000,000
26	01/08/13	01/30/13	06/25/14	1.9973%	06/25/29		\$4,000,000	4,000,000.00	5 YR FIXED	\$266,667	06/25	MAPLETON	\$12,800,000
						=====	=====	=====	=====	=====	=====		
						\$50,000,000	\$242,756,000	\$95,345,846		\$10,512,373			\$3,989,516,383

Breakdown of Available Funds

Total Available Funds	\$200,000,000	State Investment Board Revolving Commitment
Current Balance Funded	-\$95,345,846	
Current Balance Pending	-\$50,000,000	
	=====	
Remaining Funds	\$54,654,154	

State Investment Board

Annual Governance Manual Review – Supporting Exhibits

September 26, 2014

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

State Investment Board – Client Assets Under Management

Fund Name	Market Values as of 6/30/14 ⁽¹⁾	Market Values as of 12/31/13 ⁽¹⁾	Market Values as of 6/30/13 ⁽²⁾
Pension Trust Fund			
Public Employees Retirement System (PERS)	2,332,744,038	2,204,819,633	2,000,899,336
Teachers' Fund for Retirement (TFFR)	2,061,684,912	1,970,377,031	1,810,735,455
Job Service of North Dakota Pension	97,825,769	95,276,201	90,442,764
City of Bismarck Employees Pension	78,804,326	74,832,971	68,822,847
City of Grand Forks Employees Pension	57,896,611	53,459,799	50,148,061
City of Bismarck Police Pension	34,643,204	32,887,889	30,072,819
Grand Forks Park District	5,938,993	5,653,023	5,109,311
City of Fargo Employees Pension	9,702	4,742,525	34,133,671
Subtotal Pension Trust Fund	4,669,547,558	4,442,049,072	4,090,364,264
Insurance Trust Fund			
Legacy Fund	2,215,941,142	1,695,950,111	1,194,779,193
Workforce Safety & Insurance (WSI)	1,703,987,980	1,627,545,930	1,557,719,286
Budget Stabilization Fund	586,199,881	588,744,084	401,353,181
City of Fargo FargoDome Permanent Fund	41,775,992	38,668,924	36,411,591
PERS Group Insurance Account	37,425,567	39,626,348	42,792,878
State Fire and Tornado Fund	29,223,707	28,625,262	26,633,417
Petroleum Tank Release Compensation Fund	7,092,998	6,899,622	6,839,483
State Risk Management Fund	6,948,162	6,593,046	6,187,298
State Risk Management Workers Comp Fund	5,965,322	5,654,121	5,247,448
ND Association of Counties (NDACo) Fund	3,445,373	2,894,408	2,717,444
State Bonding Fund	3,268,991	3,171,622	3,141,218
ND Board of Medical Examiners	1,889,897		
Insurance Regulatory Trust Fund	1,146,038	1,107,837	1,043,647
Bismarck Deferred Sick Leave Account	849,818	807,624	1,016,834
Cultural Endowment Fund	364,979	359,577	323,914
Subtotal Insurance Trust Fund	4,645,525,847	4,046,648,516	3,286,206,832
PERS Retiree Insurance Credit Fund	90,360,366	83,492,581	73,677,263
Total Assets Under SIB Management	9,405,433,771	8,572,190,169	7,450,248,360

⁽¹⁾ 6/30/14 and 12/31/13 market values are unaudited and subject to change.

⁽²⁾ 6/30/13 market values as stated in the Comprehensive Annual Financial Report.

- **SIB Client Assets Under Management grew by over 26% or \$1.96 billion in the last year.**
- ***The Pension Trust posted a net return of over 16.3%, while the Insurance Trust generated an 8.3% net return in fiscal 2014. Investments were responsible for gains of \$669 million for the Pension Trust and \$273 million for the Insurance Trust.***
- ***Legacy assets increased by over 85% (or \$1.0 billion) primarily due to tax collections, although net returns were 6.6% for the year ended June 30, 2014.***
- **SIB client assets approximated \$9.4 billion based on unaudited valuations as of June 30, 2014.**

Client Level Return and Risk Summary – June 30, 2014

Overview:

Investment performance is summarized for each SIB Client over the following three pages. Actual client level returns, net of fees, are reported for the 1-, 3- and 5-year periods ended June 30, 2014. In order to determine relative performance, actual returns (net of fees) are compared to the policy benchmark for each relevant period. Risk metrics (standard deviation and risk adjusted excess return) are also reported for each SIB client, if applicable, for the 5-year period ended June 30, 2014.

Pension Trust:

All current Pension Trust clients generated positive Excess Returns for the 1-, 3- and 5-year periods ended June 30, 2014, as summarized on the following page. PERS generated a net return of over 16.3% during the past year which exceeded the policy benchmark by 0.7%. TFFR generated a net return of 16.5% for the last year which also surpassed the policy benchmark by over 0.7%. *The top three drivers of excess returns were Global Real Estate, Infrastructure and Domestic Fixed Income within the Pension Trust during the last year, while Timber was the largest detractor.* **Risk Adjusted Excess Returns** for the five-years ended June 30, 2014 were positive for all current Pension Trust clients with one exception for PERS (-0.23%) mostly due to Emerging Market equity performance which was below expectations and prompted the recent restructuring of this sector.

Insurance Trust:

All Insurance Trust clients generated positive Excess Returns for the 1-, 3- and 5-year periods ended June, 2014, with one exception. The PERS Group Insurance fund (\$37.4 million) generated a negative excess return of 0.04% during the past year, but generated a positive excess return for the 3- and 5-year periods ended June 30, 2014. The Legacy Fund generated a net return of 6.6% during the past year which exceeded the policy benchmark by 1.1%. Workforce Safety and Insurance generated a net return of 11.7% during the last year which exceeded the policy benchmark by over 1.7%. *Fixed income mandates which focused on opportunistic credit and value driven strategies were predominantly responsible for these above benchmark returns in this trust.*

All Insurance Trust clients generated positive Risk Adjusted Excess Return for the 5-year period ended June, 2014.

Actual asset allocations are within Target ranges and guidelines as confirmed by Callan Associates as of June 30, 2014.

Note: Current fiscal year returns are unaudited and subject to change.

Pension Excess Returns and Risk Summary - June 30, 2014

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs End. 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014		1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs End. 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)						JOB SERVICE PENSION PLAN (2014)					
\$	2,332,744,038			115% Limit		\$	97,825,769				
Total Fund Return - Net	16.38%	9.66%	12.70%	9.5%	-0.23%	Total Fund Return - Net	13.54%	9.36%	11.58%	7.4%	0.05%
Policy Benchmark Return	15.67%	9.35%	12.33%	9.0%		Policy Benchmark Return	13.02%	8.31%	10.60%	6.8%	
Attribution Analysis				105%		Attribution Analysis				109%	
Asset Allocation	0.15%	-0.06%		Actual Risk /		Asset Allocation	-0.02%	-0.14%		Actual Risk /	
Manager Selection	0.56%	0.37%		Policy Risk		Manager Selection	0.53%	1.19%		Policy Risk	
Total Relative Return	0.71%	0.31%	0.37%			Total Relative Return	0.52%	1.04%	0.98%		
TEACHERS' FUND FOR RETIREMENT (TFRR)						CITY OF FARGO PENSION PLAN - Not Meaningful as a Liquidating Client					
\$	2,061,684,912			115% Limit		\$	9,702			Investment < \$10,000	
Total Fund Return - Net	16.53%	9.38%	13.07%	10.5%	0.20%	Total Fund Return - Net	8.42%	7.63%	11.72%	10.10%	-0.20%
Policy Benchmark Return	15.74%	8.73%	12.23%	10.0%		Policy Benchmark Return	8.44%	7.49%	11.17%	9.45%	
Attribution Analysis				105%		Attribution Analysis				107%	
Asset Allocation	0.23%	0.18%		Actual Risk /		Asset Allocation	-0.23%	-0.01%		Actual Risk /	
Manager Selection	0.56%	0.47%		Policy Risk		Manager Selection	0.21%	0.15%		Policy Risk	
Total Relative Return	0.79%	0.65%	0.83%			Total Relative Return	-0.02%	0.14%	0.55%		
CITY OF BISMARCK EMPLOYEES PENSION						CITY OF GRAND FORKS PENSION PLAN (2009-12)					
\$	78,804,326			Limit 9.7%		\$	57,896,611				
Total Fund Return - Net	14.56%	9.37%	12.15%	8.1%	0.27%	Total Fund Return - Net	16.33%	10.26%	13.19%	9.45%	0.06%
Policy Benchmark Return	13.73%	8.77%	11.31%	7.7%		Policy Benchmark Return	15.97%	9.92%	12.68%	9.13%	
Attribution Analysis				105%		Attribution Analysis				104%	
Asset Allocation	-0.04%	-0.04%				Asset Allocation	0.02%	0.11%		Actual Risk /	
Manager Selection	0.88%	0.63%				Manager Selection	0.34%	0.23%		Policy Risk	
Total Relative Return	0.84%	0.60%	0.85%			Total Relative Return	0.36%	0.34%	0.51%		
CITY OF BISMARCK POLICE PENSION						GRAND FORKS PARK DISTRICT PENSION PLAN (2009)					
\$	34,643,204			Limit 10.6%		\$	5,938,993				
Total Fund Return - Net	15.27%	9.70%	12.61%	8.8%	0.25%	Total Fund Return - Net	16.44%	10.35%	N/A	N/A	N/A
Policy Benchmark Return	14.45%	9.15%	11.88%	8.5%		Policy Benchmark Return	16.21%	10.26%			
Attribution Analysis				104%		Attribution Analysis					
Asset Allocation	0.02%	-0.01%				Asset Allocation	-0.02%	-0.07%			
Manager Selection	0.79%	0.56%				Manager Selection	0.25%	0.16%			
Total Relative Return	0.81%	0.55%	0.73%			Total Relative Return	0.23%	0.09%			

Insurance Excess Return & Risk Summary - June 30, 2014

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs Ended 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014		1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs Ended 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014
WORKFORCE SAFETY & INSURANCE (WSI) (2014)						STATE BONDING FUND (2009)					
\$	1,703,987,980					\$	3,268,991				
Total Fund Return - Net	11.71%	8.71%	10.24%	4.74%	1.15%	Total Fund Return - Net	4.06%	4.11%	5.18%	2.25%	1.39%
Policy Benchmark Return	9.95%	6.31%	7.72%	4.10%		Policy Benchmark Return	2.42%	2.05%	2.70%	1.77%	
Attribution Analysis						Attribution Analysis					
Asset Allocation	0.16%	0.06%				Asset Allocation	-0.02%	0.05%			
Manager Selection	1.61%	2.34%				Manager Selection	1.66%	2.01%			
Total Relative Return	1.76%	2.40%	2.52%			Total Relative Return	1.64%	2.06%	2.47%		
LEGACY FUND (2013)						INSURANCE REGULATORY TRUST FUND (IRTF) (2009)					
\$	2,215,941,142					\$	1,146,038				
Total Fund Return - Net	6.64%	N/A	N/A	N/A	N/A	Total Fund Return - Net	9.88%	7.02%	8.57%	5.73%	0.61%
Policy Benchmark Return	5.54%	N/A	N/A	N/A		Policy Benchmark Return	8.59%	5.50%	6.80%	4.94%	
Attribution Analysis						Attribution Analysis					
Asset Allocation	-0.01%					Asset Allocation	-0.05%	0.03%			
Manager Selection	1.11%					Manager Selection	1.34%	1.49%			
Total Relative Return	1.10%	N/A				Total Relative Return	1.29%	1.51%	1.77%		
BUDGET STABILIZATION (2009)						PETROLEUM TANK RELEASE COMPENSATION FUND (2009)					
\$	586,199,881					\$	7,092,998				
Total Fund Return - Net	1.94%	1.95%	3.37%	1.96%	0.03%	Total Fund Return - Net	3.68%	3.66%	4.74%	2.02%	1.33%
Policy Benchmark Return	0.61%	0.41%	0.31%	0.14%		Policy Benchmark Return	2.20%	1.87%	2.47%	1.61%	
Attribution Analysis						Attribution Analysis					
Asset Allocation	0.00%	-0.07%				Asset Allocation	-0.02%	0.00%			
Manager Selection	1.34%	1.62%				Manager Selection	1.50%	1.79%			
Total Relative Return	1.34%	1.55%	3.06%			Total Relative Return	1.48%	1.80%	2.27%		
FIRE & TORNADO FUND (2009)						STATE RISK MANAGEMENT FUND (2007)					
\$	29,223,707					\$	6,948,162				
Total Fund Return - Net	12.78%	9.38%	11.41%	6.94%	0.67%	Total Fund Return - Net	12.29%	10.02%	12.06%	Limit 6.6% 6.12%	0.46%
Policy Benchmark Return	10.74%	7.08%	8.77%	5.73%		Policy Benchmark Return	10.09%	7.40%	9.07%	4.82%	
Attribution Analysis						Attribution Analysis					
Asset Allocation	-0.03%	0.07%				Asset Allocation	-0.06%	0.06%			
Manager Selection	2.07%	2.23%				Manager Selection	2.26%	2.56%			
Total Relative Return	2.04%	2.30%	2.64%			Total Relative Return	2.21%	2.62%	3.00%		

Insurance Client - Excess Returns and Risk - June 30, 2014

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs Ended 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014		1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs Ended 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014
STATE RISK MANAGEMENT WORKERS COMP FUND (2007)						CULTURAL ENDOW (2005)					
\$	5,965,322			Limit 7.6%		\$	364,979			Limit 10.5%	
Total Fund Return - Net	13.68%	10.87%	13.02%	7.11%	0.71%	Total Fund Return - Net	16.94%	12.25%	14.54%	9.81%	1.04%
Policy Benchmark Return	11.59%	8.37%	10.19%	5.94%		Policy Benchmark Return	15.52%	10.28%	12.28%	8.98%	
Attribution Analysis						Attribution Analysis					
Asset Allocation	-0.06%	0.06%				Asset Allocation	-0.10%	0.08%			
Manager Selection	2.15%	2.44%				Manager Selection	1.51%	1.89%			
Total Relative Return	2.09%	2.50%	2.83%			Total Relative Return	1.41%	1.97%	2.26%		
ND ASSOCIATION OF COUNTIES FUND (NDACo) (2010)						PERS RETIREE HEALTH (2014)					
\$	3,445,373					\$	90,360,366			115% Limit	
Total Fund Return - Net	11.61%	7.50%	11.02%	8.86%	1.42%	Total Fund Return - Net	16.53%	11.13%	14.30%	11.04%	0.82%
Policy Benchmark Return	9.60%	5.28%	8.59%	8.04%		Policy Benchmark Return	16.33%	10.24%	12.72%	10.45%	
Attribution Analysis						Attribution Analysis					
Asset Allocation	-0.08%	0.04%				Asset Allocation				106%	
Manager Selection	2.09%	2.18%				Manager Selection					
Total Relative Return	2.01%	2.21%	2.43%			Total Relative Return	0.20%	0.89%	1.58%		
CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT (2005)						PERS GROUP INSURANCE (2014)					
\$	849,818			Limit 6.5%		\$	37,425,567				
Total Fund Return - Net	12.32%	9.25%	11.34%	6.46%	0.44%	Total Fund Return - Net	0.01%	0.18%	0.24%	0.06%	0.07%
Policy Benchmark Return	9.97%	6.63%	8.29%	4.96%		Policy Benchmark Return	0.06%	0.07%	0.11%	0.03%	
Attribution Analysis						Attribution Analysis					
Asset Allocation	-0.02%	0.06%				Asset Allocation					
Manager Selection	2.38%	2.56%				Manager Selection					
Total Relative Return	2.35%	2.62%	3.05%			Total Relative Return	-0.04%	0.11%	0.14%		
FARGODOME PERMANENT FUND (2010)											
\$	41,775,992										
Total Fund Return - Net	16.34%	10.83%	13.63%	9.22%	0.97%						
Policy Benchmark Return	14.76%	8.95%	11.51%	8.44%							
Attribution Analysis											
Asset Allocation	-0.07%	0.07%									
Manager Selection	1.65%	1.81%									
Total Relative Return	1.58%	1.88%	2.12%								

**NORTH DAKOTA
RETIREMENT AND INVESTMENT OFFICE**

**STATE INVESTMENT BOARD
GOVERNANCE MANUAL**

1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100
TELEPHONE: 701/328-9885

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POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *GENERAL EXECUTIVE CONSTRAINT*

The executive director shall not knowingly cause or allow any practice, activity, decision, or organizational circumstance which is either imprudent or in violation of commonly accepted business and professional ethics, state law, rules, and policies.

1. With respect to treatment of staff, the executive director shall not knowingly cause or allow any condition or any communication which is unfair, undignified, or disrespectful.
2. In relating to the public and other governmental entities, the executive director may not knowingly cause or allow any action which is unfair, undignified, or disrespectful. In addition, the executive director may not allow any communications from the staff which are inaccurate or fail to distinguish between fact and personal opinion.
3. Budgeting for any fiscal year or the remaining part of any fiscal year shall not knowingly deviate materially from board *Ends* priorities, or create fiscal jeopardy, or fail to be derived from the biennial planning calendar.
4. With respect to the actual, ongoing condition of the organization's financial health, the executive director may not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in *Ends* policies.
5. With respect to providing information and counsel to the board, the executive director may not permit the board to be uninformed.
6. The executive director may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.
7. Compensation and benefits for staff shall not deviate from applicable state and federal law, including N.D. Administrative Code, Chapter 4-07-02.
8. In order to protect the board from sudden loss of executive services, the executive director may not have fewer than two other executives familiar with board and chief executive issues and processes. The executive director shall not fail to inform the Deputy Executive Director and Supervisor of Fiscal Management of executive and board issues and processes.
9. The executive director will not allow a conflict of interest in the procurement of goods and services.
10. The executive director will not operate the office without a code of conduct for all RIO Employees. This code of conduct will be a part of the office Administrative Policy Manual.

Policy Implemented: July 23, 1995.

Amended: January 22, 1999; November 19, 1999.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *STAFF RELATIONS*

With respect to treatment of staff, the executive director shall not cause or allow any condition or any communication which is unfair, undignified, or disrespectful.

Accordingly, the executive director may not:

1. Operate without personnel procedures which clarify personnel rules for staff, provide for effective handling of grievances, and protect against wrongful conditions or violate any state or federal law.
2. Fail to provide staff with the opportunity to complete an employment termination questionnaire and an exit interview with the Supervisor of ~~Internal~~ Audit Services.

Policy Implemented: June 23, 1995.

Amended: May 31, 1996.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *RELATING TO PUBLIC AND GOVERNMENT*

In relating to the public and other governmental entities, the executive director may not cause or allow any action which is unfair, undignified, or disrespectful. In addition, the executive director may not allow any communications from the staff which is inaccurate or fails to distinguish between fact and personal opinion.

Policy Implemented: June 23, 1995.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *BUDGETING*

Budgeting for any fiscal year or the remaining part of any fiscal year shall not deviate materially from board *Ends* priorities, or create fiscal jeopardy.

Accordingly, the executive director may not cause or allow budgeting which:

1. Contains too little information to enable credible projection of expenses, cash flow, and disclosure of planning assumptions.
2. Plans the expenditure in any fiscal year of more funds than are authorized by legislative appropriation.
3. Reduces the level of service, or anticipates a reduction in the level of service, of any Retirement and Investment Office program without the prior approval of the State Investment Board.

Policy Implemented: June 23, 1995.

Amended: November 2, 1997; June 26, 1998.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *FINANCIAL CONDITION*

With respect to the actual, ongoing condition of the organization's financial health, the executive director may not cause or allow the development of fiscal jeopardy or a material deviation of actual expenditures from board priorities established in *Ends* policies.

Accordingly, the executive director may not:

1. Make any expenditure that exceeds the appropriation authority authorized by the North Dakota legislature.
2. Create policies for payment of administrative obligations that are in conflict with the policies of the Office of Management and Budget.
3. Initiate a transfer of appropriation authority between budget line items without board and Emergency Commission approval.
4. Allow appropriation expenditures to be made unless reported on ~~SAMIS~~ [PeopleSoft](#).

Policy Implemented: June 23, 1995.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *COMMUNICATION AND COUNSEL TO THE BOARD*

With respect to providing information and counsel to the board, the executive director may not permit the board to be uninformed.

Accordingly, the executive director may not:

1. Neglect to submit monitoring data required by the board (see policy on Monitoring Executive Performance) in a timely, accurate, and understandable fashion, directly addressing provisions of the board policies being monitored.
2. Let the board be unaware of relevant trends, anticipated adverse media coverage, material external and internal changes, and particularly changes in the assumptions upon which any board policy has previously been established.
3. Fail to advise the board if, in the executive director's opinion, the board is not in compliance with its own policies on *Governance Process* and *Board-Staff Relationship*, particularly in the case of board behavior which is detrimental to the work relationship between the board and the executive director.
4. Fail to marshal for the board as many staff and external points of view, issues, and options as needed for fully informed board choices.
5. Present information in unnecessarily complex or lengthy form.
6. Fail to provide a mechanism for official board, officer, or committee communications.
7. Fail to deal with the board as a whole except when (a) fulfilling individual requests for information or (b) responding to officers or committees duly charged by the board.
8. Fail to report in a timely manner an actual or anticipated noncompliance with any policy of the board, particularly *Ends* and *Executive Limitations*.
9. Fail to inform the board in a timely manner of any intention to hire or dismiss the Deputy Executive Director.
10. Fail to keep the board informed concerning the delegation of fiduciary authority to any staff member. Every person to whom such fiduciary responsibility is delegated is ultimately accountable to the board as to the exercise and execution of the delegated authority.

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

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *ASSET PROTECTION*

The executive director may not allow assets to be unprotected, inadequately maintained, nor unnecessarily risked.

Accordingly, the executive director may not:

1. Fail to insure against theft and casualty losses to at least 80 percent replacement value and against liability losses to board members, staff, or the organization itself in an amount greater than the average for comparable organizations.
2. Allow non-bonded personnel access to funds.
3. Subject plant and equipment to improper wear and tear or insufficient maintenance.
4. Unnecessarily expose the organization, its board, or staff to claims of liability.
5. Fail to protect intellectual property, information, and files from loss or significant damage.
6. Receive, process, or disburse funds under controls which are insufficient to meet the state auditor's standards.
7. Invest or hold operating capital in a manner that is inconsistent with state law or board policy.
8. Acquire, encumber, or dispose of real property.
9. Endanger the organization's public image or credibility, particularly in ways that would hinder its accomplishment of mission.
10. Deviate from the investment process set by the State Investment Board (SIB) as contained in the board's policy on investments.

Policy Implemented: June 23, 1995.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *COMPENSATION AND BENEFITS*

Compensation and benefits for staff shall not deviate from applicable state and federal law, including N.D. Administrative Code, Chapter 4-07-02.

Accordingly, the executive director may not:

1. Change the compensation and benefits of any program officer reporting directly to the SIB.
2. Promise or imply permanent or guaranteed employment.

Policy Implemented: June 23, 1995.

Amended: January 22, 1999, November 19, 1999.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *CONFLICT OF INTEREST*

Conflicts of interest and the appearance of impropriety shall be avoided by the executive director. The executive director must not allow family, social, professional, or other relationships to influence their judgment in discharging their responsibilities. The executive director must refrain from financial and business dealings that tend to reflect adversely on their duties. If a conflict of interest unavoidably arises, the executive director shall immediately disclose the conflict to the SIB. Conflicts of interest to be avoided include, but are not limited to: receiving consideration for advice given to a person concerning any matter over which the executive director has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction for which the executive director has acquired information unavailable to the general public, through their position.

"Conflict of Interest" means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter which also involves the member's fiduciary responsibility.

The executive director will be required to affirm their understanding of this policy annually, in writing, and must disclose any conflicts of interest that may arise (See Exhibit A-I).

Policy Implemented: June 23, 1995.

Amended: January 22, 1999, February 25, 2011.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *CODE OF CONDUCT*

The executive director will not operate the office without a code of conduct for all RIO employees. This code of conduct shall be a part of the office Administrative Policy Manual.

Policy Implemented: June 27, 1997.

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: *UNRELATED BUSINESS INTERESTS*

In the pursuit of personal business interests, the Executive Director will not allow a situation to exist that presents a conflict of interest to the SIB investment program, nor shall such activity be in violation of RIO Administrative Policy 3.47, Use of Office Facilities and Equipment.

Policy Implemented: August 18, 2000

Memorandum

To: RIO Executive Director/CIO

From: RIO Compliance Officer

Date: July 1, 20--

RE: Annual Affirmation of Conflict of Interest Policy

Executive Limitations Policy A-9, *Conflict of Interest*, which is attached to this memorandum, details the conflict of interest policy for the executive director. This policy also indicates that the executive director 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 Executive Limitations Policy A-9, *Conflict of Interest*. I have disclosed any conflicts of interest as required by this policy.”

Name (printed) _____

Signature _____

Date _____

Detail of any conflicts of interest (if any):

B. GOVERNANCE PROCESS

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EXHIBITS

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POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: *GOVERNANCE COMMITMENT*

The board, on behalf of benefit recipients and the other clients, who have entrusted their funds to us, will:

- Lead the North Dakota Retirement and Investment Office (RIO) with a strategic perspective.
- Rigorously attend to its investment and oversight role.
- Continually improve its capability as a body to define values and vision.

Policy Implemented: June 23, 1995.

The board will govern with an emphasis on:

- Outward vision rather than an internal preoccupation.
- Encouragement of diversity in viewpoints.
- Strategic leadership more than administrative detail.
- Clear distinction of board and executive director roles.
- Collective rather than individual decisions.
- Future rather than past or present.
- Proactivity rather than reactivity.

The board will:

1. Cultivate a sense of group responsibility. The board, not the staff, will be responsible for excellence in governing. The board will be an initiator of policy, not merely a reactor to staff initiatives. The board will use the expertise of individual members to enhance the ability of the board as a body, rather than to substitute the individual judgments for the board's values.
2. Direct, control, and inspire the organization through the careful establishment of the broadest written policies reflecting the board's values and perspectives. The board's major focus will be on the intended long-term impacts outside the operating organization (*Ends*), not on the administrative or programmatic means of attaining those effects.
3. Enforce upon itself whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of roles, and ensuring the continuity of governance capability.
4. After speaking with one voice, self-police any tendency to stray from adopted board governance policies. The board will allow no officer, member, or committee of the board to hinder or be an excuse for not fulfilling its commitments. The board respects the right of any member, as an individual, to publicly disagree with an adopted board policy. Board members will accurately portray board policies and decisions.
5. Promote continual board development through orientation and mentoring of new members in the board's governance process and through periodic board discussion of process improvement. The board shall not delegate new member governance orientation to the executive director or any staff member.
 - A. A board mentor, who is knowledgeable and who will assume responsibility for assisting the new members, will be assigned by the chairperson.

- B. The new board member should read and study Chapter 21-10, North Dakota Century Code (Section J of the SIB Policy Governance Manual which governs the activities of the boards represented on the SIB: Teachers' Fund for Retirement Board, Public Employees Retirement Systems Board, and the State Investment Board).
- C. The board should receive a glossary of terms used by the retirement and pension fund industry; i.e. Callan Associates Inc. - Glossary of Terms.
- D. Newly appointed or elected board members should become familiar with the Carver Model of Governance, since the SIB directs its activities by this model. They should read Boards That Make a Difference and study the policy manuals that have been developed by the SIB and TFFR Board.
- E. The board members must understand their roles as trustees and fiduciaries, the Prudent Investor Rule, and Procedural Prudence.

A "new trustee book bag" containing the Retirement and Investment Office's Comprehensive Annual Financial Report (CAFR) and reference materials relating to board governance, fiduciary conduct, and investment management concepts and terminology and other appropriate materials will be made available to new trustees.

- F. The executive director will provide the SIB with a list of periodicals available which would provide current information on pension issues. The board members will review and request subscriptions to appropriate periodicals.
- 6. Monitor and regularly discuss the board's process and performance. Self-monitoring will include comparison of board activity and discipline to policies in the *Governance Process* and *Board-Staff Relationship* categories.
 - 7. Observe Robert's Rules except where the board has superseded them.

Policy Implemented: June 23, 1995.

Amended: June 28, 1996; November 19, 1999, January 26, 2001.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD JOB DESCRIPTION

The function of the board is to make certain contributions that lead RIO toward the desired performance and ensure that it occurs. The board's specific contributions are unique to its trusteeship role and necessary for proper governance and management.

Consequently, the "products" or contributions of the board shall be:

1. The link between the SIB, its investment clients, and benefit recipients.
2. Written governing policies that, at the broadest levels, address:
 - A. *Ends*: Organizational products, impacts, benefits, outcomes, recipients, and their relative worth (what good for which needs at what cost).
 - B. *Executive Limitations*: Constraints on executive authority which establish the prudence and ethics boundaries within which all executive activity and decisions must take place.
 - C. *Governance Process*: Specification of how the board conceives, carries out, and monitors its own task.
 - D. *Board-Executive Director Relationship*: How authority is delegated and its proper use monitored: the executive director's role, authority, and accountability.
3. The assurance of executive director performance against above policies 2a and 2b.
4. Legislation necessary to achieve the board's *Ends*.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: CHAIRPERSON'S ROLE

The chairperson's primary responsibility is to insure the integrity of the board's process. The chairperson is the only board member authorized to speak for the board other than in specifically authorized instances.

1. The duty of the chairperson is to see that the board operates consistent with state law, administrative rules, and its own policies.
 - A. The board agenda will be the responsibility and be coordinated by the chairperson.
 - B. Meeting discussion content will only be those issues which, according to board policy, clearly belong to the board and not the executive director, or in a board member's opinion, may deal with fiduciary responsibilities.
 - C. Deliberation will be fair, open, and thorough, but also efficient, timely, orderly, and brief.
 - D. The chairperson shall appoint a parliamentarian.

2. The authority of the chairperson consists in making decisions that fall within the topics covered by board policies on *Governance Process* and *Board-Executive Director Relationship*, except where the board specifically delegates portions of this authority to others. The chairperson is authorized to use any reasonable interpretation of the provisions in these policies.
 - A. The chairperson is empowered to chair board meetings with all the commonly accepted authority of that position (e.g., ruling, recognizing).
 - B. The chairperson has no authority to make decisions about policies created by the board within *Ends* and *Executive Limitations* policy areas. Therefore, the chairperson has no authority to supervise or direct the executive director.
 - C. The chairperson may represent the board to outside parties in announcing board-stated positions and in stating chairperson decisions and interpretations within the area delegated to the chairperson.
 - D. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for international travel by SIB members and to keep the board informed on travel requests.
 - E. The chairperson is authorized, in consultation with the RIO Executive Director, to grant approval for domestic due diligence visits by SIB members and it shall be the responsibility of the traveling board member to report to the SIB on the results of the due diligence visits.

Policy Implemented: June 23, 1995.

Amended: August 17, 2001, September 25, 2009.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: BOARD COMMITTEE PRINCIPLES

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

1. Board committees are to help the board do its job, not to help the staff do its job. Committees ordinarily will assist the board by preparing policy alternatives and implications for board deliberation. Board committees are created to advise the board, not the staff.
2. Board committees may not speak or act for the board except when formally given such authority for specific and time-limited purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the executive director.
3. Board committees cannot exercise authority over staff however committees will make requests of staff through the executive director unless staff is assigned to the committee. Because the executive director works for the full board, he or she will not be required to obtain approval of a board committee before an executive action. In keeping with the board's broader focus, board committees will normally not have direct dealings with current staff operations.
4. Board committees are to avoid over-identification with the committee's assignment. Therefore, a board committee which has helped the board create policy will not be used to monitor organizational performance on that policy.
5. This policy applies only to committees which are formed by board action, whether or not the committees include non-board members. It does not apply to committees formed under the authority of the executive director.
6. The chairperson will appoint board committees authorized by the board. The operational life span of a board committee will be defined at the time of appointment.

Policy Implemented: June 23, 1995.

Amended: November 22, 1996.

The board's standing committee is that which is set forth in this policy as follows:

1. Audit Committee
 - A. The audit committee shall operate under the terms of a charter approved by the board.

INTRODUCTION

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 primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities. To this end, internal auditing will furnish them with analyses, appraisals, recommendations, and pertinent information concerning the activities reviewed.

Functions and units within RIO will be reviewed at appropriate intervals to determine whether they are effectively carrying out their responsibilities of planning, organizing, directing, and controlling in accordance with SIB and management instructions, applicable laws, policies, and procedures, and in a manner consistent with both the RIO objectives and high standards of administrative practice.

POLICY OF THE STATE INVESTMENT BOARD

The audit staff shall have full, free, and unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review. The audit function will be conducted in a manner consistent with acceptable professional standards and coordinated with others to best achieve the audit objectives and the RIO objectives.

The Internal Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO. The Internal Audit Services Unit will report administratively to management and functionally to the Audit Committee of the SIB.

The RIO unit supervisors are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from the receipt of a report disclosing those weaknesses if known or applicable. The unit supervisors are also responsible for seeing that a written report of action planned or completed is sent to the executive director. If a plan for action is reported, a second report shall be made promptly upon completion of the plan.

Policy Implemented: June 23, 1995.

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: ANNUAL BOARD PLANNING CYCLE

To accomplish its job outputs with a governance style consistent with board policies, the board will follow a biennial agenda which (a) completes a re-exploration of *Ends* policies annually and (b) continually improves its performance through attention to board education and to enriched input and deliberation.

1. A biennial calendar will be developed.
2. The cycle will conclude each year on the last day of June in order that administrative budgeting can be based on accomplishing a one-year segment of the most recent board long-range vision.
 - A. In the first three months of the new cycle, the board will develop its agenda for the ensuing one-year period.
 - B. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed.
3. Education, input, and deliberation will receive paramount attention in structuring the series of meetings and other board activities during the year.
 - A. To the extent feasible, the board will identify those areas of education and input needed to increase the level of wisdom and forethought it can give to subsequent choices.
 - B. A board education plan will be developed during July and August of each year.
4. The sequence derived from this process for the board planning year ending June 30 is as follows:
 - A. July: Election of officers, appoints audit committee, plan annual agenda, begin to develop board education plan, and new board member orientation.
 - B. August: Investment Director review of ~~investment policies and~~ investment results, establish investment work plan, add investment education to education plan, and continue new board member orientation.
 - C. September: Annual Review of Governance Manual.
 - C. October: Annual meeting for evaluation of RIO vs. *Ends* policies and annual board evaluation.
 - D. November: Investment Director report on investment work plan.
 - E. January: During second year of the biennium, begin to develop *Ends* policies for the coming biennium for budget purposes.
 - F. February: Investment Director report on investment work plan. Evaluation of Executive Director.
 - G. March: During first year of biennium, set budget guidelines for budget development.
 - H. May: Investment Director report on investment work plan.

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

POLICY TYPE: GOVERNANCE PROCESS

POLICY TITLE: 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 given to a person concerning any matter over which the board member has any direct or indirect control, acting as an agent or attorney for a person in a transaction involving the board, and participation in any transaction involving for which the board member has acquire information unavailable to the general public, through participation on the board.

“Conflict of Interest” means a situation in which a board member or staff member has a direct and substantial personal or financial interest in a matter with also involves the member’s fiduciary responsibility.

4. 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.
5. Board members must abide by North Dakota Century code 21-10-09, which reads: “No member, officer, agent, or employee of the state investment board shall profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section shall be guilty of a Class A misdemeanor.”
6. Board members shall perform their respective duties in a manner that satisfies their fiduciary responsibilities.
7. 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. 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 (See Exhibit B-I).

Policy Implemented: June 23, 1995.

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

POLICY TITLE: ADMINISTRATION OF FIDUCIARY AUTHORITY

The board is responsible for:

1. Proper exercise of fiduciary investment authority by RIO.
2. The determination of policies.
3. The investment and disposition of property held in a fiduciary capacity.
4. The direction and review of the actions of all officers, employees, and committees in the exercise of the board's delegated fiduciary authority.

Policy Implemented: June 23, 1995.

POLICY TITLE: *POLICY INTRODUCTION/AMENDMENT/PASSAGE*

New policies or policy amendments may be proposed by the Executive Director or a Board member. All new policies or amendments may be submitted to the Board's Legal Counsel for drafting in the approved style.

Upon request of the Executive Director or a Board member a new policy or amendment shall be placed on the Board's agenda for action as follows:

1. Introduction and first reading. A brief explanation or summary of the new policy or amendment shall be presented to the Board. Upon approval of introduction and first reading, the measure shall be placed on the agenda of the next scheduled meeting of the Board for second reading and adoption. When appropriate, the measure shall be distributed to interested parties.
2. Second reading and adoption. Interested parties and the public shall be allowed an opportunity to comment on the policy or amendment before final action by the Board. The measure shall take effect immediately following second reading and adoption by the Board, unless a different effective date is stated.
3. Amendments. Amendments may be proposed at any time before final adoption of the measure. Upon determination by the Board that adoption of an amendment constitutes a substantive change that significantly changes the meaning or effect of the measure, the Board shall continue consideration of second reading and adoption to the next meeting to permit further review and comment.

Emergency measures. The Board may, upon determination that an emergency or other circumstances calling for expeditious action exists, waive the requirement of a second meeting and immediately approve second reading and adoption following introduction and first reading.

Policy Implemented: February 27, 2009

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Memorandum

To: State Investment Board

From: RIO Compliance Officer

Date: July 1, 20--

RE: Annual Affirmation of Code of Conduct Policy

Governance Process Policy B-8, *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 B-8 *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):

C. BOARD-STAFF RELATIONSHIP

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Chief Executive Role	C-1
Delegation to the Executive Director	C-2
Executive Director Job Description.....	C-3
Monitoring Executive Performance.....	C-4

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *CHIEF EXECUTIVE ROLE*

The executive director, as chief executive officer, is accountable to the board acting as a body. The board will instruct the executive director through these written policies, delegating to the executive director the implementation and administration of these policies.

Policy Implemented: June 23, 1995.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *DELEGATION TO THE EXECUTIVE DIRECTOR*

All board authority delegated to staff is delegated through the executive director.

1. The board authority will direct the executive director to achieve specified results, for specified recipients, at a specified cost through the establishment of *Ends* policies. The board will limit the latitude the Executive Director may exercise in practices, methods, conduct, and other “means” to the *Ends* through establishment of *Executive Limitations* policies.
2. The Executive Director must use reasonable judgment in the implementation or administration of the board’s *Ends* and *Executive Limitations* policies; the executive director is authorized to establish practices, and develop activities.
3. The board may change its *Ends* and *Executive Limitations* policies. By so doing, the board changes the latitude of choice given to the Executive Director. If any particular delegation is in place, the board and its members will respect and support the Executive Director’s choices, provided that the Executive Director’s choice is consistent with the board’s fiduciary responsibility.
4. Only decisions of the board acting as the body are binding upon the Executive Director.
 - a. Decisions or instructions of individual board members, officers, or committees are not binding on the Executive Director except in rare instances when the board has specifically authorized such exercise of authority.
 - b. In the case of board members or committees requesting information, other than a public record, or assistance without board authorization, the Executive Director may refuse such requests that require a material amount of staff time or funds or is disruptive.
5. The Executive Director will be responsible for the hiring, termination, and annual evaluation of all employees of the Retirement and Investment Office.

Policy Implemented: June 23, 1995.

Amended: November 22, 1996; November 19, 1999.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: EXECUTIVE DIRECTOR JOB DESCRIPTION

As the board's single official link to the operating organization, the executive director's performance will be considered to be synonymous with the RIO's total performance.

Consequently, the executive director's job contributions can be stated as performance in the following areas:

1. Organizational accomplishment of the provisions of board policies on *Ends*.
2. Organizational operation within the boundaries of prudence and ethics established in board policies on *Executive Limitations*.
3. Maintain accurate records of the proceedings of the SIB and TFFR Board.

Policy Implemented: June 23, 1995.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *MONITORING EXECUTIVE PERFORMANCE*

Monitoring executive performance is synonymous with monitoring organizational performance against board policies on *Ends* and on *Executive Limitations*. Any evaluation of the executive director's performance, formal or informal, may be derived only from these monitoring data.

1. The purpose of monitoring is simply to determine the degree to which board policies are being fulfilled. Information which does not do this will not be considered to be monitoring. Only a minimum amount of board time as necessary will be devoted toward monitoring so that meetings can best be used to create the future rather than to review the past.
2. A given policy may be monitored in one or more of three ways:
 - A. Internal report: Disclosure of compliance information to the board from the executive director.
 - B. External report: Discovery of compliance information by a disinterested, external auditor, inspector or judge who is selected by and reports directly to the board. Such reports must assess executive performance only against policies of the board, not those of the external party unless the board has previously indicated that party's opinion to be the standard.
 - C. Direct board inspection: Discovery of compliance information by a board member, a committee, or the board as a whole. This is a board inspection of documents, activities, or circumstances directed by the board which allows a "prudent person" test of policy compliance.
3. The board will monitor each *Ends* and *Executive Limitations* policy according to the following frequency and method:

Quarterly internal reports for policies:

- A-2 Staff Relations
- A-4 Budgeting
- A-5 Financial Condition
- D-3 Investment Services
- D-4 Investment Performance

Annual external reports for policies:

- A-2 Staff Relations
- A-4 Budgeting
- A-7 Asset Protection
- D-3 Investment Services
- D-4 Investment Performance

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *MONITORING EXECUTIVE PERFORMANCE*

Annual internal reports for policies:

- A-1 General Executive Constraint
- A-3 Relating to Public and Government
- A-8 Compensation and Benefits
- A-9 Conflict of Interest

4. The Executive Director will submit required monitoring reports at regular meetings of the board. The board will act on those reports by voting on one of the following motions:
 - A. A motion to accept the report.
 - B. A motion to conditionally accept the report, with a statement of the revisions or additional information that is necessary for the report to be accepted without condition.

The internal audit staff will be responsible for preparing an annual summary of the board's action concerning required reports submitted by the Executive Director, and the summary will be made available as a part of the formal evaluation of the Executive Director.

5. Each March the board will conduct a formal evaluation of the executive director/investment officer. This evaluation will be based on accomplishments of *Ends* and *Compliance with Executive Limitations*.
6. At the ~~February~~ ~~March~~ board meeting, the chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board concerning salary for the executive director/investment officer.

In making its recommendation, the committee will consider job performance as evidenced by the annual summary of the periodic monitoring reports, the Retirement and Investment Office budget status, the annual Public Pension System's Compensation Survey, the annual National Association of State Investment Officer's survey, the legislature's approved salary increases for state employees, the North Dakota market compensation for comparable positions, and other data or information considered relevant by the committee.

The committee's recommendation will be placed on the May board meeting agenda for possible action by the board. Final action by the board will be accomplished no later than the June board meeting.

Policy Implemented: June 23, 1995

Amended: November 21, 1997; June 25, 1999; November 19, 1999; January 28, 2000; February 25, 2000; February 23, 2001.

D. ENDS

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<i>Monitoring Summary.....</i>	<i>D-II</i>

The Retirement and Investment Office exists in order that:

- SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective manner and under the Prudent Investor Rule.
- Potential SIB clients have access to information regarding the investment services provided by the SIB .
- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

Policy Implemented: October 27, 1995.

Amended: January 27, 2012.

POLICY TYPE: ENDS

POLICY TITLE: *ORGANIZATIONAL BENEFICIARIES*

RIO beneficiaries (clients) are those which are statutorily defined and those which have contracted for services under statutory authority. Exhibit D-I lists the organizational beneficiaries.

Policy Implemented: October 27, 1995.

The Retirement and Investment Office exists in order that:

1. SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost-effective manner and under the Prudent Investor Rule.
 - A. This “End” will be evaluated based on the following:
 1. Comparison of client fund’s rate of return NET of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.
 2. Comparison of the client fund’s risk, measured by standard deviation of NET returns, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.
 3. Comparison of the risk adjusted performance of the client fund, NET of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.

Policy Implemented: October 27, 1995.

Amended: November 22, 1996, January 27, 2012.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON AVAILABLE SERVICES*

The Retirement and Investment Office exists in order that:

1. Potential SIB clients have access to information regarding the investment services provided by the SIB.

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *RETIREMENT SERVICES*

The Retirement and Investment Office exists in order that:

1. TFFR benefit recipients receive their retirement benefits in a cost-effective and timely manner.
 - A. Retirement program performance quality will be measured against the *Ends* and retirement policies and administrative rules adopted by the Teachers' Fund for Retirement Board.

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *INFORMATION ON RETIREMENT SERVICES*

The Retirement and Investment Office exists in order that:

1. TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.

Policy Implemented: October 27, 1995.

POLICY TYPE: ENDS

POLICY TITLE: *CUSTOMER SATISFACTION*

The Retirement and Investment Office exists in order that:

1. SIB clients and TFR benefit recipients receive satisfactory services from the boards and staff of the office.
 - A. The quality of services will be assured by direct board contact and by surveying clients and beneficiaries at least annually and promptly addressing identified client/beneficiary concerns.

Policy Implemented: December 1, 1995.

ORGANIZATIONAL BENEFICIARIES

INVESTMENT CLIENTS:

Statutory:

1. Budget Stabilization Fund
2. Cultural Endowment Fund
3. Insurance Regulatory Trust Fund
4. Petroleum Tank Release Compensation Fund
5. Public Employees Retirement System Fund
6. Risk Management Fund
7. State Bonding Fund
8. State Fire and Tornado Fund
9. Teachers' Fund for Retirement
10. The Legacy Fund
11. Workers Compensation Fund

Contractual:

1. City of Bismarck Deferred Sick Leave Fund
2. City of Bismarck Employees Retirement Fund
3. City of Bismarck Police Retirement Fund
4. City of Fargo Dome Permanent Fund
5. City of Grand Forks Park District Pension Fund
6. City of Grand Forks Pension Fund
7. ND Association of Counties Fund
8. ND Job Service Retirement Fund
9. Public Employees Retirement System Group Health Insurance Fund
10. Public Employees Retirement System Retiree Health Insurance Fund
11. State Board of Medical Examiners

ADMINISTRATIVE CLIENTS:

Statutory:

1. Teachers' Fund for Retirement Beneficiaries

Governance Policy Monitoring Summary			
Policy	Method	Responsibility	Frequency
Ends			
Investment Services	External	Investment Consultant	Annual
	Internal	Investment Officer	Quarterly
Retirement Services	External	Actuary	Annual
	Internal	Retirement Officer	Quarterly
Executive Director Limitations			
Executive Constraint	Internal Report	Executive Director	Annual
Staff Relations	Internal Report	Executive Director	Quarterly
	External	State Investment Board	Annual
Public Relations	Internal Report	Executive Director	Annual
Budgeting	Internal Report	Executive Director	Quarterly
	External	State Auditor	Annual
	Direct	Board Review	Biennial
Financial Condition	Internal Report <u>External</u>	Executive Director <u>External Auditor</u>	Quarterly <u>Annual</u>
Board Communication	Direct Board Inspection	State Investment Board	Annual
Asset Protection	External	Auditor	Annual
Compensation and Benefits	Internal Report	Executive Director	Annual
Conflict of Interest	Internal	Executive Director	Annual
Code of Conduct	Internal	Executive Director	Annual
Unrelated Business Interests	Internal	Executive Director	Annual

E. INVESTMENTS

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<i>Listing of Trust Funds</i>	<i>E-1</i>

By virtue of the responsibilities assigned to the SIB by North Dakota Century Code Chapter 21-10, the members of the SIB are fiduciaries for twelve statutory funds. Through contractual obligations, fiduciary responsibility extends to eleven additional funds.

A fiduciary is a person who has discretionary authority or management responsibility for assets held in trust to which another has beneficial title or interest. The fiduciary is responsible for knowing the "prudent requirements" for the investment of trust assets. Remedial actions may be assessed against fiduciaries for violations of fiduciary duty.

North Dakota state law provides broad fiduciary guidelines for the SIB members. NDCC 21-10-07 specifies that "the state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income."

Procedural prudence is a term that has evolved to describe the appropriate activities of a person (or persons) who act in a fiduciary role. Court decisions to date indicate that procedural prudence is more important in assessing fiduciary activities than actual portfolio performance. A fiduciary cannot be faulted for making the "wrong" decision provided that proper due diligence was performed.

The key to successfully discharging the SIB's fiduciary duties is the establishment of and adherence to proper due diligence procedures. While not bound by ERISA (Employee Retirement and Income Security Act of 1974), the SIB will use the procedural prudence outlined by ERISA as guidance in developing its procedures:

1. An investment policy must be established for each fund and must be in writing.
2. Plan assets must be diversified, unless under the circumstances it would be prudent not to do so.
3. Investment decisions must be made with the skill and care of a prudent expert.
4. Investment performance must be monitored.
5. Investment expenses must be controlled.
6. Prohibited transactions must be avoided.

Policy Implemented: September 20, 1995.

Amended: May 30, 1997; January 22, 1999; February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT PROCESS*

The SIB believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues to be faced by the SIB will revolve around:

Asset allocation targets:

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

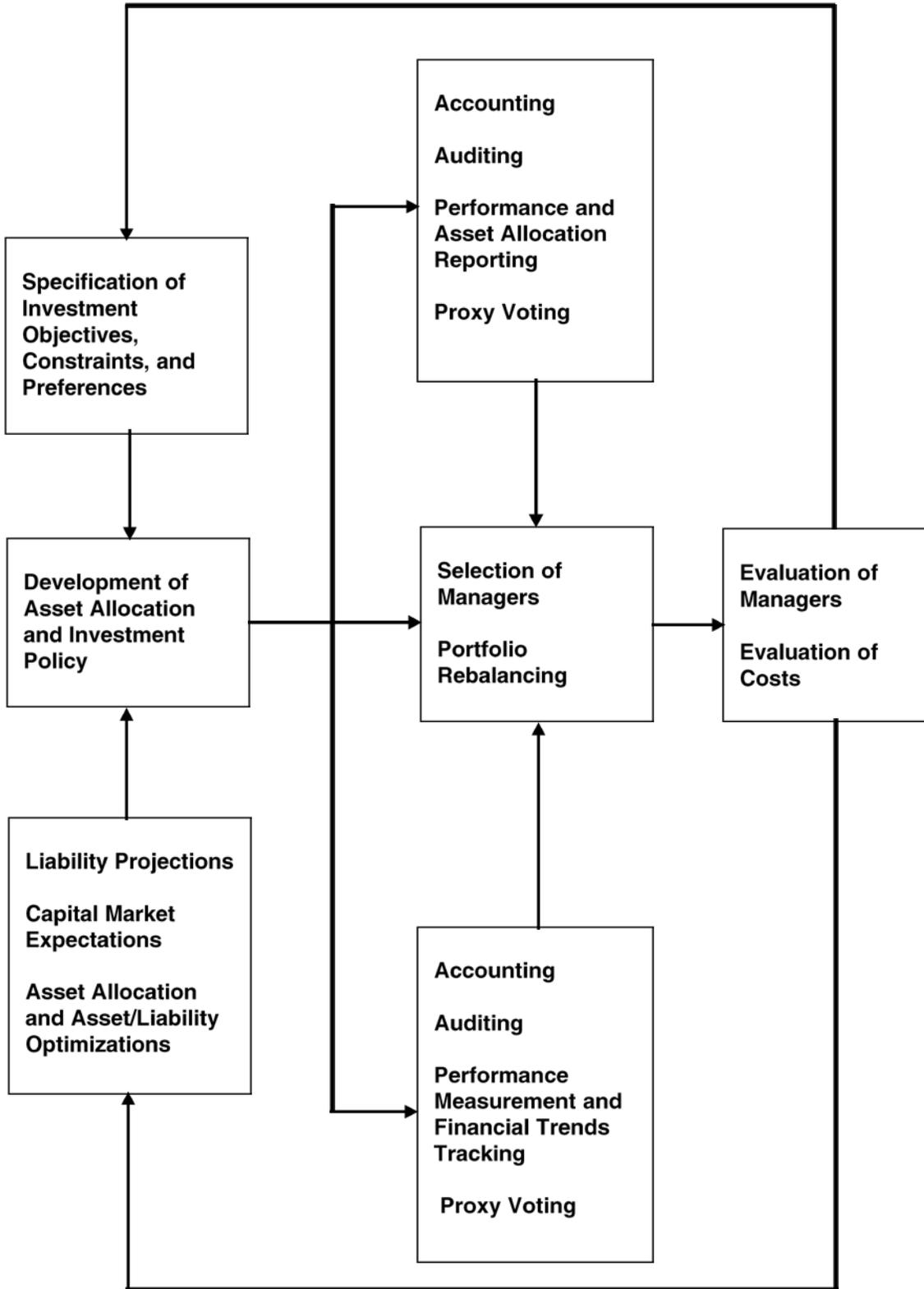
To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process, described by the diagram on the following page, involves three phases:

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

The first column of boxes describes the policy development phase, the middle column implementation/monitoring, and the last box on right evaluation. Activities associated with internal entities are shown along the top. Those associated with external entities are shown along the bottom. The middle shows activities that internal and external entities work on together.

Policy Implemented: September 20, 1995.

INTERNAL ENTITIES



EXTERNAL ENTITIES

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

The key responsibilities of the entities involved in the investment program are:

Fund Governing Bodies

1. Establish policy on investment goals and objectives.
2. Establish asset allocation.
3. Hire actuary when required.

SIB

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

Investment Officer and RIO Staff

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

POLICY TYPE: INVESTMENTS

POLICY TITLE: KEY PROGRAM ENTITIES AND RESPONSIBILITIES

Investment Consultant

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

Actuary

1. Assist fund governing bodies in developing benefit and funding policies.
2. Measure actuarial soundness of plan.
3. Perform experience studies as requested by plan sponsor.
4. Provide liability projections as needed.
5. Conduct annual evaluation of program policies and results, and assist in development of annual work plan.
6. Assist in implementation of annual work plan.

Auditor

1. Measure, validate, and offer an opinion on agency financial statements and management.
2. Assist in developing appropriate accounting policies and procedures.
3. Bring technical competence, sound business judgment, integrity, and objectivity to the financial reporting process.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *KEY PROGRAM ENTITIES AND RESPONSIBILITIES*

Master Custodian

1. Provide safekeeping of all securities purchased by managers on behalf of the SIB.
2. Provide global custody services.
3. Collect interest, dividend, and principal payments in a timely manner.
4. Provide for timely settlement of securities.
5. Price all securities and post transactions daily.
6. Maintain short-term investment vehicles for investment of cash not invested by SIB managers. Sweep all manager accounts daily to ensure all available cash is invested.
7. Provide monthly, quarterly, and annual accounting reports for posting to RIO's general ledger.
8. May manage a securities lending program to enhance income.
9. Provide electronic access to accounting reports.
10. Provide other services that assist with the monitoring of managers and investments.

Portfolio Managers

1. Manage portfolios as assigned by the SIB.
2. Provide liquidity, as required, in a timely and cost-efficient manner.
3. Vote proxies.
4. Provide educational assistance to board.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS

All funds under SIB management must have a written investment policy. Investment policy forms the cornerstone of the management of any investment program. A sound investment policy ensures that fund assets are managed in a disciplined process, based on long-term fundamental investment principles.

For the larger, more complex trust funds, consultants are used to assist in policy and asset allocation development. Their specialized skills are needed to model and analyze the many variables that go into determining a proper asset allocation.

Policy development starts with the specification of investment objectives, constraints, and preferences. Fund trustees must address a number of factors:

- What is the fund's objective(s)?
- What is the board's tolerance for risk or threshold for under-performance?
- What are the fund's liquidity needs and cash flow characteristics?
- What are the board's asset class preferences and constraints?
- What is the actuarial earnings assumption?
- What are the legal or political considerations?
- What is the investment time horizon?

Since the ultimate objective of fund investments is to provide for the payment of future capital needs, claims, or other monetary requirements, it is essential that the investment policy be developed within the context of fund liabilities or spending policy. The development of investment policy, therefore, is always unique to the circumstances of each fund.

Complex actuarial models are used to quantify the liabilities of the pension plans and Workforce Safety and Insurance. Internal entities develop cash flow forecasts for the smaller funds based on past claims or anticipated expenditures.

Asset allocation optimizations are used to quantify the range of future investment outcomes. Investment consultants contribute needed expertise on capital market expectations and in identifying the risks associated with a particular asset allocation.

For some funds, the risk/return tradeoffs of alternative portfolios are not well represented by expected returns and standard deviation. More important are the expected results for required sponsor and participant contributions and funded ratios over time. Asset/liability modeling is the tool that allows the governing boards to examine and assess the tradeoffs leading to an appropriate investment policy.

The results of the optimizations are a description of the range of financial results that might realistically be expected to occur. These results provide the basis for determining an asset allocation.

POLICY TYPE: INVESTMENTS

POLICY TITLE: *INVESTMENT POLICY DEVELOPMENT – TRUST FUNDS*

In accordance with NDCC 21-10-02.1, RIO staff works with each fund's governing authority, and consultants as needed, to develop an investment policy, which includes an appropriate asset allocation, for each of the statutory funds. Contracted entities are responsible for their own policy development.

Each policy, as a minimum, will include the following information:

1. Fund characteristics and constraints.
 - a. An explanation as to the purpose of the portfolio and its legal structure.
 - b. Size of portfolio and the likelihood and amount of future contributions and disbursements
 - c. Participant demographics when applicable.
 - d. Fiscal health of fund.
 - e. Constraints.
 - f. Unique circumstances.
2. Responsibilities of SIB.
3. Investment objectives.
4. Standards of investment performance.
5. Asset allocation policy and guidelines.
6. Evaluation and review.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: INVESTMENT POLICY DEVELOPMENT – INVESTMENT POOLS

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

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

1. Strategic objectives.
2. Performance objectives.
 - a. Appropriate capital market benchmarks.
 - b. Excess return targets, after payment of investment management fees.
 - c. Peer-group ranking.
 - d. Risk characteristics.
 - e. Termination factors.
3. Portfolio constraints.
 - a. Quality of securities/portfolio (security – BAA/portfolio – AA).
 - b. Quality held (maximum in company/industry/economic sector).
 - c. Other specific restrictions if applicable (ADRs, 144A securities, prohibited transactions, etc.).
4. Investment structure.
 - a. Percent of assets per manager cycle.
 - b. Ranges for rebalancing.
5. Control Procedures
 - a. Duties and responsibilities of the SIB
 - b. Duties and responsibilities of money managers.
 - c. Reporting requirements.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009

The SIB will ensure that appropriate monitoring mechanisms are in place at all times. The three basic mechanisms are:

- Accounting
- Auditing
- Performance Measurement

The primary objective of these functions is to provide useful information to decision makers (fiduciaries and legislators). These monitoring functions are needed to keep track of assets and manager activity and to control the asset mix. Different aspects of these activities will be conducted internally by RIO staff and externally by the master custodian, auditors, and investment consultants.

Accounting

The master custodian will provide RIO staff with such accounting detail and at such frequency as the staff deems necessary to fulfill the SIB's reporting requirements.

From this information, RIO accounting staff will generate monthly and annual financial statements for each of the trust funds managed by the SIB.

RIO management is responsible to ensure the proper valuation of all assets. Formal valuation policies must be developed and implemented utilizing industry best practices and GAAP accounting requirements.

Compliance

RIO management is responsible for developing and implementing compliance procedures utilizing industry best practices. A summary of compliance procedures and results will be presented to the SIB annually.

Auditing

The North Dakota State Auditor is responsible for the external audit of RIO. They may assign this responsibility to an outside firm which they select by way of the RFP process. The SIB Audit Committee may make recommendations to the State Auditor concerning the selection, evaluation, and termination of this firm. This firm conducts an extensive financial and management audit for each fiscal year. The audited financial statements are filed with the Legislative Audit and Fiscal Review Committee.

RIO has a dedicated internal audit function that reports to the SIB Audit Committee. The internal audit function encompasses both the investment and retirement divisions of RIO. The SIB Audit Committee has oversight responsibilities as outlined in the SIB Audit Committee charter.

Performance Measurement and Reporting

The third element of monitoring entails measuring the performance of the individual investment managers and the total fund performance of each of the funds under the SIB. The SIB will retain reputable investment consultants or performance measurement services to provide comprehensive quarterly performance measurement information. This information will include data on the capital markets, other plan sponsors, and other investment managers. Performance results for SIB accounts will be calculated from data provided by the master custodian and compared to relevant capital market benchmarks, other public funds, manager peer groups, and investment goals specified in the asset class investment policy. Time periods covered by the report may vary but generally will include the most recent quarter, last 12 months, last three years, five years, and longer time periods (as data is available).

POLICY TYPE: INVESTMENTS

POLICY TITLE: *MONITORING*

RIO staff will use appropriate sources to compile monthly performance reports for each of the funds under the SIB that show recent performance and asset mix.

Policy Implemented: September 20, 1995.

Amended: February 27, 2009, February 25, 2011.

STATEMENT OF POLICY

It shall be the policy of the State Investment Board (SIB) to vote all proxies appurtenant to shares held in the various plans administered by the Board, and to vote said shares in a manner that best serves the system's interests. Specifically, all shares are to be voted with the interest of preserving or enhancing share value. The Board endorses the Department of Labor opinion that proxies have economic power which shareholders are obligated to exercise to improve corporate performance. The Board further recognized that proxy issues are frequently complex, requiring expert guidance; accordingly, it has adopted procedures that employ such experts.

The objectives of these policies are as follows:

1. Exercise the value empowered in proxies.
2. Maintain or improve share value for the exclusive benefit of the participants.
3. Achieve changes for the common good whenever these do not conflict with the exclusive benefit objective.

PROCEDURES

DISTINCTION OF RESPONSIBILITIES

Master Custodian

The system's master custodian shall be responsible for timely receipt and distribution of proxy ballots to the appropriate investment management institutions.

Managers

The managers shall be responsible for promptly voting all proxies pursuant to the Board's policies, and in keeping with the managers' best judgments.

Staff

Staff, in concert with the master custodian and the managers, shall be responsible for monitoring the receipt and voting of all proxies.

Board

The Board shall administer and enforce its policies. This administration and enforcement requires reporting from responsible persons, as discussed in the following.

REPORTING

Master Custodian

The master custodian shall report quarterly in writing on all pertinent proxy issues, including (1) receipt of proxy material; (2) nature of issues; (3) due date; (4) names of managers and dates forwarded; and (5) deficiency reports covering proxies that should have been received but were not.

Managers

Managers shall report quarterly in writing on how proxies have been voted, with explanations given whenever the Board's guidelines have not been followed.

Staff

Internal audit staff shall report annually on the efficiency of the process, the portion of total proxies that have actually been voted, and compliance with Board directives.

GUIDELINES

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

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

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

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

Policy Implemented: September 20, 1995.

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION

The SIB hires investment managers with the intention of maintaining long-standing relationships. Care is taken to select managers for defined roles based on their strengths in designated areas. The hiring process is done in accordance with all applicable state and federal laws.

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

The investment management business has rapidly evolved since the 1990's. It is recognized that many viable firms have been formed as the result of spin-offs or start-ups and may not have a traditional long-term investment performance history in accordance with the following guidelines. There has also been a tremendous increase in the types of strategies available to institutional investors resulting in the need for flexibility in the establishment of investment criteria. Subject to the case-by-case acceptance of deviation by the SIB members, money managers must meet the following minimum selection criteria for inclusion in a manager search:

- Must be a registered investment adviser, bank, insurance company, or investment company (mutual fund). Should provide ADV Part II (registered investment adviser) prospectus (investment company) or comparable information (bank or insurance company).
- Provide at least five years of actual quarterly performance data that is time weighted a representative composite of accounts, and meets Global Investment Performance Standards (GIPS).
- Provide information that illustrates the key investment personnel have been together for at least five years and the capabilities of the firm can handle the current level of investment activity.
- Able to articulate the firm's investment strategies and philosophy in a manner understandable by the Board, and provide a statement that the strategy has been followed for at least five years.
- Disclose any pending or past litigation or censure.
- Be willing to acknowledge their fiduciary status in writing (mutual funds are exempted from this requirement).

The following steps will be followed in the selection process, subject to modification relative to investment strategy and manager search circumstances:

- Develop a profile of the type of manager needed. This is based on the investment goals and asset allocations. Included in the profile are such things as:

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

POLICY TYPE: INVESTMENTS

POLICY TITLE: IMPLEMENTATION – INVESTMENT MANAGER SELECTION

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

Organizational factors, such as type and size of firm, ownership structure, client servicing capabilities, ability to obtain and retain clients, and fees.

- The Investment Officer will give a written report to the SIB on the due diligence process conducted by the Investment Officer, RIO staff, and the SIB in the manager selection process. This report will include selection steps followed and process steps excluded.
- Consultant and/or staff use the profile to screen their data base for managers that meet SIB criteria.
- Consultant and/or staff reduce the group to the top candidates and prepare a summary report. The report will contain pertinent data on each of the candidates.
- When appropriate, on-site visits may be made by staff and board members to the candidates' home offices. Visits by board members to potential manager sites must have board approval.
- When appropriate the Investment Officer will conduct fact-finding pre-interviews. SIB trustees and RIO staff will receive notice of these pre-interviews.

Interviews are conducted with each of the finalists in Bismarck. All are required to bring the potential portfolio manager to the interview. Particular attention is paid to gaining an understanding of the investment process and determining the manager's compatibility with the SIB's guidelines and objectives.

The Investment Officer will schedule manager interviews with the SIB. Following these interviews, the Investment Officer, with the advice of RIO staff and consultants, will make recommendations to the SIB on manager selection.

- The SIB will select the investment manager by majority vote.
- Manager(s) selected by the SIB are notified immediately by RIO staff. Unsuccessful candidates are notified by consultant.
- Investment management contracts are reviewed and finalized, sent to the Attorney General for approval, and executed.
- Accounts are set up at the master custodian and on the internal general ledger.
- Consultant is notified when to begin the measurement of the investment performance of the manager(s).

Policy Implemented: September 20, 1995

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: *IMPLEMENTATION – PORTFOLIO REBALANCING*

Portfolio Rebalancing

The need to rebalance the portfolio can arise due to a new asset allocation or because market activity has driven the actual distribution of assets away from the desired mix. To minimize transaction costs due to rebalancing, RIO works with the investment consultants to determine appropriate ranges around the target mix (which are specified in the policy statement). Rigidly adhered to, such a policy is a valuable risk control tool. By maintaining asset mix within reasonably tight ranges, the SIB avoids making unintentional "bets" in the asset mix and avoids market-timing decisions.

All of the funds the SIB oversees have an asset allocation with minimum and maximum limits assigned. RIO's rebalancing policy requires the asset mix to be determined at the end of each month. At the end of each quarter, all portfolios deviating from the target beyond the acceptable limits are rebalanced to target.

Policy Implemented: September 20, 1995.

The SIB will follow an annual evaluation cycle for the investment program to ensure systematic review of investment policies and performance results and the development and implementation of corrective action plans. Evaluation of the program seeks to answer such questions as:

- Are all investment goals being met?
- What has worked and what has not?
- Have changes occurred in the capital markets, plan design, or board philosophy to warrant changes in investment policy?
- Are money managers meeting our expectations?
- Is continued confidence in the money managers warranted?
- Are accounting practices sound and fair to participating funds?
- Is service delivered in the most cost-effective manner?

The SIB's consultants play a key role in helping to answer some of these questions. The external auditor's report provides insight on accounting practices and cost effectiveness.

Evaluation of Money Managers

Achievement of the SIB's performance goals hinges on the success of the investment strategies and money managers it employs. Evaluation of each money manager must consider the following:

- Has the manager achieved the SIB's performance objectives?
- Has the firm adhered to the investment philosophy for which it was hired?
- Have there been any organizational or personnel changes that may negatively affect future performance?
- Are areas of concern being adequately addressed?
- Can the manager perform well in the future, regardless of whether extraordinary events, long-term performance, and/or short-term performance argue for termination?

These criteria are assessed by quantitative and qualitative means:

- Analyses provided by the investment consultant.
- Annual meetings with each manager in Bismarck to discuss performance, investment philosophy, organizational changes, economic outlook, and areas of concern.

Longer periods of time are better than shorter time periods when assessing a manager's performance. Ideally, performance should be assessed over a market cycle. Market cycles have varying lengths but have historically averaged 5-7 years. The SIB will use a minimum five-year period to evaluate manager performance against long-term performance standards. Long-term performance standards will be a market index that the manager has previously agreed to be measured against.

Shorter-term performance standards will also be established for each money manager. These standards will incorporate a minimum three-year measurement period and measure the manager against a previously agreed-upon peer group or style market index.

Long-term performance standards, short-term performance standards, extraordinary events, and termination factors will be incorporated in the written asset class investment policies.

Evaluation of Program Costs

Costs will be broken out by internal administration, investment consultants, master custodian, and external manager fees. Reports will detail this information by investment pool, managers, and by fund.

These costs will be compared to other funds on an annual basis. The most reliable source of comparison currently available is the cost survey prepared by the Canadian consulting firm Cost Effectiveness Measurement, Inc. The information contained in this survey is not available anywhere else. Staff is encouraged to identify other cost-comparison sources.

Policy Implemented: September 20, 1995.

POLICY TYPE: INVESTMENTS

POLICY TITLE: PERFORMANCE RELATED INVESTMENT MANAGER REVIEW

The North Dakota State Investment Board (SIB) recognizes the inherent importance of assessing an investment manager because of performance. Thus, the following process of evaluation includes quantitative *and* qualitative input. This procedure is structured to assist the SIB in recognizing potentially distressed investment managers, initiating a formal review process, and providing guidelines for termination if necessary. Note: The “Manager Review” terminology or concept is not meant to cause the manager to make substantive changes in investment philosophy, style, or strategies. Rather, it is intended to define a period of close scrutiny of the manager’s activities, circumstances, and investment results.

Factors which may result in a Manager Review:

Significant changes in organizational structure

Significant changes in investment philosophy

Significant deviation in portfolio management from stated philosophy (style drift)

Substandard investment performance

Diminished confidence in manager

Manager Review Procedures:

Information is submitted to, or generated by, the Board which initiates consideration of a Manager Review.

If warranted, the Board takes action to initiate a Manager Review.

Based on the situation and with input from the Investment Director, the SIB suggests appropriate action to facilitate the Review. Action may include telephone conferencing, local or on-site visits with manager, investigation by consultants, appearance of manager before a select committee of the SIB, or appearance of the manager before the SIB. Investment Director initiates investigation of situation based on direction from SIB.

The Investment Director report’s findings to SIB at a subsequent meeting.

After considering findings of the Manager Review, SIB may:

- Remove manager from Review status
- Suggest additional action to facilitate Manager Review
- Relieve manager of duties

POLICY TYPE: INVESTMENTS

POLICY TITLE: PERFORMANCE RELATED INVESTMENT MANAGER REVIEW

In the case where continued investigation is warranted, the Investment Director will report new information and/or recommendations to the SIB as appropriate. It will be considered the responsibility of the Investment Director to maintain awareness and consideration of the Review until the situation is resolved.

It is important to recognize that situations occasionally arise of such a serious nature that a Manager Review process must be immediately initiated. In such cases, the Investment Director is granted the authority to place an investment manager under Review, including the freezing of assets if necessary, and report on such action at the next meeting of the State Investment Board.

In every case, the Investment Director is responsible for documenting the Manager Review process including recognition of:

- Reason of Manager Review
- Action taken to investigate the situation
- Report on results of investigation
- Report on resultant action taken by SIB
- Notification of investigation and conclusions to manager and consultants

A complete record of Manager Review activities and history shall be maintained at the ND Retirement and Investment Office.

Policy Implemented: June 27, 1997.

POLICY TYPE: INVESTMENTS

POLICY TITLE: BANK OF NORTH DAKOTA MATCH LOAN PROGRAM

The SIB has a commitment to the Bank of North Dakota Match Loan Program. The purpose of the program is to encourage and attract financially strong companies to North Dakota. The program is targeted to manufacturing, processing and value-added industries.

The SIB provides capital to the program by purchasing Certificates of Deposit (CD's) from the Bank of North Dakota. The CD's are guaranteed by the state, typically have seven to fifteen year maturities and pay interest pegged to US Treasury notes.

The source of funding for CD's shall be determined by the Investment Director; that funding to be from the most appropriate source consistent with liquidity and relative yield and return objectives and constraints.

Policy Implemented: April 24, 1998.

Amended: February 27, 2009

POLICY TYPE: INVESTMENTS

POLICY TITLE: ACCEPTING NEW CLIENTS

NDCC 21-10-06 states *“The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.”*

When a request is received by staff from a potential new investor requesting investment services from the State Investment (SIB), the following steps shall be followed.

1. Staff will conduct initial discussions with the potential client regarding type of fund, risk tolerance, size of fund, services to be provided, costs, etc.
2. Staff will recommend that an Asset/Liability study be conducted by the potential client if one has not been done recently. This discussion will include a description of the asset classes available for investment with the SIB to be included in their study.
3. If the potential client is still interested in participating in the SIB program, staff will bring the preliminary request to the SIB for acceptance. It shall be the policy of the SIB to take the following into consideration when determining if a new investor request will be accepted.
 - a. Internal staff administrative capacity.
 - b. Compatibility of new investor’s goals and risk tolerances with the existing SIB program structure.
 - c. Whatever other factors the SIB determines to be appropriate to the decision.
4. If the SIB chooses to accept the preliminary request, staff will provide the necessary template documents to the potential client for review and completion. These documents include a contract for services and investment guidelines.
5. Once documentation is completed, staff will request to have the issue included on the Industrial Commission’s agenda for their approval. Copies of all documentation will be provided for their review.
6. If approved by the Industrial Commission, final documentation will be presented to the SIB for final acceptance.
7. If accepted, staff will work with the new client to set up transfer of funds and implementation of asset allocation as directed. All new clients will be brought in as of the last day of a calendar quarter.
8. Fees will be charged with the intention of covering all associated costs as described in RIO Fiscal Management procedure “Investment Fee Allocations”.

Policy Implemented: November 20, 2009

EXHIBIT E-I

State Investment Board (SIB) Members 2014-2015:

Position	Incumbent	Designation	Term Expiration
Lt. Governor	Drew Wrigley	Ex officio	Open
State Treasurer	Kelly Schmidt	Ex officio	Open
State Insurance Commissioner	Adam Hamm	Ex officio	Open
Commissioner University & School Lands	Lance Gaebe	Appointed	N/A
Executive Director Workforce Safety & Insurance	Bryan Klipfel	Appointed	N/A
Trustee, TFFR	Clarence Corneil	Appointed by TFFR Board	6/30/17
Trustee, TFFR	Michael Gessner	Appointed by TFFR Board	6/30/16
Trustee, TFFR	Rob Lech	Appointed by TFFR Board	6/30/15
Trustee, PERS	Mike Sandal	Appointed by PERS Board	6/30/17
Trustee, PERS	Tom Trenbeath	Appointed by PERS Board	6/30/15
Trustee, PERS	Yvonne Smith	Appointed by PERS Board	6/30/19

Retirement and Investment Office (RIO) Staff:

Position	Incumbent	Education
Executive Director/ Chief Investment Officer	David Hunter	BS, Accounting, Northern Illinois University MBA, Finance, University of Chicago
Deputy Chief Investment Officer	Darren Schulz	BBA, Finance, Georgia State University, CFA
Fiscal and Investment Operations Mgr	Connie Flanagan	BS, Accounting, University of Mary

External

Function	Firm	Date Hired
Investment Consultant	Callan Associates Inc.	4/84
Actuary (TFFR)	Segal	7/11
Auditor	CliftonLarsonAllen	4/12
Master/Global Custodian	The Northern Trust Company	12/83

F. TFFR ENDS

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POLICY TYPE: TFFR ENDS

POLICY TITLE: *MISSION*

The mission of TFFR, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

TFFR Board Adopted: May 25, 1995

SIB Accepted: August 30, 1995

Investment and Funding Goals:

1. Improve the Plan's funding status to protect and sustain current and future benefits.
2. Minimize the employee and employer contributions needed to fund the Plan over the long term.
3. Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
4. Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefits.

Service Goals:

1. Administer accurate, prompt, and efficient pension benefits program.
2. Deliver high quality, friendly service to members and employers.
3. Provide educational outreach programs including pre-retirement seminars and individual benefits counseling sessions.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995

Amended: August 29, 1996; March 6, 1998; September 23, 1999; January 25, 2001, September 21, 2006; March 15, 2012

TFFR beneficiaries are:

1. **Plan Members:**

- a. Active – all persons who are licensed to teach in North Dakota and who are contractually employed in teaching, supervisory, administrative, or extracurricular services:
 - Classroom teachers
 - Superintendents, assistant superintendents, county superintendents
 - Business managers
 - Principals and assistant principals
 - Special teachers
 - Superintendent of Public Instruction, non-teaching employees of Dept. of Public Instruction and Dept. of Career and Technical Education, unless transferred to North Dakota Public Employees Retirement System (NDPERS)
 - Professional or teaching staff of Center for Distance Education, Youth Correctional Center, School for the Blind and School for the Deaf.
 - Other persons or positions authorized in state statutes
- b. Annuitants – All persons who are collecting a monthly benefit:
 - Retirees
 - Disabilitants
 - Survivors/Beneficiaries
- c. Inactive members:
 - Vested
 - Non-vested

2. **Employers:**

- a. School districts
- b. State institutions and agencies defined in state statutes
- c. Other TFFR participating employers

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995

Amended: July 27, 2000; July 24, 2003, September 20, 2007

POLICY TYPE: TFFR ENDS

POLICY TITLE: *MEMBERSHIP DATA AND CONTRIBUTIONS*

Ensure the security and accuracy of the members' permanent records and the collection of member and employer contributions from every governmental body employing a teacher.

Accordingly, the administrative means will be to:

1. Retain member documents applicable to the retirement program.
2. Safeguard TFFR database files.
3. Protect the confidential information contained in member files.
4. Collect member and employer contributions from the employers based on retirement salary earned by the member.
5. Monitor the employer reporting process including the timely filing of information, consistency of month-to-month data, and changes in the employer payment of member contributions.
6. Review the individual member data, salary, and service credit for accuracy.
7. Post and validate the data received from the employer to the individual accounts.
8. Mail annual statements to every member.
9. Summarize the member data reported and notify the employers of the year-to-date information.
10. Ensure that individuals employed as "teachers" in North Dakota school districts, political subdivisions, and state institutions are reported to TFFR in compliance with the North Dakota Century Code (NDCC).
11. Provide publications and reporting instructions to employers on TFFR.
12. Transfer member and employer contributions to the investment program in a timely manner.

Monitoring (Method, Responsibility, Frequency)

1. Internal Report
 - a. Disclosure of compliance to the board from RIO's internal auditors. The Internal Audit (IA) program is designed to review the districts on a five-year cycle.
 - b. Compliance for individual accounts is monitored through internal audits of staff compliance with state laws, rules, board policy, and procedures.

POLICY TYPE: TFFR ENDS

POLICY TITLE: *MEMBERSHIP DATA AND CONTRIBUTIONS*

2. External Report
 - a. Disclosure of compliance to the board by RIO's external auditors as a part of the annual audit.
 - b. Disclosure of compliance to members through annual statements.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995

Amended: July 18, 2002, September 20, 2007

1. PLAN CHARACTERISTICS AND FUND CONSTRAINTS.

The North Dakota Teachers’ Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five active and retired members of the fund appointed by the Governor of North Dakota, and two elected officials - the State Treasurer and the State Superintendent of Public Instruction.

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

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

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

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

The TFFR Board has an actuarial valuation performed annually, and an Experience Study and Asset Liability Study performed every five years. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics are recorded in the most recent valuation report on file at the North Dakota Retirement and Investment Office (RIO).

2. FUND GOALS

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

As a result, the Fund goals are to:

- Improve the Plan’s funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan’s funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State/School District’s financial performance. These goals affect the Fund’s investment strategies and often represent conflicting goals.

For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important state/local projects.

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

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

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

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

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

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

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

4. RISK TOLERANCE

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

However, funding the pension promise in an economical manner is critical to the State/School Districts ability to continue to provide pension benefits to plan participants. Thus, the Board actively seeks to lower the cost of funding the Plan's pension obligations by taking on risk for which it expects to be compensated over the

POLICY TYPE: TFFR ENDS

POLICY TITLE: INVESTMENT POLICY STATEMENT

long term. The Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the Board believes that such an approach, prudently implemented, best serves the long-run interests of the State/School District and, therefore, of plan participants.

5. INVESTMENT OBJECTIVES

The Board’s investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund’s policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The fund’s rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The fund’s risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

6. POLICY ASSET MIX

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

<u>Asset Class</u>	<u>Policy Target(%)</u>	<u>Rebalancing Range(%)</u>
Global Equity	57	46-65
Domestic Equity	31	26-36
Large	24	20-28
Small	7	4-10
International Equity	21	16-26
Developed	17	12-22
Emerging	4	2-6
Private Equity	5	4-8

Global Fixed Income	22	16-28
Domestic Fixed	17	13-21
Investment Grade	12	10-18
Non-Investment Grade	5	3-7
International Fixed	5	3-7
Developed	5	3-7
Emerging		0-3
Global Real Assets	20	12-28
Global Real Estate	10	5-15
Other	10	0-15
Infrastructure		0-10
Timber		0-7
Commodities		0-5
Inflation Linked-Bonds		0-10
Other Inflation Sensitive Strategies		0-5
Global Alternatives		0-10
Cash	1	0-2

While the Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Board does not intend to engage in tactical asset allocation. Allocations to Global Alternatives will result in pro-rata reduction in the policy targets.

7. RESTRICTIONS

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

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

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

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

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

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

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

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

8. INTERNAL CONTROLS

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

9. EVALUATION AND REVIEW.

Investment management of the Fund will be evaluated against the Fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

1. A list of the advisory services managing investments for the board.
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.

POLICY TYPE: TFFR ENDS

POLICY TITLE: *INVESTMENT POLICY STATEMENT*

3. Earnings, percentage earned, and change in market value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: February 23, 1996

Amended: November 30, 1995; August 21, 1997; July 15, 1999; July 27, 2000; September 18, 2003; July 14, 2005; September 21, 2006, September 20, 2007, November 18, 2011, September 26, 2013.

Provide direct services and public information to members of TFFR.

Accordingly, the administrative means will be to:

1. Enroll, update, maintain, and certify all member accounts.
2. Respond to member inquiries on the retirement program.
3. Provide statewide benefits counseling services to members through one-on-one sessions.
4. Make group presentations and distribute information at conferences and conventions throughout the state.
5. Coordinate and conduct preretirement and financial planning programs for members on a statewide basis.
6. Certify eligibility for TFFR benefits and purchase of service credit.
7. Calculate and process claims for refund, retirement, disability, survivor, and Qualified Domestic Relations Order (QDRO) benefits, as well as claims for purchasing credit.
8. Permit members to change designated beneficiaries in the event of life occurrences identified in the administrative rules.
9. Close retirement accounts of deceased teachers.
10. Develop and distribute information to the members on the retirement program and related topics through newsletters, annual reports, member handbooks, brochures, and retirement planning guides/workbooks.
11. Maintain a website for TFFR information to provide members with a greater variety of access methods.

Monitoring (Method, Responsibility, Frequency)

1. Internal Report

- a. Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.
- b. Periodic presentations by staff at board meetings.

2. External Report

- a. Receive annual reports from leadership of groups representing the plan's beneficiaries.
- b. RIO's annual audit by independent auditor.
- c. Written and oral communication with board members from teachers regarding payment and processing of benefit claims.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995

Amended: July 27, 2000; July 24, 2003, September 20, 2007.

POLICY TYPE: TFFR ENDS

POLICY TITLE: ACCOUNT CLAIMS

Ensure the payment of claims to members of TFFR.

Accordingly, the administrative means will be to:

1. Pay retirement benefits based on a presumed final salary for members retiring upon completion of their teaching contract and whose final salary has not been reported to TFFR.
2. Allow teachers receiving an annuity from TFFR to have payroll deductions subtracted from their monthly benefit, including, but not limited to: health, life, and other insurance premiums payable to NDPERS, North Dakota Retired Teachers Association (NDRTA) dues, North Dakota Education Association (NDEA) Retired dues, and federal and North Dakota income tax withholdings.
3. Distribute payments for benefit claims (annuities, PLSOs, refunds, and rollovers) once per month. Distributions including payments made by Electronic Funds Transfer (EFT) will be mailed on the last working day of the previous month payable on the first working day of each month.
4. Distribute special payments for benefit claims in the event of unforeseen circumstances (i.e. death, QDRO, Court Order).
5. Send new account notices and account change notices to retired members.

Monitoring (Method, Responsibility, Frequency)

1. Internal Report
 - a. Disclosure of compliance to the board through internal audits on compliance with laws, rules, and policies.
 - b. Periodic presentations by staff at board meetings.
2. External Report
 - a. Disclosure of compliance to the board through annual audit by RIO auditors.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995

Amended: July 27, 2000; July 24, 2003.

POLICY TYPE: TFFR ENDS

POLICY TITLE: TRUST FUND EVALUATION/MONITORING

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

Accordingly, the administrative means will be to:

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

POLICY TYPE: TFFR ENDS

POLICY TITLE: TRUST FUND EVALUATION/MONITORING

Monitoring (Method, Responsibility, Frequency)

1. Internal Report
 - a. Disclosure of compliance to the board through periodic presentations by staff at board meetings.
2. External Report
 - a. Disclosure of compliance to the board through annual audit and actuarial reports.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995

Amended: July 27, 2000, September 23, 2010.

PLAN CHARACTERISTICS

The Teachers' Fund for Retirement (TFFR) was established in 1913 to provide retirement income to public educators. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code (IRC). The NDCC Chapter 15-39.1 contains the actual language governing the fund and is supplemented by Title 82 of the North Dakota Administrative Code (NDAC).

The responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed board members must include two active teachers, one active school administrator, and two retired members.

The TFFR benefits program is administered through the Retirement and Investment Office (RIO) according to this Statement of Retirement Policy.

TFFR's funds are invested under the direction of the State Investment Board (SIB) following the "Prudent Investor Rule." The investments must be invested exclusively for the benefit of the TFFR members. Four of the TFFR board members serve as voting members on the 11-member SIB.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995

Amended: July 1, 1997, September 23, 2010.

TFFR RESPONSIBILITIES

1. Establish policies for the administration of the TFFR programs.
2. Submit legislation, monitor the statutory responsibilities of the TFFR programs as outlined in the NDCC, and promulgate Administrative Rules.
3. Establish and monitor actuarial assumptions used to value the retirement plan and to conduct periodic valuations.
4. Establish and monitor retirement benefit and service program goals.
5. Establish and monitor policy for investment goals, objectives, and asset allocation for the fund.
6. Communicate and monitor program expectations with the SIB.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995.

SIB RESPONSIBILITIES

To provide the staff and resources to carry out the **Ends** of the retirement program through RIO.

TFFR Board Adopted: May 25, 1995.

SIB Accepted: August 30, 1995

H. BY-LAWS

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CHAPTER 1 - AUTHORITY

- Section 1-1. The State Investment Board (SIB) has the authority to maintain an administrative office under Chapter 54-52.5, North Dakota Century Code.
- Section 1-2. The SIB has the authority and responsibility for providing administrative services to the North Dakota Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board. This includes organizing, staffing, and maintaining an administrative office.
- Section 1-3. The SIB has the authority and responsibility for developing and monitoring the agency budget.
- Section 1-4. The SIB has the authority and responsibility to maintain office records, an accounting system, and data processing support services.
- Section 1-5. The SIB has the authority to pay all claims and investment expenses filed with TFFR and the SIB.

Policy Implemented: June 23, 1995.

CHAPTER 2 - BOARD

- Section 2-1. Members of the State Investment Board (SIB) are the Governor, State Treasurer, Commissioner of University and School Lands, director of Workforce Safety & Insurance, Commissioner of Insurance, three members of the Teachers' Fund for Retirement (TFFR) Board, two of the elected members and one member of the Public Employees Retirement System (PERS) Board as selected by those boards. The PERS and TFFR Boards may appoint an alternate designee with full voting privileges to attend meetings of the SIB when a selected member is unable to attend. The director of Workforce Safety and Insurance may appoint a designee, subject to approval by the Workforce Safety and Insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend.
- Section 2-2. The SIB will have general charge and management of the business of TFFR and the SIB, subject to law, administrative rules and regulations, and governance policies. The SIB will make such policy as necessary to fulfill this obligation.
- Section 2-3. When the statutes allow a Deputy to represent a member of the SIB or an alternate to represent the TFFR or PERS Board, the Chair will recognize the individual for the record, and the individual(s) will then have the right to vote on matters before the SIB.
- Section 2-4. The SIB will be responsible for the operation of an administrative office that will provide support services to TFFR and the SIB.

Policy Implemented: June 23, 1995.

Amended: July 22, 2011.

CHAPTER 3 - OFFICERS AND DUTIES

- 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.
- Section 3-2. Chair. The Chair will preside at all meetings of the SIB.
- Section 3-3. Vice Chair. In the absence of the Chair, the Vice Chair will perform the duties of the Chair.
- Section 3-4. Executive Director. An Executive Director will be retained by the SIB. The Executive Director will serve at the SIB's pleasure, be responsible for keeping the records of the SIB and TFFR Board actions, and perform such duties as the SIB prescribes. The Executive Director will make out and give out all notices required to be given by law, procedures, or rules and regulations of the two boards.

Policy Implemented: June 23, 1995.

CHAPTER 4 - MEETINGS

- Section 4-1. Regular meetings of the SIB to conduct business are to be held as often as necessary. The SIB will meet at least once each quarter. Notice of all meetings will be made in accordance with North Dakota Century Code, Section 44-04-20.
- Section 4-2. Meetings of the SIB may be called by the Chair or two members of the SIB upon reasonable notice in writing to the other members of the Board. (NDCC 21-10-04)
- Section 4-3. A quorum will be six (6) members of the SIB.
- Section 4-4. Voting on matters before the SIB will be contained in the minutes which will show the recorded vote of each SIB member.
- Section 4-5. All meetings of the SIB are open to the public.
- Section 4-6. A record of procedures will be kept by the Executive Director on all meetings of the SIB. The records of these proceedings are public documents, and copies will be distributed to the TFFR, SIB, and PERS Boards and upon request.
- Section 4-7. Public participation during meetings of the SIB may be allowed at the discretion of the Chair.
- Section 4-8. SIB members, except elected and appointed officials, will be paid the amount specified in NDCC 21-10-01 per SIB meeting attended.

Expenses will be paid according to state law and OMB policies.

Policy Implemented: June 23, 1995.

Amended: July 22, 2011.

CHAPTER 5 - COMMITTEES

Section 5-1. The SIB will establish one standing committee: Audit Committee.

Section 5-1-1. Audit Committee. The Audit Committee will consist of five members. They will be selected by the SIB. Three members of the committee will represent the three groups on the SIB (TFFR Board, PERS Board, and elected and appointed officials). The other two members will be selected from outside of the SIB and be auditors with at least a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) designation.

The Audit Committee will have responsibility for oversight of financial reporting, auditing, and internal control. The Audit Committee will be responsible for developing a written charter, to be approved by the SIB, which puts forth the authority, responsibilities, and structure of the Audit Committee. It will also be the responsibility of the Audit Committee to supervise the audit activities of the internal audit staff, work with the State Auditor/external auditors, and develop reports for the SIB.

The Executive Director shall supervise the administrative activities of the internal/external audit programs such as travel, securing contracts, paying fees, maintaining official reports, etc.

The supervisor of the internal audit function will be the staff member directly responsible to the Audit Committee.

Membership on the Audit 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 Audit Committee.

Section 5-2. No member of the SIB will be paid, other than expenses, for attending seminars, conferences, or other such educational meetings.

Policy Implemented: June 23, 1995.

CHAPTER 6 - RULES OF ORDER

Section 6-1. All SIB meetings will be conducted in accordance with Robert's Rules of Order Newly Revised except as superseded by these by-laws and board governance policies.

Policy Implemented: June 23, 1995.

CHAPTER 7 - ADMINISTRATIVE OFFICE

Section 7-1. For the purpose of carrying out the day-to-day business of TFFR and the SIB, an administrative office will be maintained in Bismarck, North Dakota. This office is called the Retirement and Investment Office (RIO).

Section 7-2. The Executive Director will be the administrator of the office.

Policy Implemented: June 23, 1995.

CHAPTER 8 - AMENDMENTS

Section 8-1. These by-laws may be amended by a two-thirds vote of SIB members. All amendments must be mailed to SIB members at least thirty (30) days prior to the meeting at which they are considered.

Section 8-2. All amendments must include an effective date.

Policy Implemented: June 23, 1995.

I. CENTURY CODE

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CHAPTER 21-10 STATE INVESTMENT BOARD

21-10-01. State investment board - Membership - Term - Compensation - Advisory council.

1. The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation one hundred forty-eight dollars per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board.
2. The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.

21-10-02. Board - Powers and duties.

The board is charged with the investment of the funds enumerated in section 21-10-06. It shall approve general types of securities for investment by these funds and set policies and procedures regulating securities transactions on behalf of the various funds. Representatives of the funds enumerated in section 21-10-06 may make recommendations to the board in regard to investments. The board or its designated agents must be custodian of securities purchased on behalf of funds under the management of the board. The board may appoint an investment director or advisory service, or both, who must be experienced in, and hold considerable knowledge of, the field of investments. The investment director or advisory service shall serve at the pleasure of the board. The investment director or advisory service may be an individual, corporation, limited liability company, partnership, or any legal entity which meets the qualifications established herein. The board may authorize the investment director to lend securities held by the funds. These securities must be collateralized as directed by the board. The board may create investment fund pools in which the funds identified in section 21-10-06 may invest.

21-10-02.1. Board - Policies on investment goals and objectives and asset allocation.

1. The governing body of each fund enumerated in section 21-10-06 shall establish policies on investment goals and objectives and asset allocation for each respective fund. The policies must provide for:
 - a. The definition and assignment of duties and responsibilities to advisory services and persons employed by the board.
 - b. Acceptable rates of return, liquidity, and levels of risk.

- c. Long-range asset allocation goals.
 - d. Guidelines for the selection and redemption of investments.
 - e. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services.
 - f. The type of reports and procedures to be used in evaluating performance.
2. The asset allocation for each fund, to be effective, must be approved by the governing body of that fund and the state investment board by January first of each year. If the asset allocation is not approved, the previous asset allocation remains effective. The governing body of each fund shall use the staff and consultants of the retirement and investment office in developing asset allocation and investment policies.

21-10-03. Cooperation with Bank of North Dakota.

Repealed by S.L. 1987, ch. 190, § 14.

21-10-04. Board - Meetings.

The state investment board shall select one of its members to serve as chair, one to serve as vice chair, and shall meet at the call of the chair or upon written notice signed by two members of the board.

21-10-05. Investment director - Powers and duties.

Subject to the limitations contained in the law or the policymaking regulations or resolutions adopted by the board, the investment director may sign and execute all contracts and agreements to make purchases, sales, exchanges, investments, and reinvestments relating to the funds under the management of the board. This section is a continuing appropriation of all moneys required for the making of investments of funds under the management of the board. The investment director shall see that moneys invested are at all times handled in the best interests of the funds. Securities or investments may be sold or exchanged for other securities or investments.

The investment director shall formulate and recommend to the investment board for approval investment regulations or resolutions pertaining to the kind or nature of investments and limitations, conditions, and restrictions upon the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions that should govern the investment of funds under this chapter.

21-10-06. Funds under management of board - Accounts.

1. Subject to the provisions of section 21-10-01, the board is charged with the investment of the following funds:
 - a. State bonding fund.
 - b. Teachers' fund for retirement.
 - c. State fire and tornado fund.
 - d. Workforce safety and insurance fund.
 - e. National guard tuition trust fund.
 - f. Public employees retirement system.
 - g. Insurance regulatory trust fund.
 - h. State risk management fund.
 - i. Budget stabilization fund.
 - j. Health care trust fund.
 - k. Cultural endowment fund.
 - l. Petroleum tank release compensation fund.
 - m. Legacy fund.
2. Separate accounting must be maintained for each of the funds listed in subsection 1. The moneys of the individual funds may be commingled for investment purposes when determined advantageous.
3. The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to

agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.

21-10-06.1. Board - Investment reports.

The board shall annually prepare reports on the investment performance of each fund under its control. The reports must be uniform and must include:

1. A list of the advisory services managing investments for the board.
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.

21-10-06.2. Investment costs.

The amounts necessary to pay for investment costs, such as investment counseling fees, trustee fees, custodial fees, performance measurement fees, expenses associated with money manager searches, expenses associated with onsite audits and reviews of investment managers, and asset allocation expenses, incurred by the state investment board are hereby appropriated and must be paid directly out of the funds listed in section 21-10-06 by the fund incurring the expense.

21-10-07. Legal investments.

The state investment board shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

21-10-08. Reserves - Percentage limitations.

In order to meet claims and liabilities, reserves must be established and maintained in each of the funds in accordance with the investment policy and asset allocation established for each fund.

21-10-09. Personal profit prohibited - Penalty.

No member, officer, agent, or employee of the state investment board may profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section is guilty of a class A misdemeanor.

21-10-10. State investment board fund - Cost of operation of board.

Repealed by S.L. 1989, ch. 667, § 13.

21-10-11. Legacy and budget stabilization fund advisory board.

The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board. The goal of investment for the legacy fund is principal preservation while maximizing total return. The board consists of two members of the senate appointed by the senate majority leader, two members of the house of representatives appointed by the house majority leader, the director of the office of management and budget or

designee, the president of the Bank of North Dakota or designee, and the tax commissioner or designee. The board shall select a chairman and must meet at the call of the chairman. The board shall report at least semiannually to the budget section. Legislative members are entitled to receive compensation and expense reimbursement as provided under section 54-03-20 and reimbursement for mileage as provided by law for state officers. The legislative council shall pay the compensation and expense reimbursement for the legislative members. The legislative council shall provide staff services to the legacy and budget stabilization fund advisory board. The staff and consultants of the state retirement and investment office shall advise the board in developing asset allocation and investment policies.

21-10-12. Legacy fund - Earnings defined.

For the purposes of section 26 of article X of the Constitution of North Dakota, the term "earnings" means net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

CHAPTER 54-52.5
STATE RETIREMENT AND INVESTMENT OFFICE

54-52.5-01. North Dakota state retirement and investment office.

The state retirement and investment office is created to coordinate the activities of the state investment board and teachers' fund for retirement.

54-52.5-02. Governing authority.

The state investment board shall govern the state retirement and investment office. The state investment board is responsible for overseeing and operating the agency and may do all things necessary to coordinate the activities of the state investment board and the teachers' fund for retirement. The board of trustees of the teachers' fund for retirement and the state investment board shall maintain their legal identities and authority as otherwise provided by law.

54-52.5-03. State retirement and investment fund - Cost of operation of agency.

A special fund known as the "state retirement and investment fund" is established for the purpose of defraying administrative expenses of the state retirement and investment office. The actual amount of administrative expenses incurred by the state retirement and investment office must be paid from the respective funds listed under section 21-10-06 and are hereby appropriated to the state retirement and investment fund in proportion to the services rendered for each fund as estimated by the state investment board. The amount necessary to pay all administrative expenses of the state retirement and investment office must be paid from the state retirement and investment fund in accordance with the agency's appropriation authority. Any interest income earned on the state retirement and investment fund must be credited to the fund.

**RETIREMENT AND INVESTMENT OFFICE
APPROPRIATION STATUS**

**2013-2015 BIENNIUM
AS OF JUNE 30, 2014**

	2013-2015 BUDGET	ADJUSTED APPROPRIATION	BIENNIUM TO DATE ACTUAL	EXPENDITURES		
				BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	\$ 3,772,504	\$ 3,772,504	\$ 1,501,994	\$ 2,270,510	60.19%	50.00%
ACCRUED LEAVE PAYMENTS	71,541	71,541	37,144	34,397	48.08%	50.00%
OPERATING EXPENDITURES	973,324	973,324	399,219	574,105	58.98%	50.00%
CONTINGENCY	82,000	82,000	61,987	20,013	24.41%	50.00%
TOTAL	\$ 4,899,369	\$ 4,899,369	\$ 2,000,344	2,899,025	59.17%	50.00%

RIO EXPENDITURE REPORT

FISCAL YEAR ENDED JUNE 30, 2014

	<u>SIB Expenses</u>	<u>TFFR Expenses</u>	<u>Total RIO Expenses</u>	
<u>CONTINUING APPROPRIATIONS</u>				
INVESTMENT EXPENDITURES	\$ 29,550,916	\$ 13,682,559	\$ 43,233,475	7.7%
MEMBER CLAIMS				
ANNUITY PAYMENTS	0	158,350,355	158,350,355	
REFUND PAYMENTS	0	3,908,921	3,908,921	
TOTAL MEMBER CLAIMS	0	162,259,276	162,259,276	91.4%
OTHER CONTINUING APPROPRIATIONS	127,053	152,542	279,595	0.1%
TOTAL CONTINUING APPROPRIATIONS	29,677,969	176,094,377	205,772,346	99.2%
<u>BUDGETED EXPENDITURES</u>				
SALARIES & BENEFITS				
SALARIES	459,625	645,394	1,105,019	
OVERTIME/TEMPORARY	2,950	0	2,950	
FRINGE BENEFITS	142,059	251,966	394,025	
TOTAL SALARY & BENEFITS	604,634	897,360	1,501,994	0.5%
ACCRUED LEAVE PAYMENTS	12,305	24,839	37,144	0.0%
OPERATING EXPENDITURES				
TRAVEL	9,872	16,039	25,911	
IT SOFTWARE & SUPPLIES	1,029	1,259	2,288	
PROFESSIONAL SUPPLIES	343	601	944	
MISCELLANEOUS SUPPLIES	378	321	699	
OFFICE SUPPLIES	263	1,299	1,562	
MAILING SERVICES AND POSTAGE	3,434	36,350	39,784	
PRINTING	1,546	11,598	13,144	
SMALL OFFICE EQUIPMENT	129	431	560	
INSURANCE	197	417	614	
RENT OF BUILDING SPACE	26,353	53,314	79,667	
REPAIRS - OFFICE EQUIPMENT	50	94	144	
IT - DATA PROCESSING	9,463	68,176	77,639	
IT - COMMUNICATIONS	3,411	7,663	11,074	
IT CONTRACTUAL SERVICES	2,086	99,634	101,720	
PROFESSIONAL DEVELOPMENT	3,205	9,045	12,250	
OPERATING FEES & SERVICES	6,281	11,676	17,957	
PROFESSIONAL FEES & SERVICES	2,597	10,665	13,262	
TOTAL OPERATING EXPENDITURES	70,637	328,582	399,219	0.2%
CONTINGENCY	61,987	0	61,987	
SIB EXPENSES ALLOCATED TO TFFR	(182,721)	182,721	0	0.1%
TOTAL BUDGETED EXPENDITURES	566,842	1,433,502	2,000,344	0.8%
TOTAL EXPENDITURES	\$ 30,117,758	\$ 177,527,879	\$ 207,772,690	

**RIO BUDGET REQUEST
2015-2017 BIENNIUM**

	2013-2015 Biennium Approved Budget			FY2014 Actual	2015-2017 Biennium Budget Request			Change from 2013-15 Approved Budget						Increase over "Hold Even Budget" (\$50,863 cost to continue salary increases)	
	TFFR	SIB	RIO Total		TFFR	SIB	RIO Total	TFFR		SIB		RIO Total		\$	%
SALARIES AND BENEFITS	1,967,539	1,876,506	3,844,045	1,539,138	2,126,930	1,997,453	4,124,383	159,391	8.1%	120,947	6.4%	280,338	7.3%	229,475	6.0%
OPERATING EXPENDITURES	773,799	199,525	973,324	399,219	765,026	225,848	990,874	(8,773)	-0.9%	26,323	13.2%	17,550	1.8%	17,550	1.8%
CONTINGENCY	41,000	41,000	82,000	61,987	41,000	41,000	82,000	-	-	-	-	-	-	-	0.0%
TOTAL BUDGET	2,782,338	2,117,031	4,899,369	2,000,344	2,932,956	2,264,301	5,197,257	150,618	3.1%	147,270	7.0%	297,888	6.1%	247,025	5.0%

	\$ Increase from 2013-15	Increase as % of Total Budget
Salary Line Increase	179,475	3.66%
Salary Equity Package	50,000	1.02%
Total IT/Ergo Initiatives	30,910	0.63%
Remaining Operating Decrease	(13,360)	-0.27%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

INTRA-QUARTER MONITORING UPDATE

As of September 19, 2014

STAFFING UPDATE

The Audit Supervisor position is expected to be filled on October 13, 2014, as a written acceptance to RIO's offer of employment was received in September.

The Investment Analyst position is expected to be filled by November 30, 2014, as a written offer of employment was extended by RIO in September.

GOVERNANCE POLICY MONITORING SUMMARY					
POLICY	METHOD	RESPONSIBILITY	FREQUENCY	BOARD ACTION	FOLLOW-UP
ENDS					
Investment Services	External	Investment Consultant	Annual - FYE	N/A	
	Internal	Investment Officer	Quarterly	Accept or Follow-Up	
Retirement Services	External	Actuary	Annual - FYE	N/A	
	Internal	Retirement Officer	Quarterly	Accept or Follow-Up	
EXECUTIVE DIRECTOR LIMITATIONS					
Executive Constraint	Internal	Executive Director	Annual - CYE	Accept or Follow-Up	
	Internal	Audit Supervisor	Quarterly	Accept or Follow-Up	
Staff Relations	Internal	Executive Director	Quarterly	Accept or Follow-Up	
	Internal (External)	Audit Supervisor (SIB)	Annual - CYE	Accept or Follow-Up	
Public Relations	Internal	Executive Director	Annual - CYE	Accept or Follow-Up	
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up	
Budgeting	Direct	Board Review	Biennial	Accept or Follow-Up	
	External	Governor (State Auditor)	Annual - FYE	N/A	
	Internal	Executive Director	Quarterly	Accept or Follow-Up	
Financial Condition	External	External Auditor	Annual - FYE	Accept or Follow-Up	
	Internal	Executive Director	Quarterly	Accept or Follow-Up	
Board Communication	Direct Board Participation	State Investment Board	Annual - CYE	Accept or Follow-Up	
Asset Protection	External	External Auditor	Annual - FYE	N/A	
	Internal	Executive Director	Annual - CYE	Accept or Follow-Up	
Compensation and Benefits	Internal	Executive Director	Annual - CYE	Accept or Follow-Up	
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up	
Conflict of Interest	Internal	Executive Director	Annual - CYE	Accept or Follow-Up	
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up	
Code of Conduct	Internal	Executive Director	Annual - CYE	Accept or Follow-Up	
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up	
Unrelated Business Interests	Internal	Executive Director	Annual - CYE	Accept or Follow-Up	
	Internal	Audit Supervisor	Annual - CYE	Accept or Follow-Up	

Audit Supervisor = Report to State Investment Board Audit Committee with a Summary Report to the SIB

FYE = Fiscal Year End CYE = Calendar Year End N/A = Not Applicable

Proposed by Executive Director on September 26, 2014

MEMORANDUM

TO: STATE INVESTMENT BOARD
FROM: DAVID HUNTER, EXECUTIVE DIRECTOR / CIO
DATE: SEPTEMBER 19, 2014
RE: AWARD RECOGNITION FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (“GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its comprehensive annual financial report for the fiscal year ended June 30, 2013. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

I would like to recognize the RIO financial reporting team for being awarded this prestigious award for the sixteenth consecutive year.



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**North Dakota Retirement
and Investment Office**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

A handwritten signature in black ink, reading "Jeffrey R. Emer". The signature is written in a cursive, flowing style.

Executive Director/CEO