

STATE OF NORTH DAKOTA
DEFINED CONTRIBUTION
PROGRAM

PUBLIC EMPLOYEES
RETIREMENT SYSTEM

Statement of Investment Policy

TABLE OF CONTENTS

	PAGE
INTRODUCTION.....	1
OBJECTIVES	1
SELECTION OF INVESTMENT OPTIONS	2
INVESTMENT CATEGORIES.....	2
REPORTING AND MONITORING PROCEDURES	3
INVESTMENT FUND EVALUATION	4
FORMAL FUND REVIEW.....	5
CLOSED FUNDS.....	5
APPENDIX – BENCHMARKS.....	7

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

INTRODUCTION

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

Objectives of the Plan

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

This Statement of Investment Policy:

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

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

SELECTION OF INVESTMENT OPTIONS

Each investment option offered under the Plan must:

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

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

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

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

INVESTMENT CATEGORIES:

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

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

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

- Stable Value Account
- Fixed Income
- Balanced
- Large Cap Equity
- Mid Cap Equity
- Small Cap Equity
- International Equity
- Asset Allocation

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

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

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

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

REPORTING AND MONITORING PROCEDURES

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

- Open** – Eligible for new investments.
- Closed** – Not eligible for new contributions, not eligible for the establishment of new accounts, and may require the existing accounts be transferred.

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

INVESTMENT FUND EVALUATION

The Board will at least annually review the plan and its investment funds, including investment performance. The investment performance review will include comparisons against the appropriate benchmark indices and peer groups over relevant time frames. The focus of the review will be to ensure that the Board is offering funds with competitive (average or above) performance within each category over reasonable measurement periods, typically encompassing a market cycle (3 to 5 years). The Board will also review the fund's investment style relative to its mandate and the stability of the personnel responsible for investment results. As the investment funds are retail mutual funds, the Board may rely on ratings produced by recognized performance evaluation services to evaluate long-term risk-adjusted performance relative to peers. Except for the annual review, the Board may delegate these duties to its investment sub-committee. The NDPERS Board will make the performance review available for the membership.

For performance benchmarks on current offerings, see *Appendix 1*. Funds meeting performance standards and policy objectives will be designated as open.

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

The Board may place a fund under formal fund review, or immediately close a fund, for any reason, including:

- A. The fund has made significant changes in its investment management, or such change appears imminent;
- B. The fund has had a significant change in ownership or control;
- C. The fund has significantly changed investment focus or has experienced style drift, departing from the investment objectives;

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

- D. The fund has violated a SEC rule or regulation;
- E. The fund has experienced difficulty in transacting trades, fund transfers, or pricing;
- F. The fund has experienced other changes or problems in its procedures, operations, investing, or reporting which, in the Board's view, has or could detract from the objectives of the Plan;
- G. The fund has increased its fees or expenses.
- H. Other reasons the NDPERS Board deems requires such action.

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

FORMAL FUND REVIEW

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

CLOSED FUNDS

When the Board closes a fund it may direct that:

- A.** No new contributions may be made to the fund after a specified date;
- B.** The fund is terminated and participant account balances must be transferred to another fund option.

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

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

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

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

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

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

APPENDIX 1

Defined Contribution Plan Investment Options by Investment Category

Asset Class	Sector	Fund(s)	Benchmark(s)
Balanced	Balanced	T.Rowe Price Capital Appreciation	60% Large Cap Value Fund Universe and 40% Taxable Bond Fund Universe 60% Russell 1000 Value and 40% Barclays Aggregate Bond Index
Large Cap Equities	Value	Hartford Dividend & Growth	Russell 1000 Value Large Cap Value Fund Universe
		T.Rowe Price Equity Income	Russell 1000 Value Large Cap Value Fund Universe
	Blend	Vanguard 500 Index Signal	S&P 500 Large Cap Blend Fund Universe
		Vanguard Dividend Growth	S&P 500 Large Cap Blend Fund Universe
	Growth	Wells Fargo Adv Growth Adm	Russell 3000 growth Large Cap Growth Fund Universe
		Franklin Growth Adv	Russell 1000 growth Large Cap Growth Fund Universe
Mid Cap Equities	Value	RidgeWorth Mid Cap Value Equity I	Mid Cap Value Universe Russell Mid Cap Value
	Blend	Columbia Mid Cap Index A	Mid Cap Blend Universe S & P Mid Cap 400
		ASTON/Fairpointe Mid Cap I	Mid Cap Blend Universe Wilshire 4500 Index
	Growth	Prudential Jennison Mid Cap Growth Z	Mid Cap Growth Universe Russell Mid Cap Growth
Small Cap Equities	Value	Allianz NFJ Small Cap Value	Small Value Universe Russel 2000 Value
	Blend	DFA US Small Cap	Small Cap Blend Universe Russel 2000 Index
	Growth	Brown Capital Mgmt Small Co Inv	Small Cap Growth Universe Russel 2000 Growth

STATE OF NORTH DAKOTA DEFINED CONTRIBUTION PLAN STATEMENT OF INVESTMENT POLICY

Fixed Income	Wells Fargo Stable Return Fund J	3-Month T-Bill Index
	Vanguard Treasury Money Market Fund	3-Month T-Bill Index
	Vanguard Total Bond Fund	Barclays Aggregate Bond Index Taxable Bond Fund Universe
	PIMCO Real Return Admin	Barclays Aggregate Bond Index Taxable Bond Fund Universe
	PIMCO Total Return Bond Fund	Barclays Aggregate Bond Index Taxable Bond Fund Universe
	Prudential High Yield Z	ML High Yield Bond Index High Yield Bond Fund Universe
	Templeton Global Bond Adv	Citi World Govt Bond Index World Bond Fund Universe
Real Estate	Cohen & Steers Realty Shares	FTSE NAREIT All Equity REIT Index Real Estate Fund Universe
International Equities	Mutual Global Discovery Z	MSCI EAFE Index International Stock Fund Universe
	Vanguard Total Intl Stock Index Inv	MSCI EAFE Index International Stock Fund Universe
	Oppenheimer Developing Markets Y	MSCI Emerging Markets Index Diversified Emerging Markets Universe
Asset Allocation	<u>TIAA-CREF Lifecycle Funds</u> Retirement Income Fund 2010 Fund Benchmark 2015 Fund Benchmark 2020 Fund Benchmark 2025 Fund Benchmark 2030 Fund Benchmark 2035 Fund Benchmark 2040 Fund Benchmark 2045 Fund Benchmark 2050 Fund Benchmark 2055 Fund Benchmark 2060 Fund Benchmark	The TIAA-CREF Lifecycle Funds will be benchmarked using the Wilshire 5000 Index, EAFE Index, Aggregate Bond Index, High Yield Index, and 3-Month T-Bill Index. Each fund benchmark will be based on the fund allocation in Domestic Equity, International Equity, Fixed-Income, Inflation Protected Assets, and Short-term Fixed Income stated in the fund prospectus.