

STATE OF NORTH DAKOTA  
PUBLIC EMPLOYEES  
RETIREMENT SYSTEM 401(A)  
DEFINED CONTRIBUTION  
PROGRAM

Statement of Investment Policy

**Board Adopted: June 2022**

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## **INTRODUCTION**

The Public Employees Retirement System Board (Board) hereby adopts this Statement of Investment Policy for the 401(a) Defined Contribution 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 are intended to 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;
- Identify the roles and responsibilities of the Plan fiduciaries;
- 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.

### **PRUDENCE, ETHICS, AND CONFLICTS OF INTEREST**

All fiduciaries involved in the investment process shall act responsibly and without conflict

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with other business or personal interests. The standard of prudence to be applied to the Board of Trustees, Staff, the Investment Sub-committee, the Investment Consultant, each Investment Manager, the Recordkeeper, and each other fiduciaries of the Plan shall be the “prudent investor” rule. This rule requires each fiduciary to manage assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the Plan. In satisfying this standard, the fiduciary shall exercise reasonable care, skill, and caution. A fiduciary’s investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the Plan as a whole.

## **ROLES AND RESPONSIBILITIES**

### **Board of Trustees**

The responsibility for the Plan rests with the NDPERS Board of Trustees (Board). The Board has delegated responsibility for the overall management of the investment program to the Investment Subcommittee. The Committee has delegated day-to-day supervisory and operating responsibilities to NDPERS Staff.

### **Staff**

Staff is responsible for the day-to-day management of the plan; for bringing relevant issues to the attention of the Investment Subcommittee; and for working with various service providers to implement the decisions made by the Investment Subcommittee and Board. Specifically, the staff is responsible for the following:

- Managing and monitoring plan activity;
- Coordinating the Investment Subcommittee meetings, investment manager presentations and discussions, and investment consultant activities, presentations, and discussions with the Investment Subcommittee;
- Identifying issues to be brought before the Investment Subcommittee and preparing

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recommendations to the Investment Subcommittee on those matters;

- Providing information to the plan's recordkeeper as appropriate; and,
- Verifying compliance with guidelines and regulations.

### **Investment Subcommittee**

The Investment Subcommittee (Subcommittee) is broadly responsible to oversee the administration of the plan and the investment of plan assets. Its duties include establishing and reviewing the investment policy as well as making recommendations to the Board. On a quarterly basis, the Subcommittee will review total Plan performance as well as the performance of the underlying investment options.

The Subcommittee will also review the expense ratios of each investment option, as well as all other expense items charged to each investment option to determine whether such expenses are reasonable and appropriate.

### **Investment Consultant**

The primary role of the investment consultant is to assist the Subcommittee and staff in fulfilling their responsibilities by providing information, analysis, and recommendations that support a prudent process. The responsibilities of the investment consultants are as follows:

- Provide perspectives on capital markets;
- Periodically review investment policies and objectives;
- Research and recommend structure and investments that are appropriate in furthering the plan's investment policies and objectives;
- Recommend appropriate performance measures and benchmarks and report on the effectiveness of those adopted;
- Maintain contact with and report on changes within the investment manager

organizations (including the gain or loss of key individuals and accounts);

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- Measure, evaluate, and report investment managers' performance results;
- Monitor recordkeeper and investment option expenses in the context of services provided; and,
- Report quarterly to the Investment Subcommittee.

### **Investment Managers**

The specific duties and responsibilities of each of the Plan's investment managers are to manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective prospectuses, participation agreements or other governing documents (e.g., Investment Management Agreements).

Managers should be responsive to the Subcommittee, consultant, or staff and provide information as necessary.

### **SELECTION OF INVESTMENT OPTIONS**

Each investment option offered under the Plan must:

- Operate under its published prospectus and/or or other governing documents (e.g., Investment Management Agreements);
- 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 risk and performance over a reasonable time frame.
- B.** Investment manager performance and tenure.
- C.** Costs, including the expense ratio and any other fees.
  
- D.** Ownership or key personnel changes.

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- E.** Changes in the decision-making process or investment philosophy.
- F.** Changes in portfolio characteristics that are inconsistent with expectations.
- G.** Involvement in material litigation or fraud

Mutual fund options are selected through a comprehensive search process. 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 risk tolerance and time horizon. (See *Appendix 1* for a classification of the current offerings.)

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 investment options 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 investment option; and,

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(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.

## **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 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 the Investment Sub-committee. The NDPERS Board will make the performance review available for the membership.

- A.** Funds rated as not meeting performance standards and policy objectives will, at the Board's discretion, be placed 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 terminated.
- 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 terminate the fund.

The Board may also place a fund under formal fund review or terminate it for any of the



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following reasons, 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;
- 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.

### **TERMINATED FUNDS**

If the Board terminates a fund it shall:

- 1.** Promptly notify the Plan provider;
- 2.** Promptly notify plan participants who are currently investing in the fund or who have assets in the fund that the Board has terminated the fund as an investment option

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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.

### **TARGET DATE SUITABILITY**

The Committee will engage in periodic evaluation of the Plan's target date fund ("TDF"), by appraising the suitability of the target date glide path based on the Plan' underlying demographics and design. The evaluation process might include the following factors and/or others that the Committee determines appropriate:

- A.** Consideration of how well the TDF's characteristics align with eligible employees' ages and likely retirement as well as other characteristics of the participant population.
- B.** Examination of whether there have been any significant changes in the Plan, the participant population, or the TDF under examination.
- C.** Understanding of the TDF's investments—the allocation in different asset classes (stocks, bonds, cash), individual investments, and how these will change over time.
- D.** Review the TDF's fees and investment expenses.
- E.** Inquiry into whether a custom or non-proprietary TDF would be a good fit for the Plan.

### **SELF-DIRECTED BROKERAGE ACCOUNT PROVIDER SELECTION**

In selecting a self-directed brokerage account provider, the Committee will evaluate and monitor fees, including annual maintenance charges and trading costs. In addition, the self-directed brokerage provider will be required to provide appropriate services, such as

trading, transactional oversight, and customer service. Because the self-directed brokerage

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account is not a designated investment account within the plan, the Committee will not monitor the individual investments or their expenses within the self-directed brokerage account.

### **FEE PAYMENT POLICY**

The Committee will seek to provide participants with access to high-quality investment options with reasonable investment management and administrative expenses relative to services provided.

Investment management expenses will be reviewed periodically to determine whether a lower-cost share class or investment vehicle is available and feasible.

Regarding fees for plan administration:

- Participants will pay for the administration of the Plan, and for their own individual transactions.
- It is the policy of the Committee that excess revenue sharing generated by the Plan's investment options will be reimbursed to participants.
- Float income earned on the invested balances of administrative accounts will be retained by the Plan to reduce expenses charged to participants, net of reasonable investment management expenses.
- Loan, withdrawal, QDRO and other transaction fees will be determined based on the administrative expense of providing these transactions.

The Committee will work with the Investment Consultant to evaluate investment costs and administrative fees on a periodic basis. This information will be benchmarked appropriately.

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**APPENDIX 1**

**457(b) Companion Plan Investment Options by Investment Category**

<b>Fund</b>	<b>Mandate</b>	<b>Benchmark</b>
<b>Balanced</b>		
T.Rowe Price Capital Appreciation	Balanced	S&P 500
<b>Asset Allocation</b>		
TIAA-CREF Lifecycle Fund Series	Target Date Fund	Lifecycle Custom Benchmarks
<b>Large Cap US Equity</b>		
Franklin Growth Fund Advisor	Large Cap Growth	S&P 500
Wells Fargo Growth Adm	All Cap Growth	Russell 3000 Growth Index
Vanguard Dividend Growth Inv	Large Cap Core	S&P U.S. Dividend Growers Index
Vanguard Institutional Index	Passive Large Cap Core	S&P 500
Hartford Dividend and Growth R5	Large Cap Value	S&P 500
T. Rowe Price Equity Income	Large Cap Value	Russell 1000 Value Index
<b>Mid Cap US Equity</b>		
PGIM Jennison Mid-Cap Growth Z	Mid Cap Growth	Russell MidCap Growth Index
Columbia Mid Cap Index Fund A	Mid Cap Core	S&P MidCap 400 Index
Virtus Ceredex Mid-Cap Value I	Mid Cap Value	Russell MidCap Value Index
<b>Small Cap US Equity</b>		
Brown Small Compay Fund Investor	Small Cap Growth	Russell 2000 Growth Index
DFA U.S. Small Cap Inst'l	Small Cap Core	Russell 2000 Index
Northern Small Cap Value Fund	Small Cap Value	Russell 2000 Value Index
<b>Global Equities</b>		
American Funds New Perspective R4	Large Global Growth	MSCI ACWI
Vanguard Total Int'l Stock Adm	International Large Core	FTSE Global All Cap ex US Index
Invesco Developing Markets Y	Emerging Markets	MSCI EM

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<b>Fixed Income</b>		
Vanguard Total Bond Index Adm	Passive Core	Bloomberg Aggregate Flt Adj
Baird Core Plus Bond Investor	Core Plus	Bloomberg Universal
MassMutual Premier Inflation Protection	Inflation Protected	Bloomberg TIPS
PGIM High Yield Fund Z	High Yield	Bloomberg U.S. Corporate High Yield 1% Issuer Capped Index
Templeton Global Bond Advisor	Global	FTSE WGBI
<b>Capital Preservation</b>		
Wells Fargo Stable Value J	Stable Value	3-month Tbill
Vanguard Treasury MM Inv	Money Market	3-month Tbill
<b>Real Estate</b>		
Cohen & Steers Realty Shares	REIT	FTSE NAREIT All Equity Index