

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

Statement of Investment Policy

**Board Adopted: June 2024**

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## **INTRODUCTION**

The Public Employees Retirement System Board of Trustees (Board) hereby adopts this Statement of Investment Policy for the 401(a) Defined Contribution Plan (Plan). This IPS may be modified as needed by action of the Board. The policy identifies a set of investment objectives, guidelines, and performance standards for the investment of the PPlan assets. This Investment Policy Statement (IPS) does not create or imply any contract between the Public Employees Retirement System (PERS) and/or the Board and any participant. If there is any conflict between this IPS and the Plan, the terms and conditions of the Plan will control.

## **Objectives of the Plan**

The Plan is a long-term retirement savings option intended as a source of retirement income for eligible participants and beneficiaries (collectively, "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. The Plan permits Participants to direct the investment of their accounts among a number of pre-selected investment options.

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.

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

All fiduciaries involved in the investment process shall act responsibly and without conflict with other business or personal interests. The standard of prudence to be applied to the Board of Trustees, Staff, the Investment Subcommittee (Subcommittee), the Investment Consultant, each Investment Manager, and 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 Board. The Board has delegated responsibility for the overall management of the investment program to the Investment Subcommittee. The Subcommittee has delegated day-to-day supervisory and operating responsibilities to PERS Staff.

The Board is broadly responsible for oversight of the administration of the Plan and the investment of Plan assets. The responsibilities of the Board, as named fiduciary for the Plan, include:

- Establishing the number and types of investment options available to Plan Participants, including the default investment alternative for Participants who fail to make investment elections;
- Approving investment options within each asset class that it deems appropriate and prudent to make available to Plan Participants;
- Monitoring the performance and continued prudence of the available investment options; and

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- Retaining and monitoring service providers as necessary including, but not limited to, recordkeeper, investment consultants, and investment managers.

### **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 recommendations to the Investment Subcommittee on those matters;
- Providing information to the Plan recordkeeper as appropriate; and,
- Verifying compliance with guidelines and regulations.

### **Investment Subcommittee**

The Subcommittee is broadly responsible to oversee the administration of the Plan and the Plan's investment options. Its duties include establishing and reviewing the investment policy as well as making recommendations to the Board. On a regular basis, the Subcommittee will review the performance of the investment options and make recommendations to the Board regarding retaining or removing 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. The Subcommittee will regularly review, generally annually, the Plan's administrative expenses in the context of services provided and relative to reasonable fees in the market at the time.

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**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 consultant is 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);
- Measure, evaluate, and report investment managers' performance results;
- Monitor recordkeeper and administrative expenses in the context of services provided;
- Monitor investment options' performance and expenses; and,
- Report at least \_\_\_\_ (semiannually?) 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, investment consultant, or staff and provide information as necessary assuming they have a contract with the Plan and are not invested through an omnibus account with the Plan recordkeeper.

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**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.

The Board has chosen to adopt a three-tiered investment structure that provides (1) asset allocation options for “do-it-for-me” Participants; (2) core asset class building blocks that allow “do-it-yourselfer” Participants to create their own asset allocations based on their unique investment profiles; and (3) specialty options for the more investment savvy-Participants.

- Asset Allocation Options offer diversification and professional management. The assets of Participants who do not make an active selection among the available investment options will be placed in the asset allocation options, which are Qualified Default Investment Alternatives (QDIAs), within the meaning of ERISA Section 404(c)(5), even though ERISA does not apply to the Plan.
- Core Investment Options include the basic building blocks Participants need to create a diversified portfolio.
- Specialty Options include Investment funds not considered core.

**SELECTION OF INVESTMENT OPTIONS**

In the event an investment manager search is deemed prudent by the Subcommittee, a “candidate profile” will be created for each search that lists the rationale and objective in addition to any preferences and requirements deemed relevant to the selection of candidates. When selecting investment managers, the Subcommittee will employ a search process as outlined below:

1. Formulation of specific investment manager search criteria that reflect the requirements for the mandate under consideration.

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2. Identification of qualified candidates from the manager search database maintained by a consultant and other sources.
3. Analysis of qualified candidates in terms of:
  - A. Quantitative characteristics (e.g., return, risk, other relevant portfolio characteristics) and fees relative to similar funds or mandates.
  - B. Qualitative characteristics such as key personnel, investment philosophy, and decision-making process.
4. Selection and hiring of finalist candidate based on due diligence reviewed and analyzed by the Subcommittee and Board.

## **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 the goal of allowing Participants the opportunity to save, manage, accumulate, and preserve retirement savings account assets. Except for the annual review, the Board may delegate these duties to the Investment Subcommittee. The Board will make the performance review available for the membership.

## **FORMAL FUND REVIEW**

A formal fund review list will be utilized to identify investments whose performance or other factors are cause for further assessment, possible termination, or other action. When a fund has been placed under formal review, the Board shall monitor the fund, its operations, and its performance.



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The Board may place a fund or Investment Manager on a formal review list or terminate it for any of the following reasons, including:

- A.** Not meeting performance standards and policy objectives;
- B.** Making significant changes in its investment management, or such change appears imminent;
- C.** Incurring a significant change in ownership or control;
- D.** Significantly changing investment focus or has experienced style drift, departing from the investment objectives;
- E.** Violating an SEC rule or regulation;
- F.** Difficulty in transacting trades, fund transfers, or pricing;
- G.** Experiencing 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;
- H.** Increasing its fees or expenses in a manner which is unreasonable in relation to the benchmarks or comparable investment options;
- I.** Insufficient utilization of the investment option by Participants;
- J.** Other reasons the Board deems requires such action.

Funds repeatedly or consistently on the "formal review list" may be candidates for replacement. However, the "formal review list" is only one tool to be used by the Subcommittee in evaluating Investment Managers and/or funds. The placement of an fund on the "formal review list", or the continuation of its presence on the "formal review list", shall not be considered an automatic basis for terminating the fund as an investment choice. Nor is the "formal review list" procedure intended to circumscribe the Subcommittee's ability to terminate investment options without the fund having been on the "formal review list." All relevant facts and circumstances shall be considered in making such decisions.

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.

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**TERMINATED FUNDS**

If the Board terminates a fund it shall:

1. Determine what to do with assets currently in the fund. Generally, Participants will be given an opportunity to direct the investment of their accounts to another investment option under the Plan. Assets that are not directed by Participants will be transferred or “mapped” to an investment option with similar investment goals and risk characteristics that is replacing the terminated fund or to the default option if there will be no similar option after the fund is terminated. This process is intended to substantially follow best practices guidance of ERISA 404(c).
2. Promptly notify the Plan recordkeeper as to the intended actions;
3. With the assistance of the Plan recordkeeper, notify Plan Participants of the upcoming change and any applicable actions to take prior to or after the fund change.

**TARGET DATE SUITABILITY**

The Subcommittee 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’s underlying demographics and design. The evaluation process might include the following factors and/or others that the Subcommittee 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.

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In selecting a self-directed brokerage account provider, the Subcommittee 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 account is not a designated investment account within the Plan, the Subcommittee will not monitor the individual investments or their expenses within the self-directed brokerage account.

**FEE PAYMENT POLICY**

The Board will seek to provide Participants with access to high-quality investment options with reasonable investment management fees and appropriate administrative services at fees reasonable to services provided.

Plan related fees will be reviewed periodically to determine if they are still reasonable and whether opportunities exist to lower costs.

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 Board that excess revenue sharing generated by the Plan's investment options will be reimbursed to Participants.
- Float income and its retention will be outlined in the administrative services agreement with the recordkeeper as part of the contracting process. Participants
- Loan, withdrawal, QDRO and other transaction fees will be determined by the recordkeeper and based on the administrative expense of providing these transactions.

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