



City of Grand Forks
Staff Report

City Council – December 1, 2025

Agenda Item: Defined Benefit Pension Plan – Investment Policy Statement

Submitted by: Maureen Storstad, Finance Director

Staff Recommended Action: Adopt Investment Policy Statement reflecting the change in allocation as a “glide path” toward de-risking of the City’s Defined Benefit pension plan as was approved by City Council on November 3, 2025.

Committee Recommended Action: n/a

Council Action:

BACKGROUND: The City of Grand Forks sponsors a Defined Benefit Pension Plan (DB) for those employees hired prior to January 1, 1996. The City contracts with Deloitte Consulting LLP to prepare an annual valuation report for the plan. Patrick Ecklund and Griffin Lothrop of Deloitte serve as the City’s actuary. The plan is managed by the ND State Investment Board (NDSIB).

The City of Grand Forks was approached by the ND State Investment Board to discuss our current asset allocation. NEPC was hired as a consultant to review pension plans managed by the NDSIB and discussed those results with staff regarding the City of Grand Forks DB Pension plan. This plan is a mature plan, as it was closed in 1996. NEPC & NDSIB worked on a plan with the City of Grand Forks & Deloitte toward de-risking without causing funding concerns.

The City has benefited from recent favorable market performance making the timing of derisking the funding of this plan ideal to secure those gains. The City of Grand Forks has a good history of consistently contributing at a level higher than required. This has also helped place the City in a favorable position. The City of Grand Forks currently budgets roughly \$3.2M annually toward DB pension contributions. This level of funding exceeds the projected amount required in this plan transition.

Administration recommended to the Pension Committee that the City adopt the asset allocation as recommended to the glide path depicted on slide 10 of NEPC/NDSIB's presentation slides.

City Council concurred with staff and the Pension Committee and approved the glide path structure toward de-risking the City's Defined Benefit Pension Plan.

As a follow-up, the action requested on December 1st is to approve the attached Investment Policy Statement drafted by the NDSIB, which reflects this change in asset allocation.

ANALYSIS AND FINDINGS OF FACT:

- The City of Grand Forks has a Defined Benefit Pension Plan for employees hired prior to January 1, 1996.
- As of 1/1/25 there were 374 people in the plan, of which 22 are active employees. A recent look shows we currently have 18 active employees in this plan.
- The Pension and Insurance Committee (PAIC) reviewed the material presented by NEPC/NDSIB & Deloitte at their meeting on October 27, 2025
- PAIC recommends transitioning as the glide path plan recommends derisking the plan as it gets closer to 100% funding level.
- The City currently budgets roughly \$3.2M annually, which exceeds the projected required contributions based on this derisking glide path plan.
- City Council approval is needed to adopt the new asset allocation model.
- City Council approved this change at the November 3, 2025 City Council meeting.
- **Attached is the new Investment Policy Statement reflecting this change, which requires City Council approval.**

SUPPORT MATERIALS:

- 11-3-25 Staff report and attachments from the meeting as listed below:
 - Presentation material from NEPC/North Dakota State Investment Board – Asset Allocation Recommendation
 - Presentation material from Deloitte – Contributions
- **Investment Policy Statement**

Investment Policy Statement

City of Grand Forks Pension Plan

1. Plan and Fund Overview

The City of Grand Forks Pension Fund (the "Fund") is operated by the Grand Forks City Council (the "City Council") pursuant to the authority granted in the Grand Forks City Code Chapter 7.

The City of Grand Forks, North Dakota Pension Plan (the "Plan") is a cost-sharing multiple employer public employee pension plan. All classified employees who earned at least one hour of service prior to January 1, 1996 are eligible to participate in the Plan. Some participants have elected to cease benefit accruals under the Plan as of June 30, 2008 and to participate in the North Dakota Public Employees Retirement System.

Benefit provisions are established by the City Council. The employers contribute such amounts as necessary to provide the promised benefits. The contribution amounts are determined by the annual actuarial valuation report and approved by the City Council.

Client Investment Objectives

Plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The City Council 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 City Council acknowledges the material impact that funding the pension plan has on the City'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 City Council 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 projects.

2. Responsibilities and Discretion of the State Investment Board (SIB)

The State Investment Board (SIB) is established under North Dakota Century Code (“NDCC”) Chapter 21-10. The City Council has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The City Council is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB acts as a fiduciary and must invest, reinvest, and manage such assets in accordance with the Prudent Investor Rule and the policies adopted by each fund’s governing body.

Pursuant to NDCC 21-10-02 and 21-10-02.1, the SIB shall:

- Implement investment policies and asset allocations established by each fund’s governing body.
- Approve investment guidelines, procedures, and permissible securities for the funds under its management.
- Serve as custodian of securities purchased on behalf of such funds or designate a qualified custodian.
- Establish written policies on investment goals, objectives, and asset allocation, including liquidity requirements, diversification, and acceptable levels of risk.
- Develop procedures for the selection, retention, evaluation, and termination of professional money managers, consultants, and custodians.

Delegation and Oversight

The SIB may delegate investment responsibility for all or part of a fund to professional money managers that meet established qualifications. When such delegation occurs, the SIB’s role is supervisory rather than advisory—ensuring that each manager operates within approved guidelines and performance expectations.

The SIB may also pool assets of this Fund with other funds having similar objectives and time horizons to enhance diversification, reduce costs, and improve returns. In pooling fund assets, the SIB must ensure compliance with the Prudent Investor Rule and the objectives of all participating funds.

3. Investment Objectives

The City Council'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.

4. Asset Allocation

The City Council establishes the Fund's asset allocation, with input from consultants and the Retirement and Investment Office (RIO), based on an asset-liability study. Based on the most recent study, the following allocation was established.

	Target Allocation	Minimum Allocation	Maximum Allocation
Global Equity	39.7%	30%	50%
Public Equity	34.7%	29%	41%
Private Equity	5%	0%	10%
Global Fixed Income	45.3%	39%	51%
Long Duration Fixed Income	42.5%	38.5%	47.5%
Private Credit	2.8%	0.5%	5.5%
Global Real Assets	14%	8%	20%
Real Estate	5.8%	0%	11%
Other (Infrastructure/Timber)	8.2%	3%	13%
Cash and Cash Equivalents	1%	0%	2%

Corridor Benchmark/Allocations: Long-term target allocations utilizing alternative asset classes can take several years to implement prudently. To ensure portfolio exposures remain aligned with the Fund's strategic objectives during this period, the SIB may employ

a corridor methodology. Under this approach, allocations to private market asset classes (such as private equity, private credit, or real assets) that cannot be immediately adjusted—due to the illiquid nature of the assets—will be temporarily reallocated to corresponding public market asset classes that serve as suitable proxies. Both the target and ranges are adjusted based on the corridor methodology.

The proxy allocations are utilized such that the overall portfolio continues to reflect, as closely as practical, the intended risk–return characteristics around the long-term targets, until private market commitments are fully funded and capital is called.

Corridor Guidelines:

- Private equity will be proxied with public equity
- Private credit will be proxied with half public equity and half public investment grade fixed income
- Private real assets will be proxied with half public equity and half public investment grade fixed income

Rebalancing: The need to rebalance the portfolio can arise from a new asset allocation or because market activity has driven the actual distribution of assets away from the desired mix. To minimize transaction costs from rebalancing, RIO develops 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 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 and that appropriate rebalancing takes place.

Glide Path: The overall goal of the Plan shall be to manage the assets relative to the liability stream. Since the surplus/deficit of a Plan defines its risk and return characteristics, control of the Plan's asset mix is the principal means of defining the Plan's risk and return parameters. A liability-driven investment ("LDI") glide path has been developed. The LDI glide path provides a systematic process for how the allocation of the Plan's assets should evolve as the Plan's funded status changes. As funded status triggers in the chart below are achieved, the allocation of the Plan's assets should be transitioned to the corresponding asset allocation in the chart. The asset allocation ranges will also be

adjusted to reflect the adjusted allocations. The monitoring of the funded status of the Plan and these funded status triggers will be reviewed on at least an annual basis.

	70-79% Funding	80-84% Funding	85-89% Funding	90-94% Funding	95-99% Funding	>100% Funding
Global Equity	39.7%	38.5%	32%	25.5%	17.3%	10%
Public Equity	34.7%	34.1%	29.1%	24%	16.6%	10%
Private Equity	5%	4.4%	2.9%	1.5%	0.7%	0%
Global Fixed Income	45.3%	52.1%	61.4%	70.7%	80.4%	89%
Intermediate Duration Fixed Income	0%	0%	10%	20%	30%	39%
Long Duration Fixed Income	42.5%	50%	50%	50%	50%	50%
Private Credit	2.8%	2.1%	1.4%	0.7%	0.4%	0%
Global Real Assets	14%	8.4%	5.6%	2.8%	1.4%	0%
Real Estate	5.8%	3.5%	2.4%	1.2%	0.6%	0%
Other (Infrastructure/Timber)	8.2%	4.9%	3.2%	1.6%	0.8%	0%
Cash and Cash Equivalents	1%	1%	1%	1%	1%	1%

5. General Restrictions and Guidelines

While the SIB determines quality, diversification, and performance standards for investments, the following restrictions apply:

- a. Derivatives may be used to manage and replicate systematic exposures, for fund rebalancing, and for risk management, which includes overlays (i.e. cash overlay program).
- b. Derivatives, short selling, and security margining may be used in a manner consistent with approved manager guidelines.
- c. Derivatives use will be monitored to ensure that undue risks are not taken.
- d. No investment may jeopardize the tax-exempt status of the Fund.

- e. All assets must be held by the SIB's master custodian or an approved sub-custodian.
- f. Social Investing is prohibited unless it meets the Exclusive Benefit Rule (NDCC 21-10-08.1).
 - i. Social Investment is defined as "the investment or commitment of public funds for the purpose of obtaining an effect other than a maximized return at a prudent level of risk to the state." (NDCC 21-10-08.1)
- g. Economically Targeted Investing is prohibited unless it meets the Exclusive Benefit Rule.
 - i. Economically Targeted Investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved and create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Exclusive Benefit Rule

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 City Council's policy favors investments that will have a positive impact on the economy of North Dakota.

All investments shall be made in compliance with applicable laws, regulations, and policies governing the State Investment Board.

6. Internal Controls

The SIB shall maintain a system of internal controls designed to prevent loss of funds arising from fraud, error, or mismanagement.

Key controls include the segregation of duties, which ensures that no single individual has authority or control over all phases of an investment transaction. Specifically, the responsibilities for initiating investment purchases, recording and reconciling investment activity, and custodial safekeeping of assets are separated among different staff, functional areas, or service providers to provide independent checks and balances.

Other critical controls include maintaining written or confirmations of all investment transactions and establishing formal criteria for broker relationships and trading counterparties. Annual financial audits will include a comprehensive review of the portfolio, accounting procedures for security transactions, and verification of compliance with this Investment Policy.

7. Evaluation and Review

The Fund's performance will be evaluated against its investment objectives, with emphasis on rolling five-year results. Reports to the City Council (no less than annually) will include:

- i. A list of investment managers and their performance relative to benchmarks
- ii. Earnings, percentage earned, and change in market value of each mandate.
- iii. Current portfolio allocations and performance summaries by asset class
- iv. All material legal or legislative proceedings affecting the SIB.
- v. Compliance with this investment policy statement.

8. Withdrawals

- a. **Routine Withdrawals:** The Client may withdraw up to one and a quarter percent (1.25%) of total fund assets per month with a minimum of three (3) business days' notice, subject to standard settlement timelines.
- b. **Larger Withdrawals:** Withdrawals greater than one and a quarter percent (1.25%) and up to five percent (5%) require fifteen (15) business days' notice to ensure appropriate liquidity planning and transaction coordination. These withdrawals will generally be processed as of month-end, unless otherwise approved by the Chief Financial Officer or Deputy Chief Financial Officer.

- c. **Extraordinary Withdrawals:** Withdrawals greater than five percent (5%) may materially impact the Fund's asset allocation and/or liquidity position. Such withdrawals should be discussed in advance with the Chief Financial Officer or Deputy Chief Financial Officer to determine the appropriate timing and execution plan.

City of Grand Forks Pension Plan

Scott Anderson
Chief Investment Officer
North Dakota Retirement and Investment
Office

Date:

Date:
