

# AGENDA

## NORTH DAKOTA STATE INVESTMENT BOARD MEETING

FRIDAY, JULY 27, 2012, 8:30 AM  
WORKFORCE SAFETY & INSURANCE  
1600 E CENTURY AVE  
BISMARCK ND

- I. APPROVAL OF AGENDA.
- II. APPROVAL OF MINUTES (JUNE 22, 2012).
- III. ELECTION OF OFFICERS (2012-13).
  - A. Chair
  - B. Vice Chair
  - C. Parliamentarian (Appointed by Chair)
- IV. AUDIT COMMITTEE MEMBERSHIP (2012-13) (Board Acceptance Needed) - Ms. Kopp (enclosed)
- V. EDUCATION:
  - A. Brandywine (enclosed) (60 min)
  - B. Global Equity Mandate Structure - Mr. Schulz (to follow) (45 min)
- VI. GOVERNANCE.
  - A. Search Committee Status Report - Lt. Governor Wrigley (enclosed)
  - B. Code of Conduct Certification - Mr. Schulz (enclosed) (5 min)
  - C. Audit Committee Liaison Report (**Board Acceptance Needed**) - Mr. Gessner (enclosed) (5 min)
- VII. INVESTMENTS
  - A. State Street - Mr. Schulz (10 min)
  - B. Tribune Company - Ms. Murtha (10 min)
  - C. Legacy Fund - Mr. Schulz (10 min)
  - D. Tamale RMS - Mr. Schulz (enclosed) (10 min)
- VIII. QUARTERLY MONITORING - 6/30/12 (enclosed). (Questions Only - Board Acceptance) (5 min)
  - A. Executive Limitations/Staff Relations - Ms. Kopp (enclosed).
  - B. Budget and Financial Conditions - Ms. Walcker (enclosed).
  - C. Investment Program - Mr. Schulz (enclosed).
  - D. Retirement Program - Ms. Kopp (enclosed).
- IX. OTHER.

SIB meeting - August 24, 2012, 8:30 a.m. - Peace Garden Room, State Capitol  
SIB Audit Committee meeting - September 28, 2012, 1:00 p.m. - Peace Garden Room, State Capitol
- X. ADJOURNMENT.

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
JUNE 22, 2012 BOARD MEETING**

**BOARD MEMBERS PRESENT:** Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, Vice Chair  
Clarence Corneil, TFFR Board  
Levi Erdmann, PERS Board  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Adam Hamm, Insurance Commissioner  
Howard Sage, PERS Board (teleconference)  
Kelly Schmidt, State Treasurer  
Cindy Ternes, Workforce Safety & Insurance  
Bob Toso, TFFR Board

**STAFF PRESENT:** Connie Flanagan, Fiscal & Investment Officer  
Bonnie Heit, Office Manager  
Fay Kopp, Interim Executive Director  
Leslie Moszer, Compliance Officer  
Darren Schulz, Interim CIO  
Susan Walcker, Investment Accountant

**OTHERS PRESENT:** Jeff Engleson, Land Dept.  
Ben Lazarus, Clifton Group  
Tom Lee, Clifton Group  
Jan Murtha, Attorney General's Office  
Tricia Opp, Procurement Office

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, June 22, 2012, at the Peace Garden Room, State Capitol, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

A revised agenda was provided to the board.

**MS. TERNES MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE REVISED AGENDA.**

**AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. ERDMANN, MR. TOSO, MR. SAGE, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**MINUTES:**

The minutes were considered from the May 18, 2012 meeting.

**COMMISSIONER GAEBE MOVED AND MR. SANDAL SECONDED TO APPROVE THE MAY 18, 2012 MINUTES.**

**AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. CORNEIL, MR. ERDMANN, MR. SANDAL, LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**EDUCATION:**

Clifton Group - Representatives provided an over view of the firm, reviewed the firm's mandates with the SIB, and also reviewed their defensive equity strategy.

**GOVERNANCE:**

Executive Compensation Review Committee - The Executive Compensation Review Committee consisting of Mr. Sandal, Chair, Treasurer Schmidt, and Mr. Toso received direction from the SIB at their May 18, 2012, meeting to review compensation adjustments for the Interim Chief Investment Officer and Interim Executive Director and bring their recommendations back to the SIB. Any adjustments in compensation would be retroactive to June 1, 2012.

The Committee met on June 1, 2012, and recommended Mr. Schulz, Interim Chief Investment Officer, receive a temporary monthly salary increase of 15 percent based on his July 1, 2012, salary retroactive to June 1, 2012. The Committee also recommended Ms. Kopp, Interim Executive Director, receive a temporary monthly salary increase of 7.5 percent based on her July 1, 2012, salary retroactive to June 1, 2012. The Committee is basing their recommendations on the different roles of the two positions in the interim.

After discussion,

**COMMISSIONER GAEBE MOVED AND MR. ERDMANN SECONDED TO ACCEPT THE EXECUTIVE COMPENSATION REVIEW COMMITTEE'S RECOMMENDATION AND GRANT THE INTERIM CHIEF INVESTMENT OFFICER A TEMPORARY 15 PERCENT INCREASE, BASED ON HIS JULY 1, 2012, SALARY, RETROACTIVE TO JUNE 1, 2012. THE COMMITTEE ALSO RECOMMENDED THE INTERIM EXECUTIVE DIRECTOR BE GRANTED A TEMPORARY 7.5 PERCENT INCREASE BASED ON HER JULY 1, 2012, SALARY RETROACTIVE TO JUNE 1, 2012.**

**AYES: MR. CORNEIL, MR. ERDMANN, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, MR. TOSO, AND LT. GOVERNOR WRIGLEY.**

**NAYS: NONE**

**MOTION CARRIED**

Search Committee - Search Committee members consisting of Lt. Governor Wrigley, Chair, Treasurer Schmidt, Commissioner Gaebe, Mr. Sandal, and Mr. Toso were directed by the SIB at their May 18, 2012, meeting to conduct an exit interview with Mr. Geissinger and to bring back their recommendations which they have derived from the interview to assist the SIB in determining what the next steps will be in replacing the Executive Director/CIO of the Retirement and Investment Office (RIO). Discussions with Mr. Geissinger included the current structure of RIO, replacement process of the Executive Director/CIO, recruitment of an Executive Director/CIO versus a CIO. Mr. Geissinger also stated issues in the investment portfolios to monitor in the interim include the international structure, manager consolidations, and the private equity allocation. He also stated the Callan contract needs to be revised to more accurately reflect the

needs of the SIB and staff. The Committee and Mr. Geissinger both concurred that the SIB and RIO are well positioned in the interim. The SIB, as administrative board to RIO, has the time to study and look at the structure of RIO to determine if changes are warranted. The Search Committee's next meeting is scheduled for June 28, 2012. Minutes from the Search Committee's meetings will be distributed to the SIB, PERS, and TFFR boards to keep the entities aware of the process and the discussions that are taking place to give them the opportunity to provide their input.

The Board recessed at 10:00 am and reconvened at 10:10 am.

**INVESTMENTS:**

Blackfriars - Mr. Schulz updated the Board on the Blackfriars transition. At the May 18, 2012, meeting the Board authorized termination of the firm. Mr. Schulz reported a full redemption was entered as of May 31, 2012 based on the value of the assets at the time. The cash proceeds from that liquidation were received on June 8, 2012. Staff is transitioning the assets to The Northern Trust Global Investments who will manage the funds in a passively managed MSCI emerging markets mandate.

Pension Trust Asset Allocation - Ms. Flanagan updated the Board on the Pension Trust asset allocation. All participants in the Pension Trust either have made changes or are in the process of finalizing their asset allocation so all participants have the same format.

Manager Catalog - Ms. Flanagan reviewed a manager catalog which is a reference that lists all of the SIB's current managers and their mandate as well as those that no longer manage funds.

State Street - Mr. Schulz and Treasurer Schmidt conducted a regularly scheduled review with State Street representatives. State Street currently manages an international equity mandate in the Pension Trust. Mr. Schulz and Treasurer Schmidt learned that the current investment process had been changed. State Street's performance has also been a concern and there have been changes in key personnel. Their mandate is to exceed the MSCI EAFE Index by 2-3% which they have failed to do since the inception of the mandate in September 2005. Mr. Schulz recommended State Street be placed under review. State Street will be looked at more closely as Mr. Schulz continues his work on restructuring the international equity portfolio.

**TREASURER SCHMIDT MOVED AND COMMISSIONER HAMM SECONDED TO PLACE STATE STREET UNDER REVIEW DUE TO UNCERTAINTY REGARDING RECENT INVESTMENT PROCESS CHANGES, SUBSTANDARD PERFORMANCE, AND CHANGES IN PERSONNEL.**

**AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, COMMISSIONER GAEBE, MR. SAGE, MR. TOSO, MR. SANDAL, MR. ERDMANN, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

Legacy Fund - Mr. Schulz met with the Legacy and Budget Stabilization Fund Advisory Board on June 18, 2012. Mr. Schulz was asked to provide a summary of the investment history and returns of the Legacy Fund and Budget Stabilization Fund. He was also asked to provide specific recommendations to the Advisory Board regarding asset allocations. Both Mr. Geissinger and Callan Associates were

previously assisting the Advisory Board regarding specific asset allocations because the Legacy Fund was first established in 2010. Mr. Schulz reviewed with the Advisory Board the Legacy Fund mission, objectives, and constraints and also the investment process when formatting an investment policy.

The Board discussed the Advisory Board's role and their relationship to the SIB. Staff will meet with Ms. Murtha to discuss and clarify the role of the SIB as it relates to the Legacy and Budget Stabilization Advisory Board. Staff will follow up with Lt. Governor Wrigley.

Lt. Governor Wrigley left the meeting and Mr. Sandal proceeded over the remainder of the meeting.

Tribune Company - Ms. Murtha updated the Board on the proceedings of the Tribune Company litigation. North Dakota is part of the adversary proceedings relating to the Tribune Company bankruptcy filing. There were a number of state law claims filed across the country that were not part of the proceedings. The various jurisdictions felt a uniform approach to all of the related proceedings would be beneficial to all of the parties involved. The adversary proceedings as well as all of the state law claims were combined into a multidistrict litigation and are now in New York rather than Delaware for better management. North Dakota is still only involved in the adversary proceedings relating to the bankruptcy. Stock holders who received \$50,000 or less from the proceeds of the buyout were dismissed from the action. North Dakota received well in excess of \$50,000 so North Dakota is not dismissed. The stay that had been in place until June has been extended until July. Ms. Murtha will continue to keep the SIB informed.

**TREASURER SCHMIDT MOVED AND MR. ERDMANN SECONDED TO RECEIVE THE REPORTS ON BLACKFRIARS, PENSION TRUST ASSET ALLOCATION, MANAGER CATALOG, AND THE TRIBUNE COMPANY.**

**AYES: MR. SAGE, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. TOSO, MR. ERDMANN, MS. TERNES, COMMISSIONER HAMM, COMMISSIONER GAEBE, AND TREASURER SCHMIDT**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: LT. GOVERNOR WRIGLEY**

The next SIB meeting is scheduled for July 27, 2012, at 8:30 a.m., at Workforce Safety and Insurance, 1600 E. Century, Bismarck ND.

The next SIB Audit Committee meeting is scheduled for June 22, 2012, at 1:00 p.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

**ADJOURNMENT:**

Mr. Sandal adjourned the meeting at 10:55 a.m.

Respectfully Submitted:

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Lt. Governor Wrigley, Chair  
State Investment Board

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Bonnie Heit  
Assistant to the Board

## MEMORANDUM

**TO:** STATE INVESTMENT BOARD

**FROM:** FAY KOPP  
INTERIM EXECUTIVE DIRECTOR

**DATE:** JULY 20, 2012

**RE:** AUDIT COMMITTEE APPOINTMENT

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As directed by SIB Policy B-6, Governance Process/Standing Committees, the Audit Committee shall consist of five members selected by the SIB. Three members of the Audit Committee will represent the three groups on the SIB (TFFR board, PERS board, and the elected and appointed officials). The other two members will be selected from outside of the SIB and will be auditors with at least a Certified Public Accountant (CPA) or Certified Internal Auditor (CIA) designation.

Board representatives for the past year have been:

**Cindy Ternes** (designee for the Director of Workforce Safety & Insurance) representing elected and appointed officials  
**Mike Sandal**, representing PERS  
**Michael Gessner**, representing TFFR

External representatives for the past year have been:

**Rebecca Dorwart**, CPA, CIA

As of June 1, 2012, Rebecca is the Director of Internal Controls for MDU Resources Group, Inc. where she is responsible for the risk assessment of company-wide financial processes and controls and the coordination of the company's Sarbanes-Oxley compliance program. She reports to the Vice President/Chief Financial Officer but also communicates with the Audit Committee of MDU Resources Group's Board of Directors. Prior to her new assignment, she was the Director of Internal Auditing where she managed all internal audit functions of MDU and coordinates the work with the external audit. She directly supervised eleven internal auditors and reported to the Vice President/Chief Financial Officer, President and Chief Executive Officer and the Audit Committee of MDU Resources Group's Board of Directors. She worked for the Montana Office of the Legislative Auditor as a financial compliance auditor for five years before joining MDU Resources Group, Inc. in 1992. At MDU Resources Group, Inc., Becky worked in the Internal Auditing Department until 1997 when she was transferred to Portland, Oregon as General Accounting Manager for International Line Builders, Inc., a MDU acquisition. In 1999, she transferred to Medford, Oregon as Senior Business Development Analyst for Knife River Corporation, working on the merger and acquisition of construction materials related businesses. In February of 2003, she was named Internal Auditing Manager for MDU Resources Group, Inc. She is active in the local chapter of the IIA.

**Lonny Mertz**, CPA, CIA, CFE

Lonny is the Grants Management Specialist for the ND Dept. of Health. His function with the Community Health Section is to administer grants and contracts to local and state agencies. His duties include overseeing a web-based reporting system, expenditure monitoring - guidance and review coordination, and state and federal report preparation. Lonny has worked in state government for more than eighteen years as an auditor and contract manager for the Department of Human Services, the Department of Transportation, Job Service North Dakota, and the Department of Health. A majority of his experience in state government is in the area of program compliance monitoring. He attended Moorhead State University and received a Bachelor of Science Degree with a Major in Accounting and a Minor in Finance. He is a member of the North Dakota Society of CPAs, The Institute of Internal Auditors (IIA), the Central NoDAK IIA Chapter and the Association of Certified Fraud Examiners.

The Committee members have committed to serve again. I recommend that these individuals be reappointed as SIB Audit Committee members for the period of July 1, 2012 - June 30, 2013.



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## North Dakota State Investment Board

Global Opportunistic  
Fixed Income

*July 27, 2012*

### Presented by

**Jack P. McIntyre, CFA**

Portfolio Manager

**Nedra P. Hadley**

Senior Vice President

### Agenda

Firm Overview

Global Fixed Income Opportunity Set

Philosophy & Process

Performance & Attribution

Portfolio Positioning

Global Macro Outlook

Portfolio Holdings

# Who We Are and What Distinguishes Us

As of 3/31/2012

## Brandywine Global<sup>1</sup> is a mid-sized boutique investment firm

- \$37 billion under management in equity and fixed income strategies
- 159 employees worldwide, with headquarters in Philadelphia, an office in San Francisco, a subsidiary in Singapore<sup>2</sup> and an operating unit in London<sup>3</sup>
- All strategies are focused on capturing value anomalies.

## We value individual thought and responsibility

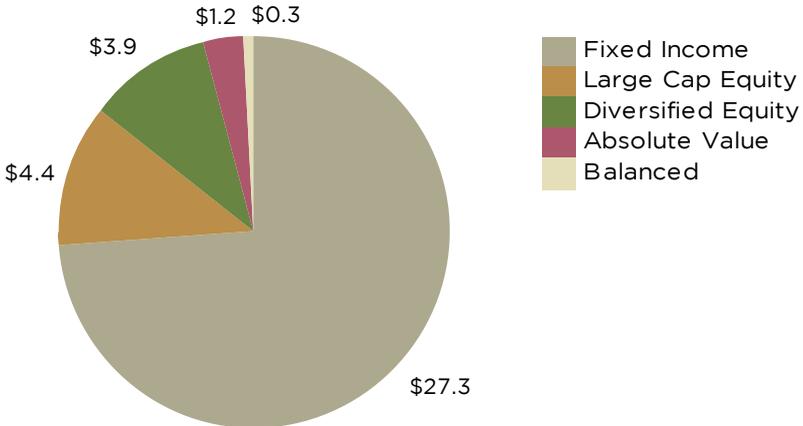
- Culture of partnership and teamwork
- Small teams of experienced, performance-driven investors
- Investment philosophies are tailored to the nature of the asset class.

## Brandywine Global is an independent subsidiary of Legg Mason, Inc.<sup>4</sup>

- Brandywine Global operates as a fully autonomous entity, with complete control over investments, hiring, and compensation.
- Legg Mason provides certain corporate services - such as internal audit, insurance, and international support - aimed at leveraging internal control and cost efficiencies.

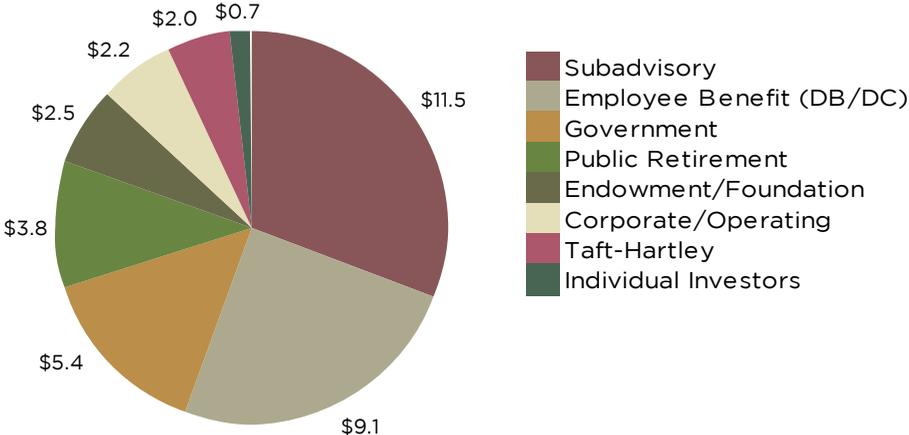
## Assets Under Management

(by strategy type; USD billions)



## Assets Under Management

(by client type; USD billions)



<sup>1</sup>Brandywine Global Investment Management, LLC, formerly known as Brandywine Asset Management, LLC.

<sup>2</sup>Brandywine Global Investment Management (Asia) Pte. Ltd.

<sup>3</sup>Brandywine Global Investment Management (Europe) Limited is authorized and regulated by the Financial Services Authority (the "FSA"). (FRN 472774). Registered in England and Wales, No. 06324517.

<sup>4</sup>As a wholly owned subsidiary of Legg Mason, Brandywine Global is affiliated through common ownership with all of Legg Mason's other subsidiaries and joint ventures. Please refer to Part II of our ADV for a discussion of the affiliates with whom Brandywine Global has a direct business relationship; for example, where we provide advisory services.

# Global Fixed Income Team

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- A focused, cohesive and agile team
  - Over three decades of fixed income experience
  - Jointly responsible for investment policy
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## Portfolio Managers

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### **Stephen S. Smith / Managing Director & Portfolio Manager**

Industry Experience: 35+ years / Joined Brandywine Global: 1991

### **David F. Hoffman, CFA / Managing Director & Portfolio Manager**

Industry Experience: 35+ years / Joined Brandywine Global: 1995

### **Jack P. McIntyre, CFA / Portfolio Manager, Senior Research Analyst**

Industry Experience: 24 years / Joined Brandywine Global: 1998

### **Brian R. Hess / Associate Portfolio Manager, Senior Research Analyst**

Industry Experience: 9 years / Joined Brandywine Global: 2003

## Core Team

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### **Francis A. Scotland / Director of Global Macro Research**

Industry Experience: 34 years / Joined Brandywine Global: 2006

### **Tracy Chen, CFA, CAIA / Senior Research Analyst - Portfolio Manager Mortgage-Backed Securities**

Industry Experience: 14 years / Joined Brandywine Global: 2008

### **Carol Lye / Research Analyst\***

Industry Experience: 5 years / Joined Brandywine Global: 2008

### **Min Tian / Global Macro Research Specialist**

Industry Experience: 5 years / Joined Brandywine Global: 2006

### **Dennis W. Dow / Head Trader, Fixed Income**

Industry Experience: 19 years / Joined Brandywine Global: 2000

### **Renato Latini, CFA / Trader**

Industry Experience: 6 years / Joined Brandywine Global: 2006

### **Travis Crumley / Trader**

Industry Experience: 8 years / Joined Brandywine Global: 2005

### **Kristen Mugan / Trader**

Industry Experience: 5 years / Joined Brandywine Global: 2007

### **Christopher R. Coolidge, CFA / Portfolio Manager, U.S. Fixed Income/Manager, Portfolio Implementation**

Industry Experience: 13 years / Joined Brandywine Global: 2010

## Product Specialists

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### **J. Patrick Bradley / Senior Vice President**

Industry Experience: 30 years / Joined Brandywine Global: 2005

### **Nedra P. Hadley / Senior Vice President**

Industry Experience: 28 years / Joined Brandywine Global: 2003

### **Richard Lawrence / Senior V.P. & Director of Institutional Client Service**

Industry Experience: 26 years / Joined Brandywine Global: 2005

### **John Tsao / Director of Client Service - Singapore \***

Industry Experience: 29 years / Joined Brandywine Global: 2003

### **Edward A. Whitaker, Jr. / Managing Director, International**

Industry Experience: 35+ years / Joined Brandywine Global: 2002

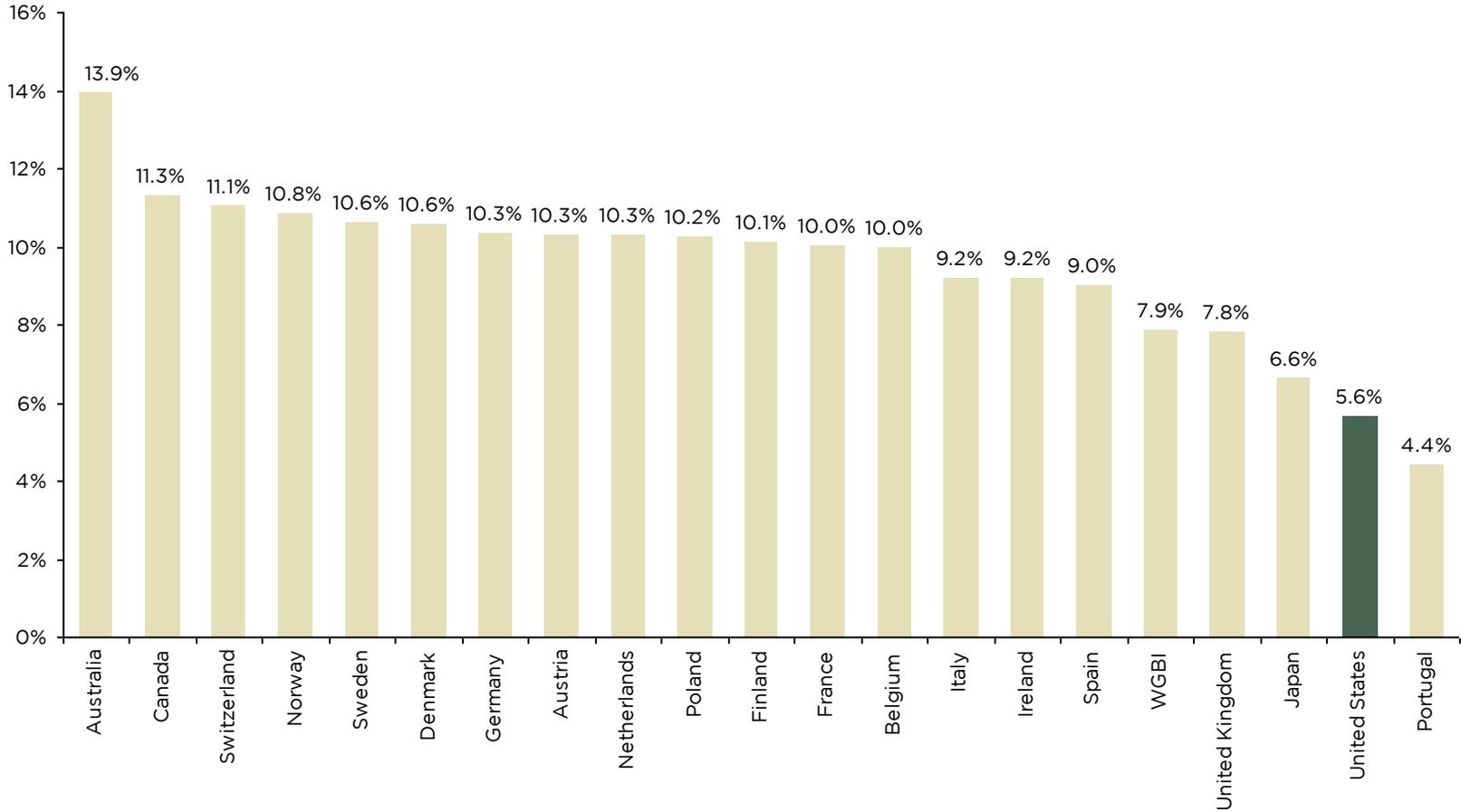
### **Theodore (Tad) W. Fetter / Director of Business Development and Client Service-EMEA**

Industry Experience: 12 years / Joined Brandywine Global: 2006

# Performance Wise, U.S. Is Toward Back of Pack Within Global Bond Universes

January 2002 - March 2012

## Enhancing Returns: 10-year country returns (\$-terms)



Source: Bloomberg – index provider for Citigroup World Government Bond Index which Brandywine believes to be reliable and accurate. Bloomberg provides Brandywine Global with Fixed Income Index returns and characteristics. This data is provided for informational use only. Indices are unmanaged and not available for direct investment. The countries discussed herein should not be perceived as investment recommendations. It should not be assumed that investments in countries listed were or will be prove to profitable, or that the investment decisions will make in the future will be profitable. Country weights with regard to any particular client account may vary based on any investment restrictions applicable to the account. There may be additional risks associated with international investments. International securities may be subject to market/currency fluctuations, investment risks and other risks involving foreign economic, political, monetary, taxation, auditing and/or legal factors. International investing may not be for everyone. Fixed income securities are subject to credit risk and investment. International investing may not be suitable for everyone. **Past performance is no guarantee of future results.**

## Objective – Reducing Additional Credit Risk, Capturing Yield

	S&P Rating	Yield	Spread to U.S. (in basis points)
<b>As of 3/31/2012</b>			
Australia	AAA	3.72	<b>254</b>
Canada	AAA	1.74	<b>57</b>
Denmark	AAA	1.32	<b>15</b>
Finland	AAA	1.48	<b>31</b>
Germany	AAA	1.59	<b>42</b>
Netherlands	AAA	1.53	<b>36</b>
Norway	AAA	1.83	<b>65</b>
Singapore	AAA	0.94	<b>-23</b>
Sweden	AAA	1.67	<b>50</b>
Switzerland	AAA	0.52	<b>-65</b>
United Kingdom	AAA	2.06	<b>89</b>
Austria	AA+	1.98	<b>80</b>
France	AA+	2.00	<b>82</b>
United States	AA+	1.17	<b>0</b>
Belgium	AA	2.61	<b>144</b>
Japan	AA-	0.74	<b>-43</b>
Spain	A	4.10	<b>292</b>
Malaysia	A	3.43	<b>226</b>
Poland	A	4.87	<b>370</b>
Mexico	A-	5.89	<b>472</b>
Ireland	BBB+	5.90	<b>472</b>
Italy	BBB+	4.30	<b>313</b>

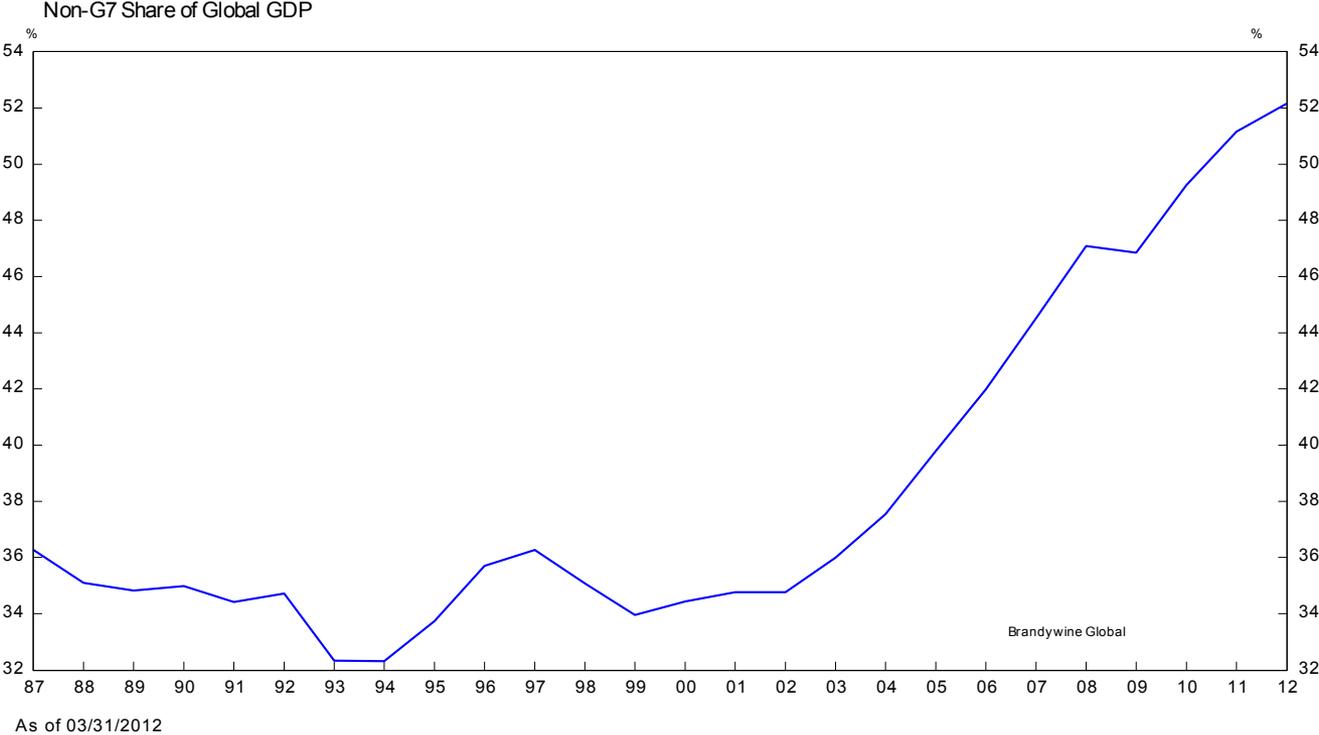
Investment Grade- High Credit worthiness

AAA = Gilt edge, prime, maximum safety

AA = Very high grade, high quality

A = Upper Medium grade

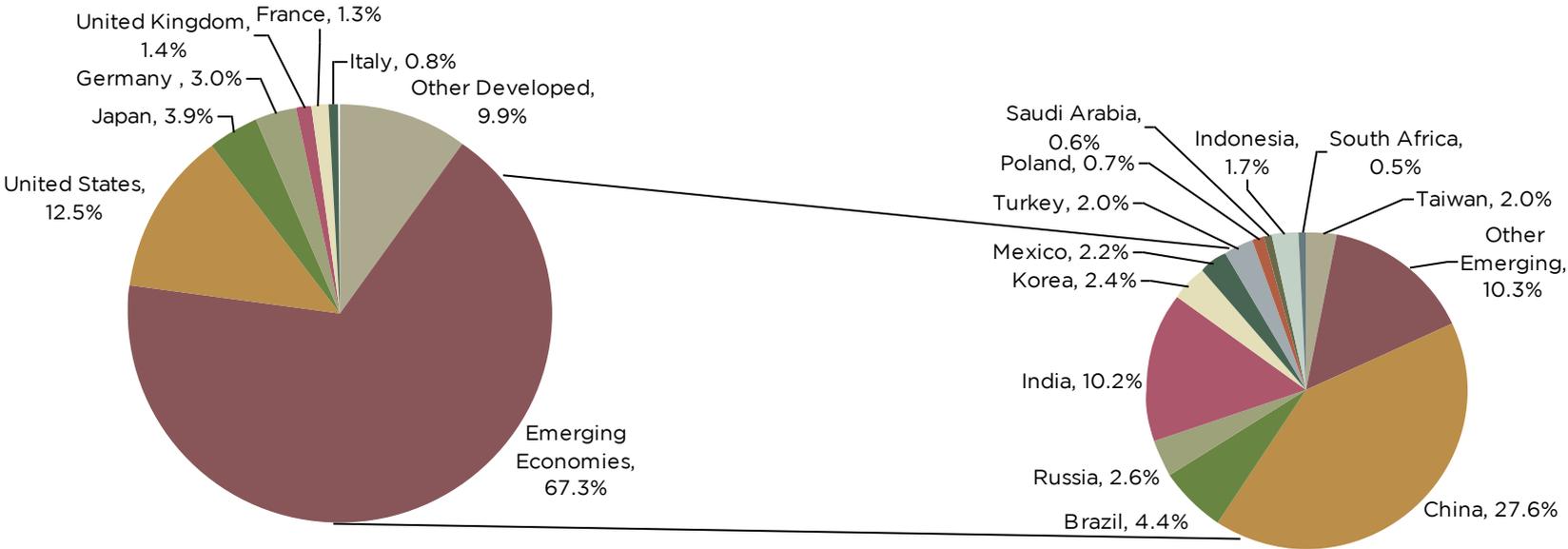
# New Economic Leadership For The Global Economy



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# A Global Rebalancing Is Under Way

**Contribution To World GDP Growth (IMF)  
By Region & Country**

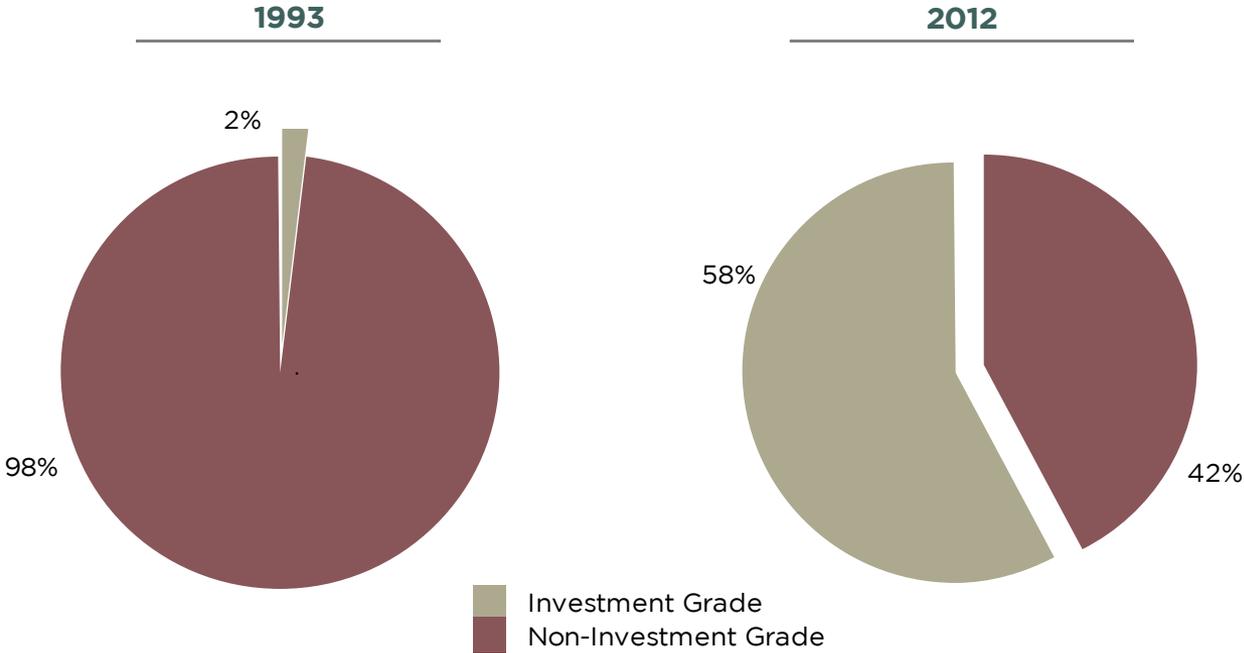


Source: Thomson Datastream, as of 12/31/2010

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# Developing Markets: Improving Credit Quality

Investment-Grade Emerging Debt Markets	S&P Rating
Chile	AA
China	AA-
Malaysia	A
Poland	A
South Africa	A
Brazil	A-
Mexico	A-
Colombia	BBB+
Kazakhstan	BBB+
Peru	BBB+
Russia	BBB+
Bulgaria	BBB
Lithuania	BBB
Tunisia	BBB
Croatia	BBB-
Panama	BBB-
Turkey	BBB-



AA = Very high grade, high quality  
 A = Upper medium grade  
 BBB = Lower medium grade

Source: Bloomberg Finance, LP. Index provider for J.P. Morgan EMBI and S&P Indices. Indices are unmanaged and not available for direct investment. Fixed income securities are subject to credit risk and interest rate risk. International securities may be subject to market/currency fluctuations, investment risks and other risks involving foreign economic, political, monetary, taxation, auditing and/or legal factors. International investing may not be for everyone. International investing may not be suitable for everyone. **Past performance is no guarantee of future results.**

# Investment Philosophy & Goals

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## Basic Tenets of Our Investment Philosophy

- We seek returns in the portfolio by:
  - Investing in bonds with the highest real yields
  - Actively managing currency exposures in order to protect principal and enhance returns
  - Patiently rotating among countries
  - Controlling risk by purchasing undervalued securities

## Investment Goals:

- To outperform an index of developed global bond markets by at least 2% annually over rolling 5 year periods
- To provide long-term returns in excess of the rate of inflation
- To capture interest income and generate principal growth through capital appreciation when market conditions permit

## We Don't Believe In:

- Indexing/"benchmark-hugging"

*The above are the views of Brandywine Global and are not intended as a forecast or guarantee of future results. Brandywine Global's selection process may prove incorrect, which may have a negative impact on performance. International securities may be subject to market/currency fluctuations, investment risks, and other risks involving foreign economic, political, monetary, taxation, auditing and/or legal factors. There may be additional risks associated with international investments. International investing may not be suitable for everyone. Fixed income instruments are subject to credit risk and investment rate risk. Indices are unmanaged and not available for direct investment. **Past performance is not guarantee of future results.***

# Stock Indexes are Merit Based; Bond Indexes are Not

	Stock Indexes	Bond Indexes
Criteria for Admission	<ul style="list-style-type: none"> <li>• Large market capitalization</li> <li>• Large trading volume</li> <li>• Success bias</li> </ul>	<ul style="list-style-type: none"> <li>• Large debt issuance</li> <li>• Maturities &gt; 1 year</li> <li>• No success bias</li> </ul>
Fundamental Paradoxes		
Investor Interests	<ul style="list-style-type: none"> <li>• Aligned with issuer interests</li> <li>• Residual claim on assets</li> </ul>	<ul style="list-style-type: none"> <li>• Aligned against issuer interests</li> <li>• Contractual claim on assets</li> </ul>
Growth Issue	<ul style="list-style-type: none"> <li>• Higher performance expectations lead to an increased weighting in the index</li> </ul>	<ul style="list-style-type: none"> <li>• Overvalued currencies and excessive debt issuance push the benchmark's weighting toward countries with strong currencies and larger debt issuance, away from weaker currencies and low debt issuance</li> </ul>
Duration Issue		<ul style="list-style-type: none"> <li>• Lower yields lead to longer durations</li> <li>• Longer durations imply more interest rate exposure to lower yielding investments</li> </ul>

Examples	Japan* (on 12/31/97)	Italy* (on 4/30/95)
Nominal yield	1.5%	12.7%
Real Yield	-0.6%	7.5
Duration (years)	5.8	3.2

The above are the views of Brandywine Global and are not intended as a forecast or guarantee of future results. Brandywine Global's selection process may prove incorrect, which may have a negative impact on performance..

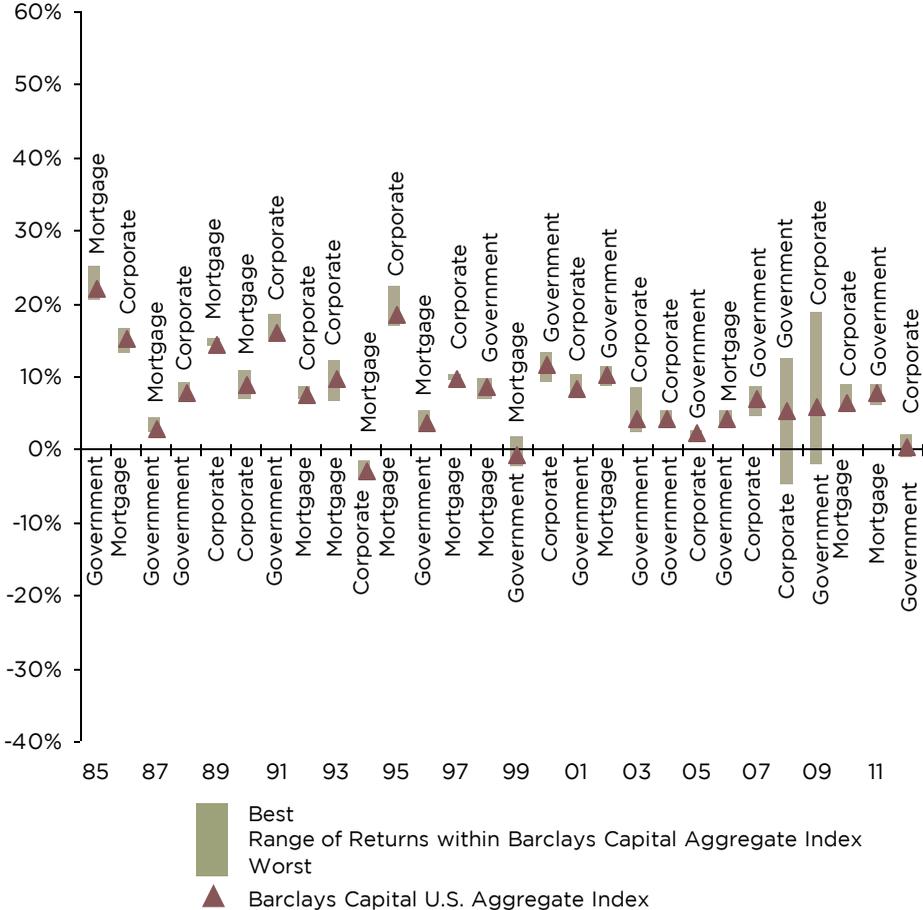
\*Yields and duration of the Japanese and Italian components of the Citigroup 7-10 year World Government Bond Index (WGBI). Please refer to the Performance Disclosure and Footnotes in the Appendix at the end of this presentation for a description of the indices that Brandywine Global uses in connection with this strategy. Indices are unmanaged and not available for direct investment. Data is obtained through Citigroup Inc. ©2011 and is believed to be reliable and accurate. Citigroup provides Brandywine with Fixed Income Index returns and characteristics. This data is provided for informational use only. International securities may be subject to market and currency fluctuations and other investment risks. **Past Performance is no guarantee of future performance.**

# The Better Source of Alpha?

As of 3/31/2012

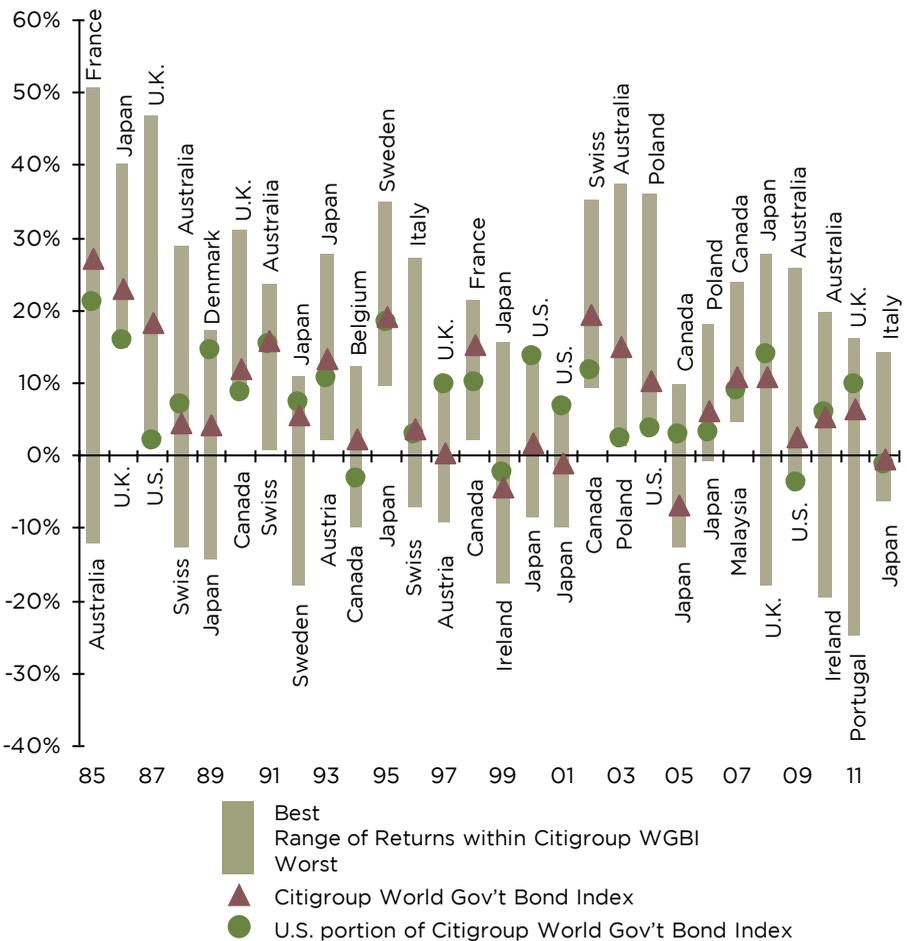
## Domestic Dispersion Chart

- Limited dispersion equals limited opportunity



## Global Bonds are an Opportunity Class

- Bond market returns vary widely across countries over time
- Opportunity to focus on overweighting the countries that are likely to outperform and underweighting those likely to underperform

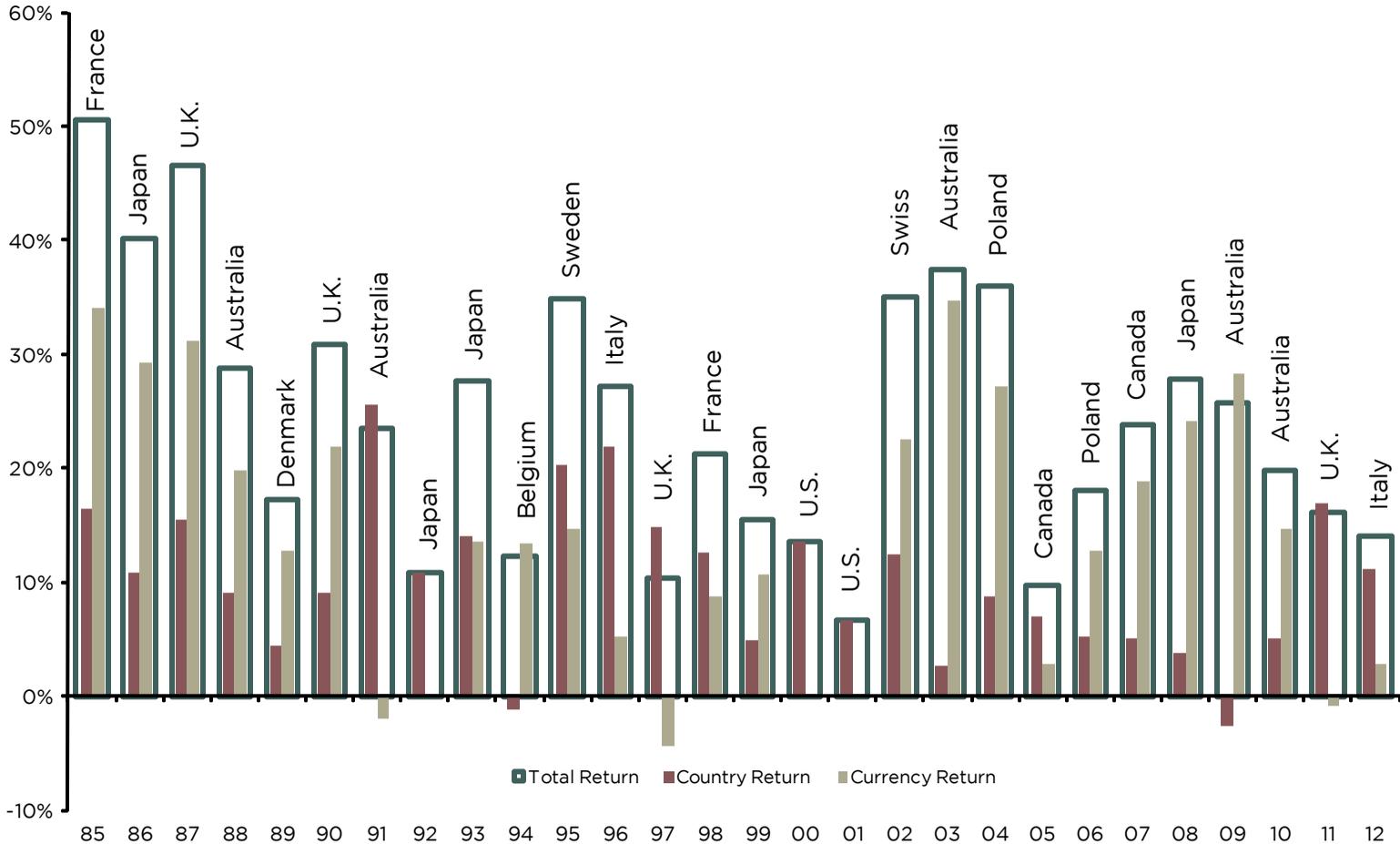


Data is obtained through Thomson Datastream ©2012, which Brandywine Global believes to be reliable and accurate. Thomson Datastream provides Brandywine Global with Fixed Income Index returns and characteristics. This data is provided for informational use only. Please refer to the Performance Disclosure and Footnotes in the Appendix at the end of this presentation for a description of the indices that Brandywine Global uses in connection with this strategy. Indices are unmanaged and not available for direct investment. The countries discussed herein should not be perceived as investment recommendations. It should not be assumed that investments in the countries listed were or will prove to be profitable, or that the investment decisions we make in the future will be profitable. Country weights with regard to any particular client account may vary based on any investment restrictions applicable to the account. International securities may be subject to market and currency fluctuations and other investment risks. **Past performance is no guarantee of future results.**

# Best Performing Countries by Year (Sources of Return)

As of 3/31/2012

Currency and country returns have historically contributed to annual outperformance of the Citigroup WGBI since 1985.

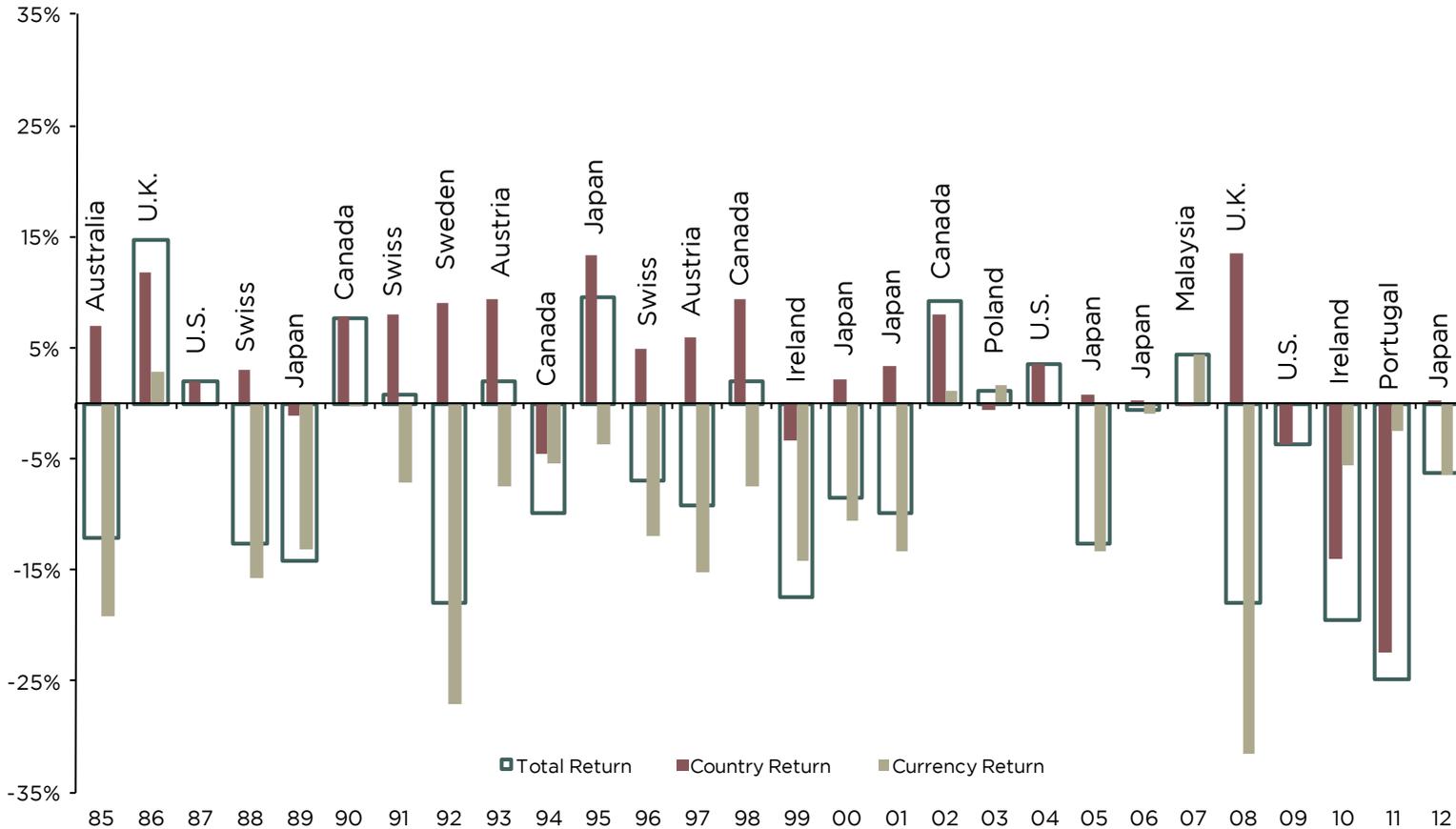


Data is obtained through Bloomberg (©2012, Bloomberg, L.P.), and is believed to be reliable and accurate. This data is provided for informational use only. Please refer to the Performance Disclosure and Footnotes in the Appendix at the end of this presentation for a description of the indices that Brandywine Global uses in connection with this strategy. Indices are unmanaged and not available for direct investment. The countries & currencies discussed herein should not be perceived as investment recommendations. It should not be assumed that investments in the countries & currencies listed were or will prove to be profitable, or that the investment decisions we make in the future will be profitable. Country & currency weights with regard to any particular client account may vary based on any investment restrictions applicable to the account. International securities may be subject to market and currency fluctuations and other investment risks. Fixed income securities are subject to credit risk and interest rate risk. **Past performance is no guarantee of future results.**

# Worst Performing Countries by Year (Sources of Return)

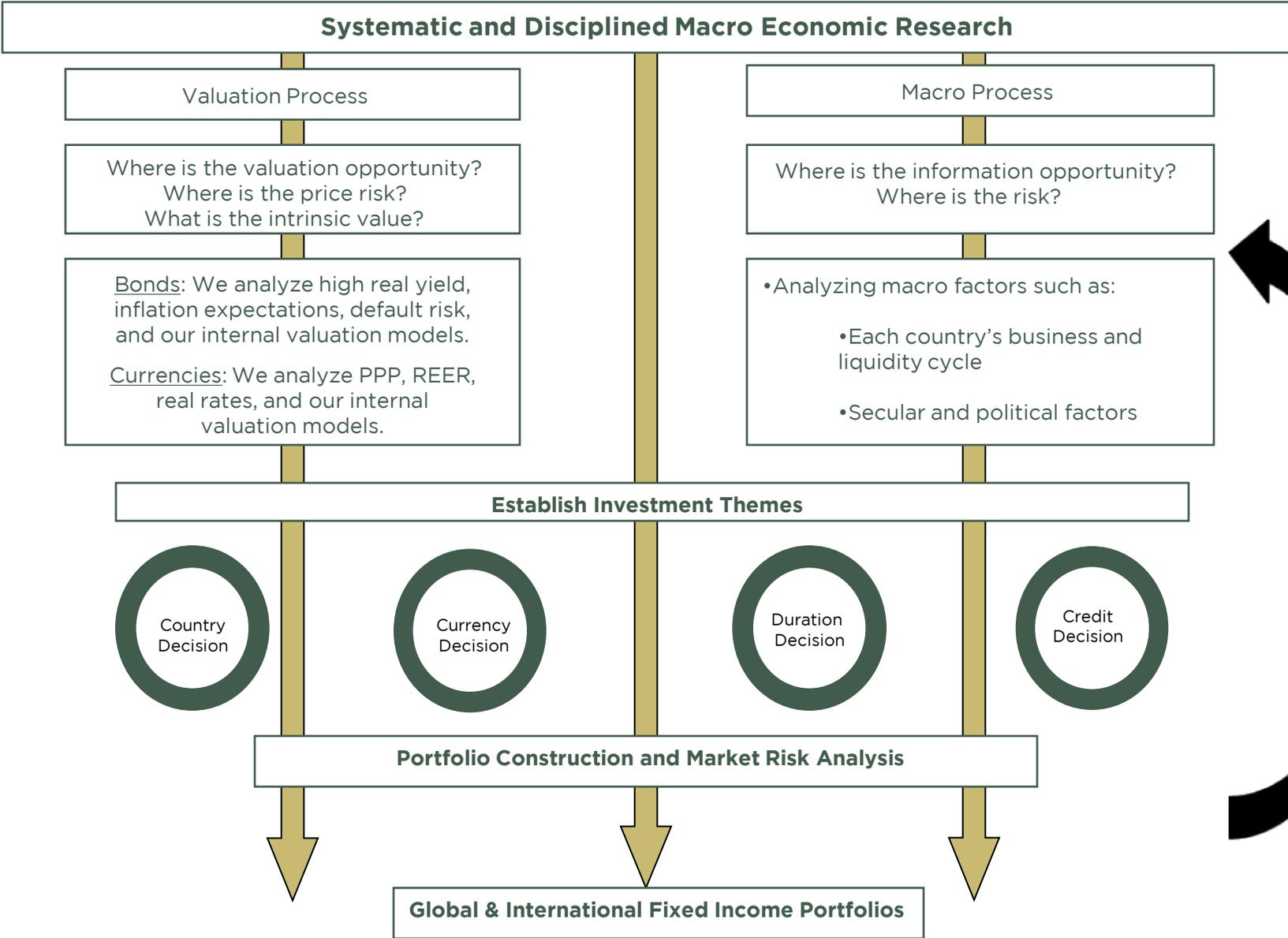
As of 3/31/2012

Negative currency returns have historically contributed to significant underperformance since 1985.



Data is obtained from Bloomberg (©2012, Bloomberg, L.P.), which Brandywine Global believes to be reliable and accurate. This data is provided for informational use only. Please refer to the Performance Disclosure and Footnotes in the Appendix at the end of this presentation for a description of the indices that Brandywine Global uses in connection with this strategy. Indices are unmanaged and not available for direct investment. The countries & currencies discussed herein should not be perceived as investment recommendations. It should not be assumed that investments in the countries and currencies listed were or will prove to be profitable, or that the investment decisions we make in the future will be profitable. Country and currency weights with regard to any particular client account may vary based on any investment restrictions applicable to the account. International securities may be subject to market and currency fluctuations and other investment risks. Fixed income securities are subject to credit risk and interest rate risk. **Past performance is no guarantee of future results.**

# Investment Process Overview



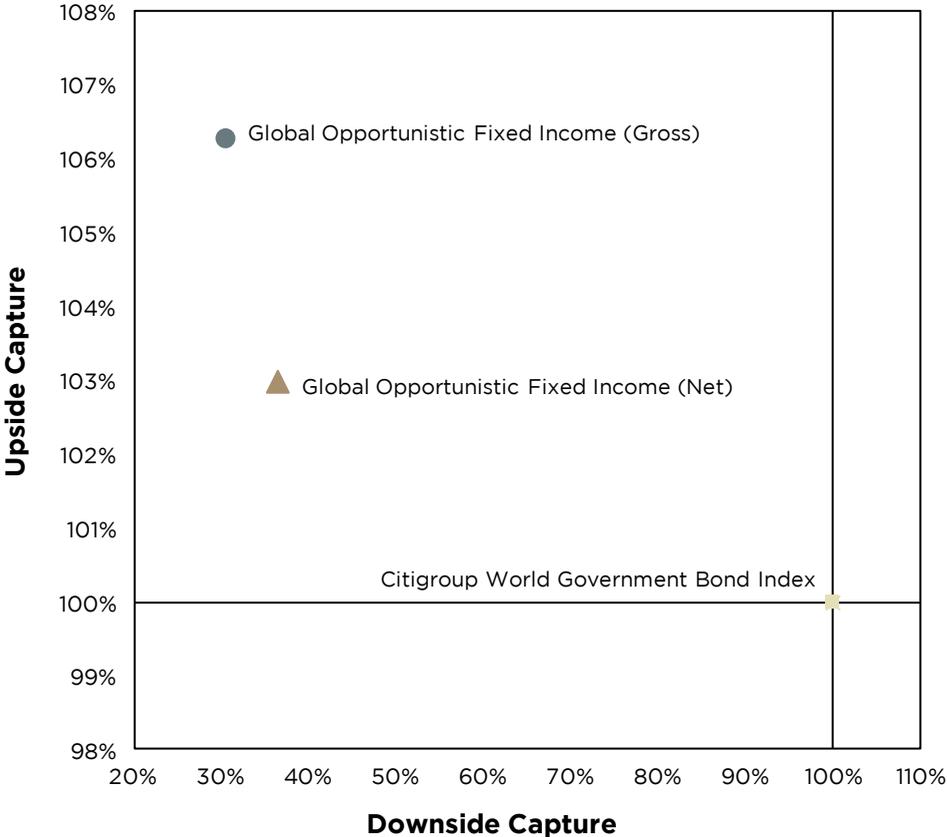
*The views expressed above are those of Brandywine Global Investment Management, LLC, and are not intended as a recommendation, investment advice, forecast or guarantee of future results. It should not be assumed that investment in the regions or currencies listed and account quality ratings or duration ranges were or will prove profitable, or that investment decisions we make in the future will be profitable. International securities and ADRs may be subject to market/currency fluctuations, investment risks, and other risks involving foreign economic, political, monetary, taxation, auditing and/or legal factors. There may be additional risks associated with international investments. International investing may not be suitable for everyone. There is no guarantee that the investment strategy will meet its objective. **Past performance is no guarantee of future results.** 1782*

# A Defensive Style and Strong Performance Are Not Mutually Exclusive\*

As of 3/31/2012

## Upside/Downside Capture

Since January 1998 / Based on Quarterly Returns / Single Computation



By investing in countries with high real (inflation-adjusted) interest rates and appreciating currencies, we've sought to limit risk while producing strong relative returns. Since January 1998, our portfolios (gross of fees):

- Returned 6% more than the market during up periods, and
- Declined 70% less than the market during down periods

\*Supplemental information to the attached Global Opportunistic Fixed Income GIPS-compliant composite. The Upside capture ratio is computed for periods when the market has a positive return. The Downside capture ratio is computed for periods when the market has a negative return. The chart will have crosshairs that provide a basis for comparison by dividing the graph into four quadrants. The crosshairs will be centered at 100%, which is where the benchmark will always fall. Returns are presented gross and net of management fees and include the reinvestment of all income. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net of fee performance was calculated using the highest management fee as described in Part II of the firm's ADV, which is available upon request. Data is obtained through Zephyr StyleADVISOR and Brandywine Global (copyright 2012), which Brandywine Global believes to be reliable and accurate. Zephyr StyleADVISOR provides Brandywine Global with competitor analysis. This data is provided for informational use only. Please refer to the end of this presentation for our GIPS compliant presentations, which include performance footnotes, fee schedules, index descriptions and disclosures. The Citigroup World Government Bond Index (WGBI) measures the performance of fixed-rate local currency investment grade sovereign bonds. This widely adopted benchmark is currently comprised of sovereign debt from 23 countries denominated in 14 currencies. The index was created in 1986 and offers more than 25 years of index history. Indices are unmanaged and not available for direct investment. International securities may be subject to market and currency fluctuations and other investment risks. **Past performance is no guarantee of future results.**

## Performance Summary

	Second Quarter	YTD 2012	1 Year*	3 Year*	5 Year*	Since* Inception (5/6/2003)
<b>NDSIB - Pension Trust (Gross)</b>	<b>2.32%</b>	<b>5.96%</b>	<b>9.60%</b>	<b>13.37%</b>	<b>9.77%</b>	<b>9.26%</b>
Barclays Global Aggregate	0.62%	1.50%	2.73%	6.03%	6.69%	5.65%

\*Periods greater than one year are annualized.

## Portfolio Composition

	Market Value	% of Total
Fixed Income	90,583,058	93.31%
Interest	1,319,154	1.36%
Cash	5,205,512	5.36%
Derivatives	-30,474	-0.03%
Total	97,077,250	100.00%

The information contained in this report is preliminary and may be subject to change pending full reconciliation of the portfolio with the custodial bank.

**For use only in "One-on-One" presentations with institutional investors. Not for distribution to the general public.**

Gross performance returns include transaction costs but do not reflect the deduction of Brandywine Global's management fee. Gross performance returns over one year are annualized and assume the reinvestment of all dividends, interest, and capital gains. A client's return will be reduced by the advisory fees and other expenses incurred as a client. Please refer to Part II of Brandywine Global's Form ADV for a description of its advisory fees. As fees are deducted quarterly, the compounding effect will be to increase the impact of fees by an amount directly related to the gross account performance. For example, on an account with an annual 0.70% fee, if the gross performance is 10%, the compounding effect of the fees will result in net performance of approximately 9.23%, annually. Indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results. Please compare the information that you receive in this report with the information that you receive from your custodian, and contact any member of your Brandywine Global team or call your custodian if you have any questions or concerns.

## Global Opportunistic Fixed Income

From 12/30/2011 To 6/29/2012

Portfolio Benchmark: Barclays Global Aggregate  
 Portfolio Return: 5.96  
 Benchmark Return: 1.50

**Gross Excess Return: 4.46**

(A: Currency Excess +  
 B: Bonds Excess +  
 C: Other)

Currency	Relative Weight	Gross Excess Return From Currency
JAPANESE YEN	-20.30	0.75
EURO	-23.80	0.56
NEW TURKISH LIRA	4.35	0.48
MEXICAN PESO	9.87	0.26
HUNGARIAN FORINT	4.16	0.24
AUSTRALIAN DOLLAR	-0.80	-0.21
POLISH ZLOTY	5.93	0.15
BRITISH POUND STERLING	9.48	0.12
Other Currencies	11.23	0.09
<b>Total</b>		<b>2.44 <sup>A</sup></b>

Bonds	Relative Weight	Gross Excess Return		
		Duration/ Term Structure	+ Sector / Selection/Other	= Total Bond Factors
MEXICO	9.77	0.95	0.22	1.17
UNITED STATES Corp	7.90	0.20	0.43	0.62
AUSTRALIA	8.13	0.32	0.14	0.46
BRAZIL	3.88	0.16	0.29	0.45
UNITED STATES Tsy-Sov	-0.98	-0.55	0.11	-0.44
POLAND	5.84	0.27	0.15	0.42
HUNGARY	3.62	0.26	0.08	0.34
UNITED STATES Muni	2.23	0.04	0.29	0.33
Other Markets	-38.16	-0.37	-0.54	-0.91
<b>Total</b>		<b>1.28</b>	<b>+ 1.17</b>	<b>= 2.45 <sup>B</sup></b>
<b>Other</b>				<b>-0.42 <sup>C</sup></b>

Due to methodology differences, the returns calculated by the attribution system may differ from the official portfolio and benchmark returns displayed at the top of the page. The differences are captured in the "Other" line at the bottom of the page. **This material is intended for the sole use of Brandywine Global clients and their investment consultants. Contents herein should be treated as confidential and proprietary information. This material may not be reproduced or used in any form or medium without express written permission. Data is obtained through Wilshire Axiom and is believed to be accurate. Past performance is no guarantee of future results.**

Global Opportunistic Fixed Income

From 6/30/2011 To 6/29/2012

Portfolio Benchmark: Barclays Global Aggregate  
 Portfolio Return: 9.60  
 Benchmark Return: 2.73

**Gross Excess Return: 6.88**

(A: Currency Excess +  
 B: Bonds Excess +  
 C: Other)

Currency	Relative Weight	Gross Excess Return From Currency
EURO	-23.80	3.46
POLISH ZLOTY	5.93	-1.05
MEXICAN PESO	9.87	-0.85
SOUTH AFRICAN RAND	3.73	-0.55
HUNGARIAN FORINT	4.16	-0.43
AUSTRALIAN DOLLAR	-0.80	-0.42
SOUTH KOREA WON	3.62	-0.27
CHINESE YUAN RENMINBI	0.00	0.25
Other Currencies	-2.60	-0.75
<b>Total</b>		<b>-0.62 <sup>A</sup></b>

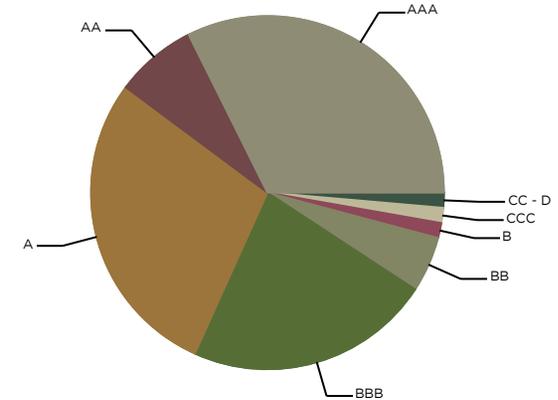
Bonds	Relative Weight	Gross Excess Return		
		Duration/ Term Structure	+ Sector / Selection/Other	= Total Bond Factors
UNITED STATES Tsy-Sov	-0.98	2.91	0.32	3.23
MEXICO	9.77	1.08	0.53	1.61
UNITED STATES Corp	7.90	1.29	0.18	1.47
AUSTRALIA	8.13	0.94	0.12	1.06
BRAZIL	3.88	0.36	0.54	0.90
UNITED STATES Muni	2.23	0.38	0.20	0.58
POLAND	5.84	0.26	0.31	0.57
JAPAN	-20.00	-0.32	-0.25	-0.57
Other Markets	-14.54	22.90	-23.17	-0.27
<b>Total</b>		<b>29.80</b>	<b>+ -21.23</b>	<b>= 8.58 <sup>B</sup></b>
<b>Other</b>				<b>-1.09 <sup>C</sup></b>

Due to methodology differences, the returns calculated by the attribution system may differ from the official portfolio and benchmark returns displayed at the top of the page. The differences are captured in the "Other" line at the bottom of the page. **This material is intended for the sole use of Brandywine Global clients and their investment consultants. Contents herein should be treated as confidential and proprietary information. This material may not be reproduced or used in any form or medium without express written permission. Data is obtained through Wilshire Axiom and is believed to be accurate. Past performance is no guarantee of future results.**

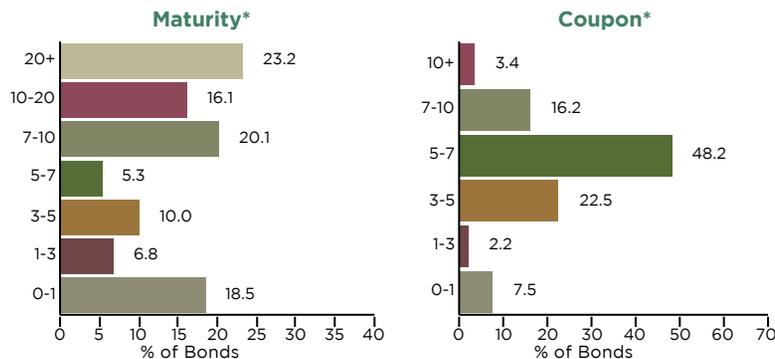
Portfolio Characteristics	Portfolio	Barclays Global Aggregate
# of Issues*	66	13,911
Average Market Price*	108.95	107.56
Average Maturity*	11.64	7.61
Modified Duration	6.38	5.80
Effective Duration	6.24	5.90
Average Coupon*	5.54%	3.47%
Current Yield	4.49%	3.23%
Yield to Maturity	4.19%	2.04%

**Portfolio Credit Quality (Blended Weighted Average Rating)**

Combined Rating	%	Cum. %
AAA	32.9	32.9
AA	7.6	40.5
A	28.9	69.4
BBB	22.9	92.2
BB	5.2	97.4
B	1.2	98.7
CCC	0.7	99.4
CC - D	0.6	100.0



Average Quality: A+



**NRSRO Credit Quality Breakdown**

Moody's Rating	%	Cum. %	S&P Rating	%	Cum. %
Aaa	34.8	34.8	AAA	11.9	11.9
Aa	5.6	40.5	AA	22.5	34.4
A	27.1	67.6	A	31.4	65.8
Baa	24.7	92.2	BBB	9.1	74.9
Ba	5.1	97.3	BB	5.1	80.0
B	1.4	98.7	B	0.8	80.8
Caa	0.9	99.6	CCC	0.7	81.5
N/R	0.4	100.0	CC - D	0.6	82.1
			N/R	17.9	100.0

Average Quality: A1

Average Quality: BBB+

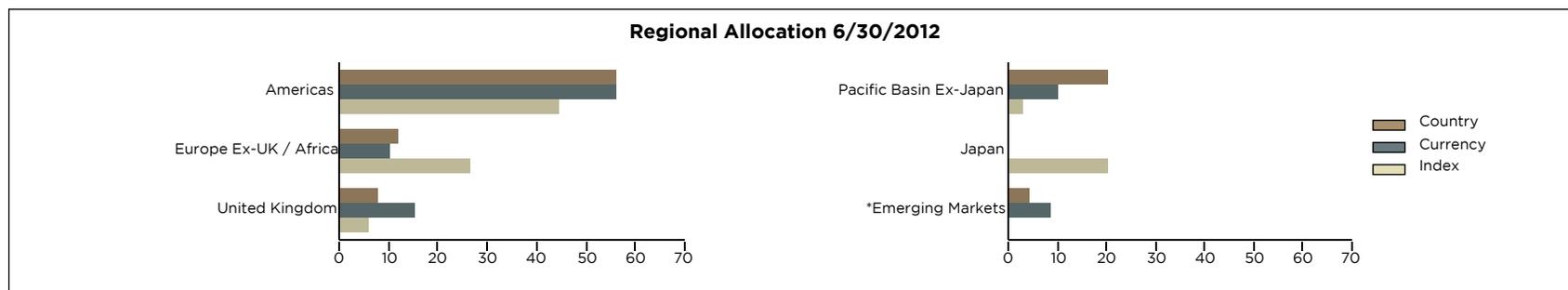
Type	Classification Summary	%	Value
Securities		93.3	90,583,058
Interest		1.4	1,319,154
Cash		5.4	5,205,512
Currency Derivatives P&L		0.0	-30,474
Total: (ex Currency Derivatives)		100.0	97,107,724
Total:		100.0	97,077,250

\*Denotes calculations that include only fixed income and short-term securities.

All averages are US DOLLAR - weighted by the net market value. Average Market Price includes accrued interest. NRSRO stands for "Nationally Recognized Statistical Rating Organization." The "Blended Weighted Average Rating" is determined as follows: In line with the methodology used by Barclays Capital Global indices, the middle rating from the three rating agencies (S&P, Moody's, and Fitch) will be assigned to each security. In the event that ratings are provided by only two agencies, the lowest rating will be assigned. If only one agency assigns a rating, that rating will be applied. The equivalent numerical rating is assigned to each security based on the Security Level scale. A Portfolio Level scale is applied on the weighted average calculation to round for fractional numerical ratings and then converted to an alpha weighted average rating. Cash is included and receives the highest rating.

\*\*\*Denominated in US DOLLAR\*\*\*

Country Allocation	6/30/2012			3/31/2012		Currency Allocation	6/30/2012			3/31/2012	
	Portfolio	Index	Active	Portfolio	Change		Portfolio	Index	Active	Portfolio	Change
JAPAN	0.00	20.29	-20.29	0.00	0.00	EURO	0.00	23.80	-23.80	0.00	0.00
MEXICO	10.17	0.58	9.60	9.32	0.85	JAPANESE YEN	0.00	20.30	-20.30	0.00	0.00
AUSTRALIA	9.41	1.58	7.83	8.42	0.99	MEXICAN PESO	10.17	0.30	9.87	9.32	0.85
POLAND	6.18	0.37	5.81	5.46	0.71	BRITISH POUND STERLING	15.26	5.78	9.48	15.87	(0.61)
FRANCE	0.00	5.80	-5.80	0.00	0.00	POLISH ZLOTY	6.18	0.25	5.93	5.46	0.71
GERMANY	1.29	5.91	-4.62	1.30	(0.01)	*NEW TURKISH LIRA	4.35	0.00	4.35	4.51	(0.16)
MALAYSIA	4.40	0.24	4.16	4.63	(0.22)	MALAYSIAN RINGGIT	4.40	0.19	4.21	4.63	(0.22)
*HUNGARY	4.16	0.01	4.16	3.62	0.54	*HUNGARIAN FORINT	4.16	0.01	4.16	3.62	0.54
UNITED STATES	40.42	36.30	4.13	42.99	(2.57)	SOUTH AFRICAN RAND	4.00	0.27	3.73	3.68	0.31
SOUTH AFRICA	4.00	0.30	3.70	3.68	0.31	SOUTH KOREAN WON	4.56	0.94	3.62	4.61	(0.05)
ITALY	0.00	3.66	-3.66	0.00	0.00	BRAZILIAN REAL	3.46	0.00	3.46	0.41	3.05
BRAZIL	3.87	0.37	3.50	4.00	(0.13)	CHILEAN PESO	3.24	0.01	3.23	3.45	(0.21)
SOUTH KOREA	4.56	1.13	3.43	4.61	(0.05)	CANADIAN DOLLAR	0.00	2.81	-2.81	0.00	0.00
SPAIN	0.00	2.56	-2.56	0.00	0.00	US DOLLAR	39.13	41.40	-2.28	40.70	(1.57)
NETHERLANDS	0.00	2.02	-2.02	0.00	0.00	AUSTRALIAN DOLLAR	0.56	1.36	-0.80	0.25	0.31
CANADA	1.49	3.48	-2.00	1.56	(0.08)	SWISS FRANC	0.00	0.73	-0.73	0.00	0.00
SUPRANATIONAL	0.00	1.93	-1.93	0.00	0.00	SWEDISH KRONA	0.00	0.62	-0.62	0.00	0.00
NEW ZEALAND	1.93	0.14	1.79	1.92	0.01	NEW ZEALAND DOLLAR	0.54	0.12	0.41	0.48	0.05
UNITED KINGDOM	7.81	6.19	1.62	8.11	(0.30)	DANISH KRONE	0.00	0.37	-0.37	0.00	0.00
SWEDEN	0.00	1.02	-1.02	0.00	0.00	THAI BAHT	0.00	0.22	-0.22	0.00	0.00
BELGIUM	0.00	0.96	-0.96	0.00	0.00	SINGAPORE DOLLAR	0.00	0.16	-0.16	3.01	(3.01)
AUSTRIA	0.00	0.89	-0.89	0.00	0.00	NORWEGIAN KRONE	0.00	0.13	-0.13	0.00	0.00
LUXEMBOURG	0.36	0.08	0.27	0.37	(0.01)	CZECH KORUNA	0.00	0.12	-0.12	0.00	0.00
OTHER COUNTRIES	0.00	4.20	-4.20	0.00	0.00	ISRAELI SHEKEL	0.00	0.11	-0.11	0.00	0.00
Currency Forwards P&L	-0.03	0.00	-0.03	0.01	(0.04)	OTHER CURRENCIES	0.00	0.01	-0.01	0.00	0.00
<b>Total:</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>	<b>0.0</b>	<b>Total:</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>100.0</b>	<b>0.0</b>



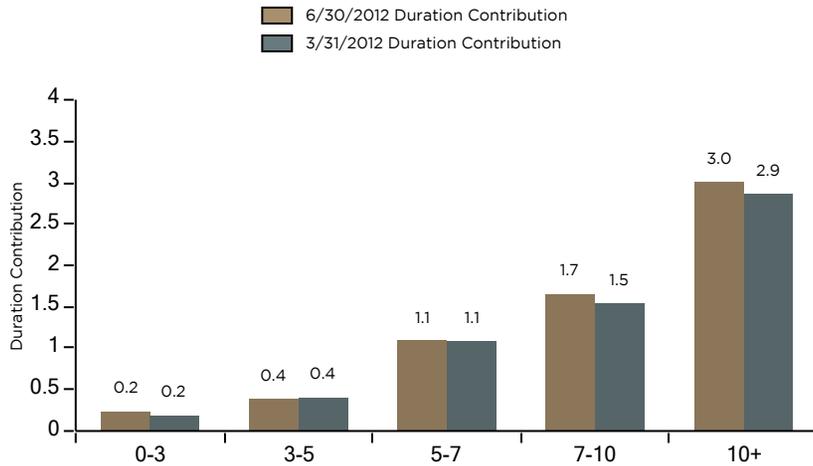
\*Emerging Markets are defined as markets with local currency long-term debt rating below A- (or the equivalent) assigned by all NRSROs that provide such a rating. NRSRO means one of the following Nationally Recognized Statistical Rating Organizations: Standard & Poor's Ratings Services, Moody's Investors Service and Fitch, Inc.

Portfolio Characteristics	6/30/2012	3/31/2012	
	Portfolio	Portfolio	Change
Modified Duration	6.38	6.09	0.29

Duration Contribution (by Country)

Country	6/30/2012			3/31/2012	
	Portfolio	Index	Active	Portfolio	Change
JAPAN	0.00	1.44	-1.44	0.00	0.00
UNITED STATES	3.22	1.81	1.42	3.22	0.00
MEXICO	1.01	0.04	0.97	0.87	0.14
UNITED KINGDOM	0.05	0.52	-0.47	0.07	(0.02)
POLAND	0.44	0.02	0.42	0.40	0.04
AUSTRALIA	0.44	0.07	0.37	0.38	0.06
FRANCE	0.00	0.34	-0.34	0.00	0.00
SOUTH AFRICA	0.32	0.02	0.30	0.28	0.04
GERMANY	0.08	0.32	-0.24	0.08	(0.00)
ITALY	0.00	0.20	-0.20	0.00	0.00
CANADA	0.04	0.23	-0.19	0.04	(0.00)
BRAZIL	0.21	0.02	0.18	0.22	(0.01)
SOUTH KOREA	0.21	0.05	0.16	0.22	(0.01)
*HUNGARY	0.14	0.00	0.14	0.12	0.02
NEW ZEALAND	0.13	0.01	0.13	0.13	(0.00)
SPAIN	0.00	0.11	-0.11	0.00	0.00
NETHERLANDS	0.00	0.11	-0.11	0.00	0.00
SUPRANATIONAL	0.00	0.10	-0.10	0.00	0.00
BELGIUM	0.00	0.06	-0.06	0.00	0.00
MALAYSIA	0.06	0.01	0.05	0.03	0.03
AUSTRIA	0.00	0.05	-0.05	0.00	0.00
SWITZERLAND	0.00	0.04	-0.04	0.00	0.00
SWEDEN	0.00	0.04	-0.04	0.00	0.00
DENMARK	0.00	0.03	-0.03	0.00	0.00
FINLAND	0.00	0.02	-0.02	0.00	0.00
LUXEMBOURG	0.02	0.00	0.02	0.02	(0.00)
NORWAY	0.00	0.02	-0.02	0.00	0.00
*IRELAND	0.00	0.02	-0.02	0.00	0.00
THAILAND	0.00	0.01	-0.01	0.00	0.00
SINGAPORE	0.00	0.01	-0.01	0.00	0.00
OTHER COUNTRIES	0.00	0.08	-0.08	0.00	0.00
<b>Total:</b>	<b>6.38</b>	<b>5.80</b>	<b>0.58</b>	<b>6.09</b>	<b>0.29</b>

Duration Contribution Breakdown



Sector Breakdown	%	Modified Duration	Duration Contribution
Government Regional Agencies	9.41	4.69	0.44
Government Regional Authority	1.49	2.71	0.04
Municipal Bonds	2.23	15.64	0.35
Government Sovereign	59.65	6.18	3.68
Government Sovereign Agency	1.29	5.99	0.08
Corporate Bond - Investment Grade	17.01	9.59	1.63
Corporate Bond - High Yield	2.09	5.03	0.10
MBS Non-Agency	1.51	3.75	0.06
Cash	5.36	0.00	0.00
Currency Forwards	-0.03	0.00	0.00
<b>Total:</b>	<b>100.00</b>	<b>6.38</b>	<b>6.38</b>

\*Emerging Markets are defined as markets with local currency long-term debt rating below A- (or the equivalent) assigned by all NRSROs that provide such a rating. NRSRO means one of the following Nationally Recognized Statistical Rating Organizations: Standard & Poor's Ratings Services, Moody's Investors Service and Fitch, Inc.

## Global Macro Overview

3<sup>rd</sup> Quarter 2012

Presented by

**Jack McIntyre, CFA**

Portfolio Manager



**Brandywine Global Investment Management, LLC**  
2929 Arch Street, 8th Floor / Philadelphia, PA 19104

North America 800 348 2499 / 215 609 3500  
Asia 65 6536 6213  
Europe 44 (0) 207 786 6360

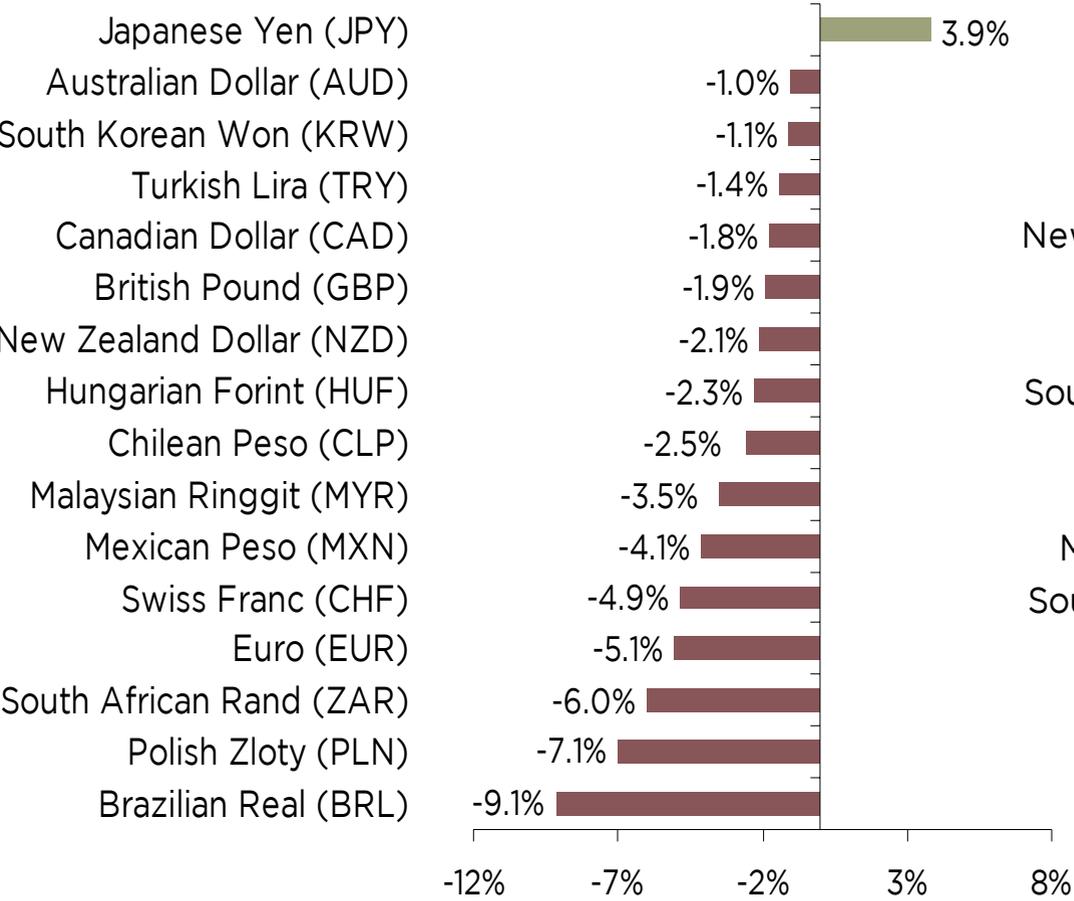
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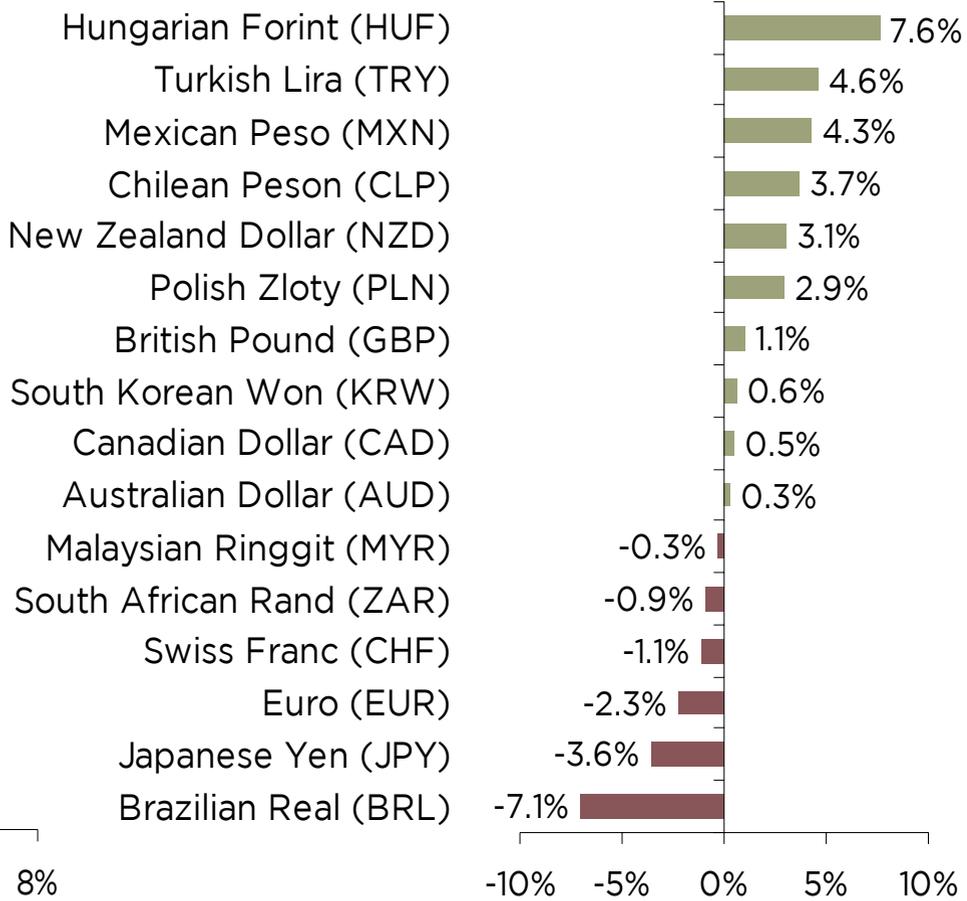
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# Currency Market Performance - USD

## 2Q 2012 Return (03/31/2012 - 06/30/2012)



## YTD 2012 Return (12/31/2011 - 06/30/2012)



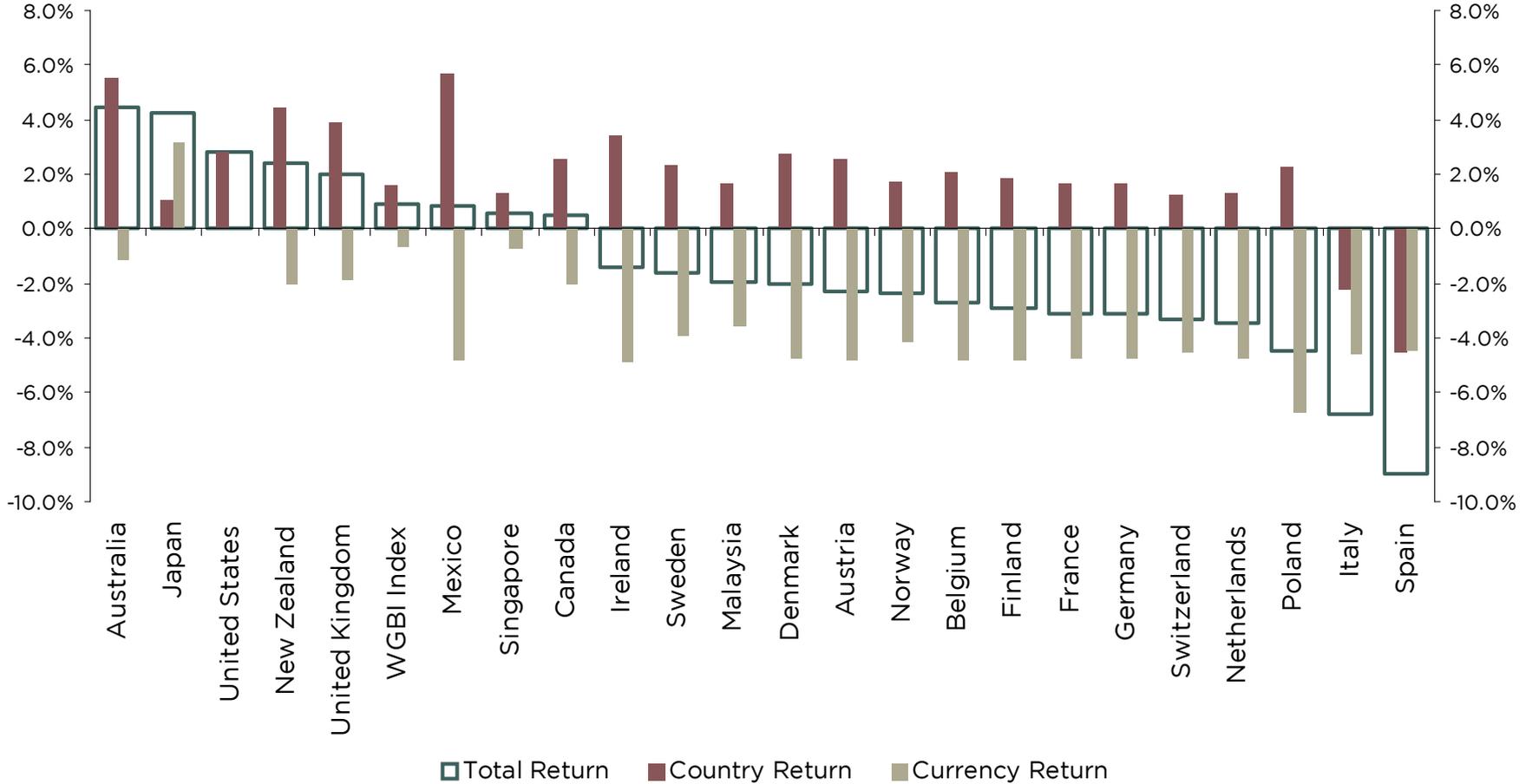
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# Market Performance - USD

Second Quarter 2012

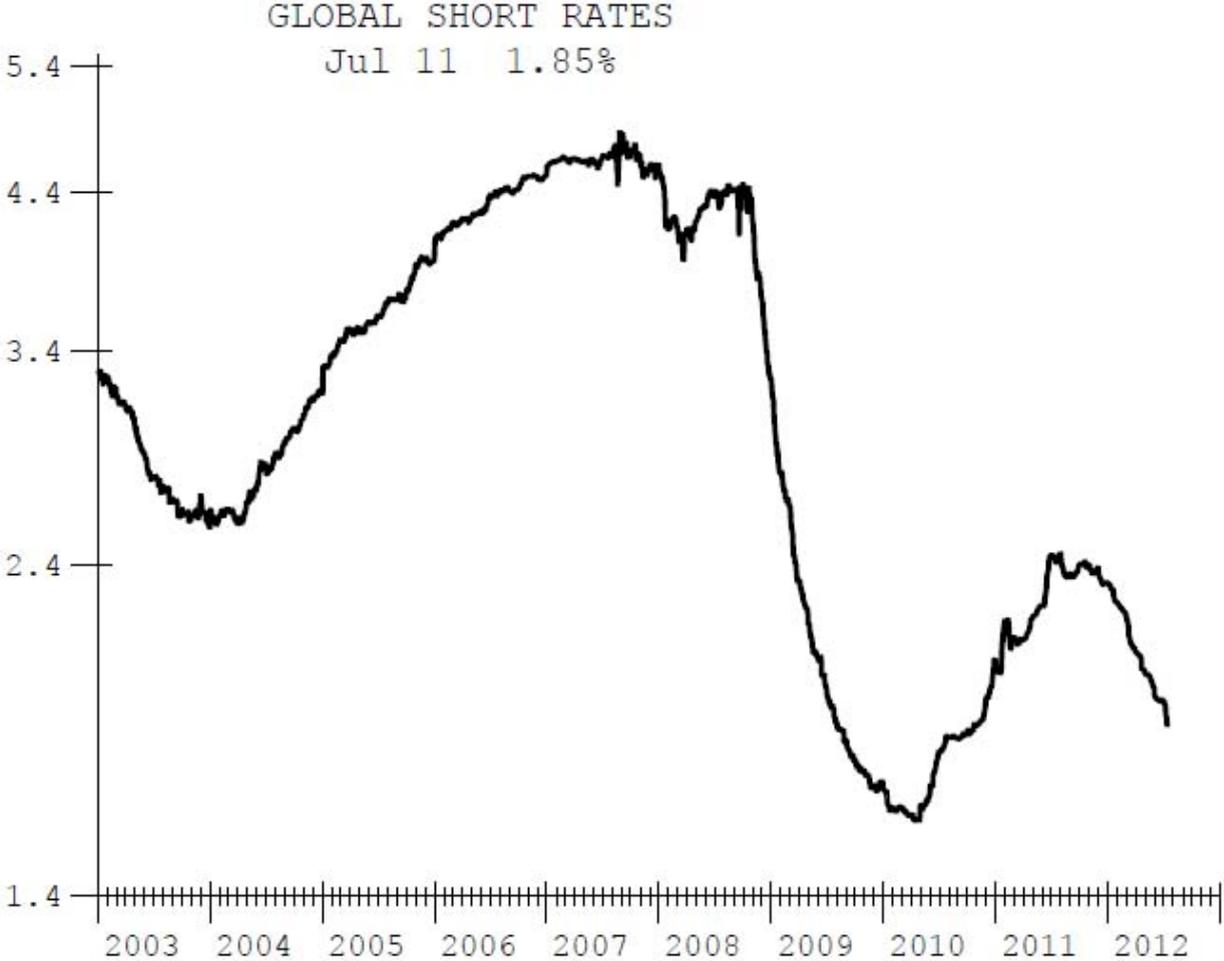
Citigroup World Government Bond Index: 0.92%

Citigroup World Government Bond Index Ex-US: 0.20%



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# Global Monetary Policy Is A Clear Positive Back Drop

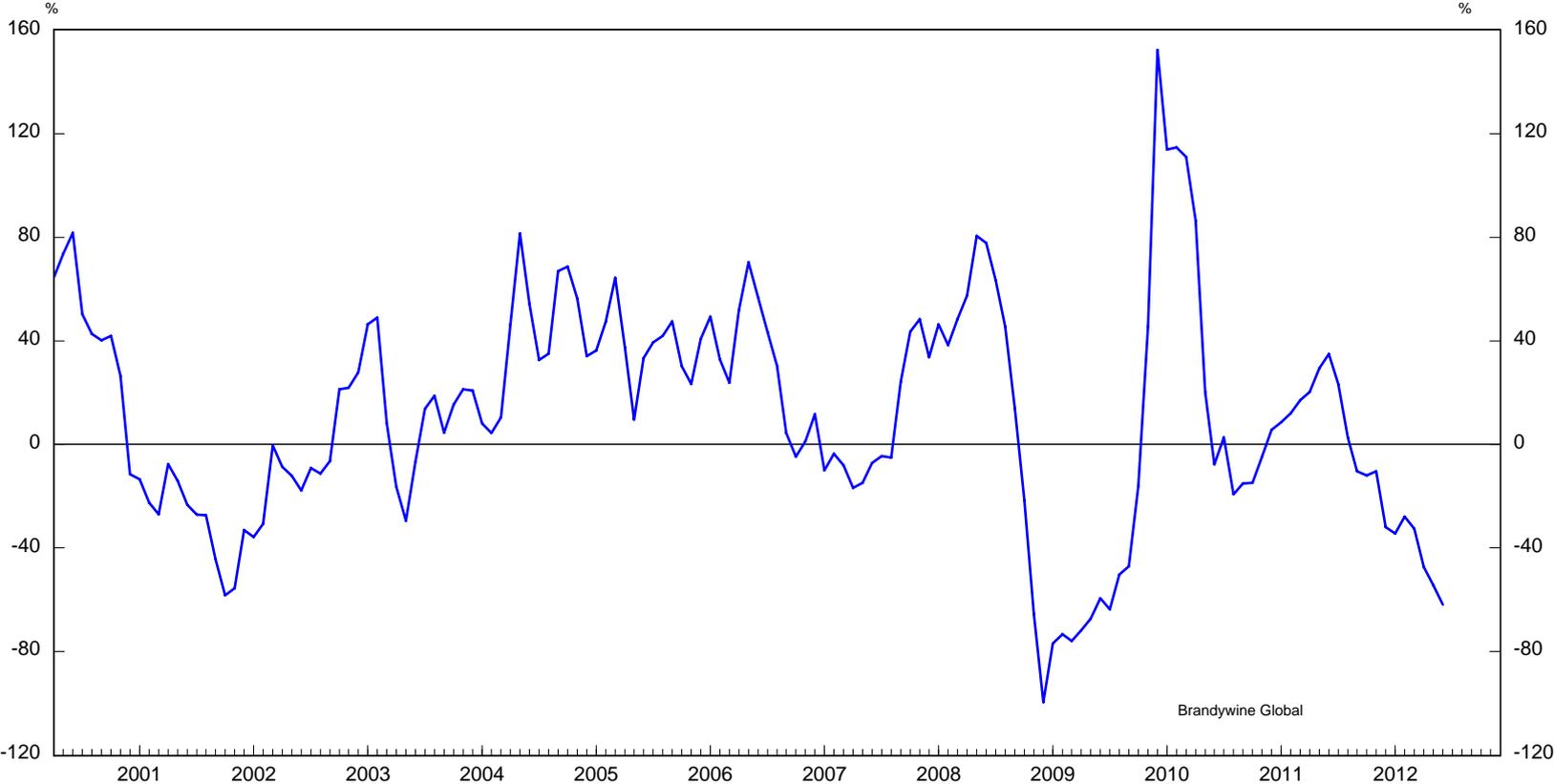


Source: ISI

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# Who Says There Isn't Any Fiscal Stimulus Out There? Disposable Income Matters

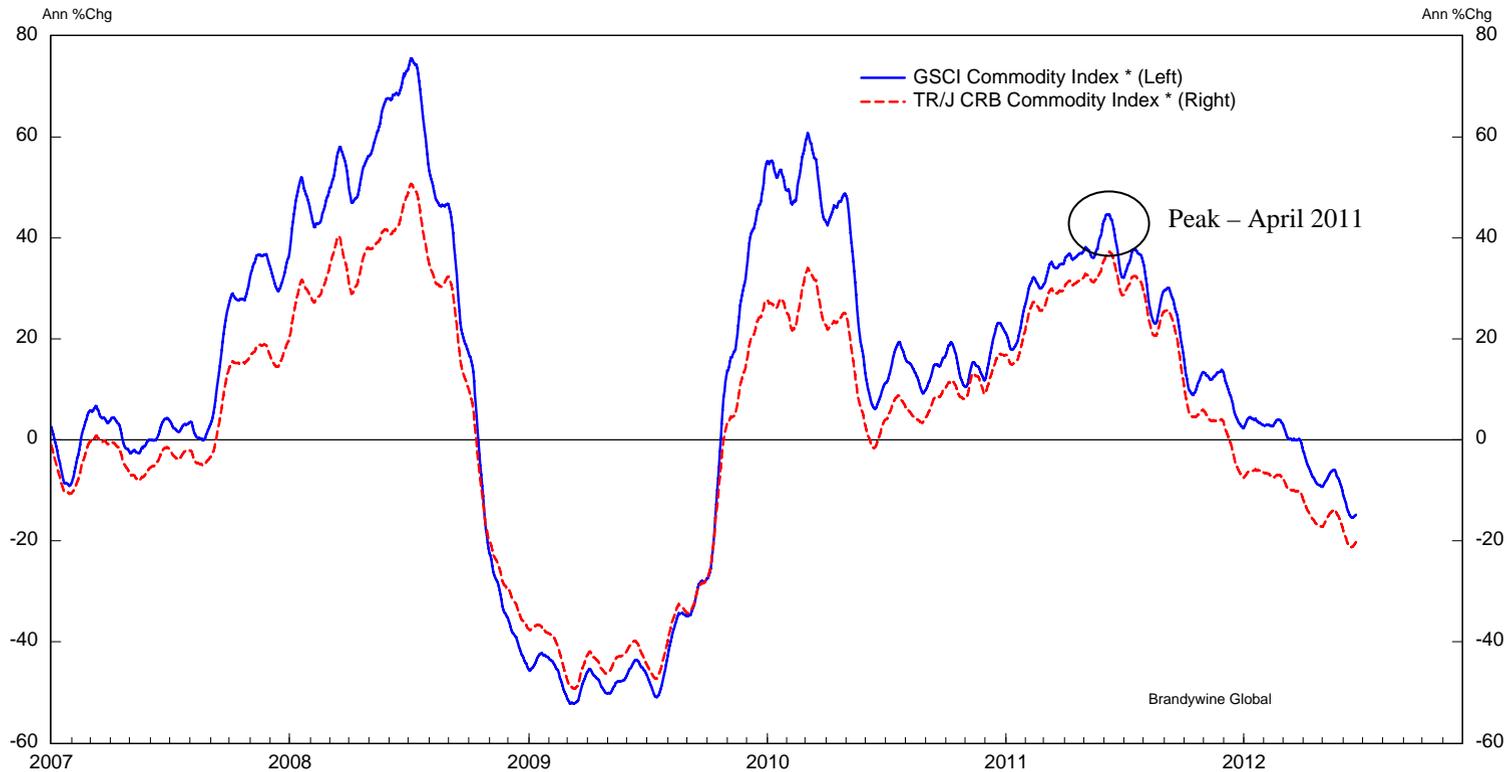
YOY Percent Change in Oil Prices Added to YOY Percent Change in 10-Year Treasury Yields



As of 06/30/2012.

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# It's Not Just In The U.S. - Lower Commodity Prices Will Help Global Growth

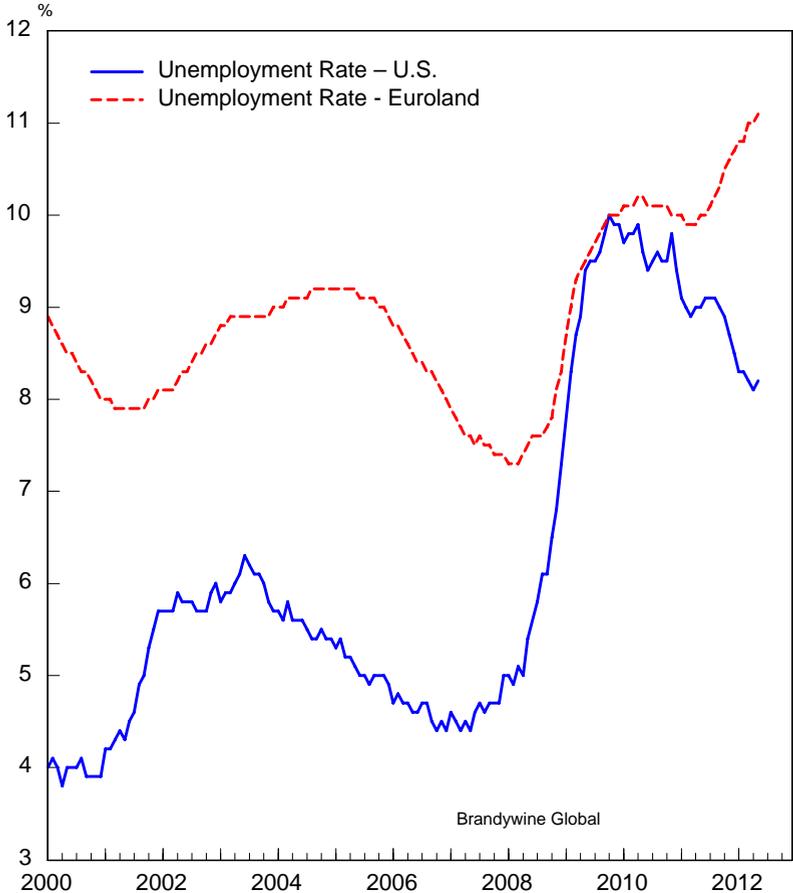
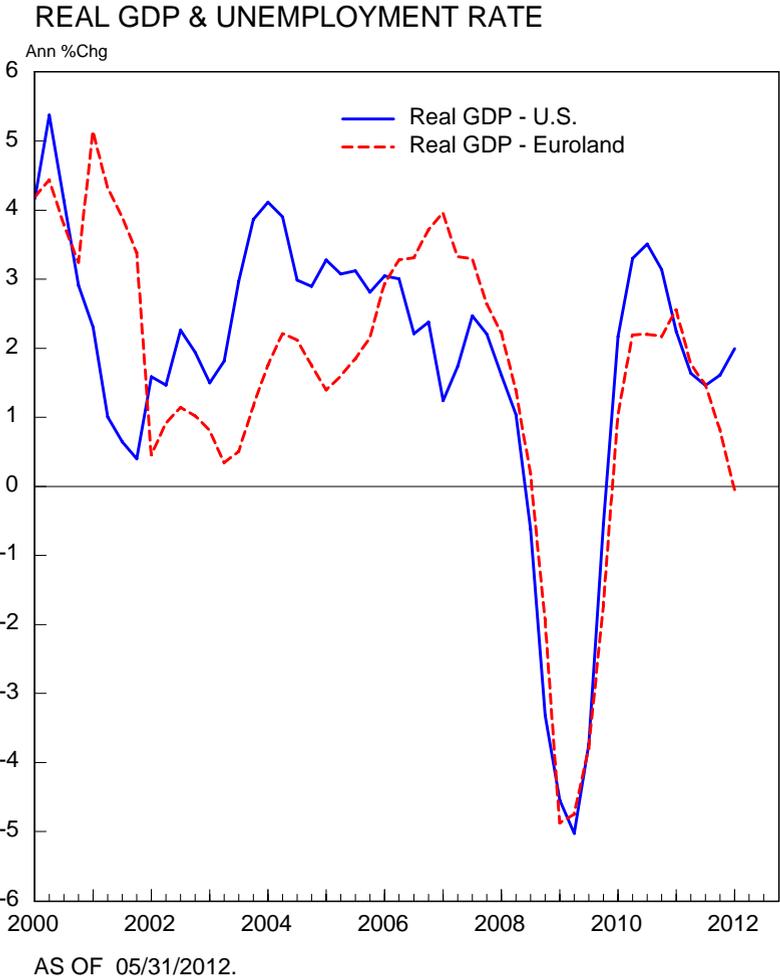


\* Shown as 3-month moving average.

As of 06/21/2012.

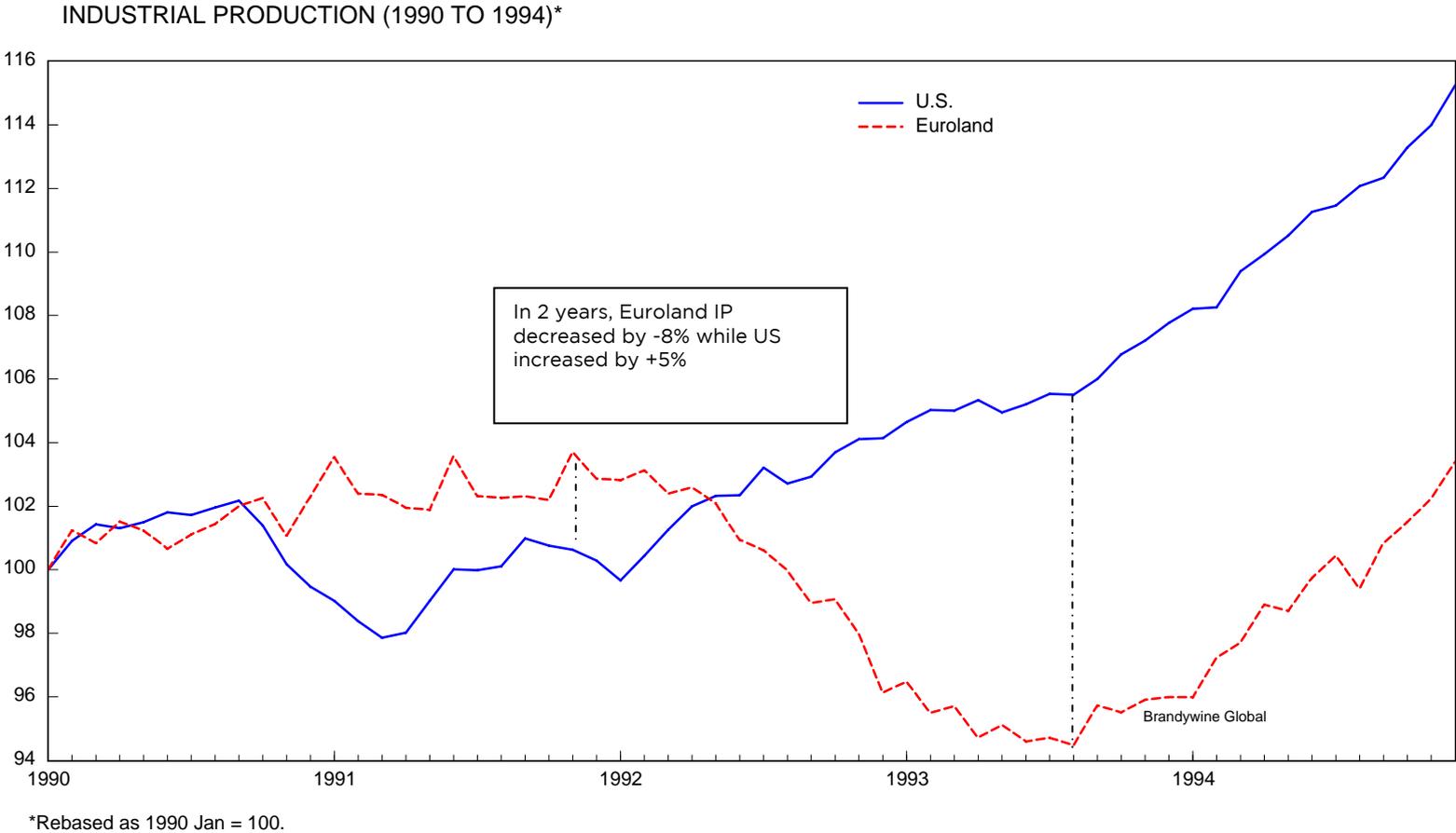
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# U.S. & Europe - The Tale of Two Continents



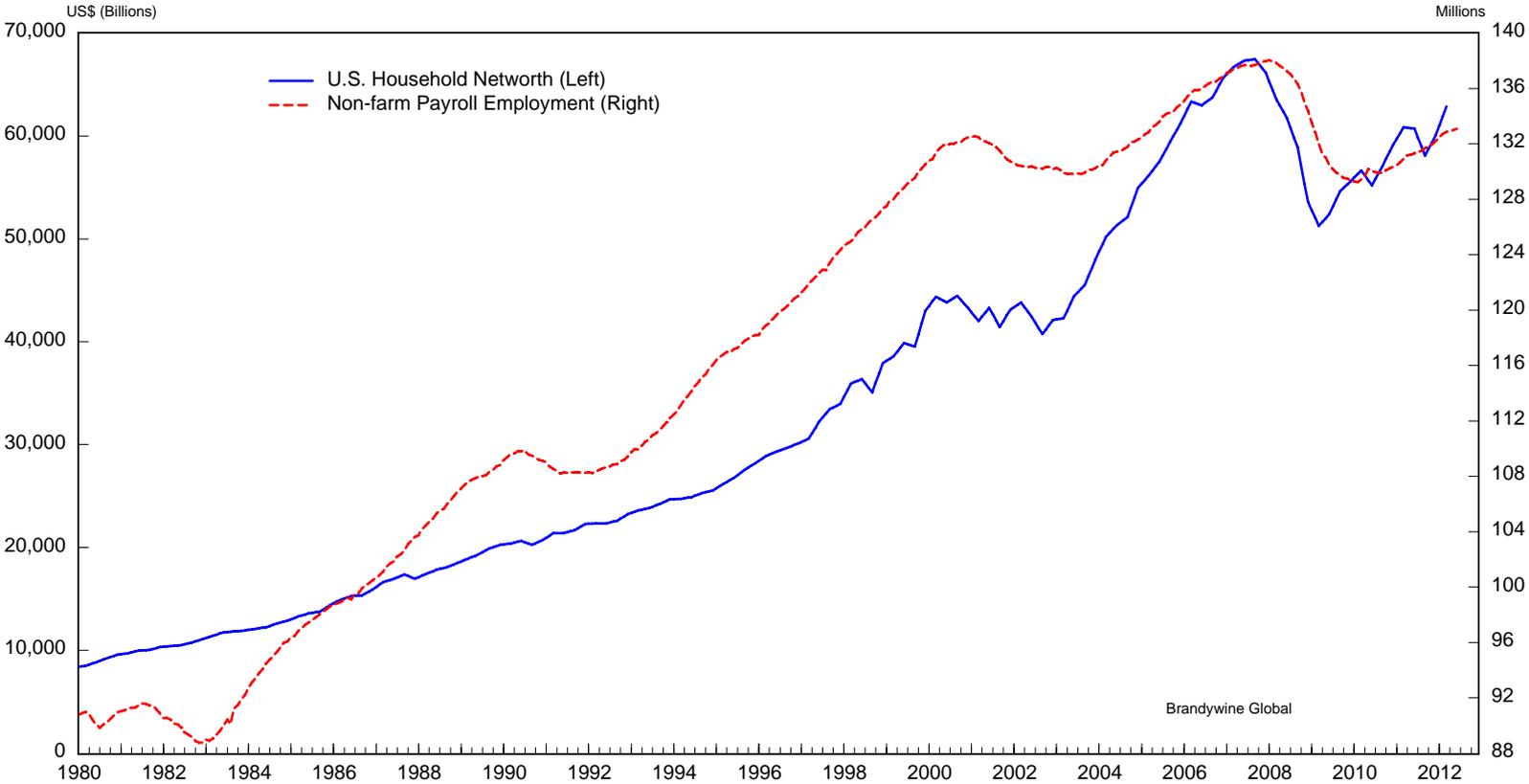
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# U.S. & Europe – They Diverged In The Mid-90s, Can They Do It Again?



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# U.S. - Net Worth Does Matter

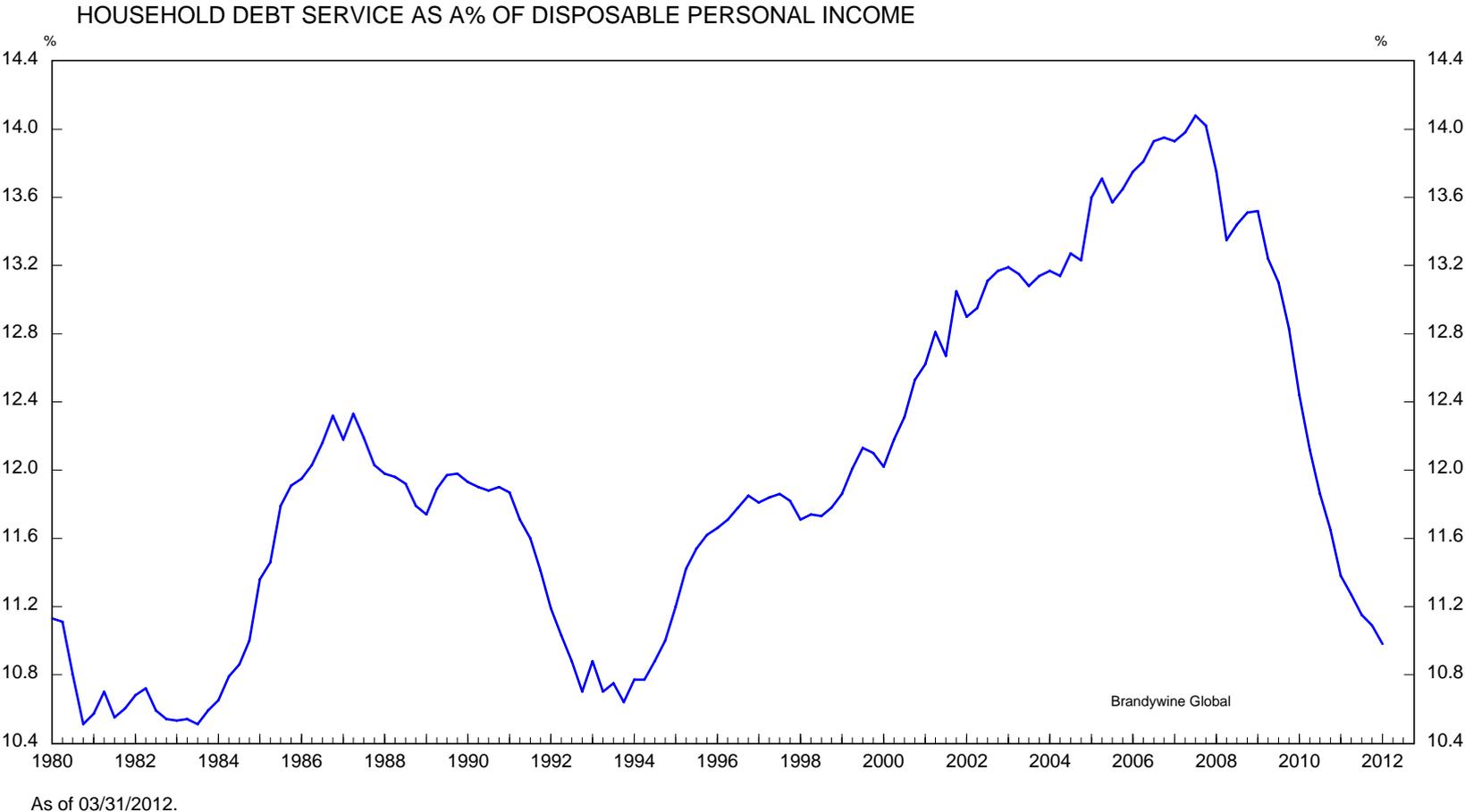


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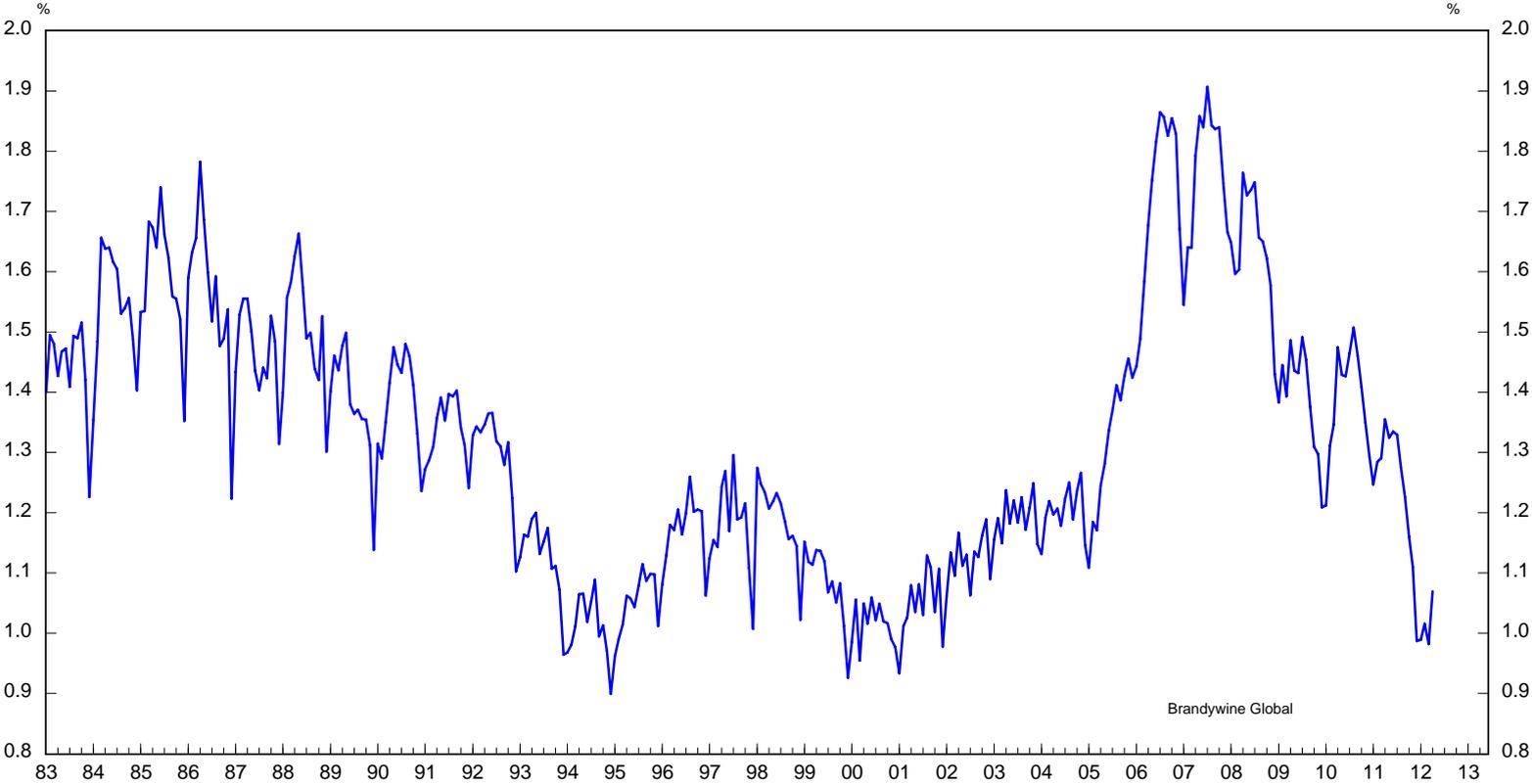
# U.S. - This Is Part Of The Solution



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# U.S. – Housing Is Stabilizing

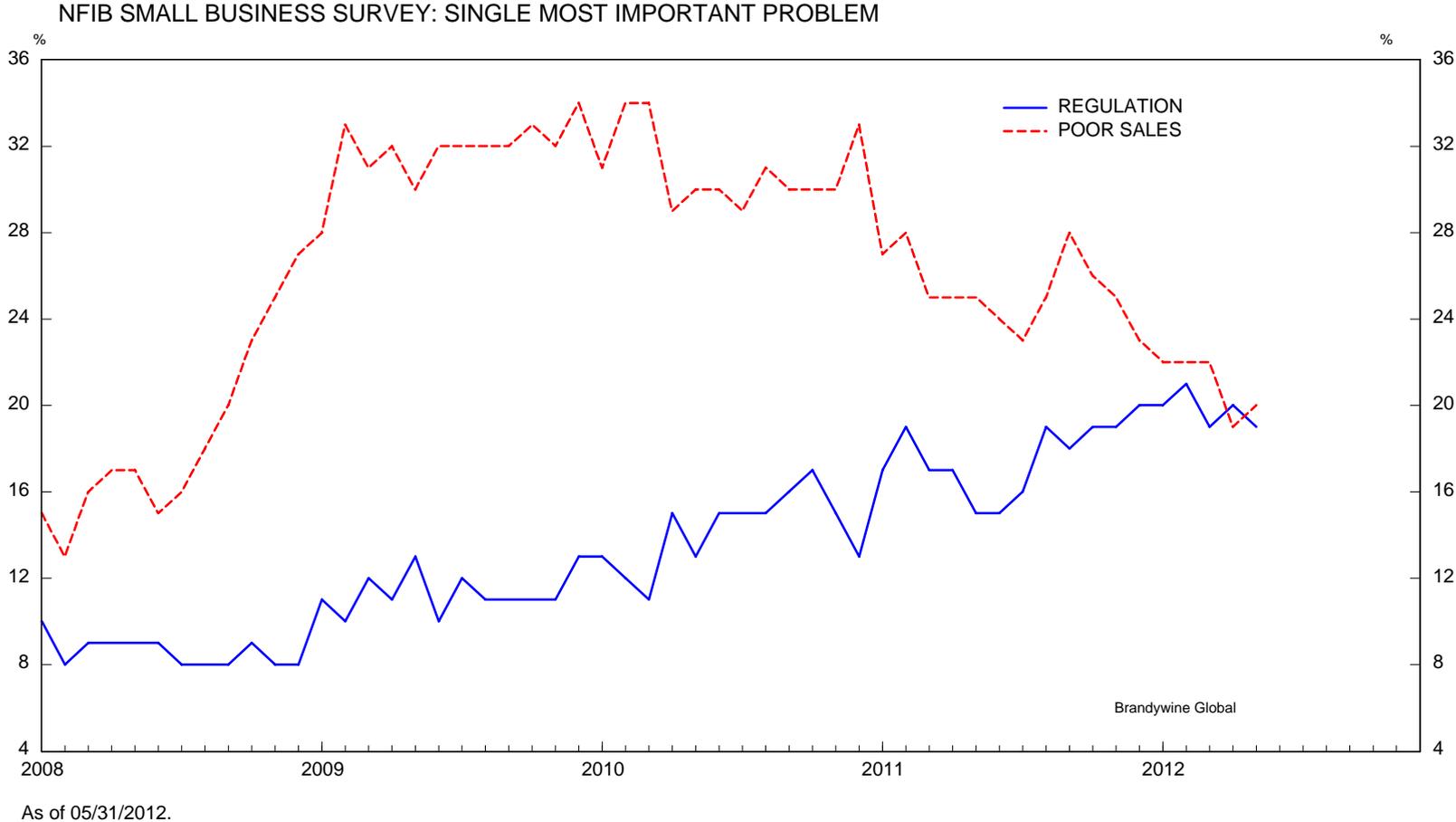
US NEW & EXISTING HOUSES FOR SALE AS % OF WORKING AGE POPULATION



As of 04/30/2012.

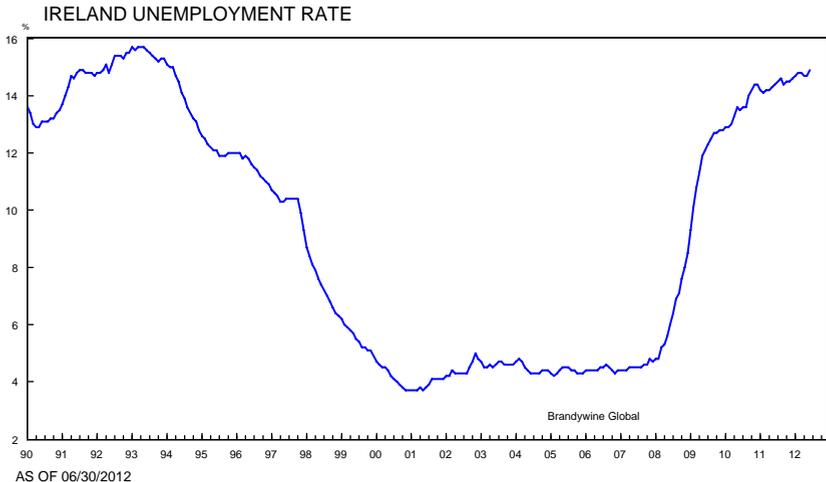
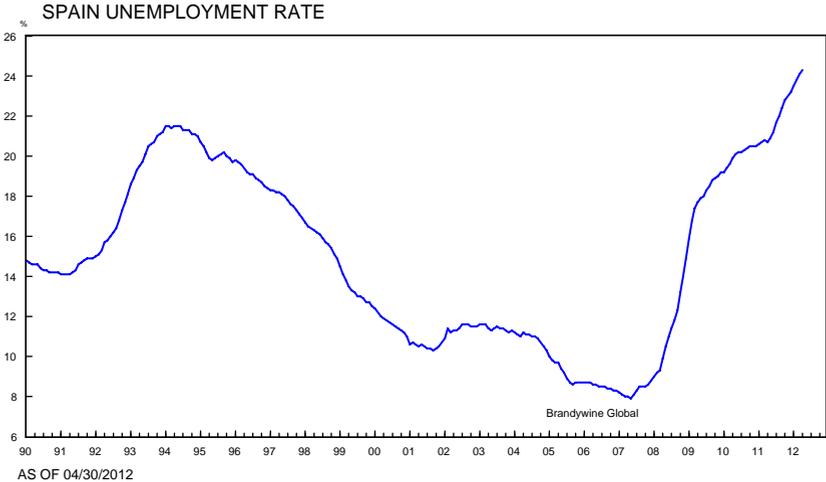
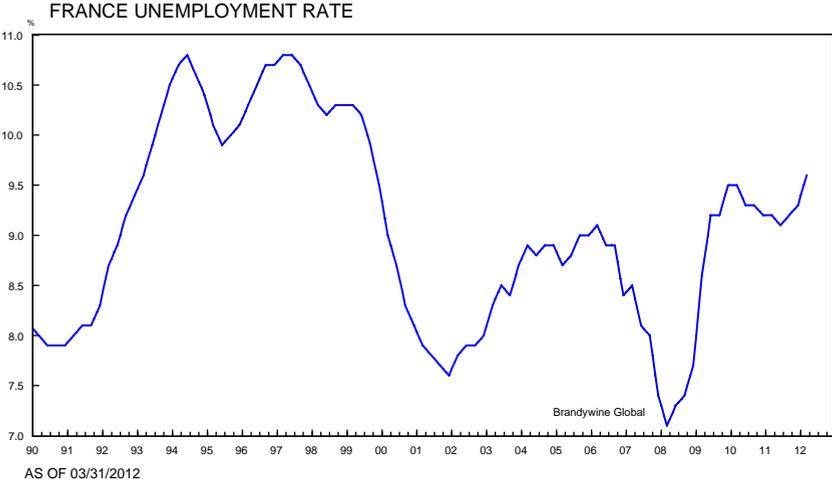
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# U.S. – Not Everything Is Improving (An Election Issue)



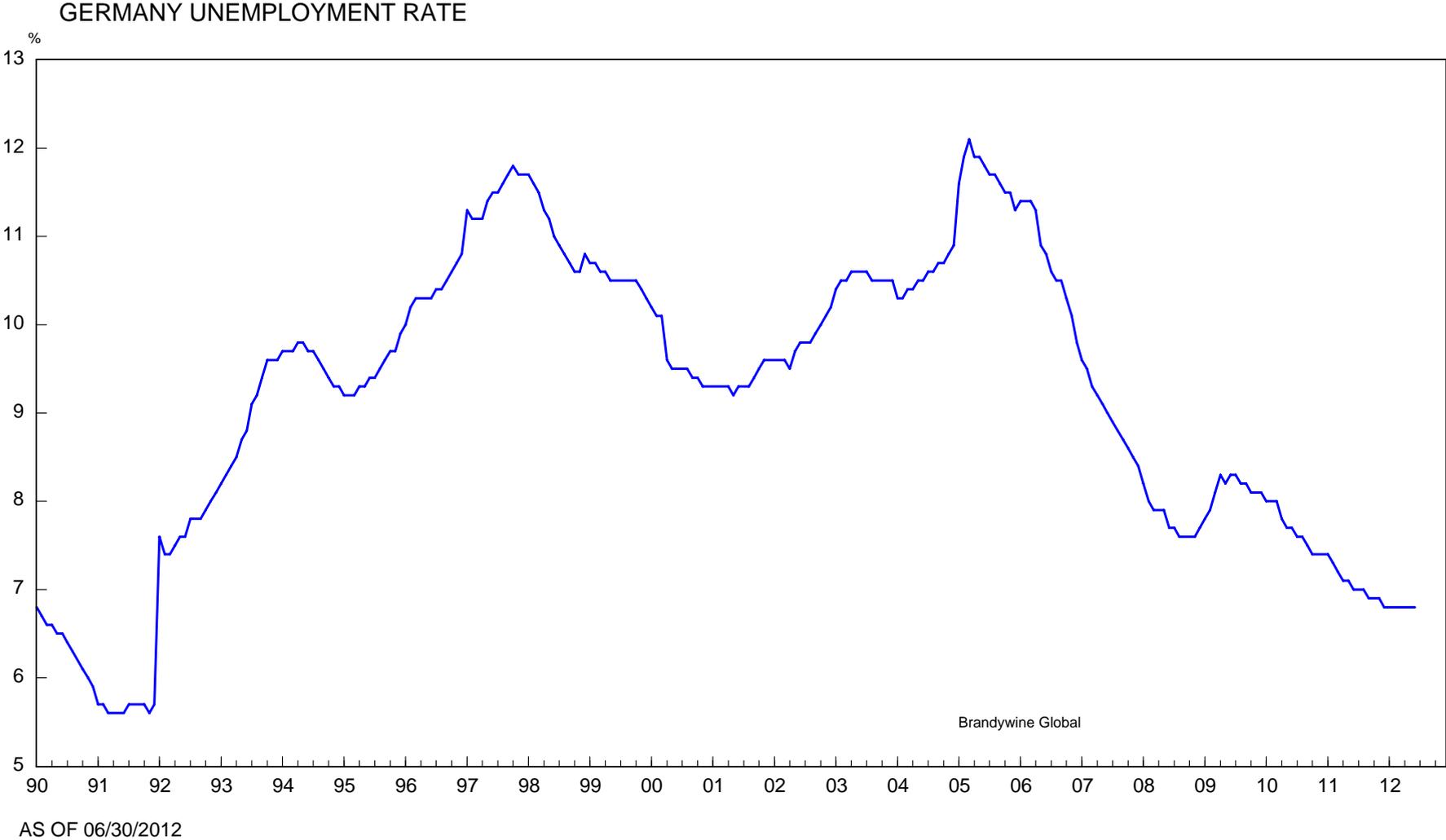
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# Eurozone - Unemployment - The Human Toll



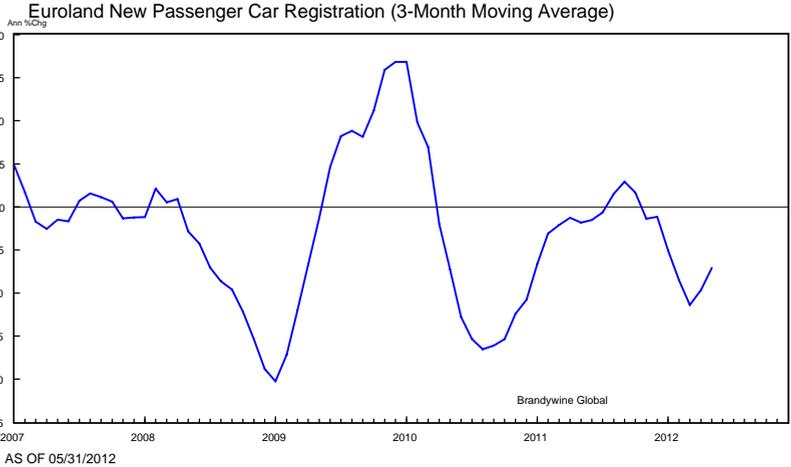
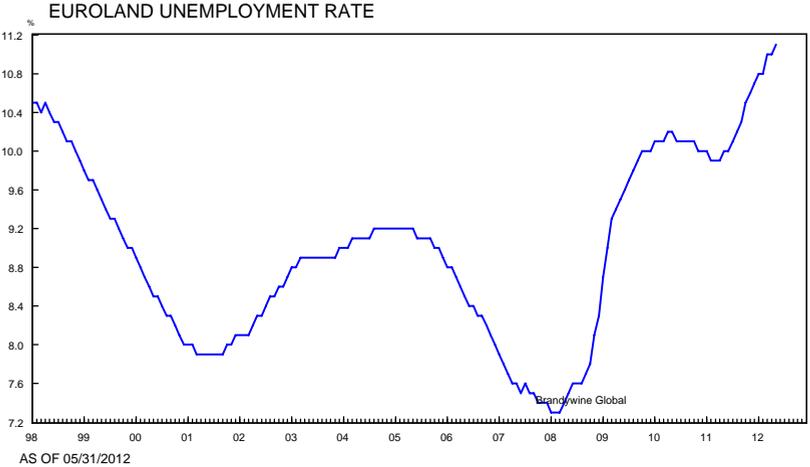
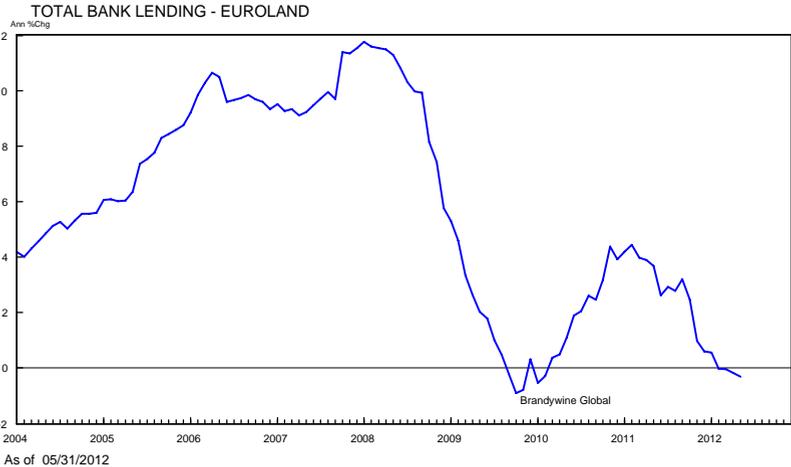
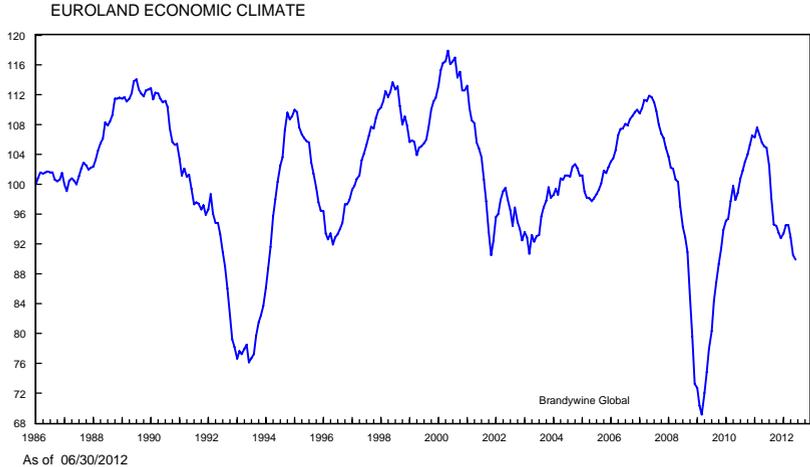
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# Eurozone - One Reason Germany Embraces The Euro



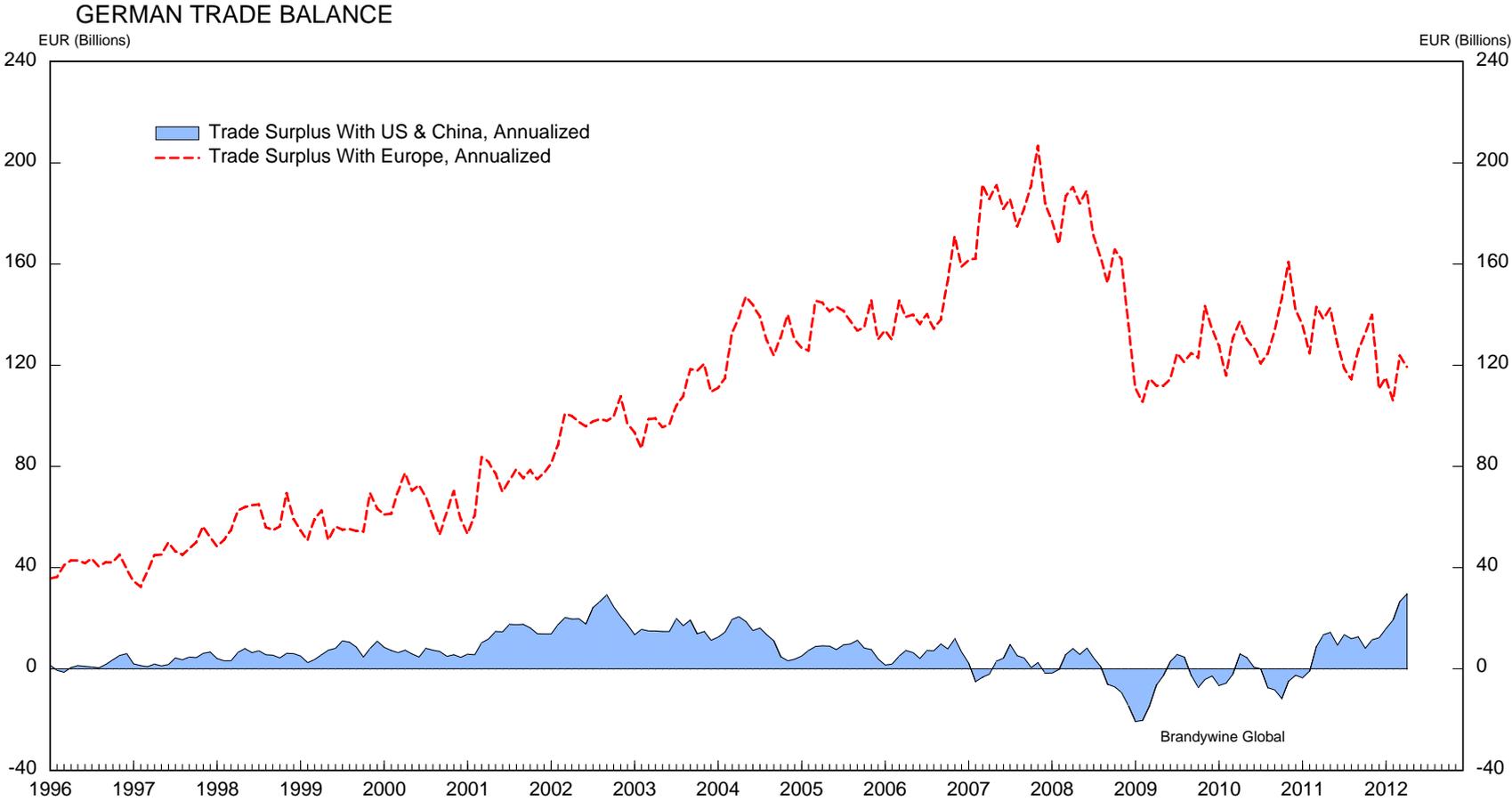
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# Eurozone - The Picture of Recession



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# Eurozone - The Monetary Union Winner Is?

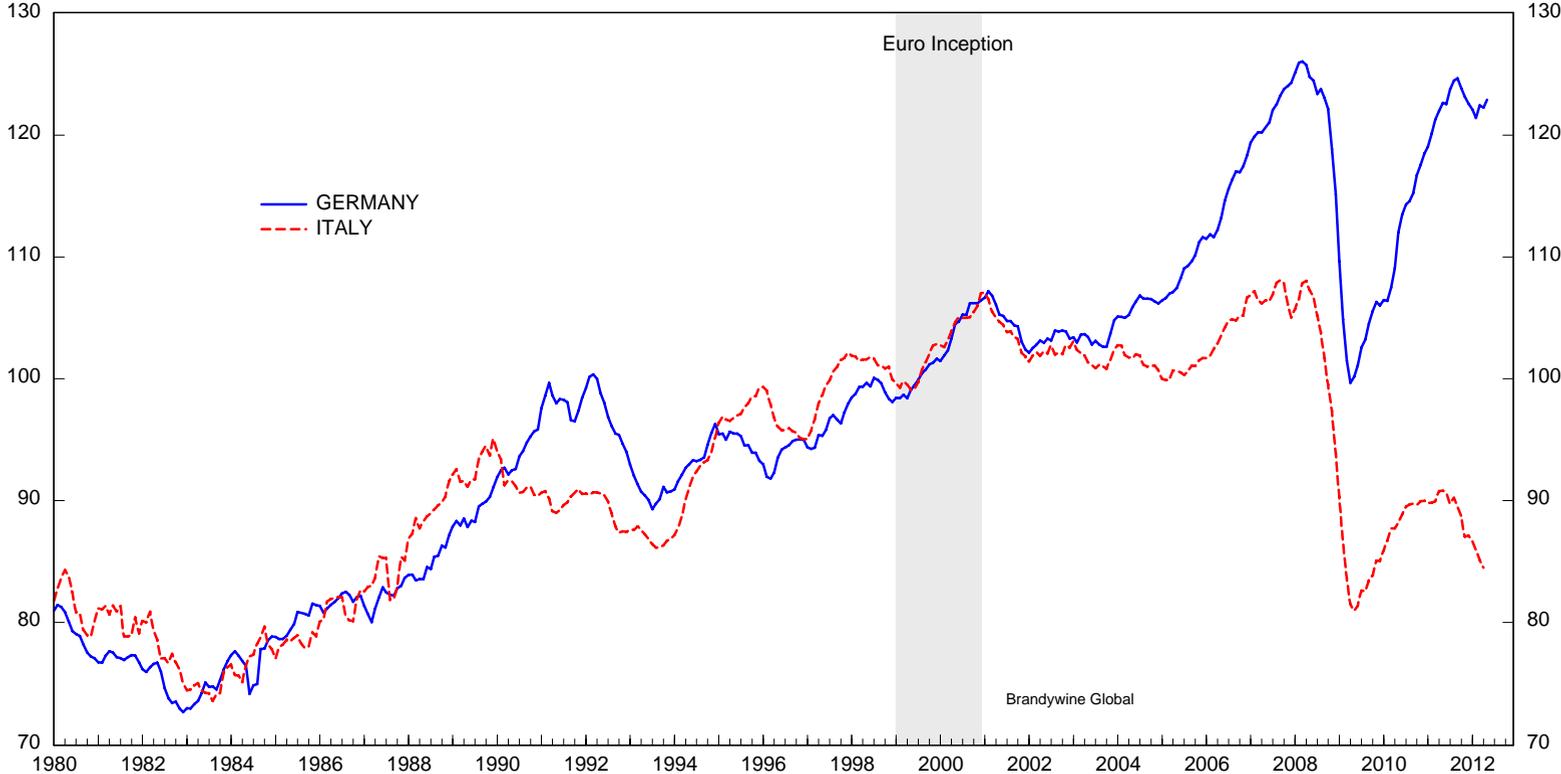


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# Germany - Another Example of Their Prowess Under The Eurozone

INDUSTRIAL PRODUCTION INDEX\* BEFORE AND AFTER EURO

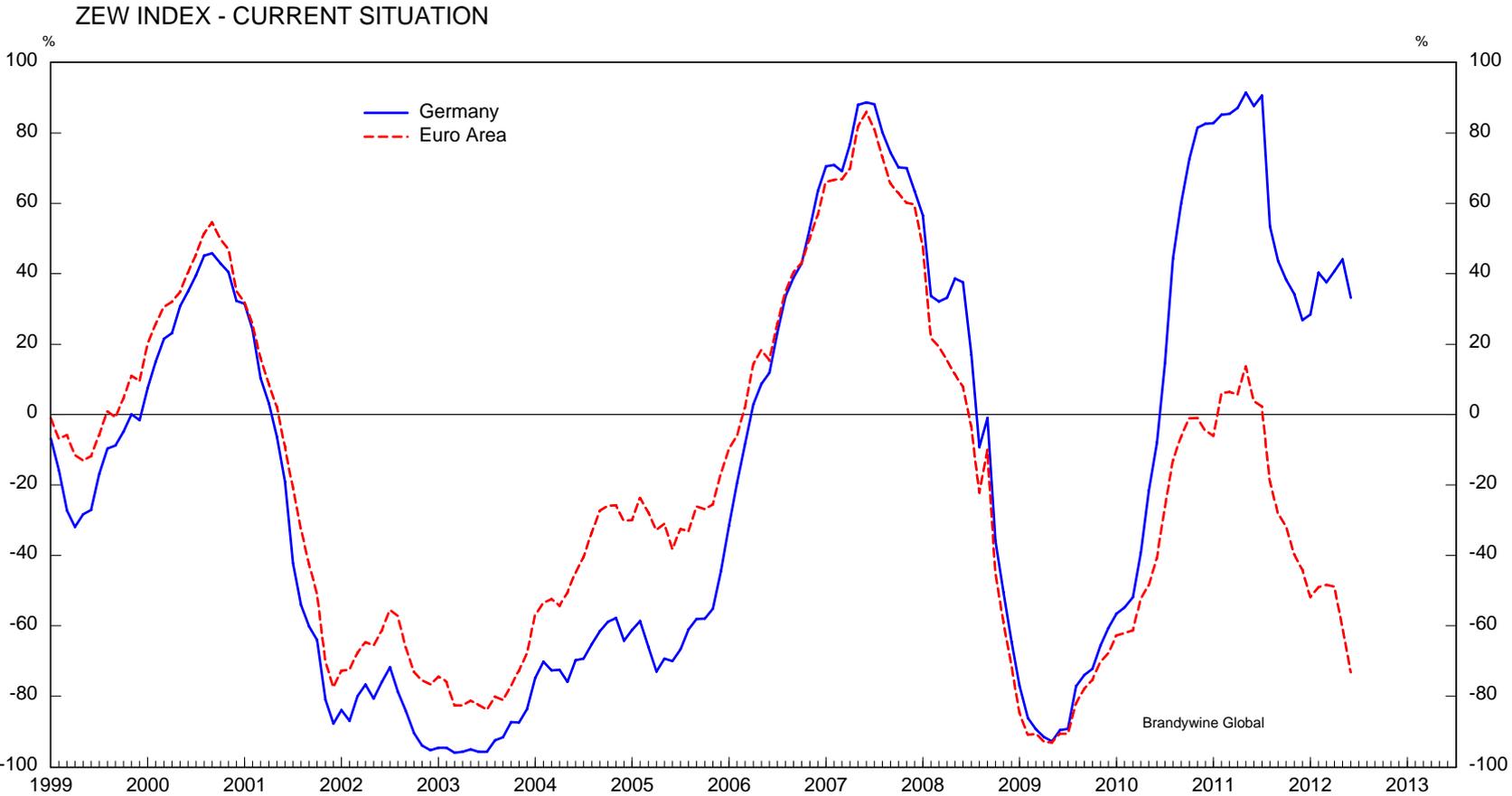


\*Index rebased as 1999 M1=100. Shown as a 3-month moving average.

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# Eurozone - The Tale of Two Europes - Will They Reconcile?

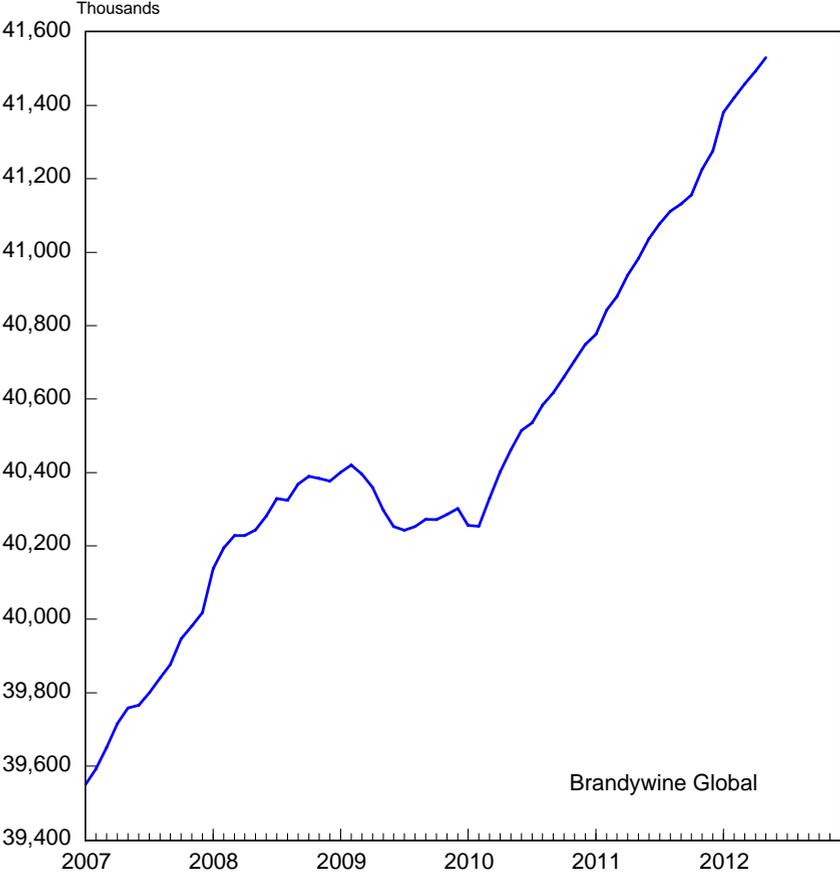


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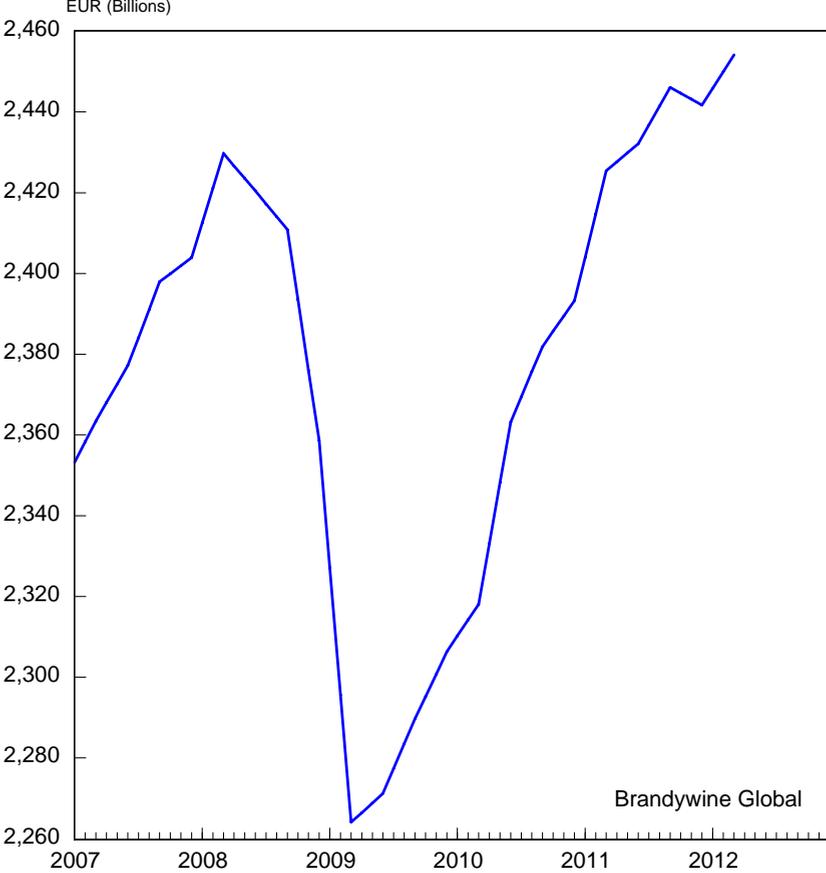
# Germany - Needs Europe to Buy their Goods - 50% of Exports

GERMANY EMPLOYMENT



As of 05/31/2012

GERMANY REAL GDP (ANNUALIZED)

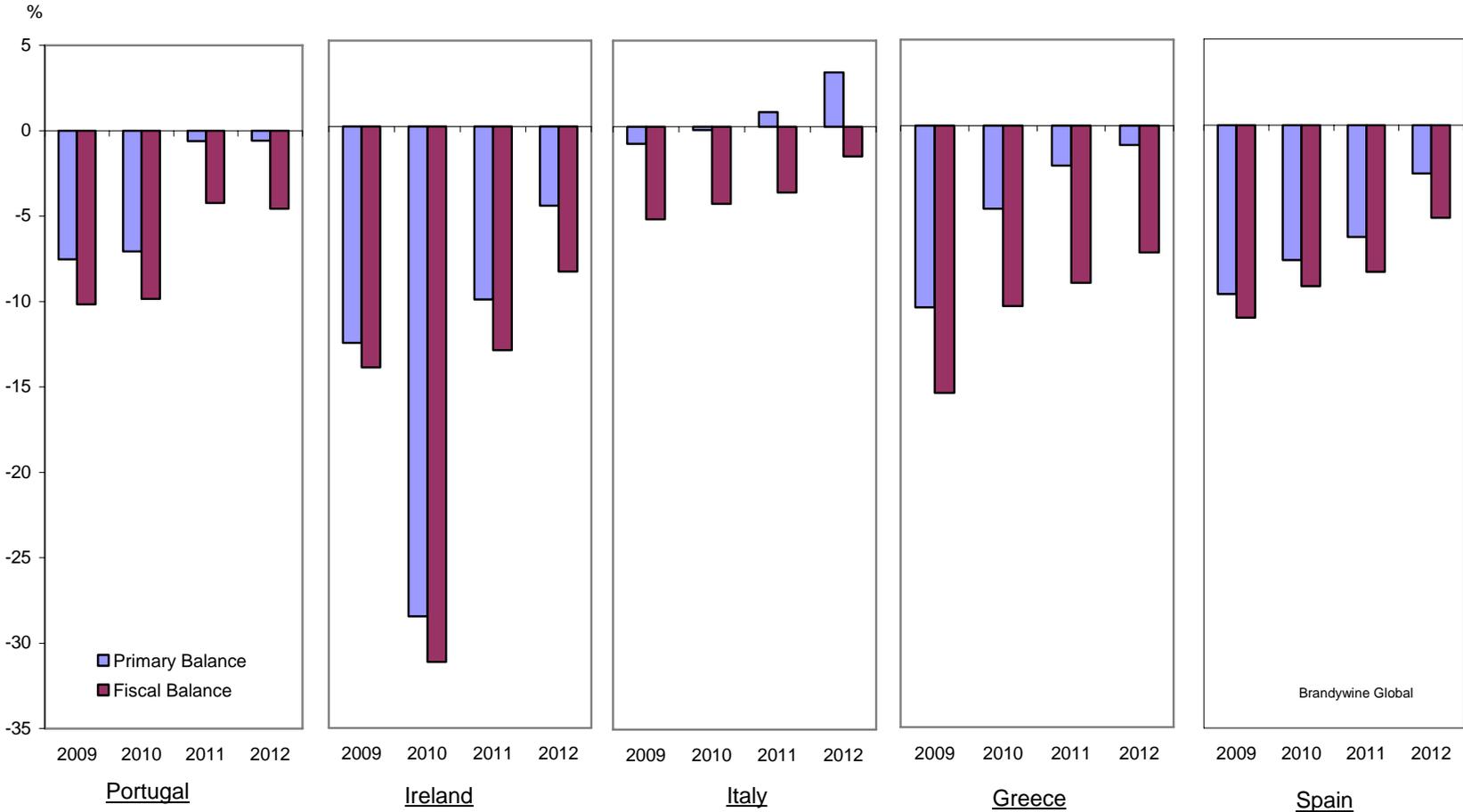


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# Eurozone - Total Deficit Only 3.4% of GDP - Misallocated

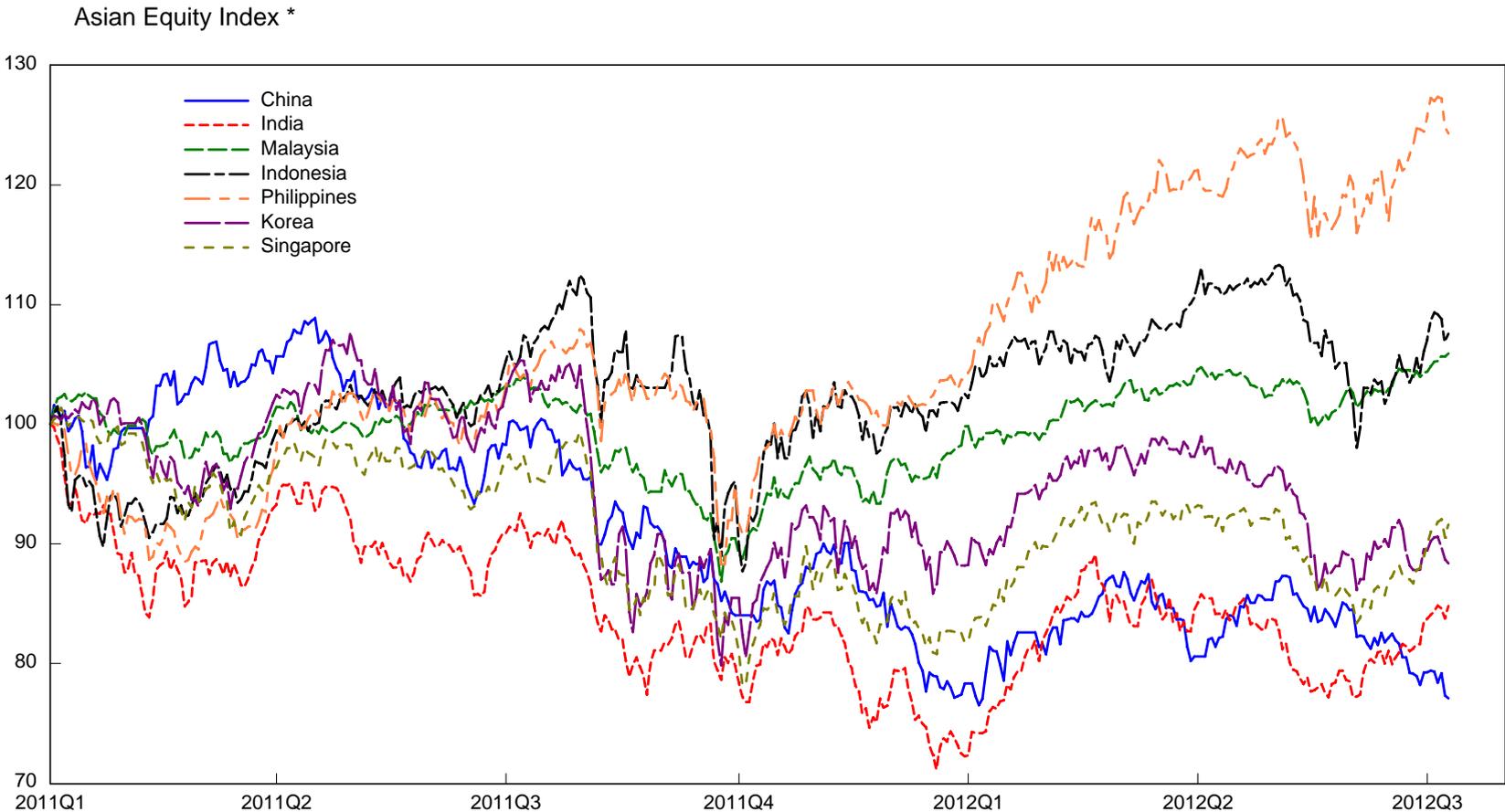
GOVERNMENT BALANCE AS % OF GDP



Data as of 5/31/12

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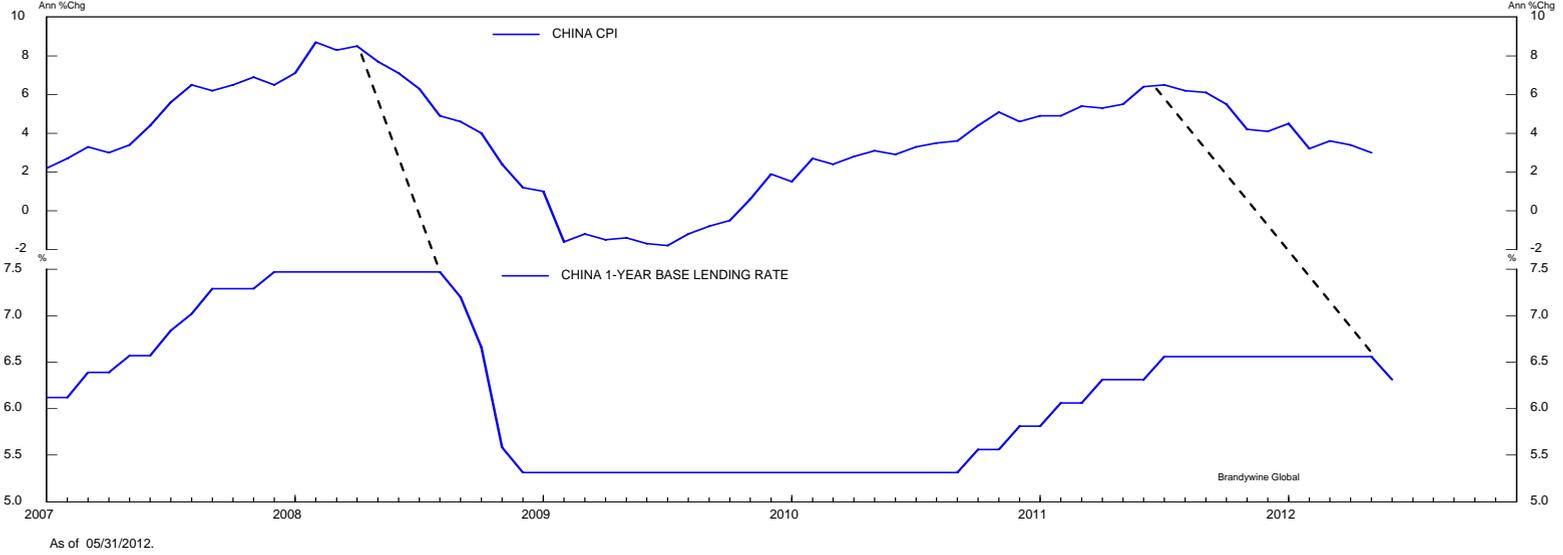
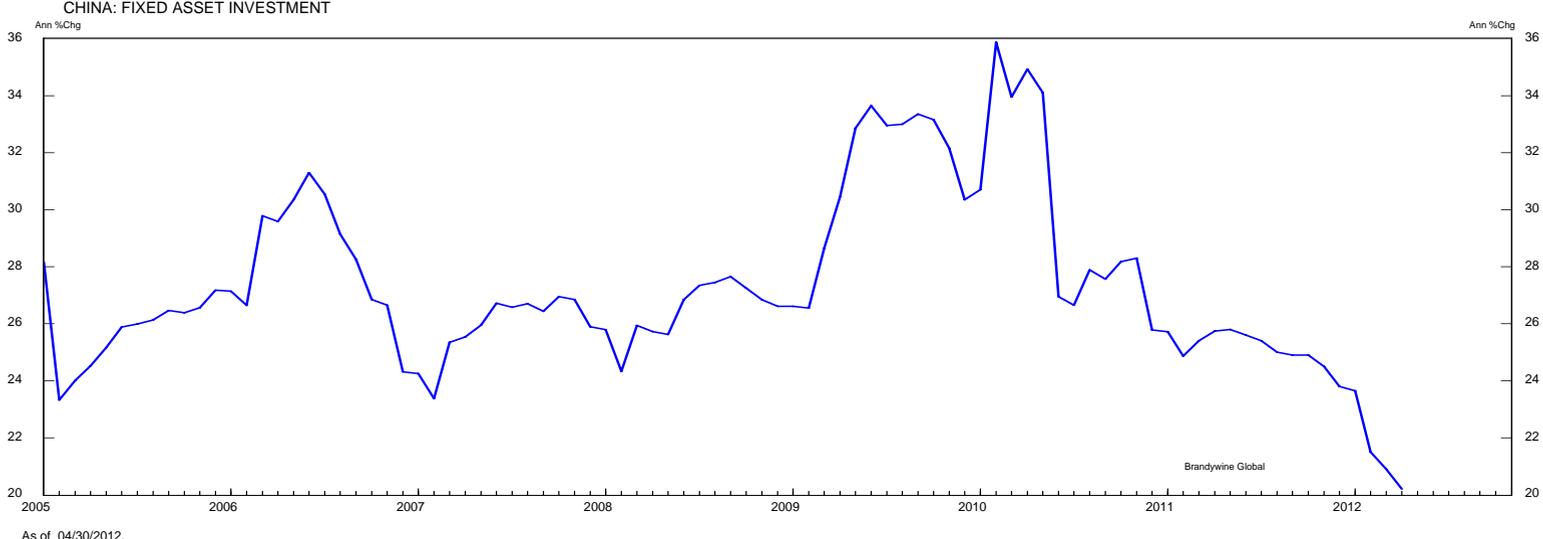
# What Are These Asian Equity Indices Telling Us? Largest Market Lagging...



\*Rebased as Jan 2011 = 100.  
As of 07/10/2012.

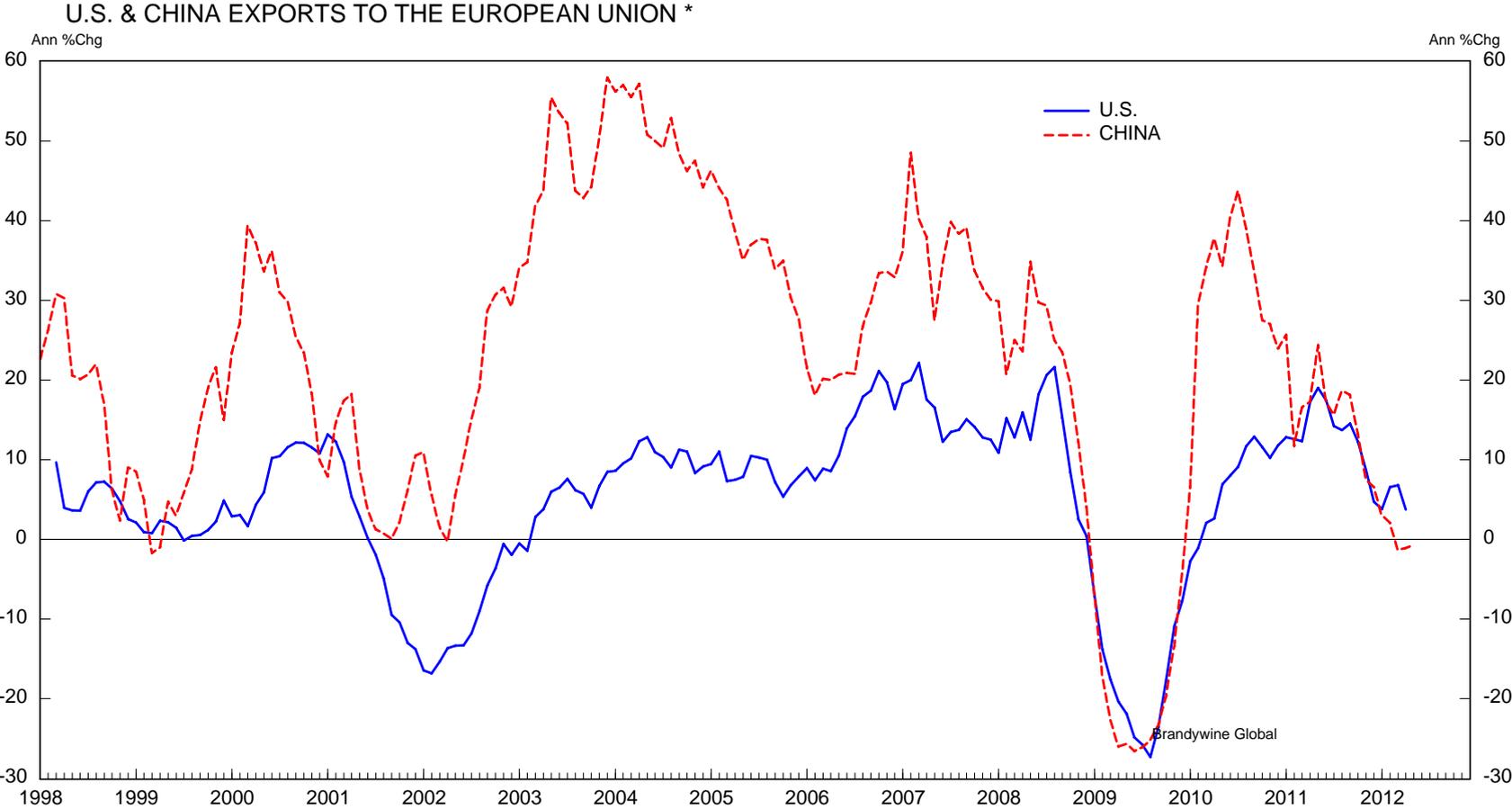
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# China: They're Getting What They Wanted....A Slowdown



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# How Is Europe Impacting The World? The Contagion in Global Trade.

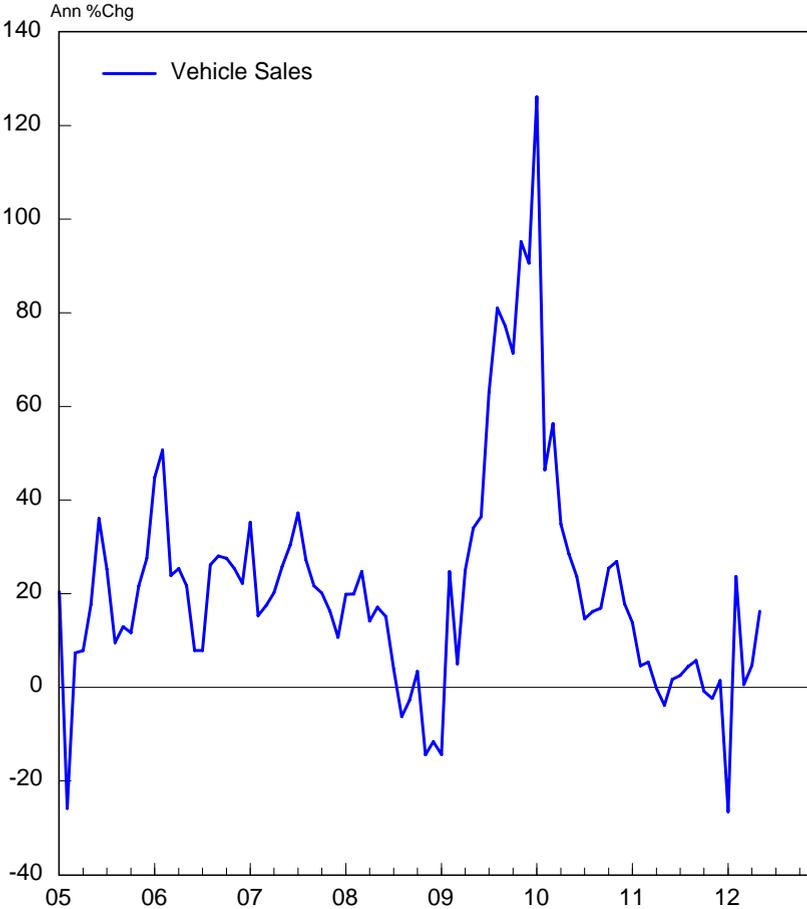
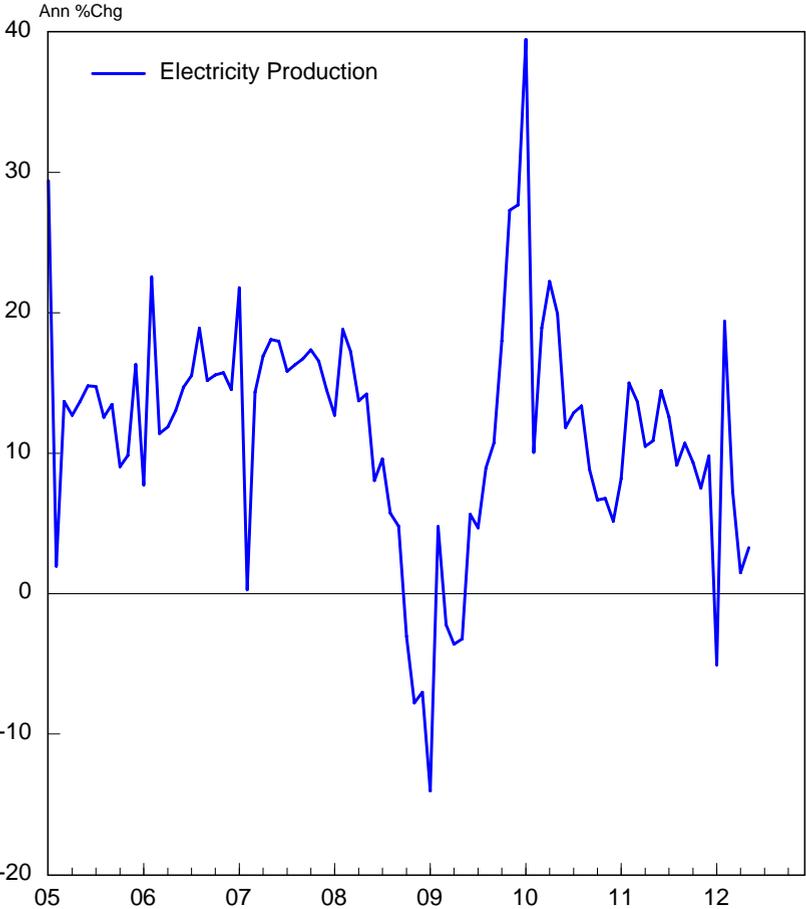


\* SHOWN AS 3-MONTH MOVING AVERAGE  
AS OF 04/30/2012.

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# China: Time for a Policy Shift - It Has Started

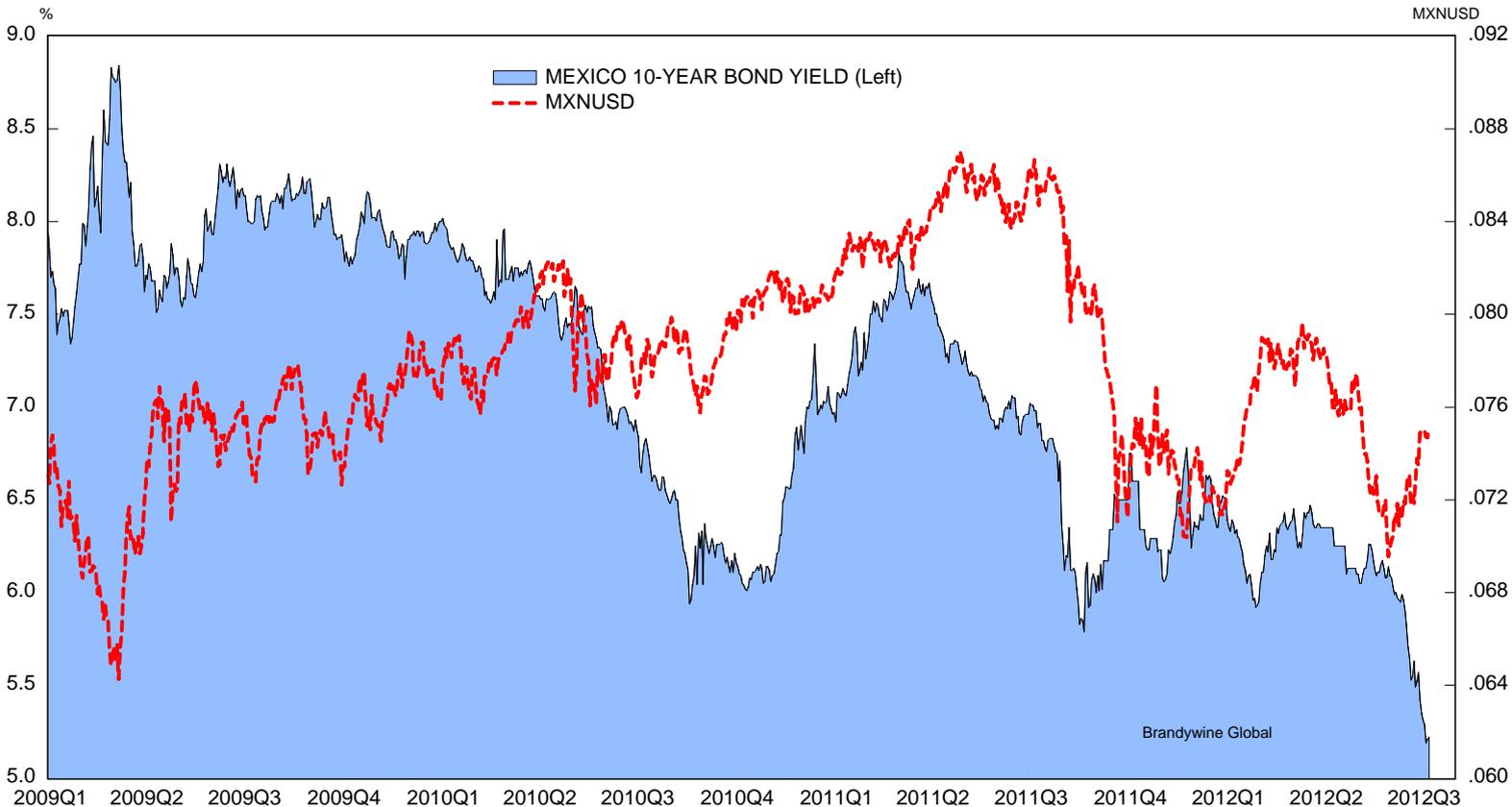
## CHINA: INDUSTRIAL ACTIVITY



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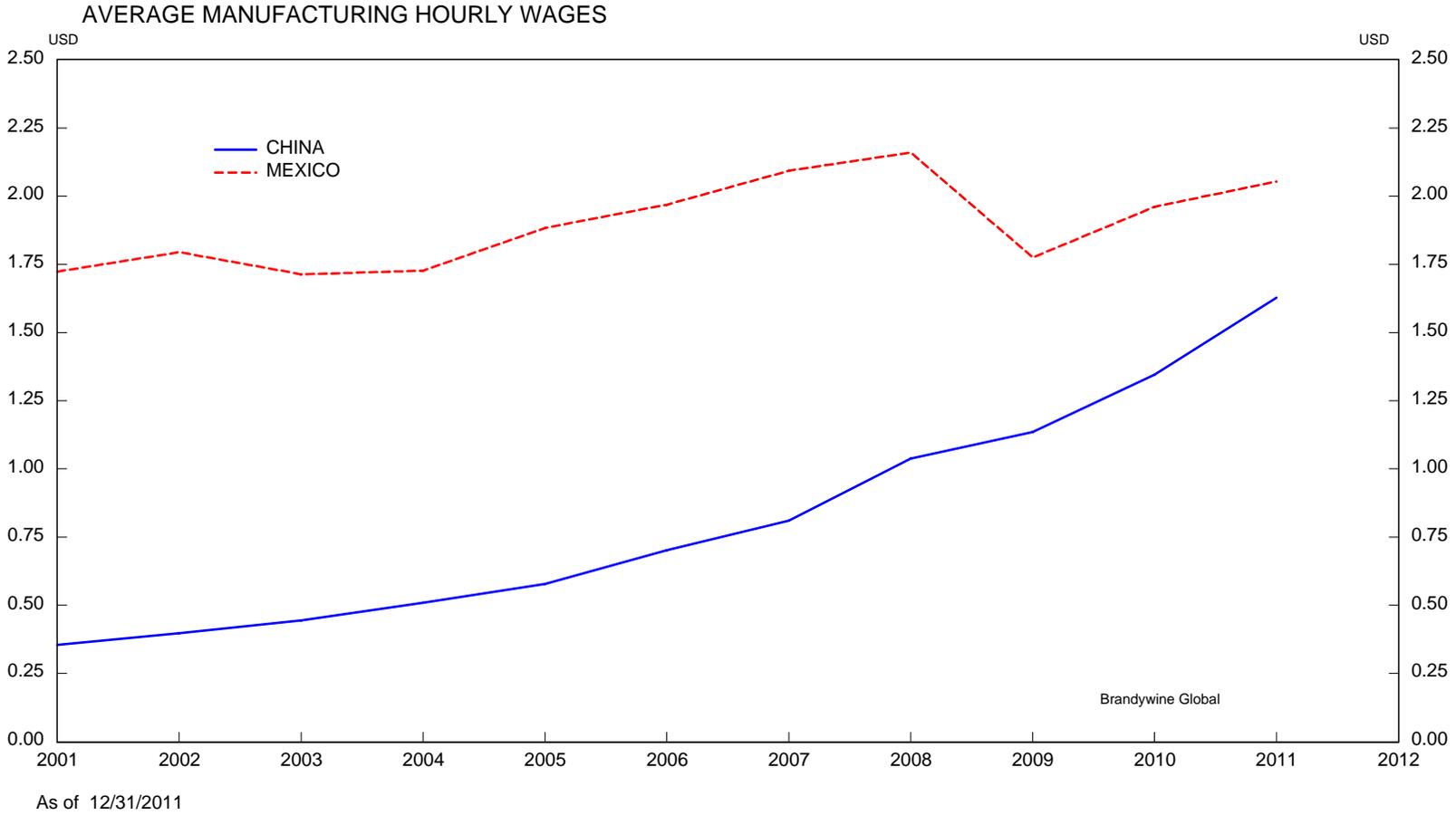
# Our Biggest Overweight: Mexican Bonds



As of 07/09/2012.

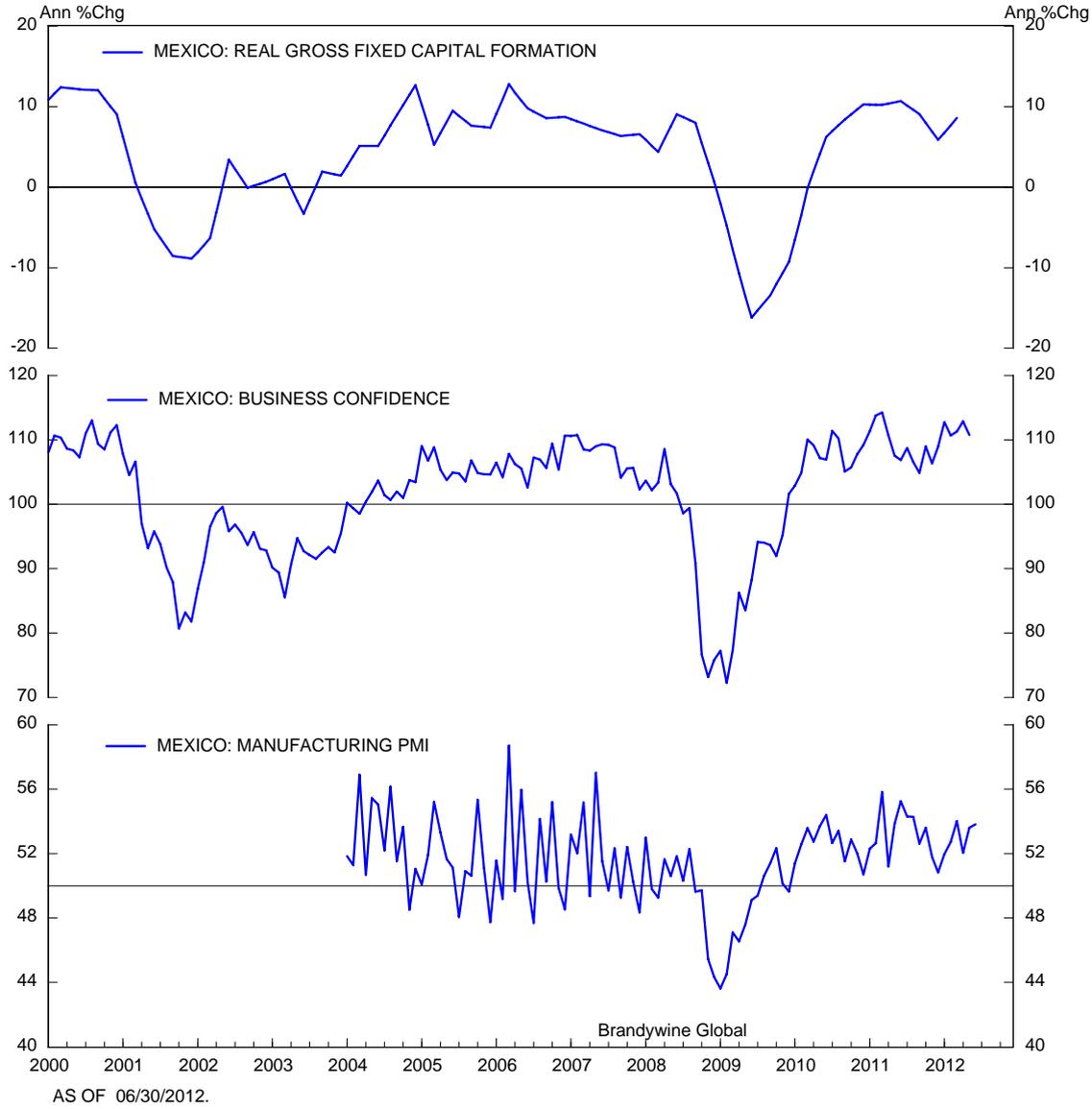
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# Mexico - It Can Compete With China



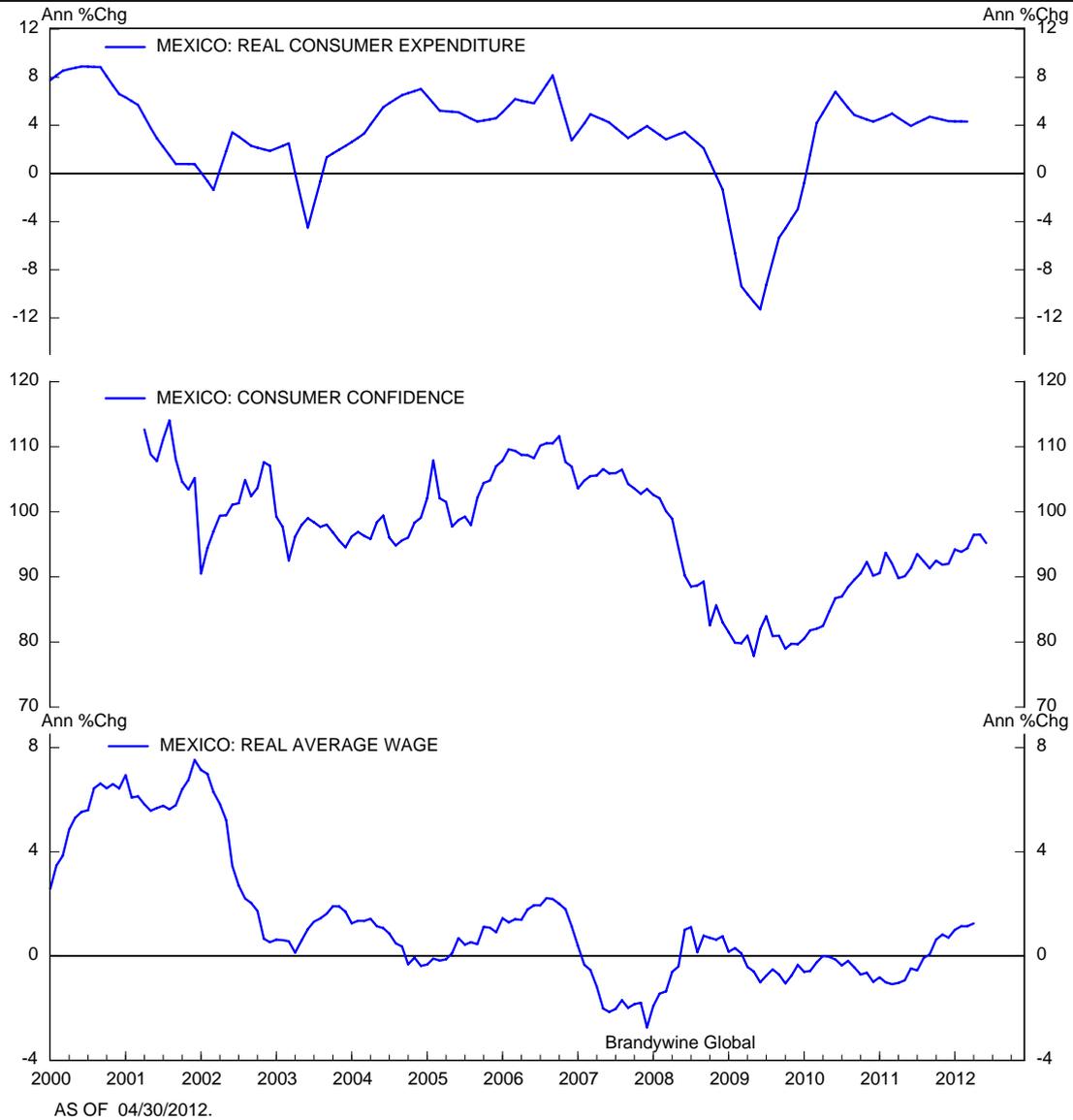
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# Mexico: Business is Optimistic



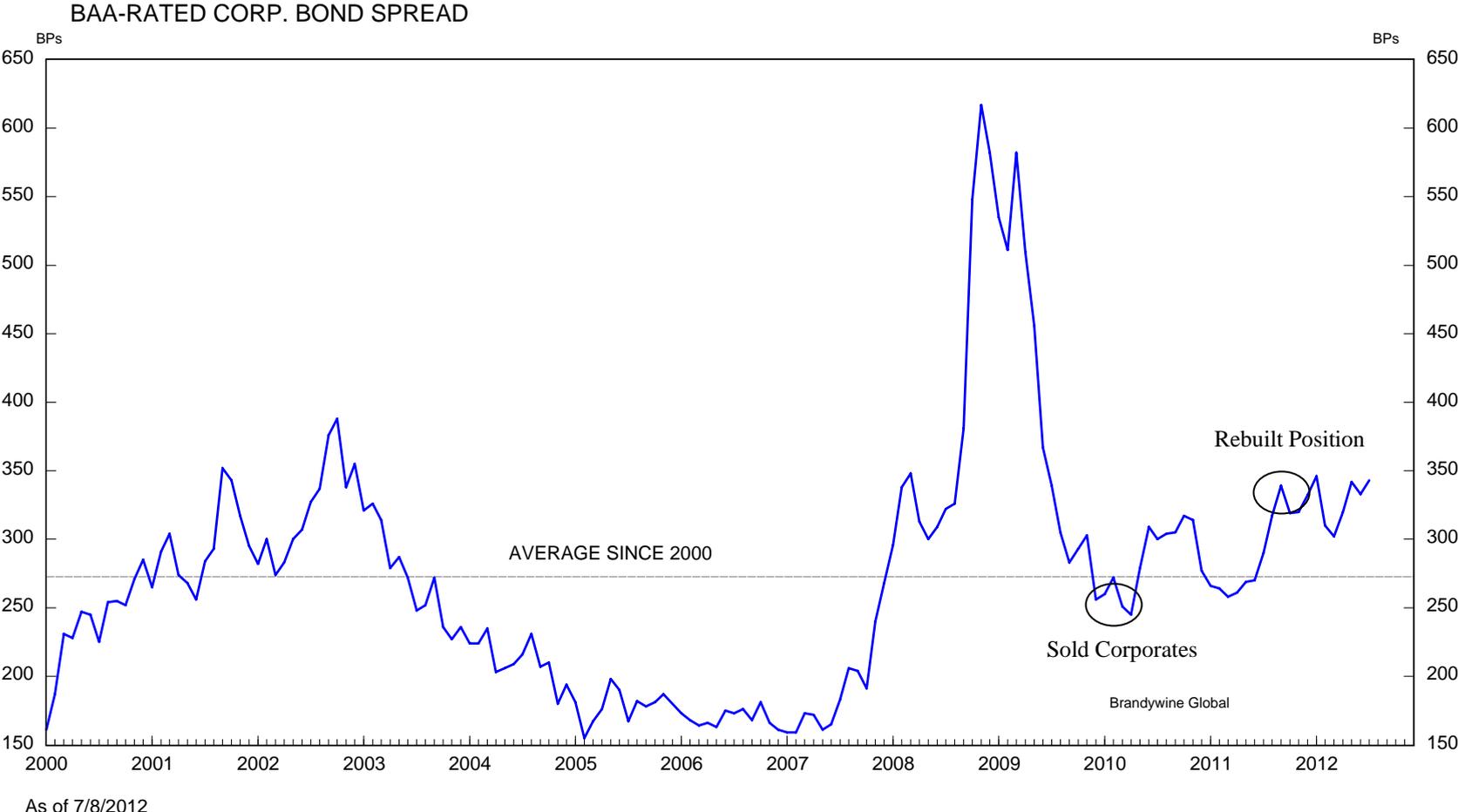
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# Mexico: The Consumer Feels Good



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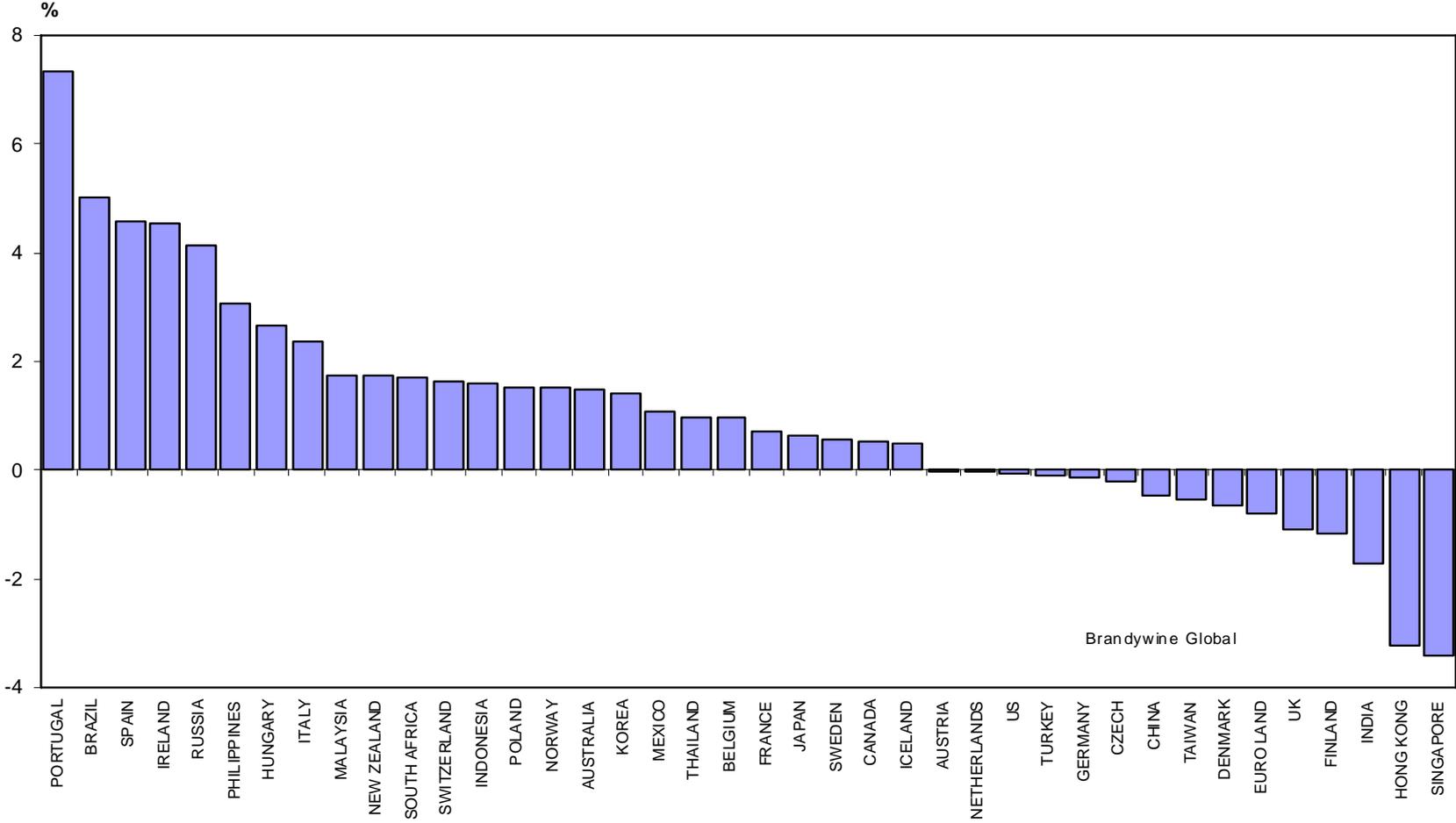
# Value Reappears in Corporate Bonds



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# Brandywine's Investment Process At Work – Country Value Rotation

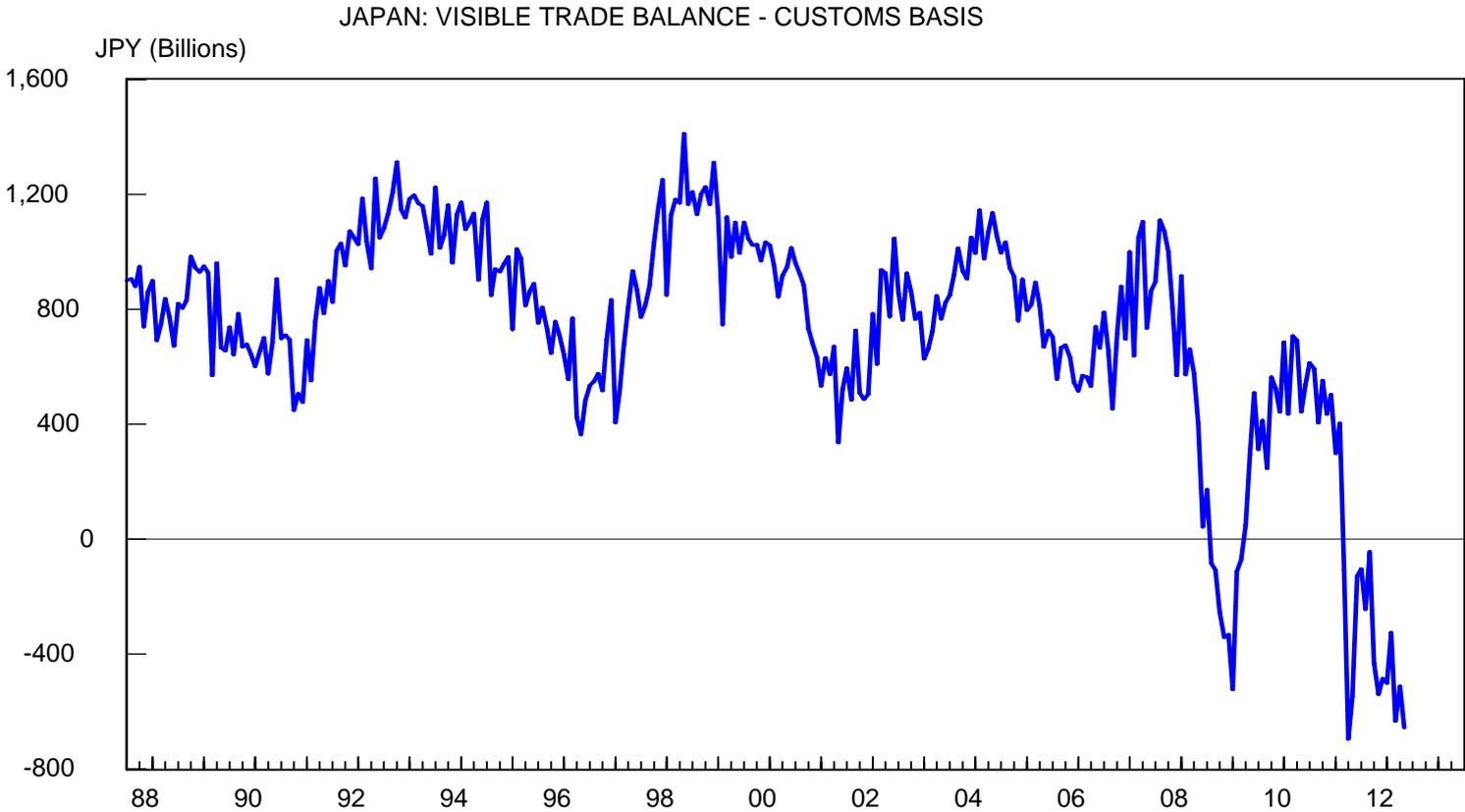
REAL 10 YEAR BOND YIELD RANKING - BASED ON 12-MONTH % CHANGE OF HEADLINE CPI



As of 06/30/2012

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# More And More Evidence That The Yen Is Overvalued



Current prices,seasonally adjusted

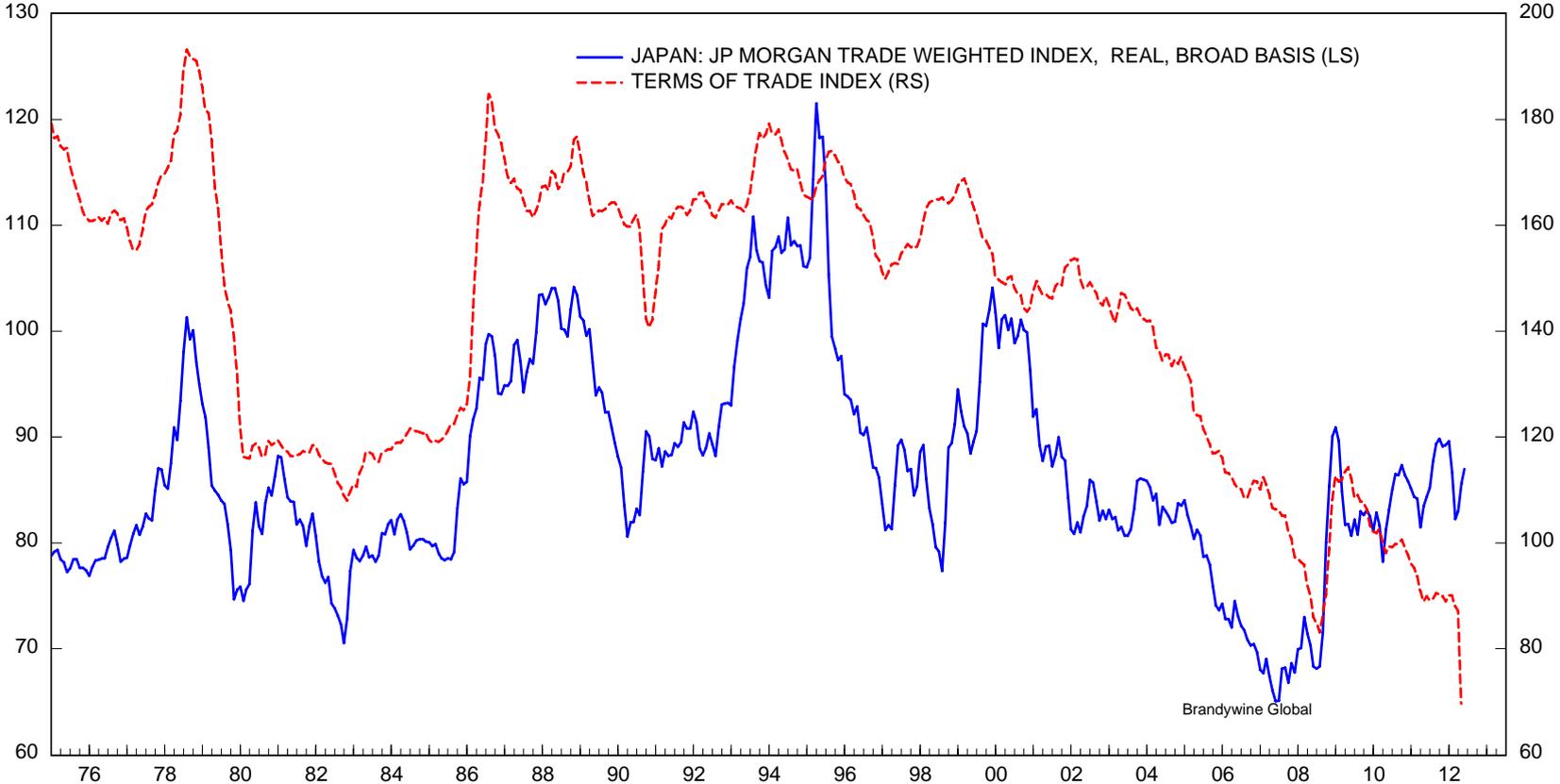
Source: MINISTRY OF FINANCE,JAPAN

AS OF 05/31/2012

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# What Is Supporting The Yen?

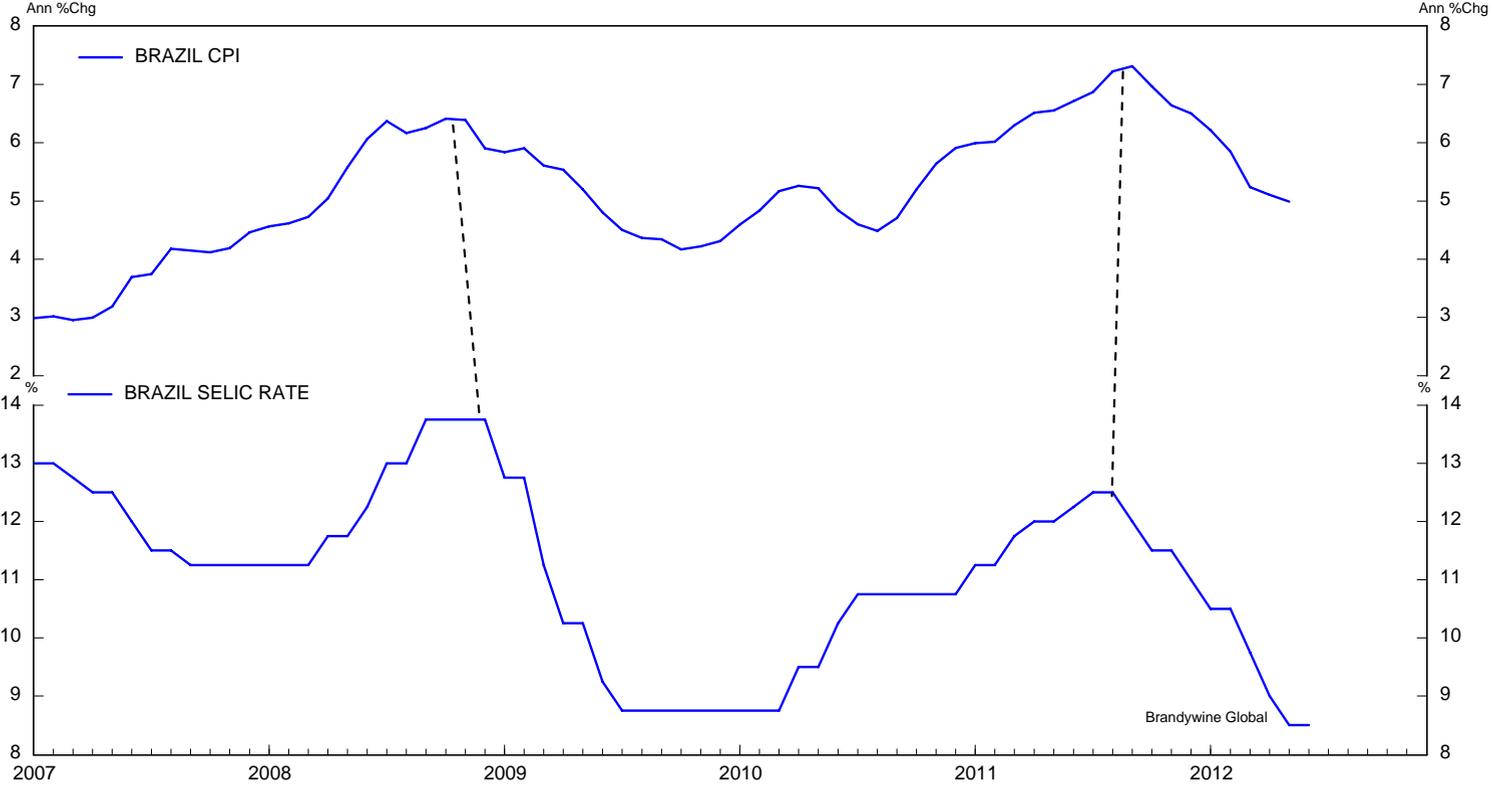
TRADE WEIGHTED YEN & JAPANESE TERMS OF TRADE



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# Brazil - Huge Reduction in Rates



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## Global Opportunistic Fixed Income

June 30, 2012

Amount	Description	Type	Contract Rate	Current Rate	Market Value	% Of Port	Unrealized Gain / Loss
<b>Currency Forwards</b>							
-9,613,000.00	AUD/USD FWD 20120711	Currency	1.02	1.02	-9,842,205.28	-10.14	-37,043.83
9,805,161.45	USD/AUD FWD 20120711	Forwards			9,805,161.45	10.10	
-2,391,000.12	USD/CLP FWD 20121018	Currency	497.34	509.85	-2,391,000.12	-2.46	
1,189,140,000.00	CLP/USD FWD 20121018	Forwards			2,332,340.66	2.40	-58,659.46
-2,467,673.24	USD/BRL FWD 20120802	Currency	2.08	2.03	-2,467,673.24	-2.54	
5,145,000.00	BRL/USD FWD 20120802	Forwards			2,530,398.39	2.61	62,725.15
-5,145,000.00	BRL/USD FWD 20120802	Currency	1.92	2.03	-2,530,398.39	-2.61	149,358.90
2,679,757.29	USD/BRL FWD 20120802	Forwards			2,679,757.29	2.76	
-4,237,842.59	USD/TRY FWD 20120810	Currency	1.82	1.83	-4,237,842.59	-4.37	
7,708,000.00	TRY/USD FWD 20120810	Forwards			4,221,077.57	4.35	-16,765.02
-815,177.53	USD/CLP FWD 20121116	Currency	512.60	511.57	-815,177.53	-0.84	
417,860,000.00	CLP/USD FWD 20121116	Forwards			816,815.26	0.84	1,637.73
-7,231,705.00	USD/GBP FWD 20120913	Currency	1.57	1.57	-7,231,705.00	-7.45	
4,615,000.00	GBP/USD FWD 20120913	Forwards			7,236,869.62	7.45	5,164.62
-3,495,000.00	NZD/USD FWD 20120918	Currency	0.76	0.80	-2,793,572.94	-2.88	-137,372.94
2,656,200.00	USD/NZD FWD 20120918	Forwards			2,656,200.00	2.74	
-216,187.20	USD/BRL FWD 20120904	Currency	2.05	2.04	-216,187.20	-0.22	
443,000.00	BRL/USD FWD 20120904	Forwards			216,667.94	0.22	480.74

Global Opportunistic Fixed Income

June 30, 2012

Par Value	Description	Cost	Cost (Local)	Total Cost	Price	Price (Local)	Market Value	Gain / Loss	Accrued Interest	Quality S&P/Moody	% Of Port	Mkt YTM	Mod Dur'n	Dur'n Contr	
<b>AUSTRALIAN DOLLAR</b>		<b>0.9756</b>													
<b>Government Regional Agencies</b>															
4,485,000	NSWTC-DOMESTIC 6% 04/01/16	99.25	102.50	4,451,569.85	111.88	109.15	5,017,833.96	566,264.11	68,583.56	AAA/Aaa	5.24	3.39	3.34	0.17	
860,000	QUEENSLAND TREAS 6% 07/21/22	108.61	105.80	934,051.78	114.20	111.41	982,093.98	48,042.20	23,540.16	AA+/Aa1	1.04	4.57	7.49	0.08	
2,590,000	QUEENSLAND TREAS 6.25% 02/21/20	104.29	106.44	2,701,106.27	115.02	112.21	2,978,914.16	277,807.89	59,716.69	AA+/Aa1	3.13	4.36	6.04	0.19	
<b>Total:</b>				<b>8,086,727.90</b>			<b>8,978,842.10</b>		<b>151,840.41</b>		<b>9.41</b>	<b>3.84</b>	<b>4.69</b>	<b>0.44</b>	
<b>Government Sovereign Agency</b>															
1,085,000	KFW 6.25% 12/04/19	87.88	99.57	953,512.81	114.83	112.03	1,245,938.26	292,425.45	5,127.89	AAA/Aaa	1.29	4.34	5.99	0.08	
<b>Total:</b>				<b>953,512.81</b>			<b>1,245,938.26</b>		<b>5,127.89</b>		<b>1.29</b>	<b>4.34</b>	<b>5.99</b>	<b>0.08</b>	
<b>Securities Exposure</b>				<b>9,040,240.71</b>			<b>10,224,780.36</b>		<b>156,968.30</b>		<b>10.69</b>	<b>3.90</b>	<b>4.85</b>	<b>0.52</b>	
<b>Net Currency Derivatives Exposure</b>							<b>-9,842,205.28</b>				<b>-10.14</b>				
<b>Total Currency Exposure</b>				<b>9,040,240.71</b>			<b>382,575.08</b>		<b>156,968.30</b>		<b>0.55</b>	<b>3.90</b>	<b>4.85</b>	<b>0.52</b>	
<b>BRAZILIAN REAL</b>		<b>2.0185</b>													
<b>Government Sovereign</b>															
6,035	BRAZIL NTN-F 10% 01/01/21	465.77	860.97	2,810,911.82	496.62	1,002.40	2,997,087.83	186,176.01	145,934.46	NR/Baa2	3.24	10.91	5.05	0.16	
<b>Total:</b>				<b>2,810,911.82</b>			<b>2,997,087.83</b>		<b>145,934.46</b>		<b>3.24</b>	<b>10.91</b>	<b>5.05</b>	<b>0.16</b>	
<b>Securities Exposure</b>				<b>2,810,911.82</b>			<b>2,997,087.83</b>		<b>145,934.46</b>		<b>3.24</b>	<b>10.91</b>	<b>5.05</b>	<b>0.16</b>	
<b>Net Currency Derivatives Exposure</b>							<b>216,667.94</b>				<b>0.22</b>				
<b>Total Currency Exposure</b>				<b>2,810,911.82</b>			<b>3,213,755.77</b>		<b>145,934.46</b>		<b>3.46</b>	<b>10.91</b>	<b>5.05</b>	<b>0.16</b>	
<b>BRITISH POUND STERLING</b>		<b>0.6376</b>													
<b>Government Sovereign</b>															
4,635,000	UK TREASURY 4.5% 03/07/13	169.86	105.57	7,873,063.03	161.32	102.85	7,477,051.70	-396,011.33	103,120.39	NR/Aaa	7.81	0.36	0.68	0.05	
<b>Total:</b>				<b>7,873,063.03</b>			<b>7,477,051.70</b>		<b>103,120.39</b>		<b>7.81</b>	<b>0.36</b>	<b>0.68</b>	<b>0.05</b>	
<b>Securities Exposure</b>				<b>7,873,063.03</b>			<b>7,477,051.70</b>		<b>103,120.39</b>		<b>7.81</b>	<b>0.36</b>	<b>0.68</b>	<b>0.05</b>	
<b>Net Currency Derivatives Exposure</b>							<b>7,236,869.62</b>				<b>7.45</b>				

Please compare the investment information included in this report with the information you receive from your custodian, and contact any member of your Brandywine Global team or call your custodian if you have any questions or concerns.

Global Opportunistic Fixed Income

June 30, 2012

Par Value	Description	Cost	Cost (Local)	Total Cost	Price	Price (Local)	Market Value	Gain / Loss	Accrued Interest	Quality S&P/Moody	% Of Port	Mkt YTM	Mod Dur'n	Dur'n Contr
<b>Total Currency Exposure</b>				<b>7,873,063.03</b>			<b>14,713,921.32</b>		<b>103,120.39</b>		<b>15.26</b>	<b>0.36</b>	<b>0.68</b>	<b>0.05</b>
<b>CHILEAN PESO</b>														
<b>Securities Exposure</b>				<b>0.00</b>			<b>0.00</b>		<b>0.00</b>		<b>0.00</b>			<b>0.00</b>
<b>Net Currency Derivatives Exposure</b>							<b>3,149,155.92</b>				<b>3.24</b>			
<b>Total Currency Exposure</b>				<b>0.00</b>			<b>3,149,155.92</b>		<b>0.00</b>		<b>3.24</b>			<b>0.00</b>
<b>HUNGARIAN FORINT</b>		<b>225.1724</b>												
<b>Government Sovereign</b>														
842,000,000	HUNGARY GOVT 5.5% 02/12/16	0.42	91.80	3,528,324.62	0.42	93.75	3,505,648.01	-22,676.61	78,669.55	BB+/Ba1	3.69	7.52	3.08	0.11
100,000,000	HUNGARY GOVT 7.5% 11/12/20	0.41	91.84	408,374.04	0.43	97.94	434,955.71	26,581.67	21,113.15	BB+/Ba1	0.47	7.83	5.75	0.03
<b>Total:</b>				<b>3,936,698.66</b>			<b>3,940,603.72</b>		<b>99,782.70</b>		<b>4.16</b>	<b>7.55</b>	<b>3.38</b>	<b>0.14</b>
<b>Securities Exposure</b>				<b>3,936,698.66</b>			<b>3,940,603.72</b>		<b>99,782.70</b>		<b>4.16</b>	<b>7.55</b>	<b>3.38</b>	<b>0.14</b>
<b>Net Currency Derivatives Exposure</b>							<b>0.00</b>				<b>0.00</b>			
<b>Total Currency Exposure</b>				<b>3,936,698.66</b>			<b>3,940,603.72</b>		<b>99,782.70</b>		<b>4.16</b>	<b>7.55</b>	<b>3.38</b>	<b>0.14</b>
<b>MALAYSIAN RINGGIT</b>		<b>3.1755</b>												
<b>Government Sovereign</b>														
7,790,000	MALAYSIAN GOV'T 3.702% 02/25/13	33.39	101.08	2,600,869.36	31.64	100.46	2,464,375.27	-136,494.09	31,685.76	A/A3	2.57	2.99	0.64	0.02
5,480,000	MALAYSIAN GOV'T 3.741% 02/27/15	32.14	101.65	1,761,153.84	32.05	101.77	1,756,209.28	-4,944.56	22,169.95	NR/A3	1.83	3.04	2.49	0.05
<b>Total:</b>				<b>4,362,023.20</b>			<b>4,220,584.55</b>		<b>53,855.71</b>		<b>4.40</b>	<b>3.01</b>	<b>1.41</b>	<b>0.06</b>
<b>Securities Exposure</b>				<b>4,362,023.20</b>			<b>4,220,584.55</b>		<b>53,855.71</b>		<b>4.40</b>	<b>3.01</b>	<b>1.41</b>	<b>0.06</b>
<b>Net Currency Derivatives Exposure</b>							<b>0.00</b>				<b>0.00</b>			
<b>Total Currency Exposure</b>				<b>4,362,023.20</b>			<b>4,220,584.55</b>		<b>53,855.71</b>		<b>4.40</b>	<b>3.01</b>	<b>1.41</b>	<b>0.06</b>
<b>MEXICAN PESO</b>		<b>13.4259</b>												
<b>Government Sovereign</b>														
970,000	MEXICAN BONOS 8.5%	8.83	109.28	8,564,592.36	9.09	122.08	8,820,433.34	255,840.98	17,058.65	A-/Baa1	9.10	6.37	9.75	0.89

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Global Opportunistic Fixed Income

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Par Value	Description	Cost	Cost (Local)	Total Cost	Price	Price (Local)	Market Value	Gain / Loss	Accrued Interest	Quality S&P/Moody	% Of Port	Mkt YTM	Mod Dur'n	Dur'n Contr
	05/31/29													
115,000	MEXICAN BONOS 8.5% 11/18/38	8.26	115.21	949,461.95	9.01	120.98	1,036,298.53	86,836.58	2,022.42	A-/Baa1	1.07	6.79	11.77	0.13
	<b>Total:</b>			<b>9,514,054.31</b>			<b>9,856,731.87</b>		<b>19,081.07</b>		<b>10.17</b>	<b>6.41</b>	<b>9.96</b>	<b>1.01</b>
	<b>Securities Exposure</b>			<b>9,514,054.31</b>			<b>9,856,731.87</b>		<b>19,081.07</b>		<b>10.17</b>	<b>6.41</b>	<b>9.96</b>	<b>1.01</b>
	<b>Net Currency Derivatives Exposure</b>						<b>0.00</b>				<b>0.00</b>			
	<b>Total Currency Exposure</b>			<b>9,514,054.31</b>			<b>9,856,731.87</b>		<b>19,081.07</b>		<b>10.17</b>	<b>6.41</b>	<b>9.96</b>	<b>1.01</b>
<b>NEW TURKISH LIRA</b>														
	<b>Securities Exposure</b>			<b>0.00</b>			<b>0.00</b>		<b>0.00</b>		<b>0.00</b>			<b>0.00</b>
	<b>Net Currency Derivatives Exposure</b>						<b>4,221,077.57</b>				<b>4.35</b>			
	<b>Total Currency Exposure</b>			<b>0.00</b>			<b>4,221,077.57</b>		<b>0.00</b>		<b>4.35</b>			<b>0.00</b>
<b>NEW ZEALAND DOLLAR 1.2442</b>														
<b>Government Regional Authority</b>														
1,670,000	ONTARIO PROVINCE 6.25% 06/16/15	70.53	98.87	1,177,891.60	86.13	107.17	1,438,452.04	260,560.44	3,438.16	AA-/Aa2	1.49	3.68	2.71	0.04
	<b>Total:</b>			<b>1,177,891.60</b>			<b>1,438,452.04</b>		<b>3,438.16</b>		<b>1.49</b>	<b>3.68</b>	<b>2.71</b>	<b>0.04</b>
<b>Government Sovereign</b>														
770,000	NEW ZEALAND GVT 5% 03/15/19	78.33	99.16	603,126.61	89.20	110.98	686,821.66	83,695.05	9,081.48	AA+/Aaa	0.72	3.17	5.68	0.04
585,000	NEW ZEALAND GVT 5.5% 04/15/23	88.57	104.96	518,111.87	94.68	117.79	553,854.42	35,742.55	5,440.62	AA+/Aaa	0.58	3.51	8.29	0.05
634,000	NEW ZEALAND GVT 6% 05/15/21	70.56	100.48	447,373.79	96.64	120.24	612,704.79	165,331.00	3,904.91	AA+/Aaa	0.64	3.35	7.04	0.04
	<b>Total:</b>			<b>1,568,612.27</b>			<b>1,853,380.87</b>		<b>18,427.01</b>		<b>1.93</b>	<b>3.33</b>	<b>6.91</b>	<b>0.13</b>
	<b>Securities Exposure</b>			<b>2,746,503.87</b>			<b>3,291,832.91</b>		<b>21,865.17</b>		<b>3.41</b>	<b>3.48</b>	<b>5.08</b>	<b>0.17</b>
	<b>Net Currency Derivatives Exposure</b>						<b>-2,793,572.94</b>				<b>-2.88</b>			
	<b>Total Currency Exposure</b>			<b>2,746,503.87</b>			<b>498,259.97</b>		<b>21,865.17</b>		<b>0.53</b>	<b>3.48</b>	<b>5.08</b>	<b>0.17</b>
<b>POLISH ZLOTY 3.3373</b>														
<b>Government Sovereign</b>														

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Global Opportunistic Fixed Income

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Par Value	Description	Cost	Cost (Local)	Total Cost	Price	Price (Local)	Market Value	Gain / Loss	Accrued Interest	Quality S&P/Moody	% Of Port	Mkt YTM	Mod Dur'n	Dur'n Contr
5,025,000	POLAND GOVT BOND 5.25% 10/25/20	29.02	95.92	1,458,125.60	30.35	101.28	1,524,981.27	66,855.67	53,995.69	A/A2	1.63	5.05	6.41	0.10
13,555,000	POLAND GOVT BOND 5.75% 09/23/22	33.76	100.43	4,576,810.93	31.25	104.30	4,236,318.28	-340,492.65	179,945.15	A/A2	4.55	5.19	7.36	0.34
	<b>Total:</b>			<b>6,034,936.53</b>			<b>5,761,299.55</b>		<b>233,940.84</b>		<b>6.18</b>	<b>5.16</b>	<b>7.11</b>	<b>0.44</b>
	<b>Securities Exposure</b>			<b>6,034,936.53</b>			<b>5,761,299.55</b>		<b>233,940.84</b>		<b>6.18</b>	<b>5.16</b>	<b>7.11</b>	<b>0.44</b>
	<b>Net Currency Derivatives Exposure</b>						<b>0.00</b>				<b>0.00</b>			
	<b>Total Currency Exposure</b>			<b>6,034,936.53</b>			<b>5,761,299.55</b>		<b>233,940.84</b>		<b>6.18</b>	<b>5.16</b>	<b>7.11</b>	<b>0.44</b>
	<b>SOUTH AFRICAN RAND</b>										<b>8.1785</b>			
	<b>Government Sovereign</b>													
14,770,000	REP SOUTH AFRICA 6.5% 02/28/41	9.40	75.14	1,388,568.70	9.49	77.59	1,401,240.20	12,671.50	39,557.83	NR/A3	1.48	8.62	10.76	0.16
20,305,000	REP SOUTH AFRICA 6.75% 03/31/21	12.69	87.41	2,576,065.72	11.81	96.57	2,397,571.50	-178,494.22	42,240.41	NR/A3	2.51	7.28	6.37	0.16
	<b>Total:</b>			<b>3,964,634.42</b>			<b>3,798,811.70</b>		<b>81,798.24</b>		<b>4.00</b>	<b>7.78</b>	<b>8.00</b>	<b>0.32</b>
	<b>Securities Exposure</b>			<b>3,964,634.42</b>			<b>3,798,811.70</b>		<b>81,798.24</b>		<b>4.00</b>	<b>7.78</b>	<b>8.00</b>	<b>0.32</b>
	<b>Net Currency Derivatives Exposure</b>						<b>0.00</b>				<b>0.00</b>			
	<b>Total Currency Exposure</b>			<b>3,964,634.42</b>			<b>3,798,811.70</b>		<b>81,798.24</b>		<b>4.00</b>	<b>7.78</b>	<b>8.00</b>	<b>0.32</b>
	<b>SOUTH KOREAN WON</b>										<b>1,145.3500</b>			
	<b>Government Sovereign</b>													
834,700,000	KOREA TRSY BD 3% 12/10/13	0.09	98.25	747,579.18	0.09	99.60	725,870.16	-21,709.02	1,254.45	NR/A1	0.75	3.39	1.40	0.01
3,714,000,000	KOREA TRSY BD 5.75% 09/10/18	0.09	104.23	3,400,433.70	0.10	112.19	3,637,806.82	237,373.12	57,447.97	A+/A1	3.81	3.84	5.18	0.20
	<b>Total:</b>			<b>4,148,012.88</b>			<b>4,363,676.98</b>		<b>58,702.42</b>		<b>4.56</b>	<b>3.76</b>	<b>4.55</b>	<b>0.21</b>
	<b>Securities Exposure</b>			<b>4,148,012.88</b>			<b>4,363,676.98</b>		<b>58,702.42</b>		<b>4.56</b>	<b>3.76</b>	<b>4.55</b>	<b>0.21</b>
	<b>Net Currency Derivatives Exposure</b>						<b>0.00</b>				<b>0.00</b>			
	<b>Total Currency Exposure</b>			<b>4,148,012.88</b>			<b>4,363,676.98</b>		<b>58,702.42</b>		<b>4.56</b>	<b>3.76</b>	<b>4.55</b>	<b>0.21</b>
	<b>US DOLLAR</b>										<b>1.0000</b>			
	<b>Cash</b>													
5,205,512	US DOLLAR	1.00	1.00	5,205,511.88	1.00	1.00	5,205,511.88	0.00	0.00	AAA/Aaa	5.36	0.00	0.00	0.00

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			<b>Total:</b>	<b>5,205,511.88</b>			<b>5,205,511.88</b>		<b>0.00</b>		<b>5.36</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Corporate Bond - High Yield</b>														
210,000	AES CORP 7.375% 07/01/21 144A	110.69	110.69	232,450.00	111.25	111.25	233,625.00	1,175.00	7,743.75	BB-/Ba3	0.25	5.76	6.47	0.02
230,000	AMERIGAS FINANCE 7% 05/20/22	101.50	101.50	233,450.00	103.00	103.00	236,900.00	3,450.00	1,833.61	NR/Ba2	0.25	6.58	5.99	0.01
90,000	CHESAPEAKE ENRGY 6.125% 02/15/21	98.63	98.63	88,762.50	96.75	96.75	87,075.00	-1,687.50	2,082.50	BB-/Ba3	0.09	6.62	6.43	0.01
25,000	CHESAPEAKE ENRGY 6.625% 08/15/20	100.75	100.75	25,187.50	99.00	99.00	24,750.00	-437.50	625.69	BB-/Ba3	0.03	6.79	6.05	0.00
90,000	CCO HOLDINGS LLC 6.5% 04/30/21	104.25	104.25	93,825.00	106.50	106.50	95,850.00	2,025.00	991.25	BB-/B1	0.10	5.56	4.81	0.00
50,000	CIT GROUP INC 4.75% 02/15/15 144A	100.00	100.00	50,000.00	102.38	102.38	51,187.50	1,187.50	950.00	BB-/B1	0.05	3.79	2.41	0.00
45,000	DUPONT FABROS TE 8.5% 12/15/17	110.50	110.50	49,725.00	110.00	110.00	49,500.00	-225.00	170.00	BB/Ba1	0.05	6.31	1.38	0.00
125,000	DAVITA INC 6.625% 11/01/20	106.88	106.88	133,593.75	104.25	104.25	130,312.50	-3,281.25	1,380.21	B/B2	0.14	5.97	4.43	0.01
210,000	HCA INC 7.5% 02/15/22	107.49	107.49	225,731.25	109.00	109.00	228,900.00	3,168.75	5,950.00	B-/B3	0.24	6.24	6.76	0.02
225,000	ICAHN ENTER/FIN 8% 01/15/18	104.03	104.03	234,075.00	106.25	106.25	239,062.50	4,987.50	8,300.00	BBB-/Ba3	0.25	6.63	2.98	0.01
220,000	INTELSAT JACKSON 7.25% 10/15/20	105.20	105.20	231,437.50	105.25	105.25	231,550.00	112.50	3,367.22	B/B3	0.24	6.42	4.97	0.01
180,000	LINN ENERGY LLC 6.25% 11/01/19 144A	100.09	100.09	180,162.90	98.00	98.00	176,400.00	-3,762.90	3,718.75	B/B2	0.19	6.59	5.68	0.01
185,000	WARNER CHILCOTT 7.75% 09/15/18	106.37	106.37	196,787.50	107.25	107.25	198,412.50	1,625.00	4,221.61	BB/B3	0.21	6.32	3.52	0.01
			<b>Total:</b>	<b>1,975,187.90</b>			<b>1,983,525.00</b>		<b>41,334.59</b>		<b>2.09</b>	<b>6.24</b>	<b>5.03</b>	<b>0.10</b>
<b>Corporate Bond - Investment Grade</b>														
1,660,000	AMGEN INC 5.15% 11/15/41	99.17	99.17	1,646,188.80	104.54	104.54	1,735,297.60	89,108.80	10,923.72	A+/Baa1	1.80	4.86	15.17	0.27
260,000	BANK OF AMER CRP 4.5% 04/01/15	99.90	99.90	259,737.40	103.09	103.09	268,032.96	8,295.56	2,925.00	A-/Baa2	0.28	3.32	2.56	0.01
455,000	BANK OF AMER CRP 6.5% 08/01/16	103.14	103.14	469,282.45	109.85	109.85	499,830.70	30,548.25	12,322.92	A-/Baa2	0.53	3.87	3.53	0.02
190,000	COMCAST CORP 6.45% 03/15/37	95.81	95.81	182,042.25	121.76	121.76	231,338.30	49,296.05	3,608.42	BBB+/Baa1	0.24	4.92	13.25	0.03
500,000	COMCAST CORP 6.55% 07/01/39	99.70	99.70	498,516.20	124.77	124.77	623,826.50	125,310.30	16,375.00	BBB+/Baa1	0.66	4.89	13.70	0.09

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Global Opportunistic Fixed Income

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780,000	COMCAST CORP 6.95% 08/15/37	99.79	99.79	778,362.00	128.60	128.60	1,003,048.80	224,686.80	20,479.33	BBB+/Baa1	1.05	4.95	13.09	0.14	
980,000	FIFTH THIRD BANK 8.25% 03/01/38	99.75	99.75	977,530.40	135.87	135.87	1,331,528.94	353,998.54	26,950.00	BBB-/Baa2	1.40	5.60	12.33	0.17	
1,695,000	GEN ELEC CAP CRP FLT 06/02/14	100.00	100.00	1,695,000.00	99.85	99.85	1,692,396.48	-2,603.52	1,497.66	AA+/A1	1.74	1.18	0.19	0.00	
720,000	GOLDMAN SACHS GP 5.25% 07/27/21	101.20	101.20	728,654.40	101.65	101.65	731,913.12	3,258.72	16,170.00	A-/A3	0.77	5.02	7.02	0.05	
696,000	GOLDMAN SACHS GP 6.75% 10/01/37	99.82	99.82	694,770.96	98.11	98.11	682,849.08	-11,921.88	11,745.00	BBB+/Baa1	0.72	6.91	11.73	0.08	
205,000	HARTFORD FINL 5.125% 04/15/22	99.46	99.46	203,884.80	103.05	103.05	211,261.93	7,377.13	2,509.83	BBB/Baa3	0.22	4.73	7.59	0.02	
1,035,000	HEWLETT-PACK CO 4.65% 12/09/21	100.63	100.63	1,041,507.35	104.90	104.90	1,085,719.14	44,211.79	2,941.12	BBB+/A3	1.12	4.02	7.63	0.09	
300,000	JPMORGAN CHASE FLT 01/24/14	100.15	100.15	300,447.00	100.26	100.26	300,777.90	330.90	706.65	A/A2	0.31	1.11	0.07	0.00	
690,000	JPMORGAN CHASE 4.5% 01/24/22	100.47	100.47	693,217.60	107.81	107.81	743,860.71	50,643.11	13,627.50	A/A2	0.78	3.53	7.68	0.06	
415,000	MORGAN STANLEY 5.5% 07/28/21	98.53	98.53	408,911.95	98.60	98.60	409,169.67	257.72	9,700.63	A-/Baa1	0.43	5.70	6.89	0.03	
535,000	MORGAN STANLEY 5.625% 09/23/19	95.45	95.45	510,678.20	99.03	99.03	529,799.80	19,121.60	8,192.19	A-/Baa1	0.55	5.79	5.78	0.03	
110,000	ARCELORMITTAL 6.25% 02/25/22	99.28	99.28	109,212.40	98.01	98.01	107,811.66	-1,400.74	2,348.96	BBB-/Baa3	0.11	6.53	6.99	0.01	
115,000	TRANSOCEAN INC 6.8% 03/15/38	102.23	102.23	117,558.75	112.57	112.57	129,450.44	11,891.69	2,302.56	BBB-/Baa3	0.14	5.85	12.61	0.02	
590,000	BRASIL TELECOM 5.75% 02/10/22 144A	100.02	100.02	590,100.00	101.90	101.90	601,210.00	11,110.00	13,287.30	BBB-/Baa2	0.63	5.49	7.18	0.05	
1,315,000	TIME WARNER CABL 7.3% 07/01/38	99.71	99.71	1,311,133.90	128.59	128.59	1,690,901.96	379,768.06	47,997.50	BBB/Baa2	1.79	5.27	12.84	0.23	
726,000	UNITEDHEALTH GRP 6.625% 11/15/37	99.24	99.24	720,489.66	134.02	134.02	972,961.97	252,472.31	6,145.79	A-/A3	1.01	4.39	13.92	0.14	
535,000	VIACOM INC 6.875% 04/30/36	95.50	95.50	510,904.90	129.63	129.63	693,502.31	182,597.41	6,232.37	BBB+/Baa1	0.72	4.78	13.02	0.09	
	<b>Total:</b>			<b>14,448,131.37</b>			<b>16,276,489.97</b>		<b>238,989.45</b>		<b>17.01</b>	<b>4.51</b>	<b>9.59</b>	<b>1.63</b>	
<b>Government Sovereign</b>															
6,900,000	TREASURY BILL 0% 03/07/13	99.89	99.89	6,892,704.00	99.89	99.89	6,892,285.80	-418.20	0.00	AA+/Aaa	7.10	0.16	0.69	0.05	
4,505,000	US TREASURY N/B 4.25% 11/15/40	99.42	99.42	4,478,893.16	131.03	131.03	5,902,955.56	1,424,062.40	24,453.10	AA+/Aaa	6.11	2.68	17.99	1.10	
	<b>Total:</b>			<b>11,371,597.16</b>			<b>12,795,241.36</b>		<b>24,453.10</b>		<b>13.21</b>	<b>1.33</b>	<b>8.69</b>	<b>1.15</b>	

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<b>Mortgage Backed Securities</b>														
779,441	CWALT 2005-26CB A6 5.5% 07/25/35	87.73	87.73	683,779.12	75.88	75.88	591,450.11	-92,329.01	3,572.44	CC/Caa2	0.61	12.71	3.38	0.02
27,848	CWALT 2005-54CB 1A7 5.5% 11/25/35	82.25	82.25	22,905.26	85.87	85.87	23,912.29	1,007.03	127.64	CCC/B3	0.02	9.43	3.57	0.00
189,641	CWALT 2005-64CB 1A7 5.5% 12/25/35	77.25	77.25	146,497.59	89.24	89.24	169,227.96	22,730.37	869.19	BB+/B3	0.18	8.54	3.49	0.01
483,789	MARS 2008-4 A1 VAR 06/27/36 144A	93.00	93.00	449,924.21	78.31	78.31	378,855.05	-71,069.16	2,418.79	CCC/NR	0.39	10.87	4.54	0.02
372,074	WMALT 2005-6 2A1 5.5% 08/25/35	80.00	80.00	297,659.34	80.09	80.09	297,994.94	335.60	1,705.34	CCC/Caa2	0.31	11.00	3.65	0.01
	<b>Total:</b>			<b>1,600,765.52</b>			<b>1,461,440.35</b>		<b>8,693.40</b>		<b>1.51</b>	<b>11.35</b>	<b>3.75</b>	<b>0.06</b>
<b>Municipal Bonds</b>														
475,000	MEAG TXB-PLT VOGTLE 6.655% 04/01/57	99.90	99.90	474,538.83	114.62	114.62	544,426.00	69,887.17	7,902.82	A+/A2	0.57	5.74	15.51	0.09
1,370,000	MEAG TXB-PLT VOGTLE 6.637% 04/01/57	100.18	100.18	1,372,484.98	116.02	116.02	1,589,474.00	216,989.02	22,731.73	A+/A2	1.66	5.65	15.68	0.26
	<b>Total:</b>			<b>1,847,023.81</b>			<b>2,133,900.00</b>		<b>30,634.55</b>		<b>2.23</b>	<b>5.67</b>	<b>15.64</b>	<b>0.35</b>
	<b>Securities Exposure</b>			<b>36,448,217.64</b>			<b>39,856,108.56</b>		<b>344,105.09</b>		<b>41.41</b>	<b>3.31</b>	<b>7.94</b>	<b>3.29</b>
	<b>Net Currency Derivatives Exposure</b>						<b>-2,218,466.94</b>				<b>-2.29</b>			
	<b>Total Currency Exposure</b>			<b>36,448,217.64</b>			<b>37,637,641.62</b>		<b>344,105.09</b>		<b>39.12</b>	<b>3.31</b>	<b>7.94</b>	<b>3.29</b>

Please compare the investment information included in this report with the information you receive from your custodian, and contact any member of your Brandywine Global team or call your custodian if you have any questions or concerns.

Shares/Par	Security	Cost	Total Cost
<b>Purchases</b>			
<b>Corporate Bond</b>			
205,000	HARTFORD FINL 5.125% 04/15/22	99.46	203,884.80
115,000	MORGAN STANLEY 5.625% 09/23/19	96.90	111,430.40
			<b>315,315.20</b>
<b>Government Regional Agencies</b>			
860,000	QUEENSLAND TREAS 6% 07/21/22	108.61	934,051.78
			<b>934,051.78</b>
<b>Government Sovereign</b>			
100,000,000	HUNGARY GOVT 7.5% 11/12/20	0.41	408,374.04
5,480,000	MALAYSIAN GOV'T 3.741% 02/27/15	32.14	1,761,153.84
115,000	MEXICAN BONOS 8.5% 11/18/38	8.26	949,461.95
2,960,000	POLAND GOVT BOND 5.75% 09/23/22	29.71	879,427.69
5,000,000	REP SOUTH AFRICA 6.5% 02/28/41	9.58	479,240.42
6,900,000	TREASURY BILL 0% 03/07/13	99.89	6,892,704.00
			<b>11,370,361.94</b>

Shares/Par	Security	Cost	Total Cost	Average Proceeds	Proceeds	Gain/Loss
<b>Sales/Maturations</b>						
<b>Corporate Bond</b>						
90,000	CHESAPEAKE ENRGY 6.125% 02/15/21	98.63	88,762.50	89.79	80,812.50	-7,950.00
25,000	CHESAPEAKE ENRGY 6.625% 08/15/20	100.75	25,187.50	91.75	22,937.50	-2,250.00
115,000	MORGAN STANLEY 5.5% 07/28/21	98.53	113,312.95	95.78	110,148.15	-3,164.80
235,000	TARGET CORP 6.5% 10/15/37	99.72	234,346.70	134.52	316,130.80	81,784.10
			<b>461,609.65</b>		<b>530,028.95</b>	<b>68,419.30</b>
<b>Government Sovereign</b>						
5,526,000	MALAYSIAN GOV'T 3.718% 06/15/12	28.73	1,587,526.70	31.62	1,747,390.04	159,863.34
720,000	US TREASURY N/B 4.25% 11/15/40	99.42	715,827.54	122.27	880,312.50	164,484.96
			<b>2,303,354.24</b>		<b>2,627,702.54</b>	<b>324,348.30</b>

## Global Opportunistic Fixed Income

4/1/2012-6/30/2012

Amount Purchased	Currency	Amount Sold	Currency	Exchange Rate	Trade Date	Value Date
<b>FX Activity</b>						
<b>Hedge Related FX</b>						
4,325,476.99	US DOLLAR Purchased	7,708,000.00	NEW TURKISH LIRA Sold	1.78	05/08/2012	05/10/2012
8,691,000.00	AUSTRALIAN DOLLAR Purchased	8,951,730.00	US DOLLAR Sold	1.03	04/05/2012	04/12/2012
443,000.00	BRAZILIAN REAL Purchased	216,187.20	US DOLLAR Sold	0.49	06/29/2012	09/04/2012
5,145,000.00	BRAZILIAN REAL Purchased	2,725,105.93	US DOLLAR Sold	0.53	04/26/2012	05/03/2012
5,145,000.00	BRAZILIAN REAL Purchased	2,467,673.24	US DOLLAR Sold	0.48	06/25/2012	08/02/2012
941,297.46	US DOLLAR Purchased	922,000.00	AUSTRALIAN DOLLAR Sold	0.98	04/11/2012	07/11/2012
2,845,752.60	US DOLLAR Purchased	3,592,000.00	SINGAPORE DOLLAR Sold	1.26	04/09/2012	04/25/2012
2,679,757.29	US DOLLAR Purchased	5,145,000.00	BRAZILIAN REAL Sold	1.92	04/26/2012	08/02/2012
7,708,000.00	NEW TURKISH LIRA Purchased	4,237,842.59	US DOLLAR Sold	0.55	05/08/2012	08/10/2012
2,438,811.30	US DOLLAR Purchased	1,189,140,000.00	CHILEAN PESO Sold	487.59	04/17/2012	04/23/2012
8,863,863.99	US DOLLAR Purchased	8,691,000.00	AUSTRALIAN DOLLAR Sold	0.98	04/05/2012	07/11/2012
2,656,200.00	US DOLLAR Purchased	3,495,000.00	NEW ZEALAND DOLLAR Sold	1.32	06/06/2012	09/18/2012
3,495,000.00	NEW ZEALAND DOLLAR Purchased	2,673,692.48	US DOLLAR Sold	0.77	06/06/2012	06/11/2012
1,189,140,000.00	CHILEAN PESO Purchased	2,391,000.12	US DOLLAR Sold	0.00	04/17/2012	10/18/2012
7,235,581.60	US DOLLAR Purchased	4,615,000.00	BRITISH POUND STERLING Sold	0.64	05/29/2012	06/01/2012
4,615,000.00	BRITISH POUND STERLING Purchased	7,231,705.00	US DOLLAR Sold	1.57	05/29/2012	09/13/2012
830,405.41	US DOLLAR Purchased	417,860,000.00	CHILEAN PESO Sold	503.20	05/17/2012	05/23/2012
417,860,000.00	CHILEAN PESO Purchased	815,177.53	US DOLLAR Sold	0.00	05/17/2012	11/16/2012
<b>Trade Related FX</b>						
41,546.47	US DOLLAR Purchased	52,187.50	NEW ZEALAND DOLLAR Sold	1.26	06/19/2012	06/21/2012
35,609.84	US DOLLAR Purchased	494,181.45	MEXICAN PESO Sold	13.88	06/22/2012	06/26/2012
14,536.99	US DOLLAR Purchased	19,020.00	NEW ZEALAND DOLLAR Sold	1.31	05/16/2012	05/18/2012
13,214.27	US DOLLAR Purchased	16,087.50	NEW ZEALAND DOLLAR Sold	1.22	04/19/2012	04/19/2012
9,308.61	US DOLLAR Purchased	10,867,800.00	SOUTH KOREAN WON Sold	1,167.50	06/14/2012	06/14/2012
13,727,013.29	MEXICAN PESO Purchased	982,136.49	US DOLLAR Sold	0.07	06/13/2012	06/15/2012
3,186,025.60	POLISH ZLOTY Purchased	929,764.96	US DOLLAR Sold	0.29	06/13/2012	06/18/2012

## Global Opportunistic Fixed Income

4/1/2012-6/30/2012

Amount Purchased	Currency	Amount Sold	Currency	Exchange Rate	Trade Date	Value Date
<b>FX Activity</b>						
922,092.00	AUSTRALIAN DOLLAR Purchased	950,215.81	US DOLLAR Sold	1.03	04/11/2012	04/16/2012
95,116,000.00	HUNGARIAN FORINT Purchased	419,188.65	US DOLLAR Sold	0.00	04/13/2012	04/20/2012
2,177.49	MALAYSIAN RINGGIT Purchased	684.21	US DOLLAR Sold	0.31	06/01/2012	06/05/2012
88,252.12	US DOLLAR Purchased	685,293.75	SOUTH AFRICAN RAND Sold	7.77	04/05/2012	04/05/2012
298,332.76	US DOLLAR Purchased	4,168,305.34	MEXICAN PESO Sold	13.97	06/25/2012	06/26/2012
32,950.09	US DOLLAR Purchased	33,906.25	AUSTRALIAN DOLLAR Sold	1.03	06/07/2012	06/07/2012
138,667.23	US DOLLAR Purchased	134,550.00	AUSTRALIAN DOLLAR Sold	0.97	04/05/2012	04/05/2012
1,939,320.25	SOUTH AFRICAN RAND Purchased	249,075.62	US DOLLAR Sold	0.13	04/24/2012	04/30/2012
1,896,973.25	SOUTH AFRICAN RAND Purchased	239,916.69	US DOLLAR Sold	0.13	04/13/2012	04/18/2012

# Global Opportunistic Fixed Income Composite Disclosure

As of 3/31/2012 Results shown in \$USD

Year or YTD	Composite Return Gross of Fees (%)	Composite Return Net of Fees (%)	CWGBI <sup>1</sup> Return (%)	BlendedA <sup>2</sup> Return (%)	# of Accts	Market Value (\$MM)	Firm Assets (\$MM)	Composite Dispersion (%)	Composite St. Dev. (% 3-Year Rolling)	CWGBI <sup>1</sup> St. Dev. (% 3-Year Rolling)	BlendedA <sup>2</sup> St. Dev. (% 3-Year Rolling)	Period	Composite Return Gross of Fees (%)	Composite Return Net of Fees (%)	CWGBI <sup>1</sup> Return (%)	BlendedA <sup>2</sup> Return (%)
2012	3.30	3.18	-0.51	0.00	34	7,394	37,184	0.17	7.55	6.78	6.47	1 Year	9.86	9.37	5.12	5.55
2011	8.64	8.15	6.35	6.42	35	6,993	33,122	0.45	8.33	7.57	7.19	3 Year	16.68	16.15	6.23	7.57
2010	13.77	13.27	5.17	6.00	32	5,542	31,996	0.67	11.26	9.26	8.90	5 Year	9.22	8.74	6.78	6.98
2009	21.10	20.57	2.55	5.97	33	5,532	29,199	1.14	10.95	8.83	8.44	7 Year	8.15	7.64	5.18	5.62
2008	-8.30	-8.71	10.89	7.73	36	5,120	32,755	1.25	9.17	7.39	7.12	10 Year	12.01	11.46	7.88	8.17
2007	10.71	10.19	10.95	10.29	35	6,394	49,208	0.24	5.16	5.48	5.01	Since Inception*	9.47	8.92	6.13	6.43
2006	8.59	8.00	6.12	6.62	31	4,390	39,241	0.49	5.08	5.86	5.50	(1/1/1998)				
2005	-0.72	-1.26	-6.87	-5.53	23	2,616	26,332	0.82	6.53	7.24	6.88					
2004	14.27	13.65	10.35	10.46	13	1,543	18,547	0.34	6.72	7.50	6.93					
2003	27.30	26.62	14.91	16.24	9	726	12,680	1.19	8.20	7.69	7.06	*Supplemental Information				
2002	27.03	26.34	19.49	18.22	8	567	7,990	0.44	9.25	7.34	6.67					

Year	Composite Return Gross of Fees (%)				Composite Return Net of Fees (%)				CWGBI <sup>1</sup> Return (%)				BlendedA <sup>2</sup> Return (%)			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
2012	3.30	-	-	-	3.18	-	-	-	-0.51	-	-	-	0.00	-	-	-
2011	2.15	2.91	2.48	0.84	2.03	2.79	2.37	0.73	0.66	3.32	2.38	-0.12	0.82	3.26	1.75	0.46
2010	2.55	1.68	10.10	-0.89	2.43	1.57	9.98	-1.01	-1.33	0.29	8.18	-1.76	-0.78	0.33	8.14	-1.54
2009	-2.67	12.86	9.49	0.69	-2.78	12.74	9.37	0.58	-4.81	3.48	6.16	-1.93	-3.96	4.74	6.79	-1.36
2008	2.19	0.16	-5.41	-5.29	2.07	0.05	-5.51	-5.39	9.66	-4.23	-2.97	8.81	8.53	-3.76	-3.36	6.72
2007	0.98	0.92	5.82	2.66	0.85	0.80	5.71	2.55	1.15	-1.54	7.20	3.92	1.30	-1.46	6.65	3.60
2006	0.91	2.55	1.98	2.89	0.77	2.41	1.84	2.75	-0.41	3.17	1.44	1.80	-0.14	2.74	1.84	2.04
2005	-2.27	1.21	0.82	-0.45	-2.40	1.07	0.69	-0.59	-2.58	-1.43	-1.12	-1.92	-2.45	-0.82	-0.77	-1.59
2004	1.28	-0.57	4.48	8.60	1.15	-0.70	4.34	8.46	1.86	-3.33	3.28	8.50	1.95	-3.32	3.65	8.13
2003	6.93	7.83	2.57	7.63	6.79	7.69	2.43	7.49	3.11	3.88	1.97	5.21	3.53	4.55	2.03	5.25
2002	0.56	12.00	3.07	9.42	0.43	11.86	2.93	9.27	-1.61	11.65	3.87	4.73	-1.04	9.80	3.29	5.34

<sup>1</sup>CWGBI = Citigroup World Government Bond Index (Unhedged)

<sup>2</sup>BlendedA = 90% CWGBI ; 5% ML High Yield ; 5% JPM Emrg Markets

Organization: Brandywine Global Investment Management, LLC (the "Firm") is a wholly owned, independently operated, subsidiary of Legg Mason, Inc. The Firm has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). For the periods July 1, 2000 through June 30, 2010, the Firm has been verified by Kreisler Miller. A verification includes assessing whether the Firm (1) complied with the composite construction requirements of the GIPS standards on a firm-wide basis, and (2) designed its processes and procedures to calculate and present performance results in compliance with the GIPS standards. A copy of the verification report is available upon request. Disclosed total firm assets represent the total market value of all discretionary and nondiscretionary, fee-paying and non-fee-paying assets under the Firm's management. Composite Description: The Global Opportunistic Fixed Income Composite (the "Composite") Inception date: January 1, 1998. Creation date: January 15, 2002. The Composite includes all fully discretionary, fee-paying, actively managed Global Fixed Income accounts with no minimum market value and flexible country, yield and/or credit quality mandates. Approximately 90% of the holdings consist of debts of governments or related agencies of developed countries with the remaining 10% in debts of governments of emerging countries and corporate high yield opportunities in developed countries that Brandywine believes are going to substantially increase in value due to improving fundamental factors that affect their valuation. The portfolios are typically invested in securities from 8 - 16 different countries. Effective Oct 1, 2008, The Composite was amended and a number of client-restrictive accounts were removed. This restructuring accounted for a significant portion of the Composite's market value decrease. The Composite utilizes over-the-counter forward exchange rate contracts to manage its currency exposure. These contracts are valued daily using closing forward exchange rates. Brandywine uses WM/Reuters daily FX rates taken at 4 p.m. London time. Benchmark indices' exchange rates may vary from Brandywine's exchange rates periodically. Benchmark: The Composite returns are benchmarked to the Citigroup World Government Bond Index (CWGBI) and to a blended index constructed of monthly rebalanced returns of the Citigroup World Government Bond Index (CWGBI), which measures the performance of developed countries' global fixed income markets invested in debt issues of U.S. and non-U.S. governmental entities. ML HY Master II measures performance of U.S. domestic market debt instruments with a rating lower than BBB-. JPM EMBI+ tracks total returns of USD currency-denominated emerging market debt instruments such as Brady bonds, loans, and Eurobonds. JPM GBI measures the performance of developed countries' global fixed income markets invested in debt issues of U.S. and non-U.S. Performance Calculation: Preliminary data, if so noted, reflects unreconciled data for the most recent reporting period. Portfolios are valued daily on a trade date basis and include dividends and interest as well as all realized and unrealized capital gains and losses. Return calculations at the portfolio level are time-weighted to account for periodic contributions and withdrawals. Performance results are calculated on a before tax, total return basis. Prior to July 1, 2007, portfolios were included in the Composite beginning with the first full quarter of performance through the last full quarter of performance. After July 1, 2007, portfolios are included in the Composite beginning with the first full month of performance through the last full month of performance. Composite returns are reported on quarterly basis. The Composite returns consist of size-weighted portfolio returns using beginning of period values to weight the portfolio returns. Monthly linking of interim performance results is used to calculate quarterly and annual returns. Composite's valuations and returns are computed in U.S. Dollars ("USD"). The results are presented in USD or in other currencies (to accommodate overseas investors), the latter by converting monthly USD returns into other currency returns using the appropriate currency exchange rate returns. Gross returns reflect the deduction of trading expenses. Net of fee returns reflect the deduction of trading expenses and the highest investment management fees charged within the composite membership as stated in the fee schedule below. Composite dispersion is calculated using the asset-weighted standard deviation method for all portfolios that were in the Composite for the entire year. Composite dispersion is not presented for periods with five or fewer portfolios. The number of accounts and market values are as of the end of the period. Past performance is no guarantee of future results. A complete list describing the Firm's composites as well as any additional information regarding the Firm's policies for calculating and reporting performance results is available upon request. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Fee Schedule: Institutional Client Separate Account Management Fee Schedule (minimum initial investment: \$50 million): 0.450% on the first \$50 million; 0.400% on the next \$50 million, and 0.350% on any portion of assets in excess of \$100 million. Institutional Client Commingled Account Management Investment Trust Fee Schedule (minimum initial investment: \$1 million): 0.450% on the first \$50 million; 0.400% on the next \$50 million, and 0.350% on any portion of assets in excess of \$100 million. Institutional Client Commingled Account Management Global Investment Trust Fee Schedule (minimum initial investment: \$5 million): 0.450% on the first \$50 million; 0.400% on the next \$50 million, and 0.350% on any portion of assets in excess of \$100 million. Additional information on the Firm's fee schedule can be found in Form ADV Part II which is available upon request.

# **Global Equity Mandate Structure Board Education**

July 27, 2012

Darren Schulz

Interim Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

# Global Equity Mandate Structure: Guiding Principles

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- ▶ **Beta exposure is valuable but cheap**, therefore avoid overpaying for beta
  - ▶ Utilize active management for alpha, not diversification
  - ▶ Higher fees do not translate to higher value-added
- ▶ Recognize that **alpha is a zero-sum game before fees and costs** and **alpha bets are typically expensive and valuable *if* the manager has exceptional skill**, therefore...
- ▶ **Focus less on style and more on identifying manager skill**
  - ▶ Allow managers with identifiable skill broad latitude to add value
- ▶ **Consider active and passive management as complementary strategies** across all equity segments
  - ▶ Rely on the relative efficiency of markets to dictate the level of active management

# The Fundamental Law of Active Management

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The information ratio determines the potential of an investment process to add value, and according to Grinold and Kahn's fundamental law of active management, adding value depends on the following:

- ▶ **SKILL:** *Does the manager know what they are doing?*
- ▶ **BREADTH OF THE OPPORTUNITY SET:** *How many opportunities are in their universe of securities?*
- ▶ **TRANSFER COEFFICIENT:** *Even if they know what they are doing, is it implementable?*

While much time is spent worrying about manager skill (rightly), increasing the breadth of the opportunity set is also important.

## The Benefits of Breadth

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- ▶ Managers have a greater range of opportunities at their disposal.
- ▶ Greater breadth leads to diversification benefits.
- ▶ It allows managers to tap into higher return themes.
- ▶ There are opportunity costs of having too narrow a focus.
- ▶ A wider universe also offers the option of avoiding certain sectors or countries.

# Global Equity Mandates

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- ▶ With increasing globalization, sectors have become a more significant driver of risk than country in developed markets.
- ▶ Managers are responding by organizing their research across global sectors and away from country/regional teams.
- ▶ Global mandates enable managers to pick stocks from a global opportunity set and tailor investment bets across global sectors.
- ▶ The global equity manager universe now includes more “truly global” products, enabling greater flexibility in portfolio construction.
- ▶ Plan sponsors must distinguish truly integrated global processes from bolt-on regional approaches, as the latter provides diversification but may dampen the impact of stock selection.

# Expanding the Opportunity Set

- ▶ Global equity managers active management premia is very compelling when compare to domestic equity managers.

Percent of Three-Year periods where *US BROAD MANAGER BEAT RUSSELL 1000* by more than Hurdle – by Percentile

Hurdle	0.25%	0.30%	0.35%	0.40%	0.45%	0.50%	0.55%	0.60%	0.65%	0.70%
Median	36%	34%	29%	25%	20%	14%	14%	14%	14%	10%
45th Percentile	48%	46%	45%	45%	45%	43%	39%	39%	38%	31%
40th Percentile	69%	69%	68%	65%	59%	55%	54%	53%	51%	50%
35th Percentile	81%	79%	76%	76%	75%	74%	71%	70%	70%	66%
30th Percentile	90%	90%	90%	88%	85%	85%	85%	84%	81%	80%
25th Percentile	93%	91%	91%	91%	90%	90%	90%	90%	89%	89%

Average Annualized Excess Return – Median Manager: **-0.28%**

Percent of Three-Year periods where *GLOBAL BROAD MANAGER BEAT MSCI WORLD* by more than Hurdle – by Percentile

Hurdle	0.45%	0.50%	0.55%	0.60%	0.65%	0.70%	0.75%	0.80%	0.85%	0.90%
Median	98%	98%	95%	94%	91%	91%	91%	89%	86%	83%
45th Percentile	100%	100%	100%	100%	100%	100%	100%	100%	99%	98%
40th Percentile	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
35th Percentile	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
30th Percentile	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
25th Percentile	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Average Annualized Excess Return – Median Manager: **2.39%**

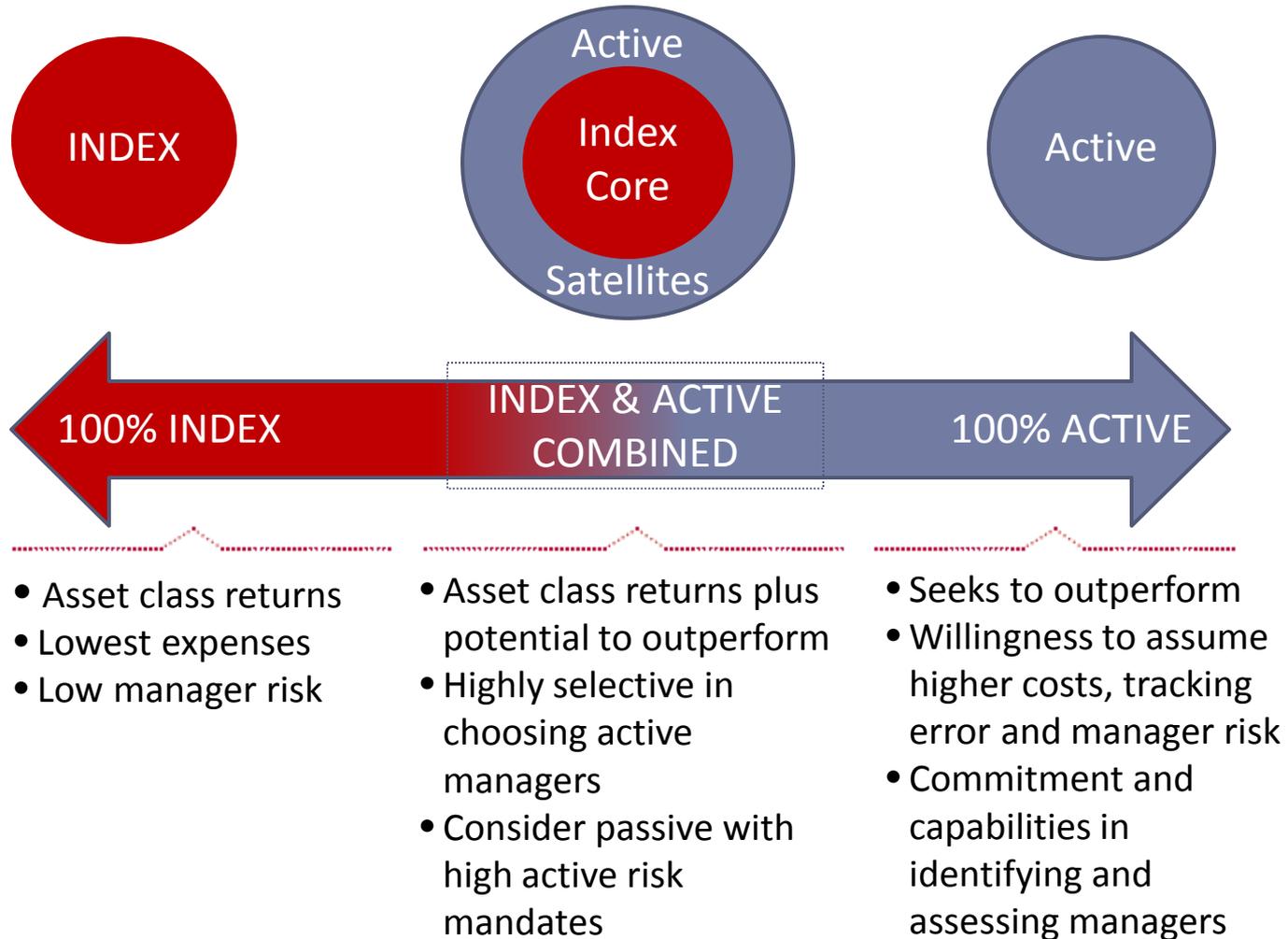
Source: Callan Associates, 20 year historical data as of 3/31/12.

## Active vs. Passive

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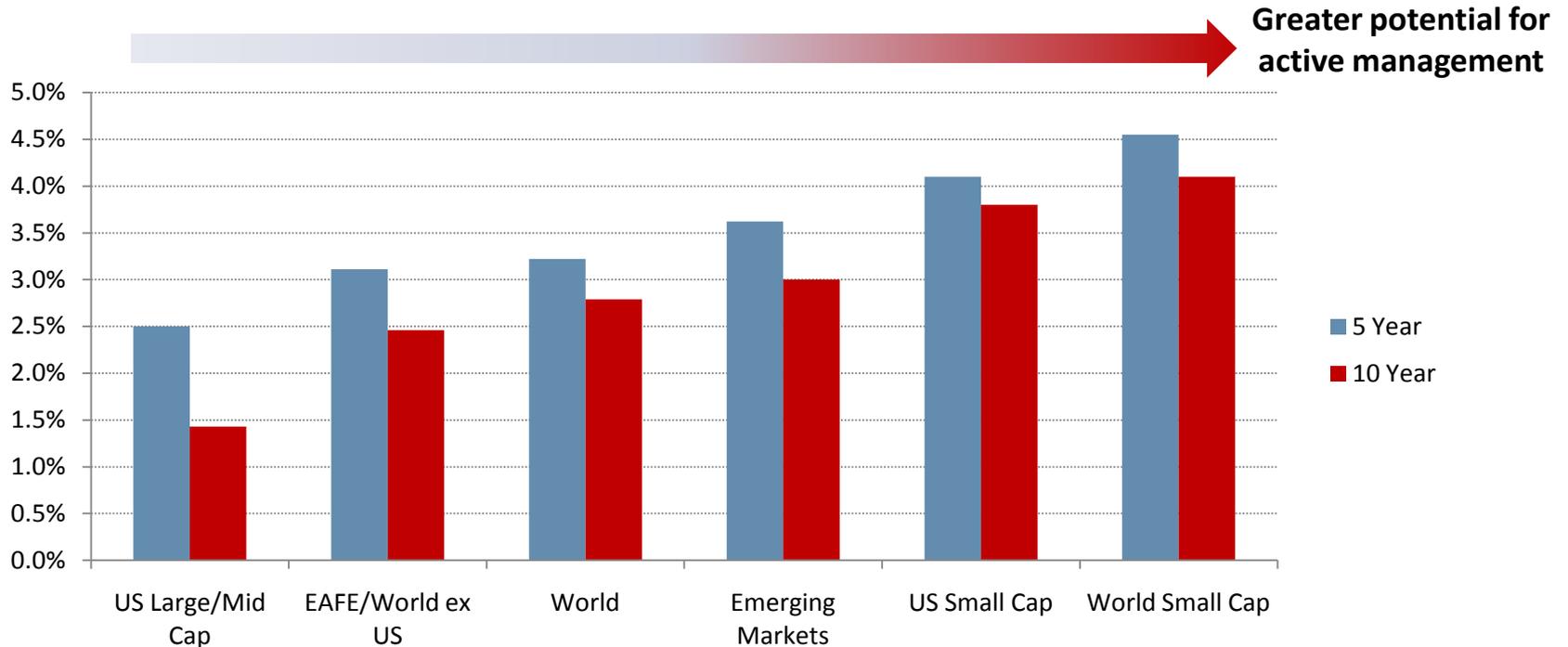
- ▶ Philosophical beliefs and practical considerations dictate the decision to implement a global equity allocation through either active or passive mandates.
- ▶ Passive management provides lower tracking error and fees while still delivering the desired beta (market exposure).
- ▶ Changes to the asset allocation can be implemented through passive mandates, without impacting the alpha decision made by active managers.
- ▶ Due to different levels of market efficiency, developed market large cap equities lend themselves to passive management, while emerging markets and small cap equities are well-suited to active management.

# Core-Satellite Structure



# Active Management Across Equity Segments

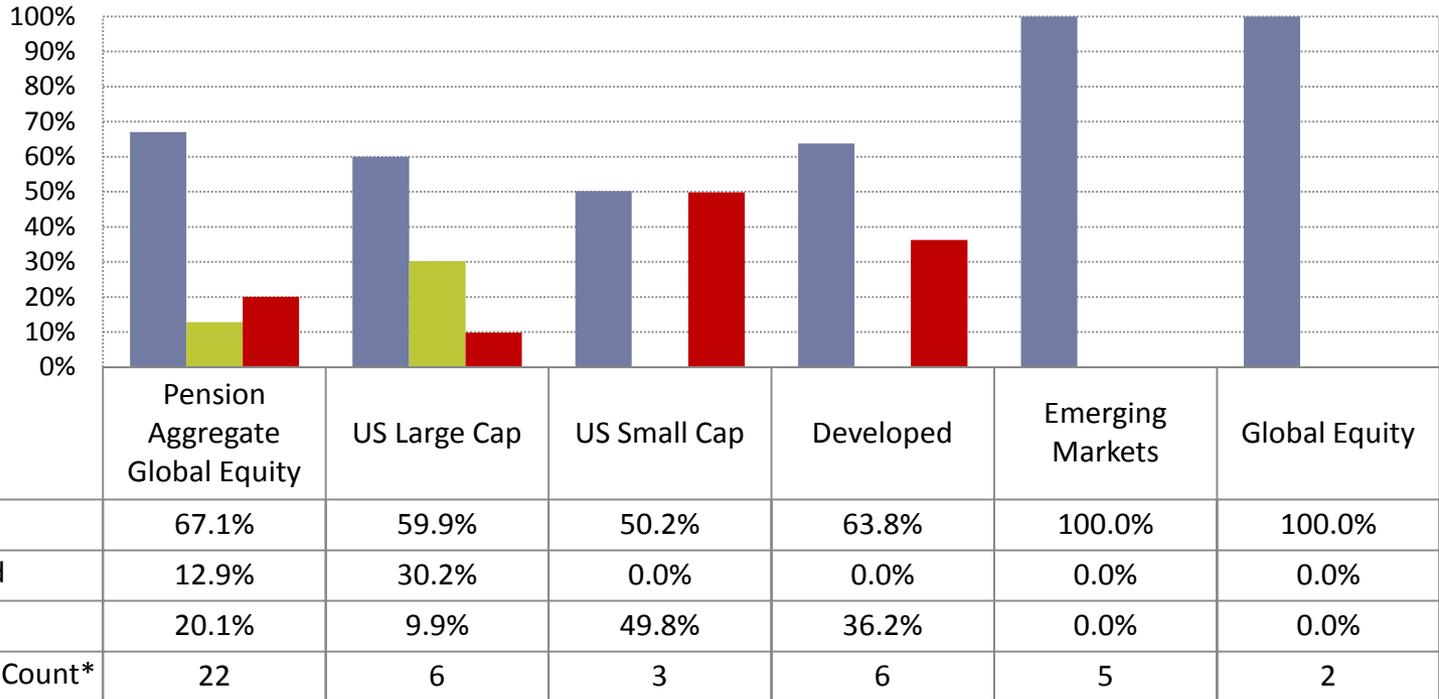
- ▶ Manager return dispersion is a relevant measure of the potential for active management across equity segments.
- ▶ Performance dispersion is measured as the gap between the excess returns of top quartile and bottom quartile managers.



Source: eVestment Alliance, data as of 3/31/12.

# Pension Pool Strategy Composition

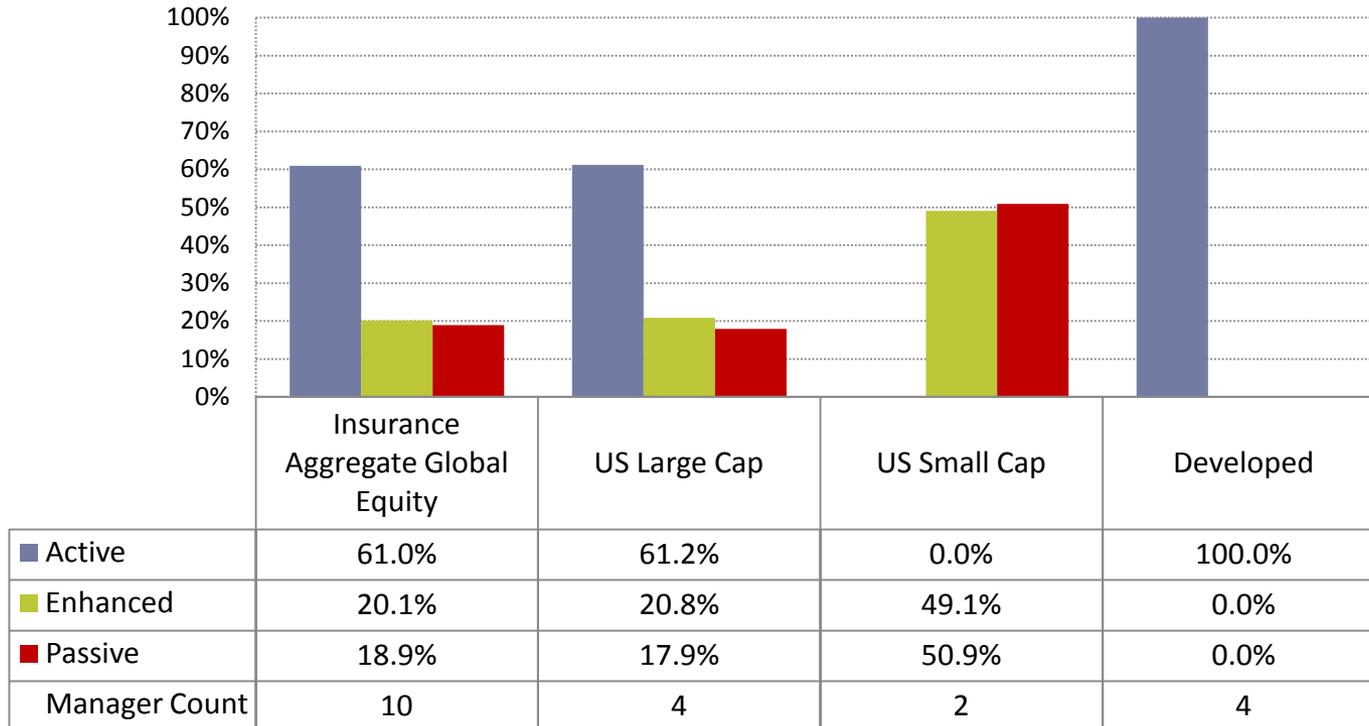
- ▶ Overall global equity mandate structure is dominated by actively managed strategies.
- ▶ Efficiencies can be realized by consolidating the number of managers and by increasing the weighting to passive/enhanced management .



\* Manager count reflects two mandates currently in liquidation: Prudential Pru-Alpha (Large cap) and SEI Investments (Small cap).

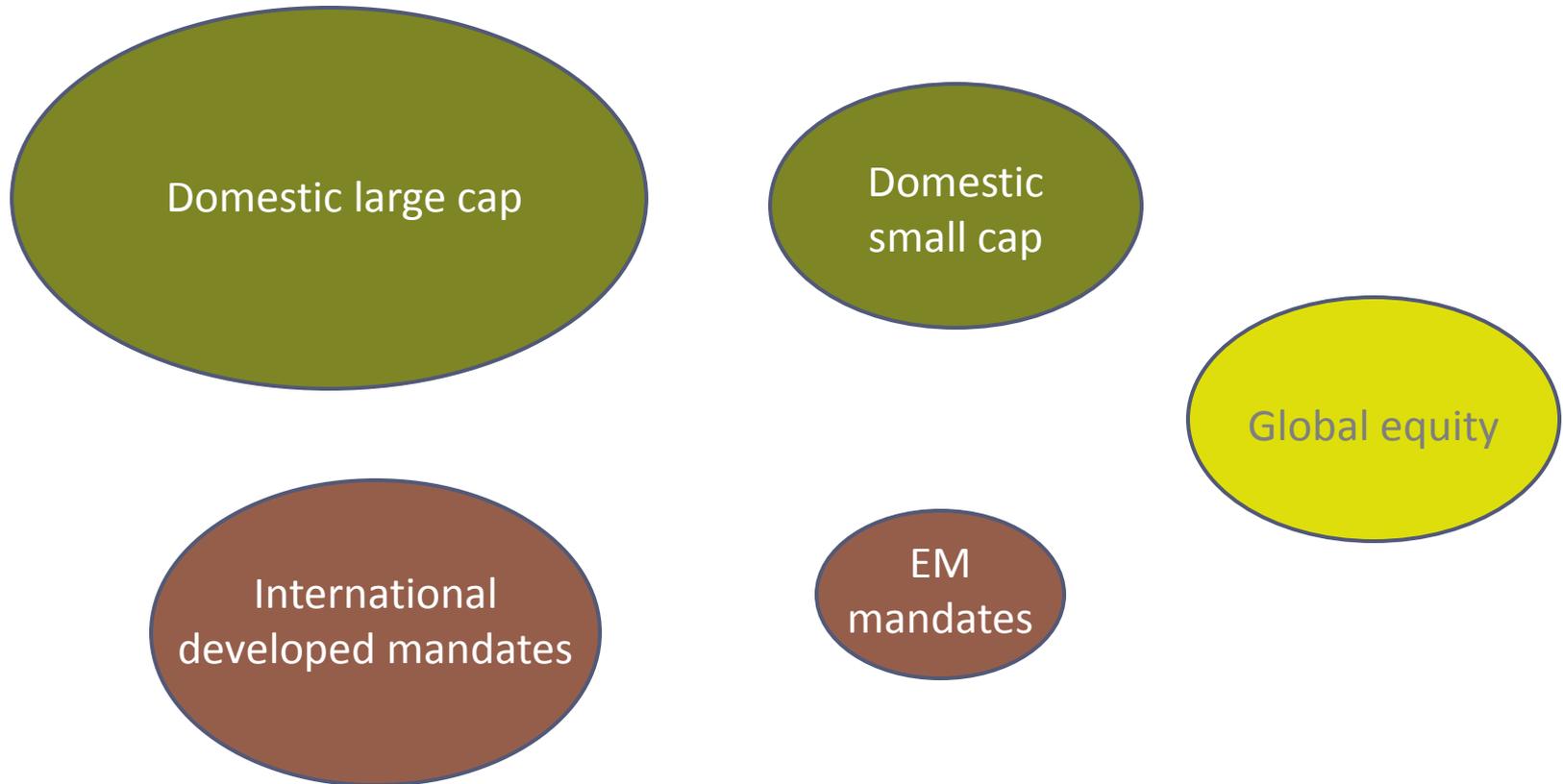
# Insurance Pool Strategy Composition

- ▶ Overall global equity mandate structure is dominated by actively managed strategies in domestic large cap and developed international.
- ▶ Efficiencies can be realized by consolidating the number of managers and by increasing the weighting to passive/enhanced management .



# Current Global Equity Structure

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# Potential Global Equity Core-Satellite Structure

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Integrated global  
large/mid cap  
mandates

Global/regional small  
cap mandates

Global emerging  
markets mandates

Legacy or mandatory  
domestic mandates

# Rationale Behind Home Country Bias

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## Traditional View

- ▶ **In the US, institutional investors traditionally allocated the majority of equity investments domestically.**
  - ▶ US equity markets dominated the global equity opportunity set; its share of the MSCI World was 70% in 1970.
  - ▶ International equities were viewed as difficult to access.
  - ▶ Domestic equities were seen as a better match for domestic liabilities.
  - ▶ Currency risk was considered an unavoidable part of international equity investing.

## Changing Approach

- ▶ **In the last couple of decades, these rationales have become harder to sustain.**
  - ▶ US equity markets have fallen in their share of global market cap; its share of the MSCI AC World is 47% as of March 2012.
  - ▶ Barriers to foreign investment have been lifted or reduced in most countries.
  - ▶ Domestic equities have demonstrated that they provide no better link to domestic pension liabilities than global equities.
  - ▶ Short term currency risk has been made manageable through the availability of hedging instruments.

# Home Country Bias Across Client Portfolios

## Policy Weight - % of Total Assets

	Job					Grand	
	TFFR	PERS	Service	Bismarck	Police	Forks	WSI
Domestic Equity	31.0%	31.0%	31.0%	32.0%	36.0%	40.0%	13.0%
Developed International	17.0%	16.0%	9.0%	11.0%	11.0%	10.0%	7.0%
Emerging Markets	4.0%	5.0%	0.0%	1.5%	2.5%	5.0%	0.0%
Global Public Equity Total	52.0%	52.0%	40.0%	44.5%	49.5%	55.0%	20.0%

## Policy Weight - % of Global Public Equity

	Job					Grand		MSCI ACWI IMI
	TFFR	PERS	Service	Bismarck	Police	Forks	WSI	
Domestic Equity	59.6%	59.6%	77.5%	71.9%	72.7%	72.7%	65.0%	46.9%
Developed International Equity	32.7%	30.8%	22.5%	24.7%	22.2%	18.2%	35.0%	40.5%
Emerging Markets Equity	7.7%	9.6%	0.0%	3.4%	5.1%	9.1%	0.0%	12.6%
Global Public Equity Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

## Overweight (+) / Underweight (-)

	Job					Grand	
	TFFR	PERS	Service	Bismarck	Police	Forks	WSI
Domestic Equity	12.7%	12.7%	30.6%	25.0%	25.9%	25.9%	18.1%
Developed International Equity	-7.8%	-9.8%	-18.0%	-15.8%	-18.3%	-22.3%	-5.5%
Emerging Markets Equity	-4.9%	-3.0%	-12.6%	-9.2%	-7.5%	-3.5%	-12.6%

# Conclusions

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- ▶ There is no single right way to structure a global equity portfolio for all investors.
- ▶ A core-satellite structure that combines passive/enhanced and active mandates is recommended across all equity segments.
- ▶ There is less a need to control country weights than in the past. Therefore, the adoption of more global equity mandates is recommended, where such skill exists.
- ▶ It is recommended that a U.S./non-U.S. structure be maintained to accommodate clients who wish to express a bias towards domestic equities.
- ▶ Dedicated emerging markets mandates are recommended given their dependence on country risk factors.
- ▶ Dedicated small cap mandates are recommended given the idiosyncratic nature of small cap equities.

## Next Steps

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- ▶ Establish the appropriate blend of active/enhanced/passive strategies across all equity segments: domestic, developed, emerging markets, and global.
- ▶ Finalize recommendations for the retention/termination of existing equity manager mandates.
- ▶ Continue to evaluate global equity product structures offered by existing and prospective managers.
- ▶ Recommend broader mandates in cases where managers with global research capabilities demonstrate skill in capitalizing on increased breadth.

July 11, 2012

Dear ,

I am writing in my capacity as the Chairman of the State Investment Board (SIB). As you have heard, family considerations led John Geissinger to step down as our Chief Investment Officer (CIO), effective May 31, 2012. We appreciated John's service to the SIB and the clients it serves, and we wish him the very best.

On May 18, 2012, the SIB members voted unanimously on the interim leadership structure for the Retirement and Investment Office (RIO). The Deputy CIO for the SIB, Darren Schulz, was selected as the Interim CIO. Fay Kopp, who has long-served as the Deputy Executive Director for RIO and Chief Retirement Officer for the Teachers' Fund for Retirement (TFFR), was selected as the Interim Executive Director for RIO. The SIB members have full confidence in this leadership team, in conjunction with the experienced and professional staff of RIO. The transition has been seamless and smooth, for which we thank the leadership and staff.

With a strong interim leadership team and staff in place, the SIB plans to take some time to reflect upon the organizational structure of RIO. Your input is welcome as are your questions.

Please do not hesitate to contact me during this interim period and beyond. Our members appreciate the confidence that you place in the SIB and our professional staff, and we value your input.

Sincerely,

Drew H. Wrigley  
Lieutenant Governor  
Chairman, State Investment Board  
(701) 328-4222  
[pfelch@nd.gov](mailto:pfelch@nd.gov)

State Investment Board Clients:

Adam Hamm  
Commissioner of Insurance  
State of North Dakota  
600 East Boulevard Fifth Fl  
Bismarck ND 58505

Bryan Klipfel  
Executive Director/CEO  
Workforce Safety & Insurance  
1600 East Century Avenue Suite 1  
Bismarck ND 58503

Jon Strinden  
Chairman  
ND Public Employees Retirement System Board  
PO Box 1697  
Bismarck ND 58502-1657

Terry Czosnek  
Acting Human Resource Director  
City of Bismarck  
PO Box 5503  
Bismarck ND 58502-5503

Tag Anderson  
Director  
ND Risk Management  
1600 East Century Avenue Suite 4  
Bismarck ND 58503-0649

Genny Dienstmann  
Assistant Director - Operations  
ND Association of Counties  
PO Box 877  
Bismarck ND 58502-0877

Kent Costin  
Director of Finance  
City of Fargo  
PO Box 2083  
Fargo ND 58102

Jan Webb  
Executive Director  
ND Council of the Arts  
1600 East Century Avenue Suite 6  
Bismarck ND 58503

Senator Randel Christmann  
Chairman  
Legacy and Budget Stabilization Fund Advisory Board  
401 3<sup>rd</sup> Avenue NE  
Hazen ND 58545-4429

Maureen Storstad  
City Auditor/Director of Finance  
City of Grand Forks  
PO Box 5200  
Grand Forks ND 58203

George Hellyer  
Director of Finance  
City of Grand Forks Parks  
PO Box 12429  
Grand Forks ND 58208-2429

Mike Gessner  
President  
ND Teachers' Fund for Retirement Board  
4871 46<sup>th</sup> Ave NE  
Minot ND 58703-4912

**NORTH DAKOTA STATE INVESTMENT BOARD SEARCH COMMITTEE  
MINUTES OF THE  
MAY 29, 2012 MEETING**

**BOARD MEMBERS PRESENT:** Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, PERS Board  
Lance Gaebe, Land Commissioner  
Kelly Schmidt, State Treasurer  
Bob Toso, TFFR Board

**STAFF PRESENT:** John Geissinger, Executive Director/CIO  
Bonnie Heit, Office Manager

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) Search Committee meeting to order at 1:07 p.m. on Tuesday, May 29, 2012 at the State Treasurer's Office, State Capitol, Bismarck, ND.

The SIB Search Committee meeting was held for the purposes of conducting an exit interview with Mr. Geissinger. The following issues were discussed.

The Committee asked about the executive search firm. Mr. Geissinger indicated the headhunting firm, EFL, was chosen to conduct the Executive Director search, and overall did a great job. He recommended in the next process that a search firm be chosen that specialized in the investment business. However, the retainer may need to be increased in order to attract a wider range of firms. The Committee discussed the RFP process, fees, and open records requirements.

The Committee asked Mr. Geissinger to comment on the organizational structure of RIO. Mr. Geissinger stated the current structure of the Retirement and Investment Office (RIO) is such that the Chief Investment Officer (CIO) is the CIO to the State Investment Board and is also the Executive Director of the Retirement and Investment Office which oversees the Teachers' Fund for Retirement (TFFR) program. The Deputy Executive Director of RIO works as the Executive Director of TFFR, and reports to the Executive Director of RIO. The Internal Audit Division of RIO spends most of their time conducting the compliance audits for the school districts, but reports to the SIB because the SIB is the administrative board of RIO. The Information Technology Division of RIO works primarily with the TFFR pension administration software provider. While the current structure is clumsy, it has worked because of the staff of RIO.

Mr. Geissinger explained the SIB treats all of their clients the same. But, with the current structure of RIO, the CIO of the SIB is also the Executive Director of one of its clients, TFFR, which could have a perception of being a conflict of interest or favoritism. The perception is that the SIB and TFFR are more intricately linked than they really are. In reality, if it is a TFFR pension issue, Fay handles it, and if it is an SIB investment issue, then John handles it. The organizational structure of RIO was brought up in 2010 during the Performance Audit of RIO and in Callan's 2010 recommendation.

Mr. Geissinger stated the SIB and TFFR were combined, initially, to save money. The Public Employees Retirement System (PERS) and TFFR are the two retirement systems. There could be cost savings if you had a pension office where you would have PERS and TFFR with separate governing boards and the personnel sharing administrative duties. Dividing RIO into separate SIB and TFFR offices, or combining with other entities is something that could be studied in the future. Legislative changes would likely be required.

Mr. Geissinger noted that with the rate of growth in oil revenues, the SIB at some point in the future could be overseeing more non pension fund assets than pension fund assets.

The Committee asked about recruitment of a CEO/CIO position. Mr. Geissinger commented that if the job was strictly a CIO, the search would be simpler and the SIB would be able to cast a broader net because the playing field has been narrowed down to investment professionals only. It is getting more and more difficult to find an Executive Director/CIO.

The Committee asked about the Carver board governance model. Mr. Geissinger indicated he believes the Carver governance model is not being fully implemented by the SIB. If the Carver principles were to be truly followed, then oversight, direction, and more decision making would have to be delegated to staff. Not every decision would come before the SIB. Staff would report to the SIB on progress. There needs to be more education on governance practices and policies so the SIB can decide if they really have the right model that works for them, as well as for staff, so both parties have a thorough understanding of their roles.

The Committee asked whether public sector experience is required for the CIO position. Mr. Geissinger commented that an important qualification is someone who has experience working with boards. Although helpful, the candidate doesn't have to be from the public sector, but could also have experience working with an endowment, foundation, or consulting firm.

The Committee asked about market competitiveness of current CIO salary. Mr. Geissinger stated the compensation of the CIO depends on the size of the assets and if they are managed internally or externally. Cost of living is also a consideration.

The Committee asked about communication with the Board. Mr. Geissinger noted communication and accessibility between the CIO and the SIB was good.

The Committee asked about the new Deputy CIO position that was approved by the Legislature. Mr. Geissinger commented that hiring the Deputy CIO was beneficial to RIO and the SIB in that additional manager due diligence, number crunching, and analytics is taking place which allowed the CIO to focus on bigger strategic issues which hopefully will be more important in the long run. Overseeing the investment portfolio for the State of North Dakota is large and complex.

The Committee asked about current and upcoming issues. Mr. Geissinger noted issues to monitor in the interim include the international structure, manager consolidations, and the private equity allocation. Also the Callan contract needs to be revised to more accurately reflect the needs of the SIB and staff. The contract is structured to pay Callan for performance monitoring and the use of their software program, PEP, which staff has access to their database. There needs to be a retainer in place for additional utilization of their services.

The Committee asked about interim staff appointments and salary increase recommendations. Mr. Geissinger noted that the SIB and RIO are well positioned in the interim. The Deputy CIO and Interim Executive Director need to be compensated appropriately. A range of 10-15 percent for the Deputy CIO and 5-10 percent for the Interim Executive Director would be appropriate based on their roles.

**ADJOURNMENT:**

With no further issues needing to be discussed, Lt. Governor Wrigley adjourned the meeting at 2:50 p.m.

Respectfully Submitted:

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Lt. Governor Wrigley, Chair  
State Investment Board

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Bonnie Heit  
Assistant to the Board

**NORTH DAKOTA STATE INVESTMENT BOARD SEARCH COMMITTEE  
MINUTES OF THE  
JUNE 28, 2012 BOARD MEETING**

**BOARD MEMBERS PRESENT**

**VIA CONFERENCE CALL:** Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, PERS Board  
Lance Gaebe, Land Commissioner  
Kelly Schmidt, State Treasurer  
Bob Toso, TFFR Board

**STAFF PRESENT:** Bonnie Heit, Office Manager

**OTHERS:** Tricia Opp, Procurement Office

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) Search Committee meeting to order at 4:00 p.m. on Thursday, June 28, 2012.

The SIB Search Committee meeting was held for the purposes of conducting preliminary discussions on the replacement process of the Executive Director/CIO of the Retirement and Investment Office (RIO).

RIO staff had requested the Search Committee provide them with a compensation figure for the new Executive Director/CIO for planning purposes of RIO's 2013-15 budget. For budgeting purposes only, the Search Committee recommended an annual salary of \$220,000 with a 10% increase for the second year. The final salary of the new Executive Director/CIO will be based on experience and assets managed.

The Search Committee discussed the RFP process for hiring a headhunting firm. The previous RFP that was issued on May 11, 2010, by State Procurement, will need to be updated by the Search Committee and State Procurement. The RFP will be updated and written to reflect what services the Search Committee would like the headhunting firm to provide to them. The previous RFP will be distributed to the Search Committee for their initial input. Mr. Sandal and Treasurer Schmidt will work with Ms. Opp and State Procurement to revise and prepare the RFP. The full Search Committee will review the revised RFP before the final is issued.

## AGENDA ITEM VI.A.

The Search Committee discussed the timeframe for hiring the Executive Director/CIO. If the structure of RIO stays as it currently is, the process will move along quickly. If it is decided that changes to RIO's structure are needed, those changes will need to be determined during the next Legislative session. Legislative action will need to take place and be finalized before the hiring process can take place.

To assist the Search Committee, a letter will be distributed to the clients of the SIB. Lt. Governor Wrigley as Chair of the SIB, will compose a letter to inform the SIB clients that interim leadership has been appointed for RIO and that the SIB, as administrative board to RIO, is taking the time to study and look at the structure of RIO to determine if changes are warranted and that their input is welcomed. Lt. Governor Wrigley will provide a draft of the letter to the Search Committee before it is distributed the week of July 9, 2012.

The Search Committee's next meeting will be held late July or early August to allow the SIB clients time to provide their input. The Search Committee will base their next steps on the input they receive back from the SIB clients.

### **ADJOURNMENT:**

With no further issues needing to be discussed, Lt. Governor Wrigley adjourned the meeting at 4:45 p.m.

Respectfully Submitted:

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Lt. Governor Wrigley, Chair  
State Investment Board

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Bonnie Heit  
Assistant to the Board



# ND Retirement and Investment Office

*Teachers' Fund for Retirement  
State Investment Board*

1930 Burnt Boat Drive  
P.O. Box 7100  
Bismarck, ND 58507-7100  
Telephone 701-328-9885  
Toll Free 800-952-2970  
Fax 701-328-9897  
[www.nd.gov/rio](http://www.nd.gov/rio)

## Memorandum

**To:** State Investment Board

**From:** Leslie Moszer  
RIO Compliance Officer

**Date:** July 27, 2012

**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 #12 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):

## **POLICY TYPE: GOVERNANCE PROCESS**

### **POLICY TITLE: BOARD MEMBERS' CODE OF CONDUCT**

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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.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE  
SIB AUDIT COMMITTEE MEETING  
PEACE GARDEN ROOM, STATE CAPITOL BUILDING  
FRIDAY JUNE 22, 2012  
1:00 P.M. CDT  
AGENDA**

1. **CALL TO ORDER**
2. **APPROVAL OF AGENDA**
3. **APPROVAL OF MARCH 16, 2012 MINUTES** (enclosed)
4. **PRESENTATION OF JULY 1, 2011 TO JUNE 30, 2012 FISCAL YEAR FINANCIAL AUDIT SCOPE AND APPROACH** (Approval Needed) - CliftonLarsonAllen
5. **REPORT ON JULY 1, 2011 TO JUNE 6, 2012 FISCAL YEAR INTERNAL AUDIT ACTIVITIES** (Approval Needed) - Les Mason and Dottie Thorsen (enclosed)
  - Compliance Audits
6. **CONSIDERATION OF PROPOSED JULY 1, 2012 TO JUNE 30, 2013 FISCAL YEAR INTERNAL AUDIT SERVICES UNIT WORK PLAN** (Approval Needed) - Les Mason (enclosed)
7. **OTHER**

Next SIB Audit Committee meeting - September 28, 2012, Peace Garden Room, State Capitol
8. **ADJOURNMENT**

STATE INVESTMENT BOARD  
AUDIT COMMITTEE MEETING  
MINUTES OF THE  
MARCH 16, 2012 MEETING

**COMMITTEE MEMBERS PRESENT:** Rebecca Dorwart, Chair  
Lonny Mertz, Vice Chair  
Mike Gessner, TFFR Board/Liaison to the SIB  
Cindy Ternes, Workforce Safety & Insurance

**MEMBERS ABSENT:** Mike Sandal, PERS Board

**STAFF PRESENT:** John Geissinger, Executive Director  
Bonnie Heit, Office Manager  
Fay Kopp, Dep. Executive Director  
Les Mason, Internal Audit Supervisor  
Dottie Thorsen, Internal Audit

**CALL TO ORDER:**

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, March 16, 2012 at the State Capitol, Peace Garden Room, Bismarck ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

The Audit Committee considered the March 16, 2012 agenda.

**MS. TERNES MOVED AND MR. GESSNER SECONDED TO ACCEPT THE AGENDA FOR THE MARCH 16, 2012 MEETING.**

**AYES: MS. DORWART, MS. TERNES, MR. MERTZ, AND MR. GESSNER**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. SANDAL**

**MINUTES:**

The Audit Committee considered the minutes from the November 18, 2011 meeting.

**MR. GESSNER MOVED AND MR. MERTZ SECONDED TO APPROVE THE NOVEMBER 18, 2011 MINUTES AS WRITTEN.**

**AYES: MR. GESSNER, MS. TERNES, MS. DORWART, AND MR. MERTZ**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. SANDAL**

**INTERNAL AUDIT REPORT SECOND QUARTER FISCAL YEAR 2012:**

Executive Limitations - Mr. Mason reported he tested executive performance to determine compliance with the SIB's Executive Limitations policy for the period of July 1, 2011 - December 31, 2011.

The findings will be incorporated into the annual review the SIB completes to determine if all Ends and Executive Limitations are being met.

Performance Audit Recommendations - Mr. Mason indicated he conducted a final review of the Performance Audit recommendations and his report was provided to the Committee.

School District Audit Reports - Mr. Mason reported for the first eight months of fiscal year 2012, 20 audits have been completed, five more are in progress, information on five more districts has been received, and seven school districts have been contacted to send the required information.

TFFR File Maintenance - Ms. Thorsen reported on the File Maintenance Audit. Ms. Thorsen reviewed table reports for staff that make adjustments to member's accounts. There were no exceptions noted.

Discussion was held on reviewing the reporting that comes in from the school districts. This process will be even more important during the audit process since the changes to the retirement program from the 2011 legislative session will go into effect on July 1, 2012.

Discussion was also held on the expectation of completing 35 school districts in a fiscal year. Mr. Mason and Ms. Thorsen felt the goal was still reasonable at this point and time because modifications were made to the audit program within the last year.

**MS. TERNES MOVED AND MR. GESSNER SECONDED TO ACCEPT THE INTERNAL AUDIT ACTIVITIES REPORT FOR THE SECOND QUARTER OF FISCAL YEAR 2012.**

**AYES: MR. GESSNER, MS. DORWART, MS. TERNES, AND MR. MERTZ**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: MR. SANDAL**

Mr. Mason reviewed, in more detail, the Executive Limitation's audit that he completed for the period of July 1, 2011 through December 31, 2011. There were no exceptions noted.

Mr. Mason also reviewed, in more detail, his report on the performance audit recommendations. Mr. Mason stated the recommendations appear to be in place.

**EXECUTIVE SESSION MEETING:**

The Committee met with Mr. Geissinger and Ms. Kopp to review the Audit Program goals and objectives.

**INTERNAL AUDIT SUPERVISOR MEETING:**

The Audit Committee then met with Mr. Mason and Ms. Thorsen to review their progress on reaching the Audit Program goals and objectives.

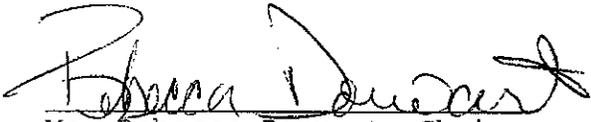
**OTHER:**

The next Audit Committee meeting is scheduled for May 18, 2012, at 1:00 p.m. at the State Capitol, Peace Garden Room.

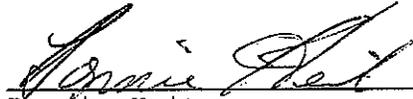
**ADJOURNMENT:**

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 2:25 p.m.

Respectfully Submitted:



Ms. Rebecca Dorwart, Chair  
SIB Audit Committee



Bonnie Heit  
Assistant to the Audit Committee

## MEMO

**To:** State Investment Board  
**From:** Darren Schulz  
**Date:** 7/11/2012  
**Re:** Tamale RMS Information

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**Background**

Tamales RMS is a research management software solution that provides institutional investors with a comprehensive solution that brings automation and efficiency to the investment research process. Designed to quickly capture and centralize primary research, Tamales RMS intuitively captures and aggregates information relevant to the investment process, and effortlessly sorts and filters research.

For organizations that oversee external managers, Tamale RMS supports and streamlines the manager search, oversight and due diligence processes. By automating the process of capturing, distributing and searching investment research data, the platform would create greater efficiency and allow us to further leverage and manage our research efforts. In short, it would allow Staff to spend less time filing and searching for information and more time synthesizing key information to help aid our decision making.

**Features**

Robust plug-ins with all of the office applications (including IE) and Adobe.

Full search capability – every note, every email, every attachment to every email, the content of every document is fully indexed and fully searchable – in real time.

Multi-entity submission – the ability to very easily attribute research to multiple entities.

Filter and Sort of Research View – column based research view allows users to configure their views and filter and sort information quickly and easily.

Embedded Images – gives users the ability to easily capture graphs, charts, tables etc and retain image and formatting in Tamale.

# MEMO

Mobility – full offline support as well as full Blackberry (PDA), iPad, iPhone, Android, etc support.

**Cost**

\$5,500 per user per annum, a 15% discount from the standard rate.

# Tamale RMS®

PRODUCT BRIEF

## A better way to manage research

High performing investment managers know that quality research leads to well-informed investment decisions and better returns for investors. Yet, many firms are encumbered by inefficiencies that hinder their ability to collect, share, access and prioritize the large volume of data they are inundated with. Tamale RMS® is the industry's first research management solution and provides the investment management industry with a comprehensive solution that brings automation and efficiency to the investment research process.



### **Get the right information, instantly.**

Retrieve all of the information on a company, sector, topic or fund manager with the click of a mouse from one centralized library.

### **Automate and free up time to focus on what matters.**

Work more efficiently by automating tedious tasks such as email processing.

### **Bring key information together for better, faster decisions.**

Seamlessly integrate internal research with market and fundamental data.

### **Stay in synch and collaborate like never before.**

Subscribe to notifications based upon any criteria—topic, watchlist, submitter, type of data.

### **Work from anywhere.**

Stay embedded in the workflow of your team from anywhere with native iPad and HTML5 apps.

### **Improve Investor confidence.**

Quickly respond to investor inquiries and demonstrate a solid, repeatable investment process.



 <p><b>Single, Integrated Platform</b></p>	 <p><b>Automate</b></p>	 <p><b>Collaborate and Notify</b></p>	 <p><b>Access Anywhere</b></p>
<p>Centralize your critical research</p> <hr/> <p>Retrieve all of the information on a company, sector, topic or manager</p> <hr/> <p>Seamlessly integrate internal and external data with your own research for better, faster decisions</p>	<p>Automate tedious tasks such as email processing</p> <hr/> <p>Automatically categorize and deposit content</p> <hr/> <p>Free up time to focus on what matters</p>	<p>Subscribe to notifications based upon any criteria—companies, industries, topics, etc.</p> <hr/> <p>Send alerts automatically when submitting important content</p> <hr/> <p>Stay in synch and collaborate like never before</p>	<p>Stay embedded in the workflow of your team</p> <hr/> <p>Desktop to mobile device—anywhere, any time</p> <hr/> <p>iPad, HTML 5 apps, mobile phones, offline</p>

 "Tamale makes us better as an organization. We spend less time filing and searching for data and more time synthesizing key information to help inform our decision making as an investment team."

Justin Nyweide  
 Managing Director  
 HMI Capital, LLC

## Get started quickly

Tamale RMS's simple and intuitive design enables investment professionals to learn Tamale RMS in a single sitting. Advent provides one-on-one user training, sophisticated tools, and deep experience in data migration to ensure smooth and quick adoption.

## Thousands of investment professionals rely on Tamale RMS

Tamale RMS pioneered research management technology and is still the acknowledged market leader. At asset management firms, hedge funds, funds of funds, foundations, endowments, and private-equity firms, thousands of investment professionals rely on Tamale RMS to help automate and streamline the research process, and improve the decision-making process.

## Advent: Innovation across the Investment Process

Tamale RMS is one more example of Advent's innovative solutions for investment management. Advent has served investment organizations of all kinds for more than a quarter-century—providing proven solutions, mission-critical applications, and world-class technology.

 Find out more:  
[www.advent.com](http://www.advent.com)

**ADVENT**®  
 You can count on us.

**ADVENT SOFTWARE, INC.**

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## **NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**

### **QUARTERLY MONITORING REPORT**

**Quarter Ended June 30, 2012**

#### **STAFF RELATIONS**

The Executive Limitation “Staff Relations” deals with the treatment of staff at RIO. The executive director “shall not cause or allow any condition or any communication which is unfair, undignified, or disrespectful.” This Executive Limitation lists six specific limitations that range from personnel policies to exit interviews. All the limitations are intended to protect staff from unfair, undignified, or disrespectful treatment by management.

**During the past quarter, there were no exceptions to this Executive Limitation.**

- John Geissinger resigned as Executive Director/Chief Investment Officer effective May 31, 2012.
- SIB Search Committee conducted an Exit Interview with John Geissinger on May 29, 2012.
- SIB named Fay Kopp as Interim Executive Director and Darren Schulz as Interim Chief Investment Officer effective June 1, 2012.
- No other staffing changes occurred during the quarter.

**BUDGETING / FINANCIAL CONDITION**

AS OF JUNE 30, 2012

	2011-2013 BUDGET	ADJUSTED APPROPRIATION	BIENNIUM TO DATE ACTUAL	EXPENDITURES		
				BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	\$ 3,203,114.00	\$ 3,203,114.00	\$ 1,415,861.92	\$ 1,787,252.08	55.80%	50.00%
OPERATING EXPENDITURES	947,840.00	947,840.00	435,375.95	512,464.05	54.07%	50.00%
CONTINGENCY	82,000.00	82,000.00	0.00	82,000.00	100.00%	50.00%
TOTAL	<u>\$ 4,232,954.00</u>	<u>\$ 4,232,954.00</u>	<u>\$ 1,851,237.87</u>	<u>2,381,716.13</u>	<u>56.27%</u>	<u>50.00%</u>

**EXPENDITURE REPORT**  
**QUARTER ENDED JUNE 30, 2012**

	<u>INVESTMENT</u>	<u>RETIREMENT</u>	<u>QUARTERLY TOTALS</u>	<u>FISCAL YEAR TO - DATE</u>	<u>BIENNIUM TO - DATE</u>
<b><u>CONTINUING APPROPRIATIONS</u></b>					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	\$ 4,592,472.67	\$ 0.00	\$ 4,592,472.67	\$ 19,204,733.14	\$ 19,204,733.14
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	33,778,870.94	33,778,870.94	134,769,481.44	134,769,481.44
2. REFUND PAYMENTS	0.00	624,059.43	624,059.43	3,011,296.84	3,011,296.84
TOTAL MEMBER CLAIMS	0.00	34,402,930.37	34,402,930.37	137,780,778.28	137,780,778.28
OTHER CONTINUING APPROPRIATIONS	25,916.51	16,807.72	42,724.23	251,033.59	251,033.59
TOTAL CONTINUING APPROPRIATIONS	4,618,389.18	34,419,738.09	39,038,127.27	157,236,545.01	157,236,545.01
<b><u>BUDGETED EXPENDITURES</u></b>					
1. SALARIES & BENEFITS					
SALARIES	112,716.29	155,695.75	268,412.04	1,070,350.00	1,070,350.00
OVERTIME/TEMPORARY	0.00	0.00	0.00	0.00	0.00
TERMINATION SALARY & BENEFITS	0.00	0.00	0.00	0.00	0.00
FRINGE BENEFITS	33,461.49	55,971.87	89,433.36	345,511.92	345,511.92
TOTAL SALARY & BENEFITS	146,177.78	211,667.62	357,845.40	1,415,861.92	1,415,861.92
2. OPERATING EXPENDITURES					
DATA PROCESSING	2,624.07	19,153.87	21,777.94	73,762.64	73,762.64
TELECOMMUNICATIONS - ISD	1,347.49	3,259.09	4,606.58	12,172.19	12,172.19
TRAVEL	2,058.28	6,624.56	8,682.84	28,753.97	28,753.97
IT - SOFTWARE/SUPPLIES	35.24	78.44	113.68	242.86	242.86
POSTAGE SERVICES	746.27	1,822.87	2,569.14	30,432.23	30,432.23
IT - CONTRACTUAL SERVICES	772.92	105,231.30	106,004.22	155,762.04	155,762.04
EQUIPMENT RENTS AND LEASES	0.00	0.00	0.00	0.00	0.00
BUILDING/LAND RENT & LEASES	4,140.38	9,486.78	13,627.16	77,982.96	77,982.96
DUES & PROF. DEVELOPMENT	1,555.00	3,935.00	5,490.00	12,148.00	12,148.00
OPERATING FEES & SERVICES	3,085.14	6,360.14	9,445.28	13,719.95	13,719.95
REPAIR SERVICE	0.00	9.00	9.00	349.00	349.00
PROFESSIONAL SERVICES	628.56	1,765.46	2,394.02	10,620.00	10,620.00
INSURANCE	0.00	0.00	0.00	1,032.77	1,032.77
OFFICE SUPPLIES	122.37	255.81	378.18	1,398.97	1,398.97
PRINTING	672.13	3,198.17	3,870.30	10,315.33	10,315.33
PROFESSIONAL SUPPLIES & MATERIALS	90.00	90.00	180.00	2,592.25	2,592.25
MISCELLANEOUS SUPPLIES	(2,440.28)	(568.74)	(3,009.02)	863.80	863.80
IT EQUIPMENT UNDER \$5000	19.99	0.00	19.99	19.99	19.99
OTHER EQUIPMENT UNDER \$5000	2,507.00	700.00	3,207.00	3,207.00	3,207.00
TOTAL OPERATING EXPENDITURES	17,964.56	161,401.75	179,366.31	435,375.95	435,375.95
3. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	164,142.34	373,069.37	537,211.71	1,851,237.87	1,851,237.87
TOTAL EXPENDITURES	\$ 4,756,615.01	\$ 34,775,999.74	\$ 39,575,338.98	\$ 159,087,782.88	\$ 159,087,782.88

**INVESTMENT EXPENDITURE DETAIL**

**FEES PAID DURING THE QUARTER ENDED JUNE 30, 2012**

**FOR QUARTER ENDED 12/31/11**

**PENSION DEVELOPED INTERNATIONAL EQUITY POOL**

Clifton - EAFE Index		42,613.26
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**PENSION LARGE CAP EQUITY POOL**

Clifton		1,074.74
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**PENSION REAL ESTATE**

JP Morgan (Special & Strategic)		258,670.50
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**PENSION EMERGING MARKETS**

JP Morgan		50,420.92
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**BUDGET STABILIZATION SHORT TERM FIXED**

Babson	60,314.35	
JP Morgan	47,257.20	
TOTAL BUDGET STABILIZATION SHORT TERM FIXED		107,571.55

**LEGACY FUND SHORT TERM FIXED**

Babson	6,785.18	
JP Morgan	2,735.89	
TOTAL LEGACY FUND SHORT TERM FIXED		9,521.07

**CUSTODIAN**

Northern Trust		189,210.02
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<b>TOTAL FOR QUARTER ENDED 12/31/11</b>		<b>659,082.06</b>
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**FOR QUARTER ENDED 3/31/12**

**PERS Retiree Health Credit**

SEI		35,751.20
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**PENSION DEVELOPED INTERNATIONAL EQUITY POOL**

Capital Guardian	72,927.10	
LSV	138,760.00	
Clifton - EAFE Index	47,392.00	
State Street	75,834.80	
Wellington	127,617.68	
TOTAL PENSION INTERNATIONAL EQUITY		462,531.58

**PENSION GLOBAL EQUITY POOL**

Calamos	99,535.00	
Epoch	347,412.44	
Pension Global Equity Pool		446,947.44

**PENSION BELOW INVESTMENT GRADE FIXED**

Loomis Sayles		194,817.52
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**INVESTMENT EXPENDITURE DETAIL**

**FEES PAID DURING THE QUARTER ENDED JUNE 30, 2012**

**PENSION INVESTMENT GRADE FIXED INCOME POOL**

Bank of ND	16,917.08	
Prudential	44,243.98	
SEI (Job Service Account)	10,400.98	
Wells	32,705.31	
Western Asset	40,927.71	
TOTAL PENSION FIXED INCOME	<u>145,195.06</u>	145,195.06

**PENSION INFRASTRUCTURE POOL**

JP Morgan		244,759.13
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**PENSION LARGE CAP EQUITY POOL**

LA Capital	164,406.42	
LSV	170,397.00	
TOTAL PENSION LARGE CAP EQUITY	<u>334,803.42</u>	334,803.42

**PENSION REAL ESTATE**

JP Morgan (Alternative)	9,953.46	
JP Morgan (Special & Strategic)	269,959.95	
Pension Real Estate		279,913.41

**PENSION INTERNATIONAL FIXED INCOME**

Brandywine	99,162.58	
UBS	63,672.18	
TOTAL PENSION INTERNATIONAL FIXED INCOME	<u>162,834.76</u>	162,834.76

**PENSION EMERGING MARKETS**

JP Morgan	76,385.98	
PanAgora	43,881.30	
UBS	84,982.08	
BlackFriars	37,336.83	
TOTAL PENSION EMERGING MARKETS	<u>242,586.19</u>	242,586.19

**PENSION PRIVATE EQUITY**

Adams Street Partners		43,260.50
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**PENSION CASH**

Northern Trust		17,544.44
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**INSURANCE FIXED INCOME POOL**

Bank of ND	16,357.12	
Declaration	45,217.00	
Prudential	48,123.18	
Wells	146,225.41	
Western Asset	92,594.85	
TOTAL INSURANCE FIXED INCOME	<u>348,517.56</u>	348,517.56

INVESTMENT EXPENDITURE DETAIL

FEEES PAID DURING THE QUARTER ENDED JUNE 30, 2012

**INSURANCE LARGE CAP EQUITY POOL**

LA Capital	37,120.20	
LSV	36,215.00	
TOTAL INSURANCE LARGE CAP		73,335.20

**INSURANCE SMALL CAP EQUITY POOL**

Research Affiliates		33,496.90
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**INSURANCE INT'L EQUITY**

Capital Guardian	47,651.86	
LSV	51,854.00	
TOTAL INSURANCE INT'L EQUITY		99,505.86

**INSURANCE IPS**

JP Morgan	167,051.53	
Western Asset	77,176.78	
TOTAL INSURANCE IPS		244,228.31

**INSURANCE REAL ESTATE**

JP Morgan		268,928.89
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**BUDGET STABILIZATION SHORT TERM FIXED**

Babson	51,787.10	
JP Morgan	41,659.84	
TOTAL BUDGET STABILIZATION SHORT TERM FIXED		93,446.94

**LEGACY FUND SHORT TERM FIXED**

Babson	49,283.73	
JP Morgan	33,955.14	
TOTAL LEGACY FUND SHORT TERM FIXED		83,238.87

**CONSULTANT**

Callan		77,747.43
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**TOTAL FOR QUARTER ENDED 3/31/12** **3,933,390.61**

**TOTAL FEES PAID DURING QUARTER ENDED 6/30/2012** **4,592,472.67**

**Quarterly Report on Ends  
Q4:FY12**

Investment Program

Continuing due diligence conducted on following:

Matlin Patterson	Goldman Sachs	Research Affiliates
Bank of North Dakota	DFA	JP Morgan
Credit Suisse	Capital Guardian	Loomis Sayles
State Street	Adams Street	

Staff completed the restructuring of the fixed income manager structure in the pension trust.

Board approved and staff implemented the termination of Blackfriars, a dedicated emerging market equity manager, in the pension trust. Board approved the retention of Northern Trust to manage the legacy Blackfriars assets in a passively managed MSCI Emerging Markets mandate. Legal review of documents has been completed and funding of the mandate is to occur in July.

Board accepted City of Fargo and City of Grand Forks revised target asset allocation for staff implementation.

Board approved the placement of State Street under review given recent investment process changes. The firm manages an international equity mandate in the pension trust.

Staff continues to work on its review of the current global equity mandate structure.

Staff continues to conduct preliminary due diligence on possible managers/products for future consideration.

Staff continues to monitor each client's asset allocation monthly and makes rebalancing decisions based on rebalancing policy and cash flow requirements.

## Quarterly Report on TFFR Ends Q4: FY12

### Retirement Program

This report highlights exceptions to normal operating conditions.

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- Governor Dalrymple reappointed Clarence Corneil of Dickinson to represent retired members on the TFFR Board for another five-year term.
- 2011 legislative implementation project continues to be on schedule. Project includes developing and modifying pension software, forms, publications, processes, procedures, and presentations.

HB 1134 (funding improvement) will be completed in two phases:

Phase 1 provisions effective 7/1/12 – complete

Phase 2 provisions effective 7/1/13 – 25% complete

- Two bill drafts affecting TFFR were submitted to Legislative Employee Benefits Programs Committee for interim study. Staff has sent bills to actuarial consultant for technical and actuarial review.
  - 1) Bill 99, submitted by TFFR Board, includes technical corrections and administrative changes to the plan, most of which are designed to maintain compliance with federal statutes or rules.
  - 2) Bill 43, submitted by Rep. Louser, includes provisions that would maintain the increased member and employer contributions until TFFR is 100% funded (not 90% as provided in current law) at which time contribution rates would be reduced to 7.75% for both members and employers.