



ND STATE INVESTMENT BOARD

AGENDA (REVISED)

**Friday, October 26, 2012, 8:30 a.m.
Peace Garden Room - State Capitol
Bismarck ND**

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (September 28, 2012)

III. INVESTMENTS

A. Bank of North Dakota - Mr. Hardmeyer & Mr. Porter (enclosed) (30 min)

An Executive Session may be held pursuant to NDCC 44-04-19.1(2), (5), (9) and NDCC 44-04-19.2 for attorney consultation and/or negotiating strategy and instruction regarding the investment manager contract between the State Investment Board and the Bank of North Dakota.

B. Tribune Company Executive Session - Ms. Murtha (5 min)

NDCC 44-04-19.1 (2), (5), (9) and NDCC 44-04-19.2 for attorney consultation and/or negotiating strategy and instruction regarding the Tribune Company.

C. Pension Trust and Insurance Trust FY2012 Performance Review - Mr. Schulz (enclosed) (30 min)

D. NASIO Highlights - Mr. Schulz (10 min)

E. Loomis Sayles Update - Mr. Schulz (5 min)

IV. GOVERNANCE

A. Audit Committee Liaison Report (**Board Acceptance Needed**) - Mr. Gessner (enclosed) (5 min)

B. Discussion on Structure of Retirement and Investment Office - Ms. Kopp (enclosed)

V. QUARTERLY MONITORING - 9/30/12 (enclosed). (Questions Only - Board Acceptance) (5 min)

A. Executive Limitations/Staff Relations - Ms. Kopp (enclosed).

B. Budget/Financial Conditions - Ms. Flanagan (enclosed).

C. Investment Program - Mr. Schulz (enclosed).

D. Retirement Program - Ms. Kopp (enclosed).

VI. OTHER

Next Meetings:

SIB meeting - November 16, 2012, 8:30 a.m. - Workforce Safety & Insurance

SIB Audit Committee meeting - November 16, 2012, 1:00 p.m. - Workforce Safety & Insurance

VII. ADJOURNMENT

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
SEPTEMBER 28, 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
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: Weldee Baetsch, former SIB trustee
Brian Birnbaum, Mercer
Erica Cermak, APT
Senator Randel Christmann, Legacy & Budget
Stabilization Fund Advisory Board (Advisory Board)
Jeff Engleson, Land Dept.
Paul Erlendson, Callan Associates
Cory Fong, Advisory Board
Eric Hardmeyer, Advisory Board
Representative Keith Kempenich, Advisory Board
Josh Kevan, RV Kuhns
Bruce Klootwyk, Raymond James
Ron Klotter, RV Kuhns
John McLaughlin, RV Kuhns
Brian Murphy, Towers Watson
Jan Murtha, Attorney General's Office
Tricia Opp, Procurement Office
Sara Palhke, Legislative Council
Eugene Podkaminer, Callan Associates
Scott Rising, ND Soybean Growers
Mark Ruloff, Towers Watson
Pam Sharp, Advisory Board

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, September 28, 2012, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

MR. GESSNER MOVED AND MR. CORNEIL SECONDED TO ACCEPT THE SEPTEMBER 28, 2012, AGENDA AS REVISED.

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 August 24, 2012, meeting.

COMMISSIONER GAEBE MOVED AND COMMISSIONER HAMM SECONDED TO ACCEPT THE AUGUST 24, 2012, MINUTES AS WRITTEN.

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

NAYS: NONE

MOTION CARRIED

INVESTMENTS:

City of Bismarck - Ms. Flanagan informed the SIB the City of Bismarck recently completed an asset liability study on the Employees and Police pension plans and have revised their asset allocations. Ms. Flanagan requested acceptance of the revised asset allocations.

TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT THE REVISED ASSET ALLOCATIONS FOR THE CITY OF BISMARCK EMPLOYEES AND POLICE PENSION PLANS.

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

Legacy Fund - The Legacy and Budget Stabilization Fund Advisory Board (Advisory Board), at their August 23, 2012, meeting, recommended the SIB arrange to contract with an investment consultant to conduct an asset allocation/spending study on the Legacy Fund.

Mr. Schulz explained his process for identifying suitable candidates to conduct an asset allocation/spending study. Candidates were selected based on a variety of criteria, including the following: experience conducting asset allocation and spending policy studies for institutional clients, experience with special purpose funds funded by natural resources, and experience with newly created funds with little to no spending policy.

The SIB heard proposals from Towers Watson and Mercer.

The SIB recessed at 10:15 a.m. and reconvened at 10:30 a.m.

The SIB heard proposals from RV Kuhns and Callan Associates.

THE SIB recessed at 12:30 p.m. and reconvened at 12:45 p.m.

The SIB reviewed and discussed the proposals. After further review and discussion,

MR. SAGE MOVED AND COMMISSIONER GAEBE SECONDED TO AWARD THE CONTRACT TO RV KUHNS TO CONDUCT AN ASSET ALLOCATION/SPENDING STUDY ON THE LEGACY FUND.

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

The SIB thanked Mr. Schulz for his due diligence which resulted in four excellent proposals for their consideration. The Advisory Board will work with RV Kuhns to complete the asset allocation/spending study. The study is expected to be completed in approximately eight weeks at which time the results will be presented to the SIB for their review and possible acceptance.

The Tribune Company report was tabled until the October 26, 2012, meeting.

GOVERNANCE:

Retirement and Investment Office (RIO) Structure - Mr. Gessner informed the SIB the Teachers' Fund for Retirement (TFFR) board discussed the structure of RIO at their September 27, 2012, meeting and reported the TFFR Board supports discussion relating to the position of ED/CIO in its current interim form. After discussion, the SIB directed staff to develop some possible revised organizational structures for RIO, along with any additional costs, and distribute those to the SIB prior to their October 26, 2012, meeting at which time the SIB will continue their discussion on the structure of RIO.

MONITORING:

The Pension Trust and Insurance Trust FY2012 Performance Review report was tabled until the October 26, 2012, meeting.

The next SIB meeting is scheduled for October 26, 2012, at 8:30 a.m., at the State Capitol, Peace Garden Room, Bismarck, ND.

The SIB Audit Committee meeting scheduled for September 28, 2012 was cancelled and will be rescheduled.

ADJOURNMENT:

Lt. Governor Wrigley adjourned the meeting at 1:35 p.m.

Respectfully Submitted:

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

Manager Review – Bank Of North Dakota

Summary

As of March 31, 2012, the Bank of North Dakota managed approximately \$112 million in Pension Trust fixed income assets. As part of the investment grade fixed income restructuring of the Pension Trust, the Bank of North Dakota was instructed in a letter dated March 20, 2012 to transition from a Barclays Capital Government Index mandate to a Barclays Capital Long Treasury Index mandate. At this time, verbal instructions were also conveyed to the Bank of North Dakota, indicating that the month of April was a transition month. Two withdrawals were made as part of the transition: \$40 million on April 2nd and \$25 million on May 1st. The transition was expected to be completed with the second requested withdrawal.

Based on transaction activity in the account, excluding the sale of legacy holdings required to meet withdrawal requests, no transition transactions occurred in April or May and negligible activity – approximately \$3.9 million in purchases and \$2.5 million in sales – transpired on trade dates June 15th and June 28th. No meaningful trading activity occurred until trade date July 10th and a large block of trades – approximately \$18.5 million in purchases and \$16.2 million in sales – were executed as late as trade date July 19th, at which time it appears that the transition was largely completed. Approximately \$1.2 million and \$2.3 million in sales of remaining legacy Agency bond holdings were made on trade dates August 3rd and September 6th, respectively, which were offset by roughly \$1.1 million in buys of long Treasuries on August 3rd and \$2.9 million in purchases on September 10th.

As a result of the Bank's failure to execute the transition to the new mandate in a timely manner, the account return over the May through July time period was 4.12% as compared to the Barclays Capital Long Treasury Index return of 9.47%. In dollar terms, this underperformance equates to approximately \$2.5 million.

Timeline

The following is a timeline of events relating to the Bank of North Dakota transition:

March 20, 2012 – An instruction letter was e-mailed to the Bank of North Dakota. Verbal instructions to complete the transition by the end of April were also conveyed.

June 5, 2012 – Received e-mail with returns for April 2012. Pension return was 1.76% versus benchmark return of 4.33%. Connie sent e-mail to Kris Ahmann asking why they were so far off the benchmark. Kris called Connie and explained it was due to large cash flows and that he had not realized he should have been moving more quickly. There was no indication at that time that this situation had continued through May.

July 5, 2012 – Received e-mail with returns for May 2012. Pension return was 2.92% versus benchmark return of 7.44%. E-mail stated that Tim Porter and Kris Ahmann were in the process of putting a memo together describing and explaining reasons behind the performance for the last quarter.

July 11, 2012 – Received an annual compliance certification letter via e-mail from the Bank of North Dakota stating that the pension investment portfolio was in compliance with investment guidelines in place as of June 30, 2012, with the exception of a holding in a Lehman bond in default, a position inherited from the former Barclays Capital Government/Credit mandate.

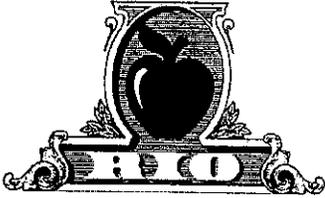
July 12, 2012 – Received memo explaining poor performance relative to Barclays Capital Long Treasury benchmark for June quarter. Blamed requested large withdrawals/cash balances and extremely volatile bond market in April and May plus duration discrepancy caused by cash balances to fund withdrawals. Stated starting July 1 the portfolio will have been properly replicated.

July 30, 2012 – Received e-mail with returns for June 2012. Pension return was -0.57% versus benchmark return of -1.36%.

September 10, 2012 – Received e-mail with July returns. Account return of 1.75% versus benchmark return of 3.30%. Asked for further explanation since we expected that July would be in line based on July 12 memo. Turns out corrections to duration (purchases of long Treasuries) were not made until after the July 12 memo. Review of maturities and transactions in portfolio show transition not largely completed until July 20.

September 20, 2012 – Received e-mail with August returns. Account return of -0.96% versus benchmark return of -1.07%.

September 20, 2012 – Received letter concerning July performance. The letter explained that the account duration was short versus the index (8.5 years vs. 15.4 years) at the beginning of the month and performance trailed as the long bond rallied the first 12 days of the month while the account was re-balanced.



ND Retirement and Investment Office

*State Investment Board
Teachers' Fund for Retirement*

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

December 2, 2011

Via e-mail

Tim Porter
Bank of North Dakota
PO Box 5509
Bismarck, ND 58502-5509

RE: PENSION CONTRIBUTION AND BENCHMARK CHANGE

Dear Tim:

This letter will serve as notification that we will be making a contribution of \$38,890,000 to our Pension Trust account on December 16, 2011. Please manage this portion of the portfolio against the BC Government Index. Additionally, over the next 3 months (or by the end of February), please transition the existing portfolio to the BC Government Index as well. During this transition period, please provide me the breakdown of the portfolio between these two benchmarks at the end of each month as well as the dates that assets are moved between the two benchmarks for performance measurement purposes.

Please understand that some or all of this additional deposit may be short-term in nature and may be reallocated to other fixed income managers as the SIB completes its review of the fixed income asset class structure.

Please call me at (701) 328-9892 if you have any questions or concerns. Thank you.

Sincerely,

CONNIE L. FLANAGAN
Fiscal and Investment Officer

ND Retirement and Investment Office



*State Investment Board
Teachers' Fund for Retirement*

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
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Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

March 20, 2012

Via e-mail

Tim Porter
Bank of North Dakota
PO Box 5509
Bismarck, ND 58502-5509

RE: PENSION WITHDRAWAL AND BENCHMARK CHANGE

Dear Tim:

This letter will serve as notification that we will be making a withdrawal of \$40,000,000 from our Pension Trust account on April 2, 2012. Additionally, please transition the remaining portfolio to the BC Treasury Long Index.

Please call me at (701) 328-9892 if you have any questions or concerns. Thank you.

Sincerely,

CONNIE L. FLANAGAN
Fiscal and Investment Officer

ND Retirement and Investment Office



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April 12, 2012

Via e-mail

Tim Porter
Bank of North Dakota
PO Box 5509
Bismarck, ND 58502-5509

RE: PENSION WITHDRAWAL AND BENCHMARK CHANGE

Dear Tim:

This letter will serve as notification that we will be making a withdrawal of \$25,000,000 from our Pension Trust account on May 1, 2012. This withdrawal will complete our restructuring in the Investment Grade Fixed Income asset class.

Please call me at (701) 328-9892 if you have any questions or concerns. Thank you.

Sincerely,

CONNIE L. FLANAGAN
Fiscal and Investment Officer

Schulz, Darren J.

From: Ahmann, Kris G.
Sent: Wednesday, July 11, 2012 1:58 PM
To: Moszer, Leslie M.
Cc: Porter, Tim C.
Subject: Guideline Exceptions
Attachments: Letter RIO 6-30-12.doc

Hi Leslie,

Attached is a memo regarding annual certification of compliance to investment guidelines. If you have any questions or concerns please do not hesitate to contact me. Have a great day Leslie!



Kris Ahmann

Investment Coordinator | Treasury

Bank of North Dakota

1200 Memorial Hwy | Bismarck, ND 58506

Office: (701) 328-5608 | Cell: (701) 516-2847

11 July 2012

Leslie Moszer
1930 Burnt Boat Drive
Bismarck, ND 58507-7100

Dear Leslie,

In response to your request regarding compliance, the Bank of North Dakota certifies that the investment portfolios managed on behalf of the ND State Investment Board are in compliance with the investment guidelines in place as of June 30, 2012 with the following exceptions:

<u>Account</u>	<u>Description</u>	<u>Par Amount</u>	<u>Moody's/S&P</u>
26-01791	Lehman 7.50 8-1-2026	\$ 1,000,000	C/NR
26-71472	Lehman 4.80 3-13-2014	\$ 1,000,000	C/NR

We will continue to pursue opportunities to liquidate these securities as market conditions improve. If you have any questions, Leslie, please call.

Sincerely,

Kris Ahmann, Investment Coordinator
Bank of North Dakota

Schulz, Darren J.

From: Ahmann, Kris G.
Sent: Thursday, July 12, 2012 2:18 PM
To: Flanagan, Connie L.
Cc: Porter, Tim C.
Subject: Pension Trust memo on recent performance
Attachments: Pension Trust performance 0712.pdf

Hi Connie,

Attached is a memo highlighting the recent performance of the Pension Trust portfolio. If you have any questions or would like to discuss this topic further, please contact me anytime via email or phone call.



Kris Ahmann
Investment Coordinator | Treasury

Bank of North Dakota
1200 Memorial Hwy | Bismarck, ND 58506
Office: (701) 328-5608 | Cell: (701) 516-2847



7/11/12

Via e-mail

Connie Flanagan
ND Retirement and Investment Office
ND State Investment Board
PO Box 7100
Bismarck, ND 58507-7100

Dear Connie:

The intent of this letter is to highlight the performance of the Pension Trust portfolio this past quarter. In addition to that, this letter encompasses discussion on the corresponding portfolio withdrawals, market conditions, and how that has affected portfolio performance.

Transfers

When rebalancing with large cash withdrawals or deposits, dramatic changes to the structure of the portfolio can occur. Historically, our most challenging periods to replicate the index have always been those times when the account balance has large swings from either deposits or withdrawals.

The table below highlights the most recent deposit and withdrawals in the Pension Trust account:

	Cash Contribution / (Withdraw)	Index From...	Index To...	Cash at w/d date
12/16/2011	38,890,000	BC G/C	BC Govt	
...				
*4/2/2012	(40,000,000)	BC Govt	BC LT Treas	41,512,640
5/1/2012	(25,000,000)			26,138,790

*We received a memo to transition the Pension Trust portfolio to BC Long Term Treasury on March 20, 2012. In the same memo, we were also instructed to have cash available for withdrawals that would take place in April and May.

Impact of Transfers

In the example of large cash withdrawals, we prepare to liquidate various assets in order to accommodate the withdrawal request. The volatility that lies here is two-fold:

1. The market value of the portfolio may be impacted by market movement due to the large quantity of cash sitting idle before the withdrawal. Being that the withdrawals were scheduled at the beginning of April and May, large cash balances were held at the end of the prior month, which affects the month-end portfolio performance numbers and the respective duration.
2. The market value of the portfolio may also be affected by market movement due to the timing of the asset sales.

Portfolio and Market

Although we tried to accommodate the structure of the new index as much as we could when selecting which securities to liquidate for the withdrawals, many transactions were required in order to transition to the BC Long Term Treasury Index.

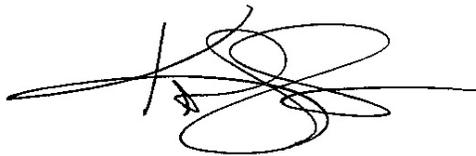
as of...	Duration		Cash
	Portfolio	Index	
4/2/2012	4.01	14.40	41,512,640
5/1/2012	5.17	14.91	26,138,790
6/1/2012	7.95	15.49	1,417,410

As you can see in the table above, the portfolio duration remained low during the month of April and beginning of May due to the large cash positions in order to fulfill the requested cash withdrawals mentioned in the above section. The bond market during this time was extremely volatile, particularly the extreme long end (see Table 1), which combined with the duration discrepancy, resulted in a significant deviation from the index.

We consider our job as money managers for the State Investment Board as an important assignment. We have the necessary tools to continue our long history of replicating a variety of indices. In this case, we did not effectively juggle the functions of cash management and index rebalancing, which caused the performance numbers to vary significantly from our assigned index.

For the new fiscal year starting July 1, the Pension Trust portfolio will have been properly replicated to the BC LT Index. Going forward, we have implemented new procedures to more effectively handle your request to change the portfolio structure and/or balances. If any questions remain regarding the recent performance of the Pension Trust account, Connie, please me a call.

Sincerely,



Kris Ahmann

Investment Coordinator | Treasury

Bank of North Dakota

1200 Memorial Hwy | Bismarck, ND 58506
Office: (701) 328-5608 | Cell: (701) 516-2847

Appendix:

Table 1

2.75%, 5 Year US Treasury						
	Price (\$)	Holdings	Market Value	Yield (%)	Returns	Duration
4/2/2012	108 7/16	1,000,000	1,084,375	2.1829	0.86%	
5/1/2012	109 3/8	1,000,000	1,093,750	1.9444	0.89%	
6/1/2012	110 11/32	1,000,000	1,103,438	1.4227	-0.31%	
7/2/2012	110	1,000,000	1,100,000	1.5498		4.67

2%, 10 Year US Treasury						
	Price (\$)	Holdings	Market Value	Yield (%)	Returns	Duration
4/2/2012	98 3/8	1,000,000	983,750	2.1829	2.16%	
5/1/2012	100 1/2	1,000,000	1,005,000	1.9444	4.70%	
6/1/2012	105 7/32	1,000,000	1,052,188	1.4227	-1.13%	
7/2/2012	104 1/32	1,000,000	1,040,313	1.5498		8.67

3.125%, 30 Year US Treasury						
	Price (\$)	Holdings	Market Value	Yield (%)	Returns	Duration
4/2/2012	96 5/32	1,000,000	961,563	3.3294	3.57%	
5/1/2012	99 19/32	1,000,000	995,938	3.1468	13.15%	
6/1/2012	112 11/16	1,000,000	1,126,875	2.5162	-3.38%	
7/2/2012	108 7/8	1,000,000	1,088,750	2.6884		18.8

Schulz, Darren J.

From: Porter, Tim C.
Sent: Friday, September 21, 2012 8:56 AM
To: Flanagan, Connie L.; Schulz, Darren J.
Subject: July Performance
Attachments: RIO performance discrepancy.doc

I've attached the memo regarding July's performance. I will be out of the office until next Thursday, but after that, would be available to meet and discuss our performance.

Tim

To: Connie Flanagan
From: Tim Porter
Subject: Performance – Pension Trust
Date: September 21, 2012

MEMO

I reviewed July's performance for the Pension Trust account, and as I suspected, the duration in the beginning of the month was short (8.5) to the index (15.39). When the account was rebalanced in July, the duration after all of the trades settled was reasonably close to the index (15.07 vs. 15.39). However, the long bond rallied significantly the first 12 days of the month while the account was being re-balanced and short on duration. For example, the price on the old long bond rallied from 108-28 to around 112 during this time period, a performance move of nearly 3%. The difference between the price move in the long bond and the 10-year during the first 12 days of the month pretty much make up the performance difference between the account and the index for the entire month of July.

From that point, the account has stayed in line with the index and the performance for August of -.96 outperformed the benchmark's performance of -1.04.

As I mentioned to you Connie, we understand our responsibility in managing this account for the State Investment Board (SIB), and take that responsibility very seriously. We have been involved with indexed management for over 20 years and during that time have proven we can fulfill this investment objective for SIB. Due to this incident, we implemented new procedures within the management of this account to prevent a reoccurrence. If it works for you and Darren, we would like to meet with you to further discuss this matter. Our reputation is important to us, and we hope that we have the opportunity to continue the relationship that we have built over the past 20 years.

cc. Eric Hardmeyer
Darren Schulz

T-AST-DESC-MED

UNITED STATES TREAS NTS 1.5% DUE 12-31-2013 REG	(2,487,890.62)	(2,500,000.00)	3/30/2012
UNITED STATES TREAS NTS DTD 00229 1.875%DUE 04-30-2014 REG	(2,209,968.75)	(2,200,000.00)	3/30/2012
UNITED STATES TREAS NTS DTD 00236 2.25% DUE 05-31-2014 REG	(2,091,562.50)	(2,000,000.00)	3/30/2012
UNITED STATES TREAS NTS DTD 00302 1.75% DUE 07-31-2015 REG	(5,211,718.75)	(5,000,000.00)	3/30/2012
UNITED STATES TREAS NTS NT 2.375% DUE 10-31-2014 REG	(5,267,773.44)	(5,000,000.00)	3/30/2012
UNITED STATES TREAS NTS NT 2.625% DUE 06-30-2014 REG	(2,638,476.56)	(2,500,000.00)	3/30/2012
UNITED STATES TREAS NTS T-NOTE 1.25% DUE08-31-2015 REG	(1,583,875.00)	(1,600,000.00)	3/30/2012
UNITED STATES TREAS NTS UNITED STATES TREAS NOTES 2.5% DUE 03-31-2013	(287,717.77)	(300,000.00)	3/30/2012
UNITED STATES TREAS NTS USD 2.125% DUE 11-30-2014 REG	(7,872,070.31)	(7,500,000.00)	3/30/2012
US OF AMER TREAS NOTES 1.75 DUE 01-31-2014 REG	(2,061,406.25)	(2,000,000.00)	3/30/2012
US TREAS NTS DTD 1/31/10 2.25 DUE 01-31-2015 REG	(2,106,093.75)	(2,000,000.00)	3/30/2012
FHLMC 1 08-20-2014	(756,045.00)	(750,000.00)	4/16/2012
FHLMC PREASSIGN 00067 1 07-30-2014	(1,013,640.00)	(1,000,000.00)	4/16/2012
UNITED STATES TREAS NTS DTD 00321 1.375%DUE 11-30-2015 REG	(1,070,531.25)	(1,100,000.00)	4/30/2012
UNITED STATES TREAS NTS NT 3.25% DUE 07-31-2016 REG	(5,545,312.50)	(5,000,000.00)	4/30/2012
US OF AMER TREAS BONDS 2.625 DUE 04-30-2016 REG	(5,395,703.13)	(5,000,000.00)	4/30/2012
UTD STATES TREAS 1.25% DUE 10-31-2015	(1,023,593.75)	(1,000,000.00)	4/30/2012
FED HOME LN BKS 2.5% DUE 06-13-2014	(523,603.88)	(500,000.00)	4/30/2012
FHLB 5.5% DEB 13/08/14 USD1000 5.5 08-13-2014	(2,133,090.00)	(2,000,000.00)	4/30/2012
FHLB CONS BD DTD 01/13/2010 2.875 06-12-2015	(106,486.00)	(100,000.00)	4/30/2012
FHLMC 2 08-25-2016	(1,048,890.00)	(1,000,000.00)	4/30/2012
FHLMC DTD 02/19/2010 2.175 02-19-2014	(513,500.00)	(500,000.00)	4/30/2012
FHLMC TRANCHE # TR 00793 4.5 04-02-2014/04-02-2007	(659,222.50)	(600,000.00)	4/30/2012
FNMA 1.625 10-26-2015	(1,033,270.00)	(1,000,000.00)	4/30/2012
FNMA 2.375 DUE 07-28-2015	(1,060,490.00)	(1,000,000.00)	4/30/2012
FNMA DTD 08/02/2010 1.125 09-30-2013	(200,340.00)	(200,000.00)	4/30/2012
FNMA NT 4.375 07-17-2013/07-17-2006	(481,500.00)	(500,000.00)	4/30/2012
FNMA NT 4.625 10-15-2013	(490,703.13)	(500,000.00)	4/30/2012
FNMA PREASSIGN 00414 5 03-02-2015/03-02-2007	(1,133,190.00)	(1,000,000.00)	4/30/2012
UNITED STATES TREAS BDS .. 3.125% DUE 11-15-2041 REG	544,765.63	500,000.00	6/18/2012
UNITED STATES TREAS NTS 2.625 DUE 11-15-2020 REG	1,105,312.50	1,000,000.00	6/18/2012
UNITED STATES TREAS NTS DTD 02/15/2011 3.125% DUE 05-15-2021 REG	1,145,625.00	1,000,000.00	6/18/2012
UNITED STATES TREAS NTS DTD 00251 3% DUE08-31-2016 REG	(2,476,054.69)	(2,250,000.00)	6/18/2012
UNITED STATES TREAS BDS .. 3.125% DUE 11-15-2041 REG	548,125.00	500,000.00	6/29/2012
UNITED STATES TREAS NTS 2 DUE 11-15-2021	522,343.75	500,000.00	6/29/2012
UNITED STATES TREAS BDS 00205 4.375% DUE02-15-2038 REG	2,041,406.25	1,500,000.00	7/11/2012
UNITED STATES TREAS BDS 5.500 DUE 08-15-2028 REG	2,198,906.25	1,500,000.00	7/11/2012
US TREAS BDS 0 TREAS NT 15/11/2039 USD1000 4.375 DUE 11-15-2039 REG	2,051,250.00	1,500,000.00	7/11/2012
UNITED STATES TREAS NTS UNITED STATES TREAS NTS 3.5% DUE 02-15-2018 REG	(5,592,382.81)	(5,500,000.00)	7/11/2012
UNITED STATES TREAS BDS 00203 5% DUE 05-15-2037 REG	2,965,000.00	2,000,000.00	7/12/2012
UNITED STATES TREAS BDS BDS 3% DUE 05-15-2042 REG	2,164,375.00	2,000,000.00	7/12/2012
UNITED STATES TREAS NTS 2% DISC NT 30/11/2013 USD1000 2% DUE 11-30-2013	(517,343.75)	(500,000.00)	7/12/2012
UNITED STATES TREAS NTS DTD 00281 3% DUE02-28-2017 REG	(1,064,218.75)	(1,000,000.00)	7/12/2012
US OF AMER TREAS NOTES 3.75 DUE 11-15-2018 REG	(3,904,796.88)	(3,800,000.00)	7/12/2012
UTD STATES TREAS NTS 2.75 NT 31/10/2013 USD1000 2.75 DUE 10-31-2013 REG	(518,281.25)	(500,000.00)	7/12/2012
UNITED STATES TREAS BDS BDS 3% DUE 05-15-2042 REG	8,676,250.00	8,000,000.00	7/20/2012
UNITED STATES TREAS BDS DTD 00219 4.25% DUE 11-15-2040 REG	3,648,375.00	2,700,000.00	7/20/2012
US TREAS SEC 4.5 DUE 08-15-2039 REG	6,162,750.00	4,400,000.00	7/20/2012
UNITED STATES TREAS NTS 2 DUE 02-15-2022	(976,875.00)	(1,000,000.00)	7/20/2012
UNITED STATES TREAS NTS 2.625 DUE 11-15-2020 REG	(1,105,312.50)	(1,000,000.00)	7/20/2012
UNITED STATES TREAS NTS DTD 00306 2.625%DUE 08-15-2020 REG	(5,348,828.13)	(5,000,000.00)	7/20/2012
UNITED STATES TREAS NTS DTD 00359 2.25% DUE 07-31-2018 REG	(2,124,062.50)	(2,000,000.00)	7/20/2012
UNITED STATES TREAS NTS DTD 02/15/2011 3.125% DUE 05-15-2021 REG	(4,329,257.82)	(4,050,000.00)	7/20/2012
UNITED STATES TREAS NTS NT 2.5% DUE 06-30-2017 REG	(298,781.25)	(300,000.00)	7/20/2012
UNITED STATES TREAS NTS NT 2.625% DUE 04-30-2018 REG	(1,083,437.50)	(1,000,000.00)	7/20/2012
US TREAS NTS DTD 00363 2.125 DUE 08-15-2021 REG	(995,625.00)	(1,000,000.00)	7/20/2012
UNITED STATES TREAS BDS DTD 02/15/2012 3.125% DUE 02-15-2042 REG	1,092,968.75	1,000,000.00	8/6/2012
FHLMC PREASSIGN 00049 3.75 03-27-2019	(1,148,260.00)	(1,000,000.00)	8/6/2012
FHLB TRANCHE # TR 00473 5.25 12-11-2020	(617,500.00)	(500,000.00)	9/7/2012
FHLMC MTN 6.25 07-15-2032	(714,050.00)	(500,000.00)	9/7/2012
FHLMC TRANCHE # TR 00456 5.625 11-23-2035/11-23-2015	(472,640.00)	(500,000.00)	9/7/2012
FNMA NT 4.6 06-05-2018/06-05-2006	(488,370.00)	(500,000.00)	9/7/2012
UNITED STATES TREAS BDS DTD 02/15/2006 4.5% DUE 02-15-2036 REG	2,935,968.75	2,200,000.00	9/11/2012

A-BAS-BSE

Share/Par Value D-SET

Recognition date N-CATG-NAME

A-TRD-PRC Asset identifier N-CLRG-BKR

N-INV-SUB-CATG

(2,487,890.62)	(2,500,000.00)	3/30/2012	3/29/2012	Sales	102.07	C912828JW1	UBS FINANCIAL SERVICES INC	Government Bonds
(2,209,968.75)	(2,200,000.00)	3/30/2012	3/29/2012	Sales	103.10	C912828KN9	UBS FINANCIAL SERVICES INC	Government Bonds
(2,091,562.50)	(2,000,000.00)	3/30/2012	3/29/2012	Sales	104.02	C912828KV1	UBS FINANCIAL SERVICES INC	Government Bonds
(5,211,718.75)	(5,000,000.00)	3/30/2012	3/29/2012	Sales	103.77	C912828NP1	OPPENHEIMER AND COMPANY	Government Bonds
(5,267,773.44)	(5,000,000.00)	3/30/2012	3/29/2012	Sales	104.91	C912828L57	UBS FINANCIAL SERVICES INC	Government Bonds
(2,638,476.56)	(2,500,000.00)	3/30/2012	3/29/2012	Sales	105.00	C912828KY5	UBS FINANCIAL SERVICES INC	Government Bonds
(1,583,875.00)	(1,600,000.00)	3/30/2012	3/29/2012	Sales	102.16	C912828NV8	OPPENHEIMER AND COMPANY	Government Bonds
(287,717.77)	(300,000.00)	3/30/2012	3/29/2012	Sales	102.25	C912828HV5	OPPENHEIMER AND COMPANY	Government Bonds
(7,872,070.31)	(7,500,000.00)	3/30/2012	3/29/2012	Sales	104.38	C912828LZ1	UBS FINANCIAL SERVICES INC	Government Bonds
(2,061,406.25)	(2,000,000.00)	3/30/2012	3/29/2012	Sales	102.59	C912828JZ4	UBS FINANCIAL SERVICES INC	Government Bonds
(2,106,093.75)	(2,000,000.00)	3/30/2012	3/29/2012	Sales	104.92	C912828MH0	UBS FINANCIAL SERVICES INC	Government Bonds
(756,045.00)	(750,000.00)	4/16/2012	4/13/2012	Sales	101.29	C3134G2UA8	OPPENHEIMER AND COMPANY	Government Agencies
(1,013,640.00)	(1,000,000.00)	4/16/2012	4/13/2012	Sales	101.33	C3137EACU1	PIPER JAFFRAY INC	Government Agencies
(1,070,531.25)	(1,100,000.00)	4/30/2012	4/27/2012	Sales	102.98	C912828PJ3	OPPENHEIMER AND COMPANY	Government Bonds
(5,545,312.50)	(5,000,000.00)	4/30/2012	4/27/2012	Sales	110.80	C912828LD0	OPPENHEIMER AND COMPANY	Government Bonds
(5,395,703.13)	(5,000,000.00)	4/30/2012	4/27/2012	Sales	107.90	C912828KR0	OPPENHEIMER AND COMPANY	Government Bonds
(1,023,593.75)	(1,000,000.00)	4/30/2012	4/27/2012	Sales	102.55	C912828PE4	OPPENHEIMER AND COMPANY	Government Bonds
(523,603.88)	(500,000.00)	4/30/2012	4/27/2012	Sales	104.31	C3133XWE70	OPPENHEIMER AND COMPANY	Government Agencies
(2,133,090.00)	(2,000,000.00)	4/30/2012	4/27/2012	Sales	111.64	C3133XLJP9	UBS LONDON - DSA 'ALGOS' (US)	Government Agencies
(106,486.00)	(100,000.00)	4/30/2012	4/27/2012	Sales	106.96	C3133XWNB1	UBS LONDON - DSA 'ALGOS' (US)	Government Agencies
(1,048,890.00)	(1,000,000.00)	4/30/2012	4/27/2012	Sales	104.59	C3137EACW7	PIPER JAFFRAY INC	Government Agencies
(513,500.00)	(500,000.00)	4/30/2012	4/27/2012	Sales	103.17	C3128X9C73	OPPENHEIMER AND COMPANY	Government Agencies
(659,222.50)	(600,000.00)	4/30/2012	4/27/2012	Sales	107.79	C3128X23A1	OPPENHEIMER AND COMPANY	Government Agencies
(1,033,270.00)	(1,000,000.00)	4/30/2012	4/27/2012	Sales	103.24	C31398A4M1	PIPER JAFFRAY INC	Government Agencies
(1,060,490.00)	(1,000,000.00)	4/30/2012	4/27/2012	Sales	105.68	C31398AU34	PIPER JAFFRAY INC	Government Agencies
(200,340.00)	(200,000.00)	4/30/2012	4/27/2012	Sales	100.97	C31398A2M3	OPPENHEIMER AND COMPANY	Government Agencies
(481,500.00)	(500,000.00)	4/30/2012	4/27/2012	Sales	104.81	C31359MSL8	OPPENHEIMER AND COMPANY	Government Agencies
(490,703.13)	(500,000.00)	4/30/2012	4/27/2012	Sales	106.28	C31359MTG8	OPPENHEIMER AND COMPANY	Government Agencies
(1,133,190.00)	(1,000,000.00)	4/30/2012	4/27/2012	Sales	112.60	C31359MXX6	UBS LONDON - DSA 'ALGOS' (US)	Government Agencies
544,765.63	500,000.00	6/18/2012	6/15/2012	Purchases	108.95	C912810QT8	OPPENHEIMER AND COMPANY	Government Bonds
1,105,312.50	1,000,000.00	6/18/2012	6/15/2012	Purchases	110.53	C912828PC8	OPPENHEIMER AND COMPANY	Government Bonds
1,145,625.00	1,000,000.00	6/18/2012	6/15/2012	Purchases	114.56	C912828QN3	OPPENHEIMER AND COMPANY	Government Bonds
(2,476,054.69)	(2,250,000.00)	6/18/2012	6/15/2012	Sales	109.92	C912828LL2	OPPENHEIMER AND COMPANY	Government Bonds
548,125.00	500,000.00	6/29/2012	6/28/2012	Purchases	109.63	C912810QT8	OPPENHEIMER AND COMPANY	Government Bonds
522,343.75	500,000.00	6/29/2012	6/28/2012	Purchases	104.47	C912828RR3	OPPENHEIMER AND COMPANY	Government Bonds
2,041,406.25	1,500,000.00	7/11/2012	7/10/2012	Purchases	136.09	C912810PW2	UBS FINANCIAL SERVICES INC	Government Bonds
2,198,906.25	1,500,000.00	7/11/2012	7/10/2012	Purchases	146.59	C912810FE3	UBS FINANCIAL SERVICES INC	Government Bonds
2,051,250.00	1,500,000.00	7/11/2012	7/10/2012	Purchases	136.75	C912810QD3	UBS FINANCIAL SERVICES INC	Government Bonds
(5,592,382.81)	(5,500,000.00)	7/11/2012	7/10/2012	Sales	115.02	C912828HR4	UBS FINANCIAL SERVICES INC	Government Bonds
2,965,000.00	2,000,000.00	7/12/2012	7/11/2012	Purchases	148.25	C912810PU6	OPPENHEIMER AND COMPANY	Government Bonds
2,164,375.00	2,000,000.00	7/12/2012	7/11/2012	Purchases	108.22	C912810QW1	OPPENHEIMER AND COMPANY	Government Bonds
(517,343.75)	(500,000.00)	7/12/2012	7/11/2012	Sales	102.38	C912828JT8	OPPENHEIMER AND COMPANY	Government Bonds
(1,064,218.75)	(1,000,000.00)	7/12/2012	7/11/2012	Sales	110.92	C912828MS6	OPPENHEIMER AND COMPANY	Government Bonds
(3,904,796.88)	(3,800,000.00)	7/12/2012	7/11/2012	Sales	117.95	C912828JR2	OPPENHEIMER AND COMPANY	Government Bonds
(518,281.25)	(500,000.00)	7/12/2012	7/11/2012	Sales	103.23	C912828JQ4	OPPENHEIMER AND COMPANY	Government Bonds
8,676,250.00	8,000,000.00	7/20/2012	7/19/2012	Purchases	108.45	C912810QW1	OPPENHEIMER AND COMPANY	Government Bonds
3,648,375.00	2,700,000.00	7/20/2012	7/19/2012	Purchases	135.13	C912810QL5	UBS FINANCIAL SERVICES INC	Government Bonds
6,162,750.00	4,400,000.00	7/20/2012	7/19/2012	Purchases	140.06	C912810QC5	OPPENHEIMER AND COMPANY	Government Bonds
(976,875.00)	(1,000,000.00)	7/20/2012	7/19/2012	Sales	104.84	C912828SF8	UBS FINANCIAL SERVICES INC	Government Bonds
(1,105,312.50)	(1,000,000.00)	7/20/2012	7/19/2012	Sales	111.11	C912828PC8	UBS FINANCIAL SERVICES INC	Government Bonds
(5,348,828.13)	(5,000,000.00)	7/20/2012	7/19/2012	Sales	111.23	C912828NT3	UBS FINANCIAL SERVICES INC	Government Bonds
(2,124,062.50)	(2,000,000.00)	7/20/2012	7/19/2012	Sales	108.45	C912828QY9	OPPENHEIMER AND COMPANY	Government Bonds
(4,329,257.82)	(4,050,000.00)	7/20/2012	7/19/2012	Sales	115.11	C912828QN3	UBS FINANCIAL SERVICES INC	Government Bonds
(298,781.25)	(300,000.00)	7/20/2012	7/19/2012	Sales	109.13	C912828NK2	OPPENHEIMER AND COMPANY	Government Bonds
(1,083,437.50)	(1,000,000.00)	7/20/2012	7/19/2012	Sales	110.48	C912828QG8	OPPENHEIMER AND COMPANY	Government Bonds
(995,625.00)	(1,000,000.00)	7/20/2012	7/19/2012	Sales	106.35	C912828RC6	UBS FINANCIAL SERVICES INC	Government Bonds
1,092,968.75	1,000,000.00	8/6/2012	8/3/2012	Purchases	109.30	C912810QU5	OPPENHEIMER AND COMPANY	Government Bonds

Bank of ND Pension Account

		Actual Return	Benchmark Return	Difference
5/1/2012 4/30 Actual EMV less W/D	48,273,088	2.92%	7.44%	
		1,409,574	3,591,518	(2,181,944)
5/31/2012 Est. EMV - Actual Return	49,682,662			
Est. EMV - Benchmark Return	51,864,606			
		-0.57%	-1.36%	
		(283,191)	(705,359)	422,167
6/30/2012 Est. EMV - Actual Return	49,399,471			
Est. EMV - Benchmark Return	51,159,247			
		1.75%	3.30%	
		864,491	1,688,255	(823,764)
7/31/2012 Est. EMV - Actual Return	50,263,962			
Est. EMV - Benchmark Return	52,847,502			
7/31/2012 Actual EMV	50,284,736			
Difference from Benchmark	2,562,766			

State Investment Board Annual Investment Review

October 26, 2012

Darren Schulz

Interim Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

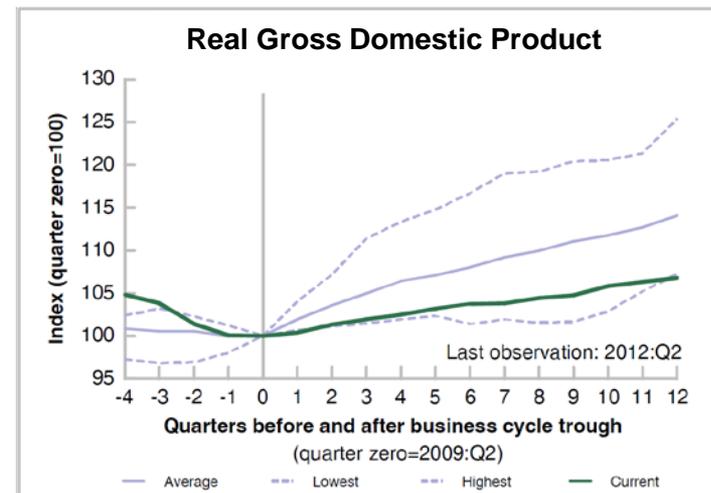
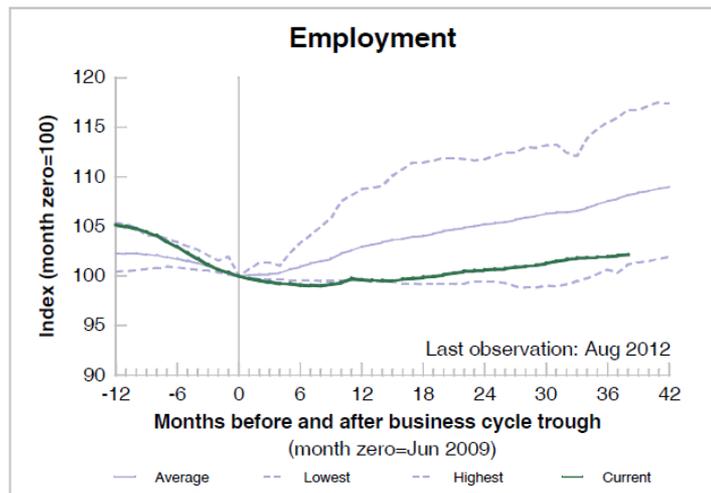
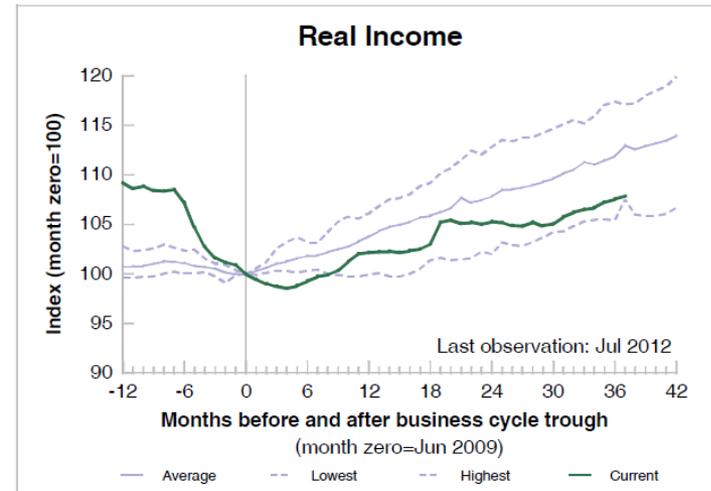
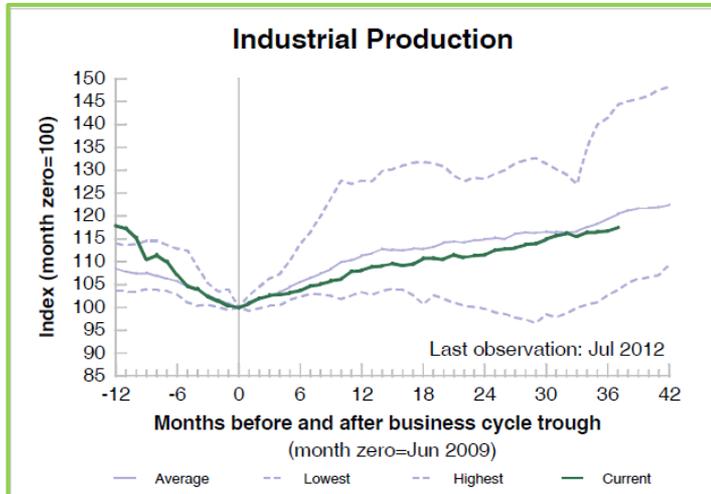
Presentation Agenda

- ▷ Fiscal year highlights
- ▷ Asset class historical returns
- ▷ Pension trust client performance attribution
- ▷ Pension trust investment performance
- ▷ Insurance trust client performance attribution
- ▷ Insurance trust investment performance
- ▷ Schedule of investment expenses by pool

Fiscal Year Highlights

- ▶ Eurozone sovereign debt and European bank crisis
- ▶ U.S. debt ceiling crisis and S&P credit rating downgrade
- ▶ Weak U.S./developed market economic growth
- ▶ Slowdown in emerging market economies
- ▶ Fed action via sterilized QE 2.1, a.k.a. Operation Twist
- ▶ Persistent unemployment in the U.S.
- ▶ Signs of U.S. housing market recovery
- ▶ U.S. manufacturing resurgence

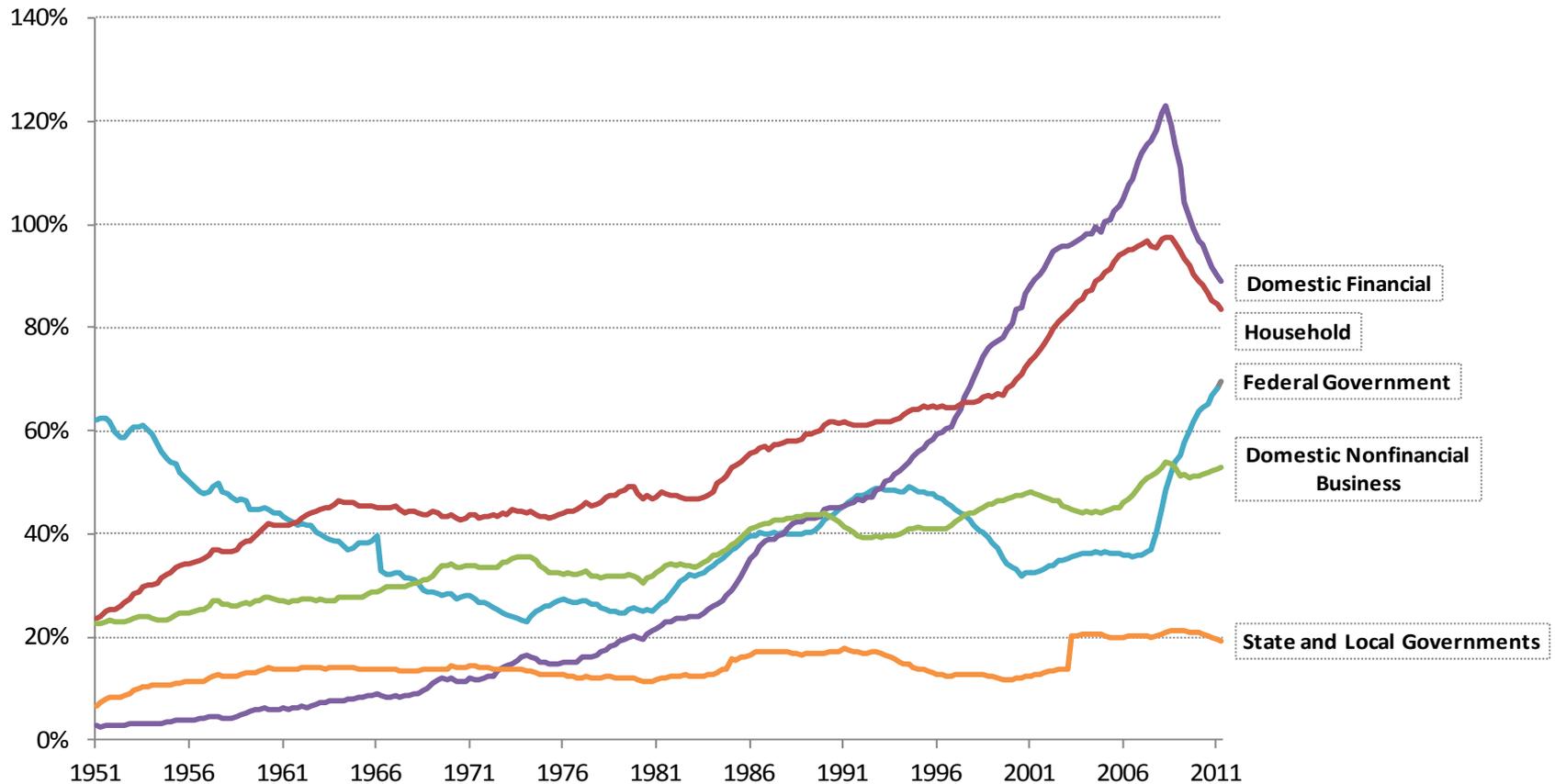
Current Recovery Versus Past Cycles



Source: Federal Reserve Bank of St. Louis

Debt Outstanding by Sector as a % of Total U.S. GDP

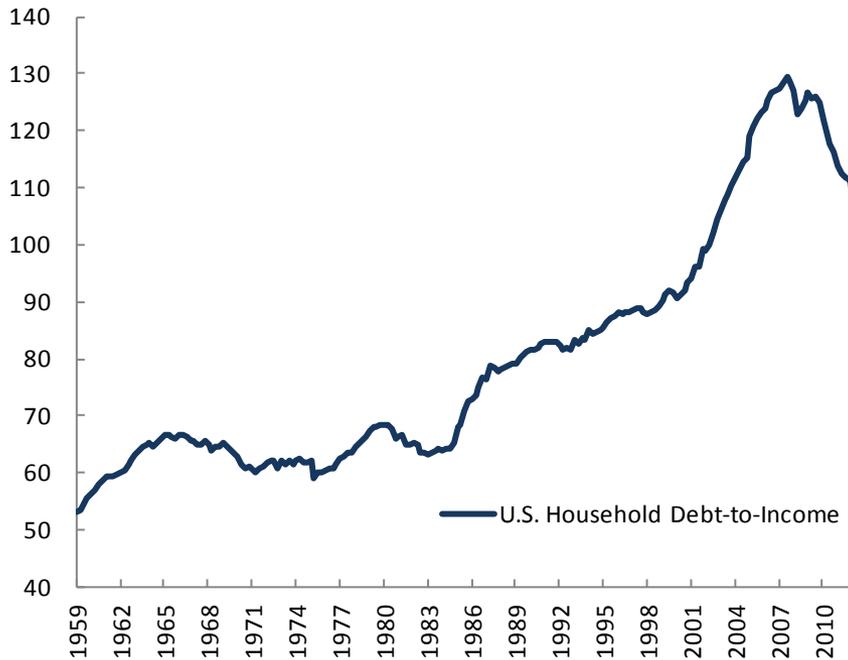
U.S. private sector debt has fallen relative to GDP since 2008, while public debt has reached its highest level since World War II.



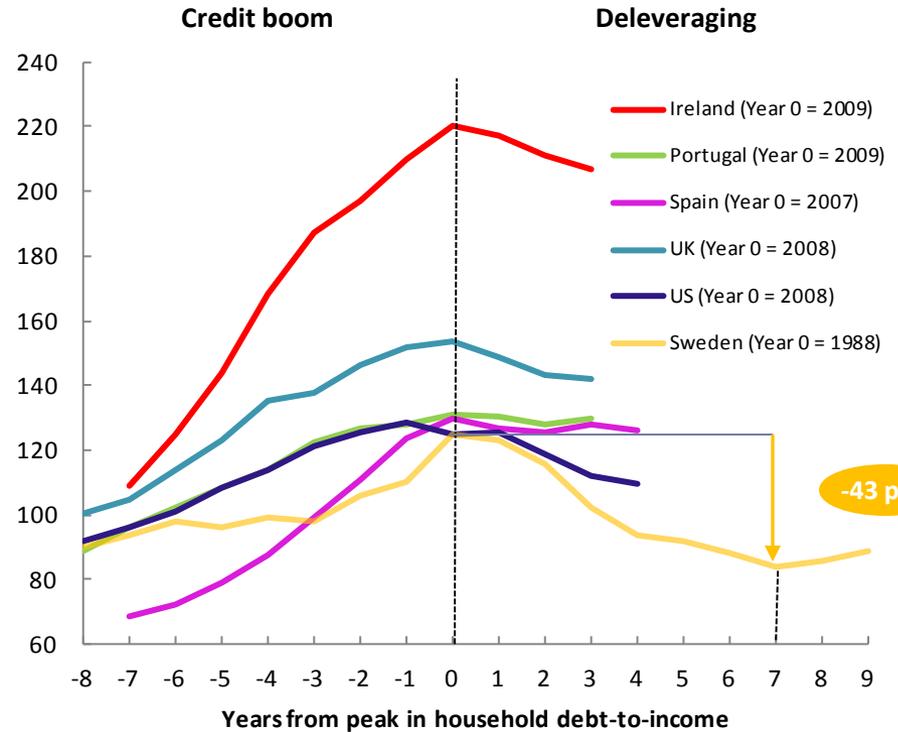
Source: Federal Reserve, Z.1 Flow of Funds Accounts

Household Debt as a % of Disposable Income

The accumulation of debt in the U.S. household sector has occurred over three decades.



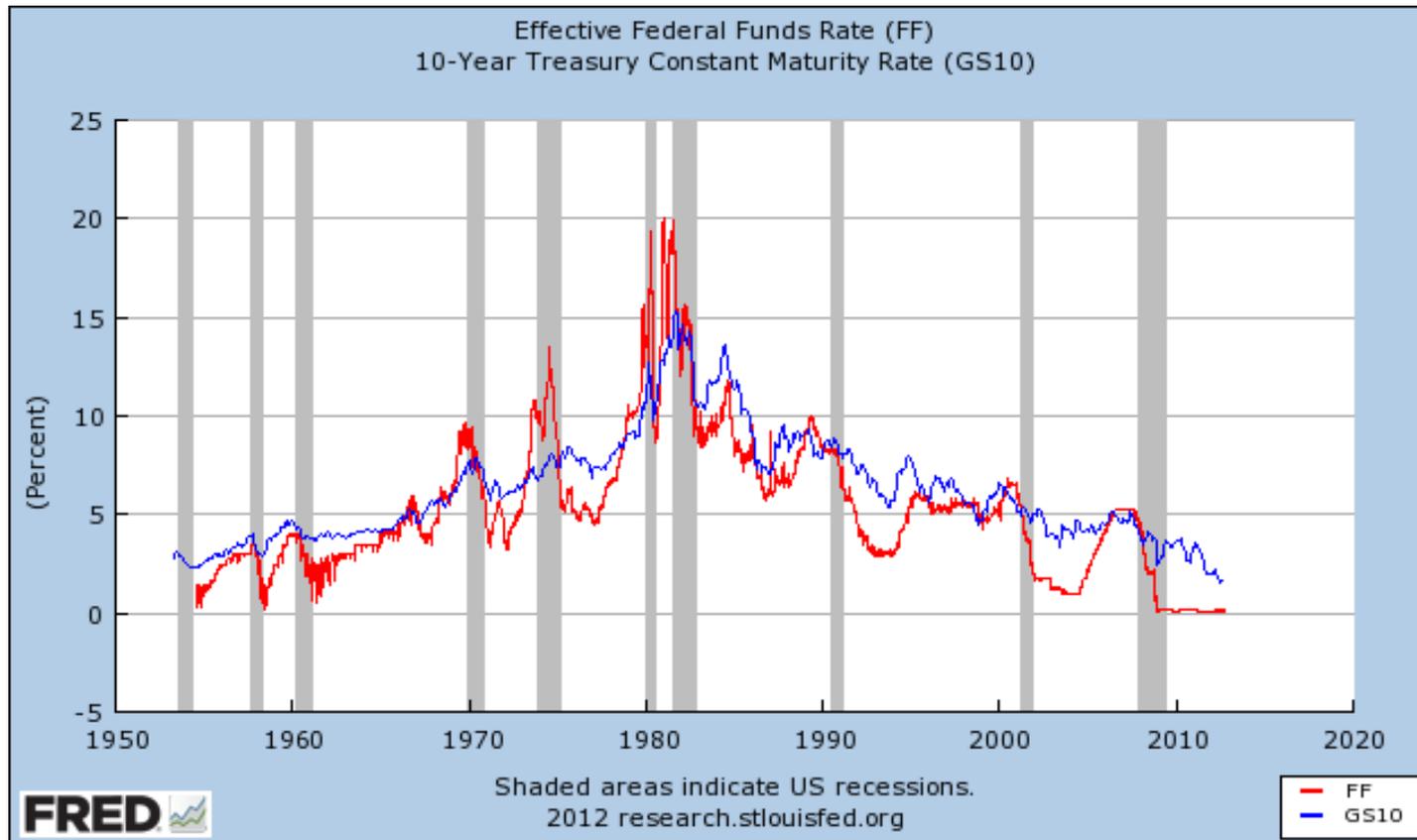
The U.S. is ahead of other developed countries in deleveraging, but household debt remains high.



Source: Federal Reserve Bank of St. Louis, Haver Analytics, Statistics Sweden, McKinsey Global Institute

Interest Rate Environment

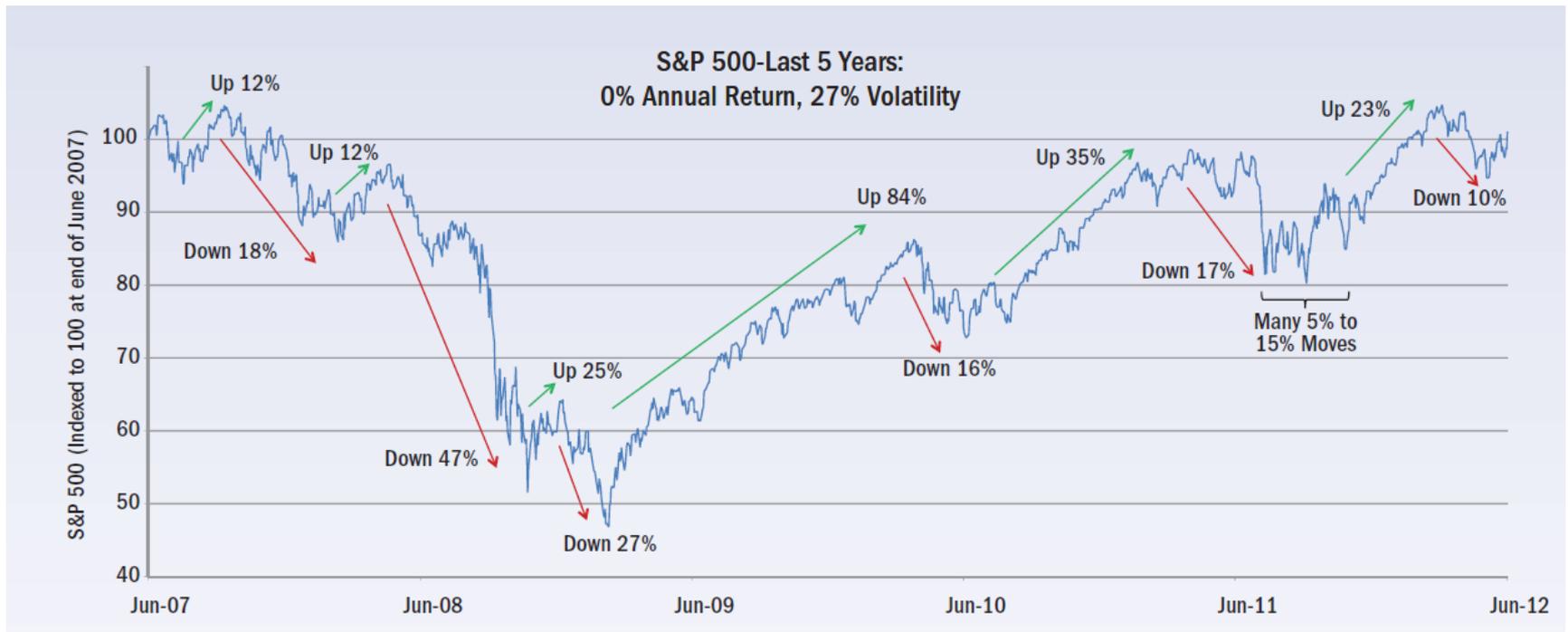
The Fed continues to maintain its zero-bound interest rate policy and utilize unconventional monetary policy tools.



Source: Federal Reserve Bank of St. Louis

U.S. Equity Market: A Long, Tumultuous Journey

Since June 2007, the S&P 500 has exhibited high volatility, a zero nominal return, and negative returns when adjusted for inflation.



Source: Standard & Poor's

Historical Market Returns by Asset Class

Asset Class	Represented by	Periods Ended June 30, 2012				
		1 Year	3 Year	5 Years	10 Years	20 Years
Large Cap US Stocks	Russell 1000	4.37%	16.64%	0.39%	5.72%	8.52%
Small Cap US Stocks	Russell 2000	-2.08%	17.80%	0.54%	7.00%	8.96%
Non-US Stocks (Developed)	MSCI EAFE	-13.83%	5.96%	-6.10%	5.14%	5.27%
Non-US Stocks (Emerging)	MSCI Emerging Mkts	-15.67%	10.10%	0.21%	14.42%	8.31%
US Bonds	BC Aggregate	7.47%	6.93%	6.79%	5.63%	6.48%
High Yield Bonds	BC High Yield Credit	7.27%	16.29%	8.45%	10.16%	8.06%
Non-US Sovereign Debt	Citi World Gov't Bond ex US	0.44%	5.13%	7.39%	7.15%	6.35%
Inflation Protected	BC Global Inflation Linked	4.25%	7.04%	6.13%	7.67%	N/A
Real Estate	NCREIF	12.04%	8.82%	2.51%	8.29%	8.41%

Source: Callan

Callan Periodic Table of Investment Returns

Fiscal Year Returns (1993-2012) Ranked in Order of Performance

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Russell 2000	MSCI Emerging Markets	S&P 500	S&P 500	S&P 500	S&P 500	MSCI Emerging Markets	MSCI EAFE	NCREIF:Total Index	Barclays Aggregate	Barclays Aggregate	MSCI Emerging Markets	MSCI Emerging Markets	MSCI Emerging Markets	MSCI Emerging Markets	NCREIF:Total Index	Barclays Aggregate	MSCI Emerging Markets	Russell 2000	NCREIF:Total Index
26.0%	37.2%	26.1%	26.0%	34.7%	30.2%	28.7%	17.2%	11.6%	8.6%	10.4%	33.5%	34.9%	35.9%	45.5%	9.2%	6.0%	23.5%	37.4%	12.0%
MSCI EAFE	MSCI EAFE	Russell 2000	Russell 2000	Total Fund-PERS Net	NCREIF:Total Index	S&P 500	Russell 2000	Barclays Aggregate	NCREIF:Total Index	NCREIF:Total Index	Russell 2000	NCREIF:Total Index	MSCI EAFE	MSCI EAFE	Barclays Aggregate	NCREIF:Total Index	Russell 2000	S&P 500	Barclays Aggregate
20.3%	17.0%	20.1%	23.9%	19.7%	17.5%	22.8%	14.3%	11.2%	5.5%	7.6%	33.4%	18.0%	26.6%	27.0%	7.1%	(19.6%)	21.5%	30.7%	7.5%
MSCI Emerging Markets	Russell 2000	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-TFFR Net	Russell 2000	NCREIF:Total Index	Total Fund-TFFR Net	Russell 2000	MSCI Emerging Markets	MSCI Emerging Markets	MSCI EAFE	Total Fund-PERS Net	NCREIF:Total Index	S&P 500	MSCI Emerging Markets	Total Fund-PERS Net	S&P 500	MSCI EAFE	S&P 500
18.6%	4.3%	14.3%	15.8%	19.3%	16.5%	12.8%	11.6%	0.6%	1.3%	7.0%	32.4%	14.1%	18.7%	20.6%	4.9%	(24.5%)	14.4%	30.4%	5.4%
Total Fund-TFFR Net	NCREIF:Total Index	Total Fund-TFFR Net	Total Fund-TFFR Net	Russell 2000	Total Fund-PERS Net	Total Fund-TFFR Net	NCREIF:Total Index	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-TFFR Net	MSCI EAFE	Total Fund-TFFR Net	Total Fund-TFFR Net	Total Fund-PERS Net	Russell 2000	Total Fund-TFFR Net	MSCI Emerging Markets	Total Fund-PERS Net
15.0%	3.7%	13.7%	15.3%	16.3%	16.1%	11.1%	11.6%	(3.9%)	(6.8%)	5.5%	19.3%	13.7%	14.8%	20.0%	(5.6%)	(25.0%)	13.8%	28.2%	0.1%
Total Fund-PERS Net	Total Fund-PERS Net	Barclays Aggregate	MSCI EAFE	MSCI EAFE	Total Fund-TFFR Net	Total Fund-PERS Net	MSCI Emerging Markets	Total Fund-TFFR Net	Russell 2000	Total Fund-TFFR Net	S&P 500	Total Fund-TFFR Net	Russell 2000	Total Fund-PERS Net	Total Fund-TFFR Net	S&P 500	Total Fund-PERS Net	Total Fund-TFFR Net	Total Fund-TFFR Net
15.0%	1.5%	12.5%	13.3%	12.8%	14.0%	10.6%	9.5%	(7.0%)	(8.6%)	2.3%	19.1%	13.3%	14.6%	19.0%	(7.5%)	(26.2%)	13.7%	24.2%	(1.0%)
S&P 500	S&P 500	NCREIF:Total Index	MSCI Emerging Markets	MSCI Emerging Markets	Barclays Aggregate	MSCI EAFE	Total Fund-PERS Net	S&P 500	Total Fund-TFFR Net	S&P 500	Total Fund-PERS Net	Russell 2000	Total Fund-PERS Net	NCREIF:Total Index	MSCI EAFE	Total Fund-TFFR Net	Barclays Aggregate	Total Fund-PERS Net	Russell 2000
13.6%	1.4%	7.8%	8.5%	12.8%	10.5%	7.6%	9.3%	(14.8%)	(8.9%)	0.3%	16.6%	9.4%	12.0%	17.2%	(10.6%)	(27.4%)	9.5%	21.4%	(2.1%)
Barclays Aggregate	Total Fund-TFFR Net	MSCI EAFE	NCREIF:Total Index	NCREIF:Total Index	MSCI EAFE	Barclays Aggregate	S&P 500	MSCI EAFE	MSCI EAFE	Russell 2000	NCREIF:Total Index	Barclays Aggregate	S&P 500	Russell 2000	S&P 500	MSCI Emerging Markets	MSCI EAFE	NCREIF:Total Index	MSCI EAFE
11.8%	1.2%	1.7%	8.1%	10.8%	6.1%	3.1%	7.2%	(23.6%)	(9.5%)	(1.6%)	10.8%	6.8%	8.6%	16.4%	(13.1%)	(27.8%)	5.9%	16.7%	(13.8%)
NCREIF:Total Index	Barclays Aggregate	MSCI Emerging Markets	Barclays Aggregate	Barclays Aggregate	MSCI Emerging Markets	Russell 2000	Barclays Aggregate	MSCI Emerging Markets	S&P 500	MSCI EAFE	Barclays Aggregate	S&P 500	Barclays Aggregate	Barclays Aggregate	Russell 2000	MSCI EAFE	NCREIF:Total Index	Barclays Aggregate	MSCI Emerging Markets
(2.7%)	(1.3%)	0.0%	5.0%	8.1%	(39.1%)	1.5%	4.6%	(25.8%)	(18.0%)	(6.5%)	0.3%	6.3%	(0.8%)	6.1%	(16.2%)	(31.4%)	(1.5%)	3.9%	(15.7%)

Source: Callan

Pension Trust Client Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)						
Total Fund Return - Net	-1.80%	0.06%	11.36%	-0.32%	14.85%	-2.59%
Policy Benchmark Return	-1.57%	1.17%	11.44%	2.38%	13.55%	
Attribution Analysis						
Asset Allocation	-0.26%	-0.43%				
Manager Selection	0.02%	-0.68%				
Total Relative Return	-0.24%	-1.12%	-0.07%	-2.70%		
TEACHERS' FUND FOR RETIREMENT (TFFR)						
Total Fund Return - Net	-1.69%	-0.97%	11.87%	-1.24%	16.47%	-2.26%
Policy Benchmark Return	-1.55%	-0.82%	11.17%	1.19%	15.22%	
Attribution Analysis						
Asset Allocation	-0.24%	0.27%				
Manager Selection	0.10%	-0.43%				
Total Relative Return	-0.14%	-0.16%	0.70%	-2.43%		

Pension Trust Client Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
CITY OF BISMARCK EMPLOYEES PENSION						
Total Fund Return - Net	-1.31%	1.57%	11.28%	1.02%	13.29%	-2.59%
Policy Benchmark Return	-1.11%	2.81%	10.93%	3.61%	11.42%	
Attribution Analysis						
Asset Allocation	-0.11%	-0.01%				
Manager Selection	-0.09%	-1.22%				
Total Relative Return	-0.20%	-1.23%	0.35%	-2.59%		
CITY OF BISMARCK POLICE PENSION						
Total Fund Return - Net	-1.49%	1.31%	11.60%	0.51%	14.18%	-2.60%
Policy Benchmark Return	-1.32%	2.46%	11.37%	3.16%	12.49%	
Attribution Analysis						
Asset Allocation	-0.10%	-0.05%				
Manager Selection	-0.07%	-1.09%				
Total Relative Return	-0.17%	-1.14%	0.24%	-2.66%		
JOB SERVICE PENSION PLAN						
Total Fund Return - Net	-0.41%	3.09%	10.88%	2.26%	11.26%	-2.61%
Policy Benchmark Return	-0.52%	4.26%	10.73%	4.67%	9.45%	
Attribution Analysis						
Asset Allocation	-0.14%	-0.42%				
Manager Selection	0.25%	-0.75%				
Total Relative Return	0.11%	-1.17%	0.16%	-2.41%		

Pension Trust Client Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
CITY OF FARGO PENSION PLAN						
Total Fund Return - Net	-1.68%	0.97%	12.12%	N/A	N/A	N/A
Policy Benchmark Return	-1.49%	2.30%	11.84%			
Attribution Analysis						
Asset Allocation	0.00%	0.21%				
Manager Selection	-0.19%	-1.54%				
Total Relative Return	-0.19%	-1.33%	0.27%			
CITY OF GRAND FORKS PENSION PLAN						
Total Fund Return - Net	-1.66%	1.09%	11.89%	N/A	N/A	N/A
Policy Benchmark Return	-1.49%	2.30%	11.84%			
Attribution Analysis						
Asset Allocation	0.03%	0.28%				
Manager Selection	-0.20%	-1.49%				
Total Relative Return	-0.17%	-1.21%	0.05%			
GRAND FORKS PARK DISTRICT PENSION PLAN						
Total Fund Return - Net	-1.79%	0.86%	N/A	N/A	N/A	N/A
Policy Benchmark Return	-1.57%	2.87%				
Attribution Analysis						
Asset Allocation	0.18%	-0.20%				
Manager Selection	-0.40%	-1.80%				
Total Relative Return	-0.22%	-2.00%				

Pension Trust Investment Performance

Fiscal Year Ended June 30, 2012

	Actual Return (Net)	Benchmark	Difference
<i>Global Equity</i>			
US Large Cap Equity	3.35%	5.34%	-1.99%
US Small Cap Equity	-0.37%	-2.08%	1.71%
International Equity	-15.15%	-13.83%	-1.32%
Emerging Markets Equity	-9.98%	-15.95%	5.97%
Private Equity	5.12%	5.12%	0.00%
<i>Global Fixed Income</i>			
US Investment Grade Fixed Income	5.99%	7.47%	-1.48%
US High Yield	3.06%	7.21%	-4.15%
International Fixed Income	4.25%	-0.64%	4.89%
<i>Global Real Assets</i>			
Real Estate	12.46%	12.04%	0.42%

Insurance Trust Client Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
WORKFORCE SAFETY & INSURANCE (WSI)						
Total Fund Return - Net	0.44%	6.14%	10.40%	3.96%	7.22%	-1.65%
Policy Benchmark Return	0.24%	5.19%	8.25%	4.83%	5.34%	
Attribution Analysis						
Asset Allocation	-0.03%	-0.22%				
Manager Selection	0.24%	1.17%				
Total Relative Return	0.21%	0.95%	2.15%	-0.87%		
STATE RISK MANAGEMENT FUND						
Total Fund Return - Net	0.67%	7.63%	12.62%	4.81%	9.01%	-1.27%
Policy Benchmark Return	0.51%	6.36%	9.84%	5.01%	6.50%	
Attribution Analysis						
Asset Allocation	-0.04%	0.20%				
Manager Selection	0.19%	1.07%				
Total Relative Return	0.15%	1.27%	2.78%	-0.20%		
STATE RISK MANAGEMENT WORKERS COMP FUND						
Total Fund Return - Net	0.33%	7.40%	13.27%	4.36%	10.32%	-1.09%
Policy Benchmark Return	0.21%	6.29%	10.70%	4.71%	8.07%	
Attribution Analysis						
Asset Allocation	-0.03%	0.22%				
Manager Selection	0.15%	0.89%				
Total Relative Return	0.12%	1.11%	2.57%	-0.35%		

Insurance Trust Client Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
FIRE & TORNADO FUND						
Total Fund Return - Net	-0.23%	4.93%	11.24%	3.56%	9.84%	-0.73%
Policy Benchmark Return	-0.22%	3.98%	8.41%	3.72%	7.65%	
Attribution Analysis						
Asset Allocation	-0.08%	0.16%				
Manager Selection	0.07%	0.79%				
Total Relative Return	-0.01%	0.95%	2.83%	-0.16%		
STATE BONDING FUND						
Total Fund Return - Net	1.40%	5.31%	6.31%	-0.54%	6.15%	0.68%
Policy Benchmark Return	1.14%	4.08%	3.83%	-0.92%	4.93%	
Attribution Analysis						
Asset Allocation	0.01%	0.00%				
Manager Selection	0.25%	1.23%				
Total Relative Return	0.26%	1.23%	2.48%	0.38%		
INSURANCE REGULATORY TRUST FUND (IRTF)						
Total Fund Return - Net	-0.55%	2.82%	8.16%	2.78%	7.69%	-0.05%
Policy Benchmark Return	-0.48%	2.27%	6.56%	2.56%	6.53%	
Attribution Analysis						
Asset Allocation	-0.08%	0.03%				
Manager Selection	0.01%	0.52%				
Total Relative Return	-0.07%	0.55%	1.60%	0.22%		

Insurance Trust Client Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
PETROLEUM TANK RELEASE COMPENSATION FUND						
Total Fund Return - Net	1.28%	4.84%	5.85%	-0.78%	5.94%	0.74%
Policy Benchmark Return	1.04%	3.71%	3.49%	-1.20%	4.87%	
Attribution Analysis						
Asset Allocation	0.01%	0.01%				
Manager Selection	0.23%	1.12%				
Total Relative Return	0.24%	1.13%	2.36%	0.42%		
ND ASSOCIATION OF COUNTIES FUND (NDACo)						
Total Fund Return - Net	-0.02%	1.69%	11.35%	1.28%	12.89%	-0.46%
Policy Benchmark Return	-0.04%	0.89%	9.29%	1.70%	11.31%	
Attribution Analysis						
Asset Allocation	-0.07%	0.12%				
Manager Selection	0.09%	0.68%				
Total Relative Return	0.02%	0.80%	2.06%	-0.42%		
CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT						
Total Fund Return - Net	0.18%	5.69%	11.52%	4.24%	9.26%	-1.00%
Policy Benchmark Return	0.13%	4.51%	8.69%	4.29%	6.57%	
Attribution Analysis						
Asset Allocation	-0.07%	0.15%				
Manager Selection	0.12%	1.03%				
Total Relative Return	0.05%	1.18%	2.83%	-0.05%		

Insurance Trust Client Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
FARGODOME PERMANENT FUND						
Total Fund Return - Net	-1.43%	3.14%	12.80%	2.56%	12.77%	-1.03%
Policy Benchmark Return	-1.29%	2.62%	11.02%	3.39%	11.17%	
Attribution Analysis						
Asset Allocation	-0.08%	0.21%				
Manager Selection	-0.06%	0.31%				
Total Relative Return	-0.14%	0.52%	1.78%	-0.83%		
CULTURAL ENDOWMENT FUND						
Total Fund Return - Net	-1.13%	4.65%	13.42%	1.90%	13.94%	-0.88%
Policy Benchmark Return	-1.05%	3.97%	11.43%	2.67%	12.31%	
Attribution Analysis						
Asset Allocation	-0.06%	0.26%				
Manager Selection	-0.02%	0.42%				
Total Relative Return	-0.08%	0.68%	1.99%	-0.77%		
PERS RETIREE HEALTH						
Total Fund Return - Net	-1.89%	2.62%	13.41%	0.73%	15.51%	-1.20%
Policy Benchmark Return	-1.55%	2.84%	11.79%	1.95%	14.39%	
Attribution Analysis						
Asset Allocation						
Manager Selection						
Total Relative Return	-0.34%	-0.22%	1.62%	-1.22%		

Insurance Trust Client Performance Attribution

	Quarter Ended 6/30/2012	1 Yr Ended 6/30/2012	3 Yrs Ended 6/30/2012	5 Yrs Ended 6/30/2012	Risk 5 Yrs Ended 6/30/2012	Risk Adj Excess Return 5 Yrs Ended 6/30/2012
PERS GROUP INSURANCE						
Total Fund Return - Net	0.07%	0.24%	0.31%	1.08%	0.68%	0.12%
Policy Benchmark Return	0.03%	0.06%	0.12%	0.98%	0.80%	
Attribution Analysis						
Asset Allocation						
Manager Selection						
Total Relative Return	0.05%	0.18%	0.19%	0.10%		

Insurance Trust Investment Performance

Fiscal Year Ended June 30, 2012

	Actual Return (Net)	Benchmark	Difference
US Large Cap Equity	4.30%	5.45%	-1.15%
US Small Cap Equity	-2.53%	-2.08%	-0.45%
International Equity	-14.78%	-13.83%	-0.95%
US Investment Grade Fixed Income	9.63%	7.47%	2.16%
Inflation Protected	4.28%	4.25%	0.03%
Real Estate	16.78%	12.04%	4.74%

Schedule of Investment Fees & Commissions by Pool

Fiscal Year Ended June 30, 2012

	Pension Investment Pool			Insurance Investment Pool & Individual Investment Account		
	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points
Investment manager fees:						
Global equity managers	\$ 207,463,108	\$ 1,422,045	69	\$ -	\$ -	
Domestic large cap equity managers	837,738,524	2,629,497	31	160,415,498	347,182	22
Domestic small cap equity managers	263,514,590	1,527,957	58	56,733,966	251,893	44
Developed international equity managers	486,495,625	2,122,087	44	90,328,432	491,013	54
Emerging markets equity managers	144,650,596	1,018,659	70			
Investment Grade domestic fixed income managers	528,343,519	1,429,349	27	802,418,607	3,268,774	41
Inflation protected assets managers				306,527,780	2,324,657	76
Below investment grade domestic fixed income managers	182,037,114	2,254,588	124			
Developed international fixed income managers	184,148,435	664,353	36			
Real estate managers	328,030,971	3,339,482	102	98,129,004	1,073,000	109
Timber managers	204,684,181	1,036,397	51			
Infrastructure managers	126,215,433	2,152,625	171			
Private equity managers	188,996,540	5,719,046	303			
Cash & equivalents managers	36,331,630	72,836	20	38,504,683	-	-
Short term fixed income managers				741,593,615	564,283	8
Balanced account managers (Individual Investment Acct.)				58,420,185	249,704	43
Total investment manager fees	<u>\$ 3,718,650,266</u>	25,388,921	68	<u>\$ 2,353,071,770</u>	8,570,506	36
Custodian fees		518,376	1		282,045	1
Investment consultant fees		215,043	1		114,109	0
SIB Service Fees		31,573	0		14,318	0
Total investment expenses *		<u>\$ 26,153,913</u>	70		<u>\$ 8,980,978</u>	38

* Individual investment funds' total basis points vary depending upon their asset allocation.

Contact Information

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ND Retirement and Investment Office

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▶ **Website Address:**

www.nd.gov/rio

MEMORANDUM

TO: STATE INVESTMENT BOARD

FROM: REBECCA DORWART, CHAIR
SIB AUDIT COMMITTEE

DATE: OCTOBER 19, 2012

SUBJECT: AUDIT COMMITTEE ACTIVITIES
FY JULY 1, 2011 - JUNE 30, 2012

The Audit Committee is a standing committee of the State Investment Board (SIB). Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including the financial reporting process, internal controls, policies, and practices.

The members of the Audit Committee for the fiscal year ended June 30, 2012 were: Rebecca Dorwart, Chair; Lonny Mertz, Vice Chair; Cindy Ternes, designee from Workforce Safety representing elected and appointed officials; Michael Gessner, representing the Teachers' Fund for Retirement (TFFR) board; and Mike Sandal, representing the Public Employees Retirement System (PERS). The Audit Committee held four regular meetings during the fiscal year ended June 30, 2012.

The activities of the Audit Committee during the past year included:

- ◆ The Committee reviewed the quarterly progress of internal audit on its fiscal work plan of internal audit activities and functions including:
 - School districts
 - Benefit payments
 - Participants' data
 - TFFR file maintenance
 - Executive limitations
 - Follow-up on the RIO performance audit
- ◆ The Committee held private meetings with the Internal Audit team members and the Executive Director and Deputy Executive Director on March 16, 2012.
- ◆ The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2011 from Eide Bailly on November 18, 2011.

- ◆ On June 22, 2012, the Committee reviewed the RIO financial audit plan for the fiscal year ended June 30, 2012 with CliftonLarsonAllen LLP. The discussion included the scope of the audit to ensure complete coverage of financial information.
- ◆ On June 22, 2012, the Committee delayed approval of the internal audit work plan of internal audit activities and functions for the fiscal year ending June 30, 2013 until the September 28, 2012 meeting. This was due to last minute changes. The Committee cancelled and rescheduled the September 28, 2012 meeting to October 16, 2012, at which time the revised internal audit work plan was presented. Due to additional requested changes, the Committee delayed approval until the November 16, 2012 meeting.

The plan includes:

- School districts
- Review of deaths, long-outstanding checks, long term annuitants, purchases, & refunds
- TFFR file maintenance
- Executive limitations
- Compilation of a policy and procedure manual
- Special projects as needed

The above reported activities support the Committee's fulfillment of its oversight responsibilities.

**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
SIB AUDIT COMMITTEE MEETING
~~PEACE GARDEN ROOM, CAPITOL BUILDING~~ CONFERENCE CALL
FRIDAY, SEPTEMBER 28, 2012 TUESDAY, OCTOBER 16, 2012
1:00 3:30 P.M. CDT**

AGENDA

- 1. CALL TO ORDER AND APPROVAL OF AGENDA**
- 2. APPROVAL OF JUNE 22, 2012 MINUTES** (enclosed).
- 3. ELECTION OF CHAIR , VICE CHAIR, AND LIAISON**
- 4. REPORT ON FISCAL 2012 INTERNAL AUDIT ACTIVITIES** - Les Mason and Dottie Thorsen (Approval Needed) (enclosed).
 - A. Compliance Audits (enclosed)
- 5. PREPARE ANNUAL AUDIT COMMITTEE ACTIVITIES UPDATE MEMO TO SIB** (draft copy enclosed)
- 6. CONSIDERATION OF PROPOSED JULY 1, 2012 TO JUNE 30, 2013 FISCAL YEAR INTERNAL AUDIT SERVICES UNIT WORK PLAN** - Les Mason (Approval Needed) (enclosed)
- 7. PLAN ANNUAL AGENDA AND MEETING DATES** (enclosed)
- 8. OTHER**
 - Next SIB Audit Committee meeting - November 16, 2012, 1:00 pm, Peace Garden Room, State Capitol Building
- 9. ADJOURNMENT**

**STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
JUNE 22, 2012 MEETING**

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

STAFF PRESENT: Connie Flanagan, Fiscal & Investment Officer
Bonnie Heit, Office Manager
Fay Kopp, Interim Executive Director
Les Mason, Internal Audit Supervisor
Darren Schulz, Interim CIO
Dottie Thorsen, Internal Audit

OTHERS: Thomas Rey, CliftonLarsonAllen

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, June 22, 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 June 22, 2012 agenda.

MR. SANDAL MOVED AND MS. TERNES SECONDED TO ACCEPT THE AGENDA FOR THE JUNE 22, 2012, MEETING.

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

NAYS: NONE

MOTION CARRIED

MINUTES:

The Audit Committee considered the minutes from the March 16, 2012, meeting.

MR. GESSNER MOVED AND MR. SANDAL SECONDED TO APPROVE THE MARCH 16, 2012, MINUTES AS WRITTEN.

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

NAYS: NONE

MOTION CARRIED

FISCAL YEAR 2012 FINANCIAL AUDIT SCOPE & APPROACH:

CliftonLarsonAllen was awarded the contract by the State Auditor's Office to perform an audit of the financial statements of the Retirement and Investment Office (RIO) for fiscal years ending June 30, 2012, 2013, and 2014. Mr. Thomas Rey, CliftonLarsonAllen, reviewed the firm's audit scope and approach for the Fiscal Year 2012 financial audit.

Preliminary field work was completed the week of June 18, 2012. Substantive field work will be completed in August and September 2012. A final signed audit opinion will be available to the Audit Committee late October 2012. Mr. Rey will be reviewing the results of the financial audit at the Audit Committee's November 16, 2012 meeting.

MR. GESSNER MOVED AND MS. TERNES SECONDED TO ACCEPT CLIFTONLARSONALLEN'S PRESENTATION ON THE FINANCIAL AUDIT SCOPE AND APPROACH OF RIO FOR FY12.

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

NAYS: NONE

MOTION CARRIED

INTERNAL AUDIT ACTIVITIES:

Mr. Mason reviewed the Internal Audit division's work activity for the period of July 1, 2011 - June 13, 2012.

School District Audit Reports - Mr. Mason reported 31 school districts have been completed, six are in progress, information has been received from four school districts, and one school district asked for an extension. Three-four additional audits may be completed by the end of the month.

TFFR File Maintenance - Ms. Thorsen reported on the File Maintenance Audit for the third quarter. There were no exceptions noted.

MR. SANDAL MOVED AND MR. MERTZ SECONDED TO ACCEPT THE INTERNAL AUDIT DIVISION'S WORK ACTIVITY REPORT FOR THE PERIOD OF JULY 1, 2011 - JUNE 13, 2012.

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

NAYS: NONE

MOTION CARRIED

FISCAL YEAR 2013 WORK PLAN:

Mr. Mason reviewed a draft of the Fiscal Year 2013 Internal Audit division's work plan. Discussion was held on projects and hours needed to complete those projects. Mr. Mason will provide a final report at the September 28, 2012, Audit Committee meeting.

OTHER:

The next Audit Committee meeting is scheduled for September 28, 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 1:45 p.m.

Respectfully Submitted:

Accepted at 10/16/12 Meeting

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

Bonnie Heit
Assistant to the Audit Committee

MEMORANDUM

TO: State Investment Board
FROM: Fay Kopp, Interim Executive Director
DATE: October 19, 2012
SUBJ: RIO Organizational Charts

At the September SIB meeting, the Board asked staff to develop some possible revised organizational structures for RIO. Connie, Darren, and I have worked through a variety of potential scenarios, and are including four organizational charts for your review. They range from generally keeping RIO intact, to dissolving RIO and dividing the SIB and TFFR programs into two separate agencies. Please note that these organizational charts are intended to serve as a starting point for more in depth board discussions. Because there are a number of other possible variations of the agency and its board governance structure, we also included a number of questions on each chart to help clarify how you would like to see the board(s), executive director, program officers, and staff function. Four charts are included:

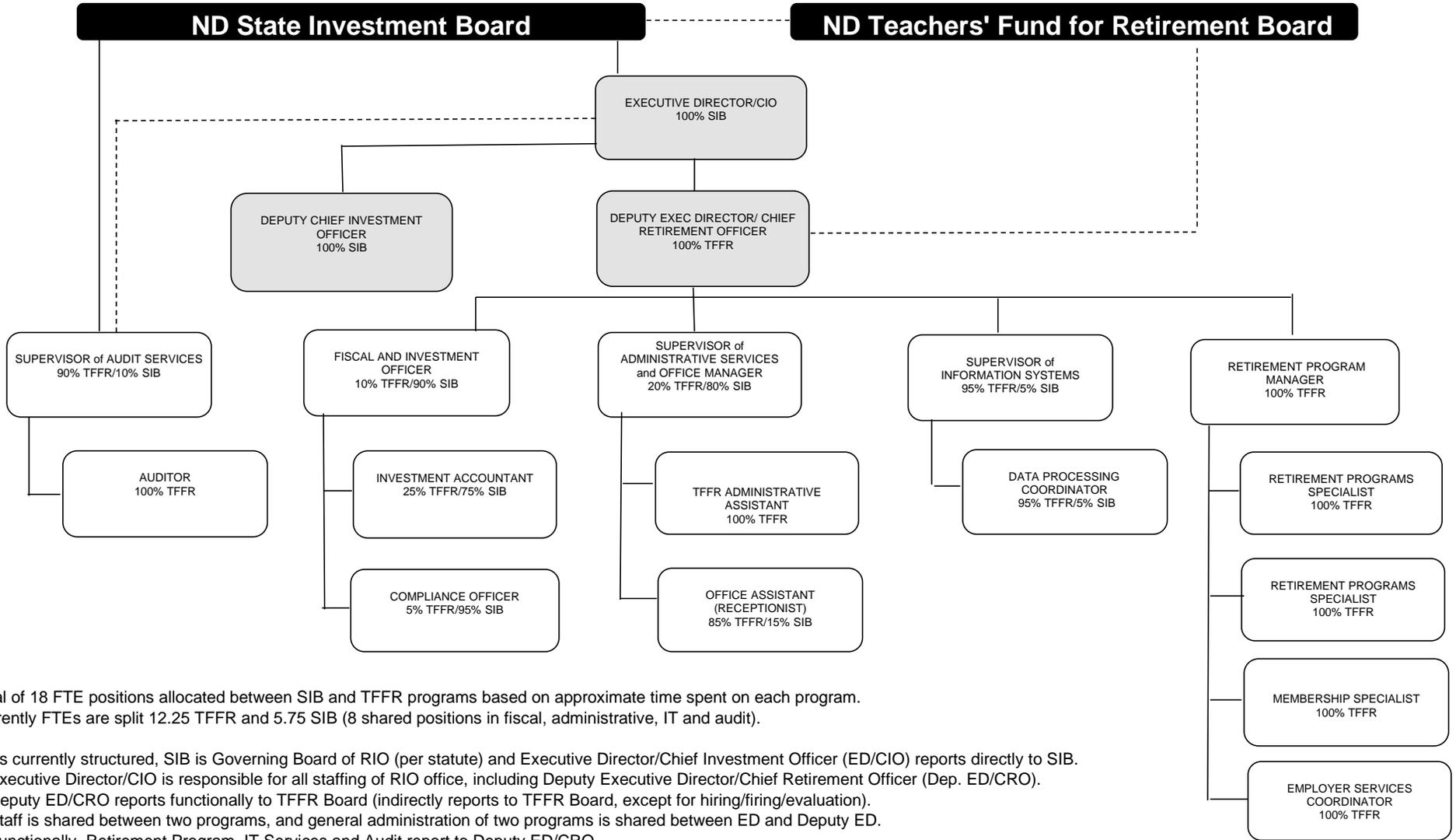
- 1) **Base** RIO organizational chart as of January 2012. This was the structure that was in place at the beginning of the year (after Darren Schultz was hired as Deputy CIO, and before John Geissinger left as Executive Director/CIO.)
- 2) **Interim** RIO organizational chart as of June 2012. This is generally the structure that has been in place on a temporary basis since this summer (after John left when Darren was named Interim CIO, and Fay was named Interim Executive Director/Chief Retirement Officer).
- 3) **Modified** RIO organizational chart keeping RIO in place, but trying to divide the TFFR and SIB programs more distinctly.
- 4) **Separate** SIB and TFFR organizational charts. Dissolve RIO, and divide the administration of the SIB and TFFR programs into two separate agencies with separate boards, staffs, and offices.

Connie is working on some preliminary cost estimates for #4 which will be presented at the meeting.

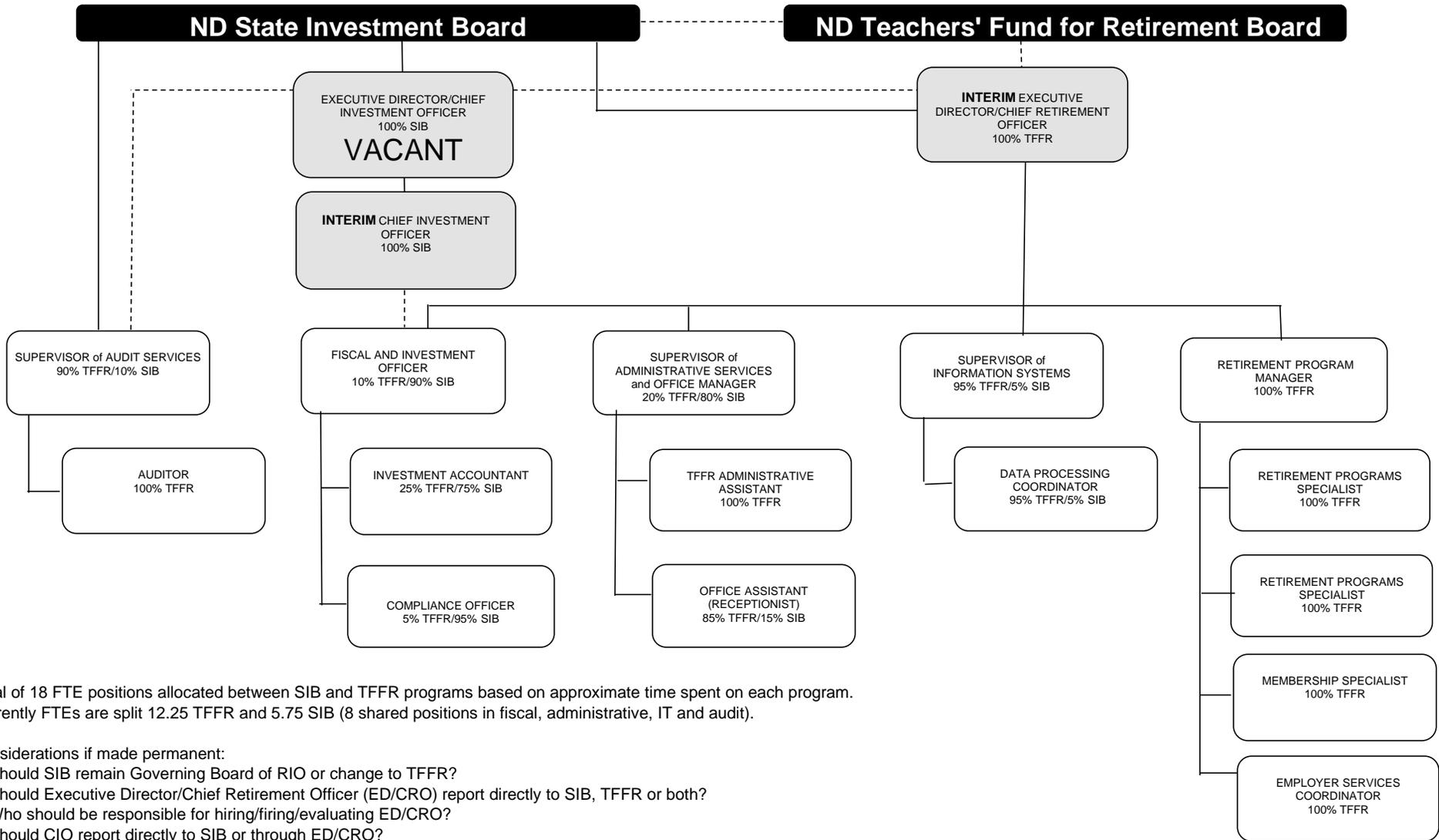
Additionally, depending upon what type of board governance and organizational changes are desired, we would need to ask Jan Murtha, Attorney General's Office, to determine if and what legislative changes would be needed.

Attachments (4)

**ND Retirement and Investment Office (RIO)
Agency Organizational Chart (January 2012)**



**ND Retirement and Investment Office (RIO)
Interim Agency Organizational Chart (June 2012)**

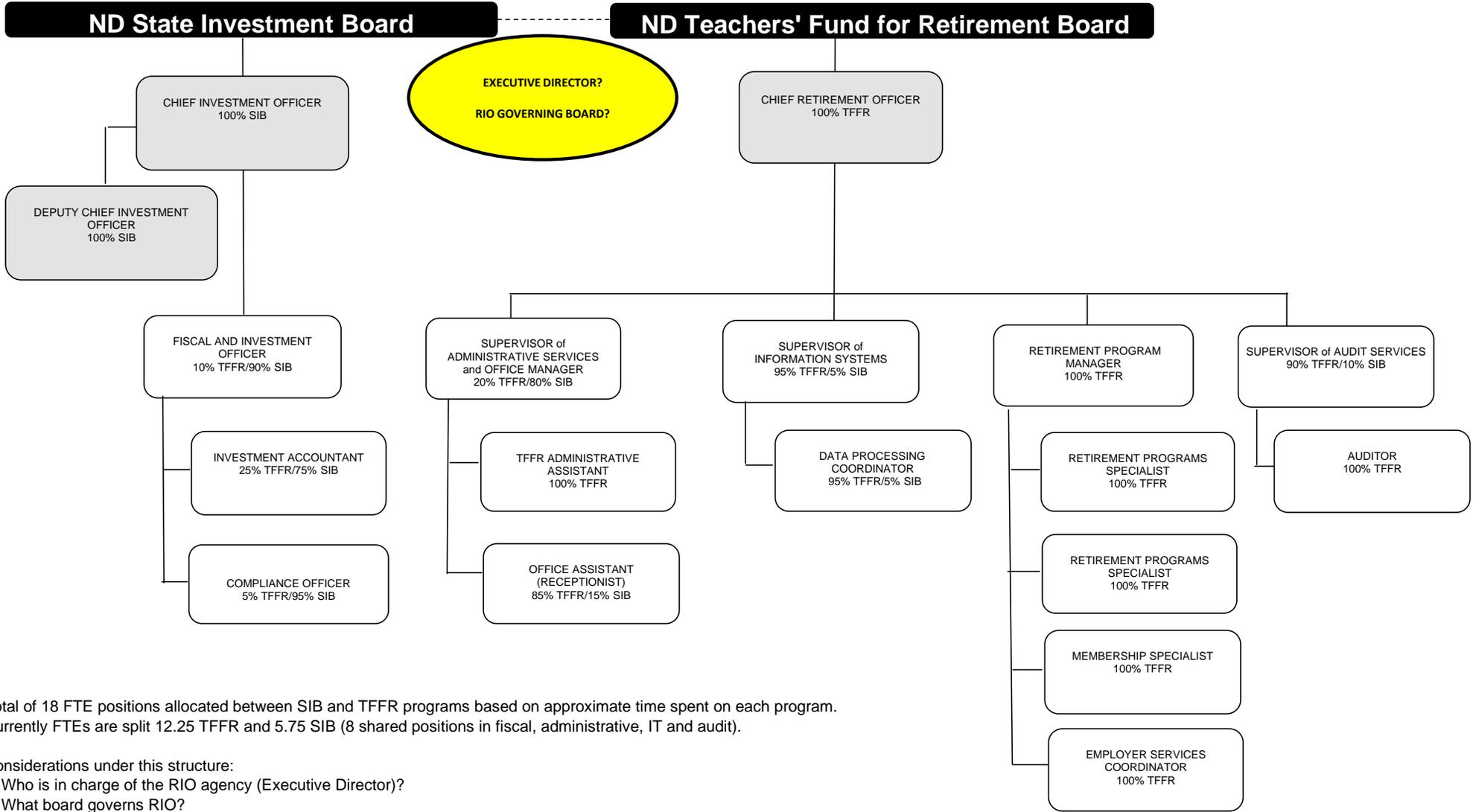


Total of 18 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program. Currently FTEs are split 12.25 TFFR and 5.75 SIB (8 shared positions in fiscal, administrative, IT and audit).

Considerations if made permanent:

1. Should SIB remain Governing Board of RIO or change to TFFR?
2. Should Executive Director/Chief Retirement Officer (ED/CRO) report directly to SIB, TFFR or both?
3. Who should be responsible for hiring/firing/evaluating ED/CRO?
4. Should CIO report directly to SIB or through ED/CRO?
5. Who should be responsible for hiring/firing/evaluating CIO?
6. Should SIB Audit Committee responsibilities be modified?

ND Retirement and Investment Office (RIO) Modified Agency Organizational Chart

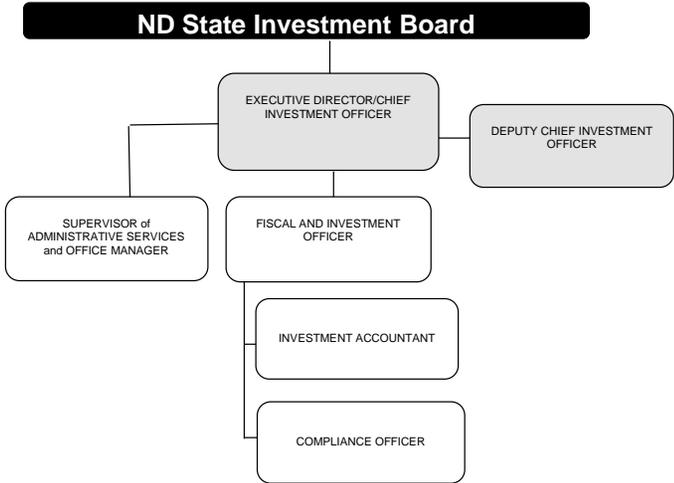


Total of 18 FTE positions allocated between SIB and TFFR programs based on approximate time spent on each program. Currently FTEs are split 12.25 TFFR and 5.75 SIB (8 shared positions in fiscal, administrative, IT and audit).

- Considerations under this structure:
1. Who is in charge of the RIO agency (Executive Director)?
 2. What board governs RIO?
 3. Should the program officers (CIO and CRO) report directly to their corresponding boards?
 4. Who should make hiring/firing decisions of program officers?
 5. To whom should shared positions report?

- Assumptions used in this model:
1. Shared positions split based on majority of time spent on programs.
 2. Internal Audit program changed to Audit/Compliance division of TFFR program based on actual work performed.

**ND STATE INVESTMENT BOARD
Agency Organizational Chart**

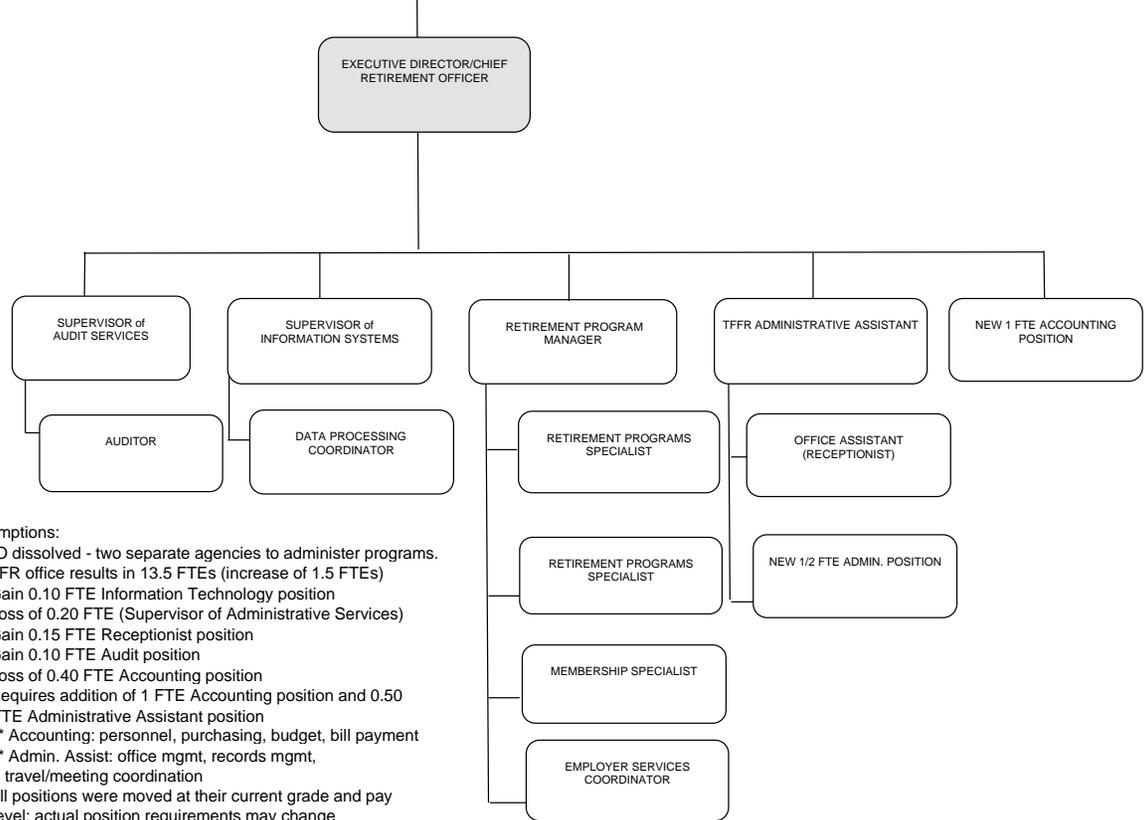


Assumptions:

1. RIO dissolved - two separate agencies to administer programs.
2. SIB office results in 6 FTEs (increase of 0.25 FTEs)
 - * Loss of 0.10 FTE Information Technology position (could outsource to ITD instead)
 - * Loss of 0.15 FTE Receptionist position but Gain 0.20 FTE Administrative Assistant position
 - * Gain 0.40 FTE Fiscal Management position
 - * Loss of 0.10 FTE Audit position
 - * All positions were moved at their current grade and pay level; actual position requirements may change
3. Increased costs anticipated for SIB clients.

**ND TEACHERS' FUND FOR RETIREMENT
Agency Organizational Chart**

ND Teachers' Fund for Retirement Board



Assumptions:

1. RIO dissolved - two separate agencies to administer programs.
2. TFR office results in 13.5 FTEs (increase of 1.5 FTEs)
 - * Gain 0.10 FTE Information Technology position
 - * Loss of 0.20 FTE (Supervisor of Administrative Services)
 - * Gain 0.15 FTE Receptionist position
 - * Gain 0.10 FTE Audit position
 - * Loss of 0.40 FTE Accounting position
 - * Requires addition of 1 FTE Accounting position and 0.50 FTE Administrative Assistant position
 - ** Accounting: personnel, purchasing, budget, bill payment
 - ** Admin. Assist: office mgmt, records mgmt, travel/meeting coordination
 - * All positions were moved at their current grade and pay level; actual position requirements may change
3. Increased costs anticipated for TFR.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended September 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.

RIO staff was kept informed of board discussions relating to RIO organizational structure.

BUDGETING / FINANCIAL CONDITION

AS OF SEPTEMBER 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	\$ 1,756,430.45	\$ 1,446,683.55	45.16%	37.50%
OPERATING EXPENDITURES	947,840.00	947,840.00	516,572.85	431,267.15	45.50%	37.50%
CONTINGENCY	82,000.00	82,000.00	0.00	82,000.00	100.00%	37.50%
TOTAL	<u>\$ 4,232,954.00</u>	<u>\$ 4,232,954.00</u>	<u>\$ 2,273,003.30</u>	<u>1,959,950.70</u>	<u>46.30%</u>	<u>37.50%</u>

EXPENDITURE REPORT

QUARTER ENDED SEPTEMBER 30, 2012

	<u>INVESTMENT</u>	<u>RETIREMENT</u>	<u>QUARTERLY TOTALS</u>	<u>FISCAL YEAR TO - DATE</u>	<u>BIENNIUM TO - DATE</u>
<u>CONTINUING APPROPRIATIONS</u>					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	\$ 5,681,456.29	\$ 0.00	\$ 5,681,456.29	\$ 5,681,456.29	\$ 24,886,189.43
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	36,134,024.47	36,134,024.47	36,134,024.47	170,903,505.91
2. REFUND PAYMENTS	0.00	1,416,728.33	1,416,728.33	1,416,728.33	4,428,025.17
TOTAL MEMBER CLAIMS	0.00	37,550,752.80	37,550,752.80	37,550,752.80	175,331,531.08
OTHER CONTINUING APPROPRIATIONS	23,932.11	18,434.67	42,366.78	42,366.78	310,359.55
TOTAL CONTINUING APPROPRIATIONS	5,705,388.40	37,569,187.47	43,274,575.87	43,274,575.87	200,528,080.06
<u>BUDGETED EXPENDITURES</u>					
1. SALARIES & BENEFITS					
SALARIES	90,138.90	165,138.10	255,277.00	255,277.00	1,325,627.00
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	28,137.84	57,153.69	85,291.53	85,291.53	430,803.45
TOTAL SALARY & BENEFITS	118,276.74	222,291.79	340,568.53	340,568.53	1,756,430.45
2. OPERATING EXPENDITURES					
DATA PROCESSING	1,530.68	9,925.20	11,455.88	11,455.88	85,218.52
TELECOMMUNICATIONS - ISD	539.01	1,503.33	2,042.34	2,042.34	14,214.53
TRAVEL	1,705.19	1,664.55	3,369.74	3,369.74	31,326.32
IT - SOFTWARE/SUPPLIES	11.51	24.43	35.94	35.94	278.80
POSTAGE SERVICES	606.56	13,947.45	14,554.01	14,554.01	46,031.98
IT - CONTRACTUAL SERVICES	394.27	18,148.02	18,542.29	18,542.29	174,304.33
EQUIPMENT RENTS AND LEASES	0.00	0.00	0.00	0.00	0.00
BUILDING/LAND RENT & LEASES	6,412.20	13,076.04	19,488.24	19,488.24	97,471.20
DUES & PROF. DEVELOPMENT	2,088.00	917.00	3,005.00	3,005.00	14,705.50
OPERATING FEES & SERVICES	472.29	776.62	1,248.91	1,248.91	14,968.86
REPAIR SERVICE	17.60	90.40	108.00	108.00	457.00
PROFESSIONAL SERVICES	432.78	1,467.22	1,900.00	1,900.00	12,520.00
INSURANCE	38.81	82.46	121.27	121.27	1,154.04
OFFICE SUPPLIES	82.30	185.43	267.73	267.73	1,666.70
PRINTING	508.48	5,587.37	6,095.85	6,095.85	15,691.23
PROFESSIONAL SUPPLIES & MATERIALS	(75.00)	(75.00)	(150.00)	(150.00)	2,442.25
MISCELLANEOUS SUPPLIES	8.93	21.87	30.80	30.80	894.60
IT EQUIPMENT UNDER \$5000	0.00	0.00	0.00	0.00	19.99
OTHER EQUIPMENT UNDER \$5000	0.00	0.00	0.00	0.00	3,207.00
TOTAL OPERATING EXPENDITURES	14,773.61	67,342.39	82,116.00	82,116.00	516,572.85
3. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	133,050.35	289,634.18	422,684.53	422,684.53	2,273,003.30
TOTAL EXPENDITURES	\$ 5,814,506.64	\$ 37,840,386.98	\$ 43,697,260.40	\$ 43,697,260.40	\$ 202,801,083.36

INVESTMENT EXPENDITURE DETAIL

FEEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2012

FOR QUARTER ENDED 3/31/12

PENSION LARGE CAP EQUITY POOL

Northern Trust		79,541.57
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PENSION REAL ESTATE

Invesco		130,963.45
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CUSTODIAN

Northern Trust		201,332.20
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TOTAL FOR QUARTER ENDED 3/31/12		411,837.22
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FOR QUARTER ENDED 6/30/12

PERS Retiree Health Credit

SEI		36,699.21
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PENSION DEVELOPED INTERNATIONAL EQUITY POOL

Capital Guardian	70,527.36	
LSV	127,842.00	
Clifton - EAFE Index	41,635.00	
State Street	70,653.69	
Wellington	125,875.20	
TOTAL PENSION INTERNATIONAL EQUITY		436,533.25

PENSION GLOBAL EQUITY POOL

Calamos	90,208.00	
Epoch	317,841.35	
Pension Global Equity Pool		408,049.35

PENSION BELOW INVESTMENT GRADE FIXED

Loomis Sayles		195,171.92
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PENSION INVESTMENT GRADE FIXED INCOME POOL

Bank of ND	8,620.03	
PIMCO	64,275.35	
Western Asset	45,302.83	
TOTAL PENSION FIXED INCOME		118,198.21

PENSION INFRASTRUCTURE POOL

JP Morgan		298,892.23
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PENSION LARGE CAP EQUITY POOL

Clifton S&P 500 (Performance)	176,488.00	
Northern Trust	45,192.44	
LA Capital	177,107.49	
LSV	165,935.00	
TOTAL PENSION LARGE CAP EQUITY		564,722.93

INVESTMENT EXPENDITURE DETAIL**FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2012****PENSION SMALL CAP EQUITY POOL**

Clifton (Performance Fee)		543,810.00
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PENSION REAL ESTATE

JP Morgan (Alternative)	11,731.85	
JP Morgan (Special & Strategic)	274,361.19	
Invesco	140,549.51	
Pension Real Estate		426,642.55

PENSION INTERNATIONAL FIXED INCOME

Brandywine	101,113.54	
UBS	67,056.16	
TOTAL PENSION INTERNATIONAL FIXED INCOME		168,169.70

PENSION EMERGING MARKETS

JP Morgan	70,162.84	
PanAgora	26,561.97	
UBS	77,587.59	
BlackFriars	13,527.58	
TOTAL PENSION EMERGING MARKETS		187,839.98

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	16,600.21	
Declaration	62,409.00	
Prudential	49,266.53	
Wells	153,657.31	
Western Asset	94,453.25	
TOTAL INSURANCE FIXED INCOME		376,386.30

INSURANCE LARGE CAP EQUITY POOL

Clifton (Performance Fee)	53,176.00	
LA Capital	37,323.48	
LSV	34,484.00	
TOTAL INSURANCE LARGE CAP		124,983.48

INSURANCE SMALL CAP EQUITY POOL

Clifton (Performance Fee)	122,062.00	
Research Affiliates	33,077.36	
TOTAL INSURANCE SMALL CAP		155,139.36

INSURANCE INT'L EQUITY

Capital Guardian	45,599.12	
LSV	47,929.00	
TOTAL INSURANCE INT'L EQUITY		93,528.12

**Quarterly Report on Ends
Q1:FY13**

Investment Program

Continuing due diligence conducted on following:

Credit Suisse	DFA	Northern Trust
JP Morgan	Capital Guardian	UBS
PIMCO	LA Capital	Calamos
Western	AllianceBernstein	Quantum Resources
Invesco	State Street	

Board accepted City of Bismarck Employees and Police revised target asset allocations for staff implementation.

Staff identified consultant candidates to perform an asset allocation and spending study for the Legacy Fund. The Board selected R.V. Kuhns to conduct the study.

Staff is conducting a review of the global TIPS mandate within the WSI portfolio.

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.

ND RETIREMENT AND INVESTMENT OFFICE
QUARTERLY MONITORING REPORT ON TFFR ENDS

Quarter Ended September 30, 2012

Retirement Program

This report highlights exceptions to normal operating conditions.

- 2011 legislative implementation project continues to be on schedule. The 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 – 40% complete.

- RIO staff worked with business managers and payroll software vendors to accurately report and collect contributions under new TFFR member and employer rate schedules.
- TFFR Board began working with actuarial consultant on development of comprehensive funding policy to use in meeting new GASB requirements.