ND STATE INVESTMENT BOARD MEETING

Friday, January 25, 2013, 8:30 a.m.
Workforce Safety & Insurance
1600 E Century, Bismarck, ND

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES

A. November 16, 2012
B. December 13, 2012

III. INVESTMENTS

A. Epoch - (90 min)
B. Bank of North Dakota - (up to 30 min)
Bank of North Dakota Possible Executive Session for Attorney Consultation
N.D.C.C. §44-04-19.1(2), N.D.C.C. §44-04-19.1(5) and N.D.C.C. §44-04-19.2
C. RV Kuhns - Mr. Schulz (5 min)
D. EIG Update - Mr. Schulz (5 min)
E. Social Investing - Mr. Schulz (15 min)

IV. GOVERNANCE

A. Administration
1. Search Committee Update - Search Committee (enclosed)
2. Audit Committee Liaison Report - Mr. Gessner (enclosed) (5 min)

V. LEGISLATIVE UPDATE - Mr. Schulz, Ms. Flanagan (enclosed) (15 min)

VI. QUARTERLY MONITORING (enclosed) (5 min)

A. Budget and Financial Conditions - Ms. Flanagan
B. Executive Limitations/Staff Relations - Ms. Kopp
C. Investment Program - Mr. Schulz
D. Retirement Program - Ms. Kopp
E. RIO June 30, 2012 Financial Audit Report - Ms. Flanagan (enclosed under Item IV.A.2.)

VII. OTHER

Next Meetings:
SIB meeting - February 22, 2013, 8:30 a.m. - Workforce Safety & Insurance
SIB Audit Committee meeting - February 22, 2013, 1:00 p.m. - Workforce Safety & Insurance

VIII. ADJOURNMENT

Any individual requiring an auxiliary aid or service, please contact the Retirement and Investment Office
(701) 328-9885 at least three (3) days prior to the scheduled meeting.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
NOVEMBER 16, 2012, BOARD MEETING

BOARD MEMBERS PRESENT:	Mike Sandal, Vice Chair Clarence Corneil, TFFR Board Levi Erdmann, PERS Board Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Adam Hamm, Insurance Commissioner (teleconference) Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Bob Toso, TFFR Board
BOARD MEMBER ABSENT:	Drew Wrigley, Lt. Governor, Chair
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. Bryan Klipfel, WSI Josef Lakonishok, LSV Jan Murtha, Attorney General’s Office Tricia Opp, Procurement Office James Owens, LSV

CALL TO ORDER:

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, November 16, 2012, at Workforce Safety & Insurance, 1600 E Century, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

MR. CORNEIL MOVED AND MR. GESSNER SECONDED TO ACCEPT THE NOVEMBER 16, 2012, AGENDA AS REVISED.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MR. ERDMANN, MR. TOSO, AND MR. SAGE
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR WRIGLEY

MINUTES:

The minutes were considered from the October 26, 2012, meeting.

TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT THE OCTOBER 26, 2012, MINUTES AS WRITTEN.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. TOSO, COMMISSIONER HAMM, MR. CORNEIL, MR. ERDMANN, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR WRIGLEY

INVESTMENTS:

LSV – Representatives provided an organizational, strategy, and performance overview of the firm.

Mr. Schulz reviewed his recommendation to transition LSV's current mandates in the Pension Trust's existing large cap value and international value equity into a single global equity mandate within the global equity allocation.

After discussion,

MS. TERNES MOVED AND MR. CORNEIL SECONDED TO ACCEPT STAFF RECOMMENDATION AND TRANSITION LSV'S CURRENT MANDATES INTO A SINGLE GLOBAL EQUITY MANDATE WITHIN THE GLOBAL EQUITY ALLOCATION IN THE PENSION TRUST.

AYES: MR. CORNEIL, MR. ERDMANN, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE, MR. SANDAL, TREASURER SCHMIDT, MS. TERNES, AND MR. TOSO
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR WRIGLEY

The SIB is of the understanding that staff will negotiate an appropriate fee structure for the new mandate.

Bank of North Dakota (BND) – Mr. Schulz informed the SIB he has been in contact with BND representatives to establish dates to discuss the transition of the Pension Trust assets from a Barclays Capital Government Index mandate to a Barclays Capital Long Treasury Index. Mr. Schulz will keep the SIB informed.

Clifton Group – Mr. Schulz informed the SIB The Clifton Group is being acquired by Parametric Portfolio Associates on or about December 31, 2012. Mr. Schulz and Callan Associates are in contact with Clifton representatives and monitoring the acquisition. Mr. Schulz also recommended placing The Clifton Group on watch for further assessment and due diligence.

TREASURER SCHMIDT MOVED AND MR. SAGE SECONDED TO ACCEPT STAFF RECOMMENDATION AND PLACE THE CLIFTON GROUP ON WATCH.

AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER HAMM, MS. TERNES, COMMISSIONER GAEBE, MR. SAGE, MR. TOSO, MR. ERDMANN, MR. CORNEIL, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR WRIGLEY

Legacy Fund – Mr. Schulz updated the SIB on the November 15, 2012, meeting with the Legacy and Budget Stabilization Fund Advisory Board (Advisory Board). RVKuhns representatives conducted their first meeting with the Advisory Board and discussed fund revenues, risk tolerance, asset mix, spending, roles of the Advisory Board and the SIB, and project support. Mr. Schulz will continue to provide updates to the SIB on the progress of establishing an asset allocation and spending plan for the Legacy Fund.

The SIB recessed at 10:30 a.m. and reconvened at 10:40 a.m.

GOVERNANCE:

RIO Structure – At the October 26, 2012, SIB meeting, the SIB instructed staff to provide an organizational chart which would keep RIO intact, and assign the Executive Director duties to a separate new position. In addition, the SIB asked staff to estimate costs, and outline potential job duties and responsibilities for a separate Executive Director position. Ms. Kopp reviewed the requested information.

After discussion, the SIB took the following action,

MR. ERDMANN MOVED AND MR. SAGE SECONDED TO AFFIRM THE RIO ORGANIZATIONAL STRUCTURE AS IT CURRENTLY EXISTS AND IS REPRESENTED IN CHART NO. 1.

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

COMMISSIONER GAEBE MOVED AND MS. TERNES SECONDED TO DIRECT THE EXISTING SEARCH COMMITTEE TO IMMEDIATELY INITIATE EFFORTS TO RECRUIT A SLATE OF CANDIDATES FOR THE ED/CIO POSITION.

AYES: MR. TERNES, MR. CORNEIL, COMMISSIONER GAEBE, MR. ERDMANN, MR. TOSO, MR. SANDAL, MR. SAGE,
NAYS: COMMISSIONER HAMM, TREASURER SCHMIDT, MR. GESSNER
MOTION CARRIED
ABSENT: LT. GOVERNOR WRIGLEY

MR. TOSO MOVED AND MR. SAGE SECONDED TO AUTHORIZE THE SEARCH COMMITTEE TO HIRE AN EXECUTIVE SEARCH FIRM TO ASSIST THEM IN THE HIRING OF AN ED/CIO IF THEY SO DESIRE.

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

The Search Committee consists of Lt. Governor Wrigley, Chair, Treasurer Schmidt, Commissioner Gaebe, Mr. Sandal, and Mr. Toso.

Mr. Schulz expressed the probable need to expand the investment staff in the future because of the additional oversight that will be required to effectively monitor and manage the Legacy Fund. After discussion,

MS. TERNES MOVED AND COMMISSIONER GAEBE SECONDED TO REQUEST TWO ADDITIONAL FULL TIME POSITIONS TO BE UTILIZED AS THE NEW ED/CIO WOULD SEE FIT ALONG WITH BEST ESTIMATED COSTS FOR THOSE POSITIONS.

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

COMMISSIONER GAEBE MOVED AND TREASURER SCHMIDT SECONDED TO DIRECT STAFF TO BEGIN THE PROCESS OF REQUESTING ONE ADDITONAL FULL TIME POSITION FOR THE INVESTMENT DIVISION.

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

MONITORING:

Mr. Schulz reviewed Callan's Investment Measurement Reports for the Pension and Insurance Trusts for the quarter ending September 30, 2012.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 12:00 p.m.

Respectfully Submitted:

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Mr. Sandal, Vice Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
DECEMBER 13, 2012, TELECONFERENCE 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
OTHERS PRESENT:	Jan Murtha, Attorney General's Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Thursday, December 13, 2012.

A quorum was present for the purpose of conducting business.

AGENDA:

TREASURER SCHMIDT MOVED AND MS. TERNES SECONDED TO ACCEPT THE DECEMBER 13, 2012, AGENDA.

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

INVESTMENTS:

Epoch – Mr. Schulz informed the SIB Toronto-Dominion Bank Group is acquiring Epoch Holdings Corporation, the parent of Epoch Investment Partners. The acquisition is expected to be completed in the first half of 2013.

Mr. Schulz recommended placing Epoch under review due to a change in ownership.

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO PLACE EPOCH ON WATCH.

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

NAYS: NONE
MOTION CARRIED

Bank of North Dakota – Mr. Schulz informed the SIB a meeting was held with BND representatives on November 30, 2012, to discuss the transition of the Pension Trust assets from a Barclays Capital Government Index mandate to a Barclays Capital Long Treasury Index. The next meeting has been scheduled for December 19, 2012. Mr. Schulz will continue to provide updates to the SIB.

FTE Discussion – At the November 16, 2012, SIB meeting, Mr. Schulz expressed the probable need to expand the investment staff in the future because of the additional oversight that will be required to effectively monitor and manage the Legacy Fund. The SIB directed staff to begin the process of requesting one additional full time position for the Investment Division.

Staff informed the SIB they were not able to include the request for an additional full time position within the Governor's budget as the Governor's budget was in the final stages of formalization. The next option would be to request an amendment to RIO's budget when the budget is heard before the Legislative Appropriations Committees. Staff suggested postponing the request for an additional position until the ED/CIO position is filled and that individual can make an assessment and determination regarding staffing needs.

After discussion, the SIB upheld their motion and suggested staff include in their testimony to the Appropriations Committees that there may be a need for an additional full-time position in the future and that the SIB is in support of additional staffing. The SIB will leave the final determination on staffing needs to the ED/CIO once the individual is in place.

Search Committee – Mr. Sandal updated the SIB on the action taken by the Search Committee at their December 12, 2012, meeting. The Search Committee, after discussing their options, decided not to utilize the services of a search consulting firm but rather the services of the State Human Resource Management Services (HRMS), a division of the Office of Management and Budget. The Search Committee felt confident the recruitment of ED/CIO candidates could be processed much more quickly and cost effectively with the same level of quality that would be achieved utilizing a search consulting firm. Treasurer Schmidt and Mr. Sandal will work with HRMS to begin the process; finalizing the advertisement, the job description, and any other paperwork or documentation that needs to be prepared prior to advertising for the position. The search will be broad based using various professional journals, regional newspapers, and Job Service ND. The anticipated salary range will be $180,000 - $220,000. The Search Committee's goal is to have an offer on the table by May 2013.

Westridge/WG Trading – Ms. Murtha requested the SIB enter into Executive Session pursuant to NDCC 44-04-19.1(2), NDCC 44-04-19.1(5), and NDCC 44-04-19.2 for the purposes of attorney consultation regarding the Westridge/WG Trading litigation.

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO ENTER INTO EXECUTIVE SESSION FOR ATTORNEY CONSULTATION REGARDING THE WESTRIDGE/WG TRADING LITIGATION.

AYES: MR. ERDMANN, TREASURER SCHMIDT, MR. CORNEIL, COMMISSIONER GAEBE, MR. TOSO, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

The board entered into Executive Session at 9:05 a.m.

The following individuals participated by teleconference - Mr. Corneil, Mr. Toso, Commissioner Hamm, Mr. Gessner, Mr. Sage, and Lt. Governor Wrigley,

The following individuals were present at RIO – Mr. Erdmann, Treasurer Schmidt, Commissioner Gaebe, Mr. Sandal, Ms. Ternes, Mr. Schulz, Ms. Flanagan, Ms. Heit, Ms. Moszer, Ms. Kopp, and Ms. Murtha.

The Board exited the Executive Session at 9:13 a.m.

Ms. Murtha received instructions and input from the SIB to pass along to the appellate counsel, Jenner & Block, and K&L Gates at the district court level.

With no further business to come before the SIB, Ms. Ternes moved and Treasurer Schmidt seconded to adjourn the meeting at 9:16 a.m.

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

EPOCH

Epoch Investment Partners, Inc.

Global Choice

Investment Management
William W. Priest
CEO, CO-CIO & Portfolio Manager

Relationship Management
Thomas Pernice
Managing Director, Client Relations

Jeffrey M. Ulness
Managing Director, Sub Advisory Relations

Presentation to:

North Dakota

North Dakota State Investment Board

January 25, 2013

Agenda

Capital Markets Outlook

Economic Summary

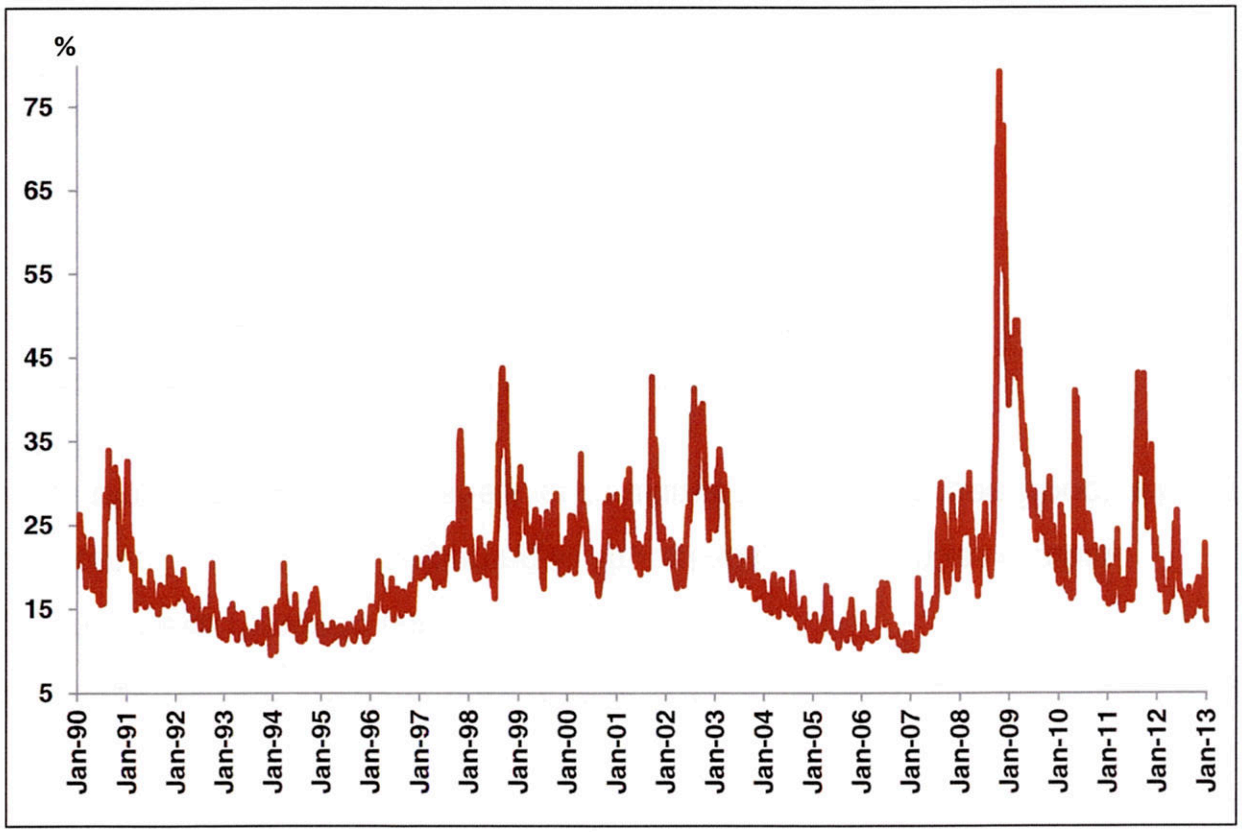
- **The world looks better than it did a few months ago, especially outside the U.S.**
  - Central banks have removed liquidity tail risk
  - U.S.: economic uncertainties beginning to lift, political uncertainties remain
  - Europe: funding pressures diminished, euro ultimately survives (see Epoch white paper included here as Appendix 3)
  - Japan: massive stimulus intended to weaken yen and spur growth
  - China: reflating domestic demand, uptick in manufacturing

- **Substantial risks remain**
  - Public debt burdens and austerity are hampering growth (Reinhart and Rogoff: *This Time is Different*)
  - U.S.: debt ceiling debate, sequesters, governance issues
  - Europe: economy contracting, long-term solutions difficult to implement
  - Japan: debt-to-GDP over 200%, unclear whether "Abe-nomics" will work
  - China: inflation a governor on growth, poor capital allocation, weak export markets

[1] *Carmen M. Reinhart and Vincent R. Reinhart, "After the Fall," prepared for the Federal Reserve Bank of Kansas City's Johnson Hale Symposium, August 2010*

Market uncertainty normalizing, eliminating liquidity tail risk

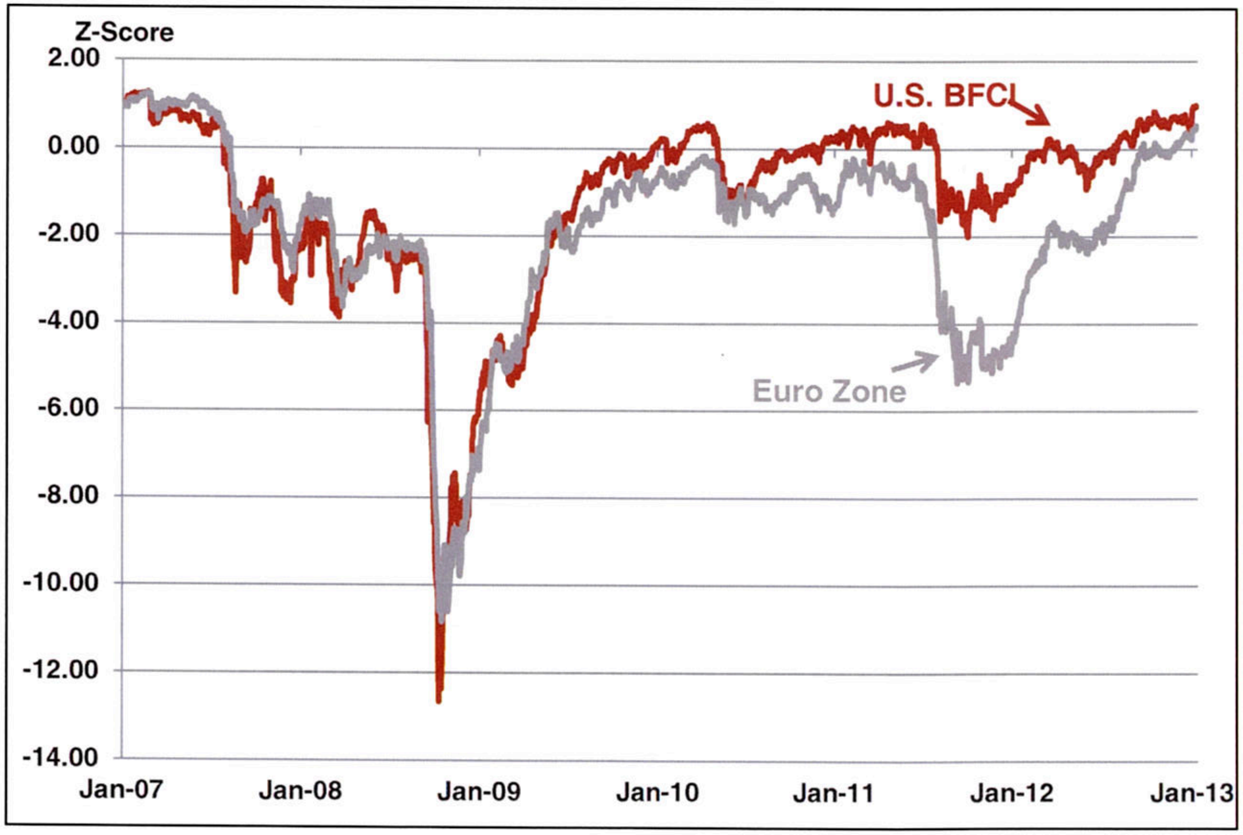
CBOE Market Volatility Index



Source: FactSet Research Systems; January 2013

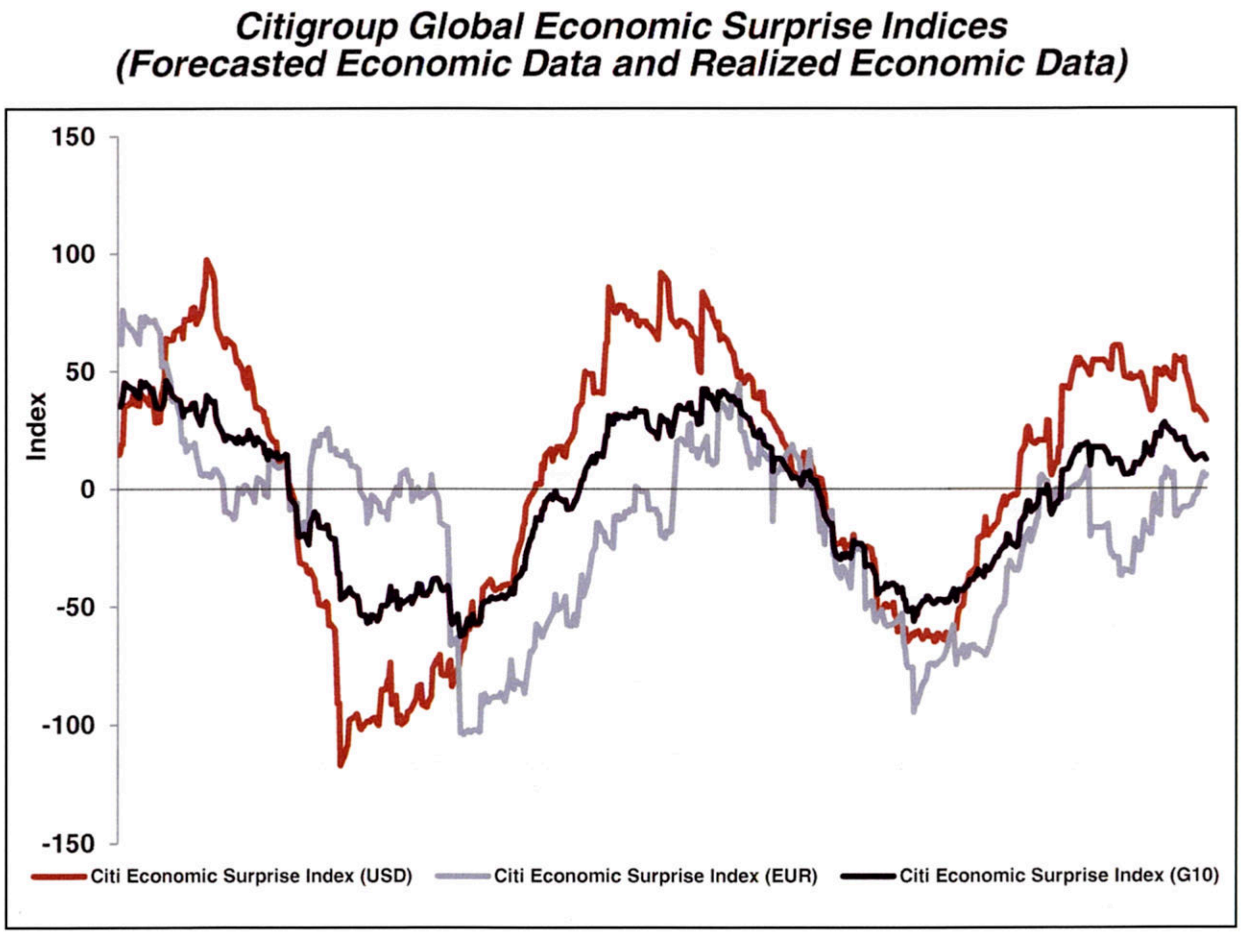
Financial uncertainty back to normal in both U.S. and Europe

Bloomberg U.S. and Euro Zone Financial Conditions Index



Source: Bloomberg. January 2013
The Bloomberg U.S. Financial Conditions Index combines yield spreads and indices from U.S. money markets, equity markets, and bond markets into a normalized index.
The Bloomberg Euro-area Financial Conditions Index combines yield spreads and indices from euro-area money markets, equity markets, and bond markets into a normalized index.

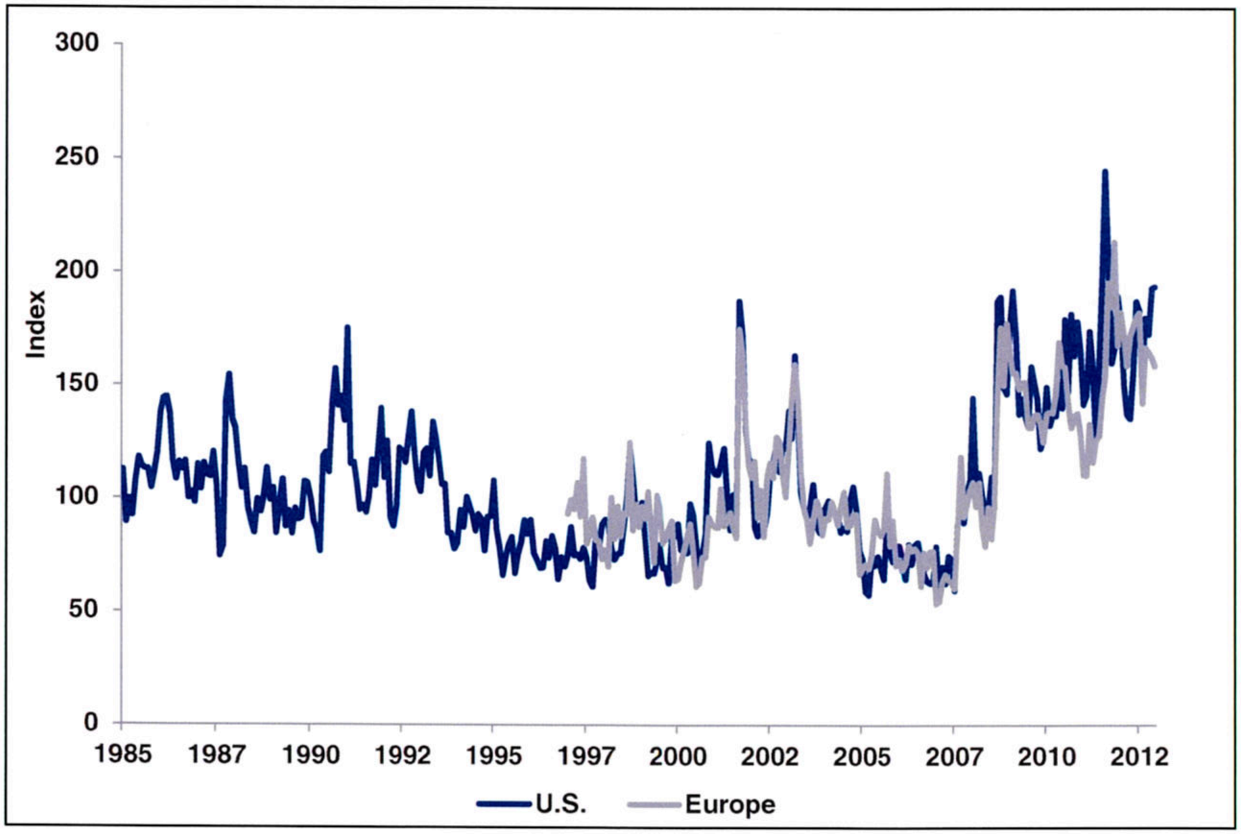
Macroeconomic uncertainty normalizing



Source: Citigroup Global Markets; January 2013

Political risk persists

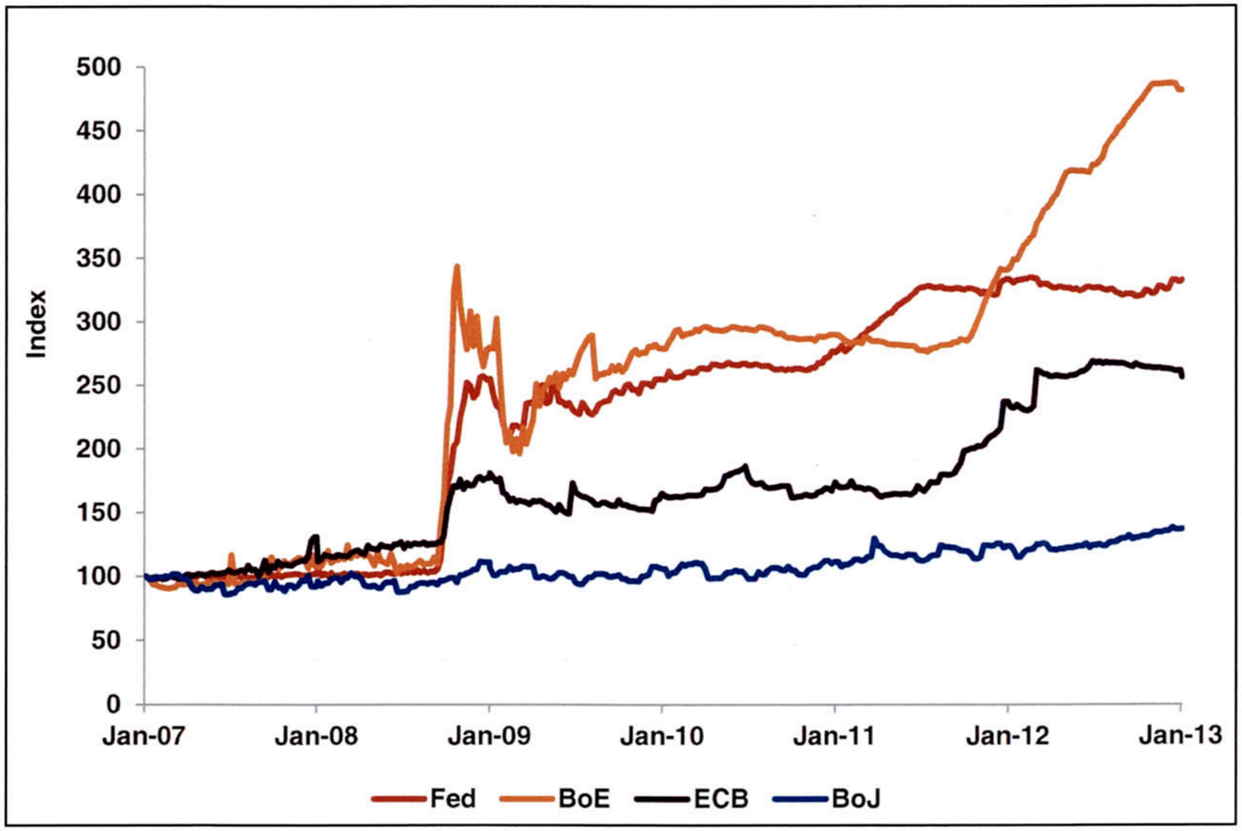
Monthly Economic Policy Uncertainty Indices



Source: Scott Baker, Nicholas Bloom and Steven J. Davis at www.PolicyUncertainty.com, Epoch Investment Partners; December 2012

Quantitative easing is a global phenomenon . . .

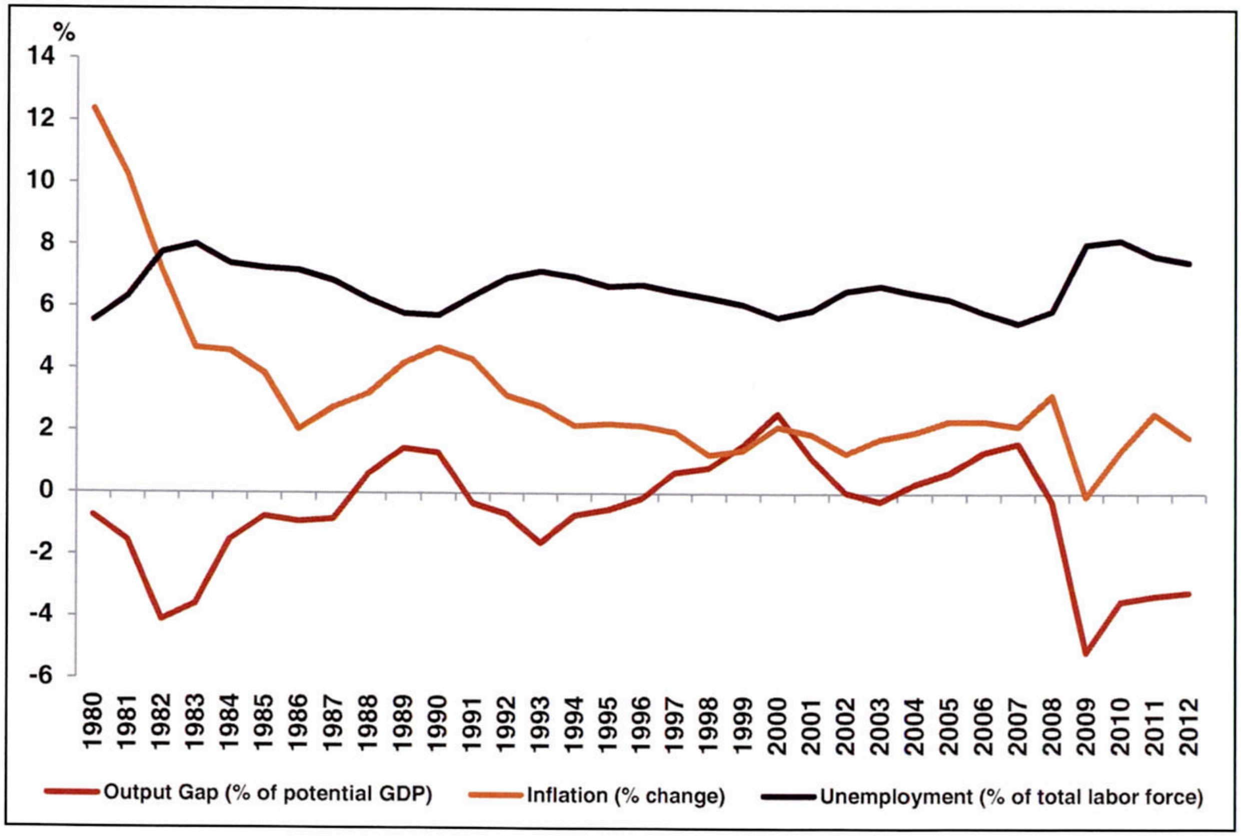
BoJ Has Been the Laggard in Expanding It's Balance Sheet



Source: Pavilion Global Markets; January 2013

. . . that shows no sign of abating soon

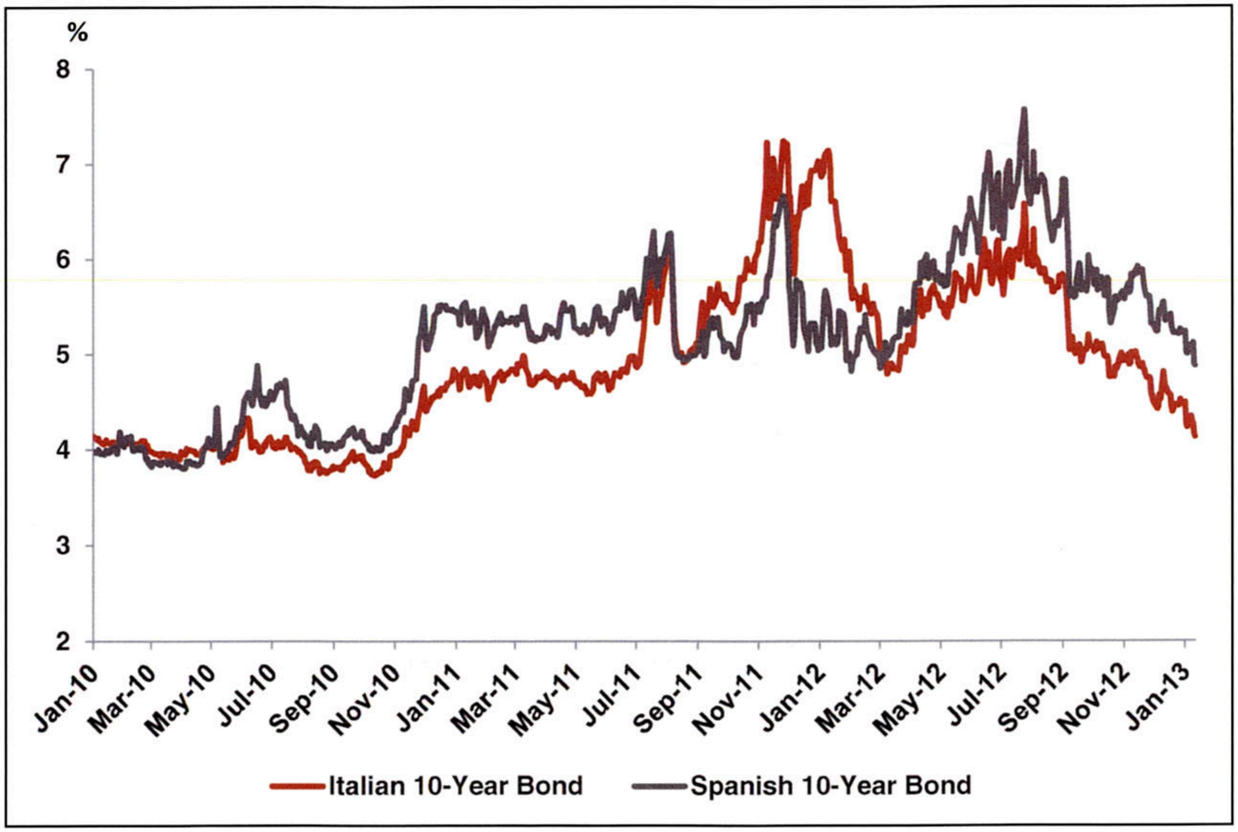
G7 Economic Conditions



Source: International Monetary Fund, World Economic Outlook Database, October 2012

QE in Europe has stemmed the bleeding

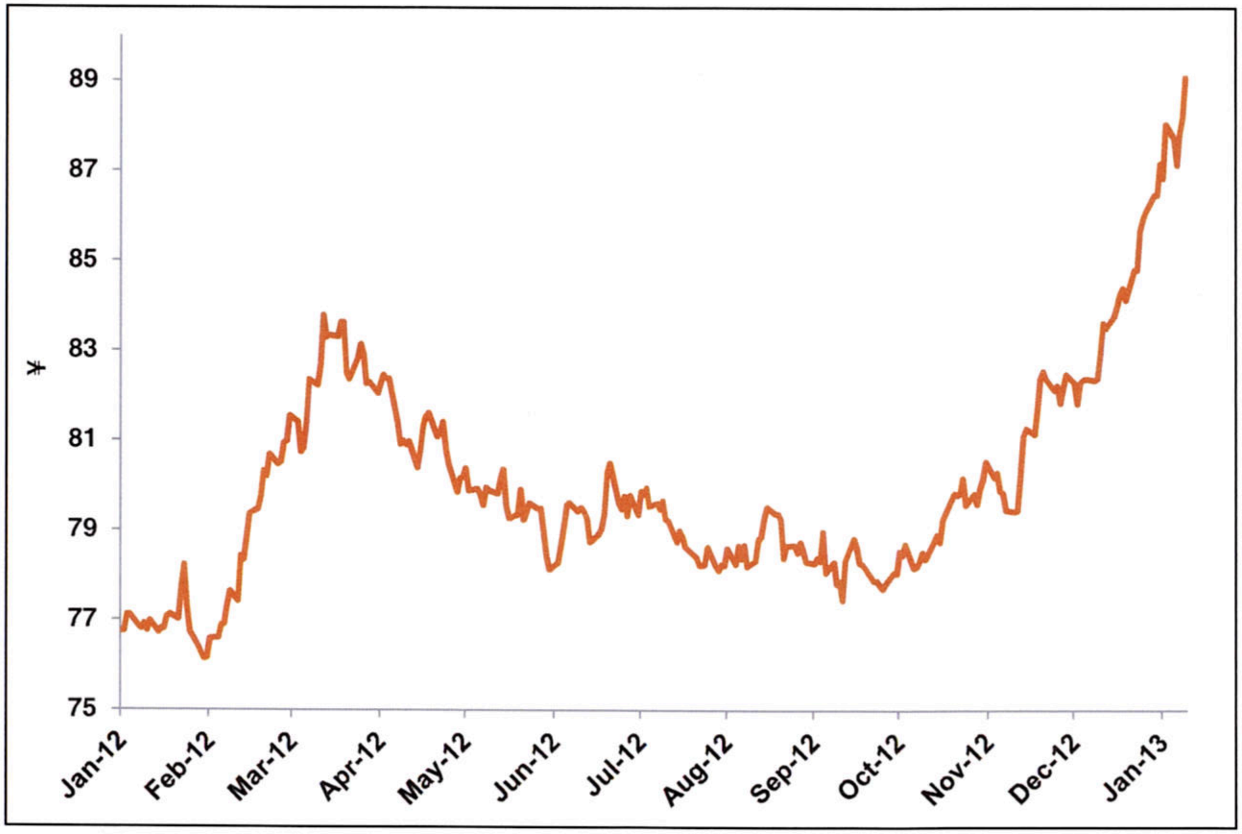
Italian and Spanish 10-Year Bond Yields



Source: Bloomberg; January 2013

The Japan story has been all about the yen

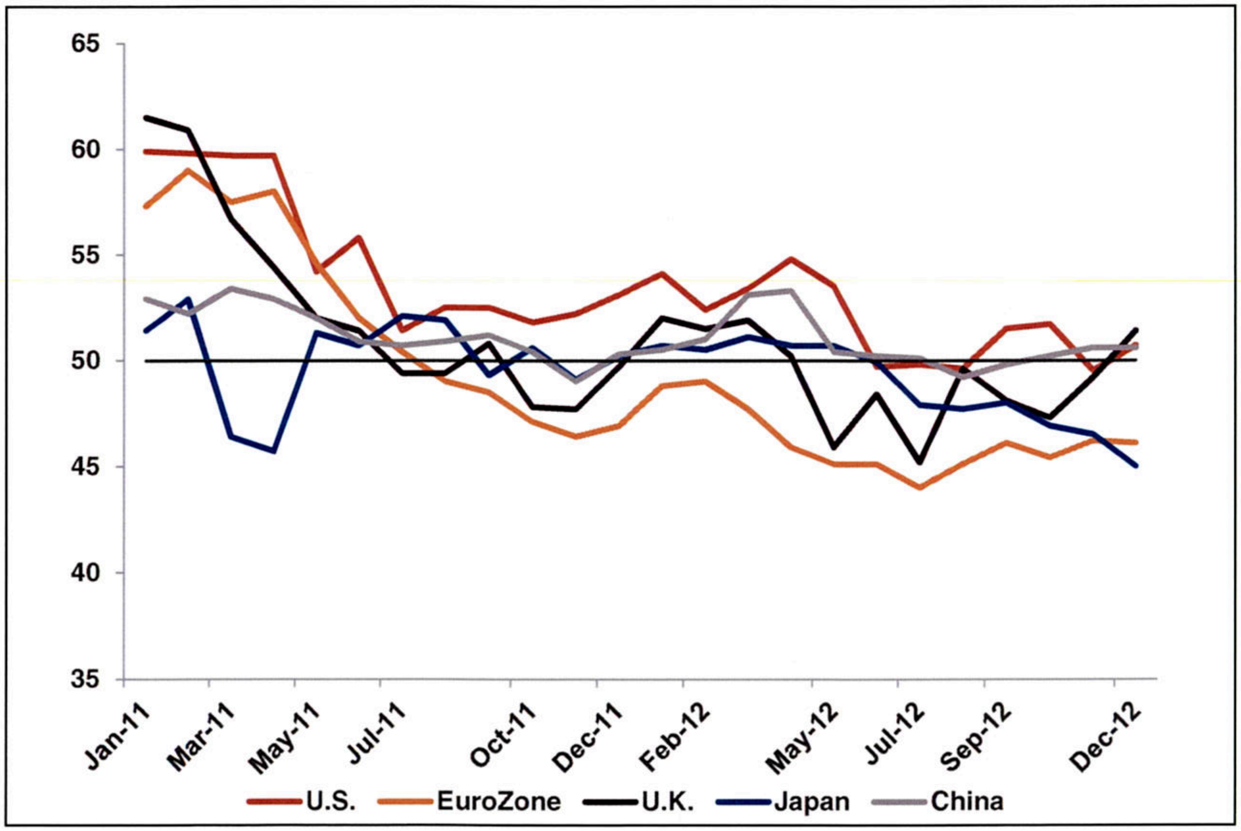
Japanese Yen per U.S. Dollar



Source: FactSet Research Systems; January 2013

Manufacturing activity picking up in the U.S., U.K. and China

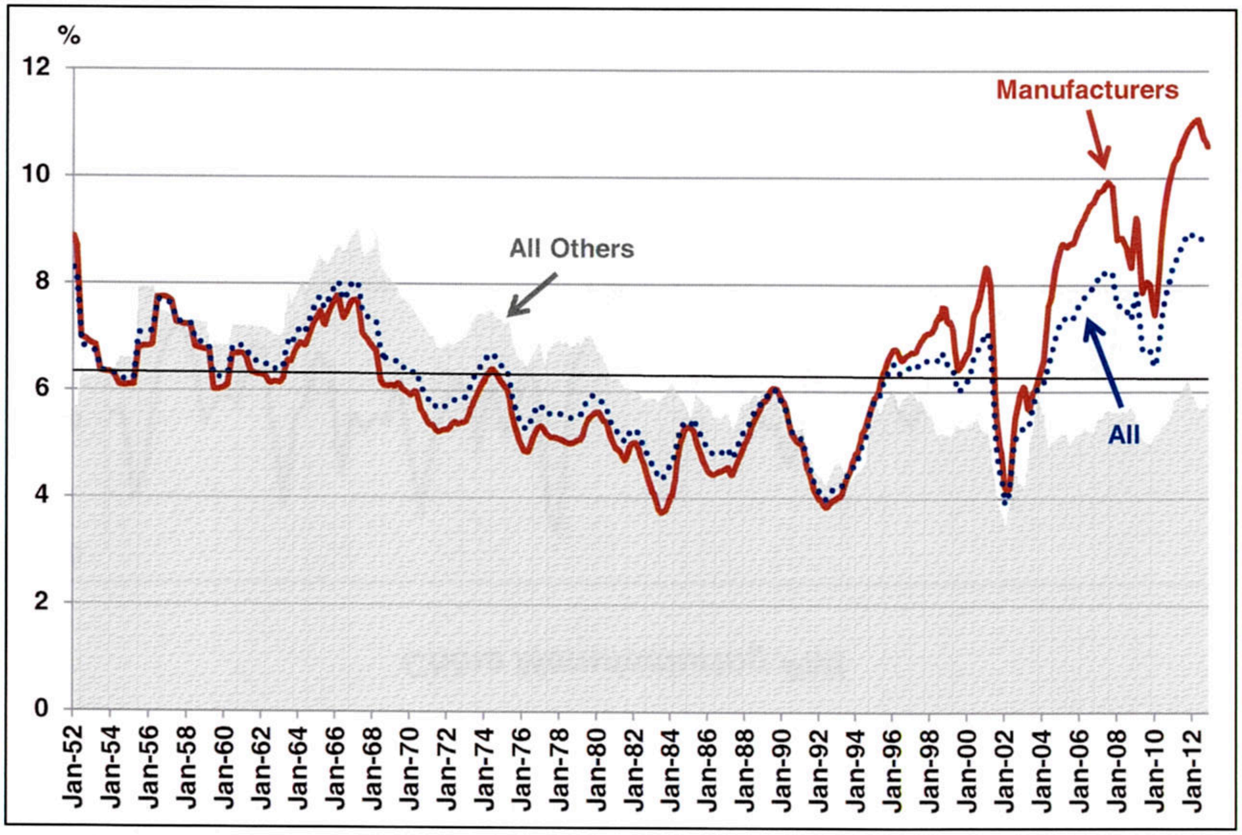
Global Manufacturing PMI's



Source: Bloomberg; December 2012

Margins at post-war high as a result of improvements in manufacturers' sourcing

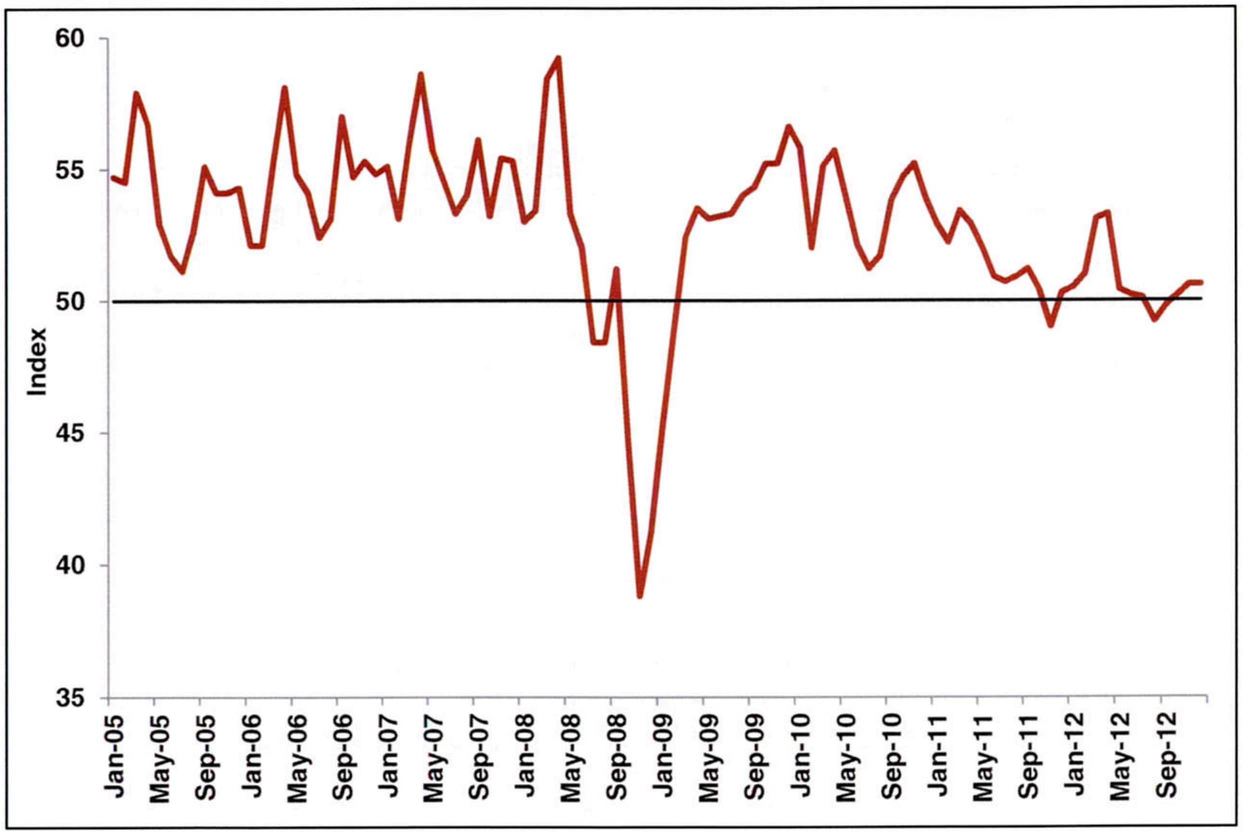
The S&P 500: Manufacturers and All Others Net Profit Margins[1] 1952 Through November 2012



Source: Corporate Reports, Empirical Research Partners Analysis. November 2012
[1]Data smoothed on a trailing three-month basis.

China has bottomed . . .

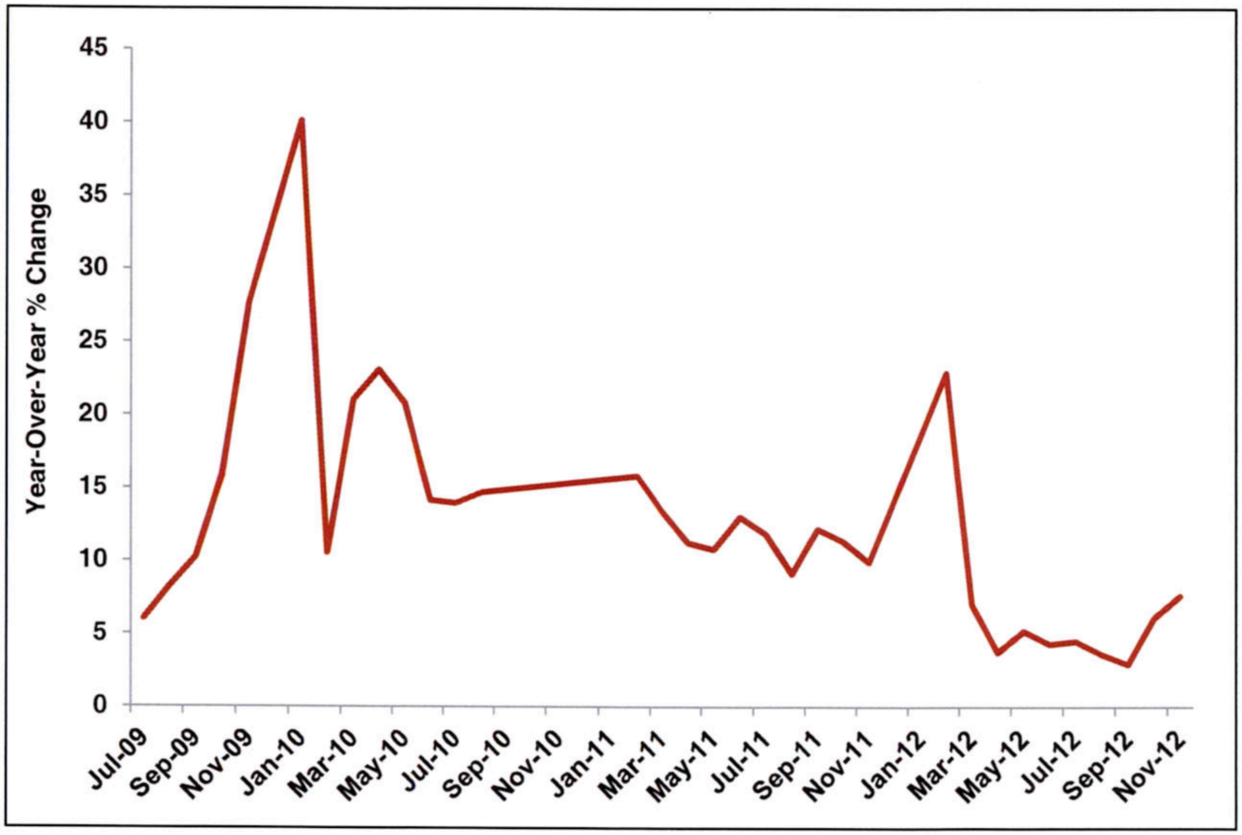
China Manufacturing PMI



Source: Bloomberg, Epoch Investment Partners; December 2012

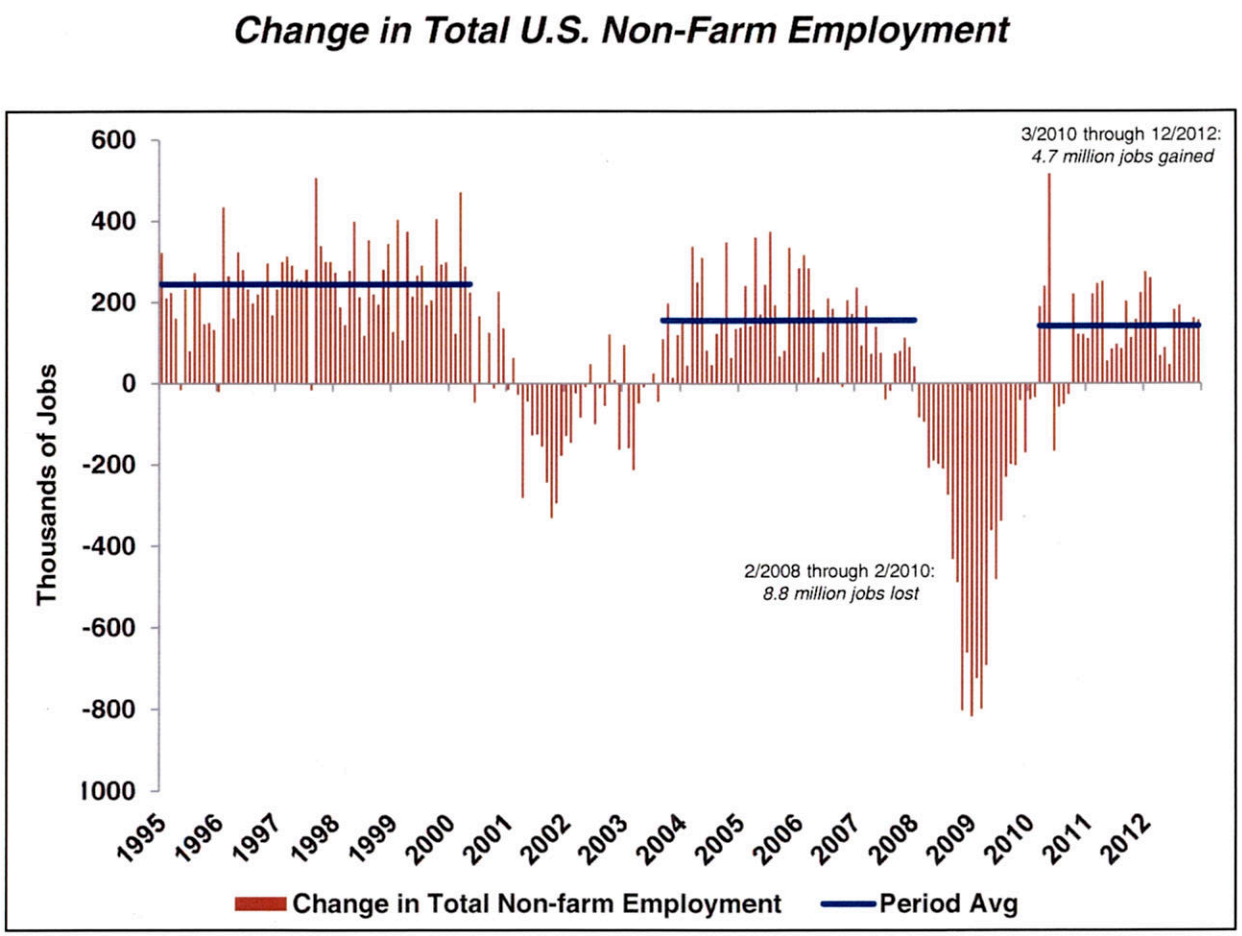
. . . and is starting to recover

China Electricity – Total Energy Consumption Year Over Year



Source: Bloomberg, China National Energy Administration, Epoch Investment Partners. November 2012

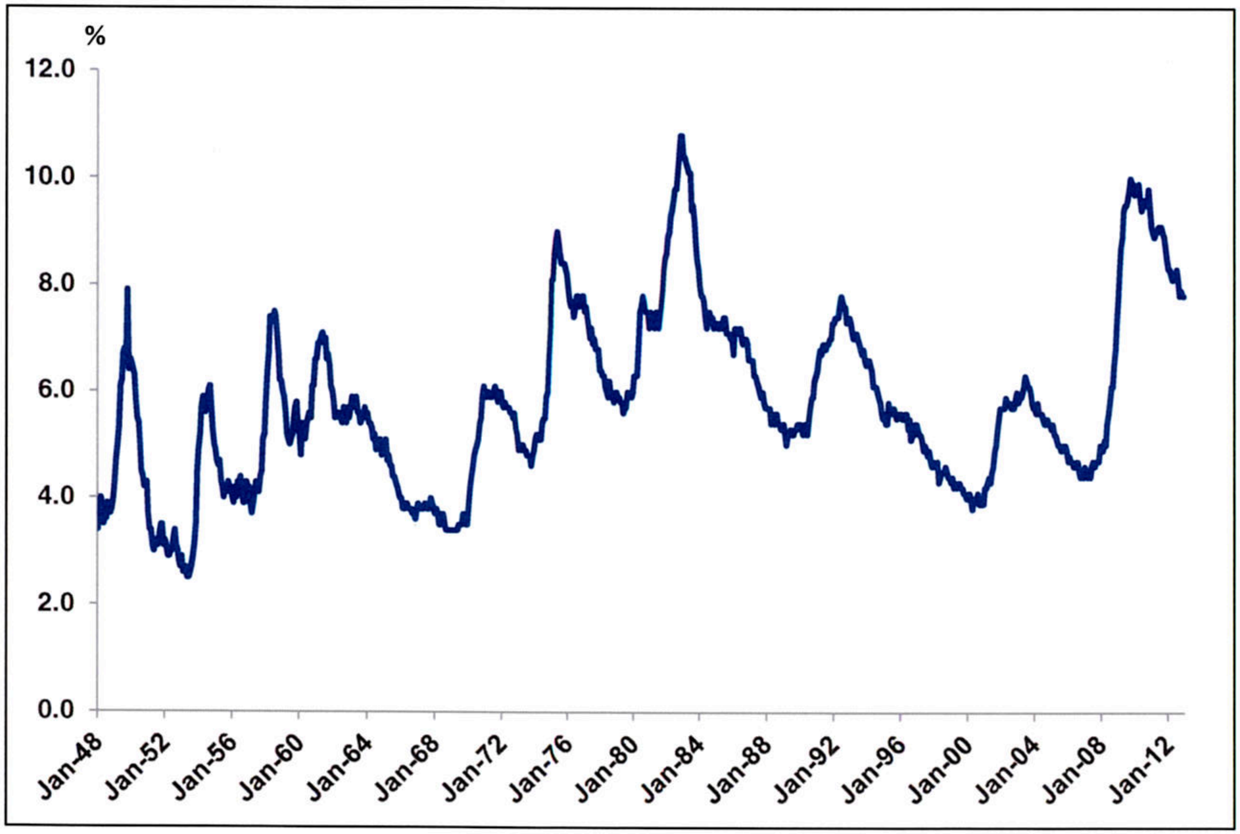
U.S. employment growth is increasing at a slow, steady pace



Source: Federal Reserve Economic Data; December 2012

Unemployment still high, but moving in the right direction

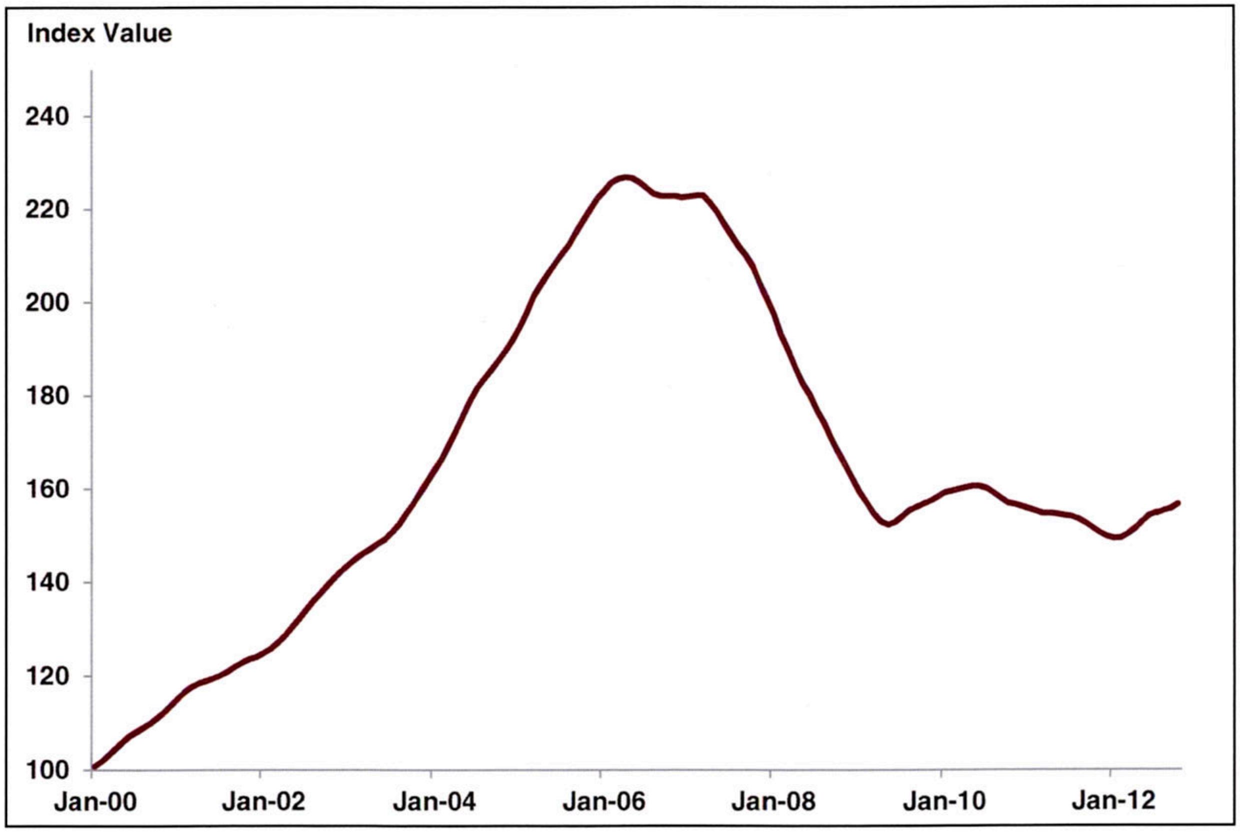
Civilian Unemployment Rate



Source: U.S. Department of Labor: Bureau of Labor Statistics'; December 2012

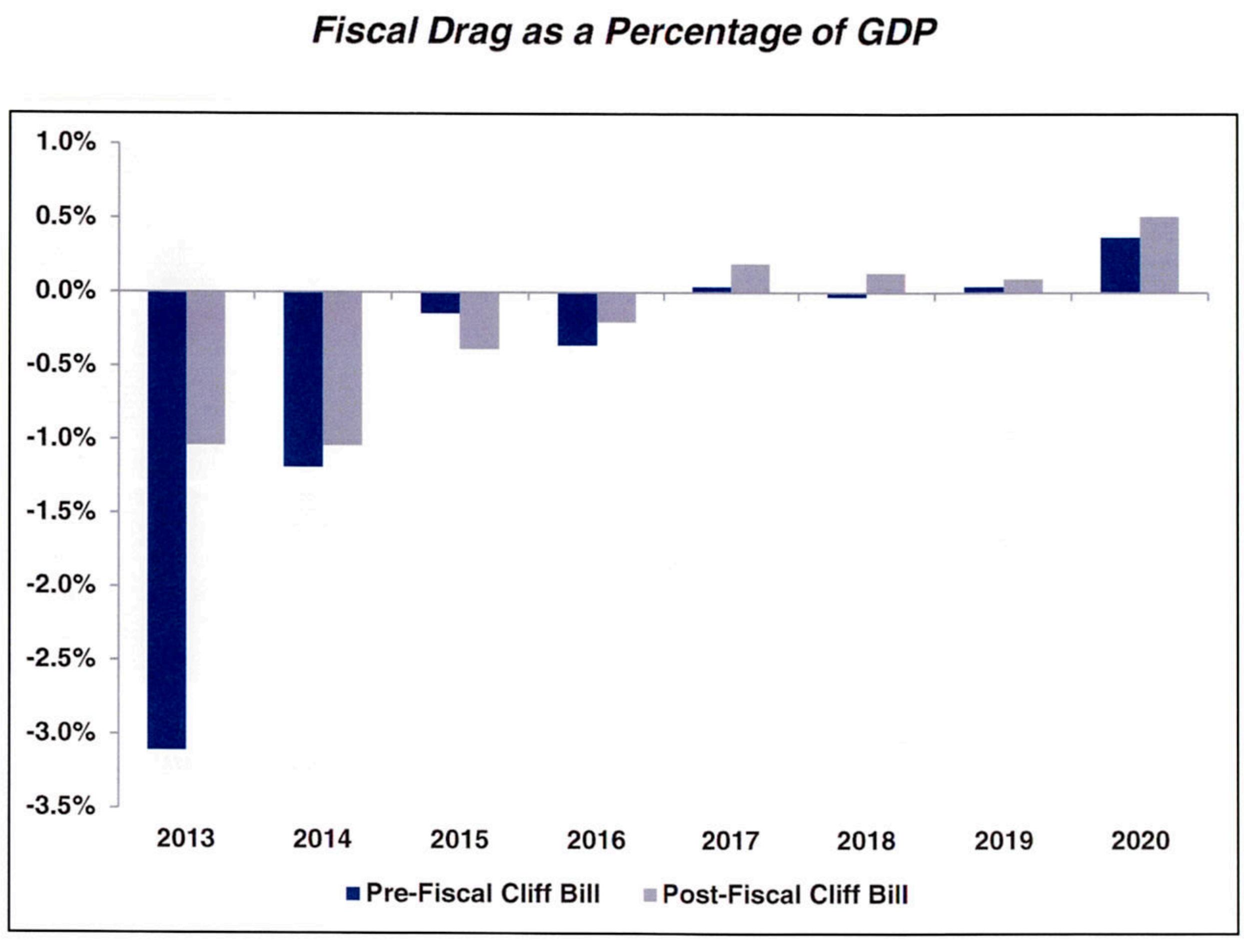
U.S. housing is starting to recover

S&P Case-Shiller 10-City Composite Index



Source: Standard & Poors; October 2012

We seem to have avoided the worst of the fiscal cliff



Source: Strategas Research Partners

2012: Risk-on vs. Risk-off

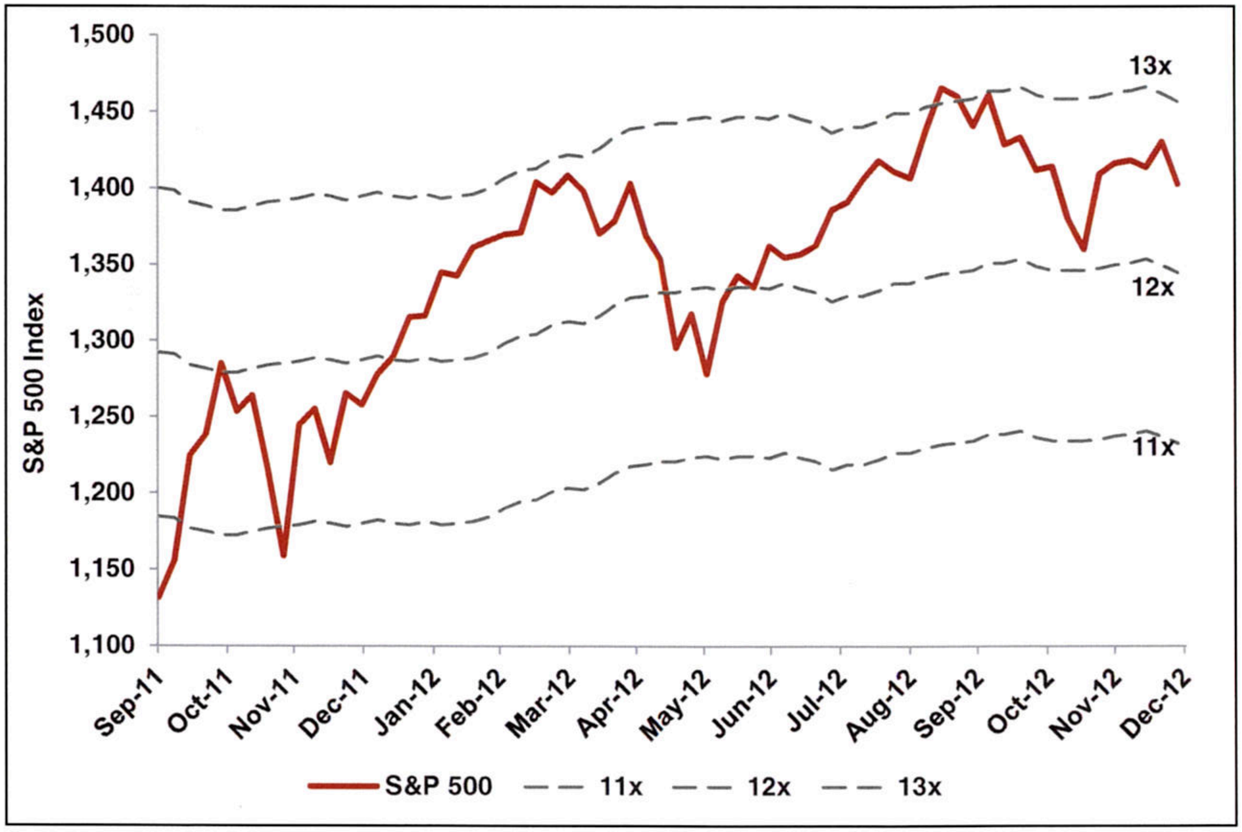
Rank of Select Characteristics Driving U.S. Equity Markets[1]
(out of 22 fundamental factors)

	1Q12 Risk on	2Q12 Risk off	3Q12 Risk on	4Q12 Flat	20 years annualized
Beta	1	21	1	1	4
Default risk	2	22	3	8	16
Book/Price	14	12	8	4	10
Dividend yield	21	2	21	19	15
EBITDA/EV	20	19	22	3	1

Source: Nomura Securities
[1] Characteristic rank based on the Russell 1000 Index

Quantitative easing drove market multiples

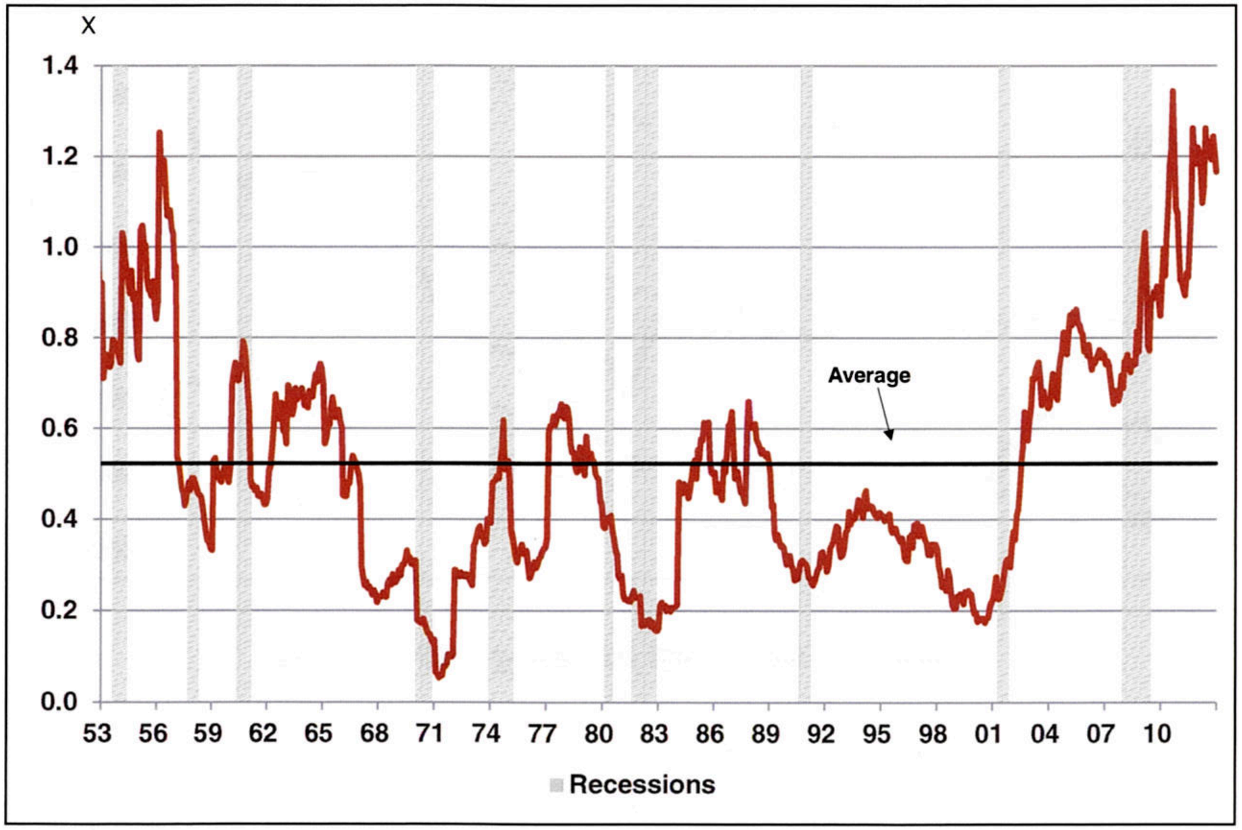
S&P 500 and Forward Earnings Multiples



Source: Standard & Poors, Yardini Research, Epoch Investment Partners; December 2012

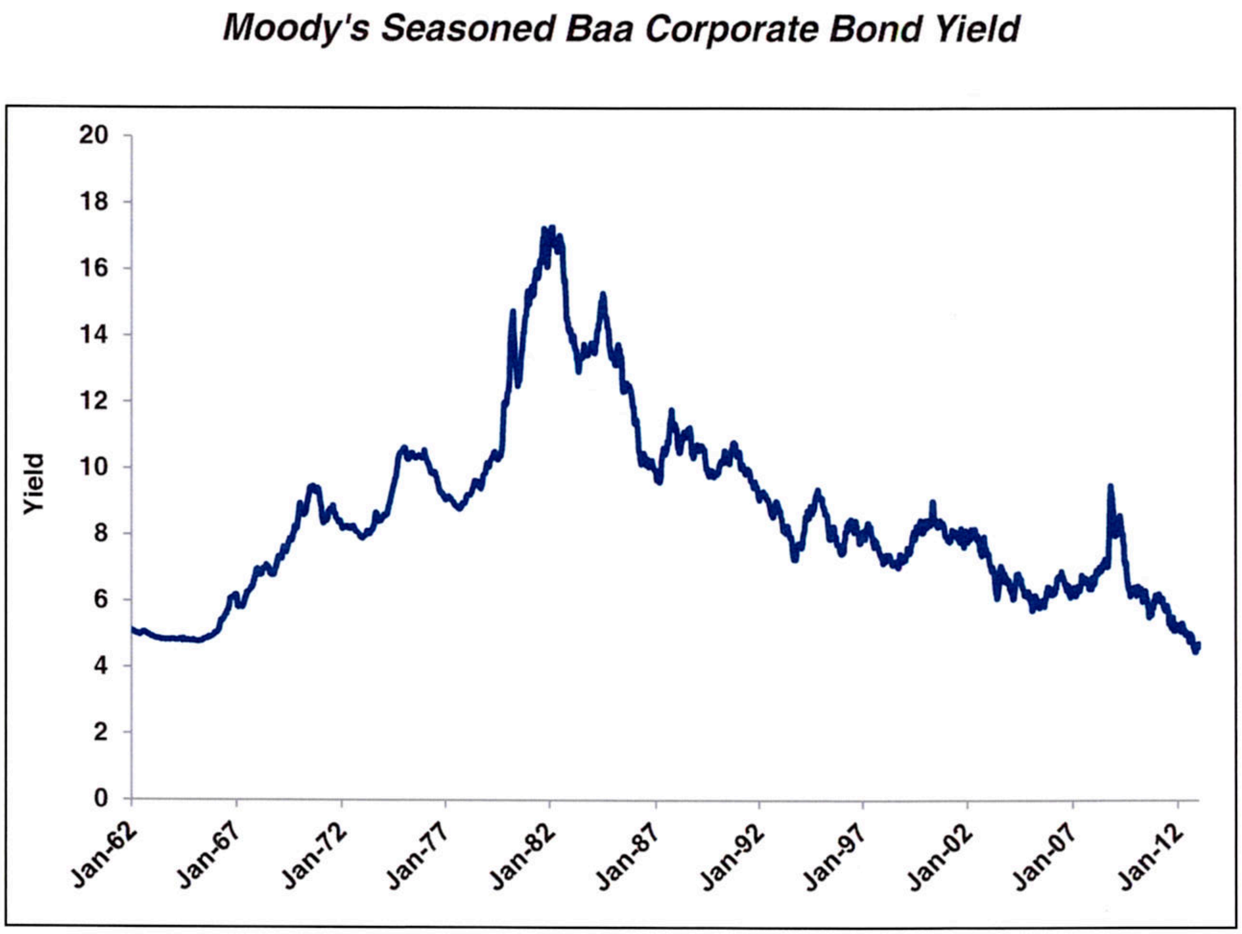
Equities look historically cheap vs. corporate bonds

Equity Free Cash Flow Yields as a Ratio to Baa Corporate Bond Yields [1]



Source: Federal Reserve Board, Corporate Reports, Empirical Research Partners Analysis; December 2012
[1] Large-capitalization stocks excluding financial and utilities; capitalization-weighted data.

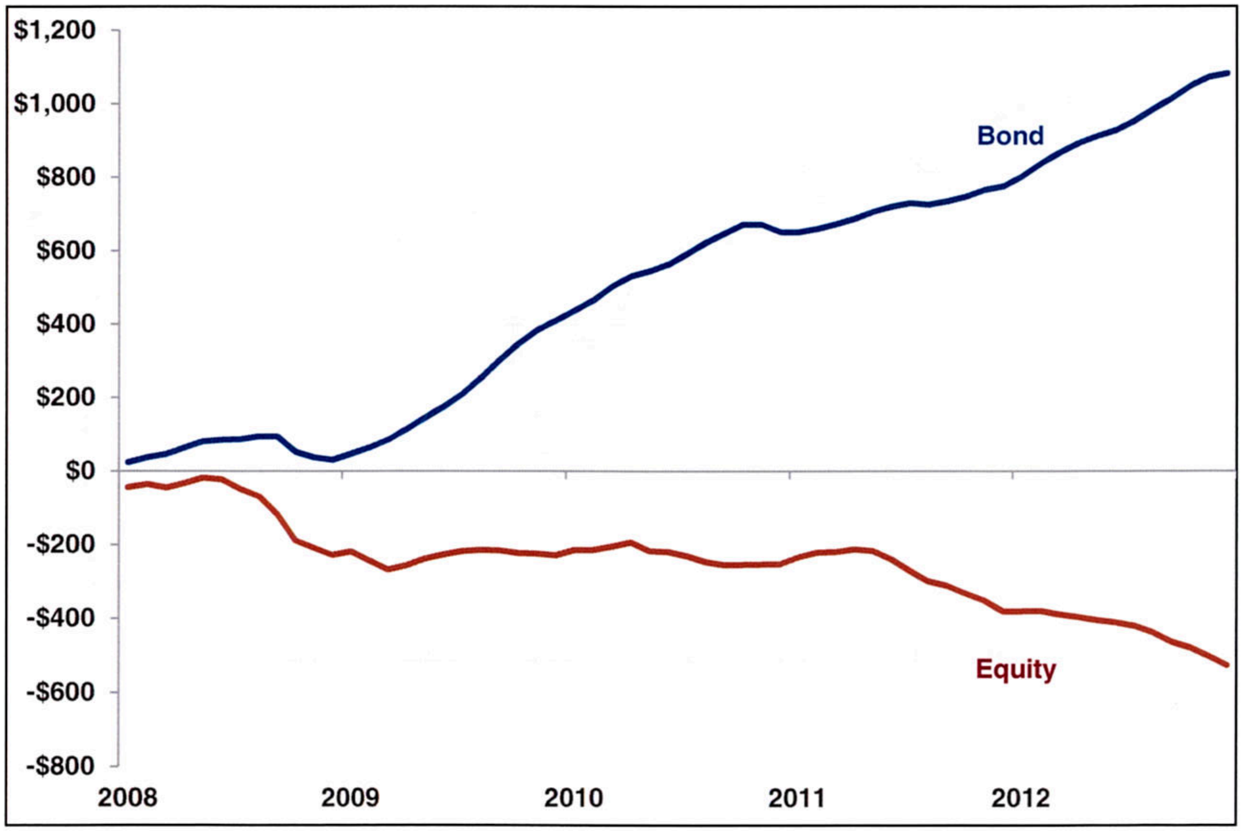
Corporate bond rates are at historically low yields



Source: Board of Governors of the Federal Reserve System

Flows out of equities continue – an opportunity in the making?

Cumulative Net Flows – Equity vs. Bond Mutual Funds
2008 Through December 2012



Source: Strategas Research Partners; December 2012

Conclusions

Slow growth environment leads to mid-single-digit equity returns

- Headwinds for P/Es
- Subdued economic growth will limit revenue and earnings growth
- Dividends mathematically a larger component of return if P/E expansion and earnings growth is limited

Stocks are attractive in the long term, especially relative to bonds

As macro factors wane, equity returns will be more dependent on company fundamentals

Companies with growing free cash flow and effective capital allocation policies should outperform

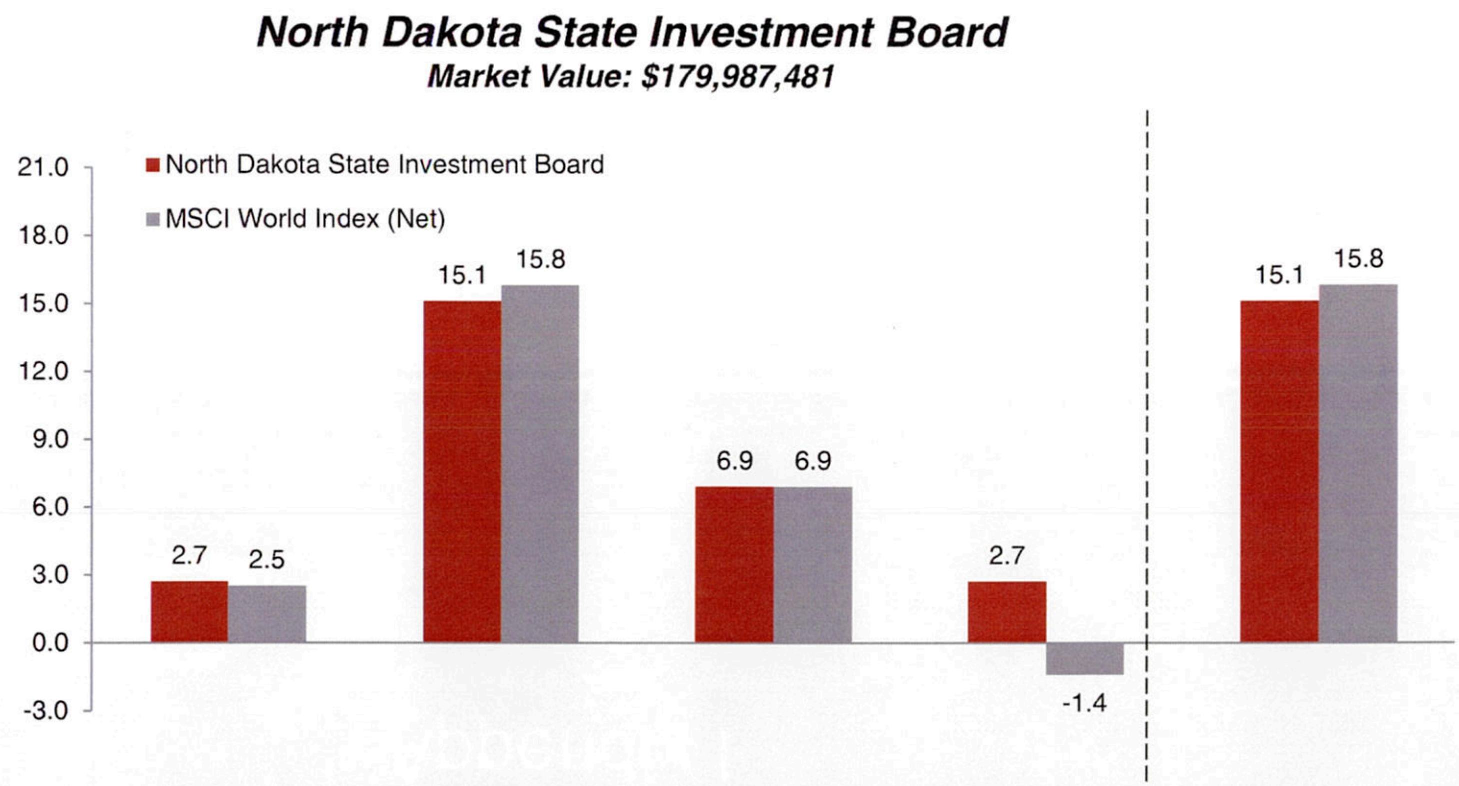
Many companies that fit this description are undervalued

Strategies that seek shareholder yield should also perform well in this low-growth environment

Appendix I

Account Review – Global Choice

Performance: As of December 31, 2012



	QTD	1 Year	3 Year	Inception to Date (7/8/07)	Global Choice Inception to Date (12/31/11)
North Dakota State Investment Board	2.7	15.1	6.9	2.7	15.1
MSCI World (Net)	2.5	15.8	6.9	-1.4	15.8

Performance for the most recent quarter is preliminary and subject to change. Returns are annualized for periods greater than one year. Periods less than one year are cumulative, unless otherwise noted. Additional information regarding policies for calculating and reporting returns is available upon request. Past performance is no guarantee of future results.

Performance Attribution: One Year Ending December 31, 2012

North Dakota State Investment Board

	Account		*MSCI World*		*Variance*		
Sectors	Average Weight	Return (%)	Average Weight	Return (%)	Allocation Effect	Stock Selection	Total Effect
Consumer Discretionary	16.5	17.0	10.8	24.3	0.5	(1.2)	(0.7)
Consumer Staples	6.8	21.6	10.8	13.3	0.0	0.6	0.6
Energy	5.2	3.8	10.9	1.6	0.4	(0.1)	0.3
Financials	9.3	4.5	18.9	29.4	(1.2)	(2.2)	(3.5)
Health Care	15.9	15.6	10.4	17.2	0.2	(0.3)	(0.1)
Industrials	17.6	19.2	10.9	15.9	(0.1)	0.5	0.4
Information Technology	17.6	27.0	12.5	13.4	0.0	2.2	2.2
Materials	5.0	29.1	7.0	11.2	0.3	0.5	0.7
Telecommunication Services	1.3	(3.9)	4.1	6.4	(0.3)	(0.1)	(0.4)
Utilities	0.0	0.0	3.6	1.7	0.5	0.0	0.5
[Cash]	4.7	(1.2)	0.0	0.0	(0.9)	0.0	(0.9)
[Unassigned]	0.0	1.4	0.3	28.9	(0.0)	0.0	(0.0)
Total					**(0.7)**	**(0.2)**	**(0.8)**

Source: FactSet Research Systems, Inc

Performance Attribution: One Year Ending December 31, 2012

North Dakota State Investment Board

	Account		***MSCI World***		***Variance***				
Country	Average Weight	Return (%)	Average Weight	Return (%)	Allocation Effect (Local)	Selection (Local)	Effect (Local)	Currency Effect	Total Effect
Argentina	0.8	(29.1)	0.0	0.0	(0.6)	0.0	(0.6)	0.0	(0.6)
Australia	0.0	0.0	3.7	22.1	(0.1)	0.0	(0.1)	(0.1)	(0.2)
	0.0	0.0	0.1	25.9	(0.0)	0.0	(0.0)	0.0	(0.0)
Belgium	3.0	43.4	0.4	39.6	0.5	0.1	0.5	0.1	0.6
Brazil	0.4	6.5	0.0	0.0	0.1	0.0	0.1	(0.0)	0.1
Canada	0.0	0.0	5.0	9.1	0.4	0.0	0.4	(0.1)	0.3
Denmark	0.0	0.0	0.5	31.3	(0.1)	0.0	(0.1)	(0.0)	(0.1)
Finland	0.0	0.0	0.3	14.6	0.0	0.0	0.0	(0.0)	0.0
France	6.3	24.1	3.8	21.3	0.2	0.2	0.5	0.0	0.5
Germany	7.9	28.0	3.5	30.9	0.6	(0.7)	(0.0)	0.1	0.1
Greece	0.0	0.0	0.0	4.5	0.0	0.0	0.0	0.0	0.0
Hong Kong	0.0	0.0	1.3	28.3	(0.1)	0.0	(0.1)	0.0	(0.1)
Ireland	0.0	0.0	0.1	5.7	0.0	0.0	0.0	0.0	0.0
Israel	2.6	(4.1)	0.3	(4.7)	(0.4)	(0.0)	(0.4)	(0.0)	(0.4)
Italy	0.0	0.0	0.9	12.5	0.0	0.0	0.0	(0.0)	0.0
Japan	0.0	0.0	8.7	8.2	(0.3)	0.0	(0.3)	1.0	0.7
Korea	0.8	17.4	0.0	0.0	0.5	0.0	0.5	0.0	0.5
Netherlands	0.3	14.1	1.0	20.6	(0.0)	0.1	0.1	0.0	0.1
New Zealand	0.0	0.0	0.1	29.3	(0.0)	0.0	(0.0)	0.0	(0.0)
Norway	2.5	31.9	0.4	18.7	(0.2)	0.4	0.2	0.1	0.3
Portugal	0.0	0.0	0.1	3.5	0.0	0.0	0.0	0.0	0.0
Singapore	0.0	0.0	0.8	31.0	(0.1)	0.0	(0.1)	(0.0)	(0.1)
Spain	0.0	0.0	1.2	3.0	0.2	0.0	0.2	(0.0)	0.2
Sweden	0.0	0.0	1.3	22.0	(0.0)	0.0	(0.0)	(0.1)	(0.1)
Switzerland	0.0	0.0	3.6	20.3	(0.1)	0.0	(0.1)	(0.1)	(0.1)
Taiwan	1.2	(5.5)	0.0	0.0	(0.2)	0.0	(0.2)	0.0	(0.2)
United Kingdom	9.0	12.2	9.6	15.4	(0.1)	(0.4)	(0.5)	(0.0)	(0.5)
United States	60.5	13.4	53.5	15.3	0.0	(1.1)	(1.1)	0.0	(1.1)
[Unassigned]	0.0	1.4	0.0	0.0	(0.0)	0.0	(0.0)	0.0	0.0
[Cash]	4.7	(1.2)	0.0	0.0	(0.8)	0.0	(0.8)	(0.1)	(0.9)
Total					**(0.4)**	**(1.4)**	**(1.8)**	**1.0**	**(0.8)**

Source: FactSet Research Systems, Inc

Top & Bottom Contributors: One Year Ending December 31, 2012

North Dakota State Investment Board

Top Five Contributors

	Contribution to Portfolio Return (%)
Comcast Corp. Cl A Special	1.9
Bayer AG	1.6
Apple Inc.	1.6
Visa Inc.	1.5
Anheuser-Busch InBev	1.2

Bottom Five Detractors

	Contribution to Portfolio Return (%)
Prudential Financial Inc.	-0.7
Anadarko Petroleum Corp.	-0.6
Arcos Dorados Holdings Inc. Cl A	-0.5
Occidental Petroleum Corp.	-0.5
Electronic Arts Inc.	-0.5

Source: FactSet Research Systems, Inc

New and Closed Positions: One Year Ending December 31, 2012

North Dakota State Investment Board

New Positions	Closed Positions
Samsung Electronics Co. Ltd. GDR	Anadarko Petroleum Corp.
SAFRAN S.A.	Coca-Cola Co.
Boeing Co.	Teva Pharmaceutical Industries Ltd. ADS
American International Group Inc.	Electronic Arts Inc.
National Oilwell Varco Inc.	Laboratory Corp. of America Holdings
Time Warner Inc.	Vodafone Group PLC
United Technologies Corp.	Deutsche Telekom AG
Monsanto Co.	UnitedHealth Group Inc.
BASF SE	Danaher Corp.
Cielo S/A	Partnerre Ltd Pfd Ser E
Occidental Petroleum Corp.*	Occidental Petroleum Corp.*
PepsiCo Inc.*	PepsiCo Inc.*
Union Pacific Corp.*	Union Pacific Corp.*
Yahoo! Inc.*	Yahoo! Inc.*
ASML Holdings N.V.	Coca-Cola Enterprises
CME Group Inc. ClA	Imperial Tobacco
Cognizant Technology Solutions	Pearson PLC
Prudential Financial Inc.	Viston
Las Vegas Sands Corp.	
Rolls Royce C Shares Rights	

**Represents positions bought and sold within the time period specified*

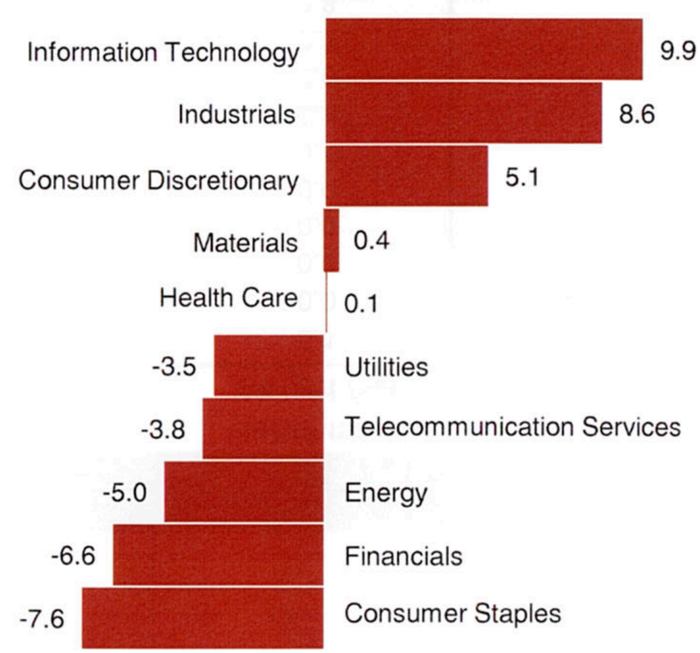
Sector Allocation & Characteristics: As of December 31, 2012

North Dakota State Investment Board

	Portfolio Weight (%)	Benchmark Weight (%)
Consumer Discretionary	16.2	11.2
Consumer Staples	3.0	10.6
Energy	5.3	10.3
Financials	13.7	20.3
Health Care	10.6	10.5
Industrials	19.6	11.0
Information Technology	21.7	11.9
Materials	7.4	7.0
Telecommunication Services	0.0	3.8
Utilities	0.0	3.5

Characteristics	Portfolio	Benchmark
Market Cap (Wt. Avg.)	72,522	79,160
Market Cap (Wt. Median)	33,514	39,219
12 Month Turnover	74%	--
Number of Equity Positions	34	1,610

Sector Weights Relative to Benchmark



Cash represents 3.7% of the portfolio
Source: FactSet Research Systems; MSCI Inc. The data is unaudited and may change at any time. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns.

Top Ten Holdings: December 31, 2012

North Dakota State Investment Board

Top Ten Holdings	Portfolio Weight (%)	Benchmark Weight (%)
Aetna Inc.	4.2	0.1
Samsung Electronics Co. Ltd. GDR	4.0	0.0
SES S.A. FDR A	4.0	0.0
SAFRAN S.A.	3.7	0.0
CIT Group Inc.	3.6	0.0
Rolls-Royce Holdings PLC	3.5	0.1
Boeing Co.	3.4	0.2
Arthur J. Gallagher & Co.	3.3	0.0
Visa Inc.	3.3	0.3
Microsoft Corp.	3.3	0.8

Source: FactSet Research Systems, Inc.

Portfolio Positioning

As of December 31, 2012

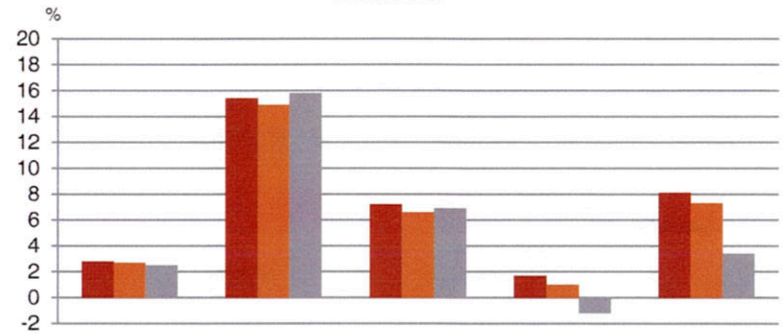
Sector	Security	Portfolio Weight (%)	Country
Information Technology	Samsung Electronics Co. Ltd. GDR	4.0	South Korea
	Visa Inc.	3.3	United States
	Microsoft Corp.	3.3	United States
	Apple Inc.	2.8	United States
	Oracle Corp.	2.1	United States
	Cielo S/A	2.1	Brazil
	ASML Holding N.V.	2.0	Netherlands
	Cognizant Technology Solutions Corp.	1.0	United States
	Subtotal	**20.7**	
Industrials	SAFRAN S.A.	3.7	France
	Rolls-Royce Holdings PLC	3.5	United Kingdom
	Boeing Co.	3.4	United States
	ROLLS ROYCE C SHARES RIGHTS	0.0	United Kingdom
	Experian PLC	3.2	United Kingdom
	Deere & Co.	3.1	United States
	United Technologies Corp.	2.8	United States
	Subtotal	**19.6**	
Consumer Discretionary	SES S.A. FDR A	3.8	France
	Comcast Corp. Cl A Special	3.2	United States
	Time Warner Inc.	2.8	United States
	Yum! Brands Inc.	2.5	United States
	McDonald's Corp.	2.0	United States
	Las Vegas Sands Corp.	1.8	United States
	Subtotal	**16.2**	
Financials	CIT Group Inc.	3.6	United States
	Arthur J. Gallagher & Co.	3.3	United States
	American International Group Inc.	3.0	United States
	CME Group Inc. Cl A	1.9	United States
	Prudential Financial Inc.	1.8	United States
	Subtotal	**13.7**	
Health Care	Aetna Inc.	4.2	United States
	Bayer AG	3.3	Germany
	Fresenius Medical Care AG & Co. KGaA	3.2	Germany
	Subtotal	**10.7**	
Materials	Ecolab Inc.	2.7	United States
	Monsanto Co.	2.5	United States
	BASF SE	2.1	Germany
	Subtotal	**7.4**	
Energy	National Oilwell Varco Inc.	2.6	United States
	Subsea 7 S.A.	2.5	Norway
	Subtotal	**5.1**	
Consumer Staples	Anheuser-Busch InBev	2.9	Belgium
	Subtotal	**2.9**	
	Cash	3.7	
	Total	**100.0**	

Source: Epoch Investment Partners; Subtotals may vary slightly due to rounding

Global Choice: Results

As of December 31, 2012

Returns



	QTD	1 Year	3 Year	5 Year	Annualized Since Inception[1]
EPOCH (Gross)	2.8	15.4	7.2	1.7	8.1
EPOCH (Net)	2.7	14.9	6.6	1.0	7.3
MSCI World Index (Net)	2.5	15.8	6.9	(1.2)	3.4

Risk Return Metrics - Since Inception[1,2]

	EPOCH	MSCI World Index (Net)
Standard Deviation	16.4	17.9
Sharpe Ratio	0.39	0.09
		EPOCH vs. Index
Information Ratio		0.76
Alpha		5.09
Beta		0.86
R^2		0.88

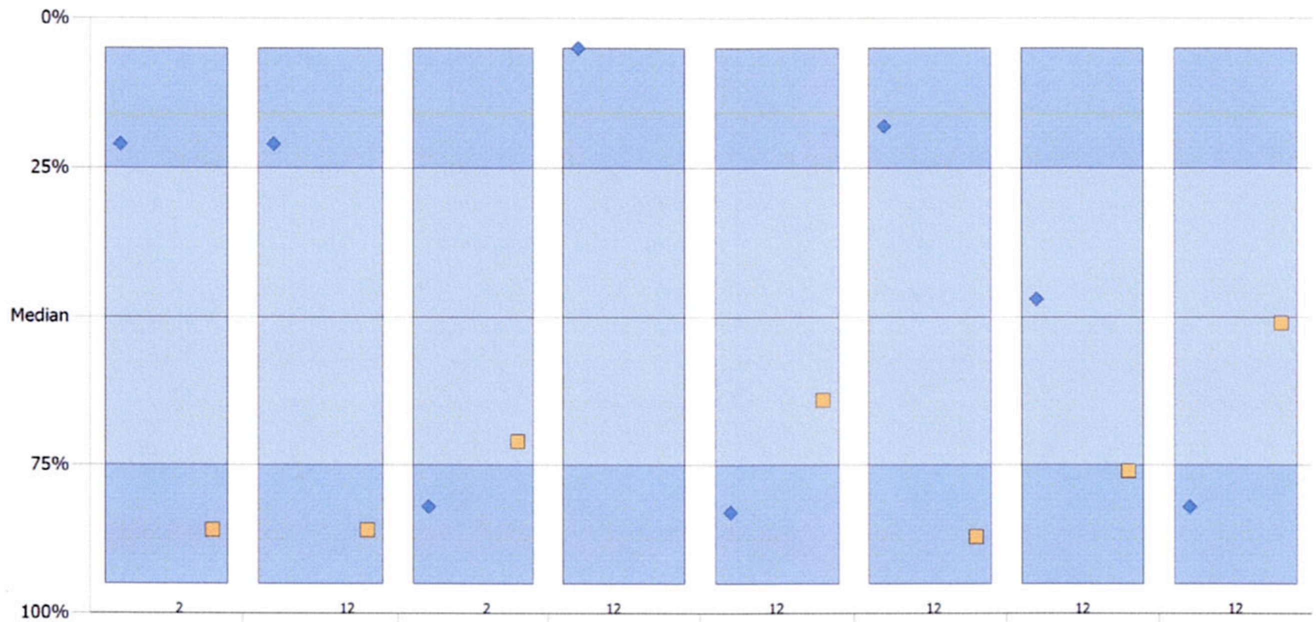
	2012	2011	2010	2009	2008	2007	2006	2005[3]
EPOCH Gross Return	15.4	-0.1	6.8	37.4	-35.6	17.2	30.0	6.4
EPOCH Net Return	14.9	-0.6	6.3	36.2	-36.3	16.2	28.9	6.1
MSCI World Index (Net)	15.8	-5.5	11.8	30.0	-40.7	9.0	20.1	3.1

1 Inception date is September 30, 2005. Performance for the most recent quarter is preliminary and subject to change.
2 The risk statistics are shown as supplemental information only and supplement the Composite presentation which is located within the Disclosure section of the presentation.
3 Data represents a partial year from 9/30/05-12/31/05.
Past performance is no guarantee of future results.

Upside / Downside Capture

◆ Epoch Investment Partners, Inc.: Epoch Global Choice
□ MSCI Index: MSCI World-ND

Since Inception 7.25 Years 10/2005 - 12/2012



Universe:
eVestment Global Equity - Hedged

	VT	RM	Returns[2]	Rk	Excess Rtn[1,2]	Rk	Std Dev[2]	Rk	IR[1,2]	Rk	Beta[1,2]	Rk	Alpha[1,2]	Rk	UMC[1,2]	Rk	DMC[1,2]	Rk
5th percentile			9.25		5.89		36.00		0.85		1.59		7.14		173.21		131.47	
25th percentile			6.98		3.61		24.64		0.47		1.18		4.50		121.49		112.34	
Median			5.34		1.97		21.67		0.27		1.04		2.45		109.51		100.90	
75th percentile			4.09		0.73		19.84		0.11		0.94		0.81		101.47		88.17	
95th percentile			2.72		-0.64		13.12		-0.25		0.62		-0.70		75.66		53.16	
# of Observations			65		65		65		65		65		65		65		65	
◆ Epoch Investment Partners, Inc.	SA	GF	8.15	21	4.78	21	18.10	82	0.83	5	0.86	83	5.03	18	111.38	47	83.94	82
□ MSCI Index	IX	IX	3.37	86	0.00	86	20.16	71	---		1.00	64	0.00	87	100.00	76	100.00	51

Results displayed in US Dollar (USD)

[1] MSCI World-ND; [2] 10/2005 - 12/2012

Source: eVestment Alliance; Universe data 78% complete as of January 16, 2013

Appendix II

Global Equity Shareholder Yield

Global Equity Shareholder Yield: Overview

- Global portfolio designed to capture "Shareholder Yield":

Cash Dividends
4.5%

Stock Buybacks Debt Reduction
1.5%

+

Cash Flow Growth Rate
3%

=

Aspirational return[3]
9%+

- Unique risk management controls
- Complements other global equity strategies

EPOCH Annualized Excess Return[1, 2] *(As of December 31, 2012)*	
Excess return:	
vs. MSCI World Index (Net)	4.1%

Risk Return Metrics - Since Inception[1,2]		
	EPOCH	**MSCI World Index (Net)**
Standard Deviation	14.0	18.1
Sharpe Ratio	0.39	0.08
		EPOCH vs. Index
Information Ratio		0.64
Alpha		4.51
Beta		0.74
R^2		0.91

1 *Excess Return is the difference between annualized return (Gross-of-Fees) since inception for Epoch Global Equity Shareholder Yield and the MSCI World Index.*
2 *Inception date is December 31, 2005. Performance for the most recent quarter is preliminary and subject to change. The risk statistics are shown as supplemental information only and supplement the Composite presentation which is located within the Disclosure section of the presentation.*
3 *The return targets included in this presentation are not intended as, and must not be regarded as, a representation, warranty or prediction that any client will achieve any particular rate of return over any particular time period or that any client will not incur losses. Although Epoch believes, based on these factors, that the referenced return targets are reasonable, return targets are subject to inherent limitations including, without limitation, the fact they cannot take into account the impact on future trading and investment decisions of future economic events.*
Past performance is no guarantee of future results.

Global Equity Shareholder Yield: Investment Team

Research

Fundamental Analysis

Bill Booth (17)
Matthew Chan (14)
Eric Citerne (22)
Justin Howell (11)
Michael Jin (19)
Josepha Kaufman (18)
Gary Low (12)
John Morgan (19)
Janet Navon (32)
David Pearl (29)
Bill Priest (48)
John Reddan (28)
Eric Sappenfield (28)
David Siino (15)
Tim Sledge (19)
Jeffrey Smith (22)
John Tobin (32)
Kera Van Valen (12)
Chris Wolters (23)

Client Portfolio Managers

Gretchen Amidon (13)
Andrea Tasker Glogoff (19)
Richard Watt (31)

Quantitative Analysis & Risk Management

Mike Welhoelter (27)
Jason Root (16)
Ken Hightower (16)
Matt Herman (6)

Macro Analysis

Investment Policy Group

Bill Priest (48)
Eric Citerne (22)
Andrea Tasker Glogoff (19)
Janet Navon (32)
Tom Pernice (32)
John Reddan (28)
David Pearl (29)
Eric Sappenfield (28)
John Tobin (32)
Richard Watt (31)
Mike Welhoelter (27)

Trading

Mark Strauss (27)
Doug Van Gorp (12)

Global Equity Shareholder Yield Team

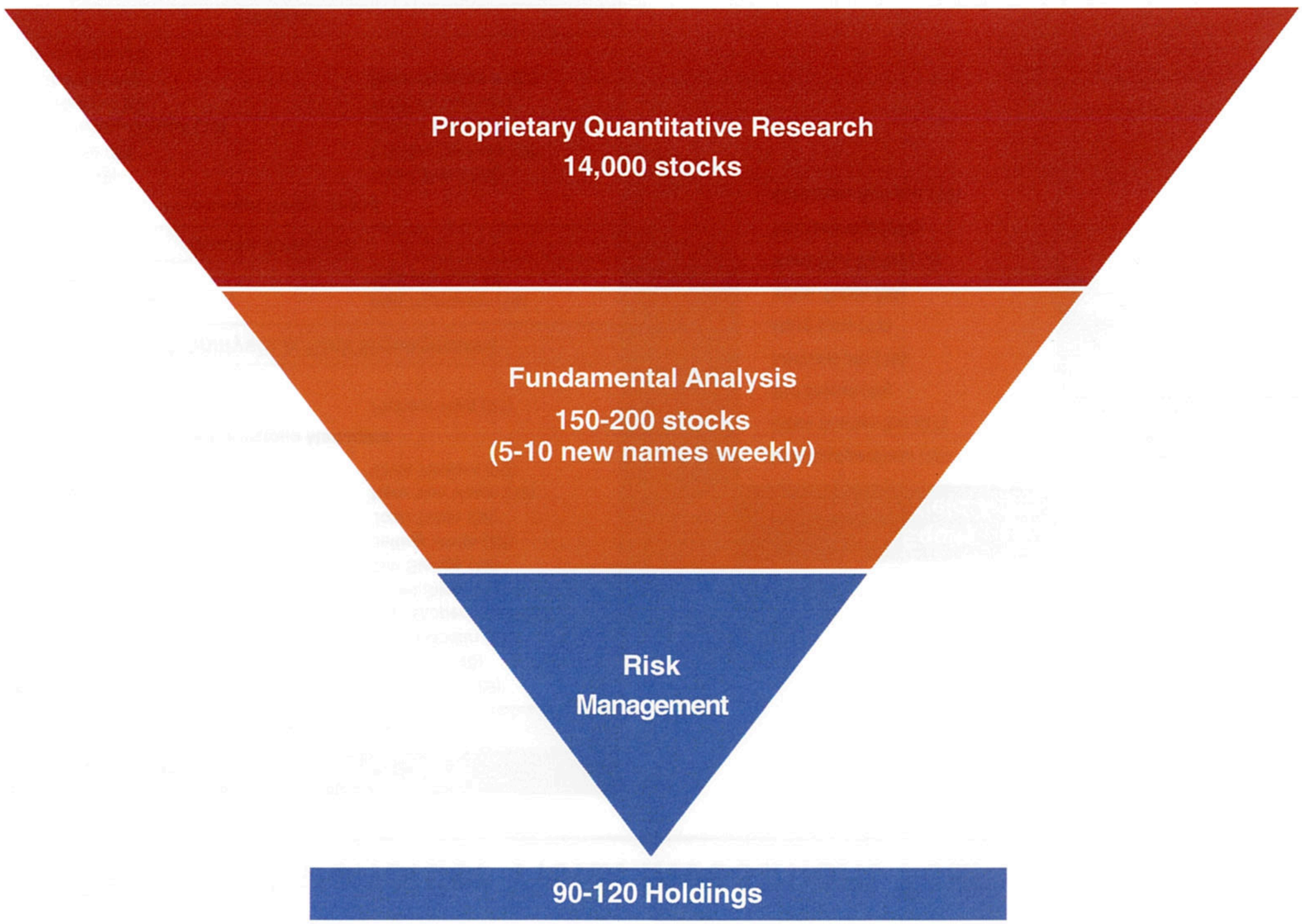
Eric Sappenfield (28)
Mike Welhoelter (27)
Bill Priest (48)
Michael Jin (19)
Gary Low (12)
John Tobin (32)
Kera Van Valen (12)
Richard Watt (31)
Gretchen Amidon (13)

Portfolio Managers

Eric Sappenfield (28)
Mike Welhoelter (27)
Bill Priest (48)

Numbers in parentheses denotes years of experience.

Investment Process: Overview



Investment Process: Proprietary Quantitative Research

Key Research Metrics

- High current income – yield
- Cash from operations exceeds dividends (or cash returned) over trailing 3 years
- Growth in cash flow from operations over the last 5 years
- No dividend cancellations in available financial history
- Market capitalization > $500M with sufficient trading liquidity

Results in 5-10 new investment candidates / week

Investment Process: Fundamental Bottom-Up Analysis

Investment Candidates

Fundamental Analysis

Management Quality	Business Evaluation	Financial Strength	External Factors

Portfolio Holding Example: Coca-Cola

Key brands

Coca-Cola
DASANI
Sprite
Fanta
vitaminwater

Sales

- $46.5B
- 15 billion dollar brands
- >50% of volumes are to developing and emerging markets
- #1 market positions across sparkling, juices, ready-to-drink coffee, and ready-to-drink tea globally

Operating cash flow

- $9.5B
- Top-line growth driven by driving volumes and building customer loyalty in the emerging markets
- Continued focus on profitable growth through innovation and productivity in both developed and emerging markets
- Disciplined capital management

Cash flow applications

Reinvestment for firm growth

- $2.9B across Eurasia & Africa, Europe, Latin America, North America, Pacific and Bottling Investments

Return to shareholders

- Cash dividends $4.3B
- Share repurchases $2.9B

Data as of December 2011. The reference to the security listed herein does not constitute a recommendation to buy, sell or hold such security. Any securities discussed may represent only a small percentage of the strategy's portfolio holdings, and should not be deemed representative of the entire strategy's holdings. A complete list of holdings is available upon request.

Global Equity Shareholder Yield: Top Ten Holdings

As of December 31, 2012

Company Name	Representative Account Weight (%)	Dividend Yield (%)	Country	Sector
BCE Inc.	1.9	5.2	Canada	Telecommunication Services
Swisscom AG	1.8	5.6	Switzerland	Telecommunication Services
Pearson PLC	1.7	3.6	United Kingdom	Consumer Discretionary
Nestle S.A.	1.7	3.3	Switzerland	Consumer Staples
National Grid PLC	1.6	5.7	United Kingdom	Utilities
Vodafone Group PLC	1.6	6.3	United Kingdom	Telecommunication Services
Kimberly-Clark Corp.	1.6	3.5	United States	Consumer Staples
Imperial Tobacco Group PLC	1.6	4.2	United Kingdom	Consumer Staples
BASF SE	1.6	3.5	Germany	Materials
Verizon Communications Inc.	1.6	4.7	United States	Telecommunication Services
Total	**16.7**			

FactSet Research Systems, Inc.; Epoch Investment Partners, Inc.; MSCI Inc. The data shown above is of a representative account and such data may vary for each client in the strategy due to market conditions, client guidelines and diversity of portfolio holdings. The data is unaudited and may change at any time. The data is supplemental to the composite presentation, is shown for informational purposes only, and is not indicative of future portfolio characteristics or returns.

Global Equity Shareholder Yield: Portfolio Weights and Characteristics

As of December 31, 2012

Sector	Weight (%)
Consumer Staples	16.5
Telecommunication Services	14.5
Utilities	14.0
Consumer Discretionary	10.8
Industrials	9.2
Health Care	9.1
Energy	8.5
Financials	7.3
Information Technology	5.1
Materials	2.7
Cash	2.3
Total	100.0

Country	Weight (%)
United States	49.8
United Kingdom	19.3
Germany	7.2
Switzerland	5.8
France	5.7
Canada	3.9
Australia	2.0
Italy	1.0
Taiwan	0.8
Norway	0.8
Belgium	0.7
Philippines	0.5
Cash	2.3
Total	100.0

Characteristics	
Dividend Yield (%)	4.6
Enterprise Value to EBITDA (x)	7.4
Market Cap (Wt. Avg.)	57,464
Market Cap (Wt. Median)	33,162
Predicted Beta	0.8
12 Month Turnover	25%
Number of Equity Positions	100

Source: FactSet Research Systems, Inc.; Epoch Investment Partners, Inc.; MSCI Inc. The data shown above is of a representative account and such data may vary for each client in the strategy due to market conditions, client guidelines and diversity of portfolio holdings. The data is unaudited and may change at any time. The data is supplemental to the composite presentation, is shown for informational purposes only, and is not indicative of future portfolio characteristics or returns.

Investment Process: Risk Management

Portfolio Construction – Risk Control

- Minimize stock specific risks while capturing portfolio objectives
  - Position size: 0.5% - 2.5%
  - Maximum income contribution per security: 3.0%
  - Maximum contribution to cash-flow growth per security: 5.0%
- Inverse risk weighting
- Barra risk model measures factor exposures
- Liquidity considerations

Diversified Portfolio Created

Global Equity Shareholder Yield (90-120)

Ongoing Stock Evaluation

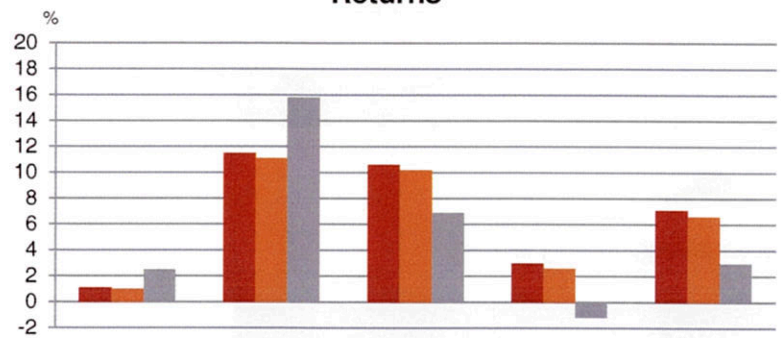
Sell Discipline Reflects:

- Risk to the dividend policy
- Changes in fundamentals
- Alternative choices with a better risk-reward outcome

Global Equity Shareholder Yield: Results

As of December 31, 2012

Returns



	QTD	1 Year	3 Year	5 Year	Annualized Since Inception[1]
EPOCH (Gross)	**1.1**	**11.5**	**10.6**	**3.0**	**7.1**
EPOCH (Net)	**1.0**	**11.1**	**10.2**	**2.6**	**6.6**
MSCI World Index (Net)	2.5	15.8	6.9	(1.2)	3.0

Risk Return Metrics - Since Inception[1,2]

	EPOCH	MSCI World Index (Net)
Standard Deviation	14.0	18.1
Sharpe Ratio	0.39	0.08
		EPOCH vs. Index
Information Ratio		0.64
Alpha		4.51
Beta		0.74
R^2		0.91

	2012	2011	2010	2009	2008	2007	2006
EPOCH Gross Return	**11.5**	**7.1**	**13.2**	**25.2**	**-31.5**	**9.9**	**27.0**
EPOCH Net Return	**11.1**	**6.7**	**12.8**	**24.7**	**-31.8**	**9.0**	**26.0**
MSCI World Index (Net)	15.8	-5.5	11.8	30.0	-40.7	9.0	20.1

1 Inception date is December 31, 2005. Performance for the most recent quarter is preliminary and subject to change.
2 The risk statistics are shown as supplemental information only and supplement the Composite presentation which is located within the Disclosure section of the presentation.
Past performance is no guarantee of future results

Global Equity Shareholder Yield: Holdings have a History of Raising Dividends*

- 2008: 62 companies increased their dividends by 13.7% on average
- 2009: 69 companies increased their dividends by 11.5% on average
- 2010: 72 companies increased their dividends by 11.3% on average
- 2011: 88 companies increased their dividends by 11.5% on average
- 2012: 82 companies increased their dividends by 8.0% on average

**Several companies increased their dividends more than once in each year.*
Source: Epoch Investment Partners, Inc. The data shown above is for a representative account. Such data may vary for each client in the strategy due to market conditions, client guidelines and diversity of portfolio holdings. The data is unaudited and may change at any time. The data is supplemental to the composite presentation, is shown for informational purposes only, and is not indicative of future portfolio characteristics or returns.

21 Portfolio Holdings Increased Their Dividends in the Past Quarter

Name	Sector	Country	Market Cap (USD $M)	Dividend Yield (%)	Dividend Growth (%)
AT&T Inc.	Telecommunication Services	United States	192,385	5.3%	2.3%
Automatic Data Processing Inc.	Information Technology	United States	27,566	3.1%	10.1%
Bristol-Myers Squibb Co.	Health Care	United States	53,513	4.3%	2.9%
Compass Group PLC	Consumer Discretionary	United Kingdom	21,863	2.9%	10.2%
Dominion Resources Inc. (Virginia)	Utilities	United States	29,765	4.1%	6.6%
Emerson Electric Co.	Industrials	United States	38,349	3.1%	2.5%
GlaxoSmithKline PLC	Health Care	United Kingdom	107,244	5.5%	5.9%
Honeywell International Inc.	Industrials	United States	49,721	2.6%	10.1%
Imperial Tobacco Group PLC	Consumer Staples	United Kingdom	41,194	4.5%	10.3%
Kinder Morgan Energy Partners L.P.	Energy	United States	29,100	6.3%	2.4%
MarkWest Energy Partners L.P.	Energy	United States	7,016	6.4%	1.3%
Merck & Co Inc	Health Care	United States	124,638	4.2%	2.4%
Microchip Technology Inc.	Information Technology	United States	6,339	4.3%	0.3%
National Grid PLC	Utilities	United Kingdom	41,573	5.7%	4.0%
Spectra Energy Corp.	Energy	United States	17,879	4.5%	8.9%
SSE PLC	Utilities	United Kingdom	22,079	5.7%	5.0%
United Utilities Group PLC	Utilities	United Kingdom	7,466	4.9%	7.2%
Vectren Corp.	Utilities	United States	2,414	4.8%	1.4%
Vodafone Group PLC	Telecommunication Services	United Kingdom	124,640	6.3%	7.2%
Waste Management Inc.	Industrials	United States	15,651	4.2%	2.8%
Westpac Banking Corp.	Financials	Australia	83,272	6.4%	5.0%

Dividend Growth = average increase

Source: Epoch Investment Partners, Inc. The data shown above is for the past 3 months as of 12/31/12 and for a representative account. Such data may vary for each client in the strategy due to market conditions, client guidelines and diversity of portfolio holdings. The data is unaudited and may change at any time. The data is supplemental to the composite presentation, is shown for informational purposes only, and is not indicative of future portfolio characteristics or returns.

Global Equity Shareholder Yield: Portfolio Characteristics

As of December 31, 2012

Sector Weights Relative to Benchmark

	Representative Account Weight (%)	Sector Weights Relative to MSCI World Index (%)	MSCI World Weight (%)
Telecommunication Services	14.4	10.6	3.8
Utilities	14.0	10.5	3.5
Consumer Staples	16.5	5.9	10.6
Consumer Discretionary	10.8	-0.4	11.2
Health Care	9.1	-1.4	10.5
Industrials	9.2	-1.8	11.0
Energy	8.5	-1.8	10.3
Materials	2.7	-4.3	7.0
Information Technology	5.1	-6.8	11.9
Financials	7.3	-13.0	20.3

Characteristics

	Representative Account	MSCI World Index
Dividend Yield (%)	4.6	2.8
Enterprise Value to EBITDA (x)	7.4	8.0
Market Cap (Wt. Avg.)	57,464	79,125
Market Cap (Wt. Median)	33,162	39,146
Predicted Beta	0.8	--
12 Month Turnover	25%	--
Number of Equity Positions	100	1,610

Cash and Unassigned represent 2.3% of the portfolio.

Source: FactSet Research Systems, Inc.; Epoch Investment Partners, Inc.; MSCI Inc. The data shown above is of a representative account and such data may vary for each client in the strategy due to market conditions, client guidelines and diversity of portfolio holdings. The data is unaudited and may change at any time. The data is supplemental to the composite presentation, is shown for informational purposes only, and is not indicative of future portfolio characteristics or returns.

Global Equity Shareholder Yield: Country Allocation

As of December 31, 2012

	Representative Account Weight (%)	MSCI World Index Weight (%)
United States	49.8	52.4
United Kingdom	19.3	9.7
Germany	7.2	3.7
Switzerland	5.8	3.7
France	5.7	4.1
Canada	3.9	4.9
Australia	2.0	3.8
Italy	1.0	1.0
Taiwan	0.8	-
Norway	0.8	0.4
Belgium	0.7	0.5
Philippines	0.5	-
Austria	-	0.1
Denmark	-	0.5
Finland	-	0.3
Greece	-	0.0
Hong Kong	-	1.3
Ireland	-	0.1
Israel	-	0.2
Japan	-	8.5
Netherlands	-	1.1
New Zealand	-	0.1
Portugal	-	0.1
Singapore	-	0.8
Spain	-	1.3
Sweden	-	1.3
Cash	2.3	-
Total	**100.0**	**100.0**

Source: FactSet Research Systems, Inc.; Epoch Investment Partners, Inc.; MSCI Inc. The data shown above is of a representative account and such data may vary for each client in the strategy due to market conditions, client guidelines and diversity of portfolio holdings. The data is unaudited and may change at any time. The data is supplemental to the composite presentation, is shown for informational purposes only, and is not indicative of future portfolio characteristics or returns.

Commitment to Best Practices

Client Service

- Dedicated relationship manager serves as single point of contact
- Focused on ensuring Epoch's resources meet our client's needs
- Regular portfolio updates and on-going monitoring of client satisfaction
- Comprehensive website including video and whitepaper perspectives on investment issues (www.eipny.com)
- Quarterly client webcast with senior investment professionals

Compliance Program

- Ensure adherence to client specific investment guidelines
- Highest standards of governance
- Keep firm aware of updates and changes in regulations
- Oversee Epoch employees compliance with pertinent laws and regulations
- Monitor employee trading and conduct new employee training

Technology / Infrastructure

- Fully integrated trading, operations, portfolio and risk management systems
- Advanced client reporting and client relationship management infrastructure
- All data backed up nightly
- Fully operational business continuity plan
- Redundant, mirrored, fully replicated systems

Epoch Executive Management Team Biographies

William W. Priest, CFA – ***Chief Executive Officer, Co–Chief Investment Officer & Portfolio Manager***

Bill is Chief Executive Officer and Co-Chief Investment Officer of Epoch Investment Partners. He is a portfolio manager for Epoch's global equity investment strategies and leads the Investment Policy Group, a forum for analyzing broader secular and cyclical trends that Epoch believes will influence investment opportunities. Prior to co-founding Epoch in 2004 with David Pearl, Tim Taussig and Phil Clark, Bill was a Co-Managing Partner and portfolio manager at Steinberg Priest & Sloane Capital Management, LLC for three years. Before joining Steinberg Priest, he was a member of the Global Executive Committee of Credit Suisse Asset Management ("CSAM"), Chairman and Chief Executive Officer of CSAM Americas and CEO and portfolio manager of its predecessor firm BEA Associates, which he co-founded in 1972. During his 30 year tenure at BEA and CSAM, he developed the firm into a well-recognized investment manager with over $100 billion under management. Bill is the author of several published articles and papers on investing and finance, including the books, *The Financial Reality of Pension Funding Under ERISA* and the more recent, *Free Cash Flow and Shareholder Yield: New Priorities for the Global Investor* which details the underpinnings of our investment approach, published by John Wiley & Sons. He holds the Chartered Financial Analyst designation, is a former Certified Public Accountant and a graduate of Duke University and the University of Pennsylvania Wharton Graduate School of Business. He is a Director of Globe Wireless, InfraRedX and a member of the Council on Foreign Relations.

David N. Pearl – ***Executive Vice President, Co–Chief Investment Officer & Portfolio Manager***

David is Executive Vice President and Co-Chief Investment Officer of Epoch Investment Partners. He is a portfolio manager for Epoch's U.S. investment strategies. Prior to co-founding Epoch in 2004 with Bill Priest, Tim Taussig and Phil Clark, David was a Managing Director and portfolio manager at Steinberg Priest & Sloane Capital Management, LLC where he was responsible for both institutional and private client assets. Previously, he held senior portfolio management positions at ING Furman Selz Asset Management and Citibank Global Asset Management where he managed mutual funds and institutional accounts. Prior to Citibank, David was an officer and senior analyst of BEA Associates, predecessor to Credit Suisse Asset Management -Americas. David holds a BS in Mechanical Engineering from the University of Pennsylvania and an MBA from The Stanford University Graduate School of Business.

Timothy T. Taussig – ***President & Chief Operating Officer***

Tim is President and Chief Operating Officer of Epoch Investment Partners. He oversees the day-to-day activities of the Finance, Operations, Compliance and Client Relations and Marketing groups. Prior to co-founding Epoch in 2004 with Bill Priest, David Pearl and Phil Clark, Tim was Chief Operating Officer of Trident Investment Management, an investment firm managing mutual funds and hedge funds. He was responsible for the firm's business management, operations, and marketing. Prior to joining Trident, he was Managing Director and member of the Global Executive Committee for Credit Suisse Asset Management and Co-Head of Marketing for Credit Suisse Asset Management worldwide where his management responsibilities included marketing, client services and e-commerce strategy across distribution channels. Before joining Credit Suisse's predecessor firm, BEA Associates, in 1985, he was a Director of Aetna Capital Management. Tim holds a BA from Dartmouth College and has completed investment courses at University of Pennsylvania's Wharton Graduate School of Business and at New York University's Leonard N. Stern School of Business.

Adam Borak, CPA – ***Chief Financial Officer***

Adam is Chief Financial Officer of Epoch Investment Partners, responsible for all financial , accounting and fiscal management aspects of the firm's operations. Prior to joining Epoch in 2005, he was a Director of Finance at Credit Suisse Asset Management-Americas, and its predecessor firm, BEA Associates. During his seven year tenure, he was responsible for the corporate finance function of the Firm's New York office. Prior to that, he was the Chief Financial Officer of Lehman Brothers Canada, Inc. and also worked for Lehman Brothers in New York. Adam began his career with PriceWaterhouse and is a Certified Public Accountant. He holds a BS in economics from the Wharton School of Business of the University of Pennsylvania.

Epoch Investment Team Biographies

Gretchen Amidon, CFA - ***Director, Global Portfolio Management***
Gretchen is a client portfolio manager for the global and non-U.S. equity strategies. Prior to joining Epoch in 2012, Gretchen spent five years with Neuberger Berman as product specialist for the global equity strategy, responsible for communicating investment policy, process and results to institutional and sub advisory channel clients, and consultants. Prior to Neuberger, she was an analyst covering various sectors including real estate with UBS Investment Research and Prudential Financial Equity Group. Gretchen holds a BA in Psychology from the University of Massachusetts and an MBA from Suffolk University. She holds the Chartered Financial Analyst designation.

William J. Booth , CFA – ***Director, Portfolio Manager & Research Analyst***
Bill is the director of non-U.S. research and is a global portfolio manager and equity research analyst. Bill joined Epoch in 2009 from PioneerPath Capital, which is a long/short equity hedge fund where he was a consumer and retail analyst. Prior to PioneerPath, he was a senior analyst at Level Global where he focused on the consumer and industrial sectors. He also held an equity research position at Louis Dreyfus Commodities and was a credit analyst with Citigroup. Bill holds a BS in Chemical Engineering from Yale University and an MBA from New York University's Leonard N. Stern School of Business. He holds the Chartered Financial Analyst designation.

Matthew W. Chan, CFA – ***Director, Senior Research Analyst***
Matt is a non-U.S. equity research analyst with a primary focus on Asian equities. Prior to joining Epoch in 2011, Matt was a global equity research analyst at Neuberger Berman, where he worked on Neuberger's developed and emerging market funds. Previously, Matt was a management consultant with McKinsey & Company and a semiconductor analyst with Merrill Lynch. Prior to Merrill Lynch, Matt was an analyst in the Technology Mergers & Acquisitions group at Robertson Stephens. Matt holds an AB in Applied Mathematics and Economics from Harvard University and a Masters of Engineering Management and an MBA from Northwestern University. He holds the Chartered Financial Analyst designation.

Eric Citerne, CFA, CPA – ***Managing Director, Portfolio Manager & Senior Research Analyst***
Eric is a portfolio manager for Epoch's International Small Cap and Global Small Cap strategies. Eric joined Epoch in 2008 from Evergreen Investment Management where he served as Vice President, Director and senior analyst, responsible for the investment of their international small cap and mid cap strategies. Eric was also a Vice President and analyst at Harbor Capital Management in Boston where he helped manage their international large cap portfolio. Prior to Harbor, Eric spent three years as a senior equity analyst at the Teacher Retirement System of Texas and three years as a financial analyst at the Public Utility Commission of Texas. Eric holds a BBA from University of Texas in Austin as well as an MBA from Southern Methodist University in Dallas. He holds the Chartered Financial Analyst designation and is a Certified Public Accountant.

Andrea Tasker Glogoff – ***Managing Director, U.S. Portfolio Management***
Andi is a member of the U.S. Equity team responsible for product management. Prior to joining Epoch in 2006, she spent four years as a Senior Product Manager at Goldman Sachs Asset Management, where she was responsible for articulating portfolio construction and strategy for the firm's growth, value and quantitative equity teams. Before Goldman Sachs, Andi spent eight years at Sanford C. Bernstein & Co., now part of AllianceBernstein, where she held positions in the institutional and private client marketing groups as well as on the global fixed income portfolio management team. She holds a BA in International Relations from Colgate University.

Matthew Herman – ***Senior Associate***
Matt is a member of the trade implementation and performance reporting team. He works closely with the portfolio managers and traders on implementing portfolio transactions. He is responsible for ensuring that portfolios are implemented consistently within investment strategies while remaining within each client's guidelines. Additionally, Matt is responsible for supporting the performance reporting effort at Epoch. Prior to joining Epoch in 2010, he worked in trade compliance at Franklin Templeton. Before that Matt worked in operations at Clay Finlay LLC where he specialized in trade processing and settlements. Matt holds a BS in Finance from Lehigh University.

Kenneth N. Hightower, PhD, CFA – ***Director, Quantitative Research & Risk Management***
Ken is an analyst on the Quantitative Research and Risk Management team. Prior to joining Epoch in 2007, he spent four years as a global equity quantitative analyst for Federated Global Investment Management. Before Federated, Ken worked for the SAS Institute as a Technical Associate for the econometrics and times series group. In addition, he taught econometrics classes at The University of North Carolina at Chapel Hill. Ken holds an AB in Mathematics and Economics and a PhD from The University of North Carolina at Chapel Hill. He holds the Chartered Financial Analyst designation.

Epoch Investment Team Biographies

Justin Howell, CFA – ***Vice President, Research Analyst***
Justin is a U.S. equity research analyst with a primary focus on the healthcare services and restaurant industries. Prior to joining Epoch in 2012, he spent nine years at JPMorgan Chase as a research analyst. Justin has experience in the consumer, financial services and healthcare services sectors. Previously he worked in the research department at FTN Midwest Research. Justin earned a BA in Business Administration from the University of Michigan and holds the Chartered Financial Analyst designation.

Michael Jin, CFA – ***Vice President, Research Analyst***
Michael is a global equity research analyst. His primary focus is on Epoch's U.S. and Global Equity Shareholder Yield strategies. Prior to joining Epoch in 2010, Michael was a Research Analyst at AllianceBernstein. Prior to Bernstein, Michael worked as a corporate finance consultant at McKinsey and a process engineer at Praxair. He received his MBA from the University of Chicago, an MS from SUNY Buffalo and Notre Dame and completed his undergraduate study at the University of Science and Technology of China. Michael holds the Chartered Financial Analyst designation.

Josepha Kaufman – ***Director, Research Analyst***
Josepha is a global equity research analyst. Prior to joining Epoch in 2010, Josepha was a senior analyst for six years for Michael Price at MFP Investors LLC. She worked as a global analyst covering primarily consumer, retail, industrials, special situations and conglomerates. Prior to MFP, she was an Associate for five years at Tanner & Co., Inc., a mergers and acquisitions boutique. Before Tanner, she was an investment banking analyst at Credit Lyonnais. Josepha received her BA from the University of Pennsylvania and MBA from Columbia University, Graduate School of Business.

Gary Low, CFA – ***Vice President, Research Analyst***
Gary is a global equity research analyst. His primary focus is on Epoch's U.S. and Global Equity Shareholder Yield strategies. Prior to joining Epoch in 2012, Gary worked as a global equities energy research analyst with Vontobel in Zurich and before that as a research analyst with Blackrock covering energy, pipelines, utilities, chemicals and metals and mining. Previously he held analyst roles with Credit Suisse and Delaware Investments. Gary holds an MA from Cambridge, England in Natural Sciences and Management Studies and an MBA from the University of Pennsylvania Wharton Graduate School of Business. He holds the Chartered Financial Analyst designation.

John Morgan – ***Managing Director, Senior Research Analyst***
John is a senior non-U.S. equity research analyst. Prior to joining Epoch in 2012, John spent 16 years at Putnam Investments where he was a senior vice president and co-manager of the Global Natural Resources Fund, which invested in energy, materials and industrials companies. He was also the senior chemicals and basic materials analyst for Putnam's international and global funds. Before joining the international team in 2006, John was the North American energy and basic materials analyst for Putnam's domestic funds. He holds a BA from Denison University and an MBA from The Johnson School at Cornell University.

Janet K. Navon – ***Managing Director, Portfolio Manager & Director of Research***
Janet is the director of U.S. Research and is a portfolio manager for Epoch's U.S. Small Cap, SMID Cap and Global Small Cap strategies. Prior to joining Epoch in 2007, Janet spent nine years as a senior analyst and co-portfolio manager at Steinberg Asset Management. Prior to Steinberg, she was a founding principal of Atlantic Asset Management where she was responsible for product development, sector strategies, and corporate security analysis. Janet's experience also includes investment management positions at Columbus Circle Investors and J.P. Morgan Investment Management where she coordinated quantitative portfolio strategies and new product development. Janet holds a BS from Georgetown University School of Foreign Service and an MBA from Columbia University, Graduate School of Business.

John P. Reddan, CFA – ***Managing Director, Senior Research Analyst***
John is a senior equity research analyst. Prior to joining Epoch in 2004, he was a senior equity analyst at Columbia Management Group responsible for research recommendations in the media/entertainment and online industries. Before Columbia Management, he was a senior investment analyst at Mark Partners for six years where he performed fundamental research on long and short investment ideas. Prior to joining Mark Partners, John held a similar position at Moran Asset Management where he provided both buy-side and sell-side research to investment policy committees, institutional brokerage clients, and the company's institutional sales force. He is a graduate of Siena College, and holds an MBA from Columbia University, Graduate School of Business. John holds the Chartered Financial Analyst designation.

Epoch Investment Team Biographies

Jason S. Root, CIPM – ***Director, Head of Performance Measurement & Portfolio Implementation***
Jason leads the performance measurement and portfolio implementation group for Epoch Investment Partners where he is responsible for transaction cost analysis, analyst attribution and administration of our soft dollar program. Prior to joining Epoch in 2006, he was at Allianz Global Investors of America L.P., where he was responsible for performance measurement, attribution, and maintenance of firm-wide GIPS® compliance. Jason's prior experience also includes senior performance analytics responsibilities at Citigroup Asset Management and Sanford C. Bernstein & Co. Jason holds a BA in Accounting from the University of Wisconsin – Madison. He is a CIPM certificate holder.

Eric Sappenfield – ***Managing Director, Portfolio Manager & Senior Research Analyst***
Eric is a portfolio manager for Epoch's U.S. and Global Equity Shareholder Yield strategies. Prior to joining Epoch in 2006, he was a research analyst at Spear Leeds & Kellogg where he was responsible for credit/risk assessment. Previously, he was a senior analyst at Steinberg Priest & Sloane Capital Management, LLC focusing on high yield bonds and equities of leveraged companies. Eric's additional experience includes senior analytical roles at The Carlyle Group, Travelers, and Bankers Trust. Eric holds a BA degree from Stanford University and an MBA from UCLA Anderson School of Management.

David J. Siino, CFA – ***Managing Director, Senior Research Analyst***
David is a senior equity research analyst. Prior to joining Epoch in 2007, he was a research analyst with Gabelli & Company where he was responsible for covering the financial services sector, overseeing the automotive sector research team and making buy/sell recommendations for the Gabelli mutual funds. Before joining Gabelli & Company, David was an Assistant Research Director for Barron's Business and Financial Weekly. David holds a BA from Hofstra University and an MBA from Baruch College. He holds the Chartered Financial Analyst designation.

Timothy Sledge, CFA – ***Vice President, Research Analyst***
Tim is a non-U.S. equity research analyst with a primary focus on the financial services sector. Prior to joining Epoch in 2011, Tim was a principal and sector research team leader at Bessemer Trust Company, where he worked on Bessemer's global financials team. Previously, Tim was a junior analyst with Sanford C. Bernstein, covering the insurance sector. Prior to Sanford C. Bernstein, he was a manager of institutional research at Davis Advisors. Tim holds a BA in Economics and English from the University of Pennsylvania. He holds the Chartered Financial Analyst designation.

Jeffrey A. Smith – ***Director, Research Analyst***
Jeff is a U.S. equity research analyst. Jeff joined Epoch in 2008 after seven years at AllianceBernstein, where he was a Vice President and global equity research analyst. At Bernstein, Jeff was primarily responsible for research coverage of cyclicals in the U.S. and emerging markets. He made buy/sell recommendations for both long and short positions. Jeff holds a BSE from Princeton University and an MBA from the University of Chicago Graduate School of Business.

Mark H. Strauss – ***Managing Director, Head of Trading***
Mark leads the trading effort at Epoch Investment Partners and is primarily responsible for trading U.S. securities. Prior to joining Epoch in 2004, Mark spent 18 years as Head Trader at Steinberg, Priest and Sloane Capital Management, LLC where he oversaw all trading functions and participated as a member of the investment committee. His duties included trading both U.S. and non-U.S. securities. Mark holds a BA from Oneonta State University of New York and completed graduate work at Pace University in New York.

John M. Tobin, PhD, CFA - ***Director, Senior Research Analyst***
John is a senior global equity research analyst. His primary focus is on Epoch's U.S. and Global Equity Shareholder Yield strategies. Prior to joining Epoch in 2012, John taught undergraduate economics as a lecturer at Fordham University. Before that he spent four years at HSBC Global Asset Management as a senior research analyst and almost twenty years at Credit Suisse Asset Management where he was a senior research analyst for the U.S. High Yield Bond team. Previously he worked at Bankers Trust Company where he began his career. John received AB, AM and PhD degrees in Economics from Fordham University and holds the Chartered Financial Analyst designation.

Epoch Investment Team Biographies

Douglas Van Gorp – ***Vice President, International Trader***
Doug leads the non-U.S. trading effort for Epoch Investment Partners. Prior to joining Epoch in 2011, he was a senior trader and analyst with the State of Wisconsin Investment Board. Doug's prior experience includes being head trader at Deephaven Capital Management where he was responsible for a fundamental global long/short strategy. Doug holds a BA in Finance from the Carlson School of Management at the University of Minnesota.

Kera Van Valen, CFA – ***Vice President, Research Analyst***
Kera is a global equity research analyst. Her primary focus is on Epoch's U.S. and Global Equity Shareholder Yield strategies. Prior to joining the Global Equity team Kera was an analyst within Epoch's Quantitative Research & Risk Management team. Before joining Epoch in 2005, she was a portfolio manager of Structured Equities and Quantitative Research at Columbia Management Group where she was responsible for the day-to-day management of two index funds. She also spent time at Credit Suisse Asset Management -Americas. Kera received her BA in Mathematics at Colgate University and her MBA at Columbia University, Graduate School of Business. She holds the Chartered Financial Analyst designation.

Richard Watt – ***Managing Director, Global Portfolio Management***
Richard leads non-U.S. and global equity product management. Prior to joining Epoch in 2007, Richard spent four years as Executive Vice President of U.K.-based Schroders Investment Management where his responsibilities included consultant relations, client service and sales for domestic and international equity, fixed income and alternative products. Prior to Schroders, he worked at Credit Suisse Asset Management as Head of Emerging Markets and President of CSAM's closed-end investment funds responsible for managing a variety of investment products for clients located globally. Richard has held positions as a portfolio manager with Gartmore and Kleinwort Benson, in London in emerging market equities. He began his career in Edinburgh, Scotland in 1982. He holds an MA Joint Honors Degree in History and Politics from the University of Edinburgh.

Michael A. Welhoelter, CFA – ***Managing Director, Portfolio Manager & Head of Quantitative Research & Risk Management***
Mike is Epoch's Chief Risk Officer and heads Epoch's Quantitative Research and Risk Management team. He is also a portfolio manager on all of Epoch's strategies. He is responsible for integrating risk management into the investment process. Prior to joining Epoch in 2005, he was a Director and portfolio manager in the Quantitative Strategies Group at Columbia Management Group, Inc. In this role, he managed over $5 billion in mutual funds and separately managed portfolios. Prior to joining Columbia Management Group, he was at Credit Suisse Asset Management Group ("CSAM"), where he was a portfolio manager in the Structured Equity group, overseeing long/short market neutral and large cap core products. Before joining CSAM, he was a portfolio manager and quantitative research analyst at Chancellor/LGT Asset Management. Mike holds a BA degree in Computer and Information Science from Colgate University. He is a member of the New York Society of Security Analysts, the Society of Quantitative Analysts and holds the Chartered Financial Analyst designation.

Chris H. Wolters, CFA – ***Managing Director, Senior Research Analyst***
Chris is a senior equity research analyst. Prior to joining Epoch in 2006, he was a senior analyst/portfolio manager for two years with Cobble Creek Management, a long/short hedge fund. Previous to that position, he was a senior equity analyst at First Manhattan focusing on special situations. Chris gained additional analytical experience with positions at Oscar Gruss and Son and Standard & Poor's. He received a BME in Mechanical Engineering from the University of Delaware and an MBA from New York University's Leonard N. Stern School of Business. He holds the Chartered Financial Analyst designation.

Epoch Client Relations Team Biographies

Carmen Abramian – ***Vice President,* Client Service**
Carmen is a member of the client service team at Epoch Investment Partners with primary responsibility for day-to-day service of institutional, sub-advisory and high net-worth clients. Prior to joining Epoch in 2010, Carmen worked at Capital Guardian where she coordinated all aspects of client service and was a key contact for institutional organizations including major corporations, endowments, foundations and Taft-Hartley clients. Carmen holds a BA from UC Berkeley.

William E. Connolly, CFA – ***Managing Director, Client Relations***
Bill leads the overall business development effort for Epoch Investment Partners, Inc. Prior to joining Epoch in 2011, Bill spent 12 years at Pzena Investment Management most recently as North American Director of Business Development & Client Services. He started his career at SEI Investments in the Insurance Consulting Group then later as a Marketing Director in the Institutional Asset Management Group where he was responsible for new business development and client service. Bill earned his B.A. in Economics from the University of Virginia and holds the Chartered Financial Analyst designation.

William J. Makris – ***Managing Director, Institutional Client Relations***
Bill is responsible for leading Epoch's institutional business development efforts in the western region of the U.S. and Canada. Prior to joining Epoch in 2012, Bill spent 19 years with Franklin Templeton Investments where he was responsible for institutional business development for the firm's various investment management capabilities. He brings many years of experience working with corporate retirement plans, public funds, foundations, endowments, and other institutional investors. Bill holds a BS from San Francisco State University and an MBA from the University of San Francisco.

Robert V. Martin IV – ***Vice President, Consultant Relations***
Rob is a member of the consultant relations group. He is responsible for servicing and developing Epoch's consultant relations effort. Prior to joining Epoch in 2004, he spent four years as an Associate at Sanford C. Bernstein & Co., now part of AllianceBernstein, where he held positions with the Private Client Services group and the New Business Development group. Previously, Rob supported the Healthcare Research team at Goldman Sachs. Rob holds a BA in Finance from the University of Georgia.

Thomas Pernice – ***Managing Director, Client Service***
Tom leads the client service effort at Epoch Investment Partners, bringing extensive client relationship experience to the role. Prior to joining Epoch in 2006, Tom led the client service effort at Forstmann-Leff. Before that, Tom spent 23 years at JP Morgan Fleming Asset Management where he directed the firm's institutional client service group and managed a number of major relationships for the firm. Tom holds a BA from Stony Brook University and completed investment courses at New York University's Leonard N. Stern School of Business.

John P. Reynolds – ***Managing Director, Consultant Relations***
John leads the consultant relations effort at Epoch Investment Partners. John has extensive experience in institutional marketing and consultant relations. Prior to joining Epoch in 2010, he was Director of Institutional Business Development for TD Asset Management. Before TD Asset Management, John worked in senior consultant relations roles at BNY Mellon Asset Management and a predecessor firm, Pareto Partners. Earlier, he worked in consultant relations and was Director of Institutional Marketing at Brown Brothers Harriman and Co. He began his investment career in institutional sales for Salomon Brothers Inc in both New York and Chicago. John holds a BA in both Economics and Government from Manhattan College.

Andrew G. Tuite – ***Director, Institutional Client Relations***
Andrew is responsible for Epoch's institutional business development efforts. Andrew has extensive experience in institutional marketing covering the plan sponsor community. Prior to joining Epoch in 2010, he held a similar position at BNY Convergex, a transition management and brokerage services firm partially owned by Bank of New York Mellon. Prior to Convergex, he was employed at Lynch Jones & Ryan, Phoenix Wealth Management and Magna Securities. Andrew holds a BA from Manhattan College and an MBA in finance from the University of Notre Dame.

Epoch Client Relations Team Biographies

Jeffrey M. Ulness – ***Managing Director, Sub-Advisory Relations***
Jeff leads the sub-advisory business relationship effort at Epoch Investment Partners. Prior to joining Epoch in 2004, he held a similar position at Forstmann-Leff. Earlier, he was at Deutsche Asset Management where he was Co-Head of the Financial Institutions Group and the Director of Sales for Third Party Insurance. Prior to Deutsche, Jeff spent eight years at American Skandia Life. His responsibilities included Counsel to Securities and Markets and later he became a member of Skandia's Global Investment Committee, Head of Global Fund Manager Relations and Head of Asset Management Product Development. For three years prior to joining Skandia, Jeff was Counsel at Manulife Financial of Canada. He has also served with the SEC's Division of Investment Management. He holds a JD and BA from University of North Dakota and an LL.M Securities Regulations from Georgetown University Law Center. Jeff also served 13-plus years in the Army National Guard, the majority in a leadership capacity as an officer in the Medical Service Corps and Engineer Corps.

John Wachter – ***Director, Marketing Communications***
John is the Director of Marketing Communications for Epoch Investment Partners. He has extensive experience in both institutional and retail investment management marketing and client communications. Prior to joining Epoch in 2011, John spent 13 years at Capital Guardian where he was a Senior Communications Manager. He previously held marketing communication roles with JP Morgan, Dreyfus and Van Eck. John holds a BS in business administration and psychology from SUNY Oswego.

Epoch Compliance and Operations Team Biographies

Edward Azimi – ***Managing Director, Director of Operations***
Ed is the Director of Operations for Epoch Investment Partners. He oversees the day-to-day activities of the Operations team such as settling trades, performing portfolio accounting and conducting foreign exchange transactions. Prior to joining Epoch in 2006, Ed spent eight years at Cramer Rosenthal McGlynn, LLC, a value-oriented investment advisory firm. As the Director of Operations and Principal of the firm he oversaw the daily operational functions for the firm's proprietary hedge funds and private equity funds. Ed also served as a member of the firm's Compliance and Alternative Investments committees. Prior to joining Cramer Rosenthal McGlynn, Ed was a Performance Analyst at Effron PSN (now Informa Investment Solutions) and a Staff Accountant with Reed Elsevier. Ed holds a BA degree in Finance from Pace University and an MBA from the Lubin School of Business.

Curt Banos, CPA – ***Director and Controller***
Curt is the Corporate Controller, overseeing the Firm's accounting and financial reporting, as well as corporate tax matters. Prior to joining Epoch in 2006, he held several SEC reporting and tax positions in the financial services industry for companies including Evercore, American Express Tax and Business Services, and the New York Mercantile Exchange ("NYMEX"). At NYMEX, Curt spent eight years in positions as assistant controller and director of accounting and taxation. He has eleven years of public accounting experience, including three as an audit supervisor with Grant Thornton. He began his career as an internal auditor with HSBC. Curt is a Certified Public Accountant and holds an MBA in Finance from Fordham University. He is a member of the American Institute of Certified Public Accountants, the Tax Executives Institute, and the New York State Society of Certified Public Accountants ("NYSSCPA"). Curt also served on the SEC Practice Committee of the NYSSCPA.

David Barnett – ***Managing Attorney & Chief Compliance Officer***
David is Managing Attorney and Chief Compliance Officer for Epoch Investment Partners. Prior to joining Epoch in 2010, David was the General Counsel and Chief Compliance Officer at two hedge funds, Valhalla Capital and JL Advisors. Previously, he served as Chief Compliance Officer for alternative asset management firm, J.H Whitney, LLC and SAC Capital Advisors, LLC. His additional experience includes working in the legal and compliance departments at JP Morgan and Salomon Smith Barney as well as working for the SEC in the Enforcement Division. David holds a BA from the University of Michigan and a JD from Brooklyn Law School.

Neeraj Garg – ***Director, Business Administration & Assistant Compliance Officer***
Neeraj is the Director of Business Administration and is responsible for managing business infrastructure and compliance matters for the firm. Prior to joining Epoch in 2005, Neeraj was a Senior Manager at Deloitte Consulting, where he consulted with a range of clients on strategy and operations engagements for the Financial Services Group in New York. In addition to client engagements, Neeraj had extensive involvement in the development of the firm with experience in business strategy, revenue planning and staff development. Neeraj began his career at Andersen Consulting where he consulted with clients on process and technology matters, with the goal of improving business operations. Neeraj holds an MBA from UCLA Anderson School and a BS in Computer Science & Engineering from the University of Connecticut.

Mark McGowan – ***Managing Director, Chief Technology Officer***
Mark is the Chief Technology Officer ("CTO") of Epoch Investment Partners. Before joining Epoch in 2007, Mark was the CTO of NOBOK, Inc, a startup sports media company. Prior to joining NOBOK, Mark held several senior roles at Time Warner Cable. During his tenure with TimeWarner, he took a six-month sabbatical and worked for the Department of Justice ("DOJ") on their Personal Key Infrastructure implementation across all DOJ components. His other prior experience includes being a co-founder of a technology services startup, iO2 Group and working for Integic, a division of Northrop Grumman. Mark is a graduate of the University of Vermont, has an MBA from The George Washington University and an MS in the Management of Information Technology from the University of Virginia. Mark also has a Masters Certificate in Project Management from The George Washington University.

Maryanne Sharkey, CPA – ***Director, Finance & Administration***
Maryanne is responsible for financial reporting and business management functions at Epoch. Prior to joining Epoch in 2006, she spent six years at Credit Suisse Asset Management Americas and held the positions of Vice President and Financial Controller in the corporate finance department of the firm's New York office. Prior to that, Maryanne was an Accounting Manager at Prudential in the global asset management division. Maryanne began her career in public accounting with experience in audit and tax. She holds a BS in Business Administration with an Accounting concentration from Monmouth University and is a Certified Public Accountant.

Epoch Independent Board of Directors' Biographies

Allan R. Tessler – *Chairman*

Allan R. Tessler has served as the Chairman of the Board of Epoch Holding Corporation since the firm's inception in 2004. He has been Chairman and Chief Executive Officer of International Financial Group, Inc., an international merchant banking firm since 1987. He was Co-Chairman and Co-Chief Executive Officer of Interactive Data Corporation (formerly Data Broadcasting Corporation), a securities market data supplier, from June 1992 through February 2000. From 1986 through 2001, Mr. Tessler was a Co-Founder and Chairman of the Board of Enhance Financial Services Group, Inc., a public insurance holding company, and was Chairman of the Board of Great Dane Holdings Inc., a private diversified holding company, from 1987 through December 1996. He presently is also a director of Limited Brands, Inc. and TD Ameritrade Holding Corporation. He serves as Chairman of the Board of Trustees of the Hudson Institute and is a member of the Board of Governors of the Boys & Girls Clubs of America. Mr. Tessler received his undergraduate degree from Cornell University and L.L.B. from Cornell University Law School.

Enrique Arzac, Ph.D.

Dr. Enrique Arzac has served as a director of Epoch Holding Corporation since 2006. He is a Senior Professor of Finance and Economics at the Columbia University Graduate School of Business and the Co-Director of the Mergers and Acquisitions program for executives, jointly offered by Columbia and the London Business School. He is the author of the book, *Valuation for Mergers, Buyouts and Restructuring*, and has published many articles in finance and economic journals. He has been a financial consultant to the United Nations Conference on Trade Development, the State of New Jersey and several U.S. and foreign corporations and financial institutions. Dr. Arzac is presently a director of The Adams Express Company, Petroleum & Resources Corporation, Credit Suisse closed-end funds, Credit Suisse U.S. Institutional funds, Aberdeen closed-end funds and Mirae Asset Discovery Funds. Prior to joining Columbia in 1971, Dr. Arzac taught at the University of Buenos Aires. He holds a CPN from the University of Buenos Aires and an M.B.A., M.A., and Ph.D. from Columbia University.

Jeffrey L. Berenson

Jeffrey L. Berenson has served as a director of Epoch Holding Corporation since the firm's inception in 2004. He is Chief Executive Officer of Berenson & Company, Inc., a privately owned independent investment banking firm headquartered in New York City that he co-founded in 1990. From 1978 until founding Berenson & Company, he was employed by Merrill Lynch & Company, and served at various times as head of Merrill Lynch's Mergers and Acquisitions Group and co-head of its Merchant Banking unit. Mr. Berenson is presently a director of Noble Energy, Inc. He graduated with a B.A. from Princeton University.

John L. Cecil

John L. Cecil has served as a director of Epoch Holding Corporation since 2009. He is a private investor, and since 2005 has served as an advisor to a number of financial services institutions, including Lehman Brothers, the New York Stock Exchange, and Neuberger Berman. Mr. Cecil served as Chairman of CP Kelco, a privately-held specialty chemicals company beginning in 2001. He was the Chief Financial and Administrative Officer of Lehman Brothers Holdings Inc. from 1994 until 2000. Mr. Cecil was also a member of the Lehman Brothers' Operating and Executive Committees. Prior to Lehman Brothers, he was a Director in the New York City office of McKinsey & Company, Inc. He joined McKinsey in 1980, was elected partner in 1986, and was a Director from 1991 through 1993. He graduated with honors from Princeton University in 1976 with an A.B. in public and international affairs from the Woodrow Wilson School. He graduated from Harvard Law School with a J.D. Magna Cum Laude in 1980 and, the same year, received his M.B.A. from Harvard Business School, graduating as a Baker Scholar. He is a Senior Vice Chairman of the Board of Directors of Graham-Windham Agency and is also on the Board of Directors of The Graham School (a New York Special Act Public School). He is a member of the Advisory Council of the Bendheim Center for Finance at Princeton University. Mr. Cecil also serves on the Wildlife Conservation Society's Global Conservation Council.

Peter A. Flaherty

Peter A. Flaherty has served as a director of Epoch Holding Corporation since the firm's inception in 2004. He has been Managing Director of Arcon Partners, LLC, a private investment firm, since 2005, and is currently a Director Emeritus of McKinsey & Company, Inc., which he joined in 1975. At McKinsey, Mr. Flaherty worked predominantly with financial services institutions, as well as media and information companies. He is active in private investments and for many years served on and led McKinsey's Investment Advisory Committee, which is responsible for pension and discretionary partner investments, with a particular focus on alternative investments. Mr. Flaherty is a graduate of Stanford University, the Johns Hopkins School of Advanced International Studies and the Harvard Business School. He serves on the Boards of The Rockefeller University, The Foreign Policy Association, The Kenyon Review, and TechnoServe. He serves as Chairman of the Advisory Council of the Johns Hopkins School of Advanced International Studies and is a member of the Council on Foreign Relations.

Disclosures

1. Sources: FactSet Research Systems, Inc.; Epoch Investment Partners, Inc.; Russell Investments; Standard & Poor's; Barclay's; and MSCI Inc.
2. Portfolio performance returns are presented before management fees but after all trading expenses. Portfolio performance returns are based upon trade date accounting and include the reinvestment of all interest, dividends and all realized and unrealized gains and losses. Portfolios are valued daily and monthly rates of return are calculated by geometrically linking daily rates of return. Portfolio performance is presented net of nonreclaimable withholding taxes. Quarterly, annual and annualized periods are calculated by geometrically linking monthly and quarterly rates of return, respectively. Returns are annualized for periods greater than 1 year. Periods less than 1 year are cumulative, unless otherwise noted. All attribution measures are generated using holdings-based (buy/hold) attribution. Transactions and associated costs may be a significant factor in the portfolio performance return and are ignored in buy/hold attribution measures. Therefore, the attribution measures will differ from the portfolio performance returns. Additional information regarding policies for calculating and reporting performance returns or attribution measures is available upon request.
3. All data is unaudited and may change at any time. The data is shown for informational purposes only and is not indicative of future portfolio characteristics or returns. Past performance is not indicative of future results. The securities discussed are not intended to be, and are not, an indication to buy, sell, or hold. Rather, the securities are mentioned to give insight into the largest contributors to performance and the largest detractors from performance so that clients and prospective clients can more readily obtain an understanding of the risk characteristics of the portfolio and the portfolio management process followed by Epoch.
4. Reference to an index does not imply that the portfolio will achieve returns, volatility or other results similar to the index. The composition of the index are provided for your information only and may not reflect the manner in which a portfolio is constructed in relation to expected or achieved returns, portfolio guidelines, restrictions, sectors, correlations, concentrations, volatility or tracking error targets, all of which are subject to change over time. Indices are unmanaged. The figures for the index reflect the reinvestment of dividends but do not reflect the deduction of any fees or expenses which would reduce returns. Investors cannot invest directly in indices.
5. The Selection Effect impact information has been consolidated with the Interaction Effect. The Interaction Effect is the portion of the active return attributed to combining allocation decisions with relative performance (strength of manager's convictions).
6. Contribution to Performance measures the impact that each security has on the portfolio's total return. It is calculated (using daily holding information within FactSet) by multiplying the beginning weight for a given security by its total return on a daily basis, and is geometrically linked for extended time periods.
7. Market Capitalization is the market value of a company's stock, which gives a picture of the company's size. Market capitalization is calculated by multiplying the price of shares by the number of shares outstanding.
8. Dividend Yield is asset-weighted average of the dividend yields of all the stocks in the fund's portfolio as of the date of the portfolio. A stock's dividend yield is calculated by dividing estimated annual regular dividends per share for the current fiscal year by the company's month-end stock price as of the portfolio date.
9. Portfolio Turnover rate measures the Fund's buying and selling activity during the past twelve months. It is computed by dividing total purchases or sales, whichever is less, by the average monthly market value of the Fund's portfolio securities.
10. This account statement has been provided to you by Epoch Investment Partners, Inc. We urge you to compare this account statement to the account statement you receive from your custodian. If you do not receive account statements from your custodian, please contact your custodian to establish regular account reporting.
11. MSCI, EAFE, and the names of all MSCI indices are the servicemarks of MSCI Inc. The Russell 1000® Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell 2000® Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 2500® Index, Russell 2500 Value Index, Russell 2500 Growth Index, Russell 3000® Index, Russell 3000® Value Index, and Russell 3000® Growth Index are the registered trademarks or tradenames of Russell Investments. Standard & Poor's ®, S&P, Standard & Poor's 500, S&P 500®, are trademarks of The McGraw-Hill Companies, Inc. Barclays and all Barclays indices are servicemarks of Barclays PLC. Global Industry Classification Standard (GICS), GICS and GICS Direct are servicemarks of MSCI and Standard and Poor's.

Appendix III

Epoch Whitepaper – Euro Crisis

EPOCH | Epoch Investment Partners, Inc.

AUGUST 23, 2012

Our Thoughts on the Euro Crisis

WILLIAM W. PRIEST, CEO, CO-CIO & PORTFOLIO MANAGER
ERIC SAPPENFIELD, MANAGING DIRECTOR, PORTFOLIO MANAGER & SENIOR RESEARCH ANALYST
JOHN TOBIN, DIRECTOR, SENIOR RESEARCH ANALYST

For more than two years now, the sovereign debt crisis in Europe has been a major source of uncertainty and volatility in world financial markets. Clearly, it is impossible to invest today without some perspective on this issue. What follows is our analysis and assessment of the crisis and the possible outcomes. We'll take a stab at answering the questions we would all like to have answered: How does it end? When does it end?

First, a look back at how we got here. It is important to recognize that this story actually begins immediately after World War II. The European continent has been travelling down the path of greater economic integration for more than sixty years. It started with the formation of the European Coal and Steel Community in 1950, followed by the Treaty of Rome establishing the European Economic Community ("the Common Market") in 1957, and continued with the Maastricht Treaty in 1992 setting out the plan for a monetary union, and the establishment of Economic and Monetary Union (the "euro") in 1999. Throughout, the guiding goal and objective has been to foster an environment that allows the free movement of goods, services, capital, and people. The European Union really was conceived as a way to bring to an end centuries of war and conflict on the Continent. To form an opinion about how the current crisis is handled and resolved, then, requires an opinion regarding how strongly attached Europeans are to this fundamental idea. Likewise, the statements of current European leaders that they will do whatever it takes to preserve the euro should be seen in the context of this history.

It sounds like a wonderful idea: peace and prosperity through economic cooperation and interdependence. And, it seemed like everything was going fine until just recently. So what went wrong in 2010? In order to implement the conversion to a single currency, and to assuage concerns among the original participants that all the members would follow sound and prudent fiscal principles, a set of "convergence criteria" were laid out in the Maastricht Treaty of 1992 that constituted a sort of "entrance exam." All those who wished to enter the euro zone were required to demonstrate compliance with standards for inflation, interest rate stability, exchange rate stability, budget deficits, and overall debt. The last two were specified to mean budget deficits no more than 3% of GDP and debt no more than 60% of GDP. Once admitted to the euro, the Stability and Growth Pact (1997) required continued compliance with these standards. In practice, however, it was always a challenge to adhere to these rules. In the early 2000s, France, Germany, Italy, and the Netherlands (among others) breached the deficit ceiling. The truth is that for several years and for several euro zone members, the euro zone's fiscal rules were interpreted more as guidelines than rules, and the markets showed no particular concern with modest "misses."

The real catalyst for the crisis was the revision in February 2010, by newly-elected Greek President George Papandreou, of the 2009 budget deficit for Greece: from 5% of GDP to 12.7% of GDP. Greece, it turned out, was fiscally a mess, and now the world knew just how over-extended they were. The immediate result was a crisis of confidence, a dramatic widening of the spread between Greek bonds and benchmark German bunds, an inability for Greece to access capital markets, and an IMF-led bailout in May of 2010. It's been downhill ever since, with bailouts for Portugal and Ireland following Greece, a full-blown debt restructuring for Greece in early 2012, euro-wide recession, austerity, and political upheaval.

So where do we go from here? Broadly, there are three possible scenarios:

1. The "United States of Europe." This is the best-of-all-possible-worlds outcome and the least likely to happen, we would argue. In this utopian vision for Europe, all parochial differences are set aside to advance the primary goal of achieving full fiscal union to match the monetary union begun in 1999. European leaders agree that the euro is irreversible, and that a break-up is inconceivable. The euro zone nations agree to cede fiscal autonomy to Brussels. Treaties are amended to provide for a banking union, euro zone-wide deposit insurance, the issuance of eurobonds representing joint and several liability by all members, plus a euro zone treasury assessing taxes on euro zone members.

2. Euro breakup. This is the "Atlas Shrugged" scenario where Germany and other northern tier euro members finally decide that enough is enough, that the common currency was a mistake from the beginning, and that it no longer makes economic sense to participate in a one-sided "union" that necessitates a continuing and open-ended transfer of wealth from North to South. While not the most likely scenario, we cannot rule out the possibility that the grand experiment fails.

3. The euro survives, but the road is bumpy. In this scenario, which we think is the most likely, European leaders agree that the euro is irreversible and that a breakup is inconceivable. There is even agreement on what the ultimate European model should look like: more fiscal coordination, more power vested in Brussels, some form of eurobond. But progress is slow and tortured, with false starts and missteps. If the motto for the first option is a cheery "one for all and all for one," we might suggest the motto for this scenario is the grudging and fatalistic "live together, die alone."

To elaborate further, scenario two is possible but not the most likely because it requires an objective and dispassionate cost-benefit analysis. That is, euro members will support the euro only if the economic benefits justify the costs, and as soon as the scales tip to the cost side, support will evaporate. The problem with this scenario is that it ignores an emotional commitment to European unification. It ignores sixty years of history (and all the European history before WWII).

Scenario three is most likely, we would argue, because of the historical forces outlined earlier as well as the growing realization that there really is no going back. Even if Germany and the Netherlands and

Luxembourg wish they could go back in time and elect to remain out of the euro, they realize (or, are coming to the realization) that it's too late now. The costs associated with a breakup are too great. If Germany "shrugged" like the Atlas in Ayn Rand's novel, the collapse of peripheral economies would devastate the German economy. While there are those in Germany who seem to think they can turn their backs, batten down the hatches, and let fortress Germany ride out the storm, there is no way to stand aside and let the rest of Europe fall since there is no safe place to stand. The gravitational pull from the collapsing periphery would drag down the center as well.

So, how exactly does scenario three play out? We think the statement issued by Mario Draghi, Chairman of the European Central Bank, following the meeting of the ECB's Governing Council on August 2, 2012, offers some concrete guidance (contrary to initial first impressions). The key, it would seem, is the idea that access to the European Stability Mechanism (the organization set to replace the euro zone's temporary funding programs for troubled member nations) requires a formal application and the execution of a Memorandum of Understanding. This is a concession to German objections about "moral hazard," that ECB bond buying only takes the pressure off of political leaders to pursue fundamental reform. Thus, we read on the following day that a member of German Chancellor Angela Merkel's coalition described Draghi's proposal as a "wise middle way," and then on the following Monday the statement from a spokesperson in Merkel's government that the government is "not worried by Draghi's announcement."

A possible timeline, then: Germany ratifies the ESM in September following a favorable ruling by the Constitutional Court currently evaluating the ESM's constitutionality (admittedly a wild card since there is really no way to predict how a judge will rule). The ESM is then funded, Spain files a formal application and signs the required MoU committing to specified reforms. (Having already asked for and received a €100 billion bank bailout, Spanish resistance to such a step will be muted. Besides, they will only be agreeing to do what they have already agreed to do). The ECB, as outlined by Draghi, can then enter the market, buying short-term Spanish bonds. The combination of ESM funds and ECB buying relieves concerns about Spain, and Italy as well by extension. The ability of Spain and Italy to continue to tap markets to meet refinancing needs is assured, as is their commitment to fundamental economic reforms. Having bought time, work begins and progresses on the establishment of a banking union. At the same time, creative and nuanced ideas for a common eurobond begin to get fleshed out until a version emerges that is palatable to German sensitivities.

For the next few months, then, the crisis is contained. Is this the end of the euro crisis? Alas, no. We suspect that there will be continued volatility and headline risk. Progress will be uneven, and there will surely be setbacks. In particular, we think the ultimate status of Greece in the euro zone remains an open issue. Once Spain has formally applied for relief from the ESM, eyes will turn to Italy to see what they will do. And, of course, what brought the crisis to light was the vast accumulation of public debt, which must be addressed. An outcome that makes the debt of sovereign nations a mutual obligation will make it more manageable, but it will not make it go away. As we have outlined in other papers, the total debt for the region has the potential to be a drag on economic growth for many years.

So, how does this affect investment decisions? To begin with, it's worth reminding ourselves that equities still offer investors the best opportunity for long-term gains. Despite the euro zone's travails and its sputtering economy, global economic growth is still expected to be positive. The World Bank expects real GDP to grow by 2.5% this year and 3% next year. That should lead to earnings growth. Over long periods, nominal GDP growth and earnings growth are correlated. Corporate earnings ultimately capture productivity and inflation, giving equities an advantage over other asset classes.

But in volatile times, sound portfolio construction and continuous risk management are critical to preserve capital and achieve investment goals. Since the crisis began we have regularly examined the portfolio's we manage and their exposure to euro zone economies. Our primary focus has been on the sources and uses of free cash flow. Companies with the ability to grow free cash flow tend to be less volatile. We favor companies with competitive advantages that can create a greater degree of certainty around free-cash-flow growth. But we also look for risks, such as economically sensitive business models, particularly at a time when the euro zone economy is contracting. We are also sensitive to risks specifically associated with the three scenarios we have outlined, including the potential breakup of the euro. These include capital flight, currency swings, further write-downs of sovereign debt and new taxes on certain industries to bolster government coffers. In a limited number of instances, we have already exited some positions in light of these threats.

How free cash flow is used is just as important. We expect the companies we invest in to make decisions in a disciplined way, based on their cost of capital. If reinvesting in the business or making an acquisition makes sense on that basis, then we would view that as a legitimate use of free cash flow. If not, we expect a significant portion of free cash flow to be returned to investors in the form of dividends, share buybacks or debt reduction — what we refer to as *shareholder yield.*

In the euro scenario we describe as being the most likely, the accompanying environment is one of slow growth and continued market volatility. Those factors, along with interest rates that have little room to decline further, make it unlikely for price-to-earnings ratios to meaningfully expand. That will make returning cash to shareholders a larger component of equity returns in the coming years. And companies with that mindset will continue to attract investors, especially those who have income requirements unfulfilled by current bond yields and those who take comfort in a steady stream of income as a buffer in a world of volatile stock prices.

The Carlyle Group **EIG Global Energy Partners** **The TCW Group**

News Release

For Immediate Release
January 16, 2013

TCW, EIG, Carlyle Reach Agreement, Clearing Way for Closing of Transaction

EIG Fully Supports Carlyle and Management Acquisition of TCW and Will Assist in Securing Investor Consents

Los Angeles, CA, and Washington, D.C. –The TCW Group (TCW), an international asset management firm, EIG Global Energy Partners ("EIG"), a leading institutional investor to the global energy sector, and global alternative asset manager The Carlyle Group (NASDAQ: CG) today jointly announced an agreement under which EIG is now supportive of the acquisition of TCW by investment funds affiliated with Carlyle and TCW management.

Under terms of the agreement, EIG is publicly supporting – and will assist TCW in securing investor consents for – the transaction. TCW will maintain its economic interest in existing EIG-managed funds, while EIG will assume full management responsibility for the Funds as general partner and investment manager. EIG will acquire TCW's economic interest in future EIG-managed Funds, completing the consensual spin-off from TCW that was announced in January 2011. The TCW-Carlyle transaction remains on track to close in the near future.

"We are very pleased to have reached this agreement to move forward together with EIG in support of the Carlyle transaction," said David Lippman, TCW President and CEO. "The agreement protects the interests of investors in the Energy Funds, allows TCW to maintain its economic interest in the existing Funds, and guarantees that EIG's investment team will continue to manage the Funds as it has in the past."

Said EIG Founder Blair Thomas, "We are supportive of TCW's acquisition by Carlyle and TCW management and will assist in its completion. With this agreement, the interests of our Fund investors are fully protected and the same professionals will continue to manage the Funds. This completes our consensual spin-off from TCW, begun two years ago, and we are excited to move forward as a fully independent company."

Carlyle Managing Director Olivier Sarkozy said, "This agreement is a win for everyone involved and we are pleased to move forward to closing. TCW is a great company and we look forward to partnering with management in TCW's new chapter as an independent asset manager."

About TCW
Founded in 1971, The TCW Group, Inc. develops and manages a broad range of innovative, value-added investment products that strive to enhance and protect clients' wealth. The firm has approximately $138 billion in assets under management, including $50 billion in mutual

funds under the MetWest and TCW Fund families. TCW clients include many of the largest corporate and public pension plans, financial institutions, endowments and foundations in the U.S., as well as a substantial number of foreign investors and high net worth individuals. For more information, please refer to www.tcw.com.

About EIG

EIG is a leading institutional investor to the global energy sector with $10.3 billion under management as of September 30, 2012. EIG specializes in private investments in energy, resources and related infrastructure and was formerly the Energy & Infrastructure Group of Trust Company of the West. During its 30-year history, EIG has invested over $14 billion in the sector through more than 290 projects or companies in 33 countries on 6 continents. EIG's clients include many of the leading pension plans, insurance companies, endowments, foundations and sovereign wealth funds in the U.S., Asia and Europe. EIG is headquartered in Washington, DC, with offices in Houston, London, Sydney, Hong Kong, Seoul and Rio de Janeiro.

About The Carlyle Group

The Carlyle Group (NASDAQ: CG) is a global alternative asset manager with $157 billion of assets under management across 101 funds and 64 fund of fund vehicles as of September 30, 2012. Carlyle's purpose is to invest wisely and create value on behalf of our investors, many of whom are public pensions. Carlyle invests across four segments – Corporate Private Equity, Real Assets, Global Market Strategies and Fund of Funds Solutions – in Africa, Asia, Australia, Europe, the Middle East, North America and South America. Carlyle has expertise in various industries, including: aerospace, defense & government services, consumer & retail, energy, financial services, healthcare, industrial, technology & business services, telecommunications & media and transportation. The Carlyle Group employs 1,300 people in 32 offices across six continents. www.carlyle.com www.youtube.com/onecarlyle www.twitter.com/onecarlyle

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Testimony Before the Texas House of Representatives
Committee on Pensions & Investments
April 17, 2007
By Keith Brainard,
Research Director, National Association of State Retirement Administrators

Madame Chairman, members of the committee, thank you for inviting me to testify on the issues of economically-targeted investments (ETIs) and mandatory divestment of public pension assets. I serve as research director for the National Association of State Retirement Administrators. NASRA members are the directors and administrators of 82 statewide retirement systems that provide pensions and other benefits for roughly two-thirds of all employees of state and local government in the U.S. Combined, these systems hold assets in excess of $2 trillion. In Texas, NASRA members are the executive directors of the TRS, ERS, TCDRS, and TMRS. In my comments today, I am speaking for NASRA; my comments do not necessarily reflect the views of any individual member.

There is much to be said on these subjects, and I'll try to improve the committee's understanding of them in the brief period of time that I have. One common element shared by mandatory divestment and ETIs is that they represent violations of fiduciary standards. The Texas constitution establishes the pension fund boards as fiduciaries, responsible for operating solely in the interest of the plan's participants. Restrictions on their ability to manage these assets as they deem prudent, is a violation of their fiduciary role. A second common element is that in enacting mandatory ETIs and divestment policies, policymakers run the risk of getting on the slippery slope. If we decide today to require investment in Texas-based businesses and to divest in Sudan-related companies, we will have gone down a road to which there is no logical end.

Economically-Targeted Investments
Many states have laws <u>permitting</u> their public pension funds to invest in ETIs. In terms of investment returns, the result of ETIs has been at best, mixed. The wider and longer-term economic effects of ETIs are difficult or impossible to determine.

Some states with mandatory ETIs have retracted them after suffering significant financial losses. Imposing a mandate that state pension funds invest in Texas-based projects or securities as directed by the legislature violates fiduciary standards and could result in the loss of principle and substandard investment returns. The ERS and TRS are authorized to invest in private equity. If the boards and professional investment staff of these funds find investment opportunities that meet required criteria, they already have the authority necessary to act.

Pension funds already are contributing to the state's economy in myriad ways. Recent studies, including one conducted for TRS of Texas last year, have documented the significant economic contribution made by public pension funds. A key factor behind this contribution is investment earnings. The positive effects of public pension funds are felt literally in every town of this state, as pension benefits far in excess of what was contributed by taxpayers, flow into the economy.

I urge the committee to recognize the substantial contributions pension funds already are making to the state's economy, and to reject efforts to require them to invest in targeted projects or companies.

Divestment

To date, six states—California, Connecticut, Illinois, Maine, New Jersey, and Oregon—have approved laws requiring that one or more of the state's pension funds divest its holdings in companies alleged to be aiding the government of the Sudan. In addition, the board that oversees the Vermont pension funds has taken action to divest its assets in Sudan-related companies. The Illinois law was ruled unconstitutional by a federal judge, a fact that I'll expand on in a moment.

Requiring public pension funds to divest assets in holdings of companies alleged to be engaged in objectionable activities, is not new. During the past two decades, efforts have made to require pension funds to divest holdings in South Africa and in tobacco companies. These efforts are best characterized by good intentions and poor results, in terms of both immaterial or nonexistent effects on the divestment target, and higher costs and lower investment returns for the pension fund.

For example, during the 1980's, the New Jersey Division of Investment was required by that state's legislature to divest its holdings in South Africa. Based on an analysis of a report prepared by the investment division, the *Wall Street Journal* estimated that divestiture cost the fund between $330 million and $515 million, not including the loss of income in subsequent years or the loss in opportunity by the fund to make other investments restricted by the law.

In the 1990's, the Florida state attorney general sued tobacco companies, and the State Board of Administration divested of its tobacco holdings. When the lawsuit was settled, Florida restored its investments in tobacco companies, and estimated its funds had lost some $300 million through divestment.

In neither of these cases, nor others where divestment for social purposes has occurred, did the divestment affect the behavior or the bottom line of the divestment target. The only entities affected were the beneficiaries and sponsors of the funds involved in the divestment.

Public pension funds now are being asked to divest their holdings in companies alleged to be aiding the government of Sudan, which has engaged in genocide and is accused of sponsoring terrorism, and companies alleged to be aiding the government of Iran and other state sponsors of terrorism.

Unfortunately, the issue of divestment in the Sudan has become emotionally charged. In some cases, feelings have overcome rational thought. You will hear emotional testimony from others on this issue. I urge you to separate the emotion surrounding this issue, from facts and logic.

Pension Assets are Held in Trust

There are many good reasons to reject calls to require the state's pension funds to divest. Perhaps the single best reason is that these pension funds are held in trust and their assets do not belong to the State of Texas. Once contributions are transferred to the pension fund, they belong solely to the participants of the plan. Notably, participants in the ERS and TRS have contributed to their pension benefits amounts roughly equal to the amount the State of Texas has contributed. Calls to divest pension assets are efforts to achieve social objectives using other people's money.

While any individual is free to manage his or her our own assets as they see fit, attempting to achieve social objectives with other people's money violates trust laws and intercedes in the fiduciary responsibilities of the board members and staff who are responsible for overseeing these assets.

Stephen Bainbridge, professor of law at UCLA, wrote last year in anticipation of the University of California's decision to divest the university's assets:

> Like all managers of pension plans, the UC regents are fiduciaries of the beneficiaries of those plans. When they pursue a social agenda nearly certain to result in poorer performance, they are disserving their beneficiaries. All for the sake of a gesture that experience teaches will be fruitless. I'd call that a pretty clear breach of fiduciary duty.[1]

Divestment Laws Are Subject to Legal Challenge and May Be Unconstitutional

A second of many reasons to reject divestment laws is that such laws are subject to legal and constitutional challenges. The U.S. Constitution establishes the federal government as responsible for regulating foreign commerce. This fact was affirmed by a federal judge in February when he threw out the State of Illinois' divestment statute. In so doing, Judge Matthew Kennelly stated:

> The Illinois legislature acted with laudable motives, but the Act violates federal constitutional provisions that preclude the states from taking actions that interfere with the federal government's authority over foreign affairs and commerce with foreign countries.[2]

States and pension funds are neither equipped nor authorized to make foreign policy, but that is what they are doing when they impose divestment requirements in an effort to change the behavior of foreign governments. A 2005 NASRA resolution affirms the federal government's responsibility in this regard. It states:

> … [A]n uncoordinated approach by the investment community in attempting to influence companies that conduct business in sanctioned nations will result in inconsistent and ineffective actions, and could potentially penalize companies that are acting in the interests of U.S. policy in foreign nations, thus penalizing shareholders and U.S. domiciled employees of those companies. … [NASRA] supports efforts by the [federal government] to identify domestic and international companies violating U.S. national security and humanitarian policies, and provide proper guidance to U.S. investors so that such companies may be denied access to the U.S. capital marketplace.[3]

Shareholders Retain Leverage to Effect Changes When They Own Assets

A third reason mandatory divestment is poor public policy is that it surrenders any leverage the shareholder might have over the company whose securities it holds. Mandatory divestment removes the ability of the pension fund to affect the company's actions, terminating any voice the shareholder may have had to influence the company's behavior. A 1998 Interim Study for the Texas House Committee on Pensions & Investments concluded:

> The overriding goal of social investing is to influence corporate policy. Publicly held companies are more likely to respond to the concerns of shareholders than non-shareholders. Shareholders voting proxies may provide more inducement to social change than divestiture. … The subcommittee recommends exploring proxies as a more effective means to influence corporate policy.[4]

The report of a gathering sponsored by the United Nations earlier this year reinforced the view that shareholders have more influence over company behavior by continuing to own shares than through divestment:

> [T]hrough dialogue with companies and in their role as owners of businesses, investors can use their leverage to influence companies toward positive change and a better approach.[5]

Divestment Comes With a Cost

Fourth, divestment comes at a cost. These costs take the form of trading expenses incurred in both the sale of the security and the purchase of another security to take its place; through lower investment returns than the fund might otherwise have earned; and through opportunity costs in the form of compound investment earnings that would have accrued on monies used for trading expenses and foregone earnings.

The Texas constitution charges the boards of the ERS and TRS to prudently invest the assets of the funds. They serve as fiduciaries, and as such, must operate solely in the interest of the plans' participants. In making investments, board members and staff are expected to generate investment returns needed to fund the plan's liabilities, within an acceptable level of risk. By imposing an artificial restriction, such as mandatory divestment, the Legislature would tie the hands of these fiduciaries, with no countervailing concession regarding expectations for their investment performance.

Divested Shares Will Be Purchased By Others, Rendering Divestment Ineffective

Fifth, divestment is simply ineffective. Shares sold by Texas pension funds because of mandatory divestment will be purchased by other investors, leaving the funds with no ability, as shareholders, to influence the behavior of these companies.

In a recent editorial titled, "Investment restrictions illustrate the performance of a bad idea,"*Pensions & Investments* magazine stated:

> Even the Illinois state attorney general's office — arguing in court in defense of the Sudan statute — stated the law "does not impose any substantive economic pressure on the Sudan … The act is instead merely moral investment style chosen by Illinois citizens codified into law." Also, it stated, "it is difficult to conceive how a single act of divestment would cause the member companies a direct and adverse economic effect.[6]

Reviewing the effects of divestment efforts on South Africa, a London Business School Institute of Finance and Accounting working paper concluded:

> We find that the announcement of legislative/shareholder pressure of voluntary divestment from South Africa had little discernible effect … In sum, despite the public significance of the boycott and the multitude of divesting companies, financial markets seem to have perceived the boycott to be merely a 'sideshow.' [7]

Madame Chairman, for these and other reasons, requiring the state pension funds to divest to achieve a social objective is bad pension policy. I encourage the committee to set aside passions and feelings and resist the urge to engage in symbolic acts that at best are ineffective. Instead, let the committee be guided by reason, facts and logic, and reject calls to divest the state's pension funds.

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[1] Stephen Bainbridge: "UC Regents Decide to Divest From Sudan," March 2006
[2] National Foreign Trade Council Inc., vs. Alexi Giannoulias, Case No. 06 C 4251, decided 2/23/07.
[3] National Association of State Retirement Administrators (www.nasra.org), Resolution 2005-02
[4] Texas House of Representatives Committee on Pensions and Investments, Interim Report to the 76th Texas Legislature, November 1998
[5] Report of the Informal Consultation with the Institutional Investor and Business Communities: Responsible Investment in Weak or Conflict-Prone States, convened by the UN Global Compact Office, the Office of the Comptroller of the City of New York and the Principles for Responsible Investment (PRI) 01/17/07
[6] *Pensions & Investments*, "Performance of a Bad Idea," 3/5/07
[7] Siew Hong Teoh, Ivo Welch, and Paul C. Wazzan, "The Effect Of Socially Activist Investment Policies On The Financial Markets: Evidence From The South African Boycott" (December 1995). London Business School Institute of Finance and Accounting working paper 222.

STATE INVESTMENT BOARD SEARCH COMMITTEE
MINUTES OF THE
DECEMBER 12, 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:	Bonnie Heit, Office Manager
OTHERS:	Tricia Opp, State Procurement

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) Search Committee meeting to order at 11:10 a.m. on Wednesday, December 12, 2012, at the Governor's Conference Room, State Capitol, Bismarck, ND.

The SIB Search Committee meeting was held for the purposes of discussing the initial process of recruiting candidates for the position of ED/CIO of the Retirement and Investment Office (RIO).

The minutes of the May 29, 2012, and June 28, 2012, meetings were considered.

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO ACCEPT THE MINUTES OF THE MAY 29, 2012, AND JUNE 28, 2012, MEETINGS.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, MR. TOSO, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

After discussing their options for the recruitment of candidates, the following action was taken:

TREASURER SCHMIDT MOVED AND MR. SANDAL SECONDED TO NOT HIRE A HEAD HUNTING FIRM, PROCEED WITH UTILIZING ND STATE HUMAN RESOURCE MANAGEMENT SERVICES (HRMS,) AND TO FOLLOW THE PROCESS THAT WAS ESTABLISHED IN THE PREVIOUS HIRE TO RECRUIT CANDIDATES FOR THE ED/CIO POSITION OF RIO.

AYES: TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. TOSO, MR. SANDAL, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

Mr. Sandal and Treasurer Schmidt will work with HRMS to establish the process for the recruitment of candidates for the ED/CIO position.

The Search Committee discussed a salary range for the ED/CIO position. After discussion,

COMMISSIONER GAEBE MOVED AND LT. GOVERNOR WRIGLEY SECONDED TO ADVERTISE THE ED/CIO ANTICIPATED SALARY RANGE BETWEEN $180,000 - $220,000. THE FINAL SALARY WILL BE BASED ON LEVEL OF EXPERIENCE AND ASSETS MANAGED.

AYES: MR. SANDAL, COMMISSIONER GAEBE, MR. TOSO, AND LT. GOVERNOR WRIGLEY
NAYS: TREASURER SCHMIDT
MOTION CARRIED

ADJOURNMENT:

With no further issues to come before the Search Committee, Treasurer Schmidt moved and Mr. Sandal seconded to adjourn the meeting at 12:25 p.m.

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

DRAFT

STATE INVESTMENT BOARD SEARCH COMMITTEE
MINUTES OF THE
JANUARY 4, 2013, MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, PERS Board Bob Toso, TFFR Board
BOARD MEMBERS ABSENT:	Lance Gaebe, Land Commissioner Kelly Schmidt, State Treasurer
STAFF PRESENT:	Bonnie Heit, Office Manager

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) Search Committee meeting to order at 11:20 a.m. on Friday, January 4, 2013, at the Governor's Conference Room, State Capitol, Bismarck, ND.

The SIB Search Committee meeting was held for the purposes of discussing the status of recruiting candidates for the position of ED/CIO of the Retirement and Investment Office (RIO).

The minutes of the December 12, 2012, meeting were considered.

MR. SANDAL MOVED AND MR. TOSO SECONDED TO ACCEPT THE MINUTES OF THE DECEMBER 12, 2012, MEETING.

AYES: MR. SANDAL, MR. TOSO, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED
ABSENT: TREASURER SCHMIDT, COMMISSIONER GAEBE

Mr. Sandal updated the Search Committee on the status of recruitment efforts. To date, 62 applications have been received. Mr. Sandal also provided the Search Committee with a list of the entities where the job announcement was posted.

Mr. Sandal also noted the assistance and expertise from the State Human Resource Management Services (HRMS) has been very good particularly from the individual that has been assigned, Ms. Becky Sicble.

The Search Committee discussed the evaluation criteria for the applications received. Traits or attributes would need to be identified that are highly regarded in the field over and above the minimum qualifications. Once those traits or attributes are identified, a ranking or value would then need to be placed.

The Search Committee is to submit their thoughts and ideas on the criteria and relative weights to Mr. Sandal by January 15, 2013. Mr. Sandal and Treasurer Schmidt will compile a draft matrix of the screening criteria. The draft will be presented to the SIB at their January 25, 2013, meeting for their review and input.

The Search Committee established the following tentative schedule; review applications received by mid February, decide how many applicants to interview by end of February, and conduct interviews in March.

ADJOURNMENT:

With no further issues to come before the Search Committee, Mr. Sandal moved and Mr. Toso seconded to adjourn the meeting at 11:45 a.m.

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

ND STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING

FRIDAY, NOVEMBER 16, 2012, 1:00 p.m.
WORKFORCE SAFETY AND INSURANCE
1600 E CENTURY AVENUE

AGENDA

1. **CALL TO ORDER AND ACCEPTANCE OF THE AGENDA**

2. **ACCEPTANCE OF MINUTES (OCTOBER 16, 2012)**

3. **PRESENTATION OF THE JUNE 30, 2012 FINANCIAL AUDIT REPORT -** CliftonLarsonAllen (enclosed)

4. **REPORT ON FISCAL 2013 FIRST QUARTER INTERNAL AUDIT ACTIVITIES** – Les Mason and Dottie Thorsen (enclosed)

5. **REVIEW OF SIB AUDIT COMMITTEE CHARTER** (enclosed)

6. **REVIEW OF FISCAL YEAR 2013 WORKPLAN** - Mr. Mason (enclosed)

7. **OTHER**

   Next Meeting - February 22, 2013, 1:00 p.m., Workforce Safety Insurance

8. **ADJOURNMENT**

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
OCTOBER 16, 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: Bonnie Heit, Office Manager
Fay Kopp, Interim Executive Director
Les Mason, Internal Audit Superviser
Dottie Thorsen, Internal Audit

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee conference call meeting to order at 3:30 p.m., on Tuesday, October 16, 2012.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the October 16, 2012 agenda.

MR. SANDAL MOVED AND MR. GESSNER SECONDED TO ACCEPT THE AGENDA FOR THE OCTOBER 16, 2012, MEETING.

AYES: MS. DORWART, MR. SANDAL, MS. TERNES, AND MR. GESSNER
NAYS: NONE
MOTION CARRIED
ABSENT: MR. MERTZ

MINUTES:

The Audit Committee considered the minutes from the June 22, 2012, meeting.

MS. TERNES MOVED AND MR. SANDAL SECONDED TO APPROVE THE JUNE 22, 2012, MINUTES AS WRITTEN.

AYES: MR. GESSNER, MS. DORWART, MR. SANDAL, AND MS. TERNES
NAYS: NONE
MOTION CARRIED
ABSENT: MR. MERTZ

ELECTION OF OFFICERS:

MR. SANDAL MOVED AND MS. TERNES SECONDED TO CONTINUE WITH THE CURRENT SLATE OF OFFICERS FOR THE PERIOD OF JULY 1, 2012 - JUNE 30, 2013.

AYES: MS. TERNES, MS. DORWART, MR. SANDAL, AND MR. GESSNER
NAYS: NONE
MOTION CARRIED
ABSENT: MR. MERTZ

INTERNAL AUDIT ACTIVITIES:

Mr. Mason reviewed the Internal Audit Division's work activity for the fourth quarter of FY2012 and for the period of July 1, 2012 - September 21, 2012.

School District Audit Reports - The objective is to complete 43 or more school district audits during FY2013. The number of audits to complete for FY2013 was increased because CliftonLarsonAllen is not requesting the Internal Audit Division to complete special audit work as did the previous external auditors. Currently six audits have been completed, five are in progress, information on five more have been received, and notifications to 15 school districts are in the selection process.

TFFR File Maintenance - Ms. Thorsen reported she reviewed the fourth quarter of FY2012 transactions. There were no exceptions noted.

Mr. Mason also stated the Internal Audit Division also reviewed deaths, purchase of service credit, refunds, long outstanding checks, and long term annuitants to determine that established policy and procedures were being followed by the Retirement Service's Division. No exceptions were noted.

MR. GESSNER MOVED AND MR. MERTZ SECONDED TO ACCEPT THE INTERNAL AUDIT DIVISION'S WORK ACTIVITY REPORT FOR THE FOURTH QUARTER OF FY2012 AND FOR THE PERIOD OF JULY 1, 2012 - JUNE 30, 2013.

AYES: MS. DORWART, MR. GESSNER, MR. MERTZ, MR. SANDAL, AND MS. TERNES
NAYS: NONE
MOTION CARRIED

AUDIT COMMITTEE REPORT TO THE SIB:

The Audit Committee reviewed a draft of their FY2012 activities report to the SIB. After discussion and final updates,

MS. TERNES MOVED AND MR. SANDAL SECONDED TO ACCEPT THE FY2012 ACTIVITIES REPORT TO THE SIB.

AYES: MS. DORWART, MR. SANDAL, MS. TERNES, MR. MERTZ, AND MR. GESSNER
NAYS: NONE
MOTION CARRIED

FY 2013 WORK PLAN:

Mr. Mason reviewed a draft of the FY2013 Internal Audit Division's work plan. Items added to work plan - a review of the Audit Committee charter and the development of an Internal Audit Division policies and procedures manual will be completed during FY2013.

The Audit Committee discussed the follow-up review process by staff when a school district is not in compliance. Staff currently performs a review and retains all memos to file and work papers for five years. The Audit Committee requested staff provide a follow up report to them on the school districts that are not in compliance so the Audit Committee knows if there are ongoing issues with a school district or if the issues have been resolved. Staff will report back at the November 16, 2012 meeting.

Staff will bring an updated work plan to the November 16, 2012, for additional review and consideration.

OTHER:

CliftonLarsenAllen is expected to present their FY2012 audit report of the Retirement and Investment Office at the November 16, 2012, meeting.

The next Audit Committee meeting is scheduled for November 16, 2012, at 1:00 p.m. at Workforce Safety & Insurance.

ADJOURNMENT:

Ms. Ternes moved and Mr. Mertz seconded to adjourn the meeting.

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 4:05 p.m.

Respectfully Submitted:

Rebecca Dorwart

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

Bonnie Heit

Bonnie Heit
Assistant to the Audit Committee

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

October 19, 2012

State Investment Board
Teachers' Fund for Retirement
ND Retirement and Investment Office
1930 Burnt Boat Drive
Bismarck, ND 58507-7100

This letter is to provide you with information about significant matters related to our audit of the financial statements of North Dakota Retirement and Investment Office (RIO), for the year ended June 30, 2012. It is intended solely for the State Investment Board and Teachers' Fund for Retirement and Investment Office and should not be used by anyone other than these specified parties.

We have provided a separate letter, dated October 19, 2012, concerning the internal control conditions that we noted during our audit.

The following are our observations arising from the audit that are relevant to your responsibilities in overseeing the financial reporting process.

Auditor's Responsibilities under Generally Accepted Auditing Standards. Our audit was performed for the purpose of forming and expressing an opinion about whether the financial statements, which have been prepared by management with your oversight, are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements. With respect to the additional information, schedule of administrative expenses, schedule of consultant expenses, schedule of investment expenses, and schedule of appropriations, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it is consistent with historical methods and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the schedule of administrative expenses, schedule of consultant expenses, schedule of investment expenses, and schedule of appropriations to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

In connection with the management's discussion and analysis, the schedules of funding progress and employer contributions and related notes, introductory, investment, actuarial and statistical sections, we did not perform any procedures or corroborate other information included in these sections. However, we read management's discussion and analysis and the schedules of funding progress and employer contributions and considered whether the information or the manner in which it was presented was materially inconsistent with information or the manner of presentation of the financial statements. Based on our reading, we concluded that the information did not require revision.

Significant Issues Discussed with Management Prior to Retention. We discussed various matters with management prior to retention as RIO's auditors. These discussions occur in the normal course of our professional relationship. There were no significant issues, including the application of accounting principles and auditing standards, which were discussed with management prior to our retention as auditors.

Consultations with Other Accountants. We were informed by management that they made no consultations with other accountants on the application of generally accepted accounting principles and generally accepted auditing standards.

Qualitative Aspects of Accounting Practices.

Accounting Policies
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by RIO are described in Note 1 to the financial statements. There were no significant accounting policies or their application which were either initially selected or changed during the year.

We noted no transactions in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

There were no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates
Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were significant estimates in the valuation of alternative investments and the calculation of the actuarial information included in the footnotes and required supplementary information.

Alternative investments, including private equity and real asset investments, are a management estimate which is primarily based upon net asset values reported by the investment managers and comprise 17% of the total investment portfolio. The values for these investments are reported based upon the most recent financial data available and are adjusted for cash flows through June 30, 2012. Our audit procedures validated this approach through the use of confirmations sent directly to a sample of investment managers and the review of the most recent audited financial statements for these funds. Furthermore, we reviewed management's estimate and found it to be reasonable.

The actuarially calculated information was based on the assumptions and methods adopted by the Board, including an expected investment rate of return of 8.0% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2011 as required by the Retirement Code. The valuation is the basis for the contribution rate for TFFR's 2012/2013 fiscal year. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

Financial Statement Disclosures
Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

Difficulties Encountered in Performing the Audit. We encountered no significant difficulties in dealing with management related to the performance of our audit.

Corrected Misstatements. There were no misstatements detected as a result of audit procedures and corrected by management that were material, either individually or in the aggregate, to the financial statements taken as a whole.

Representations from Management. We have requested the representations from management that are shown in the attached Exhibit.

Disagreements with Management. There were no disagreements with management on financial accounting and reporting matters, auditing procedures, or other matters which would be significant to RIO's financial statements or our report on those financial statements.

Please contact Thomas Rey if you have any questions regarding the matters included in this letter.

CliftonLarsonAllen LLP

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

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www.nd.gov/rio

October 19, 2012

CliftonLarsonAllen LLP
9515 Deereco Road, Suite 500
Timonium, Maryland 21093

We are providing this letter in connection with your audit of the financial statements of North Dakota Retirement and Investment Office (RIO) as of June 30, 2012, and for the year then ended for the purpose of expressing an opinion as to whether the financial statements and combining and individual fund financial statements present fairly the net assets and changes in net assets of RIO in conformity with accounting principles generally accepted in the United States of America, and whether the schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds (the schedules) are fairly stated in all material respects in relation to the basic financial statements as a whole. We confirm that we are responsible for the fair presentation in the financial statements and combining and individual fund financial statements of net assets and changes in net assets in conformity with accounting principles generally accepted in the United States of America and for the fair presentation of the schedules in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of October 19, 2012, the following representations made to you during your audit.

1. The financial statements and related footnotes referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and the notes include all disclosures required by laws and regulations to which the RIO is subject.

2. With respect to the schedules:

   a. We acknowledge our responsibility for presenting the schedules using consistent methods of measurement and presentation with those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the schedules.

   b. We believe the schedules, including their form and content, are fairly presented.

3. With respect to actuarial assumptions and valuations:

   a. Management agrees with the actuarial methods and assumptions used by the actuary for funding purposes and for determining the disclosure information required by the Governmental Accounting Standards Board and has no knowledge or belief that would make such methods or assumptions inappropriate in the circumstances. We did not give any, nor cause any, instructions to be given to RIO's actuary with respect to values or amounts derived, and we are not aware of any matters that have impacted the independence or objectivity of RIO's actuary. There were no omissions from the participant data provided to RIO's actuary for the purpose of determining the actuarial accrued liability and other actuarially determined amounts in the financial statements.

   b. There have been no changes in the actuarial methods or assumptions used in calculating amounts recorded or disclosed in the financial statements.

   c. There have been no changes in plan provisions between the actuarial valuation date and the date of this letter.

4. We have made available to you all:

   a. Financial records and related data.

   b. Minutes of the meetings of the North Dakota State Investment Board and Teachers' Fund for Retirement Board of Trustees, or summaries of actions of recent meetings for which minutes have not yet been prepared.

   c. Amendments to plan instrument (including amendments made to comply with applicable laws), the trust agreement, or insurance contracts during the year, including amendments to comply with applicable laws.

   d. Actuarial reports prepared for RIO during the year under audit.

5. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the financial statements in the event of noncompliance.

6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:

   a. Management.

   b. Employees who have significant roles in internal control.

   c. Others where the fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, participants, regulators, beneficiaries, service providers, third-party administrators, or others.

9. The values of nonreadily marketable investments represent good faith estimates of fair value determined by management. The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes.

10. We have no:

    a. Plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

    b. Present intentions to terminate the Plan.

11. The following have been properly recorded or disclosed in the financial statements:

    a. Related-party transactions and related amounts receivable or payable, including sales, purchases, loans, transfers, leasing arrangements and guarantees.

    b. Estimates that might be subject to material change within one year from the date of the financial statements. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.

    c. Concentrations existing at the date of the financial statements that make RIO vulnerable to the risk of severe impact within one year from the date of the financial statements. We understand that concentrations include the nature and type of investments held by RIO, or markets for which events could occur which would significantly disrupt normal finances within the next year.

    d. Amendments to the plan instrument, if any.

12. We believe the Plans and trusts established under the Plans are qualified under the appropriate section of the North Dakota Century Code, and we intend to continue them as qualified plans and trusts.

13. There are no:

    a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.

    b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 450, *Contingencies*.

    c. Other matters (e.g., breach of fiduciary responsibilities, nonexempt transactions, loans or loans in default, events reportable to the Pension Benefit Guaranty Corporation, or events that may jeopardize the tax status) that legal counsel have advised us that must be disclosed.

14. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB ASC 450.

15. There are no:

    a. Material transactions that have not been properly recorded in the accounting records underlying the financial statements.

    b. Investments, loans, or leases in default or considered to be uncollectible that have not been disclosed in the supplemental schedules.

16. RIO has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been.

17. RIO has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

18. RIO has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

19. We have apprised you of all communications, whether written or oral, with regulatory agencies concerning the operation of RIO.

20. No events have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to, or disclosure in, the financial statements.

Fay Kopp

Fay Kopp, Interim Executive Director/Chief Retirement Officer

Connie L Flanagan

Connie L. Flanagan, Fiscal and Investment Officer

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Bismarck, ND

FINANCIAL STATEMENTS
June 30, 2012 and 2011

PAGE

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Independent Auditors' Report

Governor Jack Dalrymple
The Legislative Assembly
Fay Kopp, Interim Executive Director
State Investment Board
Teacher's Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of fiduciary net assets of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as of and for the year end June 30, 2012. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of fiduciary net assets of RIO as of June 30, 2011, were audited by other auditors whose report dated November 8, 2011, expressed an unqualified opinion of those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the fiduciary funds of RIO as of June 30, 2012 and the respective changes in net assets where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2012 , and the results of the operations of such funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated October 19, 2012, on our consideration of RIO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions and related notes, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds, as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 19, 2012

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor Jack Dalrymple
The Legislative Assembly
Fay Kopp, Interim Executive Director
State Investment Board
Teacher's Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the basic financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as of and for the year ended June 30, 2012 and have issued our report thereon dated October 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of RIO is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered RIO's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RIO's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Audit Committee, the Board of Trustees, Management and other oversight agencies and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 19, 2012

We did not identify any findings that are required to be reported in accordance with *Government Auditing Standards*.

Our discussion and analysis of the ND Retirement and Investment Office’s (RIO) financial performance provides an overview of RIO’s financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the basic financial statements, which follow this discussion.

RIO administers two fiduciary funds, a pension trust fund for the ND Teachers’ Fund for Retirement (TFFR) and an investment trust fund for the ND State Investment Board (SIB) consisting of 21 investment clients in two investment pools and one individual investment account.

Financial Highlights

Total net assets increased in the fiduciary funds by $463.9 million or 8.3% from the prior year primarily due to the addition of the Legacy Fund during the fiscal year. The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. Transfers into the Legacy Fund totaled $396.6 million during the fiscal year.

Additions in the fiduciary funds for the year decreased $801.4 million from the previous year. Net investment income decreased by $804.8 million and total contributions increased $3.9 million.

Deductions in the fiduciary funds increased over the prior year by $7.3 million or 5.2%. This increase represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of new retirees.

The TFFR funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2012, the funded ratio was approximately 60.9%.

Overview of the Financial Statements

This report consists of four parts – management’s discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for the investment trust funds. The basic financial statements include fund financial statements that focus on individual parts of RIO’s activities (fiduciary funds).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our investment trust funds, each of which are added together and presented in single columns in the basic financial statements.

Fund Financial Statements

The fund financial statements provide detailed information about RIO’s activities. Funds are accounting devices that RIO uses to keep track of specific sources of funding and spending for particular purposes.

RIO uses fiduciary funds as RIO is the trustee, or fiduciary, for TFFR (a pension plan) and SIB (investment trust funds). RIO is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RIO’s fiduciary activities are reported in a statement of net assets and a statement of changes in net assets.

Financial Analysis

RIO's fiduciary fund total assets as of June 30, 2012, were $6.1 billion and were comprised mainly of investments. Total assets increased by $463.7 million or 8.3% from the prior year primarily due to the addition of the Legacy Fund during the fiscal year.

Total liabilities as of June 30, 2012, were $6.4 million and were comprised mostly of investment expenses payable. Total liabilities decreased by $186,000 or 2.8% from the prior year due mainly to a decrease in investment expenses payable at June 30, 2012.

RIO's fiduciary fund total net assets were $6.1 billion at the close of fiscal year 2012.

North Dakota Retirement and Investment Office
Net Assets – Fiduciary Funds
(In Millions)

	2012	2011	Total % Change
Assets			
Investments	$ 6,010	$ 5,553	8.2%
Receivables	35	31	13.5%
Cash & Other	15	13	11.7%
Total Assets	6,060	5,597	8.3%
Liabilities			
Accounts Payable	6	7	-2.6%
Total Liabilities	6	7	-2.6%
Total Net Assets	$ 6,054	$ 5,590	8.3%

	2011	2010	Total % Change
Assets			
Investments	$ 5,553	$ 4,780	16.2%
Sec Lending Collateral	0	26	-99.9%
Receivables	31	30	3.6%
Cash & Other	13	12	2.8%
Total Assets	5,596	4,848	15.4%
Liabilities			
Accounts Payable	7	6	8.8%
Sec Lending Collateral	0	26	-99.9%
Total Liabilities	7	32	-79.7%
Total Net Assets	$ 5,590	$ 4,816	16.1%

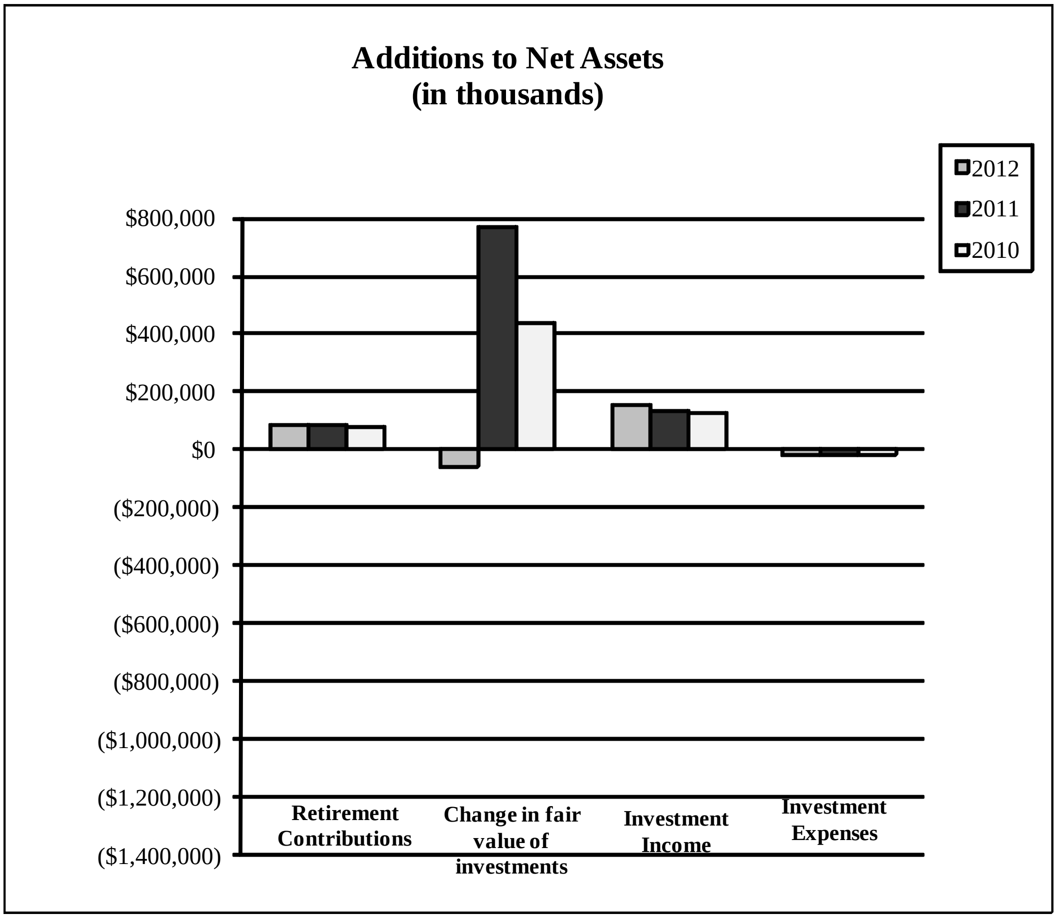
North Dakota Retirement and Investment Office
Changes in Net Assets – Fiduciary Funds
(In Millions)

	2012	2011	Total % Change
Additions:			
Contributions	$ 89	$ 85	4.5%
Investment Income	$ 79	$ 884	91.1%
Total Additions	$ 168	$ 969	82.7%
Deductions	$ 140	$ 133	5.2%
Net change from unit transactions	$ 436	$ (63)	792.0%
Total change in net assets	$ 464	$ 773	40.0%

	2011	2010	Total % Change
Additions:			
Contributions	$ 85	$ 78	9.0%
Investment Income	$ 884	$ 545	62.2%
Total Additions	$ 969	$ 623	55.5%
Deductions	$ 133	$ 129	3.1%
Net change from unit transactions	$ (63)	$ 104	160.6%
Total change in net assets	$ 773	$ 598	29.3%

Statement of Changes in Net Assets – Additions

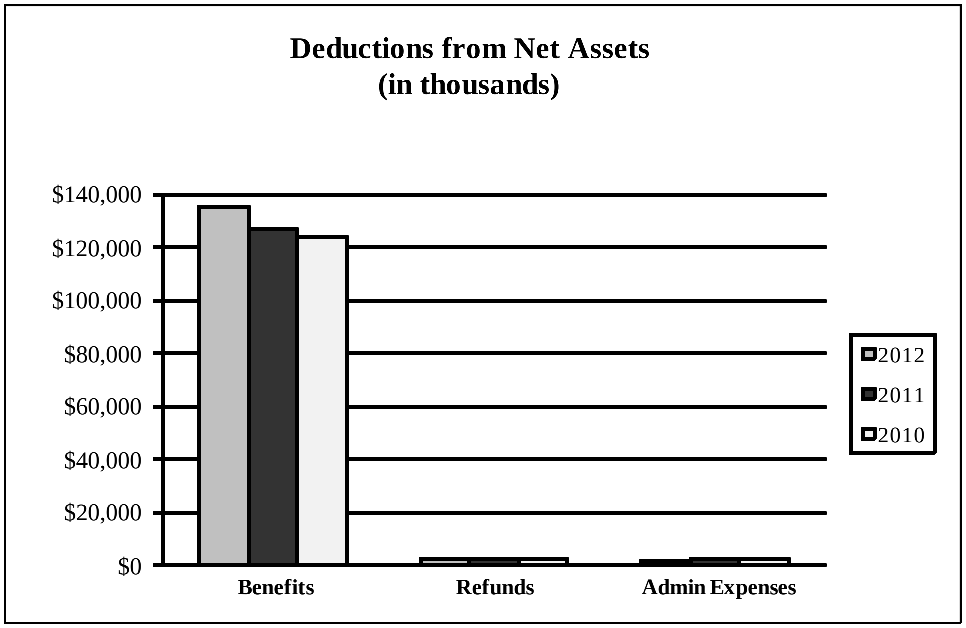
Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $3.9 million or 4.5% over the previous fiscal year. Net investment income, including securities lending activities and investment expenses, decreased by $805.3 million or 91.1% from last year. This was the result of weaker financial markets during the fiscal year.



Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $7.8 million or 6.1% during the fiscal year ended June 30, 2012. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary on which the benefits are based upon. Refunds increased slightly in fiscal year 2012 by $268,500 or 12.1%.

Administrative expenses decreased by $774,500 or 26.7%, due mainly to a decrease in legal fees during FY2012. Legal fees had increased significantly in FY2011 due to the legal proceedings in the WG Trading fraud case which culminated in May, 2011, with the initial distribution of recovered assets. Legal fees continued, but at a much slower pace, in FY2012 as the SIB joined in an appeal regarding the distribution of those assets.



Conclusion

In contrast to the prior two fiscal years, which delivered strong back-to-back total fund returns, fiscal year 2012 results reflect a market environment characterized by low investment returns and high volatility. Driven by ongoing deleveraging in the private sector, uncertainty surrounding policy responses to weak global economic growth, a continuing sovereign debt crisis in Europe, and political gridlock in the U.S., financial markets alternated between risk-on and risk-off phases over the course of the fiscal year. Positive asset class performance was lead by real estate, followed by fixed income, private equity, infrastructure, and domestic equity. International equity markets were the worst performing asset class in the fiscal year, suffering low to mid-teen negative returns. Investment trust funds within the SIB's investment program are invested within their policy guidelines and are positioned to withstand short-term volatility in order to deliver the long-term returns required to meet pension and other obligations.

Historically, financial crisis recessions tend to have a longer-term recessionary drag as compared to "normal" business cycle recessions; the recovery from the current balance sheet recession is no different. Advanced economies continue to experience sub-par economic growth as global balance sheet deleveraging continues to weigh on private sector demand. Given the prospect of further deleveraging in advanced economies, we believe the investment climate will remain challenging as the structural imbalances from excess private and public sector debt are fully addressed. The SIB will continue to research and consider investment options to address funding issues in the challenging years ahead.

To address TFFR's funding shortfall, the ND State Legislature took action in 2011 and approved legislation to increase member and employer contributions and modify certain benefits. This funding recovery plan, along with solid investment performance in the future, is expected to improve TFFR's funding level over the long term. Although TFFR's funding level has been declining, and is 60.9% as of 7/1/12, funding levels are projected to begin rising after past investment losses are phased in to actuarial calculations and as 2012 and 2014 contribution increases begin to flow into the system. Protecting the long term solvency of the pension plan is the TFFR Board's fiduciary responsibility. The Board will continue to proactively address TFFR funding issues so the plan will be financially strong and sustainable for past, present, and future ND educators.

Contacting RIO Financial Management

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

Statement of Net Assets – Fiduciary Funds
June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 36,131,488	$ 34,084,756
Equity pool	812,749,740	1,049,479,984	1,312,774,041	1,411,952,870
Fixed income	-	-	806,874,577	22,935,906
Fixed income pool	370,045,662	395,005,152	1,582,382,143	2,005,016,528
Real assets pool	315,768,906	174,937,685	469,548,278	196,439,719
Private equity pool	104,823,271	63,012,510	108,766,790	67,591,681
Cash pool	21,082,755	15,900,962	69,354,213	116,312,551
Total investments	1,624,470,334	1,698,336,293	4,385,831,530	3,854,334,011
Invested securities lending collateral	-	-	-	13,600
Receivables:				
Investment income	6,832,046	7,419,806	17,254,744	12,821,803
Contributions	11,076,423	10,871,495	-	-
Miscellaneous	5,472	7,651	9,506	12,232
Total receivables	17,913,941	18,298,952	17,264,250	12,834,035
Due from other state agency	1,461	-	-	-
Cash and cash equivalents	14,370,170	12,365,575	152,772	153,724
Equipment & Software (net of depr)	762	3,050	-	-
Total assets	1,656,756,668	1,729,003,870	4,403,248,552	3,867,335,370
Liabilities:				
Accounts payable	62,950	73,258	26,714	54,288
Investment expenses payable	1,922,962	2,123,667	3,649,932	3,573,700
Securities lending collateral	-	-	-	13,600
Accrued expenses	607,086	616,348	50,425	51,601
Miscellaneous payable	-	-	13,537	18,091
Due to other state agencies	14,011	11,280	3,309	1,196
Total liabilities	2,607,009	2,824,553	3,743,917	3,712,476
Net assets:				
Held in trust for pension benefits	1,654,149,659	1,726,179,317	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,022,512,983	2,040,261,179
Insurance pool	-	-	2,314,911,441	1,766,310,444
Held in trust for individual investment account	-	-	62,080,211	57,051,271
Total net assets	$ 1,654,149,659	$ 1,726,179,317	$ 4,399,504,635	$ 3,863,622,894
Each participant unit is valued at $1.00				
Participant units outstanding			4,399,504,635	3,863,622,894

The accompanying notes are an integral part of the financial statements.

North Dakota Retirement and Investment Office
Statement of Changes in Net Assets – Fiduciary Funds
Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Additions:				
Contributions:				
Employer contributions	$ 46,126,193	$ 44,545,433	$ -	$ -
Member contributions	40,254,562	38,869,260	-	-
Purchased service credit	2,417,995	1,499,748	-	-
Interest and penalties	9,854	8,809	-	-
Total contributions	88,808,604	84,923,250	-	-
Investment income:				
Net change in fair value of investments	(55,818,260)	305,331,203	(2,301,149)	461,489,827
Interest, dividends and other income	39,954,588	35,864,291	115,514,522	100,078,804
	(15,863,672)	341,195,494	113,213,373	561,568,631
Less investment expenses	5,661,973	6,430,327	12,779,965	12,614,624
Net investment income	(21,525,645)	334,765,167	100,433,408	548,954,007
Securities lending activity:				
Securities lending income	8,737	134,520	17,400	293,286
Less securities lending expenses	(5,384)	(56,544)	(3,668)	(48,354)
Net securities lending income	14,121	191,064	21,068	341,640
Total additions	67,297,080	419,879,481	100,454,476	549,295,647
Deductions:				
Benefits paid to participants	134,718,464	126,484,335	-	-
Partial lump-sum distributions	532,104	951,229	-	-
Refunds	2,479,194	2,210,738	-	-
Administrative charges	1,596,976	2,003,705	529,383	897,242
Total deductions	139,326,738	131,650,007	529,383	897,242
Net change in net assets resulting from operations	(72,029,658)	288,229,474	99,925,093	548,398,405
Unit transactions at net asset value of $1.00 per unit:				
Purchase of units	-	-	716,465,386	214,994,890
Redemption of units	-	-	(280,508,738)	(278,091,444)
Net change in assets and units resulting from unit transactions	-	-	435,956,648	(63,096,554)
Total change in net assets	(72,029,658)	288,229,474	535,881,741	485,301,851
Net assets:				
Beginning of year	1,726,179,317	$ 1,437,949,843	$ 3,863,622,894	$ 3,378,321,043
End of Year	$ 1,654,149,659	$ 1,726,179,317	$ 4,399,504,635	$ 3,863,622,894

The accompanying notes are an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The North Dakota Retirement and Investment Office (RIO) is charged with providing and coordinating the administrative activities of the Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).

RIO is an agency of the State of North Dakota operating through the legislative authority of North Dakota Century Code (NDCC) Chapter 54-52.5 and is considered part of the State of North Dakota financial reporting entity and included in the State of North Dakota's Comprehensive Annual Financial Report.

For financial reporting purposes, RIO has included all funds, and has considered all potential component units for which RIO is financially accountable, and other organizations for which the nature and significance of their relationship with RIO are such that exclusion would cause RIO's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of RIO to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on RIO.

Based upon these criteria, there are no component units to be included within RIO as a reporting entity and RIO is part of the State of North Dakota as a reporting entity.

Fund Financial Statement

All activities of RIO are reported in the pension and investment trust funds and are shown in the fiduciary fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of RIO are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the fiduciary funds on the statements of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fiduciary Fund

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account. The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, Bismarck City Employees and Police, City of Fargo Employees, City of Grand Forks Employees and Grand Forks Parks Employees pension plans in the pension pool.

The investments of Workforce Safety and Insurance, State Fire & Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust (closed at year-end), North Dakota Association of Counties Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund, Department of Public Instruction (DPI) National Board Certification Fund (closed during the fiscal year), Legacy Fund and Budget Stabilization Fund are managed in the insurance pool. PERS Retiree Health investments are managed by SIB in an individual investment account.

RIO has no statutory authority over, nor responsibility for, these investment trust funds other than the investment responsibility provided for by statute or through contracts with the individual agencies. Those pool participants that are required to participate according to statute are: Public Employees Retirement System, Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Risk Management, Risk Management Workers Comp, Cultural Endowment Fund, DPI National Board Certification Fund, Legacy Fund and Budget Stabilization Fund.

RIO follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Pension and Investment Trust Funds are accounted for using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the NDCC.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RIO utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

Budgetary Process

RIO operates through a biennial appropriation, which represents appropriations recommended by the Governor and presented to the General Assembly (the Assembly) at the beginning of each legislative session. The Assembly enacts RIO’s budget through passage of a specific appropriation bill. The State of North Dakota’s budget is prepared principally on a modified accrual basis. The Governor has line item veto power over all legislation, subject to legislative override.

Once passed and signed, the appropriation bill becomes RIO's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items, however RIO has specific authority as a special fund to transfer between the contingency line item and other line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the NDCC section 54-44.1-11.

RIO does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line item level. RIO does not formally budget revenues and it does not budget by fund. The statement of revenues, expenditures and changes in fund balances - budget and actual is not prepared because revenues are not budgeted.

Capital Assets and Depreciation

Capital asset expenditures greater than $5,000 are capitalized at cost in accordance with Section 54-27-21 of the NDCC. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	Years
Office equipment	5
Furniture and fixtures	5

Investments

NDCC Section 21-10-07 states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

The pension fund belonging to TFFR and investment trust funds attributable to the City of Bismarck Employee Pension Plan, the City of Bismarck Police Pension Plan, City of Fargo Employee Pension Plan, Job Service of North Dakota, City of Grand Forks Employee Pension Plan, Grand Forks Parks Pension Plan and the Public Employees Retirement System (PERS) must be invested exclusively for the benefit of their members. All investments are made in accordance with the respective fund's long-term investment objectives and performance goals.

Pooled Investments

Most agencies whose investments are under the supervision of the SIB participate in pooled investments. The agencies transfer money into the investment pools and receive an appropriate percentage ownership of the pooled portfolio based upon fair value. All activities of the investment pools are allocated to the agencies based upon their respective ownership percentages. Each participant unit is valued at $1.00 per unit.

Investment Valuation and Income Recognition

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The fair values for securities that have no quoted market price represent estimated fair value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, including timberland, is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed.

The net increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Accumulated Leave

Annual leave for permanent employees of the state of North Dakota is a part of their compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to $136,458 and $129,737 at June 30, 2012 and 2011, respectively. The current portions of accrued leave amounted to $69,848 and $70,469 at June 30, 2012 and 2011, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net assets.

Changes in accrued leave for the years ended June 30, 2012 and 2011 consisted of the following:

Balance, July 1, 2010	$107,984
Additions	84,726
Deductions	(62,973)
Balance, June 30, 2011	129,737
Additions	82,071
Deductions	(75,350)
Balance, June 30, 2012	$136,458

Note 2 - Cash and Cash Equivalents

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "[a]ll state funds … must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

Pension Trust Fund

Deposits held by the Pension Trust Fund at June 30, 2012 and 2011 were deposited in the Bank of North Dakota. At June 30, 2012 and 2011, the carrying amount of TFFR's deposits was $14,370,170 and $12,365,575, respectively, and the bank balance was $14,380,332 and $12,377,252 respectively. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Investment Trust Funds

Certificates of deposit and an insurance trust cash pool are recorded as investments and have a cost and carrying value of $146,245,136 and $188,347,945 at June 30, 2012 and 2011, respectively. In addition these funds carry cash and cash equivalents totaling $152,772 and $153,724 at June 30, 2012 and 2011, respectively. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Note 3 - Investments

The investment policy of the SIB is governed by NDCC 21-10. The SIB shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees' retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

Securities Lending

The State Investment Board (SIB) did not have a securities lending program in place during the fiscal year ended June 30, 2012. Income and expenses from securities lending activity appearing on the financial statements represent final activity from June, 2011, not recorded until July, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The SIB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At June 30, 2012 and 2011, the following tables show the investments by investment type and maturity (expressed in thousands).

2012	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years	Maturity not Determined
Asset Backed Securities	$ 102,356	$ -	$ 48,669	$ 12,196	$ 41,491	$ -
Bank Loans	8,174	-	6,647	1,527	-	-
Collateralized Bonds	467	-	-	467	-	-
Commercial Mortgage-Backed	51,641	210	216	-	51,215	-
Commercial Paper	148,695	148,695	-	-	-	-
Corporate Bonds	654,246	37,542	300,508	149,223	166,928	45
Corporate Convertible Bonds	28,737	8,096	8,126	5,265	7,250	-
Government Agencies	122,362	6,385	85,036	16,639	14,302	-
Government Bonds	328,043	17,257	170,222	64,109	76,455	-
Gov't Mortgage Backed and CMB	457,941	-	3,530	27,893	426,518	-
Guaranteed Fixed Income	4,058	4,058	-	-	-	-
Index Linked Government Bonds	2,664	-	-	-	2,664	-
Municipal/Provincial Bonds	22,267	879	9,407	687	11,294	-
Non-Government Backed CMOs	29,353	-	6,277	5,441	17,635	-
Other Fixed Income	5,089	251	4,838	-	-	-
Short Term Bills and Notes	11,909	11,909	-	-	-	-
Funds/Pooled Investments	645,416	67,902	285,942	121,849	169,723	-
Total Debt Securities	$ 2,623,418	$ 303,184	$ 929,418	$ 405,296	$ 985,475	45

2011	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 32,332	$ -	$ 5,243	$ 3,667	$ 23,422
Bank Loans	6,481	127	5,347	1,007	-
Commercial Mortgage-Backed	35,795	-	702	-	35,093
Guaranteed Fixed Income	4,498	377	4,121	-	-
Corporate Bonds	644,800	40,852	233,060	190,687	180,201
Corporate Convertible Bonds	59,474	1,836	37,242	4,166	16,230
Government Agencies	83,634	460	53,116	18,225	11,833
Government Bonds	227,352	3,256	80,864	65,396	77,836
Gov't Mortgage Backed and CMB	166,767	554	3,354	16,954	145,905
Index Linked Government Bonds	3,409	-	-	-	3,409
Municipal/Provincial Bonds	25,327	588	13,147	629	10,963
Non-Government Backed CMOs	49,736	-	-	11,875	37,861
Other Fixed Income	977	723	254	-	-
Short Term Bills and Notes	11,802	11,802	-	-	-
Funds/Pooled Investments	655,037	-	223,634	431,403	-
Total Debt Securities	$ 2,007,421	$ 60,575	$ 660,084	$ 744,009	$ 542,753

In the table above, the fair values of inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at $4.8 million and $4.7 million, and POs valued at $3.2 million and $3.8 million at June 30, 2012 and 2011 respectively. The SIB has no policy regarding IO or PO strips.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Although the SIB has no overall policy regarding credit risk, each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following tables present the SIB's ratings as of June 30, 2012 and 2011 (expressed in thousands).

2012	Total Fair Value	Credit Rating* A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 102,356	$ -	$ -	$ 66,546	$ 21,144	$ 5,400	$ 3,975	$ 959	$ 816	$ 3,382	$ 129	$ -	$ 5	$ -
Bank Loans	8,174	-	-	-	-	-	1,690	4,634	1,850	-	-	-	-	-
Collateralized Bonds	467	-	-	467	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage Backed	51,641	-	-	33,073	4,007	11,746	2,752	63	-	-	-	-	-	-
Commercial Paper	148,695	6,499	142,196	-	-	-	-	-	-	-	-	-	-	-
Corporate Bonds	654,246	-	-	1,129	31,044	154,661	329,180	74,848	38,781	19,594	1,264	295	2,851	599
Corporate Convertible Bonds	28,737	-	-	-	-	9,407	-	5,359	10,241	3,730	-	-	-	-
Gov't Agencies	115,457	-	-	4,643	98,647	8,076	4,091	-	-	-	-	-	-	-
Gov't Bonds	65,005	-	-	7,479	5,142	31,203	15,591	5,590	-	-	-	-	-	-
Gov't Issued Commercial & Gov't Mortgage Backed	360,427	-	-	-	360,427	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	4,058	-	-	-	4,058	-	-	-	-	-	-	-	-	-
Index Linked Corporate Bonds	1,117	-	-	-	-	-	1,117	-	-	-	-	-	-	-
Municipal/Provincial Bonds	22,267	-	-	5,080	7,726	6,961	896	725	-	-	-	-	-	879
Non-Gov't Backed CMOs	29,353	-	-	18,110	1,437	1,586	1,931	554	1,084	3,750	854	-	47	-
Other Fixed Income	5,089	-	-	5,089	-	-	-	-	-	-	-	-	-	-
Funds/Pooled Investments	645,416	-	-	88,548	331,989	54,842	2,609	13,303	150,277	-	-	-	-	3,848
Total Credit Risk of Debt Securities	2,242,505	$ 6,499	$ 142,196	$ 230,164	$ 865,621	$ 283,882	$ 363,832	$ 106,035	$ 203,049	$ 30,456	$ 2,247	$ 295	$ 2,903	$ 5,326
US Gov't & Agencies **	380,913													
Total Debt Securities	$ 2,623,418													

2011	Total Fair Value	Credit Rating* AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 32,332	$ 12,757	$ 5,347	$ 2,923	$ 5,118	$ 333	$ 2,505	$ 2,991	$ 184	$ -	$ 174	$ -
Bank Loans	6,481	-	-	-	922	3,338	1,786	435	-	-	-	-
Commercial Mortgage Backed	35,795	26,774	2,654	4,647	1,651	69	-	-	-	-	-	-
Corporate Bonds	644,800	3,735	40,827	165,601	310,264	62,240	42,149	14,095	2,237	210	3,215	227
Corporate Convertible Bonds	59,474	590	4,448	14,314	6,311	10,579	13,493	9,739	-	-	-	-
Gov't Agencies	71,498	55,965	3,660	8,416	3,457	-	-	-	-	-	-	-
Gov't Bonds	186,165	140,409	2,948	26,425	9,906	6,068	326	83	-	-	-	-
Gov't Mortgage and Commercial Mortgage Backed	2,761	2,761	-	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	4,498	4,498	-	-	-	-	-	-	-	-	-	-
Index Linked Gov't Bonds	3,409	2,222	-	-	-	1,187	-	-	-	-	-	-
Municipal/Provincial Bonds	25,327	7,854	4,868	9,531	1,002	2,072	-	-		-	-	-
Non-Gov't Backed CMOs	49,026	23,098	3,849	3,903	3,246	1,704	2,773	8,855	250	1	1,347	-
Short Term Bills and Notes	480	480	-	-	-	-	-	-		-	-	-
Other Fixed Income	977	977	-							-	-	
Pooled Investments	655,037	198,626	330,311	1,872	105,338	6,475	12,415	-	-	-	-	-
Total Credit Risk of Debt Securities	1,778,060	$ 480,746	$ 398,912	$ 237,632	$ 447,215	$ 94,065	$ 75,447	$ 36,198	$ 2,671	$ 211	$ 4,736	$ 227
US Gov't & Agencies	229,361											
Total Debt Securities	$ 2,007,421											

* Ratings are determined in the following order:

1. S&P rating
2. Moody's rating
3. Fitch rating
4. Manager-determined rating (internal rating)
5. If no ratings available using steps 1-4, then shown as not rated.

** US government agency securities explicitly guaranteed by the US government are categorized here. Credit ratings of US government agency securities that are only implicitly guaranteed by the US government are categorized accordingly in the main body of this table.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB's exposure to foreign currency risk is presented in the following tables as of June 30, 2012 and 2011 (expressed in thousands).

2012

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (11,683)	$ 11,796	$ 13,446	$ 13,559
Brazilian real	217	5,362	77	5,656
British pound sterling	6,868	7,480	64,386	78,734
Canadian dollar	338	1,249	4,004	5,591
Chilean peso	3,152	-	-	3,152
Czech koruna	136	1	-	137
Israeli shekel	21	-	1,234	1,255
Danish krone	37	-	1,600	1,637
Euro	(7,385)	3,435	98,386	94,436
Hong Kong dollar	36	-	7,471	7,507
Hungarian forint	197	3,966	-	4,163
Iceland krona	30	-	-	30
Indian rupee	-	-	-	-
Indonesian Rupiah	-	-	-	-
Japanese yen	(3,317)	-	50,209	46,892
Malaysian Ringgit	-	4,222	-	4,222
Mexican peso	200	12,493	-	12,693
New Zealand dollar	(2,382)	3,330	-	948
Norwegian krone	514	6	4,425	4,945
Philippine peso	-	2,251	-	2,251
Polish zloty	301	5,756	-	6,057
Singapore dollar	405	1	3,160	3,566
South African rand	56	3,967	-	4,023
South Korean won	-	4,428	572	5,000
Swedish krona	394	1	7,034	7,429
Swiss franc	-	-	19,809	19,809
Thai baht	-	-	-	-
Turkish lira	(307)	4,774	-	4,467
International commingled funds (various currencies)	-	94,744	280,732	375,476
Total international investment securities	$ (12,172)	$ 169,262	$ 556,545	$713,635

2011

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (9,878)	$ 11,131	$ 16,244	$ 17,497
Brazilian real	(3,802)	6,877	62	3,137
British pound sterling	10,553	8,647	65,886	85,086
Canadian dollar	(1,525)	7,511	5,252	11,238
Chinese yuan renminbi	4,033	-	-	4,033
Czech koruna	381	-	-	381
Israeli shekel	6	-	1,997	2,003
Danish krone	47	-	1,878	1,925
Euro	1,608	1,825	106,726	110,159
Hong Kong dollar	6	-	8,231	8,237
Hungarian forint	527	2,642	-	3,169
Iceland krona	33	-	-	33
Indian rupee	-	745	-	745
Indonesian Rupiah	-	8,915	-	8,915
Japanese yen	(1,703)	-	54,211	52,508
Malaysian Ringgit	-	4,718	57	4,775
Mexican peso	194	7,660	-	7,854
New Zealand dollar	(2,930)	3,600	-	670
Norwegian krone	639	4,209	9,444	14,292
Philippine peso	-	2,101	-	2,101
Polish zloty	234	6,321	137	6,692
Singapore dollar	2,969	-	2,477	5,446
South African rand	282	3,148	-	3,430
South Korean won	-	7,369	966	8,335
Swedish krona	587	-	5,576	6,163
Swiss franc	385	-	20,775	21,160
Turkish lira	3,681	423	-	4,104
International commingled funds (various currencies)	-	-	182,464	182,464
Total international investment securities	$ 6,327	$ 87,842	$ 482,383	$576,552

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or “derived” from, the performance of some agreed upon benchmark. The investment policies of the SIB’s clients allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statements of Net Assets. At June 30, 2012 and 2011, the SIB had four types of derivative securities: futures, options, swaps and currency forwards.

Futures

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specific price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the SIB’s counterparty risk. The net change in the futures contracts’ value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net change in fair value of investments in the Statement of Changes in Net Assets and totaled $(35.0) million for fiscal year 2012 and $156.5 million for fiscal year 2011. At June 30, 2012 and 2011, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value	
	June 30, 2012	June 30, 2011
Cash & Cash Equivalent Derivative Futures		
Long	$ 188,297	$ 140,245
Short	(117,655)	(130,777)
Equity Derivative Futures		
Long	411,726	529,063
Short	-	-
Fixed Income Derivative Futures		
Long	4,710	13,821
Short	(31,035)	(94,484)
Total Futures	$ 456,043	$ 457,868

Options

Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. Options are traded on organized exchanges (exchange traded) thereby minimizing the SIB’s counterparty credit risk. The option’s price is usually a small percentage of the underlying asset’s value. As a seller of a financial option, the SIB, through its investment manager, receives a premium at the beginning of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a buyer of a financial option, the SIB, through its investment manager, pays a premium at the beginning of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Gains and losses on options are determined based on fair values and recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $0.4 million for fiscal year 2012 and $(1.8) million for fiscal year 2011. At June 30, 2012 and 2011, the SIB investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value June 30, 2012	Fair Value June 30, 2011
Cash & Cash Equivalent Options		
Call	$ -	$ -
Put	1	-
Equity Options		
Call	-	-
Put	-	-
Fixed Income Options		
Call	-	-
Put	5	-
Total Options	$ 6	$ -

Swaps

A swap is a derivative in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument. Specifically, the two counterparties agree to exchange one stream of cash flows for another stream. The SIB, through its investment managers, has entered into various swap agreements in an attempt to manage its exposure to interest rate and credit risk.

Interest rate risk represents the exposure to fair value losses arising from future changes in prevailing market interest rates. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty, who in turn agrees to make return interest payments that float with some reference rate.

Credit risk represents the exposure to fair value losses arising from a credit event such as default, failure to pay, restructuring or bankruptcy. In a credit default swap (CDS) contract, the protection buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if the credit instrument experiences a credit event. CDS contracts are also used to establish exposure to a desired credit instrument.

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $921 thousand for fiscal year 2012 and $(201) thousand for fiscal year 2011. The maximum loss that would be recognized at June 30, 2012 and 2011, if all counterparties failed to perform as contracted is $1.75 million and $1.25 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2012 and 2011, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value June 30, 2012	Fair Value June 30, 2011
Deutsche Bank AG New York/Aa3	$ 45	3/20/2014	$ -	$ (8)
Deutsche Bank AG New York/Aa3	120	9/20/2013	-	1
Deutsche Bank AG New York/Aa3	75	3/20/2012	-	(2)
JP Morgan Chase Bank N.A./Aa3 (3 contracts)	11,000	10/12/2052	396	-
JP Morgan Chase Bank N.A./Aa3	400	3/20/2017	12	-
JP Morgan Chase Bank N.A./Aa3 (3 contracts)	12,700	6/20/2017	73	-
Deutsche Bank AG New York/A2	45	3/20/2014	(5)	-
Deutsche Bank AG New York/A2	120	9/20/2013	-	-
Morgan Stanley Cap Services NY/Baa1 (3 contracts)	300	3/20/2013	2	-
Citibank N.A. NY/A3	2,000	6/20/2017	68	-
Total Credit Default Swaps	$ 26,805		$ 546	$ (9)

Interest Rate Swaps

Counterparty	Notional Amount	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value June 30, 2012	Fair Value June 30, 2011
Barclays Bank PLC London (15 contracts)	(3,348)	0.283% to 7.130%	Various overnight bank rates depending on currency	12/2011 - 06/2021	Aa3		(19)
Barclays Bank PLC New York (13 contracts)	6,047	0.359% to 5.750%		08/2012 - 02/2022	A2	8	
Barclays Capital Securities London (7 contracts)	(1,229)	0.329% to 5.665%		01/2012 - 08/2020	Aa3		(5)
Barclays Capital Securities London (7 contracts)	3,124	1.10% to 6.60%		02/2013 - 02/2022	A2	20	
Citibank N.A. New York (10 contracts)	(2,193)	0.430% to 3.763%		01/2012 - 02/2021	A1		(138)
Citibank N.A. New York (11 contracts)	5,426	0.62% to 7.70%		11/2012 - 06/2022	A3	151	
Deutsche Bank Singapore (1 contract)	316	0.345%		7/21/2012	A2	(0)	
HSBC Bank USA New York (1 contract)	190	3.810%		1/3/2028	A1	75	
JP Morgan Chase Bank N.A. (4 contracts)	(4,109)	0.913% to 6.380%		07/2012 - 01/2028	Aa3	(8)	
Morgan Stanley Capital Services NY (1 contract)	290	6.370%		5/25/2022	Baa1	11	
Morgan Stanley Capital Services NY (5 contracts)	504	2.510% to 5.110%		02/2012 - 06/2021	A2		(115)
Total Interest Rate Swaps	$ 5,018					$ 257	$ (277)

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $0.9 million for fiscal year 2012 and $(12.9) million for fiscal year 2011. At June 30, 2012 and 2011, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

				Fair Value	
Currency	Cost	Purchases	Sales	6/30/2012	6/30/2011
Australian dollar	$ (9,459)	$ 878	$ (10,337)	$ (9,486)	$ (9,842)
Brazilian real	4	2,684	(2,680)	217	(3,802)
British pound sterling	7,098	7,562	(464)	7,108	6,070
Canadian dollar	298	980	(682)	300	(1,554)
Chilean peso	3,206	3,206	-	3,152	-
Chinese yuan renminbi	-	-	-	-	4,033
Czech koruna	141	658	(517)	132	388
Euro	(3,514)	181	(3,695)	(3,451)	(2,400)
Hungarian forint	193	405	(212)	197	540
Japanese yen	(1,873)	-	(1,873)	(1,859)	(492)
Mexican peso	189	714	(525)	199	195
New Zealand dollar	(2,261)	632	(2,893)	(2,382)	(2,931)
Norwegian krone	269	1,084	(815)	263	495
Polish zloty	299	598	(299)	300	251
Singapore dollar	364	1,178	(814)	367	2,519
South African rand	63	665	(602)	55	282
Swedish krona	197	562	(365)	205	494
Swiss franc	-	-	-	-	83
Turkish lira	3,940	4,702	(762)	3,919	3,681
United States dollar	843	27,532	(26,689)	843	1,254
Total forwards subject to currency risk				$ 79	$ (736)

Derivative Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an interest rate-based derivative investment. The SIB does not have a formal investment policy regarding such derivative investments. At June 30, 2012 and 2011, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2012

	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Futures-interest rate contracts	$ (151,319)	$ (98,853)	$ (2,736)	$ (42,526)	$ (7,204)	$ -

	Total Fair Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Options on interest rate futures	$ 6	$ -	$ 6	$ -	$ -	$ -
Swaps - interest rate contracts	257	6	4	16	30	201
Total	$ 263	$ 6	$ 10	$ 16	$ 30	$ 201

2011

	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Futures-interest rate contracts	$ (212,302)	$ (123,551)	$ (88,751)	$ -	$ -	$ -

	Total Fair Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Options on interest rate futures	$ -	$ -	$ -	$ -	$ -	$ -
Swaps - interest rate contracts	(277)	-	(7)	(14)	(11)	(245)
Total	$ (277)	$ -	$ (7)	$ (14)	$ (11)	$ (245)

Alternative Investments

The AICPA defines Alternative Investments for the purpose of performing audits. The definition includes investments for which a readily determinable fair value does not exist (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or Nasdaq). These types of investments can be held within any of the asset classes used by the SIB based on underlying portfolio holdings and analysis of risk and return relationships. These investments can be structured in different ways, including limited partnerships, limited liability companies, common trusts and mutual funds. Some are closed-ended with a specific life and capital commitment while others are open-ended with opportunity for ad hoc contributions or withdrawals and termination upon proper notice.

Commingled/Mutual Funds — These types of funds are generally open-ended funds and may be utilized in equity or fixed income asset classes. They are funds made up of underlying securities that have readily available fair values (publicly traded stocks or bonds). The SIB owns units of these funds rather than the individual securities. Contributions or withdrawals from these funds can be made as needed.

Private Equity — Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Private Equity portfolios generally have a "J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and returns have not been realized. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies. The SIB has a dedicated asset class for private equity investments.

Venture Capital — these include investments in companies in a range of stages of development from start-up/seed stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten.

Buyouts — these include investments in funds that seek out and purchase underperforming or undervalued companies in order to improve them and sell them or take them public many years later. These funds are also often involved in management buyouts, which are buyouts conducted by the management of the company being purchased, and they often play key roles in leveraged buyouts, which are buyouts that are funded with borrowed money.

Distressed Debt — these include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments, mortgages and bank loans. The SIB is including these types of investments in its private equity asset class.

Mezzanine Debt — This strategy is a hybrid of debt and equity financing. It is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to senior debt. The SIB utilizes this strategy, through a limited partnership structure, in its below investment grade fixed income allocation.

Equity Long/Short — This strategy is a combination of long and short positions, primarily in publicly traded equities. The SIB utilizes this strategy in its US equity allocations.

Real Estate and Real "Tangible" Assets — These investments are intended to provide allocations to tangible assets that are expected to be inflation protected and provide performance above the inflation rate as indicated by the CPI. Investments are generally structured as limited partnerships or limited liability companies. Investments in Real Estate and Real Assets include:

Real Estate — includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include "value added" strategies, which derive their return from both income and appreciation, "opportunistic", which derive their return primarily through appreciation, and "alternative" which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The SIB has a dedicated asset class for these types of investments.

Timberland — includes investments in limited liability companies that have an ownership interest in properties where the value of the property is derived mainly from income-producing timber but also from the "higher and better use" value of the underlying land. The SIB has a dedicated asset class for these types of investments.

Infrastructure — includes investments in limited partnerships that have an ownership interest in transportation assets such as toll roads, tunnels and bridges; and regulated assets such as electricity transmission, gas and oil distribution and wastewater collection. Other possible investments would include communication assets and social infrastructure. The SIB has a dedicated asset class for these types of investments.

Securities Lending

The following represents the balances relating to the securities lending transactions at June 30, 2011 (expressed in thousands). There was no securities lending program in place for the year ended June 30, 2012.

June 30, 2011 **Securities Lent**	**Underlying Securities**	**Non-Cash Collateral Value**	**Cash Collateral Investment Value**
Lent for cash collateral:			
US agency securities	$ -	$ -	$ -
US government securities	-	-	-
US corporate fixed income securities	-	-	-
Global government fixed income securities	-	-	-
US equities	< 1	-	14
Global equities	-	-	-
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	-	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	< 1	$ -	$ 14

Note 4 - Capital Assets

	June 30, 2010	Additions	Retirements	June 30, 2011	Additions	Retirements	June 30, 2012
Office equipment	$33,911	$ -	$ (14,590)	$19,321	$ -	$0	$19,321
Less accumulated depreciation on office equipmer	(28,573)	(2,288)	14,590	(16,271)	(2,288)	-	(18,559)
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation on software	(1,152,825)	(60,675)	-	(1,213,500)	-	-	(1,213,500)
	$66,013			$3,050			$762

Note 5 - State Agency Transactions

Due From/To Other State Agencies

Amounts due from/to other state agencies are as follows as of June 30, 2012 and 2011:

	2012	2011
Due To		
Information Technology Department	$ 6,234	$ 7,194
Office of Attorney General	1,336	1,439
Office of Management and Budget	9,750	3,843
Total due to other state agencies	$ 17,320	$ 12,476
Due From		
Public Employees Retirement System	$ 1,461	$ -
Total due from other state agencies	$ 1,461	$ -

These balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

Note 6 - Operating Leases

RIO leases office space under an operating lease effective July 1, 2011 through June 30, 2013. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $77,983 and $76,104 for fiscal 2012 and 2011. Minimum payments under the lease for fiscal 2013 are $76,351.

Note 7 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2012 and 2011 are summarized as follows:

	Beginning Balance 7/1/2011	Additions	Reductions	Ending Balance 6/30/2012	Amounts Due Within One Year
Accrued Leave	129,737	82,071	(75,350)	136,458	69,848

	Beginning Balance 7/1/2010	Additions	Reductions	Ending Balance 6/30/2011	Amounts Due Within One Year
Accrued Leave	107,984	84,726	(62,973)	129,737	70,469

Pension and Investment Trust Funds liquidate the accrued annual leave.

Note 8 - North Dakota Teachers' Fund for Retirement

General

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Membership

As of June 30, 2012 and 2011, the number of participating employer units was 222 and 226, respectively, consisting of the following:

	2012	2011
Public School Districts	180	181
County Superintendents	8	9
Special Education Units	19	21
Vocational Education Units	5	5
Other	10	10
Total	222	226

TFFR's membership consisted of the following:

TFFR Membership	2012	2011
Retirees and beneficiaries currently receiving benefits	7,151	6,933
Terminated employees - vested	1,483	1,463
Terminated employees - nonvested	468	407
Total	9,102	8,803
Current employees		
Vested	7,570	8,013
Nonvested	2,444	1,991
Total	10,014	10,004

Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (global equities, global fixed income securities, global real assets, and cash). The Board has set 8% as the plan's actuarially assumed rate of return. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the years ended June 30, 2012 and 2011, TFFR had net realized gains of $10,017,507 and $103,985,143 respectively.

Investment Expenses

Investment expenses consist of fees charged by RIO for investment managers and investment-related service fees from The Northern Trust Company, the Bank of North Dakota, and certain other investment advisors. All TFFR expenses are paid out of TFFR assets.

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 8.75% of the teacher's salary. Member contributions will increase to 9.75% on 7/1/2012 and 11.75% on 7/1/2014. Employer contributions will increase to 10.75% on 7/1/2012 and 12.75% on 7/1/2014. Member and employer contributions will be reduced to 7.75% each when the fund reaches 90% funded ratio on an actuarial basis.

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of contributions paid before age 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Pension Benefits

For purposes of determining pension benefits, members are classified within one of two "tiers." Tier 1 members are those with service credit on file as of July 1, 2008, and Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008. (Note: Legislation approved in 2011 will modify pension eligibility requirements for certain non-grandfathered Tier 1 members and Tier 2 members effective 7/1/2013.)

Tier 1

A Tier 1 member is entitled to receive unreduced benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Tier 2

A Tier 2 member is entitled to receive unreduced benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 90. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas.

Death and Disability Benefits

Death benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement. (Note: Legislation approved in 2011 will modify disability eligibility requirements and benefit calculations effective 7/1/2013.)

Funded Status and Funding Progress

The funded status of the Defined Benefit Plan as of the most recent actuarial valuation date is as follows (in millions):

Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
2012	$ 1,748.1	$ 2,871.9	$ 1,123.8	60.9%	$ 505.3	222.4%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear funding trend information as obtained from TFFR's independent actuary's annual valuation report.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2012	July 1, 2011
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of payroll, assuming payroll increases of 3.25% per annum	Level percent of payroll, assuming payroll increases of 3.25% per annum
Amortization period	30-year open period	30-year open period
Asset valuation method	Market value of assets less unrecognized returns in each of last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period.	Market value of assets less unrecognized returns in each of last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period.
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	4.50% to 14.75%	4.50% to 14.75%
Inflation	3.00%	3.00%
Cost of living adjustments	None	None

TFFR Plan Changes Affecting Audit Period

1. The employer contribution rate increased from 8.25% to 8.75% effective July 1, 2010. The employer contribution rate increases from 8.75% to 10.75% effective July 1, 2012, and increases thereafter to 12.75% effective July 1, 2014. The member contribution rate increases from 7.75% to 9.75% effective July 1, 2012, and increases thereafter to 11.75% effective July 1, 2014. Employer and member contributions will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets.

2. For current Tier 1 members who, as of June 30, 2013, are vested (at least 3 years of service), and at least age 55, OR the sum of the member's age and service is at least 65, are considered a Tier 1 Grandfathered member. Current Tier 1 members, who do not meet this criteria as of June 30, 2013, are considered a Tier 1 Non-grandfathered member.

3. Eligibility for normal/unreduced retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective after June 30, 2013, unreduced retirement benefits start when a member reaches age 65 and is vested (3 years for Tier 1 Non-grandfathered, 5 years for Tier 2); or if earlier, when the sum of the member's age and service is at least 90, with a minimum age of 60.

4. Early reduced retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective after June 30, 2013, the normal retirement benefit will be reduced by 8% per year from the earlier of age 65 OR the age at which the sum of the member's age and service is at least 90, with a minimum age of 60.

5. Effective after June 30, 2013, members may retire on disability after a period of at least five years of service (rather the one year of service). The amount of the benefit is based on a 2% multiplier and actual service (rather than a minimum of twenty years of service in the current calculation).

6. Effective July 1, 2012, member contributions are required on re-employed retirees.

7. Effective August 1, 2011, beneficiary and death benefit provisions were updated, and the 60-month death payment benefit was removed.

Note 9 - Public Employees Retirement System (PERS)

Permanent employees of RIO participate in PERS, which is also an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. PERS is a cost-sharing multiple-employer defined benefit public employee retirement system that provides retirement, disability and death benefits to eligible employees and beneficiaries. PERS is administered in accordance with NDCC Chapter 54-52. PERS issues a publicly available financial report that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501 or by calling 1-800-803-7377.

The financial statements of PERS are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of PERS.

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate (as of January 1, 2012) is 9.12% of annual covered payroll as established by the NDCC. Prior to that date the contribution rate was 8.12%. RIO's contributions to PERS for the years ended June 30, 2012, 2011, and 2010, were $102,664, $84,091, and $82,788, equal to the required contributions for each year plus a 1.14% contribution for retiree health benefits.

Note 10 - Related Parties

As stated in Note 1, RIO is an agency of the State of North Dakota; as such, other agencies of the state are related parties.

Note 11 - Commitments

The State Investment Board has at June 30, 2012 committed to fund certain alternative investment partnerships in the amount of $1.13 billion. Funding of $802.7 million has been provided leaving an unfunded commitment of approximately $325.4 million.

Note 12 - Pending Litigation

WG Trading

In February, 2009, the State Investment Board (SIB) was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company, the broker/dealer for the Westridge Capital Management portfolios, were charged with securities fraud for allegedly diverting investor funds for their personal use. The SIB was an investor along with numerous other public and private pension funds. Investors had been offered two options: invest directly in WG Trading Company (WGTC) by purchasing a limited partnership interest in it; or lend money to WG Trading Inc. (WGTI). WGTC was subject to SEC regulation, capital requirements, reporting and oversight, whereas WGTI was an unregulated and unaudited entity. SIB chose to invest directly in the regulated, audited WGTC.

At the time the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC) charges were filed, the court appointed a receiver to take control of any recoverable assets. The receiver recommended the court distribute the recovered assets as follows: pool the assets of WGTC and WGTI, and distribute those assets *pro rata* to all investors. The receiver's method did not take into consideration the terms in which each investor entered into the investment (i.e. limited partnership interest versus note holder agreement), even though the majority of the WGTC assets were intact and the fraud predominantly occurred with WGTI. The SIB joined with other WGTC investors and objected to a *pro rata* distribution to all investors. The receiver and the WGTI investors opposed. The court agreed with the receiver and in April, 2011, the recovered assets were distributed to all investors in a *pro rata* distribution based on net investment balances. The SIB received a total distribution of $63.9 million, which represented approximately 85% of its remaining cost basis with WGTC. The total realized loss included in the June 30, 2011, financial statements attributable to the fraud is $11.3 million and is allocated to the participating pooled funds as follows (expressed in thousands):

	Total Recovery (April 2011)	Cost Basis	Realized loss
Teachers' Fund for Retirement	$ 23,001	$ 27,080	$ (4,079)
Public Employees Retirement System	26,012	30,626	(4,614)
Bismarck City Employee Pension Plan	503	592	(89)
Bismarck City Police Pension Plan	268	316	(48)
Job Service of ND	1,408	1,657	(249)
City of Fargo Employee Pension Plan	445	524	(79)
Workforce Safety & Insurance	10,616	12,499	(1,883)
State Fire & Tornado	512	603	(91)
State Bonding	51	60	(9)
Risk Mgmt	88	104	(16)
Risk Mgmt Work Comp	63	74	(11)
Insurance Regulatory Trust Fund	16	18	(2)
Petroleum Tank Release Comp Fund	155	182	(27)
ND Ass'n of Counties Fund	54	64	(10)
City of Bismarck Deferred Sick Leave	13	15	(2)
City of Fargo FargoDome Permanent Fund	718	846	(128)
Cultural Endowment Fund	8	10	(2)
Totals	$ 63,931	$ 75,270	$ (11,339)

The SIB does not agree with the method used to distribute the assets, and along with the other WGTC limited partners is appealing the District Court's ruling. It is the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners are entitled to a greater share of the recovered assets than the unaudited note holders. At this time it is difficult to estimate the potential additional distribution that could be received if the appeal is successful, therefore, no amount has been included on the balance sheet as of June 30, 2012 or 2011.

Tribune

The SIB has been listed as a defendant in a putative defense class action originally filed in the United States Bankruptcy Court for the District of Delaware, styled The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, et al., Bankr. Case No. 10-54010 (the "Adversary Proceeding"), and subsequently transferred to a multi-district litigation proceeding in the United States District Court for the Southern District of New York, Case Nos. 12-cv-02652, and 11-md-02296.

The Adversary Proceeding arises out of a leveraged buyout by which the Tribune Company converted to a privately held company in 2007 pursuant to which beneficial owners of Tribune stock were paid $34 a share. The Official Committee of Unsecured Creditors (the "Committee") contends that there was misconduct in connection with that offering, including fraud. No such allegations have been made against the SIB. Nevertheless, the Committee seeks to recover the payments made pursuant to the offering to beneficial owners, allegedly including the SIB (among thousands of other putative shareholder defendants) in connection with the leveraged buyout. The SIB's records indicate that it received, in the aggregate, $1,003,000 in Tribune leveraged buyout payments, comprised of two separate payments.

The Committee purportedly served the SIB with a copy of the summons and complaint in the Adversary Proceeding on or about February 13, 2012. In large part, however, the Adversary Proceeding has been stayed from its inception, and no substantive motions or answers have been filed by the SIB or any other defendant in response to the complaint. The Court has preliminary indicated that motion to dismiss briefing will be due in November 2012, with a hearing sometime in March 2013. Under the circumstances, we are not able to assess the likelihood of a loss to the State or predict the probability of a favorable or unfavorable outcome or the amount of potential loss, in the event of an unfavorable outcome.

SUPPLEMENTARY INFORMATION

Schedule of Funding Progress
North Dakota Teachers' Fund for Retirement
(Dollars in Millions)

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) as a Percentage of Annual Covered Payroll
2007	$1,750.1	$2,209.3	$ 459.2	79.2%	$401.3	114.4%
2008	1,909.5	2,330.6	421.1	81.9	417.7	100.8
2009	1,900.3	2,445.9	545.6	77.7	440.0	124.0
2010	1,842.0	2,637.2	795.2	69.8	465.0	171.0
2011	1,822.6	2,749.8	927.2	66.3	488.8	189.7
2012	1,748.1	2,871.9	1,123.8	60.9	505.3	222.4

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

	GASB 25 Annual Required Contribution (ARC)		Actual Employer Contributions		Percentage of GASB ARC Contributed
Fiscal Year	% of Payroll[1]	Amount[2]	% of Payroll	Amount	
2007	12.29%	$ 50,532,462	7.75%	$ 31,865,466	63.1%
2008	10.15%	44,114,585	7.75%	33,683,550	76.4%
2009	9.24%	41,986,174	8.25%	37,487,655	89.3%
2010	10.78%	52,053,217	8.25%	39,836,646	76.5%
2011	12.79%	65,112,696	8.75%	44,545,433	68.4%
2012	13.16%	69,373,794	8.75%	46,126,193	66.5%

1. The GASB ARC for each fiscal year is based on the actuarial valuation as of the beginning of the year. Therefore, the FY2012 ARC is based on the July 1, 2011 valuation. The ARC is defined as the contribution rate required to pay the employer normal cost and to amortize the unfunded actuarial accrued liability over a 30-year period as a level percentage of payroll, but not less than the statutory contribution rate.

2. The dollar amount of the ARC is based on actual payroll for the year. The FY2012 ARC shown above differs from the estimated dollar amount shown in the July 1, 2011 actuarial valuation report because of differences between estimated and actual FY2012 payroll.

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	Pension Pool Participants							Insurance Pool Participants			
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund
Assets:											
Investments											
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	890,663,278	27,342,251	13,174,506	34,308,190	15,970,037	24,097,344	2,666,215	275,288,439	8,563,036	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	404,805,375	19,734,123	7,403,755	50,097,236	7,036,817	10,438,691	1,102,504	1,039,343,979	13,422,707	1,658,363	3,333,169
Real assets pool	344,423,175	12,947,067	4,905,930	-	4,569,923	6,360,775	430,221	95,897,221	-	-	-
Private equity pool	103,233,766	640,767	823,410	-	1,593,469	2,230,176	245,202	-	-	-	-
Cash pool	28,494,539	502,582	260,798	284,806	425,720	826,921	54,165	14,199,479	2,408,042	1,370,919	3,372,174
Total investments	1,771,620,133	61,166,790	26,568,399	84,690,232	29,595,966	43,953,907	4,498,307	1,424,729,118	24,393,785	3,029,282	6,705,343
Invested sec lending collateral	-	-	-	-	-	-	-	-	-	-	-
Investment income receivable	2,692,043	26,690	23,238	63,276	(36,514)	(9,727)	(2,930)	9,979,790	129,089	26,945	58,092
Operating Cash	66,326	-	-	-	-	-	-	53,797	988	1,117	1,015
Miscellaneous receivable	4,369	-	-	-	-	-	-	3,441	59	7	16
Total assets	1,774,382,871	61,193,480	26,591,637	84,753,508	29,559,452	43,944,180	4,495,377	1,434,766,146	24,523,921	3,057,351	6,764,466
Liabilities:											
Investment expenses payable	2,089,183	75,461	32,581	69,349	35,545	52,570	4,292	936,846	19,874	941	1,902
Securities lending collateral	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	12,705	-	-	-	-	-	-	9,544	167	20	46
Accrued expenses	24,906	-	-	-	-	-	-	19,414	359	42	114
Miscellaneous payable	-	2,277	1,001	3,275	1,141	1,465	250	-	-	-	-
Due to other state agencies	1,521	-	-	-	-	-	-	1,198	21	3	6
Total liabilities	2,128,315	77,738	33,582	72,624	36,686	54,035	4,542	967,002	20,421	1,006	2,068
Net assets held in trust for external investment pool participants	$ 1,772,254,556	$ 61,115,742	$ 26,558,055	$ 84,680,884	$ 29,522,766	$ 43,890,145	$ 4,490,835	$ 1,433,799,144	$ 24,503,500	$ 3,056,345	$ 6,762,398
Each participant unit is valued at $100											
Participant units outstanding	1,772,254,556	61,115,742	26,558,055	84,680,884	29,522,766	43,890,145	4,490,835	1,433,799,144	24,503,500	3,056,345	6,762,398

North Dakota Retirement and Investment Office

Combining Statement of Net Assets – Investment Trust Funds – Fiduciary Funds

June 30, 2012 (with Comparative Totals for 2011)

Insurance Pool Participants										Individual Investment Acct.		
Insurance Regulatory Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	PERS Group Insurance	Budget Stabilization Fund	Legacy Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	Totals 2012	Totals 2011
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 36,131,488	$ 36,131,488	$ 34,084,756
289,174	156,681	1,586,358	1,894,470	493,924	-	-	-	276,579	16,003,559	-	1,312,774,041	1,411,952,870
-	-	-	-	-	-	383,678,688	397,275,464	-	-	25,920,425	806,874,577	22,935,906
332,773	105,304	3,276,241	2,966,252	945,998	-	-	-	603,062	15,775,794	-	1,582,382,143	2,005,016,528
-	13,966	-	-	-	-	-	-	-	-	-	469,548,278	196,439,719
-	-	-	-	-	-	-	-	-	-	-	108,766,790	67,591,681
331,606	8,150	254,671	147,249	210,472	6,899,785	8,940,825	38,124	45,332	277,854	-	69,354,213	116,312,551
953,553	284,101	5,117,270	5,007,971	1,650,394	6,899,785	392,619,513	397,313,588	924,973	32,057,207	62,051,913	4,385,831,530	3,854,334,011
-	-	-	-	-	-	-	-	-	-	-	-	13,600
8,819	83	49,270	6,621	1,987	19	2,447,112	1,691,686	1,501	30,127	67,527	17,254,744	12,821,803
874	361	979	1,004	-	-	13,524	12,787	-	-	-	152,772	153,724
2	1	11	10	-	-	948	642	-	-	-	9,506	12,232
963,248	284,546	5,167,530	5,015,606	1,652,381	6,899,804	395,081,097	399,018,703	926,474	32,087,334	62,119,440	4,403,248,552	3,867,335,370
614	265	3,938	4,131	1,244	-	119,850	129,089	736	34,467	37,054	3,649,932	3,573,700
-	-	-	-	-	-	-	-	-	-	-	-	13,600
8	2	31	28	-	-	2,482	1,681	-	-	-	26,714	54,288
15	4	62	53	-	-	3,629	1,827	-	-	-	50,425	51,601
-	-	-	-	250	250	-	-	250	1,203	2,175	13,537	18,091
-	-	4	3	-	-	330	223	-	-	-	3,309	1,196
637	271	4,035	4,215	1,494	250	126,291	132,820	986	35,670	39,229	3,743,917	3,712,476
$ 962,611	$ 284,275	$ 5,163,495	$ 5,011,391	$ 1,650,887	$ 6,899,554	$ 394,954,806	$ 398,885,883	$ 925,488	$ 32,051,664	$ 62,080,211	$ 4,399,504,635	$ 3,863,622,894
962,611	284,275	5,163,495	5,011,391	1,650,887	6,899,554	394,954,806	398,885,883	925,488	32,051,664	62,080,211	4,399,504,635	3,863,622,894

	Pension Pool Participants							Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Additions:												
Investment income:												
Net change in fair value of investments	$ (40,138,712)	$ 176,642	$ (10,241)	$ 456,149	$ (294,620)	$ (429,165)	$ (60,414)	$ 39,444,727	$ 387,069	$ 80,255	$ 161,701	$ (49,067)
Interest, dividends and other income	43,094,734	1,664,728	673,595	2,908,939	688,900	1,003,146	111,050	47,896,009	819,440	79,056	161,523	43,279
	2,956,022	1,841,370	663,354	3,365,088	394,280	573,981	50,636	87,340,736	1,206,509	159,311	323,224	(5,788)
Less investment expenses	6,284,634	213,743	92,910	264,891	100,760	151,256	14,575	4,683,033	58,902	3,503	7,093	2,259
Net investment income	(3,328,612)	1,627,627	570,444	3,100,197	293,520	422,725	36,061	82,657,703	1,147,607	155,808	316,131	(8,047)
Securities lending activity:												
Securities lending income	10,138	303	143	436	165	227	28	5,619	118	13	25	11
Less Securities lending expenses	(1,505)	(60)	(26)	(73)	(26)	(37)	(6)	(1,749)	(53)	3	7	(9)
Net securities lending income	11,643	363	169	509	191	264	34	7,368	171	10	18	20
Total Additions	(3,316,969)	1,627,990	570,613	3,100,706	293,711	422,989	36,095	82,665,071	1,147,778	155,818	316,149	(8,027)
Deductions:												
Administrative Expenses	265,959	-	-	-	-	-	-	186,926	3,340	990	1,008	996
Net change in net assets resulting from operations	(3,582,928)	1,627,990	570,613	3,100,706	293,711	422,989	36,095	82,478,145	1,144,438	154,828	315,141	(9,023)
Unit transactions at net asset value of $1 per unit:												
Purchase of units	-	6,000,000	1,500,000	-	1,000,000	4,004,185	259,727	24,000,000	-	-	-	-
Redemption of units	(24,500,000)	-	-	(4,137,055)	(575,000)	(3,550,470)	(218,759)	(22,500,000)	(1,800,000)	-	-	(2,700,000)
Net change in net assets and units resulting from unit transactions	(24,500,000)	6,000,000	1,500,000	(4,137,055)	425,000	453,715	40,968	1,500,000	(1,800,000)	-	-	(2,700,000)
Total change in net assets	(28,082,928)	7,627,990	2,070,613	(1,036,349)	718,711	876,704	77,063	83,978,145	(655,562)	154,828	315,141	(2,709,023)
Net assets:												
Beginning of year	1,800,337,484	53,487,752	24,487,442	85,717,233	28,804,055	43,013,441	4,413,772	1,349,820,999	25,159,062	2,901,517	6,447,257	3,671,634
End of year	$ 1,772,254,556	$ 61,115,742	$ 26,558,055	$ 84,680,884	$ 29,522,766	$ 43,890,145	$ 4,490,835	$ 1,433,799,144	$ 24,503,500	$ 3,056,345	$ 6,762,398	$ 962,611
	1,772,254,556	61,115,742	26,558,055	84,680,884	29,522,766	43,890,145	4,490,835	1,433,799,144	24,503,500	3,056,345	6,762,398	962,611

North Dakota Retirement and Investment Office

Combining Statement of Changes in Net Assets – Investment Trust Funds – Fiduciary Funds

Year Ended June 30, 2012 (with Comparative Totals for 2011)

Insurance Pool Participants											Individual Investment Acct.	Totals	
Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	PERS Group Insurance	Budget Stabilization Fund	Legacy Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	2012	2011
$ -	$ 4,789	$ 188,985	$ 167,998	$ (21,216)	$ -	$ (2,472,612)	$ (50,393)	$ 19,419	$ (25,951)	$ -	$ 163,508	$ (2,301,149)	$ 461,489,827
4,137	8,718	159,639	135,705	53,400	34,885	10,787,170	2,594,368	32,907	972,310	57	1,586,827	115,514,522	100,078,804
4,137	13,507	348,624	303,703	32,184	34,885	8,314,558	2,543,975	52,326	946,359	57	1,750,335	113,213,373	561,568,631
-	890	10,414	9,803	4,749	1,000	396,900	227,390	3,235	101,630	-	146,395	12,779,965	12,614,624
4,137	12,617	338,210	293,900	27,435	33,885	7,917,658	2,316,585	49,091	844,729	57	1,603,940	100,433,408	548,954,007
-	1	23	18	7	-	-	-	5	120	-	-	17,400	293,286
-	(1)	6	4	(4)	-	-	-	(2)	(137)	-	-	(3,668)	(48,354)
-	2	17	14	11	-	-	-	7	257	-	-	21,068	341,640
4,137	12,619	338,227	293,914	27,446	33,885	7,917,658	2,316,585	49,098	844,986	57	1,603,940	100,454,476	549,295,647
742	402	985	987	-	-	50,498	16,360	-	-	190	-	529,383	897,242
3,395	12,217	337,242	292,927	27,446	33,885	7,867,160	2,300,225	49,098	844,986	(133)	1,603,940	99,925,093	548,398,405
-	-	500,000	1,000,000	-	216,776,254	61,414,562	396,585,658	-	-	-	3,425,000	716,465,386	214,994,890
(2,325,883)	-	-	-	-	(215,500,000)	-	-	-	(2,200,000)	(501,571)	-	(280,508,738)	(278,091,444)
(2,325,883)	-	500,000	1,000,000	-	1,276,254	61,414,562	396,585,658	-	(2,200,000)	(501,571)	3,425,000	435,956,648	(63,096,554)
(2,322,488)	12,217	837,242	1,292,927	27,446	1,310,139	69,281,722	398,885,883	49,098	(1,355,014)	(501,704)	5,028,940	535,881,741	485,301,851
2,322,488	272,058	4,326,253	3,718,464	1,623,441	5,589,415	325,673,084	-	876,390	33,406,678	501,704	57,051,271	3,863,622,894	3,378,321,043
$ -	$ 284,275	$ 5,163,495	$ 5,011,391	$ 1,650,887	$ 6,899,554	$ 394,954,806	$ 398,885,883	$ 925,488	$ 32,051,664	$ -	$ 62,080,211	$ 4,399,504,635	$ 3,863,622,894
-	284,275	5,163,495	5,011,391	1,650,887	6,899,554	394,954,806	398,885,883	925,488	32,051,664	-	62,080,211	4,399,504,635	

North Dakota Retirement and Investment Office

Pension and Investment Trust Funds – Schedule of Administrative Expenses

Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Salaries and wages:				
Salaries and wages	$624,735	$609,564	$445,615	$409,882
Fringe benefits	227,391	223,493	124,842	106,270
Total salaries and wages	852,126	833,057	570,457	516,152
Operating expenses:				
Information services	74,036	74,221	11,899	10,594
Intergovernmental services	6,210	5,644	2,790	2,087
Professional services	161,937	512,737	45,650	382,628
Rent of building space	54,665	55,018	23,318	21,086
Mailing services and postage	39,147	52,399	23,926	31,648
Travel and lodging	21,665	25,680	25,454	33,831
Printing	10,498	23,125	5,345	9,170
Supplies	1,658	5,087	847	3,369
Professional development	9,819	11,201	1,882	3,173
Outside services	8,421	7,948	2,679	90,957
Small office equipment expense	700	10,900	2,527	2,115
Miscellaneous fees	3,771	3,000	2,908	3,867
Resource and reference materials	443	507	2,149	1,411
IT contractual services	154,436	102,492	1,326	1,982
Repairs - office equipment	9	68	340	24
Insurance	754	588	279	218
Total operating expenses	548,170	890,615	153,319	598,160
Pension trust portion of investment program expenses	194,393	217,070	(194,393)	(217,070)
Depreciation	2,288	62,963	-	-
Total administrative expenses	1,596,976	2,003,705	529,383	897,242
Less - nonappropriated items:				
Professional fees	161,937	512,737	45,650	382,628
Other operating fees paid under continuing appropriation	19,305	22,997	40,136	45,695
Depreciation	2,288	62,963	-	-
Accrual adjustments to employee benefits	5,557	15,457	1,164	6,295
Total nonappropriated items	189,087	614,154	86,951	434,618
Total appropriated expenditures	$ 1,407,890	$ 1,389,551	$ 442,432	$ 462,625

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Actuary fees:				
Gabriel, Roeder, Smith & Co.	$ -	$254,291	$ -	$ -
Segal Company	93,777	-	-	-
Auditing fees:				
CliftonLarsonAllen LLP	44,755	-	24,220	-
Eide Bailly, P.C.	(5,461)	46,768	(2,789)	23,882
CliftonGunderson LLP	-	24,379	-	53,271
Total Auditing Fees	39,294	71,147	21,431	77,153
Disability consulting fees:				
Dr. G.M. Lunn	300	500	-	-
Legal fees:				
Calhoun Law Group P.C.	5,748	16,348	-	-
K&L Gates LLP	6,778	136,904	8,471	261,400
Jenner & Block	978	13,268	1,903	25,102
ND Attorney General	15,098	20,279	13,808	18,973
Total legal fees:	28,602	186,799	24,183	305,475
Total consultant expenses	$ 161,973	$512,737	$ 45,614	$382,628

North Dakota Retirement and Investment Office

Pension and Investment Trust Funds – Schedule of Investment Expenses

Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Investment managers' fees:				
Global equity managers	$ 628,427	$ -	793,618	$ -
Domestic large cap equity managers	1,162,581	2,137,914	1,814,098	3,200,378
Domestic small cap equity managers	674,689	1,224,383	1,105,160	1,701,887
International equity managers	1,027,046	1,354,642	1,586,203	1,401,715
Emerging markets equity managers	428,517	1,058,054	590,141	1,211,990
Domestic fixed income managers	712,767	1,511,673	3,985,356	5,264,491
Below investment grade fixed income managers	990,581	2,783,656	1,264,007	2,483,649
Inflation protected assets managers	-	-	2,324,656	1,648,218
International fixed income managers	293,376	293,805	370,977	360,280
Real estate managers	1,628,104	1,952,869	2,784,378	2,224,531
Infrastructure managers	886,429	-	1,266,196	-
Timber managers	451,879	-	584,518	-
Private equity managers	2,798,325	1,261,507	2,920,720	1,351,879
Short term fixed income managers	-	-	564,284	217,963
Cash & equivalents managers	23,326	24,577	49,510	38,069
Balanced account managers	-	-	249,704	224,707
Total investment managers' fees	11,706,050	13,603,080	22,253,527	21,329,758
Custodian fees	247,562	321,522	552,859	606,384
Investment consultant fees	96,205	150,457	232,947	229,819
SIB Service Fees	-	-	45,891	70,980
Total investment expenses	$ 12,049,817	$ 14,075,059	$ 23,085,224	$ 22,236,940
Securities lending fees	$ (5,384)	$ (56,544)	$ (3,668)	$ (48,354)

Reconciliation of investment expenses to financial statements:

	2012	2011	2012	2011
Investment expenses as reflected in the financial statements	$ 5,661,973	$ 6,430,327	$ 12,779,965	$ 12,614,624
Plus investment management fees included in investment income				
Domestic large cap equity managers	136,427	445,019	197,944	708,369
Domestic small cap equity managers	437,092	858,551	547,055	986,777
International equity managers	179,602	234,358	281,501	275,330
Emerging markets equity managers	101,321	649,968	137,180	742,194
Domestic fixed income managers	403,043	910,025	2,073,076	2,314,772
Below investment grade fixed income managers	664,742	2,394,957	857,137	2,136,880
Inflation protected assets managers	-	-	1,228,180	451,705
Real estate managers	871,583	1,020,107	832,223	661,497
Infrastructure managers	446,542	-	622,240	-
Timber managers	451,879	-	584,518	-
Private equity managers	2,695,613	1,115,854	2,814,550	1,195,895
Short term fixed income managers	-	-	18,401	22,674
Cash equivalents managers	-	15,893	-	25,401
Balanced account managers	-	-	111,255	100,823
Investment expenses per schedule	$ 12,049,817	$ 14,075,059	$ 23,085,224	$ 22,236,940

	Approved 2011-2013 Appropriation	2009-2011 Appropriation Adjustment	Adjusted 2011-2013 Appropriation	Fiscal 2012 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	$ 3,203,114	$ -	$ 3,203,114	$ 1,415,862	$ 1,787,252
Operating expenses	947,840	-	947,840	434,460	513,380
Contingency	82,000	-	82,000	-	82,000
Total	$ 4,232,954	$ -	$ 4,232,954	$ 1,850,322	$ 2,382,632

NOTE: *Only those expenses for which there are appropriations are included in this statement.*

Reconciliation of Administrative Expenses
to Appropriated Expenditures

	2012
Administrative expenses as reflected in the financial statements	2,126,359
Less:	
Professional fees*	(207,587)
Other operating fees paid under continuing appropriations*	(59,441)
Depreciation expense	(2,288)
Changes in annual leave and FICA payments	(6,721)
Total appropriated expenses	$1,850,322

* North Dakota Century Code 21-10-06.2 and 15-39.1-05.2 provide authorization for the continuing appropriation.

Special Comments Requested by the Legislative Audit and Fiscal Review Committee Year Ended June 30, 2012

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by auditors performing audits of state agencies. These items and our responses are as follows:

Audit Report Communications

1. What type of opinion was issued on the financial statements?

Unqualified

2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?

Yes

3. Was internal control adequate and functioning effectively?

Yes

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No

5. Has action been taken on findings and recommendations included in prior year reports?

There were no prior year findings or recommendations.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.

Yes, a separate management letter has been issued and is attached. There were not any recommendations included in the management letter.

Audit Committee Communications

1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusually transactions.

   None

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.

   RIO utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associates with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the Statement of Net Assets.

   The actuarial valuation was based on the actuarial assumptions and methods adopted by the Board, including an actuarial expected investment rate of return of 8.0% per annum compounded annually. The valuation takes into account all of the promised benefits to which members are entitled as of July 1, 2012 as required by the North Dakota Century Code. The valuation provides certain information required by GASB to be disclosed in the financial statements. Additionally, the valuation is used to determine the adequacy of the current employer contribution rate. Our audit procedures included reviewing the actuarial valuation and related assumptions used therein and we believe the estimate to be reasonable.

3. Identify any significant audit adjustments

   There was a passed audit adjustment detected during the audit. The passed audit adjustment is detailed in the management letter.

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matters that could be significant to the financial statements.

   None

5. Identify any significant difficulties encountered in performing the audit.

   None

6. Identify any major issues discussed with management prior to retention.

   None

7. Identify any management consultations with other accounts about auditing and accounting matters.

   None

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.

Based on the audit procedures performed, the Retirement and Investment Officer's critical information technology system is the CPAS system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the audit committee, management, the Legislative Audit and Fiscal Review Committee, and other state officials, and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 19, 2012

Legislative Bill Tracking Status Report
As of January 24, 2013

1. HB1022 – RIO Budget Bill

1/08/2013 – Introduced, first reading, referred to Appropriations Committee
1/16/2013 10:00 am – Committee Hearing - House Appropriations-Government Operations

- Fay, Connie and Darren provided testimony to the committee. The tone was positive. The bill will be assigned to a sub-group who will follow-up with us on any further detail needed.

1/23/2013 2:30 pm - House Appropriations-Government Operations (follow-up)

- Fay provided general information on TFFR plan but there were no specific budget related questions.

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2. HB1143 – Relating to investment of the legacy and budget stabilization funds

WITHDRAWN - This bill would remove the “advisory” language from the Legacy and Budget Stabilization Fund Advisory Board, allowing that board to “direct” the investment of the two funds and allowing that board to “approve general types of securities for investment by the state investment board”.

1/10/2013 – Introduced, first reading, referred to Appropriations Committee.
1/17/2013 – Request return from committee and withdrawn from further consideration.

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3. HB1167 – Relating to the definition of earnings of the legacy fund

This bill defines earnings for purposes of Title X, Section 26 of the state constitution as interest and dividends only, not capital gains. (The bill, as introduced, erroneously references Title IX rather than Title X.)

1/11/2013 – Introduced, first reading, referred to Finance and Taxation Committee.
1/21/2013 9:15 am – Committee Hearing - House Finance and Taxation

- Darren and Connie attended the hearing. Darren provided neutral testimony describing relationship between realized and unrealized capital gains. Amendment will be necessary to correct title reference. No questions were asked.

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4. HB1249 – Relating to the membership of the state investment board.

This bill would provide for two additional members on the state investment board; one appointed by the majority leader of the senate and the other appointed by the majority leader of the house of representatives.

1/14/2013 – Introduced, first reading, referred to Government and Veterans Affairs Committee.
1/24/2013 8:00 am – Committee Hearing - House Government and Veterans Affairs

- Darren, Connie and Fay attended hearing. Darren provided clarification on questions asked of the bill sponsor and followed up with additional information about the SIB program at the request of the chairman.

5. HB1304 – Relating to the divestiture of state investment funds in certain companies liable to sanctions under the Iran Sanctions Act of 1996; and to provide an expiration date

This bill would require certain restrictions, monitoring and reporting of “scrutinized companies” relating to the Iran Sanctions Act of 1996, within the state investment board portfolios.

1/14/2013 – Introduced, first reading, referred to Government and Veterans Affairs Committee.

6. HB1395 – Relating to membership of the legacy and budget stabilization fund advisory board.

This bill would add two members to the advisory board, appointed by the chairman of the legislative management.

1/21/2013 – Introduced, first reading, referred to Political Subdivisions Committee

7. SB2124 – Provides for the legislative management to study methods to assure that the legacy fund provides the lasting benefits intended by the voters

1/09/2013 – Introduced, first reading, referred to Industry, Business and Labor Committee
1/14/2013 11:00 am – Senate Industry, Business and Labor Committee

- Committee heard testimony from bill drafter and various interested parties and gave the bill a Do-pass recommendation (7-0).

1/15/2013 – Passed on Senate Floor 46-0

8. SB2150 – Relating to restriction of per diem compensation for members of boards and commissions established by statute

This bill would limit board member per diem compensation to the amount allowed for members of a committee of the legislative management and would not allow a “governmental employee” to receive both compensation for their employment and per diem compensation as a board member for the same day of service.

1/11/2013 – Introduced, first reading, referred to Political Subdivisions Committee.
1/24/2013 10:45 am – Committee Hearing - Senate Political Subdivisions

- Fay, Darren and Connie attended the hearing. Fay and Sparb Collins of PERS provided neutral testimony specific to TFFR and PERS board members.

Legislative Bill Tracking Status Report
As of January 18, 2013

1. HB1022 – RIO Budget Bill

1/08/2013 – Introduced, first reading, referred to Appropriations Committee
1/16/2013 10:00 am – Committee Hearing - House Appropriations-Government Operations

- Fay, Connie and Darren provided testimony to the committee. The tone was positive. The bill will be assigned to a sub-group who will follow-up with us on any further detail needed.

1/23/2013 2:30 pm - House Appropriations-Government Operations (follow-up)

---

2. HB1143 – Relating to investment of the legacy and budget stabilization funds

WITHDRAWN - This bill would remove the “advisory” language from the Legacy and Budget Stabilization Fund Advisory Board, allowing that board to “direct” the investment of the two funds and allowing that board to “approve general types of securities for investment by the state investment board”.

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1/14/2013 – Introduced, first reading, referred to Government and Veterans Affairs Committee.
1/24/2013 8:00 am – Committee Hearing - House Government and Veterans Affairs

5. HB1304 – Relating to the divestiture of state investment funds in certain companies liable to sanctions under the Iran Sanctions Act of 1996; and to provide an expiration date

This bill would require certain restrictions, monitoring and reporting of "scrutinized companies" relating to the Iran Sanctions Act of 1996, within the state investment board portfolios.

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This bill would limit board member per diem compensation to the amount allowed for members of a committee of the legislative management and would not allow a "governmental employee" to receive both compensation for their employment and per diem compensation as a board member for the same day of service.

1/11/2013 – Introduced, first reading, referred to Political Subdivisions Committee.
1/24/2013 10:45 am – Committee Hearing - Senate Political Subdivisions

BUDGETING / FINANCIAL CONDITION

AS OF DECEMBER 31, 2012

	2011-2013 BUDGET	ADJUSTED APPROPRIATION	EXPENDITURES BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 3,203,114.00	$ 3,203,114.00	$ 2,100,091.21	$ 1,103,022.79	34.44%	25.00%
OPERATING EXPENDITURES	947,840.00	947,840.00	650,275.42	297,564.58	31.39%	25.00%
CONTINGENCY	82,000.00	82,000.00	0.00	82,000.00	100.00%	25.00%
TOTAL	$ 4,232,954.00	$ 4,232,954.00	$ 2,750,366.63	1,482,587.37	35.02%	25.00%

EXPENDITURE REPORT

QUARTER ENDED DECEMBER 31, 2012

	INVESTMENT	RETIREMENT	QUARTERLY TOTALS	FISCAL YEAR TO - DATE	BIENNIUM TO - DATE
CONTINUING APPROPRIATIONS					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	$ 3,907,997.99	$ 0.00	$ 3,907,997.99	$ 9,589,454.28	$ 28,794,187.42
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	36,249,003.86	36,249,003.86	72,383,028.33	207,152,509.77
2. REFUND PAYMENTS	0.00	968,376.39	968,376.39	2,385,104.72	5,396,401.56
TOTAL MEMBER CLAIMS	0.00	37,217,380.25	37,217,380.25	74,768,133.05	212,548,911.33
OTHER CONTINUING APPROPRIATIONS	41,883.42	61,512.44	103,395.86	145,762.64	413,755.41
TOTAL CONTINUING APPROPRIATIONS	3,949,881.41	37,278,892.69	41,228,774.10	84,503,349.97	241,756,854.16
BUDGETED EXPENDITURES					
1. SALARIES & BENEFITS					
SALARIES	90,613.90	165,423.10	256,037.00	511,314.00	1,581,664.00
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	28,610.72	59,013.04	87,623.76	172,915.29	518,427.21
TOTAL SALARY & BENEFITS	119,224.62	224,436.14	343,660.76	684,229.29	2,100,091.21
2. OPERATING EXPENDITURES					
DATA PROCESSING	2,495.86	15,059.13	17,554.99	29,010.87	102,773.51
TELECOMMUNICATIONS - ISD	813.16	2,058.49	2,871.65	4,913.99	17,086.18
TRAVEL	1,570.11	10,838.01	12,408.12	15,777.86	43,734.44
IT - SOFTWARE/SUPPLIES	0.00	0.00	0.00	35.94	278.80
POSTAGE SERVICES	678.83	2,695.20	3,374.03	17,928.04	49,406.01
IT - CONTRACTUAL SERVICES	250.30	63,408.72	63,659.02	82,201.31	237,963.35
EQUIPMENT RENTS AND LEASES	0.00	0.00	0.00	0.00	0.00
BUILDING/LAND RENT & LEASES	6,412.20	12,791.04	19,203.24	38,691.48	116,674.44
DUES & PROF. DEVELOPMENT	912.50	4,041.50	4,954.00	7,959.00	19,659.50
OPERATING FEES & SERVICES	440.23	781.61	1,221.84	2,470.75	16,190.70
REPAIR SERVICE	169.26	359.69	528.95	636.95	985.95
PROFESSIONAL SERVICES	865.56	2,034.44	2,900.00	4,800.00	15,420.00
INSURANCE	294.88	626.62	921.50	1,042.77	2,075.54
OFFICE SUPPLIES	248.58	810.97	1,059.55	1,327.28	2,849.69
PRINTING	157.92	784.06	941.98	7,037.83	16,633.21
PROFESSIONAL SUPPLIES & MATERIALS	1,007.77	373.19	1,380.96	1,230.96	3,823.21
MISCELLANEOUS SUPPLIES	92.81	629.93	722.74	753.54	1,493.90
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	16,409.97	117,292.60	133,702.57	215,818.57	650,275.42
3. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	135,634.59	341,728.74	477,363.33	900,047.86	2,750,366.63
TOTAL EXPENDITURES	$ 4,043,632.58	$ 37,559,108.99	$ 41,706,137.43	$ 85,403,397.83	$ 244,507,220.79

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED DECEMBER 31, 2012

FOR QUARTER ENDED 9/30/12

PERS Retiree Health Credit		
SEI		44,322.47
PENSION DEVELOPED INTERNATIONAL EQUITY POOL		
Capital Guardian	72,626.11	
LSV	138,642.00	
Clifton - EAFE Index	41,431.00	
State Street	73,204.12	
Wellington	128,405.80	
TOTAL PENSION INTERNATIONAL EQUITY		454,309.03
PENSION GLOBAL EQUITY POOL		
Calamos	96,070.00	
Epoch	332,046.73	
Pension Global Equity Pool		428,116.73
PENSION BELOW INVESTMENT GRADE FIXED		
Loomis Sayles		207,431.04
PENSION INVESTMENT GRADE FIXED INCOME POOL		
Bank of ND	7,445.44	
PIMCO	65,983.06	
Western Asset	45,703.36	
TOTAL PENSION FIXED INCOME		119,131.86
PENSION INFRASTRUCTURE POOL		
JP Morgan		300,514.27
PENSION LARGE CAP EQUITY POOL		
LA Capital	183,879.69	
LSV	183,768.00	
TOTAL PENSION LARGE CAP EQUITY		367,647.69
PENSION REAL ESTATE		
JP Morgan (Alternative)	11,731.85	
Invesco	132,213.15	
Pension Real Estate		143,945.00
PENSION INTERNATIONAL FIXED INCOME		
Brandywine	105,806.07	
UBS	70,766.64	
TOTAL PENSION INTERNATIONAL FIXED INCOME		176,572.71
PENSION EMERGING MARKETS		
JP Morgan	74,305.82	
PanAgora	27,576.46	
UBS	84,446.50	
TOTAL PENSION EMERGING MARKETS		186,328.78

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED DECEMBER 31, 2012

PENSION PRIVATE EQUITY		
Adams Street Partners		43,260.50
PENSION CASH		
Northern Trust		11,782.16
INSURANCE FIXED INCOME POOL		
Bank of ND	16,890.93	
Declaration	64,051.00	
Prudential	50,823.53	
Wells	159,459.44	
Western Asset	96,986.67	
TOTAL INSURANCE FIXED INCOME		388,211.57
INSURANCE LARGE CAP EQUITY POOL		
LA Capital	38,665.89	
LSV	37,502.00	
TOTAL INSURANCE LARGE CAP		76,167.89
INSURANCE SMALL CAP EQUITY POOL		
Research Affiliates		33,582.69
INSURANCE INT'L EQUITY		
Capital Guardian	47,135.08	
LSV	52,216.00	
TOTAL INSURANCE INT'L EQUITY		99,351.08
INSURANCE INFLATION PROTECTED		
JP Morgan	205,617.48	
Western Asset	78,258.36	
TOTAL INSURANCE INFLATION PROTECTED		283,875.84
INSURANCE REAL ESTATE		
JP Morgan		313,582.00
BUDGET STABILIZATION SHORT TERM FIXED		
Babson		55,215.93
LEGACY FUND SHORT TERM FIXED		
Babson		91,158.50
CONSULTANT		
Callan		83,490.25
TOTAL FOR QUARTER ENDED 9/30/12		**3,907,997.99**
TOTAL FEES PAID DURING QUARTER ENDED 12/31/2012		**3,907,997.99**

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended December 31, 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.

Quarterly Report on Ends
Q2:FY13

Investment Program

Continuing due diligence conducted on following:

JP Morgan	Western	Schroders
Brandes	UBS	Loomis Sayles
Crestline	LSV	Credit Suisse
Harris Associates	PIMCO	Epoch
AllianceBernstein	Longview Partners	

Staff is working with consultant R.V. Kuhns to facilitate the completion of an asset allocation and spending study for the Legacy Fund.

Staff is holding discussions with the Bank of North Dakota.

Staff is undergoing a contract review and negotiating a performance-based fee schedule with LSV as part of the consolidation of mandates into a single global equity mandate.

Staff is continuing its research of inflation-protected strategies for the WSI portfolio.

Staff is working with Callan to complete a investment management fee study.

Staff is working with Advent Software to complete installation and implementation of Tamale Software product.

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
Q2: FY13

Retirement Program

This report highlights exceptions to normal operating conditions.

- TFFR's actuary presented 2012 annual actuarial valuation report and funding projections to TFFR Board and the Legislative Employee Benefits Programs Committee. Actuary provided board education on GASB accounting changes and Moody's proposed changes to pension liabilities and cost information. Actuary also began working with TFFR Board on developing comprehensive funding policy.

- TFFR received 2012 Public Pension Standards Award for Funding and Administration. This award is designed to recognize and commend public employee retirement systems that meet professional standards for pension plan funding and administration.

- SB 2061 was submitted to the 2013 Legislature by the TFFR Board. The bill includes technical corrections and administrative changes to the plan, most of which are designed to maintain compliance with federal statutes or rules.

- 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 – 60% complete.

- Kirsten Baesler was elected ND State Superintendent of Schools and replaces Dr. Wayne Sanstead on the TFFR Board effective 1/1/13.