



# ND STATE INVESTMENT BOARD MEETING

Friday, August 23, 2013, 8:30 a.m.  
Peace Garden Room, State Capitol  
600 E Blvd., Bismarck, ND

**I. APPROVAL OF AGENDA**

**II. APPROVAL OF MINUTES (JULY 26, 2013)**

**III. EDUCATION**

- A. Fixed Income - Callan Associates (to follow) (60 min)

**IV. INVESTMENTS**

- A. Global Equity Update - Mr. Schulz (10 min)
- B. Callan Contract - Mr. Schulz (enclosed) (15 min)

**V. GOVERNANCE**

- A. Search Committee Status Report - Mr. Sandal (enclosed)

**VI. MONITORING REPORTS (Board Acceptance Needed)**

- A. Pension Trust and Insurance Trust Performance Measurement - Mr. Erlendson (enclosed ) (30 min)
- B. Watch List - Mr. Schulz (enclosed) (5 min)
- C. Annual Compliance Reports - Ms. Flanagan (enclosed) (5 min)

**VII. OTHER.**

SIB meeting - September 27, 2013, 8:30 a.m. - Peace Garden Room  
SIB Audit Committee meeting - September 27, 2013, 1:00 p.m. - Peace Garden Room

**VIII. ADJOURNMENT.**

**NORTH DAKOTA STATE INVESTMENT BOARD  
MINUTES OF THE  
JULY 26, 2013, BOARD MEETING**

**BOARD MEMBERS PRESENT:** Drew Wrigley, Lt. Governor, Chair  
Mike Sandal, Vice Chair  
Clarence Corneil, TFFR Board  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Adam Hamm, Insurance Commissioner (teleconference)  
Bryan Klipfel, Workforce Safety & Insurance  
Howard Sage, PERS Board

**BOARD MEMBERS ABSENT:** Rob Lech, TFFR Board  
Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Bonnie Heit, Office Manager  
Fay Kopp, Interim Executive Director  
Darren Schulz, Interim CIO  
Susan Walcker, Investment Accountant

**OTHERS PRESENT:** Jennifer Bridwell, PIMCO  
Devin Chen, PIMCO  
Levi Erdmann, former SIB trustee  
Michael Kennedy, Korn/Ferry  
Stephanie King, PIMCO  
Jan Murtha, Attorney General's Office  
Bryan Reinhardt, PERS

**CALL TO ORDER:**

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, July 26, 2013, at Workforce Safety & Insurance, 1600 E Century Ave, Bismarck, ND.

A quorum was present for the purpose of conducting business.

**AGENDA:**

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE JULY 26, 2013, AGENDA.

AYES: COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MR. KLIPFEL, MR. GESSNER, MR. SAGE, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

**MINUTES:**

The minutes were considered from the June 28, 2013, meeting,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SAGE AND CARRIED ON A VOICE VOTE TO ACCEPT THE JUNE 28, 2013, MINUTES AS WRITTEN.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MR. SAGE, MR. KLIPFEL, COMMISSIONER HAMM, MR. CORNEIL, MR. SANDAL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

ELECTION OF OFFICERS:

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO CONTINUE WITH THE PRESENT SLATE OF OFFICERS OF THE SIB FOR FISCAL YEAR 2013-14; LT. GOVERNOR WRIGLEY, CHAIR AND MR. SANDAL, VICE CHAIR.

AYES: MR. CORNEIL, COMMISSIONER GAEBE, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE, MR. SANDAL, MR. KLIPFEL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

Lt. Governor Wrigley reappointed Mr. Corneil as parliamentarian for fiscal year 2013-14.

SIB AUDIT COMMITTEE MEMBERSHIP:

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO CONTINUE WITH THE CURRENT MEMBERSHIP OF THE SIB AUDIT COMMITTEE FOR FISCAL YEAR 2013-14; MS. BECKY DORWART, MR. GESSNER, MR. LONNY MERTZ, MR. SANDAL, AND MS TERNES.

AYES: MR. GESSNER, COMMISSIONER HAMM, MR. KLIPFEL, COMMISSIONER GAEBE, MR. SAGE, MR. SANDAL, MR. CORNEIL, AND LT. GOVERNOR WRIGLEY

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH

PIMCO:

PIMCO representatives reviewed an additional investment opportunity for the SIB's consideration; Bank Recapitalization and Value Opportunities (BRAVO Fund II) which takes advantage of non-economic sales of residential and commercial real estate related assets from the financial sector in the U.S. and Europe.

The SIB recessed at 10:30 am and reconvened at 10:45 am

INVESTMENTS:

PIMCO Bravo Fund II - Mr. Schulz reviewed the investment opportunity and recommended a commitment of \$50 million each from the Pension Trust and Insurance Trust. After discussion,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY COMMISSIONER GAEBE AND CARRIED ON A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ALLOCATE \$50 MILLION FROM THE PENSION TRUST AND \$50 MILLION FROM THE INSURANCE TRUST INTO PIMCO'S BRAVO FUND II OPPORTUNITY.

**AYES: MR. SAGE, MR. SANDAL, MR. CORNEIL, MR. GESSNER, MR. KLIPFEL, COMMISSIONER HAMM, COMMISSIONER GABE, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: TREASURER SCHMIDT, MR. LECH**

Legacy Fund Transition - Mr. Schulz reviewed the transition plan accepted by the SIB at their April 2013, meeting and recommended transitioning the new strategic asset allocation through the utilization of existing managers within the Insurance Trust. Mr. Schulz stated utilizing existing managers would promptly initiate the transition, gain desired asset class exposures, and recognize efficiencies and economies of scale from pooling with other insurance clients.

The SIB held a discussion on the "watch list" the object of the list, and the implications for managers who have been placed on the list particularly when the assets mandated to them are pooled and when new monies come into the pool each manager receives a pro rata share. Currently, Clifton Group has been placed on the watch list due to their acquisition by Parametric Portfolio Associates which closed approximately December 31, 2012. The firm is on an ongoing review status and a review with staff is scheduled for August 9, 2013. After discussion,

**IT WAS MOVED BY MR. SAGE AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO GRANT STAFF THE DISCRETION TO REMOVE THE CLIFTON GROUP FROM "WATCH LIST" STATUS FOLLOWING THE AUGUST 9, 2013, REVIEW.**

**AYES: MR. CORNEIL, COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MR. KLIPFEL, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: TREASURER SCHMIDT, MR. LECH**

The SIB also discussed Credit Suisse who has been on the "watch list" since August 2012 due to the parent companies pending sale of the Customized Infrastructure Investment Group. Mr. Schulz will provide an update on Credit Suisse at the next meeting. After discussion,

**IT WAS MOVED BY MR. SAGE AND SECONDED BY MR. CORNEIL AND CARRIED ON A ROLL CALL VOTE TO TRANSITION THE LEGACY FUND INTO THE NEW STRATEGIC ASSET ALLOCATION.**

**AYES: MR. KLIPFEL, MR. CORNEIL, COMMISSIONER HAMM, COMMISSIONER GAEBE, MR. SANDAL, MR. SAGE, MR. GESSNER, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

**ABSENT: TREASURER SCHMIDT, MR. LECH**

The "watch list" will be put on the agenda at a future meeting for further discussion.

Lt. Governor Wrigley exited the meeting and Mr. Sandal presided over the remainder of the meeting.

State Board of Medical Examiners - Mr. Schulz informed the SIB the State Board of Medical Examiners contacted him regarding the possibility of contracting with the SIB for investment services of their \$1.4 million reserve fund. Mr. Schulz requested authorization to proceed with preliminary contractual discussions with the State Board of Medical Examiners.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO GIVE STAFF PRELIMINARY APPROVAL TO MOVE FORWARD WITH POTENTIALLY CONTRACTING WITH THE STATE BOARD OF MEDICAL EXAMINERS FOR INVESTMENT SERVICES.

AYES: MR. CORNEIL, COMMISSIONER GAEBE, MR. SANDAL, COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, AND MR. KLIPFEL

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH, LT. GOVERNOR WRIGLEY

Insurance Cash Pool - Mr. Schulz informed the SIB the Bank of ND (BND) has been paying a special rate on the Insurance Trust Cash Account equal to the weekly 3 - month bill auction rate plus 20 basis points since inception. The rate was available on balances of \$50-\$75 million and was established by the market rates at the time. If the balance in the cash account exceeded \$75 million, the rate would revert back to the BND financial institution rate for money markets. The cash account has frequently exceeded the cap of \$75 million and BND informed staff effective June 1, 2013, the pricing formula will be changed to the financial institution's money market rate and the special rate will no longer be available under any circumstances.

Mr. Schulz informed the SIB the cash was transferred into a Northern Trust money market vehicle offering the same rate as BND's standard money market rate. He also stated that having the account at The Northern Trust simplifies accounting for staff.

#### GOVERNANCE:

Search Committee - Mr. Sandal updated the SIB on the Executive Director/Chief Investment Officer search. The Search Committee will be interviewing three candidates the afternoon of July 26, 2013, and additional candidates in the next couple of weeks.

Mr. Sandal introduced Mr. Michael Kennedy, Korn/Ferry. Mr. Kennedy briefed the SIB on the search and stated the search is going well. He is currently in contact with a second group of candidates for first round interviews which will be scheduled in the next week or two. The firm has reached out to approximately 90 individuals and has had more in depth conversations with 17-18 candidates and of that group has narrowed the field to approximately 10. Mr. Kennedy is hoping to bring finalists before the full SIB in September.

Code of Conduct Recertification - The SIB was provided a copy of their Governance policy, Board Members' Code of Conduct. As outlined in the policy, board members are annually required to affirm their understanding of the policy by signing and dating the acknowledgement.

#### MONITORING REPORTS QTR ENDING JUNE 30, 2013:

The following monitoring reports were presented to the SIB for the quarter ending June 30, 2013; Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program Ends, Retirement Program Ends and the "Watch List".

Ms. Kopp referred to the Staff Relations Report and noted Mr. Les Mason retired effective July 12, 2013, and Ms. Leslie Moszer resigned effective June 6, 2013. Ms. Kopp and the Chair of the Audit Committee have determined the position of Supervisor of Internal Audit, previously held by Mr. Mason, would not be

immediately filled in order to allow staff, SIB Audit Committee, SIB, and Teachers' Fund for Retirement Board (TFFR) time to reflect on the structure and purpose of RIO's Internal Audit Division and to also give the Executive Director/CIO of RIO an opportunity to give their input.

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO ACCEPT THE MONITORING REPORTS.

AYES: COMMISSIONER HAMM, MR. KLIPFEL, COMMISSIONER GAEBE, MR. GESSNER, MR. SAGE, MR. SANDAL, AND MR. CORNEIL

NAYS: NONE

MOTION CARRIED

ABSENT: TREASURER SCHMIDT, MR. LECH, LT. GOVERNOR WRIGLEY

**OTHER:**

The next SIB meeting is scheduled for August 23, 2013, at 8:30 am at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

The next Audit Committee meeting is scheduled for September 27, 2013, at 1:00 pm in the Peace Garden Room at the State Capitol.

**ADJOURNMENT:**

With no further business to come before the SIB, Mr. Sandal adjourned 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

August 23, 2013



**Fixed Income Market Update**

North Dakota State Investment  
Board

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**Steven Center, CFA**  
Vice President

**William Howard, CFA**  
Senior Vice President

# Agenda

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- Current Fixed Income Environment
- Role of Fixed Income
- Potential Strategies
- Q&A

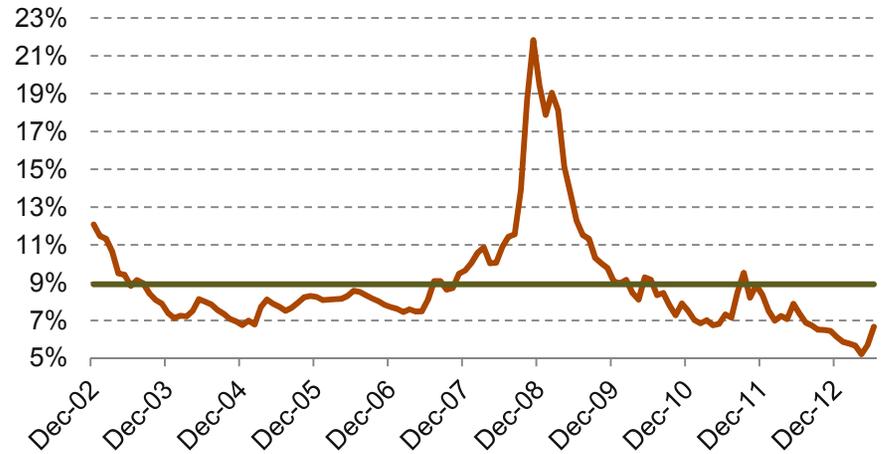
# Current Environment

## Yields Are At or Near All-Time Lows Across Fixed Income

**U.S. Investment Grade Corporates**



**U.S. High Yield**



**Non-U.S. Sovereign (G7 xU.S.)**



**Emerging market U.S. \$ Sovereign**

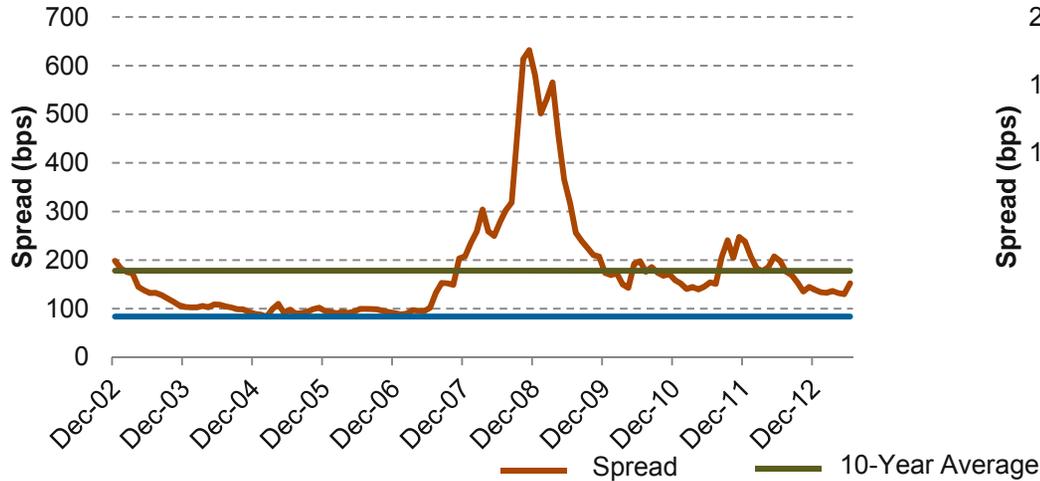


Sources: Barclays, JP Morgan, Callan

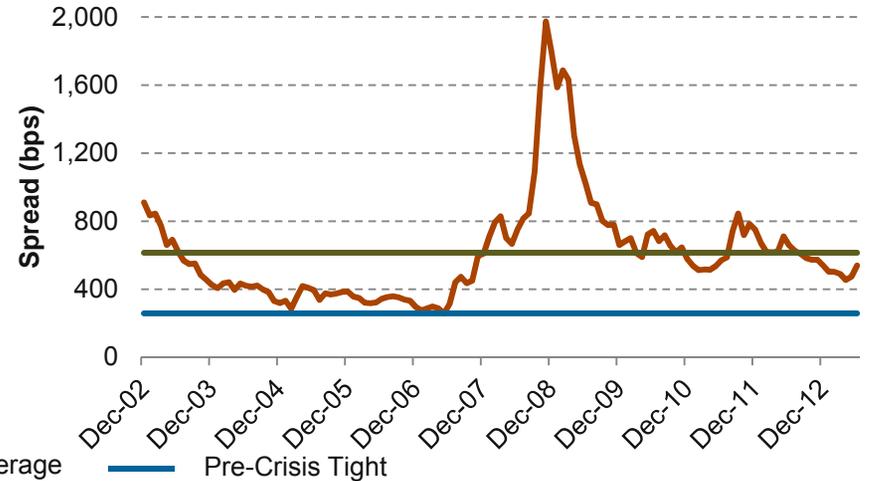
# Current Environment

## Spreads Remain Above Pre-Crisis Tights

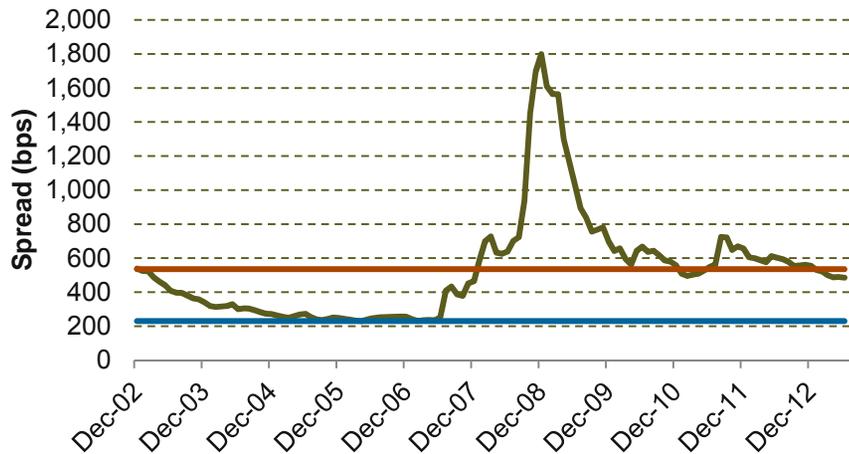
### U.S. Investment Grade Corporate



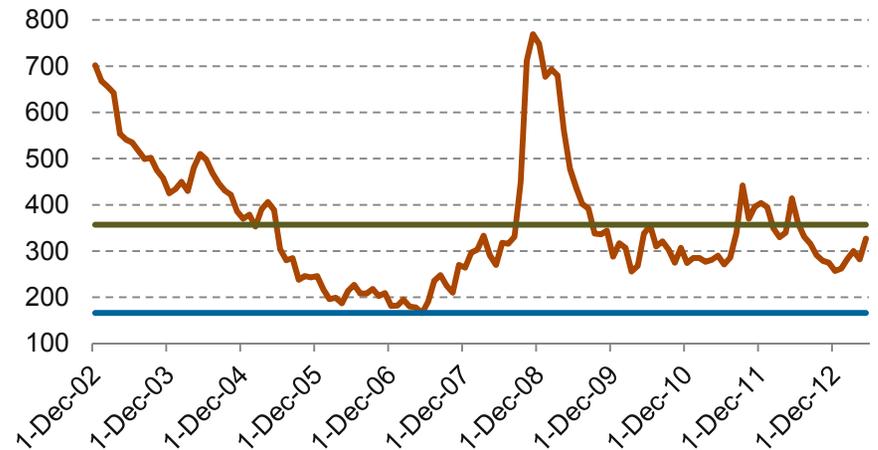
### U.S. High Yield



### Bank Loans



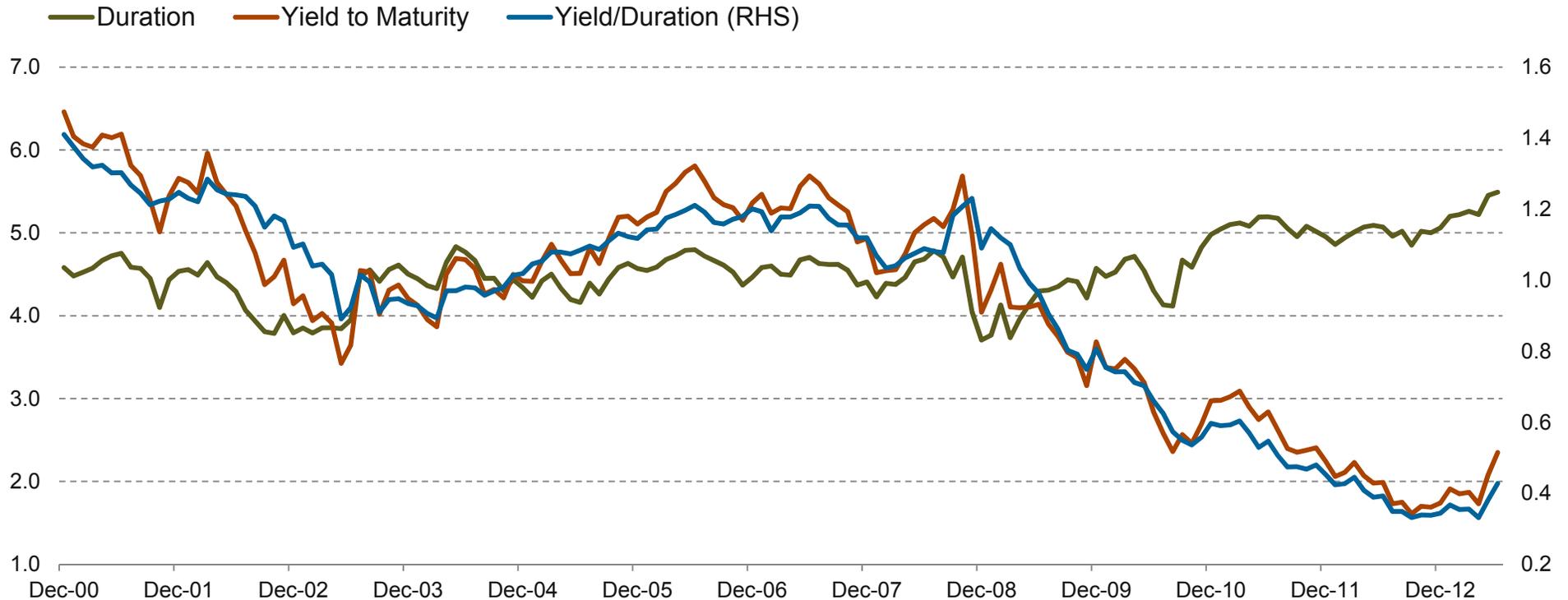
### Emerging Market U.S. \$ Sovereign



Sources: Barclays, Credit Suisse, JP Morgan, Callan

# Increased Sensitivity to Domestic Interest Rates

## Barclays Aggregate Yield and Duration



- The yield on the Aggregate has continued its march lower exacerbating the asymmetric risk profile.
  - It won't take much of a rate increase for bond investors to experience a capital loss.
- Yield/duration at the end of June was 43 bps, up 5 bps from the end of May.

Sources: Barclays, Callan

# Current Environment

## U.S. Treasury 10-Year Yield Year-to-Date Change



- Although over the long terms, rates have been trending lower, over shorter periods of time, they can be volatile.
  - The 10-year Treasury rose 46 bps in May followed by 36 bps in June, indicating that rates can move sharply if investor sentiment changes.

Source: U.S. Dept. of the Treasury

# The Pain Was Felt in May and June

Representative Index Returns through June 30, 2013

	May	Q2	YTD
Barclays Aggregate	-1.8%	-2.3%	-2.4%
ML US HY Master II	-0.5%	-1.4%	1.5%
CS Leveraged Loan Index	0.2%	0.4%	2.8%
Citi WGBI Unhedged	-3.4%	-3.0%	-5.7%
JPM EMBI GI Div (US\$)	-3.6%	-5.6%	-7.8%
JPM GBI EM (Local Currency)	-6.3%	-7.0%	-7.2%
S&P 500	2.3%	2.9%	13.8%
MSCI EAFE	-2.4%	-1.0%	4.1%

- May was a painful month for bond investors.
  - Most fixed income sectors experienced negative monthly returns.
  - Investor sentiment changed as worries mounted that the Fed will begin to taper its bond purchases.
- While these returns are a sharp reminder of what happens when rates rise, remember also that higher rates translate into better returns over the long run.

# Major Issues Facing Fixed Income Investors Today

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Issue	Consequence
Low Yield Environment	Difficult for investors to achieve return targets
Potential for Rising Rates	Investors are grappling with the reality of potentially negative returns on their fixed income portfolios
Valuations Are Not Cheap	Because many fixed income sectors are trading below their trailing 10-year average spread, it has become a game of relative value where traditional core sectors are not as compelling relative to select spread sectors
Dysfunctional Political System and Uncertain Macro Environment	Global government intervention and uncertain policy make it difficult for investors to position their portfolio

# Fixed Income Alternatives

## Three Broad Categories

Spread	Non-Traditional Solutions	Liquid Premium Trade
<ul style="list-style-type: none"><li>● Global/Non-U.S. Fixed Income</li><li>● Mortgage Credit</li><li>● High Yield</li><li>● Bank Loans</li><li>● Emerging Market Debt</li><li>● CLOs, Structured Product</li></ul>	<ul style="list-style-type: none"><li>● Opportunistic and Unconstrained</li><li>● Global Macro</li><li>● Long/Short Strategies</li><li>● Convertibles</li><li>● Life Settlement Bonds</li><li>● Catastrophe Bonds</li><li>● Trade Finance</li></ul>	<ul style="list-style-type: none"><li>● Private Debt<ul style="list-style-type: none"><li>– Direct lending</li><li>– Distressed/Special Situations</li><li>– Mezzanine Debt</li></ul></li><li>● Infrastructure Debt</li></ul>

# Types of Fixed Income Investors

	Income Oriented Investor	Total Return Investor	Liability Driven Investor (LDI)
Type of Investor	<ul style="list-style-type: none"> <li>● Retirees</li> <li>● Insurance Companies</li> </ul>	<ul style="list-style-type: none"> <li>● Public Pension Plans</li> <li>● Taft-Hartley Plans</li> <li>● Corporate Pension Plans</li> <li>● Endowments</li> <li>● Foundations</li> </ul>	<ul style="list-style-type: none"> <li>● Corporate Pension Plans</li> </ul>
Objectives	<ul style="list-style-type: none"> <li>● Income Generation</li> <li>● Capital Preservation</li> <li>● Liquidity</li> <li>● Meet Solvency Requirements</li> </ul>	<ul style="list-style-type: none"> <li>● Diversification</li> <li>● Flight to Quality/Deflation Hedge</li> <li>● Liquidity</li> <li>● Additional Return</li> </ul>	<ul style="list-style-type: none"> <li>● Hedge Liabilities</li> <li>● Additional Return</li> </ul>

- Fixed income investors can be categorized into three types depending on investment objectives, time horizon, liquidity needs, risk tolerance, regulatory framework among many other factors.
- The analysis in this section is primarily applicable to the income oriented investor.

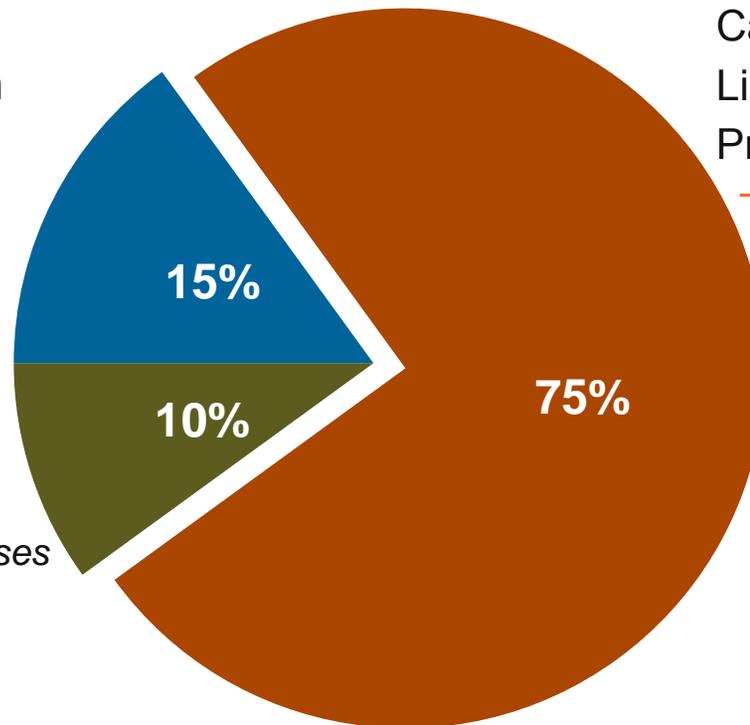
# Role of Fixed Income for an Income Oriented Investor

## Equities

Growth  
Inflation Hedge  
Moderate Source of Return

## Real Assets

Inflation Hedge  
Diversification  
Additional Return  
– Growth-oriented asset classes  
(e.g., private real estate,  
Infrastructure, Timber)



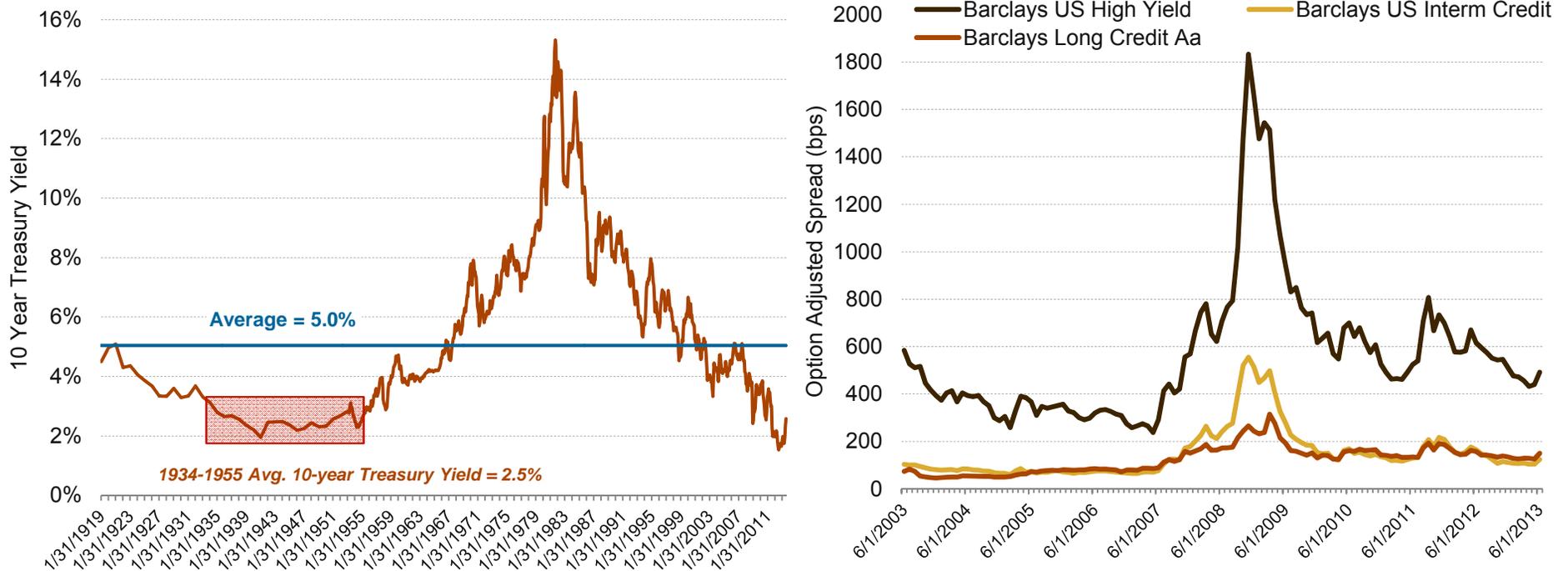
## Fixed Income

Income Generation  
Capital Preservation  
Liquidity  
Primary Source of Return  
– Typically higher quality bias, focus  
on domestic issuers

- Fixed income is the primary portfolio asset class and is typically viewed in isolation.
  - Expected return and risk generated from equities and real assets?
  - Inflation hedging provided by real assets (e.g., TIPS part of real assets or fixed income?)

# A Low Yield Environment

## Historical 10-Year Treasury Yield and Option Adjusted Spreads

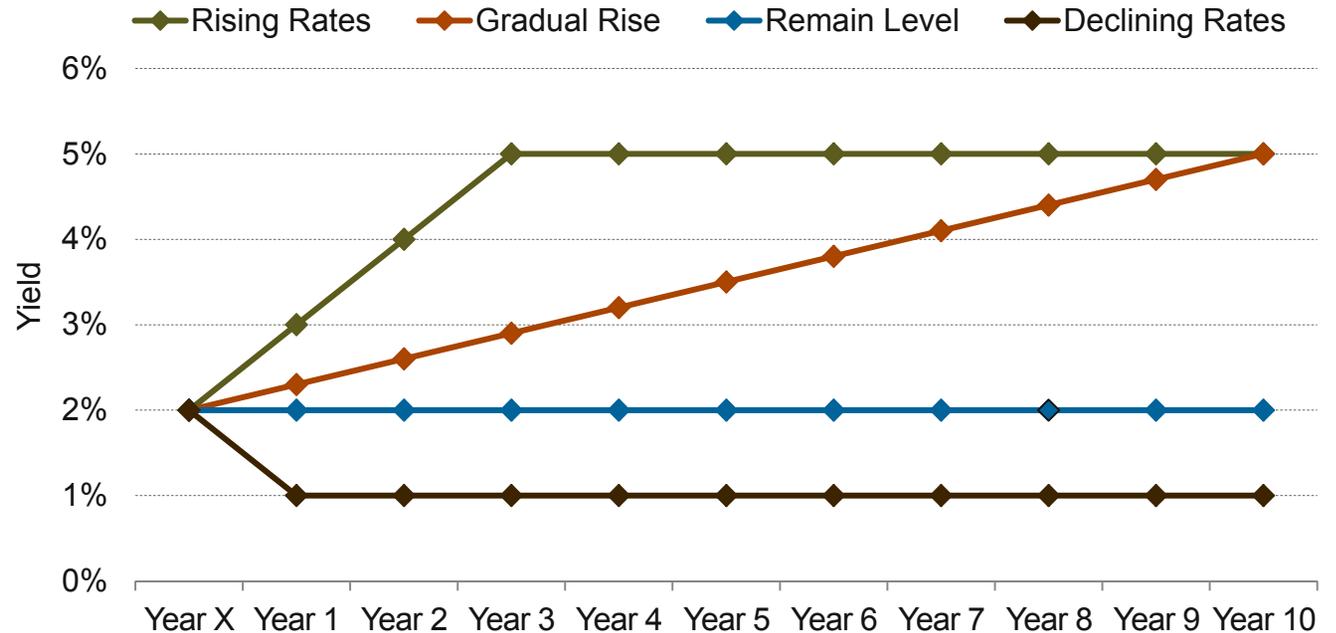


Source: Barclays Live

- The thirty-year secular decline in U.S. interest rates appears to be coming to an end.
  - In recent years, unprecedented quantitative easing across developed nations has fueled this decline.
  - Many U.S. investors fear the inevitable rise in rates.
  - Rates could remain low for a long period of time (e.g., 21-year period from 1934 to 1955).
- Relative to a monthly 10-year average, option-adjusted spreads are below average.

# Are Rising Rates A Bad Thing?

- Fixed income returns derive from income, capital gains/losses and reinvestment of interim cash flows.
  - A rise in yields may lead to higher returns if the time horizon is long.
  - A prolonged period of low rates is not a good environment for long-term investors.



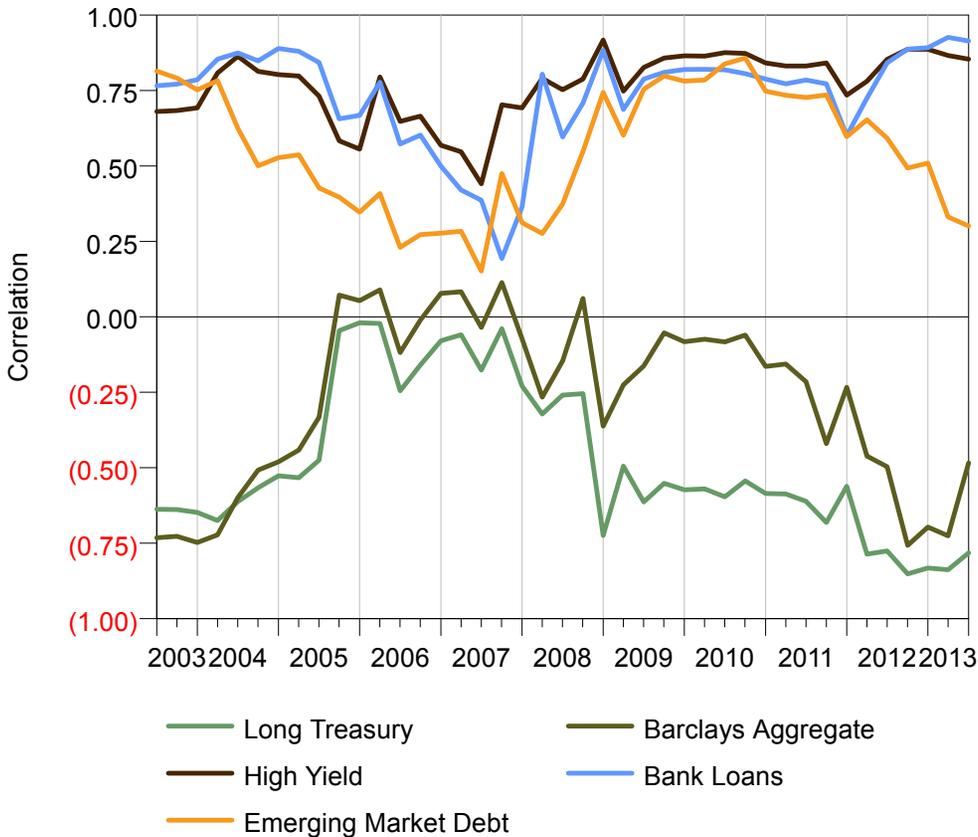
	1-Year*	3-Year*	10-Year*
Rising Rates	-2.6%	-1.7%	3.0%
Gradually Rise	0.6%	0.9%	1.9%
Remain Level	2.0%	2.0%	2.0%
Declining Rates	6.6%	2.8%	1.5%

\* Assumes constant five-year duration, parallel shift in the yield curve and 100% reinvestment at new yield every year.

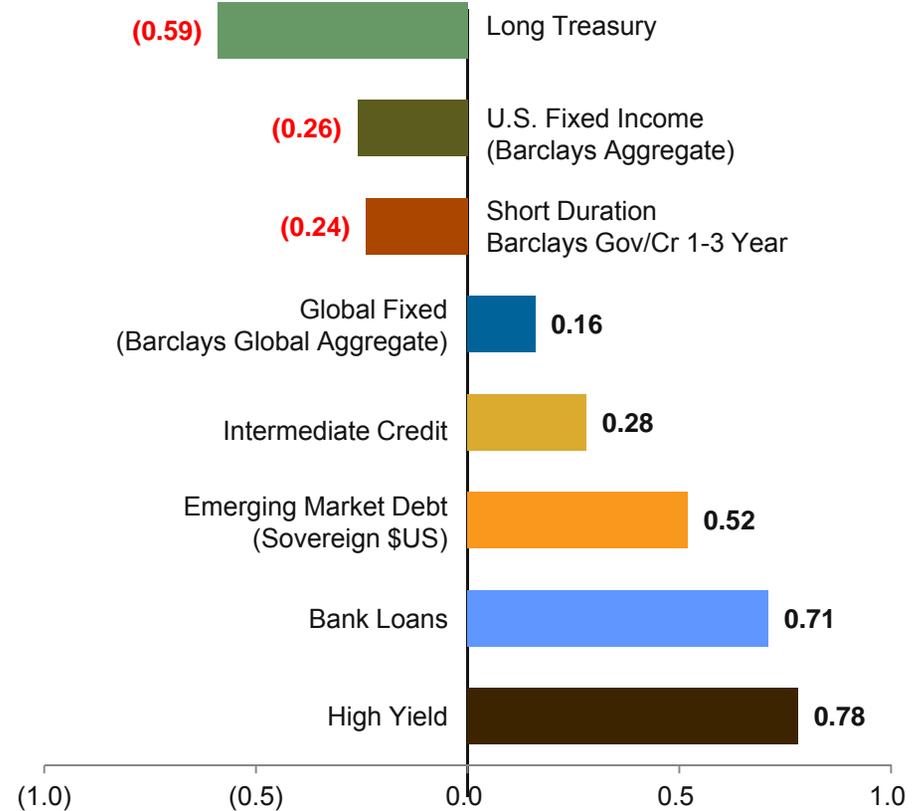
# Fixed Income Diversifiers may be Highly Correlated with Equities

Analysis for 10 Years through June 30, 2013, Using Quarterly Data

Rolling 12 Quarter Correlation Relative to S&P 500



Correlation to S&P 500



- Although correlations can fluctuate overtime, we can expect credit-sensitive sectors to be positively correlated with equities and U.S. government securities to be negatively correlated with equities (i.e., a flight to quality hedge).

# Economic Scenarios



- In general, we can expect asset classes to outperform (on a relative basis) in certain economic scenarios.
  - Note: Only fixed income is expected to offer some protection in a recessionary environment (i.e., falling growth and inflation). Adding too much credit-sensitive fixed income and equities may leave the portfolio vulnerable.

# Fixed Income Diversification

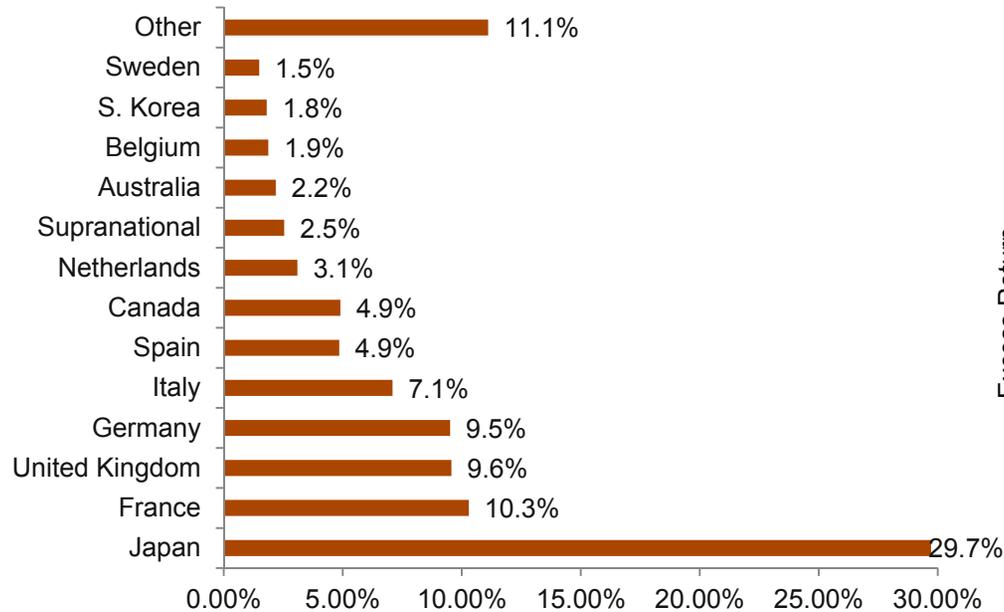
1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Bank Loans 10.3%	Long Treasury 30.7%	Em Mkt Debt 37.8%	Long Treasury 15.1%	Global Fixed 13.7%	Em Mkt Debt 19.6%	Long Treasury 20.3%	Intern Credit 9.8%	Long Treasury 16.8%	High Yield 28.1%	Em Mkt Debt 11.6%	Em Mkt Debt 10.2%	High Yield 11.8%	Long Treasury 9.8%	Long Treasury 24.0%	High Yield 57.5%	High Yield 15.2%	Long Treasury 29.9%	Em Mkt Debt 17.4%
Short Duration 0.6%	Em Mkt Debt 27.3%	High Yield 11.3%	High Yield 13.3%	Long Treasury 13.5%	Bank Loans 4.7%	Em Mkt Debt 12.7%	Em Mkt Debt 9.7%	Global Fixed 16.5%	Em Mkt Debt 22.2%	High Yield 10.9%	Long Treasury 6.5%	Em Mkt Debt 9.9%	Global Fixed 9.5%	GI Fixed (Hdg) 5.6%	Bank Loans 44.9%	Em Mkt Debt 12.2%	Barclays Agg 7.8%	High Yield 15.6%
Global Fixed 0.2%	High Yield 20.5%	Bank Loans 7.5%	Em Mkt Debt 10.8%	GI Fixed (Hdg) 9.8%	Short Duration 3.2%	Barclays Agg 11.6%	Short Duration 8.8%	Em Mkt Debt 13.7%	Global Fixed 12.5%	Global Fixed 9.3%	Bank Loans 5.7%	Bank Loans 7.3%	Barclays Agg 7.0%	Barclays Agg 5.2%	Em Mkt Debt 29.8%	Bank Loans 10.0%	Em Mkt Debt 7.3%	Bank Loans 8.7%
High Yield (1.0%)	Global Fixed 19.7%	GI Fixed (Hdg) 7.1%	GI Fixed (Hdg) 10.2%	Barclays Agg 8.7%	High Yield 2.5%	GI Fixed (Hdg) 10.3%	Barclays Agg 8.4%	Barclays Agg 10.3%	Bank Loans 11.0%	Long Treasury 7.7%	GI Fixed (Hdg) 4.3%	Global Fixed 6.6%	Short Duration 6.8%	Short Duration 5.0%	Intern Credit 15.9%	Long Treasury 9.4%	Global Fixed 5.6%	Intern Credit 8.1%
Intern Credit (2.7%)	Intern Credit 19.0%	Short Duration 5.1%	Barclays Agg 9.6%	Intern Credit 8.3%	GI Fixed (Hdg) 0.8%	Intern Credit 9.5%	GI Fixed (Hdg) 7.2%	Intern Credit 10.1%	Intern Credit 6.9%	Bank Loans 5.6%	High Yield 2.7%	Intern Credit 4.5%	Em Mkt Debt 6.2%	Global Fixed 4.8%	Global Fixed 6.9%	Intern Credit 7.8%	GI Fixed (Hdg) 5.4%	GI Fixed (Hdg) 5.7%
Barclays Agg (2.9%)	Barclays Agg 18.5%	Global Fixed 4.9%	Intern Credit 8.4%	Short Duration 7.0%	Intern Credit 0.2%	Short Duration 8.1%	High Yield 4.5%	GI Fixed (Hdg) 8.5%	Barclays Agg 4.1%	GI Fixed (Hdg) 4.9%	Barclays Agg 2.4%	Barclays Agg 4.3%	Intern Credit 5.6%	Intern Credit (2.8%)	Barclays Agg 5.9%	Barclays Agg 6.5%	Intern Credit 5.4%	Global Fixed 4.3%
GI Fixed (Hdg) (3.6%)	GI Fixed (Hdg) 18.0%	Intern Credit 4.0%	Bank Loans 8.3%	Bank Loans 5.3%	Barclays Agg (0.8%)	Bank Loans 4.9%	Long Treasury 4.2%	Short Duration 6.3%	GI Fixed (Hdg) 3.1%	Barclays Agg 4.3%	Short Duration 1.8%	Short Duration 4.3%	GI Fixed (Hdg) 5.3%	Em Mkt Debt (12.0%)	GI Fixed (Hdg) 5.1%	Global Fixed 5.5%	High Yield 4.4%	Barclays Agg 4.2%
Long Treasury (7.6%)	Short Duration 11.0%	Barclays Agg 3.6%	Short Duration 6.7%	High Yield 3.0%	Global Fixed (5.2%)	Global Fixed 3.2%	Bank Loans 2.7%	Bank Loans 1.1%	Short Duration 2.8%	Intern Credit 4.1%	Intern Credit 1.4%	GI Fixed (Hdg) 3.6%	High Yield 2.2%	High Yield (26.4%)	Short Duration 3.8%	GI Fixed (Hdg) 4.6%	Bank Loans 1.8%	Long Treasury 3.6%
Em Mkt Debt (19.3%)	Bank Loans 8.9%	Long Treasury (0.9%)	Global Fixed 3.8%	Em Mkt Debt (8.1%)	Long Treasury (8.7%)	High Yield (5.1%)	Global Fixed 1.6%	High Yield (1.9%)	Long Treasury 2.5%	Short Duration 1.3%	Global Fixed (4.5%)	Long Treasury 1.9%	Bank Loans 1.9%	Bank Loans (28.8%)	Long Treasury (12.9%)	Short Duration 2.8%	Short Duration 1.6%	Short Duration 1.3%

- No fixed income asset class consistently outperforms on a year by year basis.
- Highly volatile asset classes tend to oscillate from top to bottom (e.g., Long Treasury).
- Less volatile asset classes don't place in the top spot but deliver positive returns most of the time.

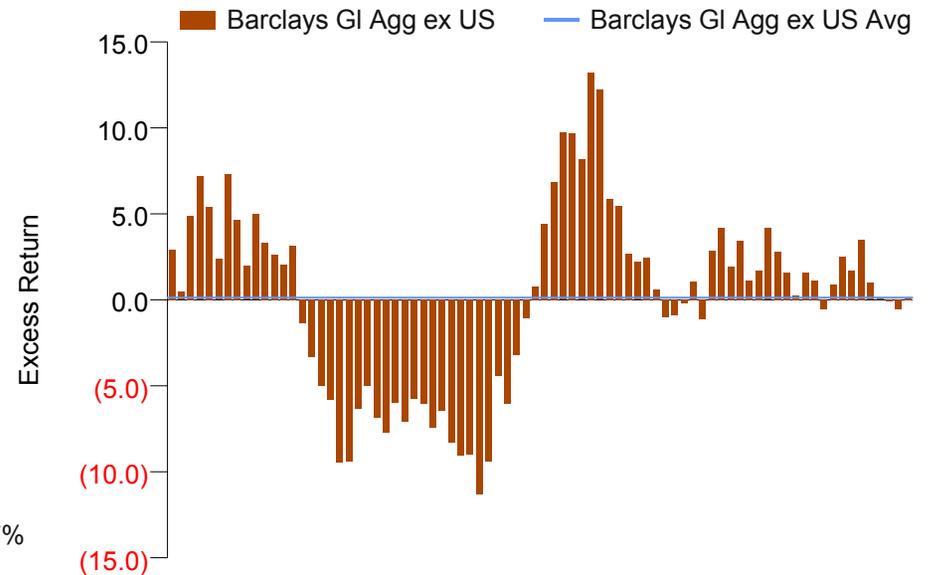
# Global Fixed Income

## Barclays Global Aggregate ex-US

### Market Value as of July 31, 2013



### Rolling 12 Quarter Excess Return Relative to Barclays GI Agg ex US (Hedged) for 20 Years ended June 30, 2013



- Expanding globally offers a differentiated source of return.
  - Fixed income returns vary widely by country due to different economic and monetary cycles.
  - However, many developed countries face similar economic challenges as the U.S.
  - Active management is strongly encouraged.
- Hedging currency is an important decision.
  - Historically, unhedged non-U.S. fixed income has had a similar return with significantly more volatility.
  - Predicting direction of dollar is difficult but currency may be source of alpha for a global fixed income manager.

# Fixed Income Risk Factors

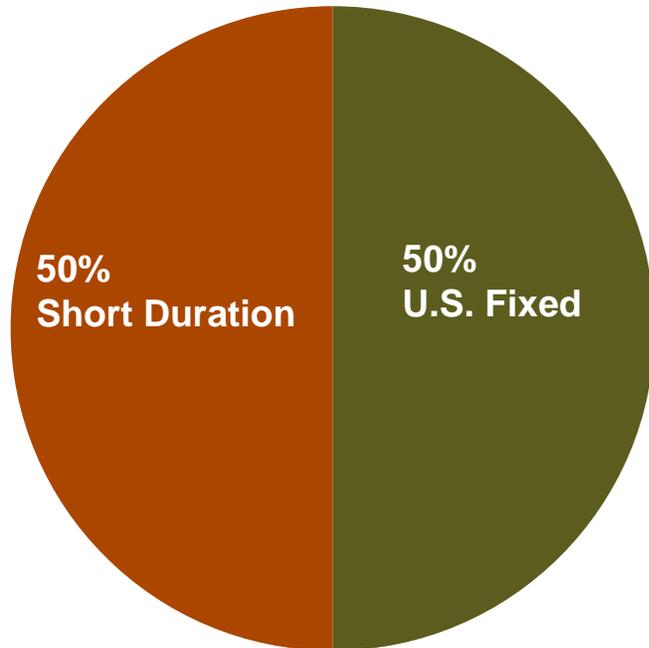
	U.S. Real Rate	U.S. Inflation	Credit	Currency	Liquidity
<b>Short Duration</b> (Barclays Gov/Credit 1-3 year)	**	**	**		*
<b>Long Treasury</b> (Barclays Long Treasury)	*****	*****			
<b>Intermediate Credit</b> (Barclays Intermediate Credit)	***	***	***		*
<b>U.S. Fixed Income</b> (Barclays Aggregate)	***	***	**		*
<b>U.S. TIPS</b> (Barclays TIPS)	****				**
<b>Global Fixed</b> (Barclays Global Aggregate)	***	***	**	****	**
<b>High Yield</b> (ML HY Master II)	***	***	*****		***
<b>Bank Loans</b> (CS Levered Loans)	*	*	****		****
<b>Emerging Market Debt</b> (JPM EMBI Global Div)	***	***	****		***
<b>Private Debt</b> (Thomson One Distressed)	***	***	*****		*****



- The heat map shows risk factor sensitivity for various fixed income asset classes.
- Not all risk factors are shown.
  - Other risk factors are yield curve risk, call risk, prepayment risk, event risk and volatility risk.

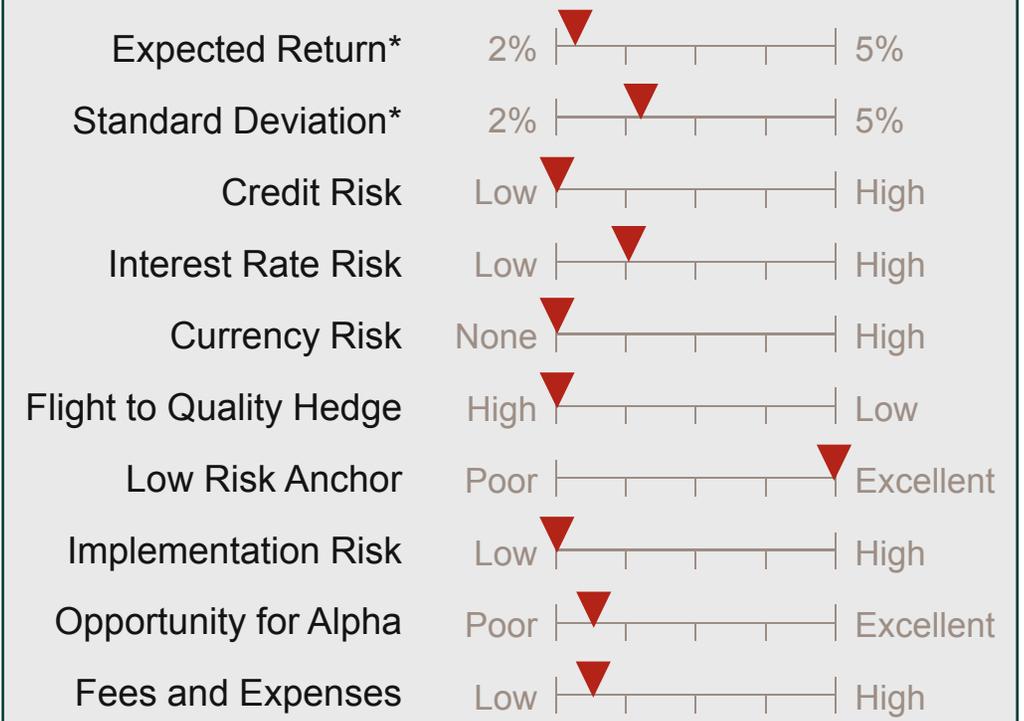
# Alternative 1

## Low Risk Anchor Portfolio



U.S. Government: 61%  
 U.S. Securitized: 16%  
 Credit Exposure: 24%  
 Interest Rate Duration: 3.7 years

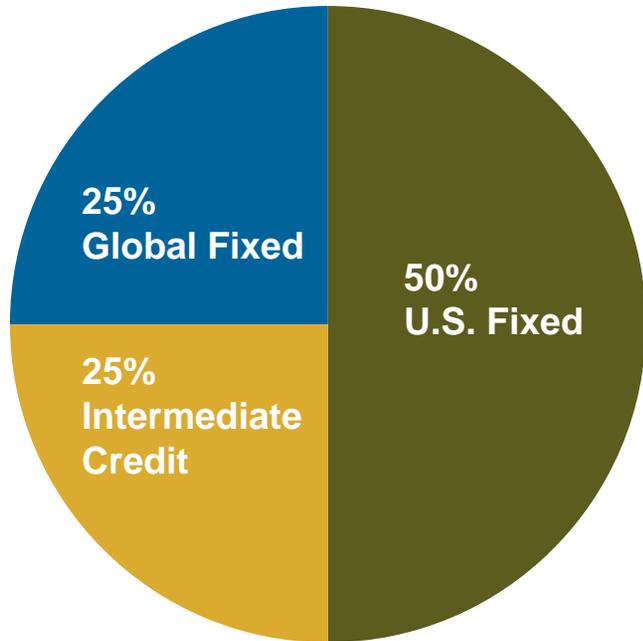
Suitable for a conservative investor who needs a “strong anchor to windward”. Time horizon may be short to intermediate (< 5 years). Portfolio is dominated by U.S. backed securities and only expected to generate a 2.2% return over the next 10 years. Interest rate risk is lowered by strategically allocating 50% of the portfolio to shorter duration.



Based on Callan 2013 – 2022 capital market expectations. Expected return is a 10-year annualized (geometric) return.

# Alternative 2

## Moderate Risk Anchor Portfolio



U.S. Government: 29%  
 U.S. Securitized: 17%  
 Credit Exposure: 39%  
 Non\$ Exposure: 15%  
 Interest Rate Duration: 5.4 years

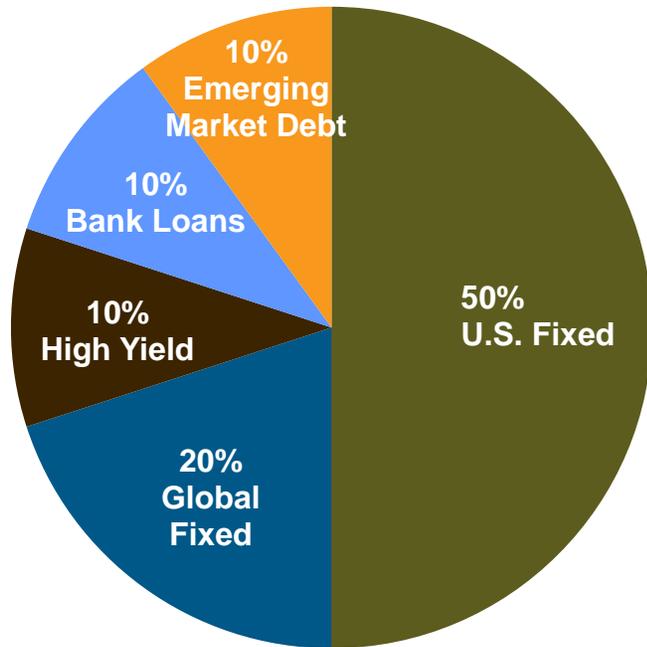
Suitable for a long-term investor with a moderate risk tolerance and/or significant risk in the rest of the total portfolio. Portfolio moves away from the Barclays Aggregate by diversifying globally and adding intermediate credit for additional yield (return). Expected return is 2.6% but risk is higher as a result of increased credit risk and addition of currency risk (which could be hedged).



Based on Callan 2013 – 2022 capital market expectations. Expected return is a 10-year annualized (geometric) return.

# Alternative 3

## Core-Satellite Structure with Strategic Allocation to Credit-Sensitive Sectors



U.S. Government: 28%  
 U.S. Securitized: 17%  
 Credit Exposure: 43%  
 Non\$ Exposure: 12%  
 Interest Rate Duration: 5.1 years

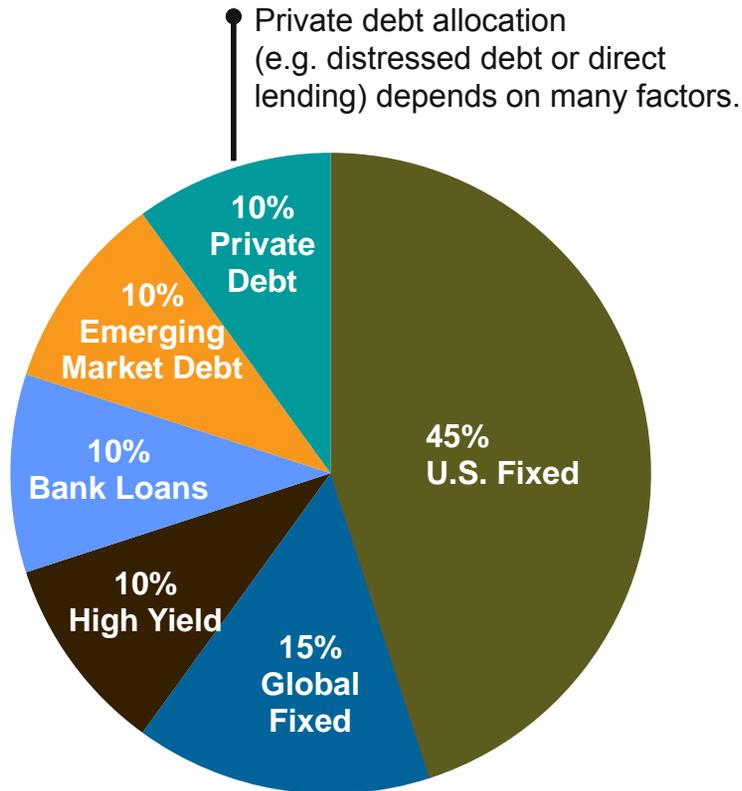
Suitable for a long-term investor with a moderate-high risk tolerance seeking additional return from fixed income. 30% strategic allocation made to three credit-sensitive sectors—emerging debt, bank loans and high yield. Portfolio has 20% global diversification and U.S. fixed income portfolio might be passively implemented to anchor the “plus sectors.” May be highly correlated with equities and provide inadequate downside protection in a bear equity market. Expected to deliver a 3.4% return.



Based on Callan 2013 – 2022 capital market expectations. Expected return is a 10-year annualized (geometric) return.

# Alternative 4

## Core-Satellite Structure with Strategic Allocation to Credit-sensitive Sectors & Private Debt



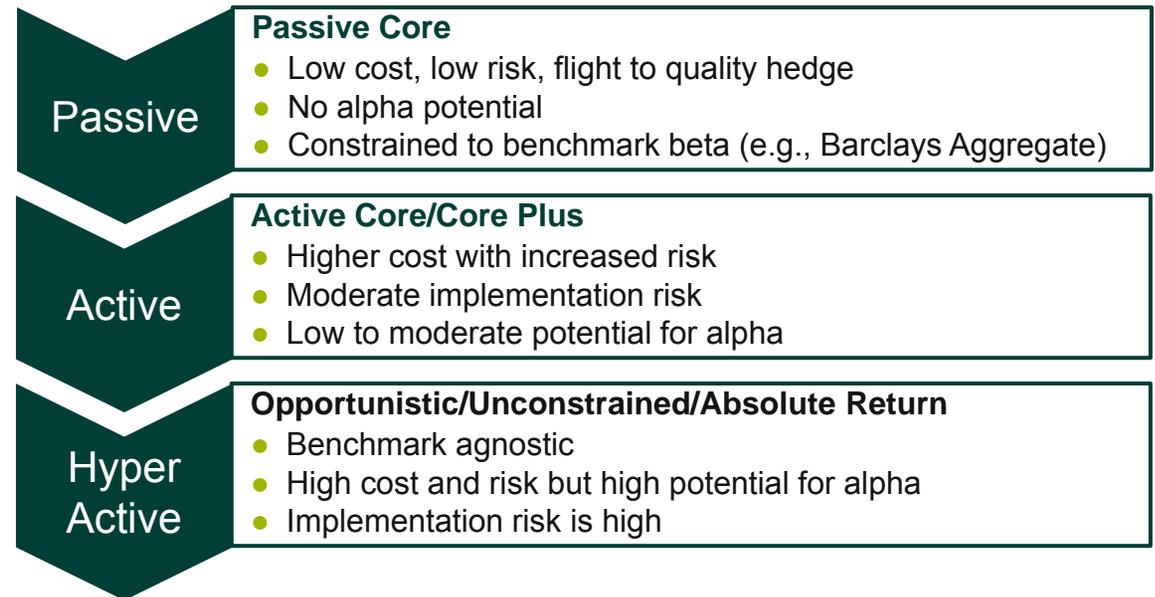
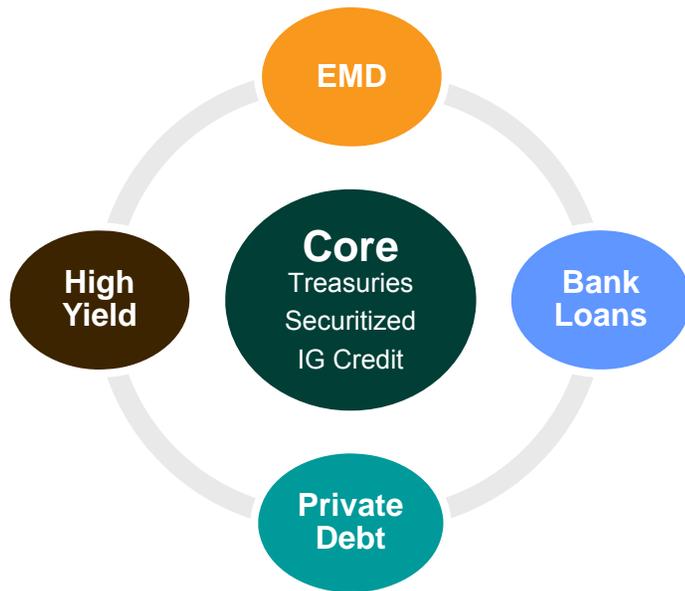
U.S. Government: 24%  
 U.S. Securitized: 15%  
 Credit Exposure: 52%  
 Non-\$ Exposure: 9%  
 Interest Rate Duration: 5.0 years

Suitable for a long-term investor with a high risk tolerance and insensitivity to short-term volatility. May be highly correlated with equities and provide inadequate downside protection in a bear equity market. Private debt is illiquid. Must carefully consider liquidity needs and other non-fixed income illiquid investments. Expected to deliver a 3.9% return but is highly dependent on implementation.



Based on Callan 2013 – 2022 capital market expectations. Expected return is a 10-year annualized (geometric) return.

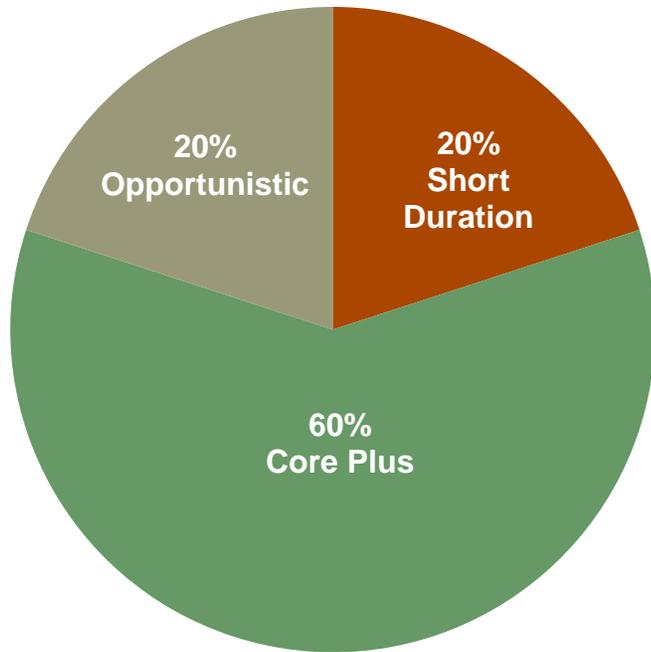
# Strategic vs. Tactical



Strategic Approach	Tactical Approach
Employ strategic mandates with highly specialized active managers. Core portfolio is low risk and might be passive.	Allow manager to move in/out of sectors, within guidelines. Typically a blend of active and passive managers.
Investor must expend time and resources to establish and monitor strategic sector weights.	Active manager is solely responsible for moving in/out of “plus sector” exposures not the Investor.
May require more managers and a large fixed income portfolio (in dollars).	Simpler and lower cost structures are possible.
Small fixed income portfolios may not be able to achieve a cost-effective structure.	Can be implemented with any allocation size.

# Alternative 5

## Tactical Approach



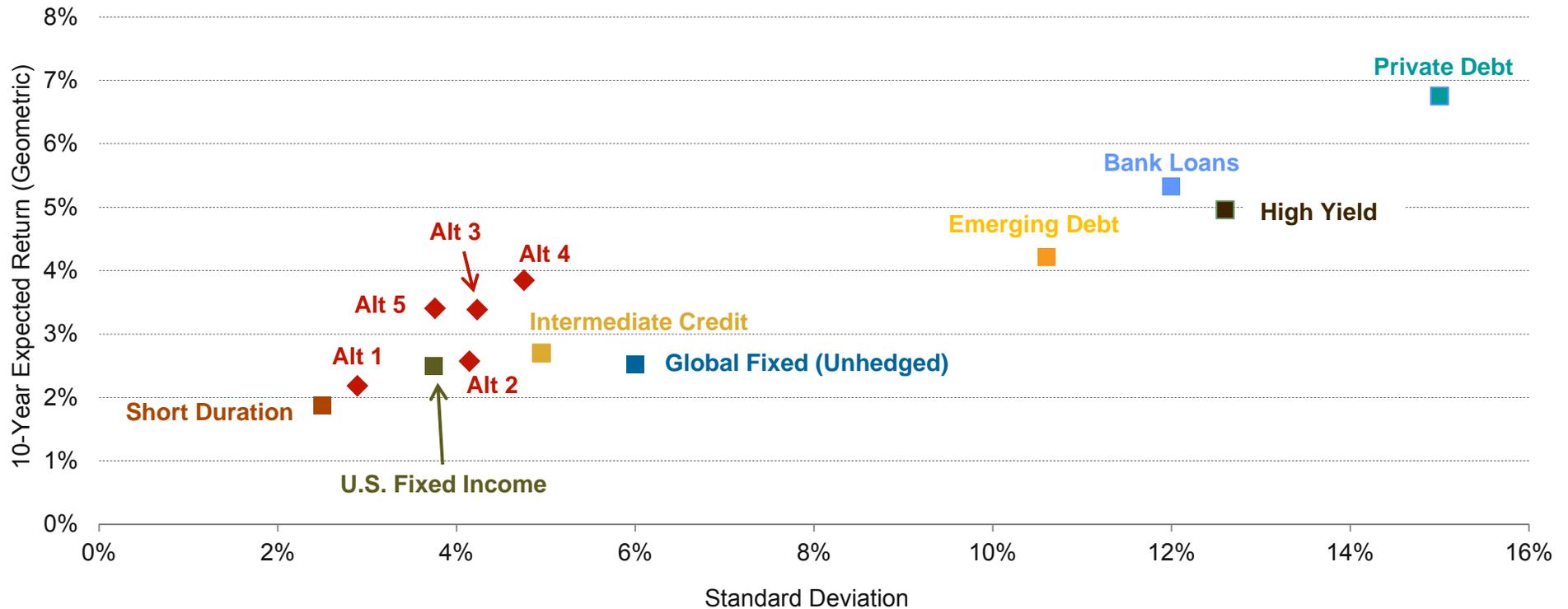
U.S. Government: 36%  
 U.S. Securitized: 14%  
 Credit Exposure: 44%  
 Non-\$ Exposure: 7%  
 Interest Rate Duration: 4.4 years

Suitable for a long-term investor with a high risk tolerance and seeking additional return from fixed income. Requires conviction that active managers add value via sector rotation. Opportunistic manager(s) is critical to success of structure and should be selected carefully to meet goals (e.g., absolute return, multi-sector). May be highly correlated with equities. Expected to deliver a 3.4% return (does not reflect alpha).

Expected Return	2%  -----  5%
Standard Deviation	2%  -----  5%
Credit Risk	Low  -----  High
Interest Rate Risk	Low  -----  High
Currency Risk	None  -----  High
Flight to Quality Hedge	High  -----  Low
Low Risk Anchor	Poor  -----  Excellent
Implementation Risk	Low  -----  High
Opportunity for Alpha	Poor  -----  Excellent
Fees and Expenses	Low  -----  High

Based on Callan 2013 – 2022 capital market expectations. Expected return is a 10-year annualized (geometric) return. For core plus and opportunistic, assumed strategic exposures to various indices.

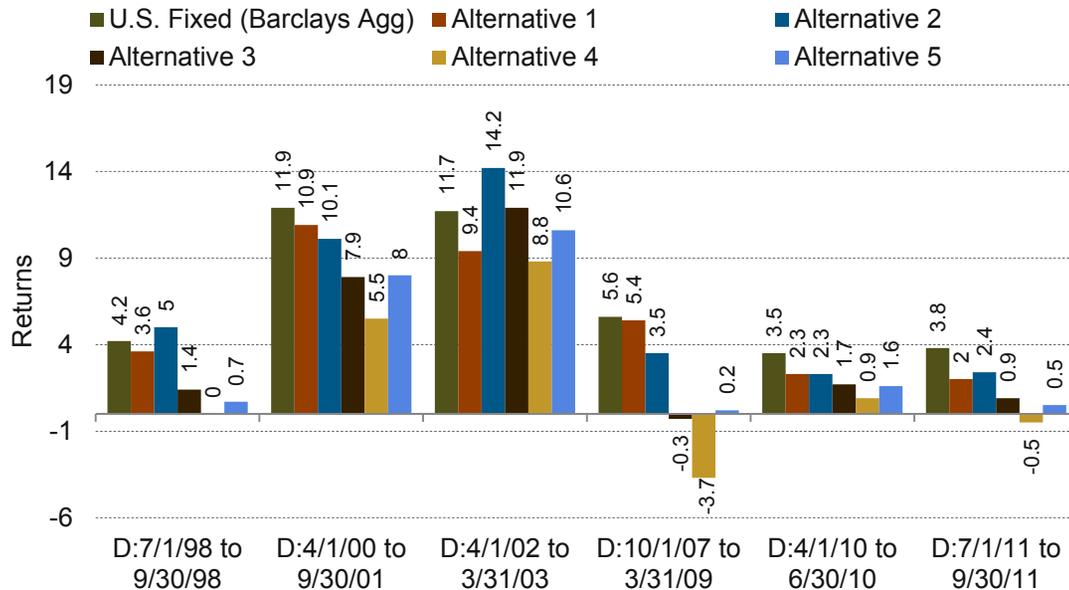
# Illustrating the 10-Year Risk-Return Trade-Off



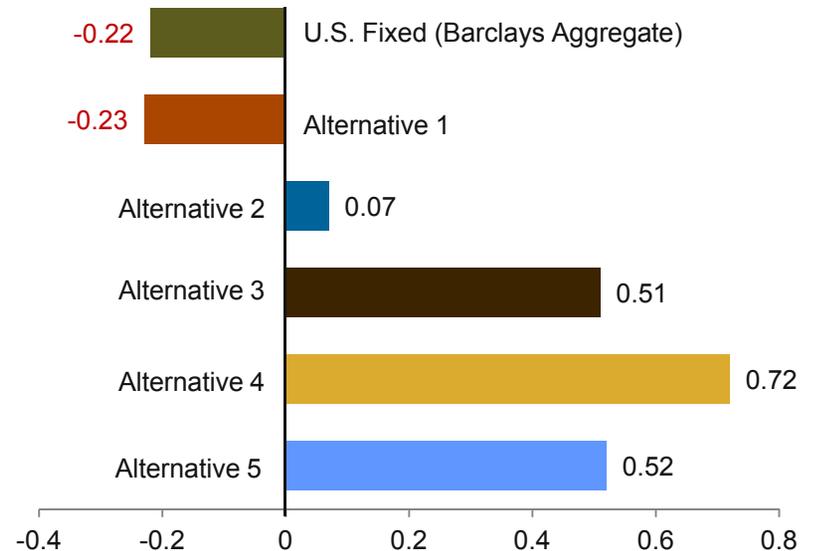
- The above graph illustrates the alternative structures in risk-return space
  - Risk-return profile is based on Callan 10-year forward looking (2013 – 2022) capital market expectations which represent passive exposure to the capital markets net of fees (except for private debt where no objective benchmark exists).
- In the context of fixed income only, Alternatives 3, 4, and 5 appear superior to the low-moderate risk anchor portfolios.

# Low Risk Anchor?

**Returns for Domestic Equity Declining Periods  
15 Years ended June 30, 2013**



**Correlation to S&P 500  
10 Years ending June 30, 2013**



- The left chart shows the alternative structures and the Barclays Aggregate in declining equity periods over the last 15 years.
  - Importantly, the 15-year look back is based on benchmark returns. In particular, Alternative 5 could do better or worse in a declining equity market (e.g., 2008).
  - The Barclays Aggregate and Alternatives 1 and 2 provide good downside protection in bear equity markets.
- Alternatives 3, 4, and 5 are positively correlated with the S&P 500 and may provide inadequate protection in a bear equity market.

**INVESTMENT CONSULTING SERVICES AGREEMENT**  
**Version 2**  
**CALLAN ASSOCIATES INC.**  
**AND**  
**THE NORTH DAKOTA STATE INVESTMENT BOARD**

This agreement is made and entered into by and between CALLAN ASSOCIATES INC., a California corporation (hereinafter referred to as Callan), and the NORTH DAKOTA STATE INVESTMENT BOARD (hereinafter referred to as NDSIB), beginning July 1, 2013 to provide investment consulting services in accordance with this agreement.

1. **SCOPE OF WORK**

Callan will provide the services under this agreement as described in Attachment A. During the performance of such services by Callan, NDSIB will retain and exercise all decision-making authority with respect to the management and administration of the retirement plan(s) funded thereby and investments relating thereto.

Notwithstanding the foregoing, the services to be provided by Callan hereunder shall not include any investment advice (whether related to a decision to invest or a decision to dispose of an investment) with respect to The Diversified Alpha Group Trust.

2. **ADDITIONAL WORK**

Consulting projects beyond the scope of services included in Attachment A may be conducted by Callan at the direction and request of NDSIB. The fee for each project shall be mutually agreed upon in writing between NDSIB and Callan and in the form of an amendment to this Agreement.

3. **TERMS OF AGREEMENT**

This Agreement shall be in effect for five years, effective as of July 1, 2013. This Agreement may, however, be extended additional one-year periods with a 2% increase in fees at the renewal subject to approval of NDSIB and Callan. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof, and supersedes all prior agreements, undertakings, negotiations and discussions, both written and oral.

4. **CANCELLATION**

NDSIB or Callan may cancel this Agreement for convenience upon thirty (30) calendar day's written notice to the other party. Effective date of such notice shall begin three (3) days after date of posting with the United States Postal Service with said notice being sent to the last known address of the other party. Upon cancellation, NDSIB agrees to pay Callan for all work performed through the date of termination.

5. **FEES**

Callan's fee for performance of the work as referenced in "Scope of Work" in Attachment A hereto is set forth in Attachment B hereto.

6. TRAVEL AND EXPENSES

Travel by members of the Callan staff to locations at the request of NDSIB is excluded from the quoted fees. NDSIB will reimburse Callan for reasonable expenses related to such travel.

7. PAYMENTS

All fees are quoted on a cash basis. NDSIB will be invoiced monthly. NDSIB shall make cash payments within thirty (30) days of receipt of billing from Callan. Interest of 1% per month will be charged on all overdue balances.

8. APPLICABLE LAWS

The Agreement will be construed and interpreted under the laws of the State of North Dakota to the extent not preempted by applicable federal law.

9. NATURE OF CALLAN'S SERVICES

a) Callan agrees that to the extent that the consulting services it shall provide under this Agreement make it a fiduciary under applicable law, Callan will in performing such services do so with the due care, skill, prudence and diligence under the particular circumstances then prevailing that a prudent consultant acting in a similar capacity and familiar with such matters would use in performing such consulting services. In that regard, Callan shall perform such services solely in the interests of the participants and beneficiaries of the NDSIB. In all events, Callan will perform its services with the high level of skill care and diligence expected of a consultant providing that services.

b) Notwithstanding paragraph 9(a) above and consistent with paragraph 1, NDSIB retains the fiduciary responsibility for decisions with respect to NDSIB investment matters and administration. In discharging its fiduciary responsibilities regarding matters of investment, NDSIB may draw upon the resources and expertise of Callan to the extent it deems that necessary for NDSIB to discharge its responsibilities consistent with the fiduciary standard of care applicable to NDSIB as the plan's fiduciary.

c) Although Callan's role as a consultant is to provide NDSIB with information and materials that will assist NDSIB to fulfill its fiduciary responsibility, NDSIB acknowledges and agrees that:

(i) Callan has no responsibility to manage or in any way direct the investment of any assets whose investment and/or management may be the subject of Callan's consulting services under this Agreement;

(ii) Callan has not made and cannot make any promise, guarantee or other statement or representation regarding the future investment performance of NDSIB assets; and

(iii) Callan shall not be liable for any losses or expenses incurred by any Plan as a result or any of any act or omission by any investment manager, custodian or an unaffiliated third-party.

10. REGISTERED INVESTMENT ADVISER

Callan is a registered investment adviser under the Investment Advisers Act of 1940.

11. CHANGES IN THE AGREEMENT

Any change to this Agreement shall be in writing in the form of an amendment mutually agreed upon and duly executed by both parties. Callan's named representative shall be the point of contact with regard to contractual matters.

12. ASSIGNMENT

No assignment in whole or in part of this Agreement and no delegation except as contemplated herein of any part or all of the performance of its duties hereunder may be made by Callan without the prior written consent of NDSIB, and any attempted assignment or delegation without such consent will be void.

13. FORM ADV

NDSIB acknowledges receipt of Callan's disclosure statement, Form ADV, Part II, more than 48 hours prior to the date of the execution of this Agreement.

BY THE SIGNATURES affixed below, the above Agreement is hereby accepted as to all the terms and conditions.

\_\_\_\_\_  
CALLAN ASSOCIATES INC.

\_\_\_\_\_  
NORTH DAKOTA  
STATE INVESTMENT BOARD

\_\_\_\_\_  
Date

\_\_\_\_\_  
Date

## **Attachment A** **SCOPE OF WORK**

The scope of work below will be performed and delivered by Callan to the NDSIB and its investment staff as employed by the North Dakota Retirement and Investment Office ("RIO").

### 1. **ANNUAL STRATEGIC PLANNING MEETING**

CALLAN will conduct an annual strategic planning session with RIO investment staff to review CALLAN'S previous annual performance as well as establish a mutually agreed work plan for NDSIB and CALLAN for the ensuing year. CALLAN will review and update the Trust Funds' investment guidelines; review the Trust Funds' manager structures; CALLAN will provide RIO staff with CALLAN's current capital market expectations. The agenda and content of the Annual Strategic Planning Meeting will be developed cooperatively by RIO staff and Callan. These meetings may be held either in Bismarck or other locations (and times) as mutually agreed in advance.

### 2. **INVESTMENT MEASUREMENT REPORTS**

Callan will produce investment measurement reports for three separate Trusts overseen by the NDSIB:

- a) the Pension Trust [including separate and detailed performance and attribution information for both the North Dakota Public Employees Retirement System and the North Dakota Teachers Fund for Retirement];
- b) the Insurance Trust [including separate and detailed performance and attribution information for the Workforce Safety and Insurance fund];
- c) the Legacy Fund; and
- d) the Budget Stabilization Fund.

The quarterly investment measurement reports will review and evaluate the performance of the investment managers for NDSIB. Each Trust's measurement report will be accompanied by a written summary. Callan will evaluate the performance of each of the separate portfolios and commingled funds. The RIO staff will be provided with a more detailed report that analyzes managers and each Trust's investment results and characteristics.

Callan will attend quarterly meetings and other meetings as requested to make oral presentations regarding the investment managers' performance.

### 3. **PERFORMANCE EVALUATION PROGRAM ("PEP") SOFTWARE**

Callan will provide RIO staff with a networked version of PEP for Windows software. "PEP" is a risk, return and portfolio characteristic and performance measurement software package. NDSIB will receive updated data for the trust funds under evaluations (as described in paragraph 2 above) as well as quarterly database and software updates for the term of the agreement. Online and onsite training is available upon request and is included within the terms of the retainer agreement.

**Attachment A (cont'd)**  
**SCOPE OF WORK**

4. **CALLAN INVESTMENTS INSTITUTE**

During the term of this Agreement, NDSIB will be a member of the Callan Investments Institute (“CII”). CII is a continuing education and research facility in the pensions and investments industry. A division of Callan, the Institute was established in 1980 and its membership has steadily grown to include leading corporate, public, endowment/foundation and multi-employer fund sponsor and investment management organizations. The Institute provides research and educational assistance through periodic surveys, monthly and quarterly market index summaries, and research papers.

On request, Trustees and RIO staff will be provided with online access to CII’s research. In addition, trustees and staff designated by trustees may attend regional and national Institute conferences without payment of a registration fee.

5. **CONSULTING PROJECTS**

This retainer relationship provides that Callan will perform up to two projects over each fiscal-year period that this agreement is in force within the quoted annual fee. Third and subsequent projects performed during any fiscal-year period will be at an additional fee as mutually agreed by NDSIB and Callan as an amendment to this agreement.

A “formal project” will be a research project that exhibits the following types of attributes as listed below:

- The project will result in a formal written report being delivered to NDSIB memorializing the nature of the substantive investment issue in question as well documenting due diligence conducted by CALLAN.
- The written report will define the question(s) being addresses; will describe CALLAN'S research process; will list any relevant alternative courses of action and/or conclusions, and—if appropriate—list CALLAN's recommendations.
- The project may involve a substantive investment-related issue that has been presented to NDSIB by NDSIB or RIO staff. NDSIB and CALLAN will agree in writing as to the project's objective(s), scope, deliverable(s), and time frame for completion.
- By way of illustration, a “formal project” may entail conventional deliverable such as a manager search, a review of custodial services and fees, or a due diligence report on a manager, strategy, or investment product. A “formal project” may also include a customized project such as a peer review by Callan's Client Policy Review Committee (CPRC) of an asset class investment structure (i.e.—the number and styles of investment management assignments within an asset class) proposed by RIO staff prior to presentation to the NDSIB. The CPRC is a formal peer review group within Callan composed of senior consulting professionals whose mandate is to provide peer review, quality control and professional oversight to strategic policy decisions under consideration by Callan's institutional clients.

**Attachment A (cont'd)**  
**SCOPE OF WORK**

Callan will coordinate such peer reviews with RIO staff and will provide informed opinions and commentary to RIO staff. NDSIB will retain final authority to approve or reject the results of such peer reviews projects.

6. MEETING ATTENDANCE

Callan agrees that at least one CALLAN consulting professional will attend NDSIB meetings on dates and locations mutually agreed in advance. As circumstances require, CALLAN specialty consultants will be available for on-site meetings as needed and mutually agreed in advance. Travel expenses incurred by Callan professionals will be reimbursed by NDSIB.

7. ACCESS TO SPECIALTY CONSULTING STAFF

On-going qualitative evaluation of the Pension and Insurance Trusts' investment managers. RIO investment staff will have reasonable telephonic and electronic access to CALLAN's Global Manager Research (GMR) specialty consultants on an informal basis.

RIO investment staff will have reasonable telephonic and electronic access to CALLAN's Global Manager Research and Capital Markets Research Groups. Additionally, RIO investment staff will have reasonable telephonic and electronic access to a designated investment performance analyst at Callan who will be available, on a reasonable schedule, to create one-off and custom exhibits.

8. SUPPORT SERVICES

- Callan will assist the NDSIB staff in negotiations with investment managers involving investment guidelines and fee schedules;
- At their individual request, Callan will provide access by NDSIB Trustees and staff to "Callan Insights," an investment manager email news service.
- NDSIB members and RIO investment staff will have access to "Callan College" training programs. As mutually agreed in advance, CALLAN will conduct either entire or partial sessions from the "Callan College" curriculum in Bismarck. There is a nominal fee to attend "Callan College" sessions. Continuing education credit may be available to participants.

9. ADDITIONAL CONSULTING SERVICES

Additional consulting services not outlined above are available to NDSIB from Callan. Such services are not included in the base fee of this agreement. The scope and fee for such additional consulting services shall be in writing in the form of an amendment mutually agreed upon and duly executed by both parties. Callan's named representative shall be the point of contact with regard to contractual matters.

10. DIVERSIFIED ALPHA GROUP TRUST

Notwithstanding the foregoing, the services to be provided by Callan hereunder shall not include any investment advice (whether related to a decision to invest or a decision to dispose of an investment) with respect to The Diversified Alpha Group Trust.

**Attachment A**  
**SCOPE OF WORK (cont'd)**  
**Optional Services**

I. **CUSTODIAN SEARCH**

Callan will conduct a fee and service review of NDSIB's custodian which includes a competitive analysis of both fees and services. In the event NDSIB concludes a formal due diligence search is required, Callan will conduct the search and assist in the evaluation of proposals and candidates. Any selection decision made regarding a custodian will be the responsibility of NDSIB.

II. **PRIVATE EQUITY STRUCTURE STUDY AND GATEKEEPER SEARCH**

Working with RIO investment staff, Callan's Private Equity Group will conduct an analysis during the five-year term of this agreement to document NDSIB's investment needs, practices, and preferences regarding the prudent deployment of private capital. The final report will document NDSIB's strategic investment plan for private equity. Callan will work with RIO staff to identify relevant criteria to be used in a due diligence process to evaluate private equity gatekeepers. NDSIB will have the responsibility to ultimately select the firm who will assume fiduciary oversight of NDSIB's portfolio of private equity partnerships.

III. **PRIVATE EQUITY TACTICAL PLAN AND PERFORMANCE EVALUATION**

Working with RIO investment staff, Callan will assist in the annual evaluation of the private equity gatekeeper's annual tactical plan for harvesting and deploying private capital within the portfolio of private equity partnerships. Callan will provide industry knowledge and market perspective to assist RIO staff and NDSIB in either accepting or modifying the gatekeeper's proposed annual strategic plan. NDSIB will have the ultimate responsibility to either accept or modify the private equity tactical plan.

IV. **REAL ASSETS ANNUAL TACTICAL PLAN AND PERFORMANCE EVALUATION**

Working with RIO investment staff, Callan will assist in the annual evaluation of the real assets portfolio annual tactical plan for harvesting and deploying capital within the portfolio of real estate, timber, and infrastructure holdings. Callan will provide industry knowledge and market perspective to assist RIO staff and NDSIB in their annual review of the real assets portfolio relative to the relevant long-term, strategic plan for this allocation. NDSIB will have the ultimate responsibility regarding decisions about the real assets tactical plan.

**Attachment B**  
**FEES**

Callan's base fee for performance of the work as referenced in "Scope of Work" in the preceding Attachment A for the services listed in items 1 – 8 is set at \$376,000 for the first year of the agreement. This fee will be subject to an annual increase of 2% on July 1<sup>st</sup> of succeeding years.

Callan's fee to provide the optional services outlined in items I – IV in "Scope of Work" in the preceding attachment A is \$81,800 in the first year of the agreement. Items I and II are amortized over the first five years of an agreement. If Callan is terminated before the end of the fifth year, there will be an additional amount owed if these services are performed. In the sixth and subsequent years, there will be a reduction in the annual fee reflecting the five-year amortization.

# # #

DRAFT

STATE INVESTMENT BOARD SEARCH COMMITTEE  
MINUTES OF THE  
AUGUST 12, 2013, MEETING

**COMMITTEE MEMBERS PRESENT:** Lt. Governor Wrigley, Chair  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Mike Sandal, PERS Board  
Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Connie Flanagan, Fiscal & Investment Officer  
Bonnie Heit, Office Manager  
Fay Kopp, Interim Executive Director  
Darren Schulz, Interim CIO

**OTHERS:** David Hunter, Candidate  
Michael Kennedy, KornFerry  
Bryan Klipfel, WSI  
Deric Righter, Candidate

**CALL TO ORDER:**

Lt. Governor Wrigley called the meeting of the State Investment Board Search Committee to order at 8:30 am on Monday, August 12, 2013, at Workforce Safety & Insurance, 1600 E Century Avenue, Bismarck, ND.

The meeting was held for the purposes of conducting interviews with the second round of candidates selected by Korn/Ferry.

**IT WAS MOVED BY MR. SANDAL AND SECONDED BY COMMISSIONER GAEBE AND CARRIED ON A VOICE VOTE TO ACCEPT THE MINUTES OF THE AUGUST 8, 2013, MEETING.**

**AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. SANDAL, MR. GESSNER, AND LT. GOVERNOR WRIGLEY**

**ABSENT: NONE**

**MOTION CARRIED**

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE MINUTES OF THE JULY 26, 2013, MEETING.**

**AYES: MR. SANDAL, MR. GESSNER, TREASURER SCHMIDT, COMMISSIONER GAEBE, AND LT. GOVERNOR WRIGLEY**

**NAYS: NONE**

**MOTION CARRIED**

The Search Committee and Mr. Kennedy reviewed Korn/Ferry's recruiting process, backgrounds, and expertise of the candidates brought forth thus far and discussion occurred on whether these candidates' are in line with the position specifications.

Treasurer Schmidt was unable to attend the July 26, 2013, meeting but was able to review the first set of three interviews recorded by the reporting secretary. Korn/Ferry will arrange interactive video interviews with Treasurer Schmidt and the three candidates, if desired, to allow her an opportunity to interact with the candidates.

After discussion, the Search Committee felt they are on track with the process and Korn/Ferry is providing candidates whose backgrounds are in correlation to the job specifications for the ED/CIO.

Mr. Kennedy reviewed the backgrounds of the next two candidates. The Search Committee conducted interviews with Mr. Hunter and Mr. Righter.

The Search Committee reviewed the five candidates interviewed thus far and their perspective of each.

Lt. Governor Wrigley exited the meeting at 11:40 a.m. and Mr. Sandal presided over the remainder of the meeting.

The Search Committee and Korn/Ferry will continue their review of the five candidates at their next meeting. In the interim, Korn/Ferry will continue to look for candidates and will discuss their efforts at the next Search Committee meeting.

**ADJOURNMENT:**

With no further business to come before the Search Committee, Mr. Sandal adjourned the meeting at 12:15 p.m.

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Lt. Governor Wrigley, Chair  
State Investment Board Search Committee

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Bonnie Heit  
Assistant to the Board

**STATE INVESTMENT BOARD SEARCH COMMITTEE  
MINUTES OF THE  
AUGUST 8, 2013, MEETING**

**COMMITTEE MEMBERS PRESENT:** Lt. Governor Wrigley, Chair  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Mike Sandal, PERS Board  
Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Bonnie Heit, Office Manager  
Fay Kopp, Interim Executive Director

**OTHERS:** Michael Kennedy, KornFerry

**CALL TO ORDER:**

A teleconference meeting of the State Investment Board Search Committee was held at 9:00 a.m. on Thursday, August 8, 2013.

The meeting was held for the purposes of reviewing the candidates scheduled for preliminary interviews on August 12, 2013, and to follow-up on the interviews conducted on July 26, 2013.

The Search Committee and Mr. Kennedy discussed the backgrounds and expertise of the candidates brought forth and if these candidates' portfolios are in line with the position specifications.

The Search Committee and Mr. Kennedy will review the process thus far on the recruitment of candidates for the ED/CIO position after the conclusion of interviews on August 12, 2013.

**ADJOURNMENT:**

With no further issues to come before the Search Committee, the meeting adjourned at 9:30 a.m.

**Accepted at Search Committee 8-12-13 Meeting**

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Lt. Governor Wrigley, Chair  
State Investment Board Search Committee

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Bonnie Heit  
Assistant to the Board

**STATE INVESTMENT BOARD SEARCH COMMITTEE  
MINUTES OF THE  
July 26, 2013, MEETING**

**COMMITTEE MEMBERS PRESENT:** Lt. Governor Wrigley, Chair  
Lance Gaebe, Land Commissioner  
Mike Gessner, TFFR Board  
Mike Sandal, PERS Board

**COMMITTEE MEMBER ABSENT:** Kelly Schmidt, State Treasurer

**STAFF PRESENT:** Bonnie Heit, Office Manager  
Fay Kopp, Interim Executive Director  
Darren Schulz, Interim CIO

**OTHERS:** Frank Bello, Candidate  
Bruce Fink, Candidate  
Michael Kennedy, KornFerry  
Brian Klipfel, Workforce Safety & Insurance  
Jan Murtha, Attorney General's Office  
Dave Thompson, Prairie Public Radio  
Tim Viezer, Candidate

**CALL TO ORDER:**

Lt. Governor Wrigley called the meeting of the State Investment Board Search Committee to order at 12:15 pm on Friday, July 26, 2013, at Workforce Safety & Insurance, 1600 E Century Avenue, Bismarck, ND.

The meeting was held for the purposes of conducting preliminary interviews with the first round of candidates selected by Korn/Ferry.

**MINUTES:**

**IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE MINUTES OF THE JULY 11, 2013, APRIL 26, 2013, MARCH 12, 2013, MARCH 4, 2013, FEBRUARY 12, 2013, AND JANUARY 4, 2013, MEETINGS.**

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

**IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE MINUTES OF THE SUB-SET OF THE SEARCH COMMITTEE FOR APRIL 25, 2013, APRIL 3, 2013, AND MARCH 28, 2013.**

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

Mr. Kennedy reviewed the structure of the interviews, criteria for assessing the candidates, and the interview questions.

KornFerry will also continue to reach out to other candidates to bring before the Search Committee sometime in August.

Mr. Kennedy suggested the Search Committee narrow the candidates down to two - three candidates once the preliminary interviews have been completed and bring those individuals in for second interviews with the Search Committee.

Mr. Kennedy reviewed the background of each of the candidates prior to their interview. The Search Committee then interviewed the following candidates - Mr. Bello, Mr. Viezer, and Mr. Fink.

After the interviews, the Search Committee and Mr. Kennedy discussed the interviews and their next steps. The next group of preliminary interviews will be conducted either the week of August 12<sup>th</sup> or 19<sup>th</sup>.

**ADJOURNMENT:**

With no further issues to come before the Search Committee, Lt. Governor Wrigley adjourned the meeting at 5:37 p.m.

**Accepted at Search Committee 8-12-13 Meeting**

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Lt. Governor Wrigley, Chair  
State Investment Board Search Committee

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Bonnie Heit  
Assistant to the Board

August 23, 2013



**North Dakota State  
Investment Board**

June 2013 Performance  
Evaluation

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**William Howard, CFA**  
Senior Vice President

# Agenda

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- Review economic and market environment for periods ended June 30, 2013
- Pension Trust asset allocation and total fund results
- Insurance Trust asset allocation and total fund results
- Review manager performance

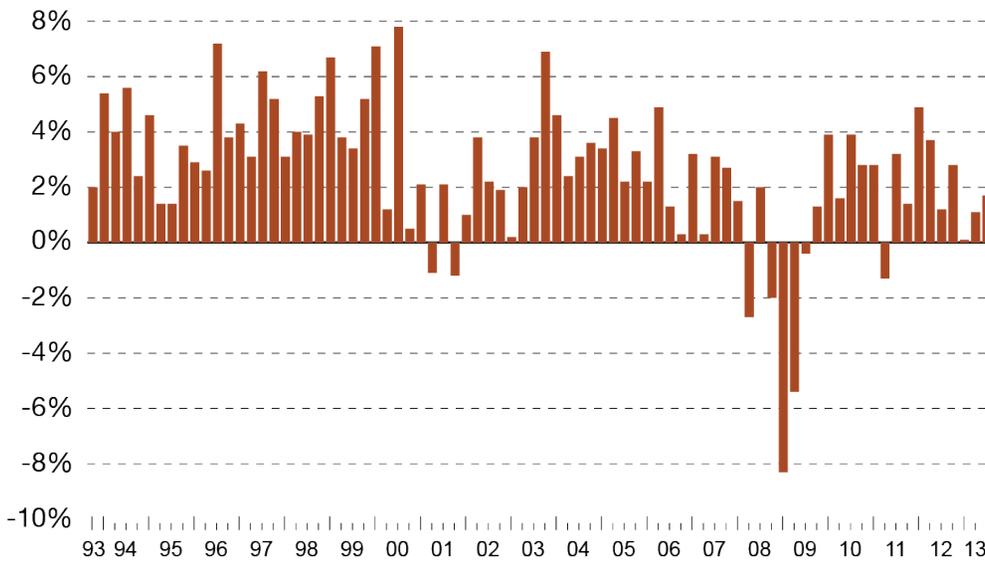
# U.S. Economy

Quarter Ending June 30, 2013

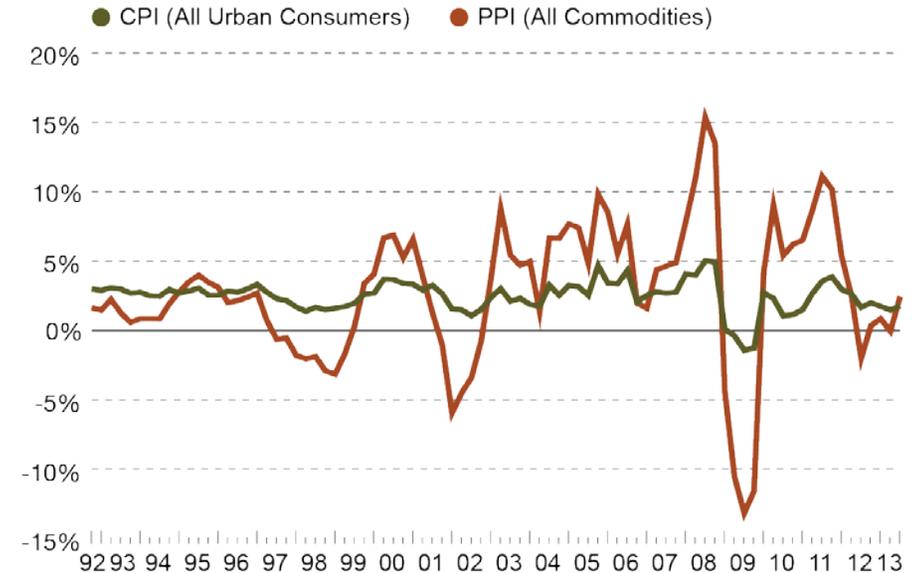
Quarterly Real GDP Growth\*

(20 Years)

Inflation Year-Over-Year



Source: U.S. Department of Labor



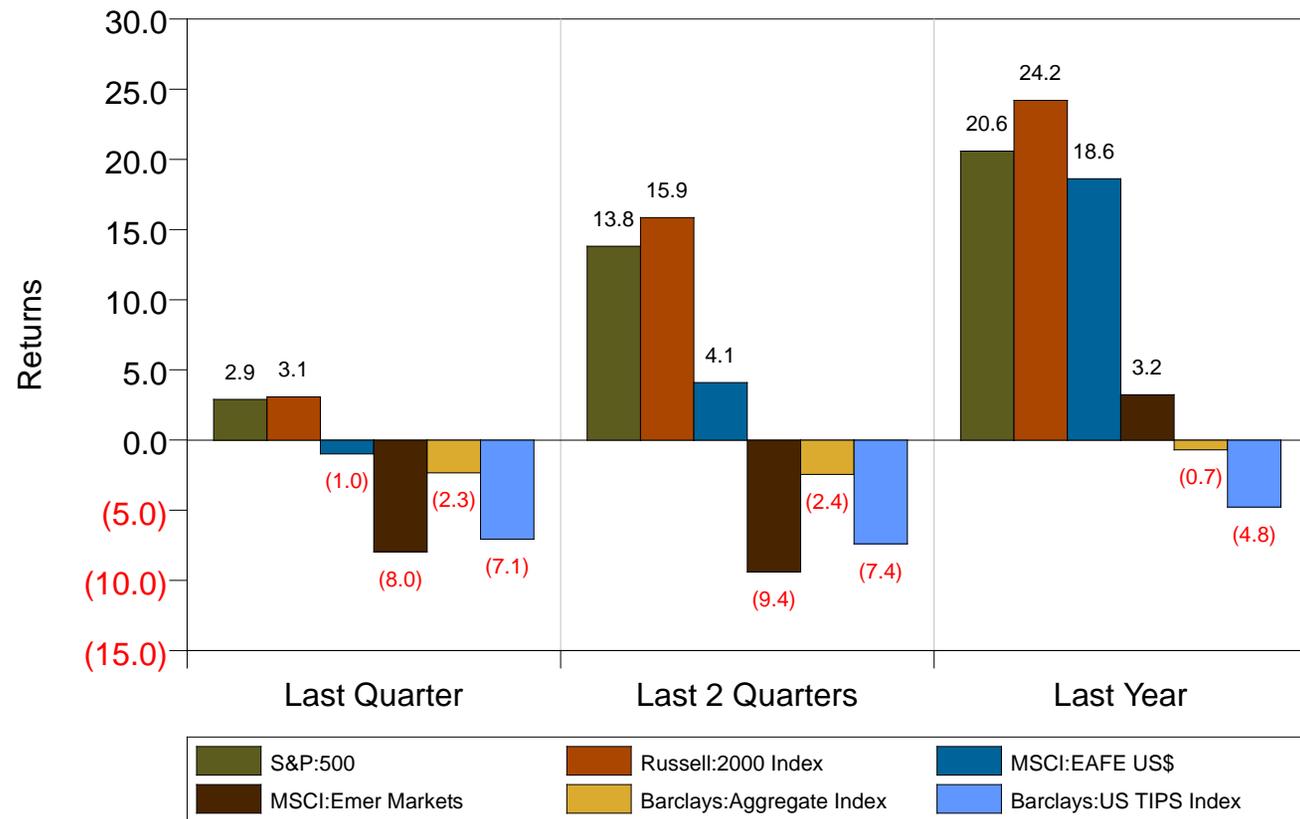
Source: Bureau of Labor Statistics

- 2<sup>nd</sup> Quarter GDP rose 1.7% (1.1% in 1Q13)
- The unemployment rate remained constant from last quarter at 7.6%
- CPI increased 1.8% over the trailing twelve-months (1.5% in 1Q13)
- Monetary Policy – Subject to improving economic conditions, Fed plans to begin “tapering” bond buyback program later this year and end it by mid-2014

# Asset Class Performance

Periods Ending June 30, 2013

Returns for Various Periods  
Current Quarter Ending June 30, 2013



YTD as of 8/22/13

S&P 500:

Russell 2000:

MSCI EAFE:

MSCI EM:

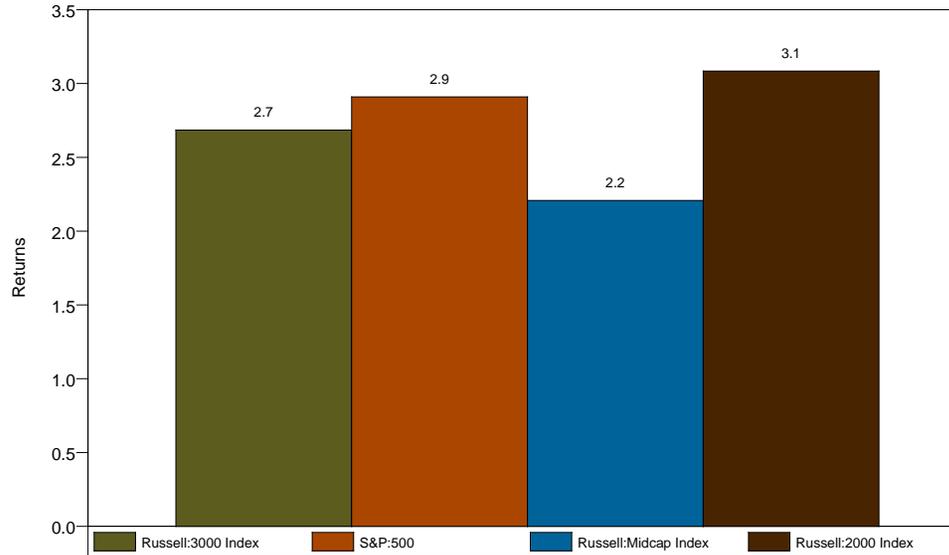
BC Aggregate:

BC TIPS:

# U.S. Equity Returns

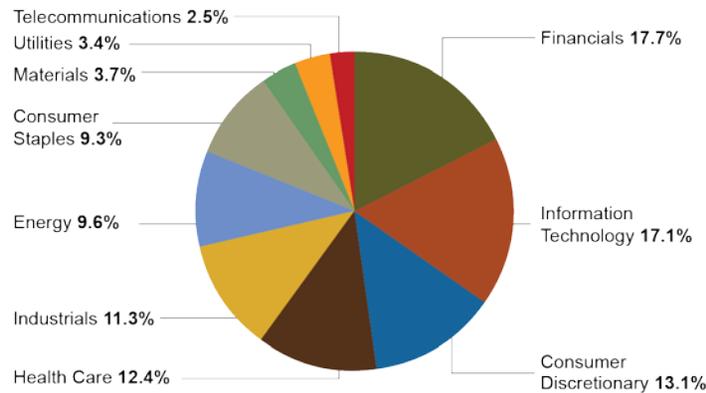
Quarter Ending June 30, 2013

Returns Current Quarter Ending June 30, 2013



Economic Sector Exposure

(Russell 3000)



Economic Sector Quarterly Returns

(Russell 3000)

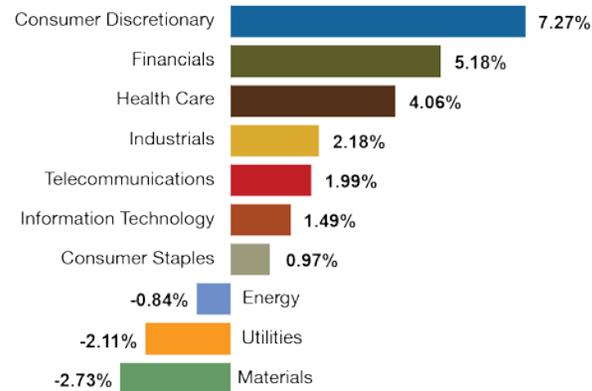


Chart may not sum to 100% due to rounding.  
Source: Russell Investment Group

# U.S. Equity Style Returns

Quarter Ending June 30, 2013

	2Q 2013		
	Value	Core	Growth
Large	3.2%	2.7%	2.1%
Mid	1.7%	2.2%	2.9%
Small	2.5%	3.1%	3.7%

	Annualized 1 Year Returns		
	Value	Core	Growth
Large	25.3%	21.2%	17.1%
Mid	27.7%	25.4%	22.9%
Small	24.8%	24.2%	23.7%

-  Represents 3 best performing asset classes in time period
-  Represents 3 middle performing asset classes in time period
-  Represents 3 worst performing asset classes in time period

- Last Quarter: Value and Growth mixed; Small Cap outperformed Large and Mid Cap
- Last Year: Mid Cap best, Value led Growth

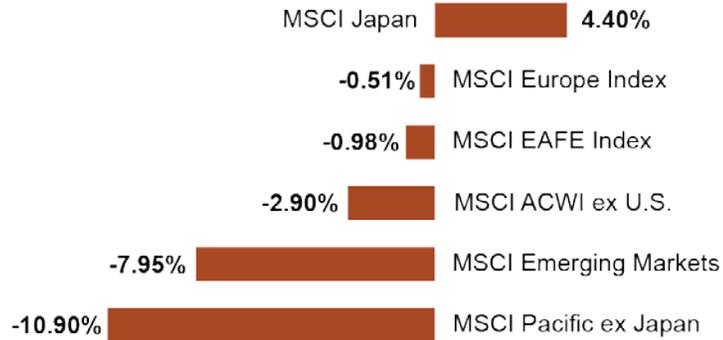
Large Cap Core is represented by the Russell Top 200 Index, Large Cap Value is represented by the Russell Top 200 Value Index and Large Cap Growth is represented by the Russell Top 200 Growth Index. Mid Cap Core is represented by the Russell Mid Cap Index, Mid Cap Value is represented by the Russell Mid Cap Value Index and Mid Cap Growth is represented by the Russell Mid Cap Growth Index. Small Cap Core is represented by the Russell 2000 Index, Small Cap Value is represented by the Russell 2000 Value Index and Small Cap Growth is represented by the Russell 2000 Growth Index.

# International Equity Returns

Periods Ending June 30, 2013

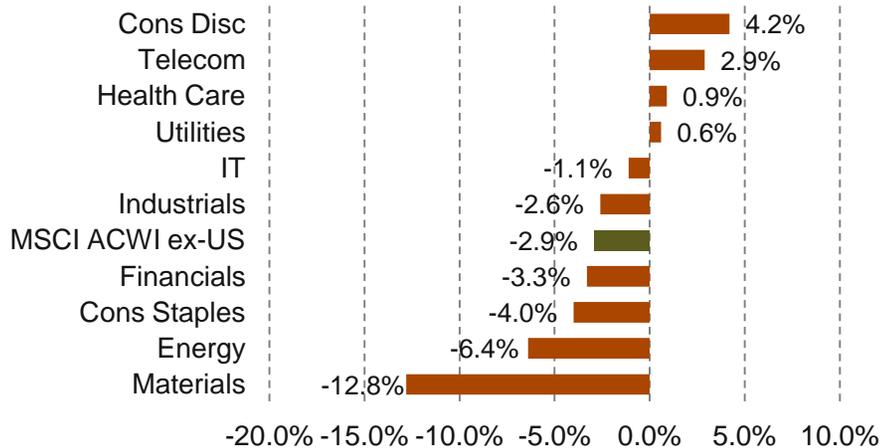
## Regional Quarterly Performance

(U.S. Dollar)



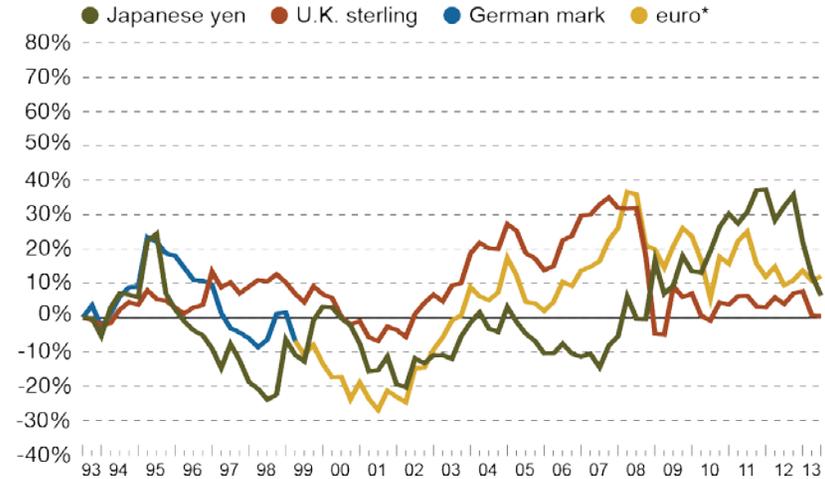
Source: MSCI Inc.

## ACWI ex-U.S. Sector Returns



## Major Currencies' Cumulative Returns

(vs. U.S. Dollar)



\*euro returns from 1Q99

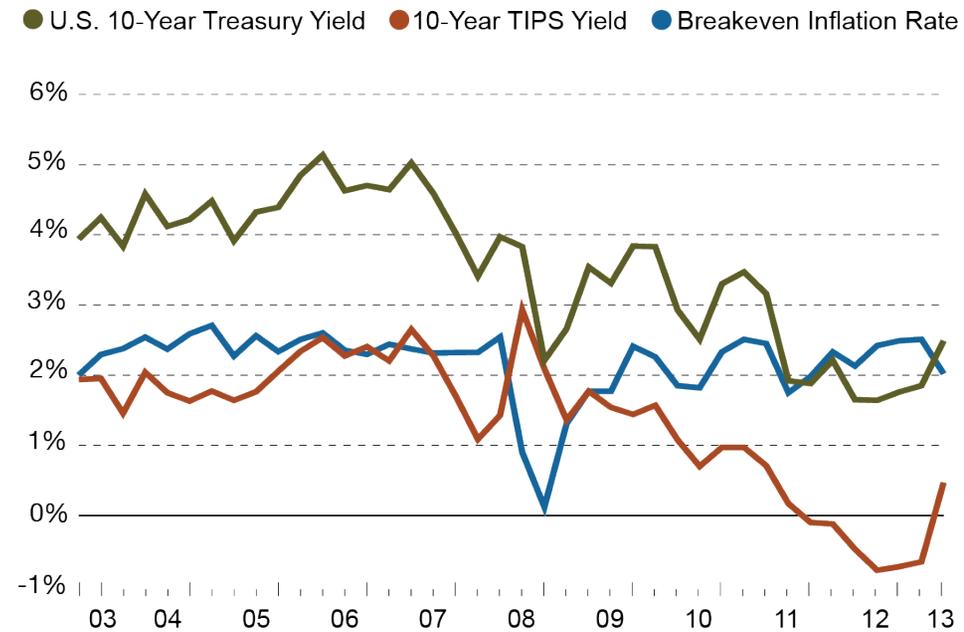
Source: MSCI Inc.

- Major non-U.S. equity indices posted negative returns in the quarter, with the exception of Japan
- Japanese yen continued its decline from previous quarters
- Emerging markets continues to underperform – currency declines detracted

# Yield Curve Changes

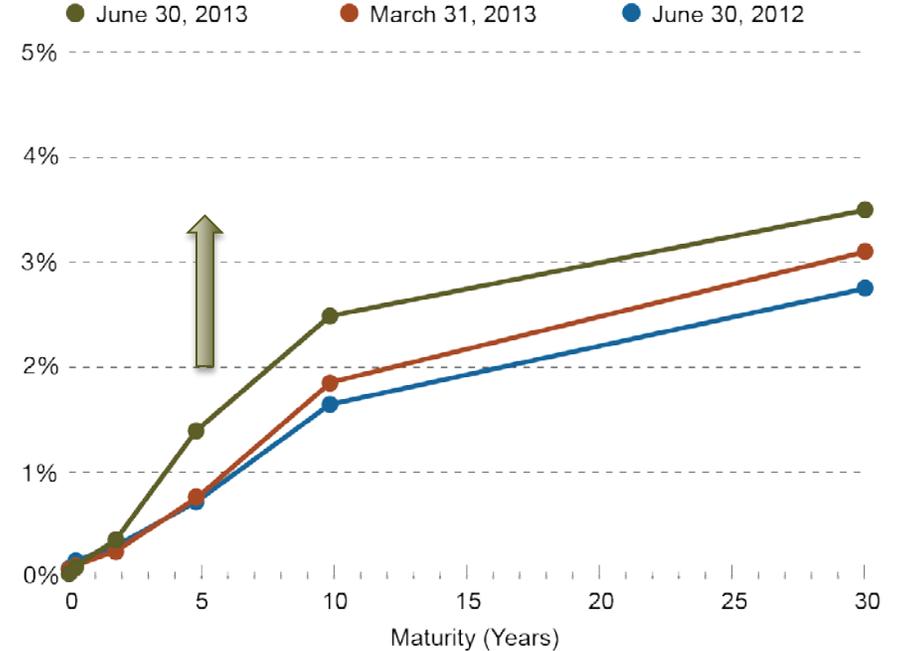
## Periods Ending June 30, 2013

### Historical 10-Year Yields



Source: Bloomberg

### U.S. Treasury Yield Curves



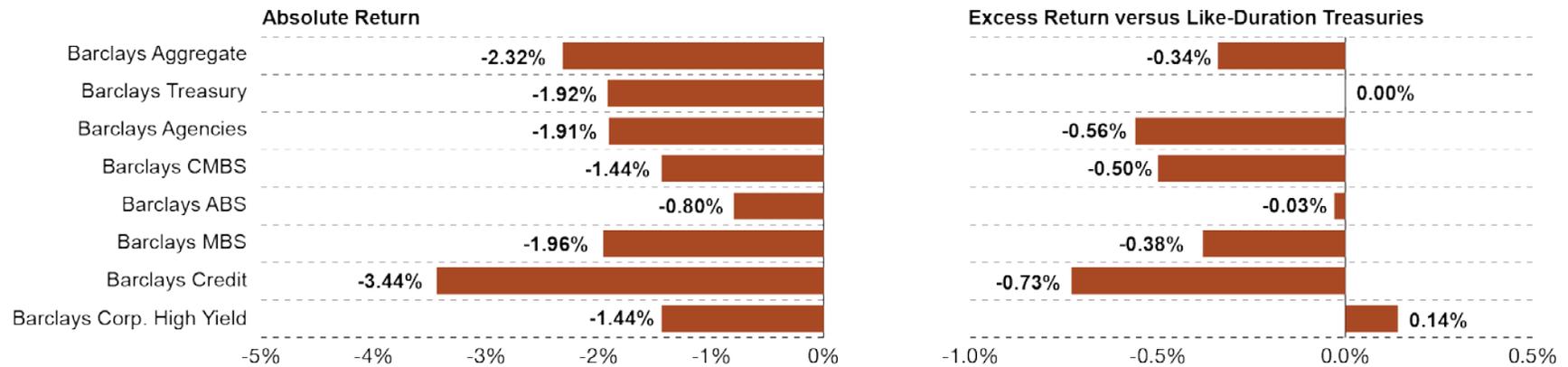
Source: Bloomberg

- The breakeven inflation rate declined to 2.0% (2.5% end of 1Q13)
- The yield curve shifted up hurting Treasury returns
- Ten-year Treasury yield increased to 2.5% (1.9% end of 1Q13)

# Bond Returns

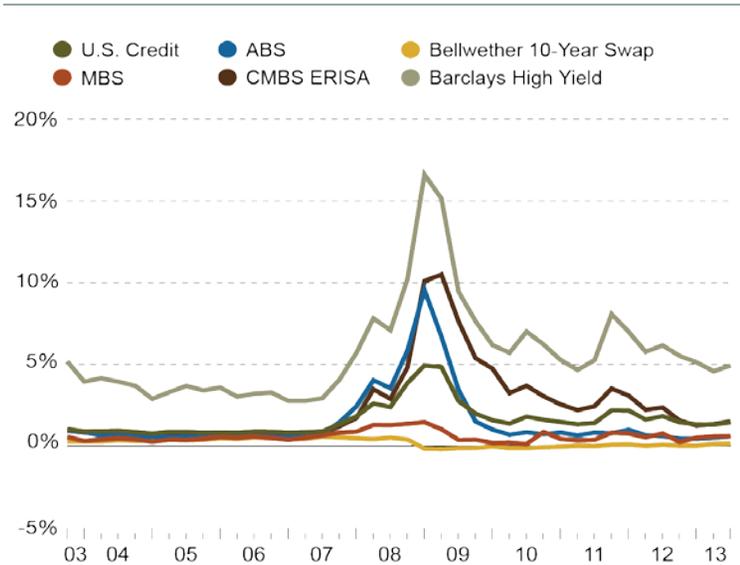
Quarter Ending June 30, 2013

Fixed Income Index Quarterly Returns



Source: Barclays

## Effective Yield Over Treasuries

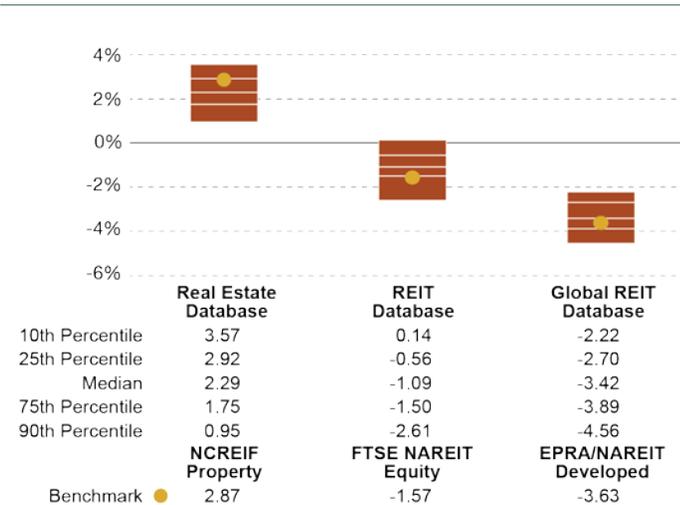


Source: Barclays

# Real Estate

## Quarter Ending June 30, 2013

Callan Style Group Quarterly Returns



Sources: Callan Associates Inc., NAREIT, NCREIF, The FTSE Group

### Style Median and Index Returns\* for Periods ended June 30, 2013

	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Private Real Estate</b>						
<b>Real Estate Database (net of fees)</b>	<b>2.29</b>	<b>4.57</b>	<b>10.00</b>	<b>12.93</b>	<b>-0.51</b>	<b>7.56</b>
NCREIF Property**	2.57	5.20	10.39	13.02	2.73	8.56
<b>Public Real Estate</b>						
<b>REIT Database</b>	<b>-1.09</b>	<b>5.44</b>	<b>8.27</b>	<b>18.65</b>	<b>8.39</b>	<b>11.97</b>
FTSE NAREIT Equity	-1.57	6.49	9.42	18.18	7.57	10.89
<b>Global Real Estate</b>						
<b>REIT Global Database</b>	<b>-3.42</b>	<b>1.98</b>	<b>14.45</b>	<b>16</b>	<b>5.74</b>	<b>12.15</b>
FTSE EPRA/NAREIT Developed	-3.63	2.4	14.27	15.98	4.59	11.03

\*Returns less than one year are not annualized.

\*\*Represents data available as of publication date.

All REIT returns are reported gross in USD.

Sources: Callan Associates Inc., NAREIT, NCREIF, The FTSE Group



Pension Trust

# North Dakota Pension Trust

## Asset Allocation and One Year Attribution Effects as of June 30, 2013

Asset Class	\$000s Actual	Percent Actual	Percent Target	Percent Difference	\$000s Difference
Domestic Equity	900,913	22.0%	21.3%	0.7%	29,665
Domestic Fixed Income	752,518	18.4%	18.1%	0.3%	12,162
International Equity	568,145	13.9%	14.2%	(0.3%)	(12,687)
Int'l Fixed Income	192,823	4.7%	5.0%	(0.3%)	(11,695)
Global Real Estate	395,030	9.7%	9.7%	0.0%	(1,736)
World Equity	666,684	16.3%	16.0%	0.3%	12,225
Private Equity	205,551	5.0%	4.9%	0.1%	5,123
Timber	199,485	4.9%	4.9%	0.0%	(943)
Infrastructure	156,590	3.8%	4.9%	(1.1%)	(43,837)
Cash Equivalents	52,627	1.3%	1.0%	0.3%	11,723
<b>Total</b>	<b>4,090,365</b>	<b>100.0%</b>	<b>100.0%</b>		

### One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	25%	24%	24.09%	21.94%	0.47%	0.25%	0.71%
Domestic Fixed Income	18%	18%	7.44%	2.05%	1.04%	(0.01%)	1.04%
Global Real Estate	10%	10%	11.05%	10.72%	0.03%	0.01%	0.04%
Timber	5%	5%	0.58%	9.35%	(0.48%)	(0.01%)	(0.50%)
Infrastructure	4%	5%	12.33%	1.75%	0.40%	0.13%	0.53%
International Equity	16%	16%	17.31%	15.06%	0.31%	0.00%	0.31%
International Fixed Inc.	5%	5%	0.83%	(3.40%)	0.25%	(0.03%)	0.22%
Private Equity	5%	5%	6.69%	6.69%	0.00%	(0.06%)	(0.06%)
World Equity	10%	11%	17.06%	18.58%	0.08%	(0.27%)	(0.19%)
Cash & Equivalents	1%	1%	0.10%	0.11%	(0.00%)	(0.01%)	(0.01%)

<b>Total</b>	<b>13.84% = 11.73% + 2.12% + (0.00%)</b>	<b>2.11%</b>
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# North Dakota Pension Trust

## Manager Returns as of June 30, 2013

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>GLOBAL EQUITY</b>	<b>1.95%</b>	<b>19.31%</b>	-	-	-
Wtd Avg Global Equity Bench	0.98%	17.96%	-	-	-
<b>Domestic Equity</b>	<b>3.51%</b>	<b>24.09%</b>	<b>18.95%</b>	<b>5.37%</b>	<b>7.17%</b>
Wtd Avg Domestic Equity Bench	2.76%	21.94%	18.65%	7.57%	7.93%
<b>Large Cap Domestic Equity</b>	<b>3.37%</b>	<b>23.13%</b>	<b>18.57%</b>	<b>3.69%</b>	<b>6.09%</b>
L.A. Capital	3.12%	18.86%	19.03%	7.30%	-
LACM Enhanced Index	4.24%	21.63%	19.08%	7.66%	8.45%
NTGI Enhanced S&P 500	3.78%	23.67%	19.75%	8.15%	7.52%
Clifton Enhanced S&P 500	2.46%	20.43%	-	-	-
Large Cap Benchmark (1)	2.65%	21.24%	18.62%	7.10%	7.34%
<b>Small Cap Domestic Equity</b>	<b>3.89%</b>	<b>26.86%</b>	<b>20.05%</b>	<b>9.98%</b>	<b>25.44%</b>
Callan	4.89%	27.71%	20.26%	9.70%	-
Clifton Enhanced Small Cap	2.81%	25.30%	20.17%	-	-
Russell 2000 Index	3.08%	24.21%	18.67%	8.77%	9.53%
<b>International Equity</b>	<b>(1.30%)</b>	<b>17.31%</b>	<b>9.81%</b>	<b>2.42%</b>	<b>10.17%</b>
Wtd Avg Int'l Equity Bench	(2.55%)	15.06%	7.13%	0.20%	9.12%
<b>Developed Int'l Equity</b>	<b>0.27%</b>	<b>20.94%</b>	<b>10.61%</b>	<b>2.20%</b>	<b>8.19%</b>
Capital Guardian Trust Co.	0.80%	21.31%	10.29%	0.66%	7.41%
Clifton EAFE Index	(0.37%)	17.25%	9.03%	-	-
DFA Int'l Small Cap Value	(2.10%)	24.89%	12.34%	2.90%	-
SSgA Daily Intl Alpha NL Fund	0.89%	23.17%	10.23%	(1.09%)	6.56%
Wellington Management Co.	3.29%	26.16%	17.16%	5.82%	11.32%
MSCI EAFE Index (2)	(0.98%)	18.62%	8.10%	(0.01%)	7.23%
<b>Emerging Markets Equity</b>	<b>(7.17%)</b>	<b>4.55%</b>	<b>6.69%</b>	<b>1.86%</b>	<b>14.87%</b>
DFA	(8.00%)	9.18%	6.59%	6.51%	-
JP Morgan	(7.03%)	5.11%	4.79%	1.36%	-
PanAgora	(6.05%)	6.28%	4.48%	(0.81%)	-
UBS Global	(8.15%)	(0.62%)	3.19%	(0.59%)	-
NTGI Emerging Markets	(8.05%)	-	-	-	-
MSCI Emerging Mkts Idx Net (3)	(8.08%)	2.87%	3.48%	(0.25%)	13.94%
<b>World Equity</b>	<b>1.99%</b>	<b>17.06%</b>	-	-	-
EPOCH Investment Partners (4)	3.99%	20.85%	-	-	-
Calamos Investments	(1.96%)	8.37%	-	-	-
MSCI World Index	0.65%	18.58%	13.72%	2.70%	7.25%
LSV Asset Management (5)	1.57%	-	-	-	-
MSCI ACWI Idx	(0.23%)	17.21%	12.96%	2.86%	8.14%
<b>Private Equity</b>	<b>4.06%</b>	<b>6.69%</b>	<b>8.85%</b>	<b>0.30%</b>	<b>5.64%</b>

# North Dakota Pension Trust

## Manager Returns as of June 30, 2013

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>GLOBAL FIXED INCOME</b>	<b>(2.10%)</b>	<b>5.95%</b>	-	-	-
Wtd Avg Global FI Bench	(2.30%)	0.90%	-	-	-
<b>Domestic Fixed Income</b>	<b>(1.78%)</b>	<b>7.44%</b>	<b>7.39%</b>	<b>5.20%</b>	<b>7.30%</b>
Wtd Avg Domestic FI Bench	(2.08%)	2.05%	5.45%	6.96%	5.80%
<b>Inv. Grade Fixed Income</b>	<b>(1.76%)</b>	<b>5.13%</b>	<b>5.84%</b>	<b>4.09%</b>	<b>7.11%</b>
Declaration Total Return	(1.32%)	7.83%	-	-	-
PIMCO DiSCO II	0.78%	33.07%	-	-	-
PIMCO MBS	(2.14%)	(0.45%)	-	-	-
PIMCO Unconstrained	(2.01%)	2.20%	-	-	-
Western Asset Management Co.	(2.29%)	(1.31%)	4.46%	5.15%	4.13%
BC Aggregate Index	(2.32%)	(0.69%)	3.51%	5.19%	4.52%
BC Mortgage Index	(1.96%)	(1.10%)	2.51%	4.84%	4.70%
<b>Below Inv. Grade Fixed Income</b>	<b>(1.84%)</b>	<b>14.10%</b>	<b>11.75%</b>	<b>8.01%</b>	<b>7.44%</b>
Goldman Sachs 2006 Offshore	6.88%	18.49%	6.96%	1.93%	-
Goldman Sachs Offshore V	9.08%	17.11%	15.96%	13.43%	-
Loomis Sayles	(2.56%)	12.75%	11.41%	10.28%	-
BC HY Corp 2% Issuer Cap	(1.44%)	9.49%	10.69%	11.00%	8.90%
<b>International Fixed Income</b>	<b>(3.32%)</b>	<b>0.83%</b>	<b>6.89%</b>	<b>5.97%</b>	<b>6.93%</b>
Wtd Avg Int'l FI Bench	(3.08%)	(3.40%)	3.57%	3.00%	5.01%
Brandywine	(3.37%)	5.00%	9.95%	8.52%	8.73%
UBS Global Asset Mgmt.	(3.26%)	(3.45%)	3.64%	2.89%	4.85%
BC Global Aggregate ex US (1)	(3.08%)	(3.40%)	3.57%	3.00%	5.01%
<b>GLOBAL REAL ASSETS</b>	<b>2.66%</b>	<b>8.23%</b>	-	-	-
Wtd Avg Global Real Assets Bench	1.73%	8.13%	-	-	-
<b>Global Real Estate</b>	<b>4.34%</b>	<b>11.05%</b>	<b>15.91%</b>	<b>(1.49%)</b>	<b>6.53%</b>
Invesco Core Real Estate	4.69%	13.36%	15.86%	0.04%	7.62%
Invesco Real Estate Fund II	14.66%	23.44%	35.58%	(16.63%)	-
Invesco Real Estate Fund III	13.71%	16.79%	-	-	-
Invesco Asia RE Feeder	(1.54%)	(5.61%)	(4.32%)	-	-
JP Morgan	3.92%	14.61%	16.21%	0.20%	7.58%
JP Morgan Alternative Fd	(5.34%)	15.24%	15.27%	(6.52%)	-
JP Morgan China Property Fd	0.75%	(4.51%)	2.26%	(2.65%)	-
JP Morgan Greater European Opp Fd	(12.80%)	(48.64%)	*****%)	-	-
NCREIF Total Index	2.87%	10.72%	13.14%	2.79%	8.59%
<b>Timber</b>	<b>1.17%</b>	<b>0.58%</b>	-	-	-
TIR - Teredo	4.49%	5.64%	3.09%	5.23%	9.97%
TIR - Springbank	(0.89%)	(2.45%)	(3.02%)	(4.90%)	-
NCREIF Timberland Index	0.93%	9.37%	3.59%	2.05%	8.19%
<b>Infrastructure</b>	<b>0.38%</b>	<b>12.33%</b>	-	-	-
JP Morgan Asian Infrastructure	3.34%	23.99%	6.83%	-	-
JP Morgan IIF	(2.64%)	10.64%	7.42%	(0.12%)	-
Credit Suisse Cust. Infrastructure	8.16%	9.43%	-	-	-
CPI-W	0.30%	1.75%	2.46%	1.34%	2.50%
<b>CASH &amp; CASH EQUIVALENTS</b>	<b>0.02%</b>	<b>0.10%</b>	<b>0.13%</b>	<b>0.35%</b>	<b>1.57%</b>
Northern Trust	0.02%	0.10%	0.12%	0.33%	1.56%
3-month Treasury Bill	0.02%	0.11%	0.11%	0.29%	1.72%
<b>Total Fund</b>	<b>1.13%</b>	<b>13.84%</b>	<b>11.82%</b>	<b>3.66%</b>	<b>7.56%</b>
Target*	0.35%	11.73%	10.93%	5.28%	7.63%



Insurance Trust

# North Dakota Insurance Trust

## Asset Allocation and One Year Attribution Effects as of June 30, 2013

Asset Class	\$000s Actual	Percent Actual	Percent Target	Percent Difference	\$000s Difference
Large Cap	182,906	5.8%	5.3%	0.5%	14,917
Small Cap	62,636	2.0%	1.8%	0.2%	5,584
International Equity	117,400	3.7%	3.7%	0.0%	125
Domestic Fixed Income	813,654	25.7%	26.5%	(0.8%)	(26,288)
Inflation Protected	336,122	10.6%	10.9%	(0.3%)	(9,364)
Short Term Fixed Income	1,473,284	46.5%	46.5%	0.0%	(577)
Cash & Equivalents	72,511	2.3%	2.3%	0.0%	(390)
Real Estate	111,081	3.5%	3.0%	0.5%	15,993
<b>Total</b>	<b>3,169,594</b>	<b>100.0%</b>	<b>100.0%</b>		

### One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	6%	6%	23.83%	21.24%	0.13%	0.05%	0.18%
Small Cap	2%	2%	28.04%	24.21%	0.07%	0.03%	0.10%
Domestic Fixed Income	31%	30%	4.90%	(0.69%)	1.87%	0.00%	1.87%
Real Estate	4%	3%	19.67%	10.72%	0.30%	0.03%	0.33%
International Equity	4%	4%	21.07%	18.62%	0.08%	(0.04%)	0.05%
Inflation Protected	12%	12%	1.04%	(1.05%)	0.20%	(0.01%)	0.19%
Short Term Fixed Income	38%	39%	1.29%	0.34%	0.32%	0.00%	0.32%
Cash & Equivalents	3%	3%	0.27%	0.11%	0.00%	0.01%	0.01%

<b>Total</b>	<b>5.98% = 2.91% + 3.00% + 0.07%</b>	<b>3.07%</b>
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# North Dakota Insurance Trust

## Manager Returns as of June 30, 2013

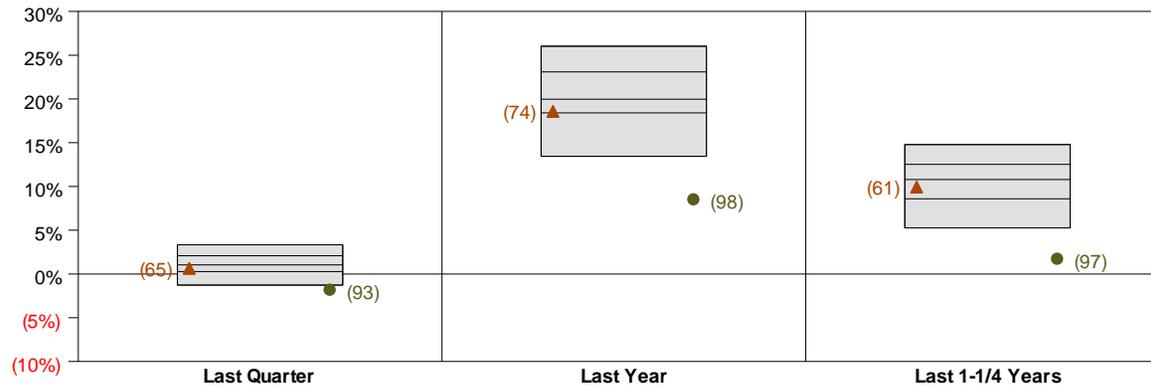
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>Domestic Equity</b>	<b>4.04%</b>	<b>24.92%</b>	<b>19.51%</b>	<b>6.52%</b>	<b>7.61%</b>
<b>Large Cap</b>	<b>4.01%</b>	<b>23.83%</b>	<b>19.34%</b>	<b>5.28%</b>	<b>7.42%</b>
Clifton Large Cap	2.66%	20.94%	19.20%	-	-
L.A. Capital	3.06%	18.87%	19.01%	7.73%	-
L.A. Capital Enhanced	4.28%	21.58%	19.18%	8.08%	-
LSV Asset Management	5.67%	32.50%	20.05%	8.24%	10.10%
Large Cap Benchmark (1)	2.65%	21.24%	18.62%	7.10%	7.34%
<b>Small Cap</b>	<b>4.13%</b>	<b>28.04%</b>	<b>20.25%</b>	<b>10.27%</b>	<b>10.10%</b>
Clifton Small Cap	2.92%	25.51%	20.17%	-	-
Research Affiliates	5.35%	30.62%	20.28%	11.06%	-
Russell 2000	3.08%	24.21%	18.67%	8.77%	9.53%
<b>International Equity</b>	<b>(0.73%)</b>	<b>21.07%</b>	<b>9.74%</b>	<b>0.99%</b>	<b>7.85%</b>
Capital Guardian Trust Co.	(0.14%)	20.78%	9.88%	0.43%	7.49%
DFA International Small Cap Value	(2.10%)	24.89%	12.35%	2.90%	-
LSV Asset Management	(1.44%)	20.71%	8.65%	0.50%	-
Vanguard Intl Explorer Fund	1.06%	21.16%	10.68%	2.52%	11.33%
MSCI EAFE Index (2)	(0.98%)	18.62%	8.10%	(0.01%)	7.23%
<b>Domestic Fixed Income</b>	<b>(2.38%)</b>	<b>4.90%</b>	<b>7.50%</b>	<b>8.10%</b>	<b>5.67%</b>
Declaration	(1.89%)	2.49%	6.76%	(2.48%)	-
PIMCO DiSCO II	0.78%	33.07%	-	-	-
Prudential	(3.21%)	2.03%	6.55%	8.13%	-
Wells Capital	(3.39%)	3.19%	7.43%	9.56%	6.75%
Western Asset Management	(2.26%)	2.17%	6.29%	7.14%	5.44%
Barclays Aggregate	(2.32%)	(0.69%)	3.51%	5.19%	4.52%
<b>Insurance Inflation Protected Assets</b>	<b>(3.90%)</b>	<b>1.04%</b>	<b>4.54%</b>	<b>2.45%</b>	-
Western Asset Management	(6.77%)	(3.22%)	4.37%	2.88%	-
JP Morgan Infrastructure	(2.70%)	10.62%	7.37%	-	-
Eastern Timber Opportunities	1.81%	3.36%	1.56%	-	-
Credit Suisse Cust. Infra.	8.16%	9.43%	-	-	-
Barclays Global Inflation Linked (3)	(5.76%)	(1.05%)	5.88%	3.50%	-
<b>Real Estate</b>	<b>7.03%</b>	<b>19.67%</b>	<b>23.36%</b>	<b>(3.81%)</b>	-
Invesco Core Real Estate	4.69%	-	-	-	-
JP Morgan RE	8.60%	23.90%	24.80%	(3.14%)	-
NCREIF Total Index	2.87%	10.72%	13.14%	2.79%	8.59%
<b>Short Term Fixed Income</b>	<b>(0.22%)</b>	<b>1.29%</b>	<b>1.88%</b>	-	-
JPM Short Term - Budget	(0.39%)	0.68%	-	-	-
Babson Short Term - Budget	(0.08%)	1.89%	-	-	-
Babson Short Term Legacy	(0.09%)	1.83%	-	-	-
JPM Short Term Legacy	(0.38%)	0.65%	-	-	-
BC Gov 1-3 Yr	(0.11%)	0.34%	0.86%	2.06%	2.69%
<b>Cash &amp; Equivalents</b>	<b>0.05%</b>	<b>0.27%</b>	<b>0.28%</b>	<b>0.45%</b>	<b>1.91%</b>
Bank of ND - Money Mkt	0.05%	0.27%	0.28%	0.46%	1.91%
90 Day Treasury Bills	0.02%	0.11%	0.11%	0.29%	1.72%
<b>Total Fund</b>	<b>(0.62%)</b>	<b>5.98%</b>	<b>7.65%</b>	<b>4.71%</b>	<b>5.50%</b>
Policy Target*	(1.01%)	2.91%	5.67%	4.13%	5.32%



Manager Performance

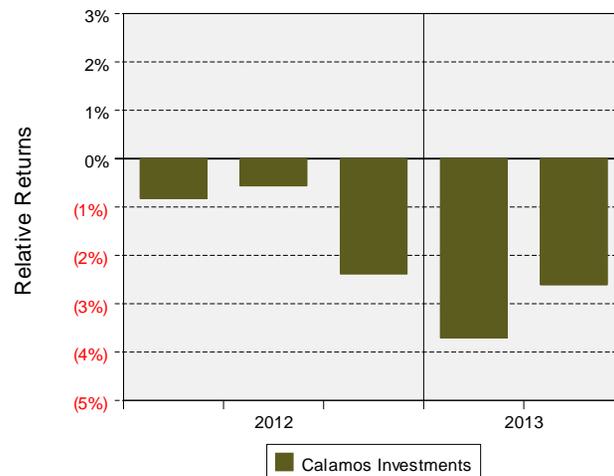
# Calamos Investments (Pension Trust Only)

## Performance vs CAI Global Equity Broad Style (Gross)

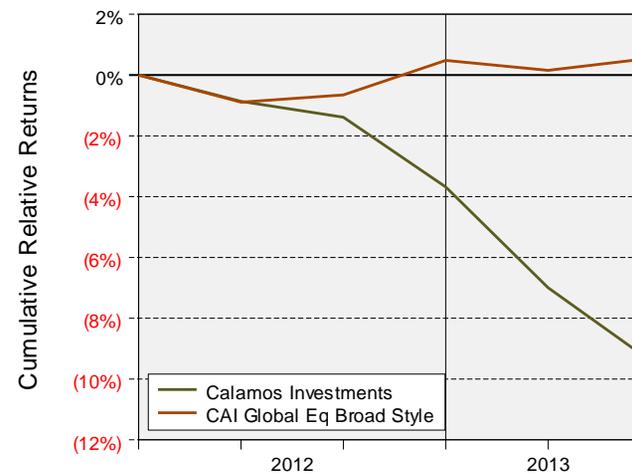


	Last Quarter	Last Year	Last 1-1/4 Years
10th Percentile	3.34	26.03	14.79
25th Percentile	2.09	23.09	12.52
Median	1.03	19.97	10.79
75th Percentile	0.27	18.40	8.59
90th Percentile	(1.28)	13.45	5.27
<b>Calamos Investments</b> ●	(1.96)	8.37	1.59
<b>MSCI World Index</b> ▲	0.65	18.58	9.94

### Relative Return vs MSCI World Index



### Cumulative Returns vs MSCI World Index

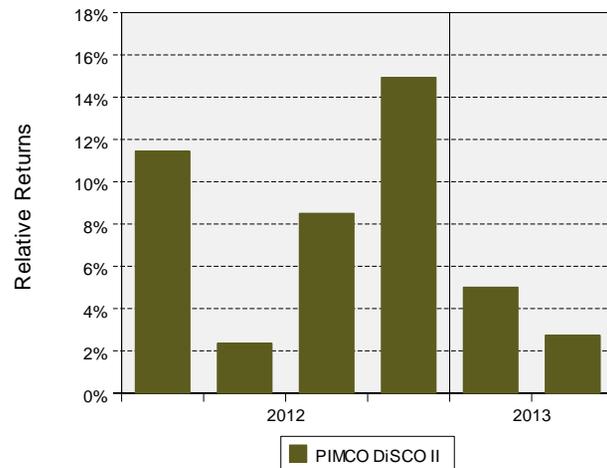


# PIMCO DiSCO II

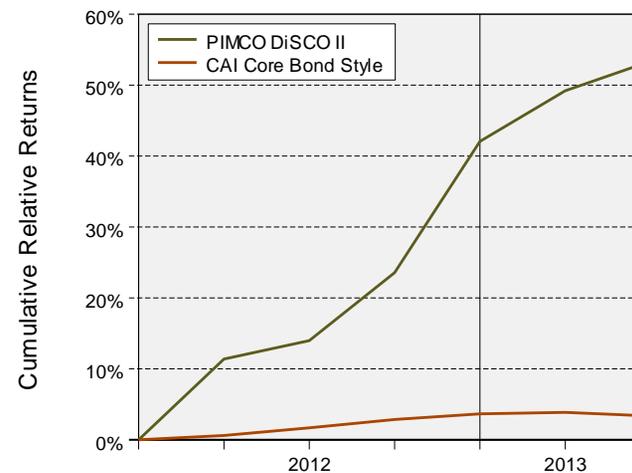
## Performance vs CAI Core Bond Fixed-Inc Style (Gross)



### Relative Return vs Barclays Mortgage



### Cumulative Returns vs Barclays Mortgage



**INVESTMENT PERFORMANCE SUMMARY REPORT**  
**PENSION TRUST FUNDS**  
**June 30, 2013**

AGENDA ITEM VI.A.

	Quarter Ended 6/30/2013	1 Yr Ended 6/30/2013	3 Yrs Ended 6/30/2013	5 Yrs Ended 6/30/2013	Risk 5 Yrs Ended 6/30/2013	Risk Adj Excess Return 5 Yrs Ended 6/30/2013
<b>PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)</b>						
Total Fund Return - Net	1.10%	13.50%	11.31%	3.43%	14.82%	-2.37%
Policy Benchmark Return	0.36%	11.84%	10.92%	5.49%	13.39%	
Attribution Analysis						
Asset Allocation	0.00%	0.04%	-0.33%			
Manager Selection	0.73%	1.62%	0.72%			
Total Relative Return	0.74%	1.66%	0.39%	-2.06%		
<b>TEACHERS' FUND FOR RETIREMENT (TFFR)</b>						
Total Fund Return - Net	1.16%	13.63%	11.81%	2.92%	16.36%	-1.90%
Policy Benchmark Return	0.41%	11.95%	10.80%	4.61%	15.03%	
Attribution Analysis						
Asset Allocation	0.01%	0.06%	0.03%			
Manager Selection	0.73%	1.62%	0.98%			
Total Relative Return	0.74%	1.68%	1.01%	-1.69%		
<b>CITY OF BISMARCK EMPLOYEES PENSION</b>						
Total Fund Return - Net	0.60%	12.41%	11.16%	4.22%	13.30%	-2.54%
Policy Benchmark Return	-0.03%	10.05%	10.38%	6.17%	11.28%	
Attribution Analysis						
Asset Allocation	-0.01%	-0.04%	-0.14%			
Manager Selection	0.64%	2.40%	0.93%			
Total Relative Return	0.64%	2.36%	0.79%	-1.95%		
<b>CITY OF BISMARCK POLICE PENSION</b>						
Total Fund Return - Net	0.76%	13.03%	11.51%	3.99%	14.18%	-2.52%
Policy Benchmark Return	0.11%	10.90%	10.92%	6.03%	12.34%	
Attribution Analysis						
Asset Allocation	-0.02%	-0.01%	-0.21%			
Manager Selection	0.67%	2.14%	0.81%			
Total Relative Return	0.65%	2.13%	0.59%	-2.04%		
<b>JOB SERVICE PENSION PLAN</b>						
Total Fund Return - Net	-0.20%	11.71%	10.26%	4.90%	11.40%	-2.40%
Policy Benchmark Return	-0.80%	7.84%	9.13%	6.46%	9.34%	
Attribution Analysis						
Asset Allocation	0.02%	0.03%	-0.34%			
Manager Selection	0.57%	3.84%	1.47%			
Total Relative Return	0.60%	3.86%	1.13%	-1.56%		

**INVESTMENT PERFORMANCE SUMMARY REPORT**  
**PENSION TRUST FUNDS**  
**June 30, 2013**

	Quarter Ended 6/30/2013	1 Yr Ended 6/30/2013	3 Yrs Ended 6/30/2013	5 Yrs Ended 6/30/2013	Risk 5 Yrs Ended 6/30/2013	Risk Adj Excess Return 5 Yrs Ended 6/30/2013
<b>CITY OF FARGO PENSION PLAN</b>						
Total Fund Return - Net	0.96%	13.90%	11.82%	3.81%	15.52%	-2.39%
Policy Benchmark Return	0.39%	11.95%	11.36%	5.74%	13.49%	
Attribution Analysis						
Asset Allocation	-0.04%	-0.03%	-0.04%			
Manager Selection	0.60%	1.98%	0.50%			
Total Relative Return	0.56%	1.95%	0.46%	-1.92%		
<b>CITY OF GRAND FORKS PENSION PLAN</b>						
Total Fund Return - Net	1.01%	14.01%	11.92%	N/A	N/A	N/A
Policy Benchmark Return	0.39%	11.95%	11.36%			
Attribution Analysis						
Asset Allocation	0.01%	0.01%	-0.11%			
Manager Selection	0.61%	2.05%	0.66%			
Total Relative Return	0.62%	2.06%	0.56%			
<b>GRAND FORKS PARK DISTRICT PENSION PLAN</b>						
Total Fund Return - Net	1.10%	14.43%	11.77%	N/A	N/A	N/A
Policy Benchmark Return	0.42%	12.14%	11.33%			
Attribution Analysis						
Asset Allocation	0.01%	0.02%	-0.19%			
Manager Selection	0.67%	2.27%	0.63%			
Total Relative Return	0.68%	2.29%	0.43%			

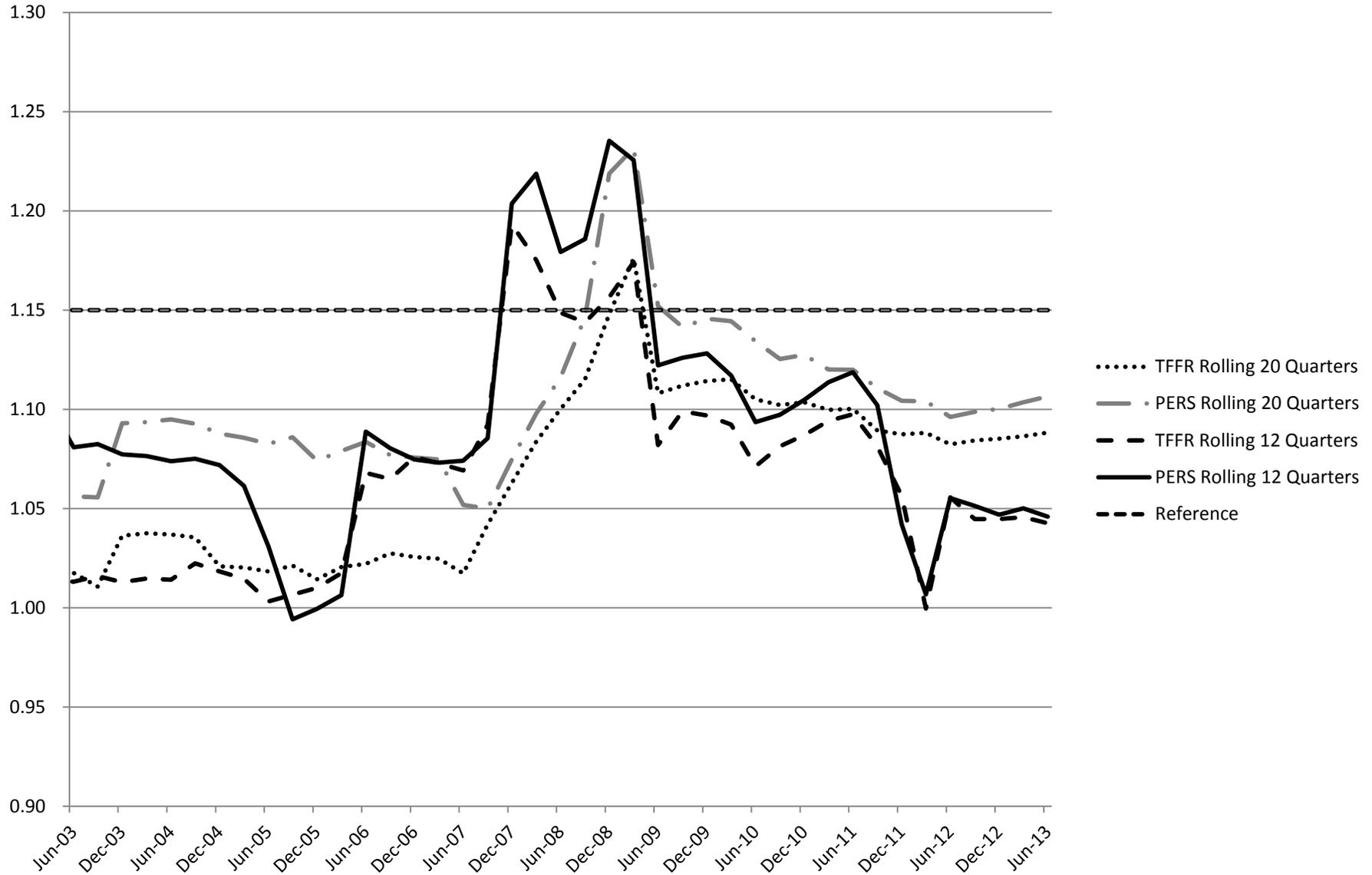
## Excess Returns Relative to Policy Benchmarks 10 Years Ended 6/30/2013



# Risk Adjusted Excess Returns 10 Years Ended 6/30/2013



# Relative Standard Deviation Relative to Policy Benchmarks 10 Years Ended 6/30/2013



June 30, 2013



## North Dakota State Investment Board Pension Funds

Investment Measurement Service  
Quarterly Review

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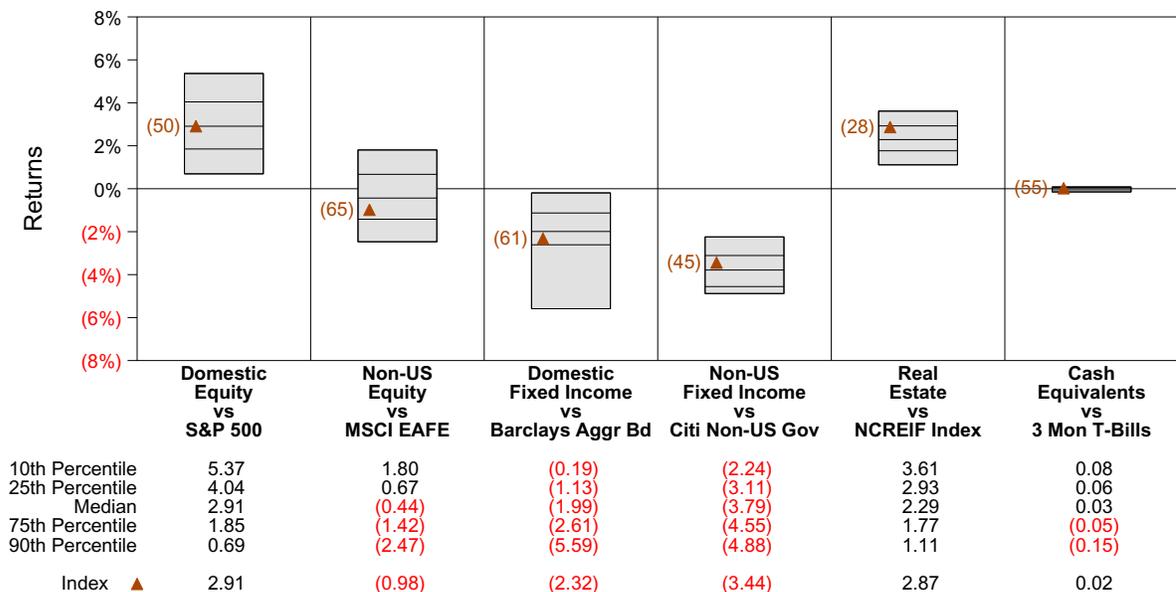
## Market Overview

### Active Management vs Index Returns

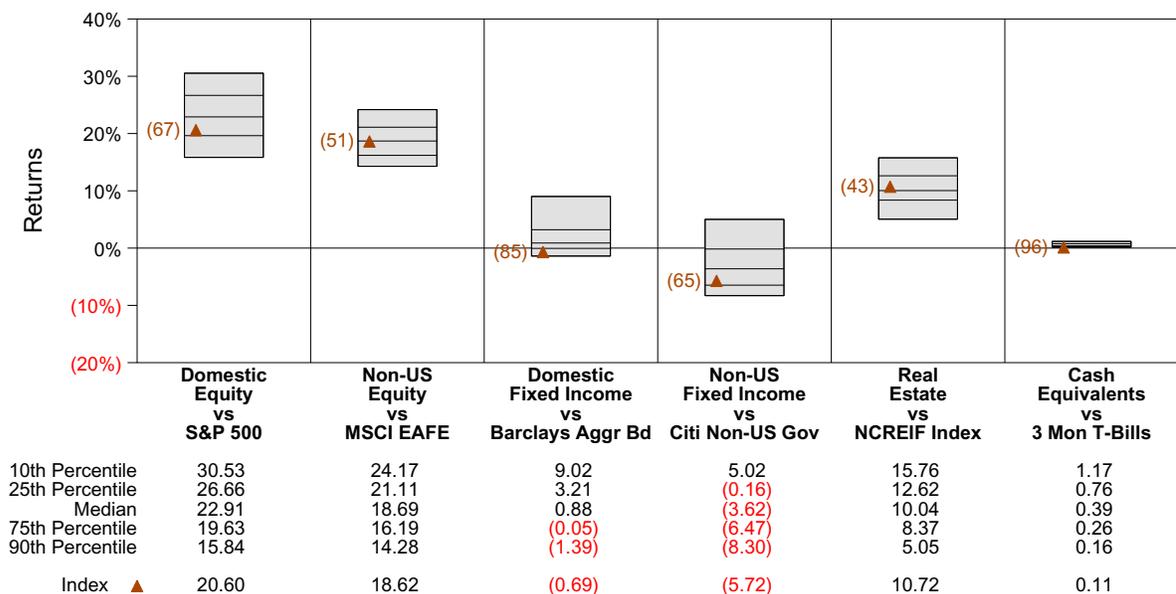
#### Market Overview

The charts below illustrate the range of returns across managers in Callan's Separate Account database over the most recent one quarter and one year time periods. The database is broken down by asset class to illustrate the difference in returns across those asset classes. An appropriate index is also shown for each asset class for comparison purposes. As an example, the first bar in the upper chart illustrates the range of returns for domestic equity managers over the last quarter. The triangle represents the S&P 500 return. The number next to the triangle represents the ranking of the S&P 500 in the domestic equity manager database.

#### Range of Separate Account Manager Returns by Asset Class One Quarter Ended June 30, 2013



#### Range of Separate Account Manager Returns by Asset Class One Year Ended June 30, 2013



Second Quarter 2013

## Stick to the Plan

### U.S. ECONOMY

**17** Real GDP grew 1.7% in the second quarter, ahead of consensus expectations and very much in line with a host of measures that suggest accelerating growth in the U.S. economy. Mortgage rates backed up, reaching 4.5% by the end of June, sparking fears that the housing recovery would die on the vine.

### A Tale of Two Quarters

#### U.S. EQUITY

**2** The second quarter started strong but derailed in mid-May. Positive investor momentum dissipated after a sharp sell-off due to fears of an end to Fed stimulus. The **S&P 500** (+2.91%) experienced high volatility and not much in return.

### When Ben Talks, People Listen

#### U.S. FIXED INCOME

**5** Interest rates jumped during the quarter amid speculation of an eventual slowdown in quantitative easing. The **Barclays Aggregate Index** returned -2.32%, its largest quarterly decline since 2004. The high yield credit sector modestly retreated, with the **Barclays Corporate High Yield Index** returning -1.44%.

### Pushing Ahead

#### REAL ESTATE

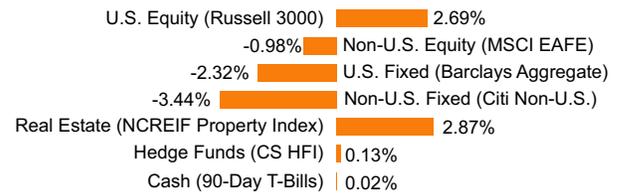
**13** Institutional real estate assets, as measured by the **NCREIF Property Index**, advanced 2.87%. Global listed real estate declined 3.63%. Weak performance of Hong Kong/China and Singapore stocks drove Asia/Pacific REITs down 7.75%.

### Heading for the Exits

#### PRIVATE EQUITY

**15** Private equity activity was up by almost all measures in the second quarter, riding a nice wave of liquidity. Exit activity increased significantly, with fundraising and new investments also rising.

## Broad Market Quarterly Returns



Sources: Barclays, Citigroup, Credit Suisse Hedge Index LLC, Merrill Lynch, MSCI Inc., NCREIF, Russell Investment Group, Standard & Poor's

### Waiting on the World to Change

#### NON-U.S. EQUITY

**8** While the U.S. has inched warily toward recovery, international markets have struggled to find purchase. Though the **MSCI EAFE Index** shed only 98 basis points, political and industrial misery dealt a focused blow to the **MSCI EM Index** (-7.95%).

### Abenomics

#### NON-U.S. FIXED INCOME

**11** Japan's aggressive approach to resolving a decade of economic malaise appears to be paying dividends. Meanwhile, global bonds as a whole were down for the third consecutive quarter, with the **Citigroup Non-U.S. WGBI Index** declining 3.44%.

### Taper Talk Unwinds Hedge Fund Gains

#### HEDGE FUNDS

**16** Overall, hedge funds surrendered early quarter gains to finish with little profit. Representing a paper portfolio without implementation costs, the **Credit Suisse Hedge Fund Index** inched ahead slightly (+0.13%).

### Holding On

#### FUND SPONSOR & DC INDEX

**19** Although most asset classes were negative for the quarter, median returns across fund types held onto fractional gains due to the support of U.S. equities. Taft-Hartley funds topped out at 1.62%, while even the best corporate funds struggled to break 1%, gaining only 0.85%.

# A Tale of Two Quarters

U.S. EQUITY | Lauren Mathias, CFA

The market experienced increased volatility compared to the first quarter of 2013, specifically in June. Though the beginning of the period saw continued optimism from the previous quarter, when the Federal Reserve announced a taper to quantitative easing (projected for late 2013), investors reacted dramatically. The 10-year Treasury yield jumped 1% and in equity markets, cyclicals and high-yielding stocks suffered. The unemployment rate remained unchanged at 7.6%, and the three-month average rate of job growth declined 52,000 from the previous quarter. Also, first-quarter GDP was revised down from 2.4% to 1.8%, gold prices hit a 34-month low, and volatility (as measured by the CBOE Volatility Index) spiked in June. Overall, solid performance turned sour after the Fed announced its potential easing later in the year, yet the U.S. economy needs to improve for the Fed to actually begin tapering.

For the second quarter, the broad benchmark **Russell 3000 Index** increased 2.69%. By capitalization size, large cap stocks (**Russell 1000**: +2.65%) closely tracked mid-cap stocks (**Russell Midcap**: +2.21%), while the smallest (**Russell 2000**

**Index**: +3.08%) and largest (**Russell Top 50**: +2.92%) gained the most. The **S&P 500** (+2.91%) achieved a similar return.

Fears of rising interest rates drove cyclical sectors within the Russell 3000 Index down: Energy (-0.84%) and Materials (-2.73%). China's decreasing GDP growth forecast and its weakening demand for oil forced energy stocks to retreat. The Materials sector suffered significant losses from the metals and mining industry as commodity prices declined, also due to slowing in China. Potential rising rates also affected the Utilities sector (-2.11%), which lost 8% in May alone.

The Consumer Discretionary (+7.27%), Financials (+5.18%), and Health Care (+4.06%) sectors led the quarter. Home Depot (+11.59%) continued to benefit from the U.S. housing market recovery as household formation and housing turn-over created opportunities. The Financials sector would have garnered a much larger return without the REITs sub-sector (-3.69%), which declined amid fears of increasing rates. Within Health Care, pharmaceutical companies have navigated a

**Economic Sector Exposure** (Russell 3000)

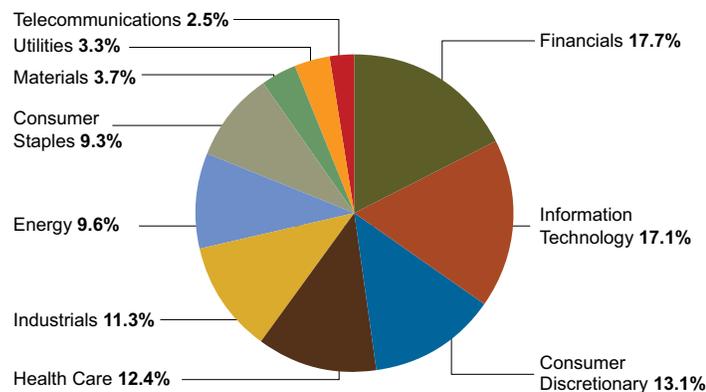
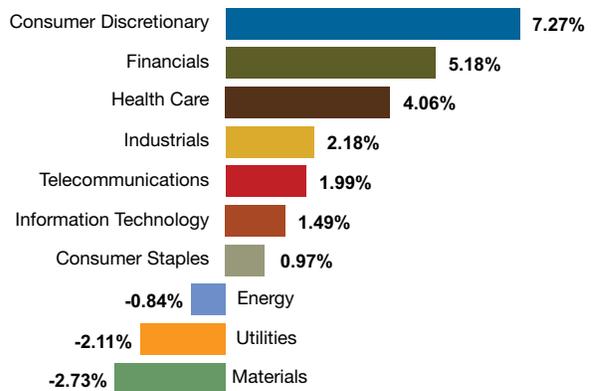
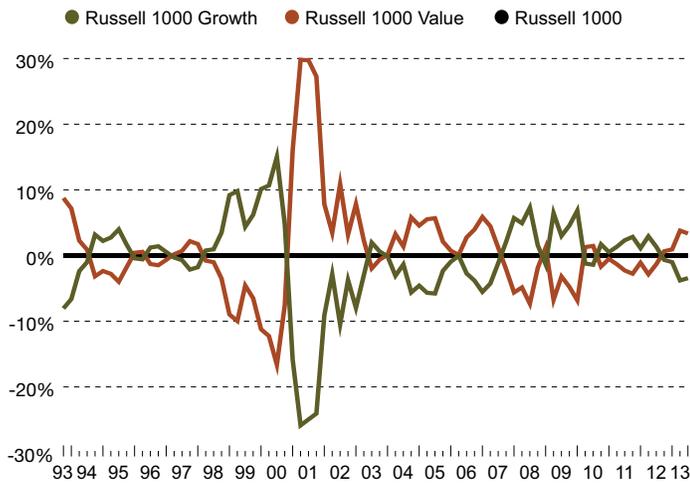


Chart may not sum to 100% due to rounding.  
Source: Russell Investment Group

**Economic Sector Quarterly Returns** (Russell 3000)

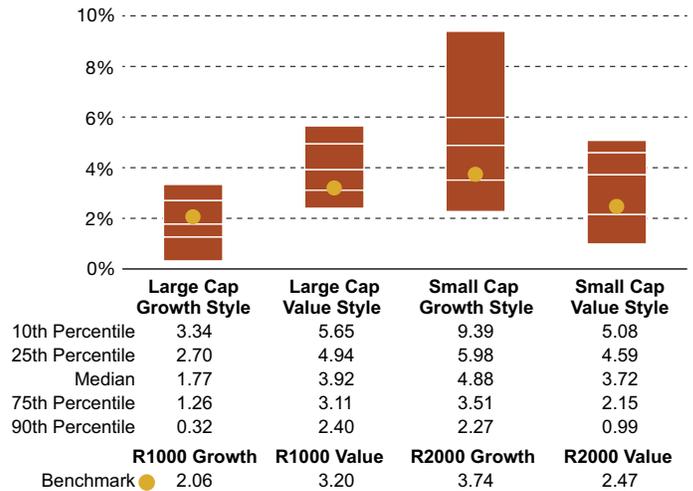


**Rolling One-Year Relative Returns** (vs. Russell 1000)



Source: Russell Investment Group

**Callan Style Group Quarterly Returns**



Sources: Callan, Russell Investment Group

tough environment by extracting growth from emerging markets, which have not been as slow as the developed world.

Mature Information Technology (+1.49%) firms buoyed the sector with a focus on shareholders; NetApp (+10.60%) and EMC (-0.071%) initiated dividends while Cisco Systems (+17.40%) and Hewlett-Packard (+4.64%) increased their payouts. Industrials (+2.18%) was led by aerospace and defense, specifically Boeing (+19.94%), which has delivered strong sales and operating margins. Consumer Staples (+0.97%) had been bid up by investors in the search for yield, but with rates presumably

on the rise, these companies trailed. Finally, Telecommunications (+1.99%) saw decent performance from merger activity; investors liked the T-Mobile US and MetroPCS combination, and T-Mobile grew 69.60% over the quarter.

Based upon the Russell style indices, dominance was mixed among small and large capitalization stocks. The **Russell 2000 Small Cap Value Index** (+2.47%) trailed its growth counterpart (+3.74%), while larger companies in the **Russell 1000 Value Index** (+3.20%) bested the **Russell 1000 Growth Index** (+2.06%).

**U.S. Equity Index Characteristics as of June 30, 2013**

	S&P 1500	S&P 500	S&P 400	S&P 600	Rus 3000	Rus 1000	Rus Midcap	Rus 2000
Cap Range Min (\$MM)	71	1,685	488	71	6	301	301	6
Cap Range Max (\$B)	401.73	401.73	17.68	7.24	422.49	422.49	30.33	4.56
Number of Issues	1,500	500	400	600	2,923	989	795	1,934
% of S&P 1500	100%	88%	8%	4%	100%	92%	28%	8%
Wtd Avg Mkt Cap (\$B)	91.06	102.81	4.57	1.51	84.95	91.98	10.08	1.58
Price/Book Ratio	2.3	2.3	2.2	2.0	2.3	2.3	2.2	1.9
P/E Ratio (forecasted)	14.1	13.8	16.5	17.6	14.3	14.0	15.7	17.7
Dividend Yield	2.1%	2.2%	1.5%	1.2%	2.0%	2.1%	1.6%	1.4%
5-Yr Earnings (forecasted)	10.9%	10.8%	10.9%	12.5%	11.2%	11.1%	12.1%	12.6%

Sources: Russell Investment Group, Standard & Poor's.

## U.S. EQUITY (Continued)

### Style Median and Index Returns\* for Periods ended June 30, 2013

Large Cap Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Large Cap–Broad Style	2.99	14.15	21.95	18.36	7.00	8.01
Large Cap–Growth Style	1.77	11.12	16.87	17.47	6.48	7.80
Large Cap–Value Style	3.92	16.41	26.00	18.78	7.24	8.28
Aggressive Growth Style	2.73	13.44	18.72	17.04	6.87	9.47
Contrarian Style	4.44	16.25	26.41	18.63	7.73	8.81
Core Style	3.06	14.27	22.07	18.34	7.19	8.03
Yield-Oriented Style	3.47	14.33	20.74	18.51	7.81	8.91
Russell 3000	2.69	14.06	21.46	18.63	7.25	7.81
Russell 1000	2.65	13.91	21.24	18.63	7.12	7.67
Russell 1000 Growth	2.06	11.80	17.07	18.68	7.47	7.40
Russell 1000 Value	3.20	15.90	25.32	18.51	6.67	7.79
S&P Composite 1500	2.63	13.79	20.94	18.54	7.24	7.69
S&P 500	2.91	13.82	20.60	18.45	7.01	7.30
NYSE	1.32	9.99	20.64	18.16	5.48	8.68
Dow Jones Industrials	2.92	15.20	18.87	18.23	8.64	7.92
Mid Cap Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Mid Cap–Broad Style	2.22	14.99	23.21	19.47	7.94	11.10
Mid Cap–Growth Style	2.14	13.15	19.89	18.88	7.21	10.58
Mid Cap–Value Style	2.44	16.09	27.80	19.63	9.04	11.37
Russell Midcap	2.21	15.45	25.41	19.53	8.28	10.65
S&P MidCap 400	1.00	14.59	25.18	19.45	8.91	10.74
Small Cap Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Small Cap–Broad Style	3.78	16.83	25.64	20.52	10.01	10.95
Small Cap–Growth Style	4.88	18.17	23.35	21.59	9.30	10.87
Small Cap–Value Style	3.72	16.24	26.87	19.47	11.14	11.27
Small Cap–Core Style	2.93	16.31	25.82	20.79	9.84	10.71
Russell 2000	3.08	15.86	24.21	18.67	8.77	9.53
S&P SmallCap 600	3.92	16.19	25.18	20.27	9.94	10.77
NASDAQ	4.52	13.42	17.84	18.78	9.47	8.69
Russell 3000 Sectors	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Consumer Staples	0.97	15.70	18.38	19.88	11.88	10.38
Consumer Discretionary	7.27	20.41	33.83	26.72	16.57	9.08
Industrials	2.18	14.68	25.20	19.38	6.92	9.13
Energy	-0.84	9.63	17.53	17.66	-1.19	13.40
Materials	-2.73	2.37	13.07	15.48	1.71	10.56
Information Technology	1.49	6.96	8.72	15.33	7.90	7.74
Utilities	-2.11	10.99	8.82	15.58	3.69	9.90
Financials	5.18	17.84	31.17	14.46	2.75	1.59
Telecommunications	1.99	10.78	13.08	20.77	7.86	8.12
Health Care	4.06	20.40	27.40	21.98	12.38	8.02

\*Returns less than one year are not annualized.

Sources: Callan, Dow Jones & Company Inc., Russell Investment Group, Standard & Poor's, The NASDAQ Stock Market Inc.

# When Ben Talks, People Listen

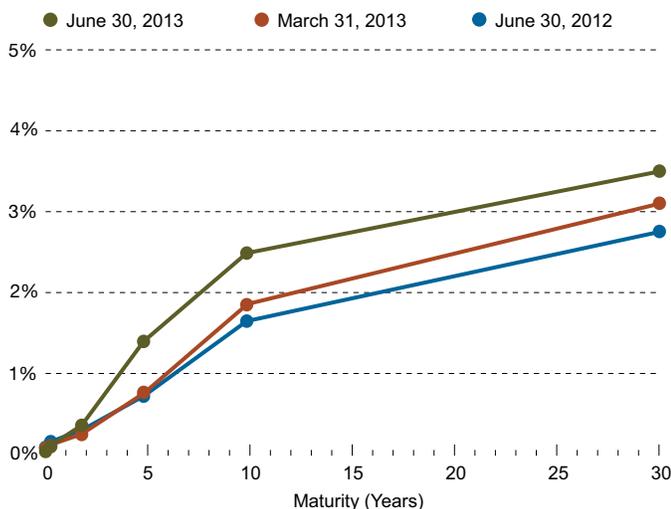
U.S. FIXED INCOME | Steven Center, CFA

Treasury yields moved markedly higher during the second quarter as investors considered how the Fed might ultimately end its cat-and-mouse game of quantitative easing. Credit spreads widened amid a drop in liquidity, resulting in decreased investment-grade corporate issuance. The **Barclays Aggregate Index** returned -2.32%, driven by rising rates and widening investment-grade credit spreads. However, tepid inflation figures and moderate improvement to the unemployment rate make near-term action by the Fed unlikely.

While Chairman Bernanke's language indicated a possible eventual ease in activity, the Fed remains committed to purchasing \$85 billion of assets per month. Additionally, the Fed maintained its low-rate stance by keeping the federal funds and discount rates at 0.00%–0.25% and 0.75%, respectively. However, potentially conflicting language from the Fed resulted in increased bond market volatility, as investors feared each positive economic announcement could result in a slowdown in Fed activity.

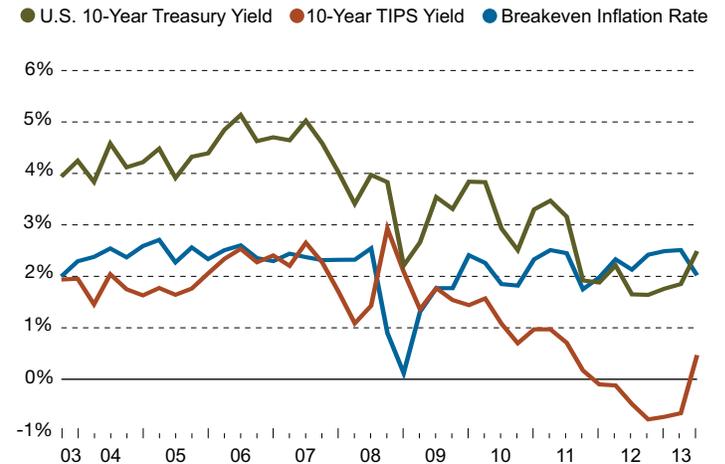
The yield curve steepened during the quarter, with the spread between two-year and 30-year Treasuries advancing 28 basis points (bps) to 314 bps. The short end of the curve remained

## U.S. Treasury Yield Curves



Source: Bloomberg

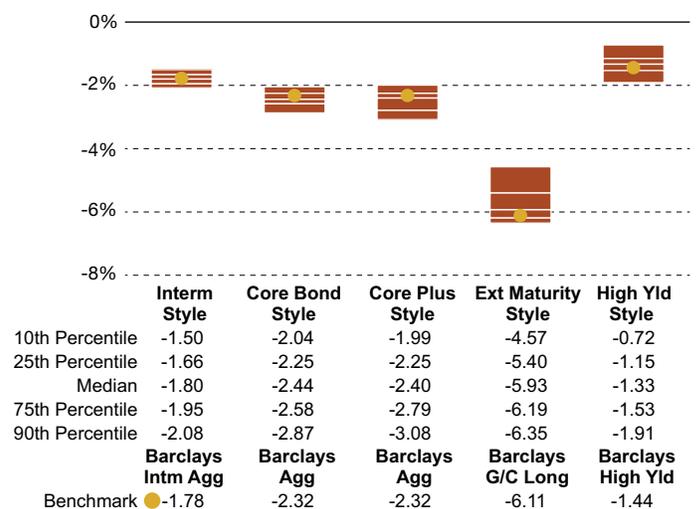
## Historical 10-Year Yields



Source: Bloomberg

fairly static, with only the rise of 11 bps for two-year Treasuries worth noting. The most dramatic expansion occurred with five-year and 10-year rates, as they advanced 63 and 64 bps, respectively; 30-year yields rallied 40 bps to 3.50%. The breakeven rate (the difference between nominal and real yields) on the 10-year Treasury plummeted 49 bps to 2.02%, its lowest level since 2011. Ten-year TIPS notched a positive real yield (+0.47%) for the first time in almost two years.

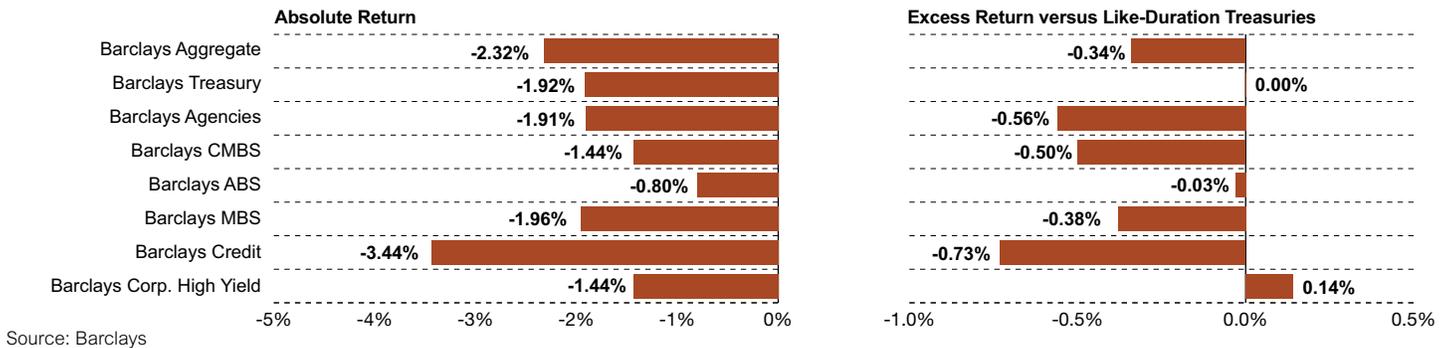
## Callan Style Group Quarterly Returns



Sources: Barclays, Callan

## U.S. FIXED INCOME (Continued)

### Fixed Income Index Quarterly Returns

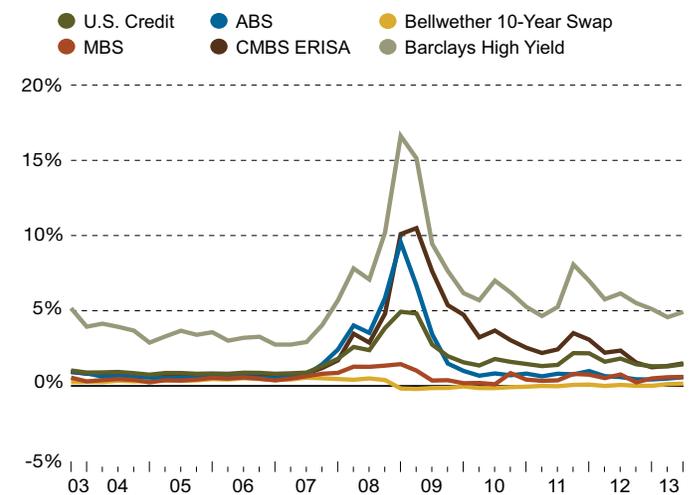


All areas of the securitized sector trailed like-duration Treasuries during the quarter. Asset-backed securities (ABS) weakened slightly (-0.03%). However, mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS) declined 0.38% and 0.50%, respectively. U.S. residential mortgage rates increased as the quarter progressed, slowing prepayments and thus extending the duration of the Barclays Aggregate Index to its highest level in more than two decades.

Investors had no place to hide as investment-grade credit suffered across the board during the quarter and trailed like-duration Treasuries. Financials widened the most, retreating 0.63%. Industrials and Utilities fared slightly better, declining 0.48% and 0.54%, respectively.

The high yield corporate sector retreated during the quarter, but still performed well relative to like-duration Treasuries. The **Barclays Corporate High Yield Index** returned -1.44%, but gained 14 bps on a like-duration basis as investors continued

### Effective Yield Over Treasuries



to accept credit risk. New issue activity remained lively despite the moderate performance hiccup, with 222 issues totaling approximately \$101 billion coming to market during the quarter.

### U.S. Fixed Income Index Characteristics as of June 30, 2013

Barclays Indices	Yield to Worst	Mod Adj Duration	Avg Maturity	% of Barclays G/C	% of Barclays Agg
Barclays Aggregate	2.35	5.49	7.45	0.00%	100.00%
Barclays Govt/Credit	2.03	5.68	7.72	100.00%	68.47%
Intermediate	1.52	3.88	4.22	82.39%	56.41%
Long-Term	4.46	14.12	24.08	17.61%	12.06%
Barclays Govt	1.23	4.97	6.08	60.14%	41.17%
Barclays Credit	3.24	6.75	10.19	39.86%	27.29%
Barclays Mortgage	3.12	5.22	7.12	-	29.35%
Barclays Asset-Backed	1.28	2.78	3.11	-	0.40%
Barclays Comm Mortgage	2.34	3.14	3.51	-	1.75%
Barclays Corp High Yield	6.66	4.41	6.73	-	-

Source: Barclays

## Style Median and Index Returns\* for Periods ended June 30, 2013

<b>Broad Fixed Income</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Core Bond Style</b>	<b>-2.44</b>	<b>-2.31</b>	<b>0.50</b>	<b>4.33</b>	<b>6.08</b>	<b>5.06</b>
<b>Core Bond Plus Style</b>	<b>-2.40</b>	<b>-2.08</b>	<b>1.81</b>	<b>5.69</b>	<b>7.16</b>	<b>5.69</b>
Barclays Aggregate	-2.32	-2.44	-0.69	3.51	5.19	4.52
Barclays Govt/Credit	-2.51	-2.67	-0.62	3.88	5.29	4.43
Barclays Govt	-1.88	-2.04	-1.51	2.94	4.37	4.07
Barclays Credit	-3.44	-3.60	0.84	5.47	6.97	5.10
Citi Broad Investment Grade	-2.28	-2.07	-0.26	3.59	5.35	4.69
<b>Long-Term</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Extended Maturity Style</b>	<b>-5.93</b>	<b>-7.45</b>	<b>-2.83</b>	<b>7.76</b>	<b>9.43</b>	<b>6.82</b>
Barclays Gov/Credit Long	-6.11	-7.97	-4.69	7.01	8.50	6.21
Barclays Gov Long	-5.71	-7.84	-8.18	6.18	7.50	6.08
Barclays Credit Long	-6.33	-8.01	-1.99	7.55	9.15	6.25
<b>Intermediate-Term</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Intermediate Style</b>	<b>-1.80</b>	<b>-1.47</b>	<b>0.73</b>	<b>3.49</b>	<b>5.40</b>	<b>4.58</b>
Barclays Intermediate Aggregate	-1.78	-1.63	-0.12	3.03	4.76	4.30
Barclays Gov/Credit Intermediate	-1.70	-1.45	0.28	3.14	4.57	4.03
Barclays Gov Intermediate	-1.37	-1.23	-0.59	2.33	3.80	3.70
Barclays Credit Intermediate	-2.30	-1.84	1.96	4.75	6.26	4.75
<b>Short-Term</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Defensive Style</b>	<b>-0.37</b>	<b>-0.09</b>	<b>0.73</b>	<b>1.62</b>	<b>2.87</b>	<b>3.12</b>
<b>Active Duration Style</b>	<b>-1.81</b>	<b>-1.59</b>	<b>0.23</b>	<b>3.75</b>	<b>5.39</b>	<b>4.80</b>
Money Market Funds (net of fees)	0.00	0.00	0.01	0.01	0.20	1.53
ML Treasury 1–3-Year	-0.11	0.00	0.33	0.82	1.90	2.59
90-Day Treasury Bills	0.02	0.04	0.11	0.11	0.29	1.72
<b>High Yield</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>High Yield Style</b>	<b>-1.33</b>	<b>1.48</b>	<b>9.53</b>	<b>10.78</b>	<b>10.08</b>	<b>8.81</b>
Barclays Corporate High Yield	-1.44	1.42	9.49	10.74	10.94	8.91
ML High Yield Master	-1.37	1.46	9.44	10.40	10.49	8.65
<b>Mortgage/Asset-Backed</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Mortgages Style</b>	<b>-2.03</b>	<b>-1.70</b>	<b>-0.22</b>	<b>3.32</b>	<b>5.36</b>	<b>4.92</b>
Barclays MBS	-1.96	-2.01	-1.10	2.51	4.84	4.70
Barclays ABS	-0.80	-0.76	0.69	2.99	5.08	3.50
Barclays CMBS	-1.44	-1.31	3.72	7.20	7.64	5.09
<b>Municipal</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Barclays Muni	-2.97	-2.69	0.24	4.46	5.33	4.42
Barclays Muni 1–10-Year	-1.83	-1.34	0.34	3.36	4.60	3.84
Barclays Muni 3-Year	-0.60	-0.05	0.52	1.85	3.30	2.99

\*Returns of less than one year are not annualized.

Sources: Barclays, Callan, Citigroup, Merrill Lynch

# Waiting on the World to Change

NON-U.S. EQUITY | Matthew Lai

International economies clumsily arrived at the halfway mark for 2013, continuing a slow and steady slide from last year's stellar returns. The common nuisances remained; namely, an unrelenting recession in Europe, a bumbling China, and eroding commodities prices. While the U.S. (cautiously) rebounds, investors wait for foreign markets to catch up.

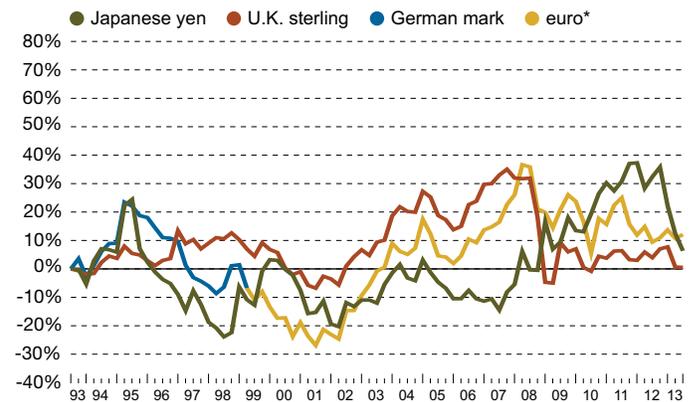
Corroborating a recovery-in-waiting, only three sectors hit the positive end of the **MSCI ACWI ex-U.S. Index**: Consumer Discretionary (+3.92%), Telecommunications (+2.53%), and Health Care (+0.78%). With a record \$63 billion pulled out of commodities in the second quarter—even more than 2008's \$57 billion drop—Materials (-12.98%) and Energy (-6.61%) stocks reeled. The U.S. dollar edged up on most currencies, save for a strengthening euro.

The **MSCI EAFE Index** fell just short of positive territory at -0.98%, but its six-month tally (+4.10%) remains respectable. **EAFE Value** (-0.74%) beat both the broad index and **EAFE Growth** (-1.20%). Small cap swung even lower (**EAFE Small Cap**: -2.52%). However, the **MSCI EM Index** undercut them all with a miserable -7.95% return.

## Europe

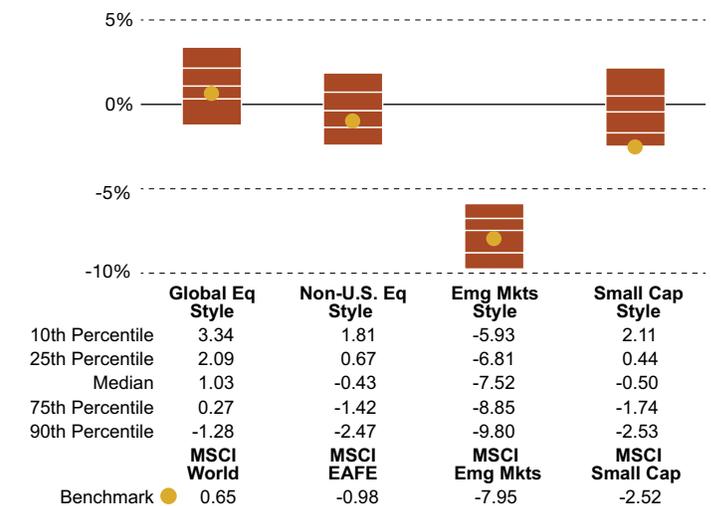
The rumbling of a European recession continued ever-onward, and despite a powerful surge from mid-April through mid-May, the **MSCI Europe Index** ended just shy of par (-0.51%). According to Eurostat, most economic indicators edged slightly south. Unemployment slipped to (yet) another record of 12.2% in May—from 12.1% in April—and industrial output suffered alongside a slight drop in housing prices in the spring. Fueling regional woes, the European benchmark interest rate was knocked to 0.50% on May 2, a drop from 0.75%. Sector trends largely mirrored their global counterparts, though European Utilities (+3.51%) and Information Technology (+1.16%) provided a boost. The Netherlands finished first with +2.83%; Germany (+2.71%) and France (+2.66%) were close behind. Greece

## Major Currencies' Cumulative Returns (vs. U.S. Dollar)



\*euro returns from 1Q99  
Source: MSCI

## Callan Style Group Quarterly Returns



Sources: Callan, MSCI

(-9.96%) had the heaviest impact on the index and was relegated to emerging market status by MSCI, effective this November.

## Pacific

It seems that Japan's Prime Minister, Shinzo Abe, hit a nerve. For the second straight quarter, Japan (+4.40%) bested its local competition, lording over the **MSCI Pacific Index** (-1.74%) as

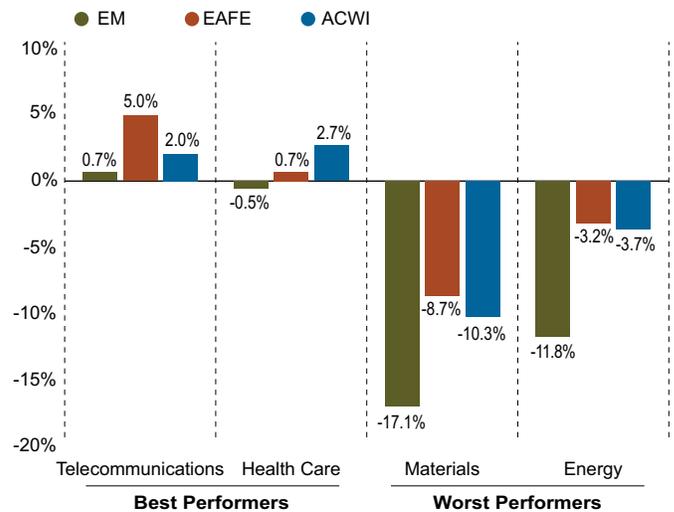
the only Pacific country in the black. The IMF revised its 2013 growth forecast for Japan up to 2.0% (from 1.6%), owing in large part to the Bank of Japan's ongoing monetary easing. The yen continued to fall while exports soared, though a late-quarter slump almost derailed this surge. Australia (-13.93%) tanked on the global commodities rout and decelerating Chinese industrial trade. Further, the Reserve Bank of Australia followed Europe and cut its benchmark interest rate to a record low of 2.75%, down from 3.0%. To no one's surprise, the region's Energy (-14.69%) and Materials (-9.45%) stocks fared the worst; Telecom (+8.07%) and Consumer Discretionary (+5.05%) did much better.

### Developing Economies

With another disappointing quarter, the MSCI EM Index (-7.95%) plummeted for the first half of 2013 (-9.40%). Manufacturing hardships in China (-6.54%) eviscerated the commodities market, and GDP growth slackened to 7.5%. Not to be outdone, China's BRICS brothers posted steep declines as well. Nota-

bly, Brazil's falling real combined with social unrest to deliver a knockout -17.2% for the quarter. Turkey also suffered political turmoil (-15.2%), while Hungary enjoyed a rare positive return (+13.18%, the EM's best), aided in part by its healthy Financials sector (+18.84%). Only EM Telecom saw positive sector returns (a paltry +0.65%). **MSCI's Frontier Markets Index** continued its ascendancy with a 2.97% gain (+11.46% year to date).

### Strong and Struggling Sectors



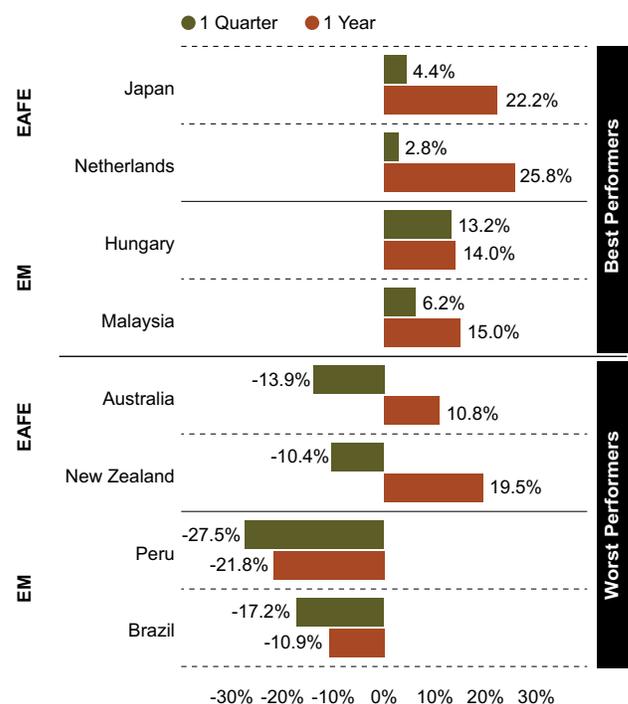
Source: MSCI

### Quarterly Return Attribution for EAFE (U.S. Dollar)

Country	Total	Local	Currency	Wtg
Australia	-13.93%	-1.97%	-12.20%	8.02%
Austria	-3.05%	-4.23%	1.23%	0.27%
Belgium	-4.45%	-5.61%	1.23%	1.14%
Denmark	-3.92%	-5.03%	1.23%	1.11%
Finland	0.50%	-0.72%	1.23%	0.77%
France	2.66%	1.42%	1.23%	9.43%
Germany	2.71%	1.46%	1.23%	8.65%
Greece	-9.96%	-11.06%	1.23%	0.03%
Hong Kong	-4.61%	-4.69%	0.08%	3.03%
Ireland	-3.63%	-4.80%	1.23%	0.32%
Israel	-4.16%	-4.29%	-0.17%	0.50%
Italy	0.82%	-0.40%	1.23%	1.97%
Japan	4.40%	10.31%	-5.35%	22.56%
Netherlands	2.83%	1.59%	1.23%	2.61%
New Zealand	-10.38%	-2.76%	-7.84%	0.12%
Norway	-5.78%	-1.36%	-4.48%	0.82%
Portugal	-0.68%	-1.89%	1.23%	0.17%
Singapore	-6.33%	-4.28%	-2.18%	1.67%
Spain	-0.64%	-1.84%	1.23%	2.82%
Sweden	-6.10%	-2.52%	-3.67%	3.11%
Switzerland	-0.29%	-0.37%	0.08%	9.19%
U.K.	-2.16%	-2.04%	-0.12%	21.66%

Sources: Russell Investment Group, Standard & Poor's.

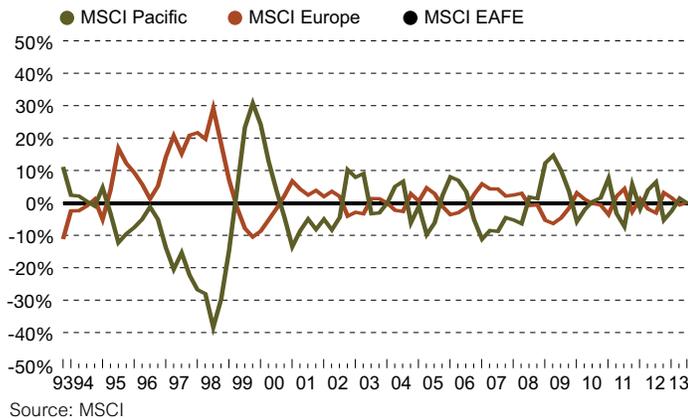
### Country Performance Snapshot



Source: MSCI

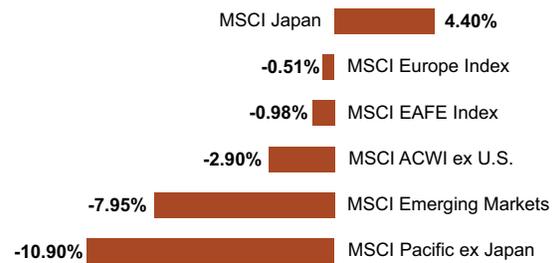
## NON-U.S. EQUITY (Continued)

### Rolling One-year Relative Returns (vs. MSCI EAFE U.S. Dollar)



### Regional Quarterly Performance

(U.S. Dollar)



Source: MSCI

### Style Median and Index Returns\* for Periods ended June 30, 2013

International Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Global Style</b>	<b>1.03</b>	<b>9.03</b>	<b>19.97</b>	<b>14.12</b>	<b>3.17</b>	<b>8.58</b>
<b>Non-U.S. Style</b>	<b>-0.43</b>	<b>4.30</b>	<b>18.69</b>	<b>11.16</b>	<b>0.84</b>	<b>8.87</b>
<b>Core Style</b>	<b>-0.33</b>	<b>4.92</b>	<b>19.61</b>	<b>11.49</b>	<b>0.84</b>	<b>8.52</b>
MSCI EAFE–Unhedged	-0.98	4.10	18.62	10.04	-0.63	7.67
MSCI EAFE–Local	1.21	11.01	24.93	8.97	1.16	6.06
MSCI EAFE Growth–Unhedged	-1.20	5.47	18.67	10.85	-0.38	7.62
MSCI EAFE Value–Unhedged	-0.74	2.74	18.56	9.17	-0.93	7.64
MSCI World–Unhedged	0.65	8.43	18.58	13.72	2.70	7.25
MSCI World–Local	1.74	11.70	21.41	13.08	3.51	6.39
MSCI AC World ex U.S.–Unhedged	-2.90	0.27	14.14	8.48	-0.34	9.09
MSCI AC World–Unhedged	-0.23	6.38	17.21	12.96	2.86	8.14
Pacific Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Pacific Basin Style</b>	<b>-2.25</b>	<b>3.95</b>	<b>16.72</b>	<b>10.53</b>	<b>2.68</b>	<b>10.55</b>
<b>Japan Style</b>	<b>4.01</b>	<b>16.78</b>	<b>22.26</b>	<b>10.48</b>	<b>1.27</b>	<b>7.45</b>
<b>Pacific Rim Style</b>	<b>-6.18</b>	<b>-4.21</b>	<b>11.39</b>	<b>8.26</b>	<b>3.00</b>	<b>14.25</b>
MSCI Pacific–Unhedged	-1.74	7.83	18.45	9.50	1.07	8.16
MSCI Pacific–Local	4.94	20.88	38.32	10.78	-0.26	5.68
MSCI Japan–Unhedged	4.40	16.55	22.24	8.62	-0.14	6.24
MSCI Japan–Local	10.31	33.90	52.19	12.89	-1.43	4.25
Europe Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Europe Style</b>	<b>0.18</b>	<b>3.48</b>	<b>21.09</b>	<b>12.33</b>	<b>-0.26</b>	<b>8.85</b>
MSCI Europe–Unhedged	-0.51	2.18	18.86	10.53	-1.35	7.50
MSCI Europe–Local	-0.79	6.11	18.77	8.39	2.23	6.50
Emerging Markets	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Emerging Markets Style</b>	<b>-7.52</b>	<b>-7.21</b>	<b>5.81</b>	<b>4.94</b>	<b>-0.31</b>	<b>14.62</b>
MSCI EM–Unhedged	-7.95	-9.40	3.23	3.72	-0.11	14.02
MSCI EM–Local	-4.29	-4.71	6.47	5.34	2.43	13.52
International Small Cap Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Small Cap Style</b>	<b>-0.50</b>	<b>7.82</b>	<b>23.76</b>	<b>15.11</b>	<b>3.05</b>	<b>12.43</b>
MSCI EAFE Small Cap–Unhedged	-2.52	5.69	20.88	11.88	2.48	10.38

\*Returns less than one year are not annualized.

Sources: Callan, MSCI Inc.

# Abenomics

## NON-U.S. FIXED INCOME | Lewis Krell

Japanese Prime Minister Shinzo Abe has been the talk of the economic world, as Japan's aggressive approach to resolving a decade of economic malaise appears to be paying dividends. Under "Abenomics," as Abe's macroeconomic policy is known, the yen has depreciated significantly amid quantitative easing and a massive bond buyback effort by the Japanese government. Although the second quarter produced a -1.7% return for Japanese bonds, the year-to-date return is still positive at 0.8%. With Abe's popularity soaring in Japan, continued heavy government involvement in the economy is highly likely.

Emerging market bonds had a particularly bad quarter as the **JP Morgan GBI Emerging Markets Global Composite** fell 7.74%. Global bonds as a whole were down for the third consecutive quarter, with the **Citigroup Non-U.S. WGBI Index** declining 3.44%. China had a tough quarter as the govern-

ment struggled to deal with record levels of debt. As economic growth continues to slow down and interbank lending rates climb to record highs, the Chinese government is attempting to deleverage the financial system to avoid a credit crisis similar to the one that occurred in the U.S. In addition, Fitch downgraded Chinese debt, and Chinese regulators attempted to crack down on illicit foreign inflows. Brazil also struggled during the quarter as its central bank raised interest rates, adding additional pressure to the Brazilian economy. However, in May, Petrobras raised \$11 billion in the largest-ever emerging market corporate bond issuance.

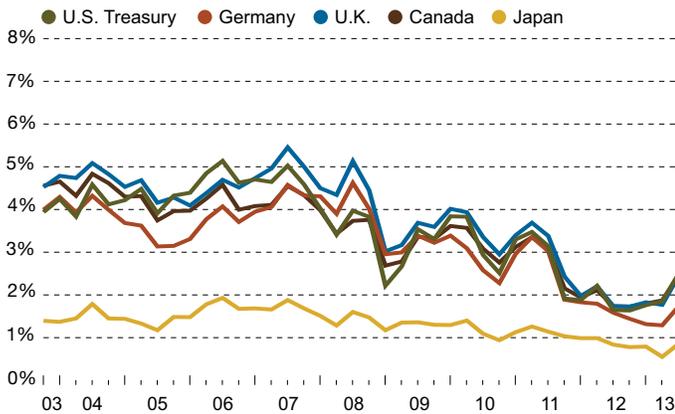
### Quarterly Return Attribution for Non-U.S. Gov't Indices (U.S. Dollar)

Country	Total	Local	Currency	Wtg
Australia	-12.29%	-0.10%	-12.20%	1.49%
Austria	-0.30%	-1.51%	1.23%	1.86%
Belgium	-0.78%	-1.98%	1.23%	2.80%
Canada	-5.79%	-2.18%	-3.70%	2.58%
Denmark	-1.50%	-2.65%	1.17%	0.88%
Finland	-0.36%	-1.57%	1.23%	0.70%
France	0.04%	-1.17%	1.23%	10.49%
Germany	-0.70%	-1.90%	1.23%	9.21%
Ireland	2.20%	0.96%	1.23%	0.82%
Italy	3.21%	1.96%	1.23%	9.96%
Japan	-7.11%	-1.86%	-5.35%	38.83%
Malaysia	-2.10%	-0.11%	-1.99%	0.54%
Mexico	-8.90%	-3.83%	-5.27%	1.04%
Netherlands	-0.21%	-1.42%	1.23%	2.90%
Norway	-5.55%	-1.12%	-4.48%	0.33%
Poland	-3.05%	-0.69%	-2.37%	0.79%
Singapore	-5.05%	-2.93%	-2.18%	0.41%
South Africa	-9.73%	-2.32%	-7.58%	0.59%
Spain	3.72%	2.47%	1.23%	5.19%
Sweden	-5.28%	-1.67%	-3.67%	0.56%
Switzerland	-1.28%	-1.37%	0.08%	0.39%
U.K.	-3.97%	-3.85%	-0.12%	7.65%

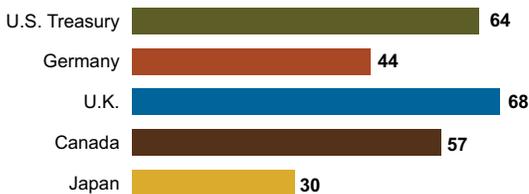
Portugal was removed in 1Q12. South Africa was added in 4Q12.

Source: Citigroup

### 10-Year Global Government Bond Yields



### Change in 10-Year Yields from 1Q13 to 2Q13 (bps)



Source: Bloomberg

## NON-U.S. FIXED INCOME (Continued)

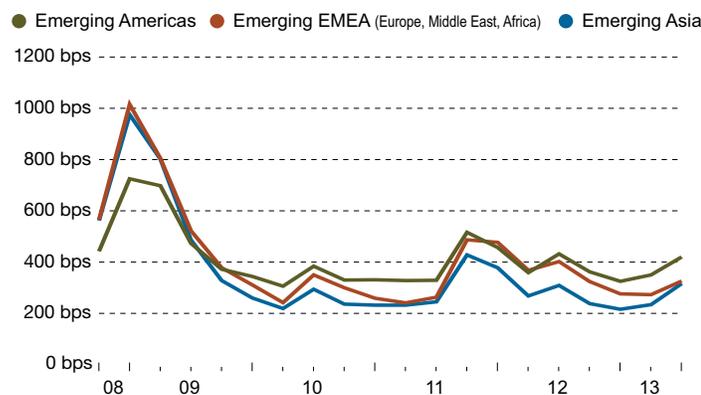
European bonds were a bright spot; it appears that the ECB's actions (like cutting interest rates to a historic low of 0.5%) are starting to slowly help dig the EU out of its ongoing sovereign debt crisis. Bond markets in Italy, Ireland, and Germany performed well, but problems persisted in countries with weaker economies such as Spain and Portugal. Any optimism must be tempered by the news of youth unemployment reaching record levels and the eurozone GDP falling for a sixth consecutive quarter. The ECB indicated that it will

continue to act as needed and use all tools at its disposal—such as maintaining downward pressure on rates or increasing stimulus action.

Emerging market currencies were devalued across the board versus the dollar, and the Japanese yen continued its aforementioned decline. The Australian, Canadian, and New Zealand dollars also weakened against the U.S. dollar as commodity prices declined.

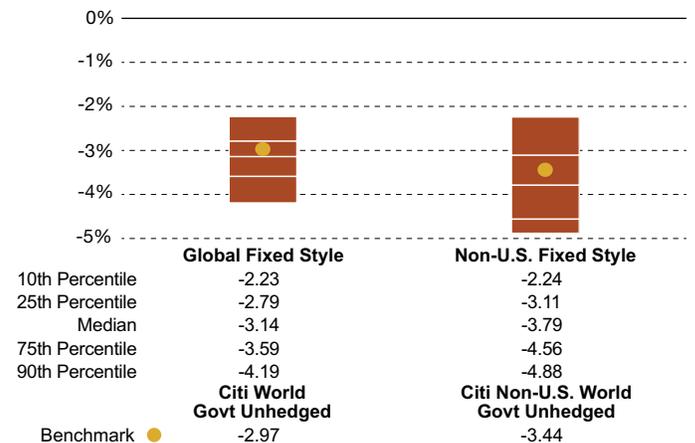
### Emerging Spreads Over Developed

(By Region)



Source: Barclays

### Callan Style Group Quarterly Returns



Sources: Callan, Citigroup

### Style Median and Index Returns\* for Periods ended June 30, 2013

	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Global Fixed</b>						
<b>Global Style</b>	-3.14	-5.32	-2.33	3.86	4.24	5.55
Citi World Govt-Unhedged	-2.97	-5.66	-4.50	2.72	3.04	4.70
Citi World Govt-Local	-1.51	-0.66	1.57	3.08	4.50	3.46
<b>Non-U.S. Fixed</b>						
<b>Non-U.S. Style</b>	-3.79	-6.95	-3.62	3.84	3.71	5.62
Citi Non-U.S. World Govt-Unhedged	-3.44	-7.14	-5.72	2.57	2.55	4.78
Citi Non-U.S. World Govt-Local	-1.36	-0.08	2.86	3.23	4.56	3.31
<b>European Fixed</b>						
Citi Euro Govt Bond-Unhedged	0.97	-1.29	9.44	6.29	1.87	5.54
Citi Euro Govt Bond-Local	-0.26	0.12	6.84	4.21	5.87	4.25
<b>Emerging Markets Fixed</b>						
JPM Emerging Mkts Bond Plus	-6.26	-9.36	0.07	7.52	8.38	8.95
JPM Emerging Local Mkts Plus	-2.37	-2.33	1.86	2.75	0.76	6.39
JPM GBI EM Global Composite	-7.74	-7.17	0.35	5.66	5.02	9.37

\*Returns less than one year are not annualized.

Sources: Callan, Citigroup, JPMorgan Chase & Co.

# Pushing Ahead

REAL ESTATE | Jay Nayak

Domestic institutional real estate assets, as measured by the **NCREIF Property Index**, advanced 2.87% during the second quarter. Income contributed 1.40%, while capital return added 1.47%. Industrial (+3.22%) led, followed closely by Retail (+3.21%), while Hotels (+1.95%) continued to lag all other major property sectors. The West (+3.09%) led the regional subindices, while the East (+2.52%) fell behind.

On a leveraged basis, NCREIF advanced 4.33% and reflected an overall leverage level of 47.3%. On a preliminary basis, NCREIF recorded 241 asset trades representing \$6.83 billion in transactional volume. The overall transactional capitalization rate for the quarter was 5.77%, increasingly converging with an overall index appraisal capitalization rate of 5.36%. The **NCREIF Open-End Diversified Core Equity Index** generated a 3.86% total return composed of a 1.30% income return and a 2.55% capital return.

Global listed real estate, as measured by the **FTSE EPRA/NAREIT Developed REIT Index**, fell 3.63%. Domestic REITs, as measured by the **FTSE NAREIT Equity REITs Index**, fell

## NCREIF Overall Capitalization Rates

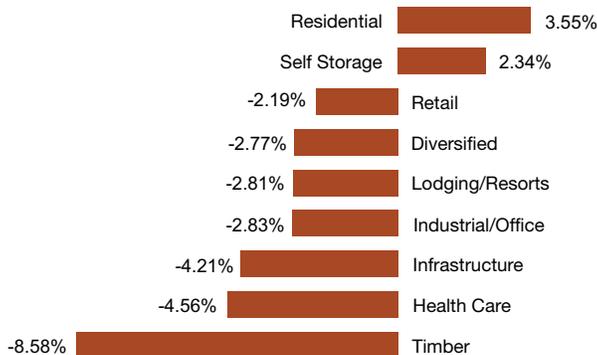
Sector	1Q13	1Q13	2Q12
Apartment	5.05%	5.03%	5.15%
Industrial	5.73%	5.82%	6.04%
Office	5.31%	5.10%	5.45%
Retail	5.64%	5.67%	5.88%

Rates based on unleveraged, value-weighted, appraisal capitalization data.  
Source: NCREIF

1.57% and traded at a 3.67% dividend yield at quarter-end. Apartments led sector performance, advancing 3.60%, followed by Self Storage (+2.34%), while mixed Industrial/Office (-6.94%) and Free Standing Retail REITs (-5.05%) lagged.

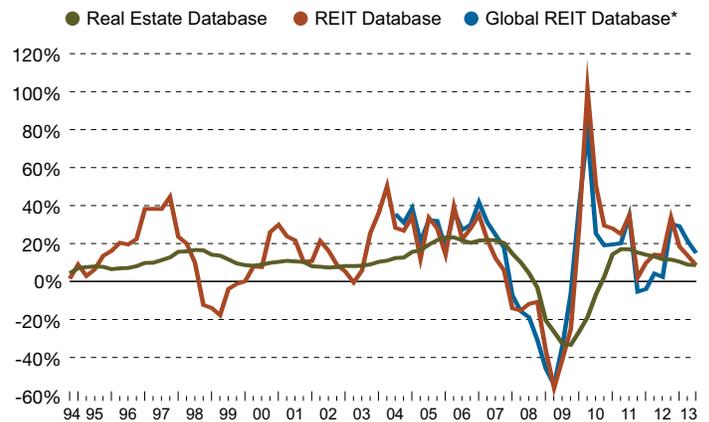
European stocks gained 1.55% as expectations of continued accommodative monetary policy in the United Kingdom drove both country and regional performance. First-quarter performance in the Asia/Pacific region reversed during the second quarter, as weak performance of Hong Kong/China and Singapore stocks drove Asia/Pacific REITs to fall 7.75%.

## NAREIT All Equity Sector Quarterly Performance



\*Timber replaced Specialty in 4Q10. Infrastructure was added in 1Q12.  
Source: NAREIT

## Rolling One-Year Returns



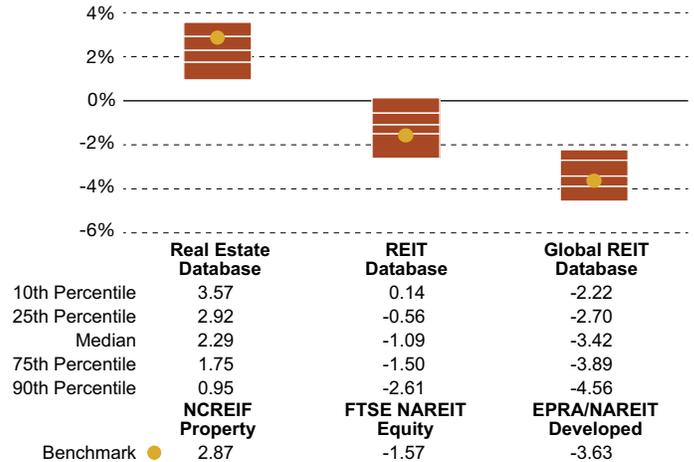
\*Global REIT returns from 2Q04  
Source: Callan

## REAL ESTATE (Continued)

Domestic REITs executed 71 offerings, raising \$23.0 billion. Four primary offerings raised \$864 million and 34 secondary offerings raised \$13.0 billion. REITs raised \$1.9 billion and \$7.2 billion in preferred equity and unsecured debt, respectively.

Domestic commercial mortgage-backed securities (CMBS) issuance totaled \$21.0 billion in the second quarter; at midyear CMBS issuance had reached \$43.9 billion, approaching the \$48.4 billion issuance total seen in 2012.

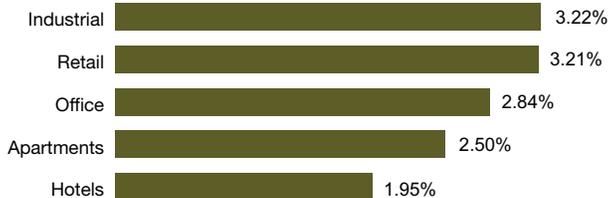
### Callan Style Group Quarterly Returns



Sources: Callan, NAREIT, NCREIF, The FTSE Group

### NCREIF All Equity Sector Quarterly Performance

#### Quarterly Returns by Property Type



#### Quarterly Returns by Region



Source: NCREIF

### Style Median and Index Returns\* for Periods ended June 30, 2013

	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Private Real Estate</b>						
Real Estate Database (net of fees)	2.29	4.57	10.00	12.93	-0.51	7.56
NCREIF Property**	2.87	5.20	10.39	13.02	2.73	8.56
<b>Public Real Estate</b>						
REIT Database	-1.09	5.44	8.27	18.65	8.39	11.97
FTSE NAREIT Equity	-1.57	6.49	9.42	18.18	7.57	10.89
<b>Global Real Estate</b>						
Global REIT Database	-3.42	1.98	14.45	16	5.74	12.15
FTSE EPRA/NAREIT Developed	-3.63	2.4	14.27	15.98	4.59	11.03

\*Returns less than one year are not annualized.

\*\*Represents data available as of publication date.

All REIT returns are reported gross in USD.

Sources: Callan, NAREIT, NCREIF, The FTSE Group

# Heading for the Exits

PRIVATE EQUITY | Gary Robertson

In fundraising, *Private Equity Analyst* reports that new second-quarter commitments totaled \$70.3 billion with 175 new partnerships formed. This represents more than double the first quarter's dollar volume and a 45% increase in partnership count. (The first quarter saw \$32.9 billion and 121 new partnerships formed.) The first half of 2013 is outpacing the first half of 2012, which produced \$88.9 billion of new commitments and 258 new funds.

According to *Buyouts* newsletter, the investment pace by funds into companies in the second quarter totaled 260 transactions with an announced dollar volume of \$40.3 billion. The transaction count was down 18% from the first quarter's 319 deals, but the announced transaction value increased 56% from \$25.9 billion the prior quarter. The \$27 billion purchase of H.J. Heinz was solely responsible for the increase. There were three other deals with announced values of \$1 billion or more that closed in the quarter.

According to the National Venture Capital Association, new investments in venture capital companies totaled \$6.7 billion in 913 rounds of financing. The dollar volume and number of rounds both increased compared to the first quarter's \$6.0 billion and 896 rounds.

## Funds Closed 1/1/13 to 6/30/13

Strategy	No. of Funds	Amt (\$MM)	Percent
Venture Capital	96	11,379	11%
Buyouts	107	58,835	57%
Subordinated Debt	20	10,387	10%
Distressed Debt	16	11,367	11%
Secondary and Other	19	6,189	6%
Fund-of-funds	38	5,039	5%
<b>Totals</b>	<b>296</b>	<b>103,195</b>	<b>100%</b>

Source: Private Equity Analyst

Regarding exits, *Buyouts* reports that 113 private M&A exits of buyout-backed companies occurred during the second quarter of 2013, with 28 deals disclosing values totaling \$8.1 billion. There were also 16 buyout-backed IPOs that floated \$7.5 billion, a significant increase from the eight IPOs totaling \$2.4 billion in the first quarter.

Venture-backed M&A exits totaled 84 transactions, with 15 disclosing a total dollar volume of \$3.0 billion. The first quarter had seen a comparable number of investments but the announced value in the second quarter was higher, as the first quarter had 86 deals with 10 announcing dollar values totaling \$984.4 million. There were 21 VC-backed IPOs in the second quarter with a combined float of \$2.1 billion. For comparison, the first quarter had only eight IPOs and total issuance of \$716.9 million.

## Private Equity Performance Database (%)

(Pooled Horizon IRRs Through December 31, 2012\*)

Strategy	3 Months	Year	3 Years	5 Years	10 Years	20 Years
All Venture	1.5	8.7	4.3	0.6	4.4	15.7
All Buyouts	3.6	15.7	10.9	3.8	11.0	10.5
Mezzanine	1.9	2.6	6.5	3.2	7.1	7.9
<b>All Private Equity</b>	<b>3.3</b>	<b>14.1</b>	<b>9.3</b>	<b>3.5</b>	<b>9.4</b>	<b>11.4</b>
S&P 500	-0.4	16.0	10.9	1.7	7.1	8.2

Private equity returns are net of fees.

Source: Thomson ONE

\* Latest quarterly data available.

# Taper Talk Unwinds Hedge Fund Gains

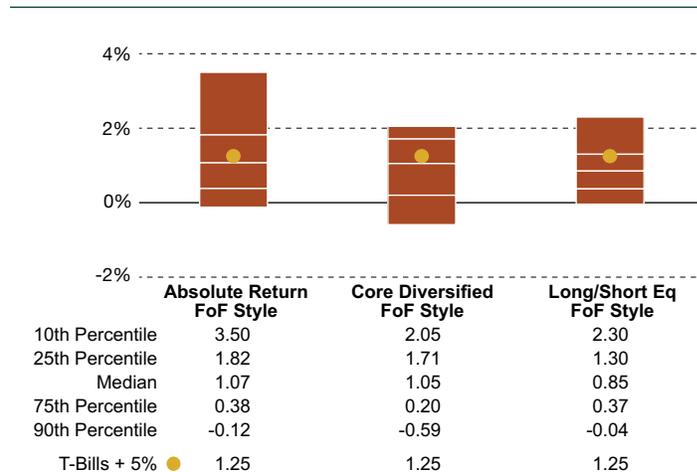
HEDGE FUNDS | Jim McKee

Encouraged by strength in domestic fundamentals, the Fed openly discussed possibly reducing its quantitative easing program sooner than expected. Consequently, capital markets were forced to imagine life with less liquidity. Given expectations of fewer Fed purchases in the future, the **Citi 10-Year Treasury** lost 4.53%.

Overall, hedge funds surrendered early-quarter gains to finish with little profit. Representing a paper portfolio without implementation costs, the **Credit Suisse Hedge Fund Index (CS HFI)** inched ahead slightly (+0.13%). As a live hedge fund portfolio proxy, net of all fees, the median manager in the **Callan Hedge Fund-of-Funds Database** gained 1.03% during the quarter.

Within the CS HFI, *Distressed* (+2.85%) was the best-performing strategy, as bankrupt securities responded more to underlying asset values being realized in the near term and less to interest rates. Despite the late-quarter market reversal, *Long/Short Equity* gained 1.82%, trailing the **S&P 500** (+2.91%). Whipsawing markets undermined tactical trading strategies like *Managed Futures* (-6.99%) and *Global Macro* (-0.81%).

## Callan Style Group Quarterly Returns



Sources: Callan, Merrill Lynch

Within Callan's Hedge Fund-of-Funds Database, market exposures affected performance. Less exposed to volatile markets, the median *Callan Absolute Return FoF* (+1.07%) held on to profits marginally better than the *Callan Long/Short Equity FoF* (+0.85%). Diversified across both non-directional and directional styles, the *Core Diversified FoF* advanced 1.05%.

## Style Median and Index Returns\* for Periods ended June 30, 2013

Diversified Hedge Fund Strategies	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Hedge Fund-of-Funds Database</b>	<b>1.03</b>	<b>4.94</b>	<b>9.52</b>	<b>5.39</b>	<b>1.98</b>	<b>4.94</b>
CS Hedge Fund Index	0.13	3.68	9.23	6.26	2.88	6.48
CS Investable Blue Chip Index	-1.28	1.27	6.00	4.65	1.03	3.34
Credit Suisse Subindices	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Equity Market Neutral	1.98	2.73	5.04	3.99	-8.47	-0.52
Convertible Arb	1.10	3.81	7.54	6.95	6.03	4.67
Fixed Income Arb	-0.80	1.35	7.51	7.90	4.62	4.07
Multi-Strategy	0.71	3.83	10.39	8.54	4.54	6.71
Distressed	2.85	7.98	15.52	7.36	4.44	8.08
Risk Arb	1.62	1.96	4.22	2.97	2.70	4.75
Event Driven Multi	1.81	6.60	14.05	5.40	3.71	7.75
Long-Short Equity	1.82	7.01	13.28	6.62	2.47	6.94
Short Bias	-4.15	-12.35	-22.36	-16.71	-15.56	-8.09
Global Macro	-0.81	1.33	5.83	7.10	4.51	8.68
Managed Futures	-6.99	-3.59	-4.99	0.12	-0.64	3.37

\*Returns less than one year are not annualized.  
Sources: Callan, Credit Suisse Hedge Index LLC

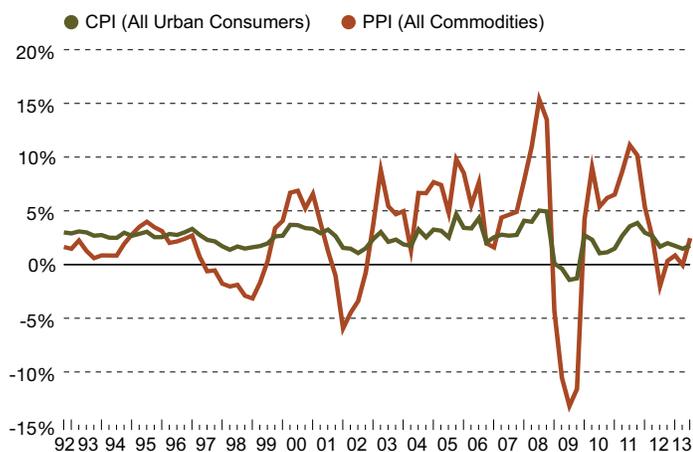
# Stick to the Plan

U.S. ECONOMY | Jay Kloepfer

Real GDP grew 1.7% in the second quarter, ahead of consensus expectations and very much in line with a host of measures that suggest accelerating growth in the U.S. economy. In particular, job creation is at a remarkably strong and steady rate of close to 200,000 per month, well ahead of the 100,000 needed to simply accommodate labor force growth.

Since the start of the financial crisis and the Great Recession, the consensus opinion has maintained that the economy will struggle until we stabilize the housing market. Without jobs and a rebound in consumer confidence, the housing and commercial real estate markets are doomed to languish and will hold back a true recovery. However, the housing market appears to have hit bottom over the past year, the job market is now churning out solid growth, and consumer confidence has rebounded solidly. Commercial real estate started its recovery some time ago. While modest, the latest GDP numbers support the market expectations that the Fed will stick to its plan to begin reducing the massive monetary stimulus that has become such an important feature of this economic recovery. Expect “tapering” to now supersede “quantitative easing” or “QE II” as the prevalent policy buzzword.

## Inflation Year-Over-Year



Source: Bureau of Labor Statistics

The Bureau of Economic Analysis (BEA) undertook a complete revision of the GDP data back to 1929, a periodic exercise guaranteed to excite economics aficionados. The revisions suggest the U.S. economy ground to a near-halt in the fourth quarter of 2012, crippled by fears of the fiscal cliff; the incredible uncertainty in Europe over the financial crisis, the euro, and the state of many EU economies; sharp declines in U.S. federal government spending; and the potential impact of Hurricane Sandy. The data support the Fed’s decision to restart quantitative easing last September. By the same token, the 1.1% and 1.7% growth in GDP during the first two quarters of 2013, respectively, support the market expectations for tapering. Looking back further, the GDP revisions suggest a less-severe Great Recession (-2.9% annualized decline versus -3.2% in previous estimates), slightly greater growth since 2002 (1.8% per year versus 1.6%), and long-term real GDP growth since 1929 that was in line with previous estimates (3.3% per year). The bulk of the revisions were due to changes in definitions and classifications to better capture the dynamics of the evolving U.S. economy, with the remainder attributable to improved statistical methods and new data sources. One of the main goals of the changes is to improve the BEA’s measurement of the effects of innovation and intangible assets on the economy.

Most of the major components of GDP—consumption, housing, non-residential fixed investment, inventories, and exports—added to growth during the second quarter, so why has overall growth been so mild? The answer lies primarily with federal government spending. Since the start of the economic recovery in the second quarter of 2009, reduction in federal spending has subtracted 1% from annualized GDP growth. Sequestration of spending hit during the first half of 2013, albeit the impact has been substantially smaller than the hype surrounding it. The tax hikes implemented at the start of the

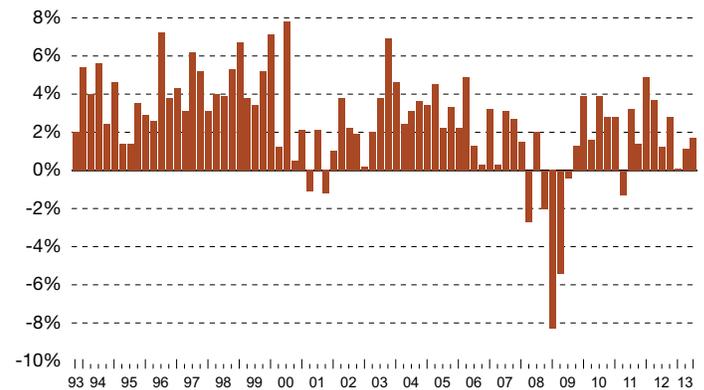
## U.S. ECONOMY (Continued)

year compound the fiscal contraction, particularly the expiration of the 2% payroll tax cut and the increase in taxes in certain states, such as California. As the economy moves forward in the second half of 2013, memories of the payroll tax hike and of sequestration will fade amid a consensus expectation of continued acceleration in economic growth.

Back to the housing market: Mortgage rates backed up in the second quarter, reaching 4.5% by the end of June, sparking fears that the housing recovery would die on the vine. For context, mortgage rates averaged over 6% from 2002 through 2007. Existing home sales fell slightly in June to just over five million units, from 5.18 million in May. However, year-over-year sales for existing homes are up 15.2%, while new home sales rose a whopping 38%. Higher mortgage rates do remain a challenge, as low rates have been a key component to increased affordability along with lower home prices. As prices firm, the rise in rates could be a double whammy. The June sales data reflect contracts entered 60 to 90 days prior, so the true impact of the recent rise in mortgage rates will likely show up in July, August, and September. The continued recovery in housing remains the crucial piece of the economic puzzle, given its large multiplier effect on the economy, its reflection of underlying consumer confidence, its effect on the economic health and well-being of the local economy, and its serving as a source of local

### Quarterly Real GDP Growth\*

(20 Years)



Source: Bureau of Economic Analysis

government tax revenues. Tapering by the Fed will initially mean a slowdown in the purchase of financial assets (not the sale of the existing stock), a very tentative step toward normalization that is being met with a gigantic, collective wringing of the hands. The concern is that much of the Fed asset purchases have been mortgage securities; even a slowdown in the rate of purchase could lead to further increases in mortgage interest rates, thereby toppling the housing recovery. Whatever the Fed does, no good deed shall go unpunished.

### Recent Quarterly Indicators

Economic Indicators (seasonally adjusted)	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11
Employment Cost–Total Compensation Growth	1.7%	1.7%	2.0%	1.7%	2.1%	1.7%	2.1%	1.4%
Nonfarm Business–Productivity Growth	1.5%	0.5%	-1.7%	3.1%	1.9%	-0.5%	1.2%	1.8%
GDP Growth*	1.7%	1.1%	0.1%	2.8%	1.2%	3.7%	4.9%	1.4%
Manufacturing Capacity Utilization	75.8%	76.3%	75.7%	75.5%	77.5%	77.6%	76.1%	75.2%
Consumer Sentiment Index (1966=100)	81.7	76.7	79.4	75.0	76.3	75.5	64.7	59.5

\*The GDP estimates reflect the results of the comprehensive (or benchmark) revision of the national income and product accounts, according to the Bureau of Economic Analysis (BEA) website. More information on the revision is available at [www.bea.gov/national/an1.htm](http://www.bea.gov/national/an1.htm).

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Reuters/University of Michigan

# Holding On

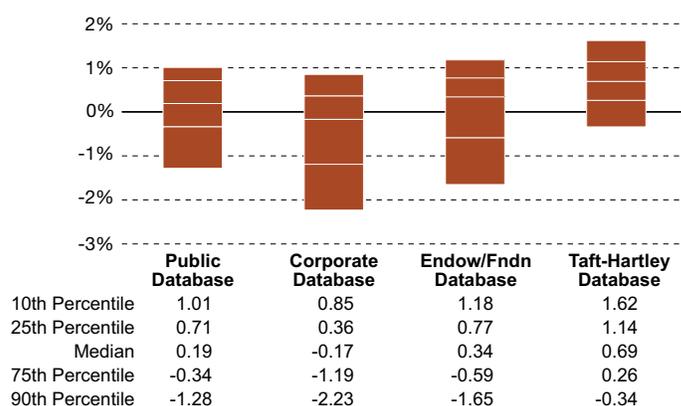
FUND SPONSOR | Connie Lee, CFA

All asset classes retreated in the second half of the quarter as comments from the Federal Reserve regarding an exit strategy from its \$85 billion a month asset purchase program shook investors. Despite stumbling later in the quarter, U.S. stocks held on to positive returns thanks to gains in April and May (**Russell 3000**: +2.69%). Foreign equities were not as fortunate and fell into negative territory (**MSCI ACWI ex-U.S.**: -2.90%). At the same time, broad fixed income markets sold off sharply with longer-dated bonds experiencing the most dramatic losses (**Barclays Aggregate**: -2.32%; **Barclays Government Long Credit**: -6.11%). Mirroring equity markets, non-U.S. bonds were worse off as yields for most developed countries rose in tandem with the U.S. (**Citi Non-U.S. World Government Bond**: -3.44%).

The Callan Fund Sponsor Returns chart—illustrating the range of returns for public, corporate, and Taft-Hartley pension plans, as well as endowments and foundations—depicts more-or-less flat returns across the board. Although most asset classes were negative for the quarter, median returns across fund types held onto fractional gains due to the support of U.S. equities. Corporate funds were the exception; the median fund dipped 17 basis points.

Examining the range of returns along the bottom (90th percentile), all fund types lost money in the second quarter. The

## Callan Fund Sponsor Quarterly Returns



Source: Callan

magnitude varied from -0.34% to -2.23%. There was less dispersion along the 10th percentile. The winning Taft-Hartley funds topped out at 1.62%, while even the best corporate funds struggled to break one percent, petering out at 0.85%.

Asset allocation differences provide further insight into the disparity in performance. The span of returns for corporate funds skewed negatively, the magnitude of which was dictated by the dollars allocated to and duration of fixed income in their plan. On the positive side, corporate funds that fell to the bottom rung due to their long duration bonds saw their liabilities decrease

## Style Median and Index Returns\* for Periods ended June 30, 2013

Fund Sponsor	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Public Database</b>	<b>0.19</b>	<b>5.24</b>	<b>11.99</b>	<b>11.02</b>	<b>5.32</b>	<b>7.06</b>
<b>Corporate Database</b>	<b>-0.17</b>	<b>4.10</b>	<b>11.14</b>	<b>11.38</b>	<b>5.86</b>	<b>7.25</b>
<b>Endowments/Foundations Database</b>	<b>0.34</b>	<b>5.05</b>	<b>12.10</b>	<b>10.56</b>	<b>4.50</b>	<b>7.03</b>
<b>Taft-Hartley Database</b>	<b>0.69</b>	<b>6.05</b>	<b>12.56</b>	<b>11.42</b>	<b>4.80</b>	<b>6.45</b>
<b>Diversified Manager</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Asset Allocator Style</b>	<b>1.33</b>	<b>7.99</b>	<b>13.42</b>	<b>11.45</b>	<b>6.06</b>	<b>7.23</b>
Domestic Balanced Database	-0.12	5.98	13.47	12.30	5.45	7.11
Global Balanced Database	-1.38	1.33	7.78	10.01	5.84	8.34
60% Russell 3000 + 40% Barclays Agg	0.68	7.32	12.28	12.83	7.15	6.92
60% MSCI World + 40% Barclays Gbl Agg	-0.73	3.05	9.95	9.90	3.71	6.66

\*Returns less than one year are not annualized.

Sources: Callan, Barclays, MSCI Inc., Russell Investment Group

## FUND SPONSOR (Continued)

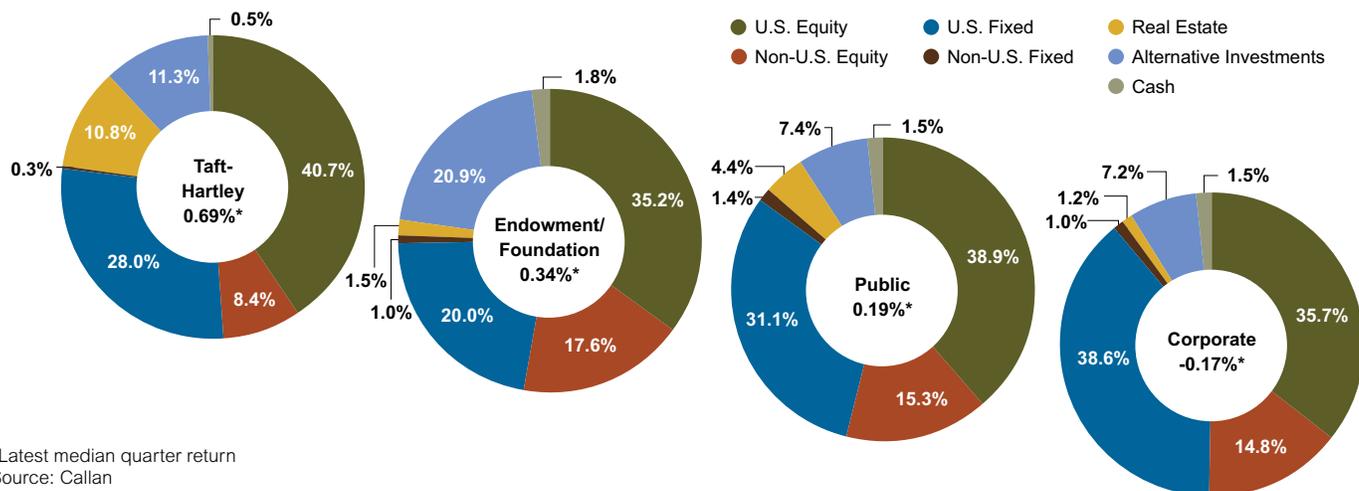
to improve funded status ratios. Meanwhile, Taft-Hartley funds beat their peers across the board, likely due to their higher allocation to U.S. stocks.

Propped up by U.S. equity results, most funds held on in the second quarter. Year-to-date performance holds steady at 4%–6%. One- and three-year returns paint an even rosier picture, with all fund types increasing 10%–12%. Five-year figures, though less robust, sit firmly in the black; 10-year returns are sound with all fund types hovering near 7%.

Callan's balanced manager groups generally maintain well-diversified portfolios and attempt to add value by underweighting or overweighting asset classes, as well as through stock selection. Asset allocators capitalized on the dispersion of returns across asset classes, ending the quarter up 1.3%. Balanced managers, both domestic and global, did not fare as well; the latter lost more as non-U.S. equities sold off during the quarter. Over the long term, diversified managers have performed in line with—and at times even surpassed—their institutional peers.

### Callan Fund Sponsor Average Asset Allocation

(as of March 31, 2013)



\*Latest median quarter return  
Source: Callan

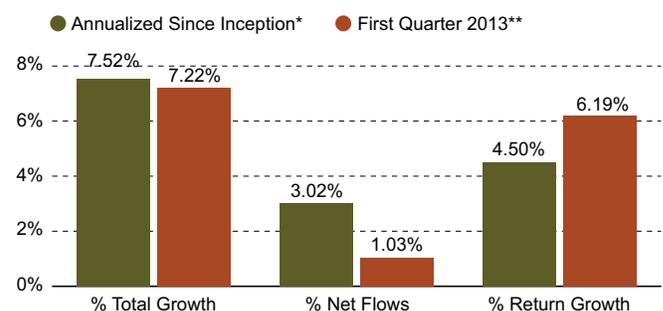
## Callan DC Index

### DEFINED CONTRIBUTION | James Veneruso, CFA

#### Market Returns Sizzle

For the quarter ended March 31, 2013,<sup>1</sup> Callan DC Index™ balances rose an impressive 7.22%. This gain was almost entirely from return growth (+6.19%) rather than inflows, or plan sponsor and participant contributions (+1.03%). Since the Index's 2006 inception, growth in balances has been primarily driven by investment returns (+4.50%); however, inflows account for

#### Growth Sources



<sup>1</sup> Latest quarterly data available.

\* January 2006.

\*\*Latest quarterly data available.

just under half of the growth in balances (+3.02%). As such, plan contributions continue to be a crucial aspect in growing retirement savings.

The average DC plan had a strong start to 2013, earning 1.69% more than the average corporate DB plan. However, going back to the Index's inception in January 2006, the average corporate DB plan's performance remains well ahead of its DC equivalent.

### Quiet Quarter for Cashflows

Turnover (i.e., net transfer activity levels) in the DC Index was muted during the first quarter. In fact, at 0.42%, turnover was at its lowest point since mid-2011. When money did move, it followed the market, as it typically does. Domestic equity, both large cap and small/mid cap, experienced net inflows. International and global equities also had positive inflows despite being unable to match U.S. market results. In contrast, stable value, fixed income, and money market funds had outflows.

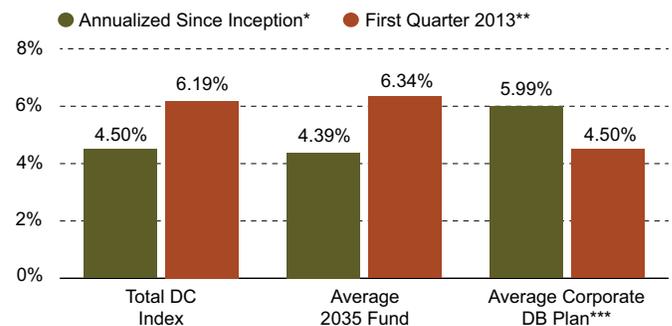
Target date funds attracted more than half (58.6%) of every dollar that flowed within DC plans. This is consistent with prior quarters and reflective of the fact that many participant accounts are defaulted into target date funds and—due to the power of inertia—remain there. Flow data reflects participant and plan sponsor contributions, withdrawals, transfer activity, and any changes in the fund or asset class lineup.

### Equities Increase

The DC Index's equity allocation rose to 64.5%. This is still well below its historic high of more than 70% reached prior to the 2008 market collapse. Domestic large cap is still the largest holding within the Index, accounting for nearly 24% of DC assets. Target date funds, on the other hand, have had explosive growth since inception, and now account for more than 16% of DC plan assets. Among the more than 80% of plans that offer target date funds, those balances average 22.6% of the portfolio—the largest average allocation after large cap equity.

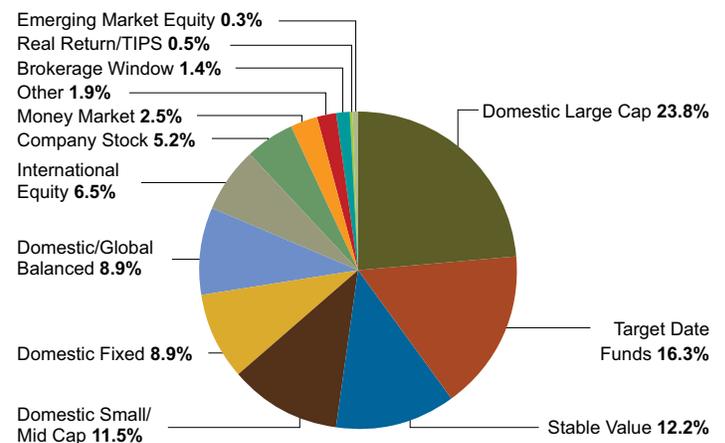
*The Callan DC Index™, created in 2006, is an equally weighted index tracking the cash flows and performance of over 70 plans, representing more than 800,000 DC participants and over \$80 billion in assets. The Index is updated quarterly and reflects 401(k) plans as well as other type of DC plans.*

### Investment Performance



\* January 2006.  
 \*\* Latest quarterly data available.  
 \*\*\* Performance is gross of fees.

### Callan DC Index Asset Allocation (as of March 31, 2013\*)



\*Latest quarterly data available.

### Net Cash Flow Analysis for First Quarter 2013\* (Top Two and Bottom Two Asset Gatherers)

Asset Class	Flows as % of Total Net Flows
Target Date Funds	58.58%
Domestic/Global Balanced	12.33%
Stable Value	-29.66%
Company Stock	-47.16%
<b>Total Turnover<sup>1</sup></b>	<b>0.42%</b>

\* Latest quarterly data available.

<sup>1</sup> Total Index "turnover" measures the percentage of total invested assets (transfers only, excluding contributions and withdrawals) that moved between asset classes.

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## Authors

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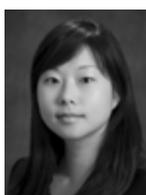
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The *Capital Market Review* is a quarterly macroeconomic indicator newsletter that provides thoughtful insights on the economy and recent performance in the equity, fixed income, alternatives, international, real estate, and other capital markets.

*Authored by Callan Associates Inc.*

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Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are uniquely backed by proprietary research, exclusive data, ongoing education and decision support. Today, Callan advises on more than \$1.8 trillion in total assets, which makes us among the largest independently owned investment consulting firms in the U.S. We use a client-focused consulting model to serve public and private pension plan sponsors, endowments, foundations, operating funds, smaller investment consulting firms, investment managers, and financial intermediaries. For more information, please visit [www.callan.com](http://www.callan.com).

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The Callan Investments Institute, established in 1980, is a source of continuing education for those in the institutional investment community. The Institute conducts conferences and workshops and provides published research, surveys, and newsletters. The Institute strives to present the most timely and relevant research and education available so our clients and our associates stay abreast of important trends in the investments industry.

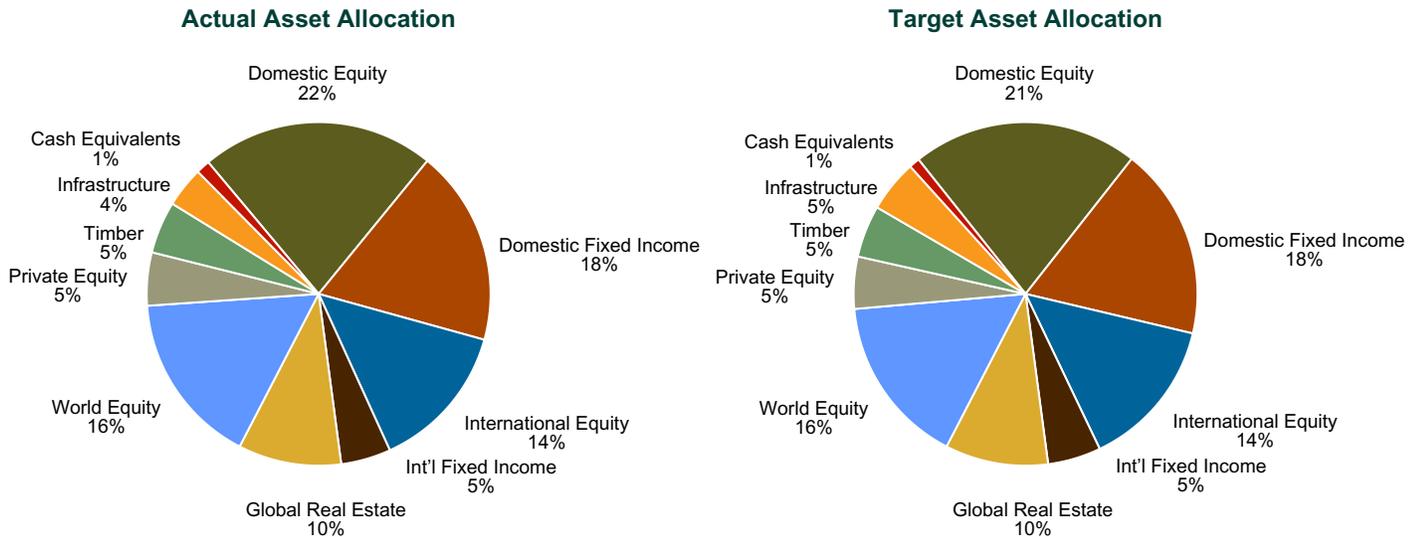
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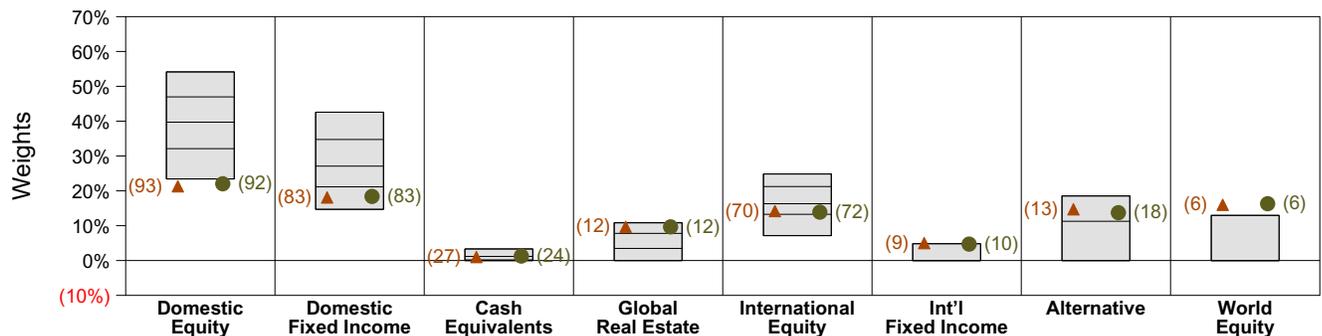
## Actual vs Target Asset Allocation As of June 30, 2013

The top left chart shows the Fund's asset allocation as of June 30, 2013. The top right chart shows the Fund's target asset allocation as outlined in the investment policy statement. The bottom chart ranks the fund's asset allocation and the target allocation versus the Public Fund Sponsor Database.



Asset Class	\$000s Actual	Percent Actual	Percent Target	Percent Difference	\$000s Difference
Domestic Equity	900,913	22.0%	21.3%	0.7%	29,665
Domestic Fixed Income	752,518	18.4%	18.1%	0.3%	12,162
International Equity	568,145	13.9%	14.2%	(0.3%)	(12,687)
Int'l Fixed Income	192,823	4.7%	5.0%	(0.3%)	(11,695)
Global Real Estate	395,030	9.7%	9.7%	0.0%	(1,736)
World Equity	666,684	16.3%	16.0%	0.3%	12,225
Private Equity	205,551	5.0%	4.9%	0.1%	5,123
Timber	199,485	4.9%	4.9%	0.0%	(943)
Infrastructure	156,590	3.8%	4.9%	(1.1%)	(43,837)
Cash Equivalents	52,627	1.3%	1.0%	0.3%	11,723
<b>Total</b>	<b>4,090,365</b>	<b>100.0%</b>	<b>100.0%</b>		

### Asset Class Weights vs Public Fund Sponsor Database



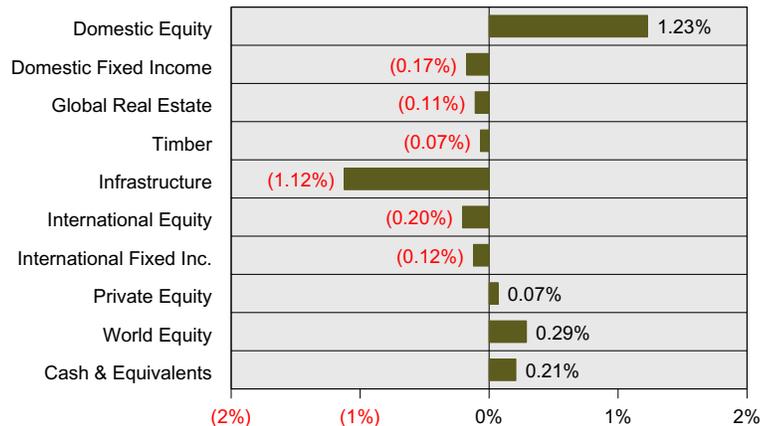
	Domestic Equity	Domestic Fixed Income	Cash Equivalents	Global Real Estate	International Equity	Int'l Fixed Income	Alternative	World Equity
10th Percentile	54.14	42.57	3.33	10.84	24.84	4.82	18.53	12.96
25th Percentile	46.96	34.74	1.17	7.79	21.23	0.00	11.26	0.00
Median	39.71	27.09	0.18	3.48	16.30	0.00	0.00	0.00
75th Percentile	32.11	21.15	0.00	0.00	13.26	0.00	0.00	0.00
90th Percentile	23.42	14.69	0.00	0.00	7.14	0.00	0.00	0.00
<b>Fund</b> ●	22.03	18.40	1.29	9.66	13.89	4.71	13.73	16.30
<b>Target</b> ▲	21.30	18.10	1.00	9.70	14.20	5.00	14.70	16.00
% Group Invested	97.74%	98.87%	62.15%	55.37%	87.01%	18.64%	46.33%	23.16%

\* Current Quarter Target = 16.4% Russell 1000 Index, 16.0% MSCI World Index, 13.1% Barclays Aggregate Index, 11.1% MSCI EAFE Index, 9.7% NCREIF Total Index, 5.0% Barclays HY Corp 2% Issue, 5.0% Barclays Global Agg ex US, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% NCREIF Timberland Index, 3.1% Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

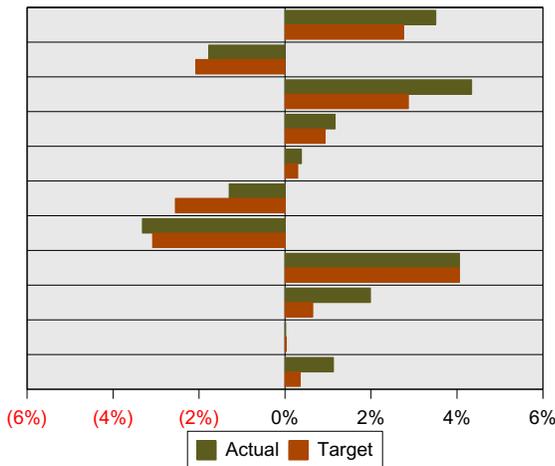
## Quarterly Total Fund Relative Attribution - June 30, 2013

The following analysis approaches Total Fund Attribution from the perspective of relative return. Relative return attribution separates and quantifies the sources of total fund excess return relative to its target. This excess return is separated into two relative attribution effects: Asset Allocation Effect and Manager Selection Effect. The Asset Allocation Effect represents the excess return due to the actual total fund asset allocation differing from the target asset allocation. Manager Selection Effect represents the total fund impact of the individual managers excess returns relative to their benchmarks.

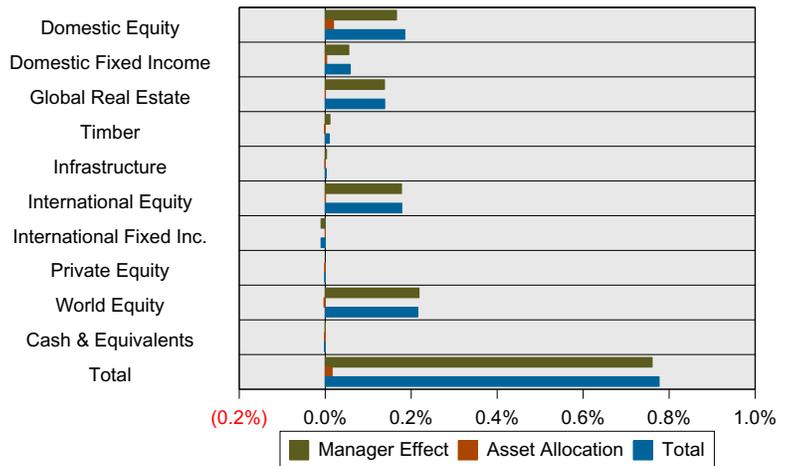
### Asset Class Under or Overweighting



### Actual vs Target Returns



### Relative Attribution by Asset Class



### Relative Attribution Effects for Quarter ended June 30, 2013

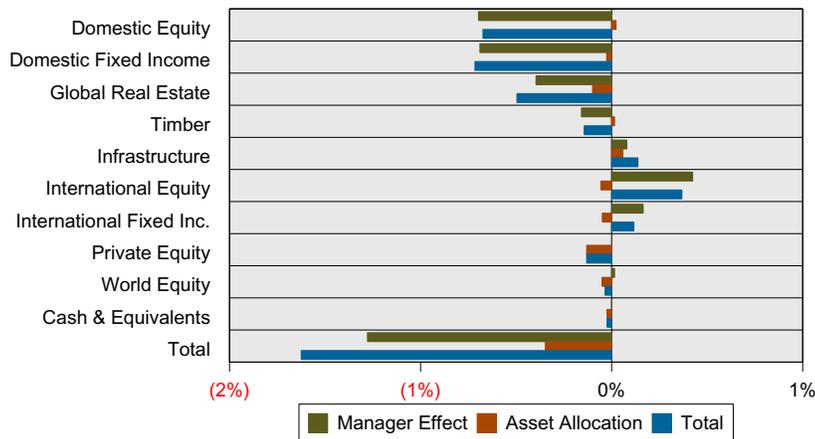
Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	23%	21%	3.51%	2.76%	0.17%	0.02%	0.19%
Domestic Fixed Income	18%	18%	(1.78%)	(2.08%)	0.05%	0.00%	0.06%
Global Real Estate	10%	10%	4.34%	2.87%	0.14%	0.00%	0.14%
Timber	5%	5%	1.17%	0.93%	0.01%	(0.00%)	0.01%
Infrastructure	4%	5%	0.38%	0.30%	0.00%	(0.00%)	0.00%
International Equity	14%	14%	(1.30%)	(2.55%)	0.18%	0.00%	0.18%
International Fixed Inc.	5%	5%	(3.32%)	(3.08%)	(0.01%)	0.00%	(0.01%)
Private Equity	5%	5%	4.06%	4.06%	0.00%	(0.00%)	(0.00%)
World Equity	16%	16%	1.99%	0.65%	0.22%	(0.00%)	0.22%
Cash & Equivalents	1%	1%	0.02%	0.02%	(0.00%)	(0.00%)	(0.00%)
<b>Total</b>			<b>1.13%</b>		<b>0.35%</b>	<b>0.76%</b>	<b>0.78%</b>

\* Current Quarter Target = 16.4% Russell 1000 Index, 16.0% MSCI World Index, 13.1% Barclays Aggregate Index, 11.1% MSCI EAFE Index, 9.7% NCREIF Total Index, 5.0% Barclays HY Corp 2% Issue, 5.0% Barclays Global Agg ex US, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% NCREIF Timberland Index, 3.1% Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

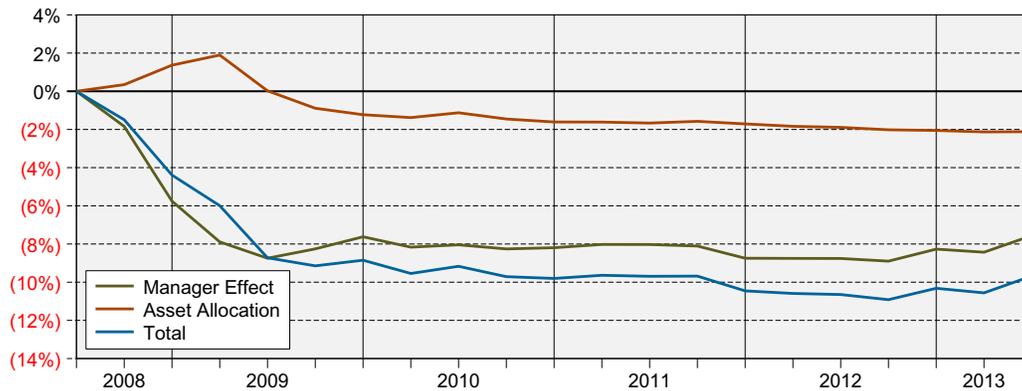
## Cumulative Total Fund Relative Attribution - June 30, 2013

The charts below accumulate the Total Fund Attribution Analysis (shown earlier) over multiple periods to examine the cumulative sources of excess total fund performance relative to target. These cumulative results quantify the longer-term sources of total fund excess return relative to target by asset class. These relative attribution effects separate the cumulative sources of total fund excess return into Asset Allocation Effect and Manager Selection Effect.

### Five Year Annualized Relative Attribution Effects



### Cumulative Relative Attribution Effects



### Five Year Annualized Relative Attribution Effects

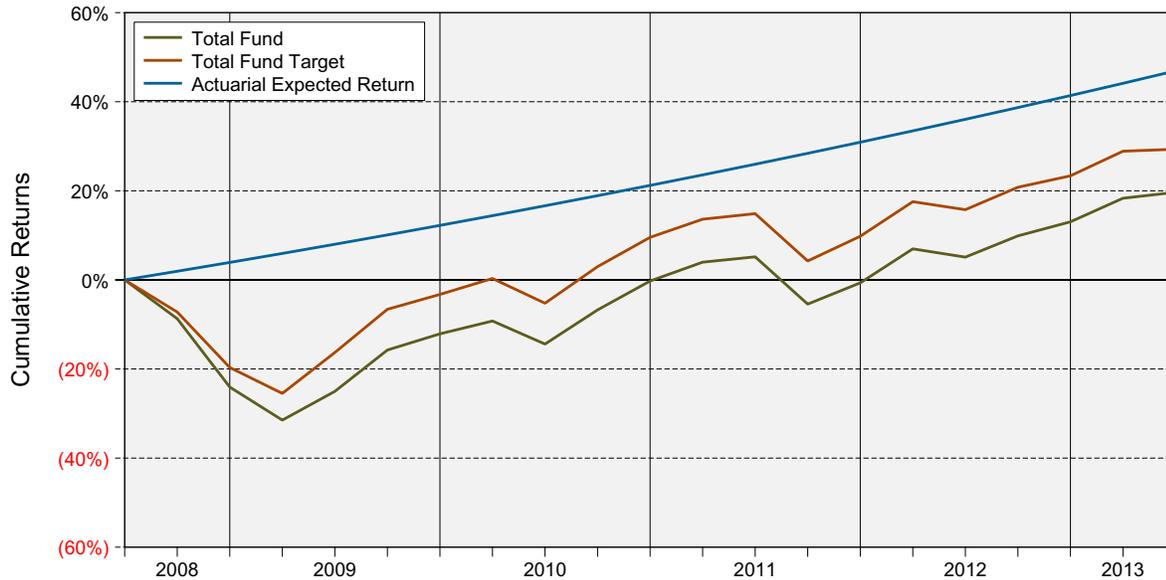
Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	33%	34%	5.37%	7.57%	(0.70%)	0.02%	(0.67%)
Domestic Fixed Income	24%	23%	5.20%	6.96%	(0.69%)	(0.03%)	(0.72%)
Global Real Estate	9%	8%	(1.49%)	2.79%	(0.40%)	(0.10%)	(0.50%)
Timber	2%	2%	-	-	(0.16%)	0.02%	(0.14%)
Infrastructure	1%	2%	-	-	0.08%	0.06%	0.14%
International Equity	17%	18%	2.42%	0.20%	0.42%	(0.06%)	0.37%
International Fixed Inc.	6%	5%	5.97%	3.00%	0.17%	(0.05%)	0.12%
Private Equity	5%	5%	0.30%	0.30%	0.00%	(0.13%)	(0.13%)
World Equity	3%	3%	-	-	0.02%	(0.05%)	(0.03%)
Cash & Equivalents	1%	1%	0.35%	0.29%	0.00%	(0.02%)	(0.02%)
<b>Total</b>			<b>3.66%</b>	<b>5.28%</b>	<b>(1.28%)</b>	<b>(0.35%)</b>	<b>(1.62%)</b>

\* Current Quarter Target = 16.4% Russell 1000 Index, 16.0% MSCI World Index, 13.1% Barclays Aggregate Index, 11.1% MSCI EAFE Index, 9.7% NCREIF Total Index, 5.0% Barclays HY Corp 2% Issue, 5.0% Barclays Global Agg ex US, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% NCREIF Timberland Index, 3.1% Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

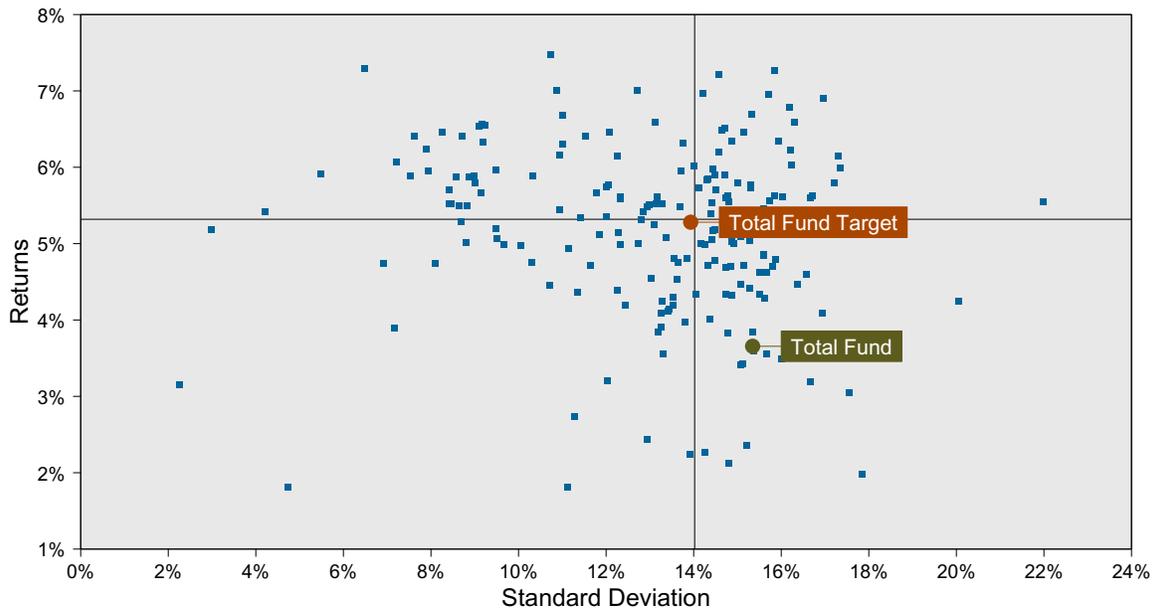
## Cumulative Performance Relative to Target

The first chart below illustrates the cumulative performance of the Total Fund relative to the cumulative performance of the Fund's Target Asset Mix. The Target Mix is assumed to be rebalanced each quarter with no transaction costs. The difference between the Total Fund return and the Target Mix return is explained by the performance attribution on the next page. The second chart below shows the return and the risk of the Total Fund and the Target Mix, contrasted with the returns and risks of the funds in the Public Fund Sponsor Database.

### Cumulative Returns Actual vs Target



### Five Year Annualized Risk vs Return



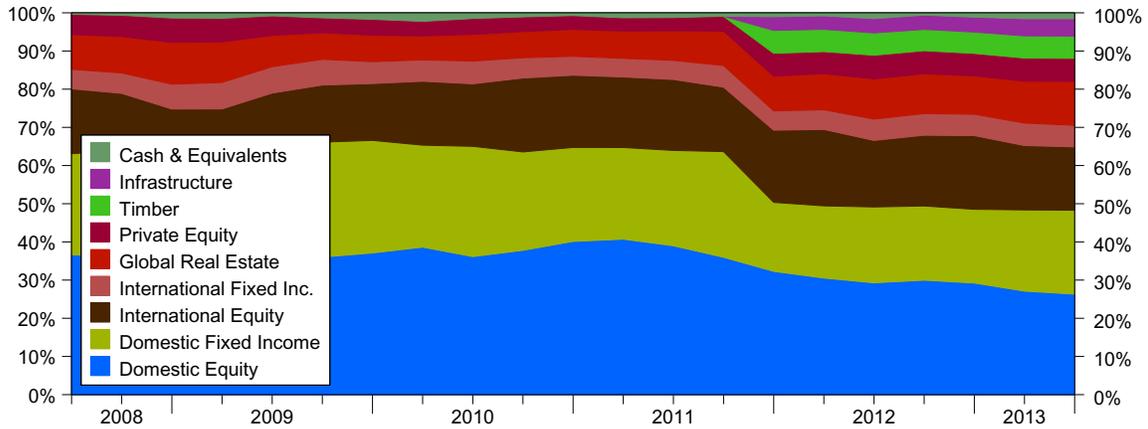
Squares represent membership of the Public Fund Sponsor Database

\* Current Quarter Target = 16.4% Russell 1000 Index, 16.0% MSCI World Index, 13.1% Barclays Aggregate Index, 11.1% MSCI EAFE Index, 9.7% NCREIF Total Index, 5.0% Barclays HY Corp 2% Issue, 5.0% Barclays Global Agg ex US, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% NCREIF Timberland Index, 3.1% Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

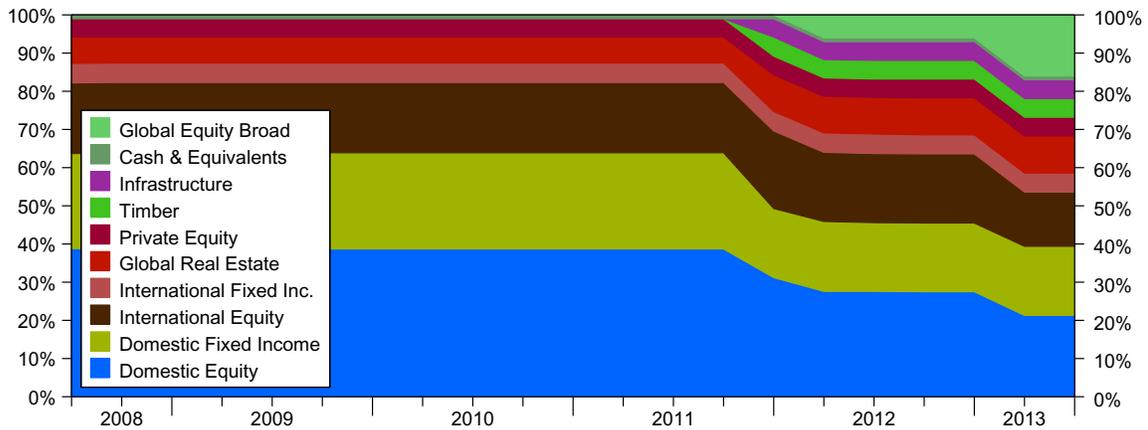
## Actual vs Target Historical Asset Allocation

The Historical asset allocation for a fund is by far the largest factor explaining its performance. The charts below show the fund's historical actual asset allocation, the fund's historical target asset allocation, and the historical asset allocation of the average fund in the Public Fund Sponsor Database.

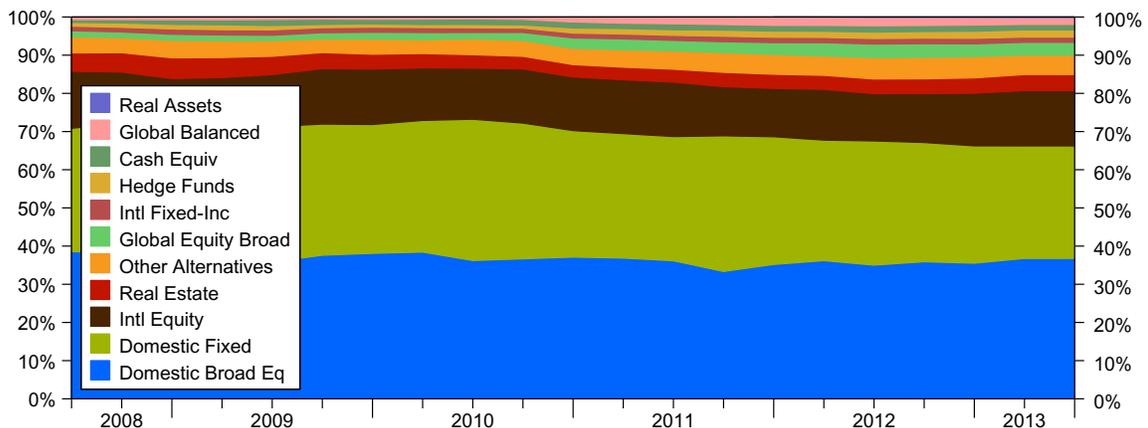
### Actual Historical Asset Allocation



### Target Historical Asset Allocation



### Average Public Fund Sponsor Database Historical Asset Allocation

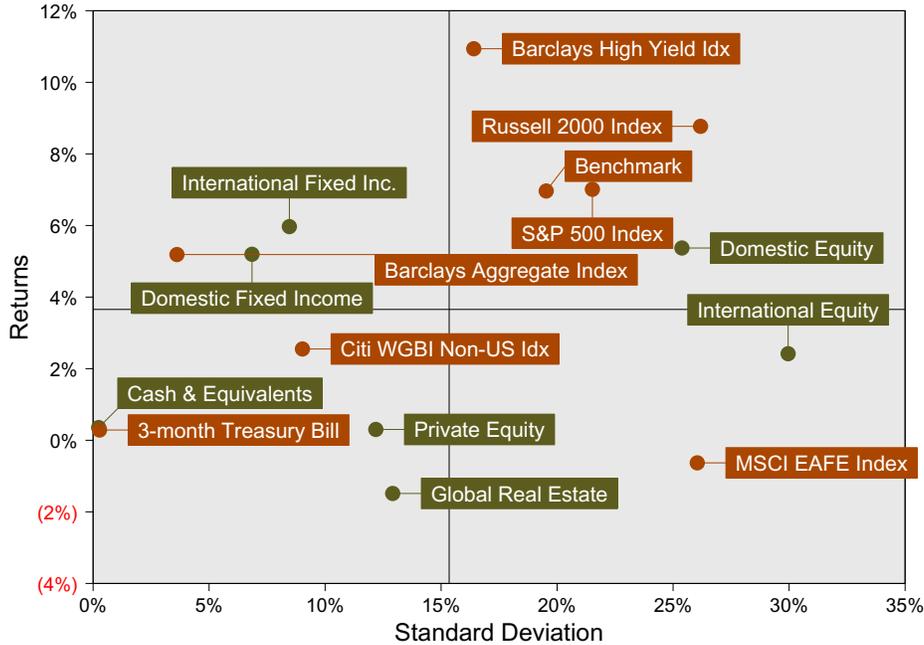


\* Current Quarter Target = 16.4% Russell 1000 Index, 16.0% MSCI World Index, 13.1% Barclays Aggregate Index, 11.1% MSCI EAFE Index, 9.7% NCREIF Total Index, 5.0% Barclays HY Corp 2% Issue, 5.0% Barclays Global Agg ex US, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% NCREIF Timberland Index, 3.1% Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

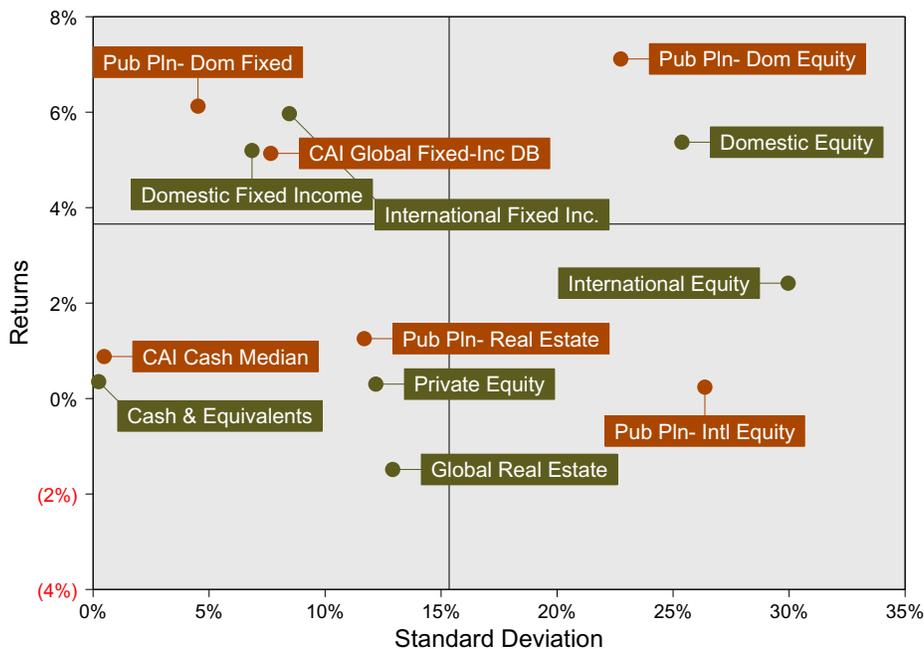
## Asset Class Risk and Return

The charts below show the five year annualized risk and return for each asset class component of the Total Fund. The first graph contrasts these values with those of the appropriate index for each asset class. The second chart contrasts them with the risk and return of the median portfolio in each of the appropriate CAI comparative databases. In each case, the crosshairs on the chart represent the return and risk of the Total Fund.

### Five Year Annualized Risk vs Return Asset Classes vs Benchmark Indices



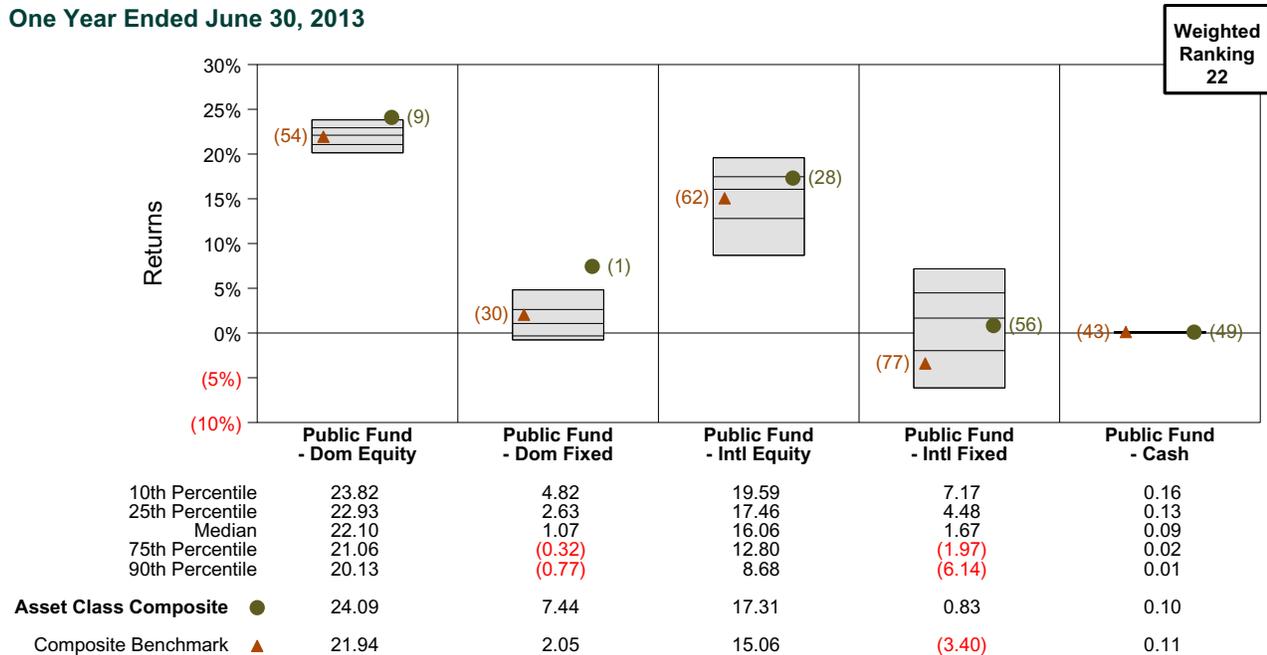
### Five Year Annualized Risk vs Return Asset Classes vs Asset Class Median



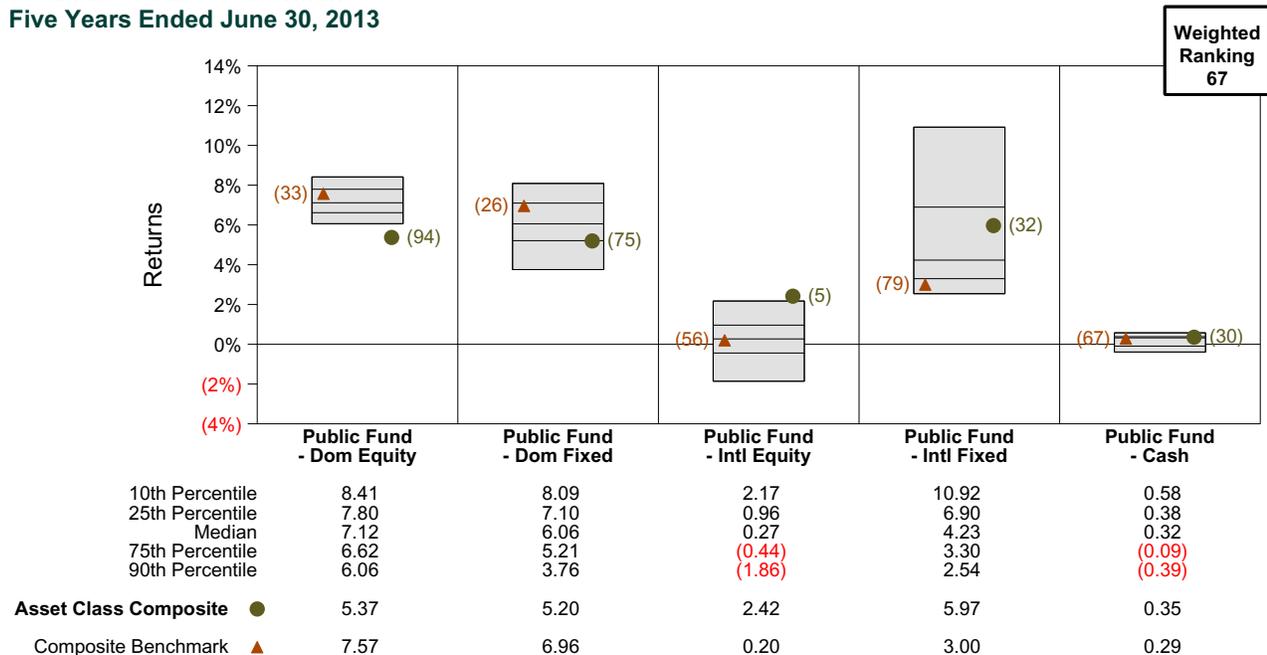
## Asset Class Rankings

The charts below show the rankings of each asset class component of the Total Fund relative to appropriate comparative databases. In the upper right corner of each graph is the weighted average of the rankings across the different asset classes. The weights of the fund's actual asset allocation are used to make this calculation. The weighted average ranking can be viewed as a measure of the fund's overall success in picking managers and structuring asset classes.

### Total Asset Class Performance One Year Ended June 30, 2013



### Total Asset Class Performance Five Years Ended June 30, 2013



\* Current Quarter Target = 16.4% Russell 1000 Index, 16.0% MSCI World Index, 13.1% Barclays Aggregate Index, 11.1% MSCI EAFE Index, 9.7% NCREIF Total Index, 5.0% Barclays HY Corp 2% Issue, 5.0% Barclays Global Agg ex US, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% NCREIF Timberland Index, 3.1% Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2013, with the distribution as of March 31, 2013. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

### Asset Distribution Across Investment Managers

	June 30, 2013		Net New Inv.	Inv. Return	March 31, 2013	
	Market Value	Percent			Market Value	Percent
<b>GLOBAL EQUITY</b>	<b>\$2,341,292,052</b>	<b>57.24%</b>	<b>\$(56,386,638)</b>	<b>\$45,828,056</b>	<b>\$2,351,850,635</b>	<b>58.10%</b>
<b>Domestic Equity</b>	<b>\$900,912,519</b>	<b>22.03%</b>	<b>\$(50,761,707)</b>	<b>\$31,921,328</b>	<b>\$919,752,897</b>	<b>22.72%</b>
<b>Large Cap Domestic Equity</b>	<b>\$686,977,800</b>	<b>16.80%</b>	<b>\$(35,761,069)</b>	<b>\$23,348,945</b>	<b>\$699,389,924</b>	<b>17.28%</b>
L.A. Capital	272,119,765	6.65%	(137,767)	8,251,591	264,005,941	6.52%
LACM Enhanced Index	187,898,903	4.59%	(56,285)	7,652,654	180,302,533	4.45%
NTGI Enhanced S&P 500	94,166,770	2.30%	(67,017)	3,435,915	90,797,873	2.24%
Clifton Enhanced S&P 500	132,792,362	3.25%	(35,500,000)	4,008,785	164,283,577	4.06%
<b>Small Cap Domestic Equity</b>	<b>\$213,934,718</b>	<b>5.23%</b>	<b>\$(15,000,638)</b>	<b>\$8,572,383</b>	<b>\$220,362,973</b>	<b>5.44%</b>
Callan	118,459,443	2.90%	(200,638)	5,528,835	113,131,245	2.79%
Clifton Enhanced Small Cap	95,249,792	2.33%	(14,500,000)	3,010,997	106,738,795	2.64%
SEI Investments	225,484	0.01%	(300,000)	32,551	492,933	0.01%
<b>International Equity</b>	<b>\$568,145,309</b>	<b>13.89%</b>	<b>\$3,490,281</b>	<b>\$(7,276,262)</b>	<b>\$571,931,290</b>	<b>14.13%</b>
<b>Developed Int'l Equity</b>	<b>\$442,549,002</b>	<b>10.82%</b>	<b>\$(10,453,690)</b>	<b>\$1,208,943</b>	<b>\$451,793,750</b>	<b>11.16%</b>
Capital Guardian Trust Co.	66,535,087	1.63%	(78,938)	532,841	66,081,185	1.63%
Clifton EAFE Index	196,706,051	4.81%	(10,044,572)	(7,17,623)	207,468,245	5.13%
DFA Int'l Small Cap	60,377,859	1.48%	(100,645)	(1,293,315)	61,771,819	1.53%
SSgA Daily Intl Alpha NL Fund	48,388,619	1.18%	(84,594)	430,311	48,042,902	1.19%
Wellington Management Co.	70,541,386	1.72%	(144,941)	2,256,728	68,429,599	1.69%
<b>Emerging Markets Equity</b>	<b>\$125,596,307</b>	<b>3.07%</b>	<b>\$13,943,971</b>	<b>\$(8,485,205)</b>	<b>\$120,137,540</b>	<b>2.97%</b>
DFA	32,021,758	0.78%	(56,029)	(2,783,307)	34,861,094	0.86%
JP Morgan	23,499,467	0.57%	0	(1,776,204)	25,275,671	0.62%
PanAgora	16,043,583	0.39%	0	(1,033,948)	17,077,531	0.42%
UBS Global	21,836,889	0.53%	0	(1,937,961)	23,774,850	0.59%
NTGI Emerging Markets	32,194,610	0.79%	14,000,000	(953,784)	19,148,394	0.47%
<b>World Equity</b>	<b>\$666,683,643</b>	<b>16.30%</b>	<b>\$(737,178)</b>	<b>\$13,010,836</b>	<b>\$654,409,985</b>	<b>16.17%</b>
EPOCH Investment Partners	201,294,044	4.92%	(364,068)	7,734,710	193,923,403	4.79%
Calamos Investments	53,886,160	1.32%	(72,153)	(1,076,763)	55,035,075	1.36%
LSV Asset Management(1)	411,503,439	10.06%	(300,957)	6,352,889	405,451,507	10.02%

(1) LSV Asset Management was removed from the Domestic Equity and International Equity Composites to the World Equity Composite as of February 1, 2013.

## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2013, with the distribution as of March 31, 2013. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

### Asset Distribution Across Investment Managers

	June 30, 2013		Net New Inv.	Inv. Return	March 31, 2013	
	Market Value	Percent			Market Value	Percent
<b>Private Equity*</b>	<b>\$205,550,581</b>	<b>5.03%</b>	<b>\$(8,378,035)</b>	<b>\$8,172,154</b>	<b>\$205,756,462</b>	<b>5.08%</b>
Brinson Partners Venture III	-	-	(43,313)	3,133	40,180	0.00%
Adams Street Direct Co-Invest Fd	16,390,530	0.40%	(1,954,899)	1,451,379	16,894,050	0.42%
Adams Street Direct Fund 2010	896,549	0.02%	37,500	340	858,709	0.02%
Adams Street 1998 Partnership	130,226	0.00%	0	11,236	118,990	0.00%
Adams Street 1999 Partnership	1,158,396	0.03%	0	34,370	1,124,026	0.03%
Adams Street 2000 Partnership	3,659,314	0.09%	0	97,770	3,561,544	0.09%
Adams Street 2001 Partnership	3,757,912	0.09%	(614,532)	257,348	4,115,096	0.10%
Adams Street 2002 Partnership	2,253,286	0.06%	(271,231)	110,525	2,413,992	0.06%
Adams Street 2003 Partnership	854,072	0.02%	0	21,947	832,125	0.02%
Adams Street 2010 Partnership	2,889,005	0.07%	172,500	87,801	2,628,704	0.06%
Adams Street 2008 Fund	4,706,109	0.12%	235,771	71,096	4,399,242	0.11%
Adams Street 1999 Non-US	528,156	0.01%	0	7,423	520,733	0.01%
Adams Street 2000 Non-US	1,119,815	0.03%	0	(2,981)	1,122,796	0.03%
Adams Street 2001 Non-US	781,987	0.02%	0	39,327	742,660	0.02%
Adams Street 2002 Non-US	2,250,086	0.06%	(503,159)	(32,438)	2,785,683	0.07%
Adams Street 2003 Non-US	1,967,684	0.05%	0	12,309	1,955,375	0.05%
Adams Street 2004 Non-US	1,268,868	0.03%	(68,475)	22,032	1,315,311	0.03%
Adams Street 2010 Non-US	1,483,311	0.04%	254,250	10,839	1,218,222	0.03%
Adams Street 2010 Non-US Emg	330,442	0.01%	39,000	(5,684)	297,126	0.01%
Adams Street BVCF IV Fund	5,222,348	0.13%	0	734,750	4,487,598	0.11%
Coral Partners V	-	-	(48,282)	45,180	3,102	0.00%
Coral Partner VI	2,962,572	0.07%	0	328,409	2,634,163	0.07%
Coral Partners Technology Fund	-	-	(231,485)	31,707	199,778	0.00%
Hearthstone Advisors MSII	1	0.00%	0	0	1	0.00%
Hearthstone Advisors MSIII	1	0.00%	0	0	1	0.00%
CorsAir III	11,588,973	0.28%	167,728	(124,628)	11,545,873	0.29%
ND Investors	11,610,720	0.28%	25,000	1,123,449	10,462,271	0.26%
CorsAir IV	10,312,024	0.25%	109,075	1,128,562	9,074,387	0.22%
Capital International V	19,088,448	0.47%	(4,303,877)	591,035	22,801,290	0.56%
Capital International VI	5,974,675	0.15%	1,548,535	(981,480)	5,407,620	0.13%
TCW Energy Fund XIV	28,981,069	0.71%	(1,737,292)	776,938	29,941,423	0.74%
Lewis & Clark, LP	6,380,717	0.16%	(388,695)	444,042	6,325,370	0.16%
Lewis & Clark II	9,543,376	0.23%	0	166,876	9,376,500	0.23%
Quantum Energy Partners	9,408,735	0.23%	182,464	1,025,071	8,201,200	0.20%
Quantum Resources	9,528,057	0.23%	(77,735)	723,031	8,882,761	0.22%
Matlin Patterson I	11,987	0.00%	0	0	11,987	0.00%
Matlin Patterson II	1,479,860	0.04%	0	(183,496)	1,663,356	0.04%
Matlin Patterson III	27,031,270	0.66%	(906,883)	144,936	27,793,217	0.69%

\*Corsair III and North Dakota Investors were taken out of the Private Equity composite on 7/1/09. They were then added back into the Private Equity composite on 10/1/11. At this time Corsair IV, Capital Intl and TCW were also added to this composite.

## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2013, with the distribution as of March 31, 2013. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

### Asset Distribution Across Investment Managers

	June 30, 2013		Net New Inv.	Inv. Return	March 31, 2013	
	Market Value	Percent			Market Value	Percent
<b>GLOBAL FIXED INCOME</b>	<b>\$945,340,696</b>	<b>23.11%</b>	<b>\$43,917,230</b>	<b>\$(19,931,658)</b>	<b>\$921,355,125</b>	<b>22.76%</b>
<b>Domestic Fixed Income</b>	<b>\$752,517,610</b>	<b>18.40%</b>	<b>\$44,097,007</b>	<b>\$(13,318,578)</b>	<b>\$721,739,181</b>	<b>17.83%</b>
<b>Inv. Grade Fixed Income</b>	<b>\$555,669,319</b>	<b>13.58%</b>	<b>\$44,005,691</b>	<b>\$(9,657,686)</b>	<b>\$521,321,313</b>	<b>12.88%</b>
Bank of North Dakota	11	0.00%	(45,602,773)	(1,754,890)	47,357,673	1.17%
Declaration Total Return	64,249,713	1.57%	5,125,000	(807,342)	59,932,055	1.48%
PIMCO DiSCO II	104,409,176	2.55%	0	803,866	103,605,310	2.56%
PIMCO MBS	161,523,175	3.95%	16,009,402	(3,464,490)	148,978,263	3.68%
PIMCO Unconstrained	64,590,528	1.58%	5,125,000	(1,209,325)	60,674,853	1.50%
SSgA Long US Treas Index	52,040,969	1.27%	52,818,233	(777,264)	-	-
Western Asset Management Co.	108,855,747	2.66%	10,530,829	(2,448,241)	100,773,159	2.49%
<b>Below Inv. Grade Fixed Income</b>	<b>\$196,848,291</b>	<b>4.81%</b>	<b>\$91,316</b>	<b>\$(3,660,892)</b>	<b>\$200,417,868</b>	<b>4.95%</b>
Goldman Sachs 2006 Offshore	4,670,000	0.11%	(122,342)	300,605	4,491,737	0.11%
Goldman Sachs Offshore V	11,100,000	0.27%	450,836	794,887	9,854,277	0.24%
Loomis Sayles	181,078,291	4.43%	(232,585)	(4,757,461)	186,068,338	4.60%
PIMCO Distressed Mortgage	-	-	(4,593)	1,077	3,516	0.00%
<b>Intl Fixed Income</b>	<b>\$192,823,086</b>	<b>4.71%</b>	<b>\$(179,777)</b>	<b>\$(6,613,080)</b>	<b>\$199,615,944</b>	<b>4.93%</b>
Brandywine	101,670,039	2.49%	(108,275)	(3,544,928)	105,323,241	2.60%
UBS Global Asset Mgmt.	91,153,047	2.23%	(71,503)	(3,068,153)	94,292,702	2.33%
<b>GLOBAL REAL ASSETS</b>	<b>\$751,105,344</b>	<b>18.36%</b>	<b>\$9,216,889</b>	<b>\$19,694,763</b>	<b>\$722,193,692</b>	<b>17.84%</b>
<b>Global Real Estate</b>	<b>\$395,029,825</b>	<b>9.66%</b>	<b>\$5,847,074</b>	<b>\$16,802,159</b>	<b>\$372,380,592</b>	<b>9.20%</b>
Invesco Core Real Estate	142,522,219	3.48%	(134,960)	6,394,462	136,262,718	3.37%
Invesco Real Estate Fund II	23,434,749	0.57%	(19,000,000)	4,966,280	37,468,469	0.93%
Invesco Real Estate Fund III	40,307,385	0.99%	17,500,000	2,699,596	20,107,789	0.50%
Invesco Asia RE Feeder	22,960,002	0.56%	0	(358,778)	23,318,780	0.58%
JP Morgan	127,865,151	3.13%	(281,465)	4,822,293	123,324,323	3.05%
JP Morgan Alternative Fd	5,776,145	0.14%	0	(326,137)	6,102,283	0.15%
JP Morgan China Property Fd	22,100,000	0.54%	(12,951)	164,389	21,948,562	0.54%
JP Morgan Greater European Opp Fd	10,064,173	0.25%	7,776,451	(1,559,945)	3,847,668	0.10%
<b>Timber</b>	<b>\$199,485,094</b>	<b>4.88%</b>	<b>\$(26,132)</b>	<b>\$2,298,685</b>	<b>\$197,212,541</b>	<b>4.87%</b>
TIR - Teredo	78,633,105	1.92%	0	3,381,092	75,252,013	1.86%
TIR - Springbank	120,851,989	2.95%	(26,132)	(1,082,407)	121,960,528	3.01%
<b>Infrastructure</b>	<b>\$156,590,425</b>	<b>3.83%</b>	<b>\$3,395,947</b>	<b>\$593,919</b>	<b>\$152,600,559</b>	<b>3.77%</b>
JP Morgan Asian Infrastructure	29,500,000	0.72%	2,543,104	952,892	26,004,004	0.64%
JP Morgan IIF	96,758,237	2.37%	(307,851)	(2,627,707)	99,693,795	2.46%
Credit Suisse Cust. Infrastructure	30,332,188	0.74%	1,160,694	2,268,734	26,902,760	0.66%
<b>CASH &amp; CASH EQUIVALENTS</b>	<b>\$52,626,837</b>	<b>1.29%</b>	<b>\$185,342</b>	<b>\$7,500</b>	<b>\$52,433,995</b>	<b>1.30%</b>
Cash Account	52,626,837	1.29%	185,342	7,500	52,433,995	1.30%
<b>Total Fund</b>	<b>\$4,090,364,930</b>	<b>100.0%</b>	<b>\$(3,067,177)</b>	<b>\$45,598,660</b>	<b>\$4,047,833,447</b>	<b>100.0%</b>

## Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2013. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2013

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>GLOBAL EQUITY</b>	<b>1.95%</b>	<b>19.31%</b>	-	-	-
Wtd Avg Global Equity Bench	0.98%	17.96%	-	-	-
<b>Domestic Equity</b>	<b>3.51%</b>	<b>24.09%</b>	<b>18.95%</b>	<b>5.37%</b>	<b>7.17%</b>
Wtd Avg Domestic Equity Bench	2.76%	21.94%	18.65%	7.57%	7.93%
<b>Large Cap Domestic Equity</b>	<b>3.37%</b>	<b>23.13%</b>	<b>18.57%</b>	<b>3.69%</b>	<b>6.09%</b>
L.A. Capital	3.12%	18.86%	19.03%	7.30%	-
LACM Enhanced Index	4.24%	21.63%	19.08%	7.66%	8.45%
NTGI Enhanced S&P 500	3.78%	23.67%	19.75%	8.15%	7.52%
Clifton Enhanced S&P 500	2.46%	20.43%	-	-	-
Large Cap Benchmark (1)	2.65%	21.24%	18.62%	7.10%	7.34%
<b>Small Cap Domestic Equity</b>	<b>3.89%</b>	<b>26.86%</b>	<b>20.05%</b>	<b>9.98%</b>	<b>25.44%</b>
Callan	4.89%	27.71%	20.26%	9.70%	-
Clifton Enhanced Small Cap	2.81%	25.30%	20.17%	-	-
Russell 2000 Index	3.08%	24.21%	18.67%	8.77%	9.53%
<b>International Equity</b>	<b>(1.30%)</b>	<b>17.31%</b>	<b>9.81%</b>	<b>2.42%</b>	<b>10.17%</b>
Wtd Avg Int'l Equity Bench	(2.55%)	15.06%	7.13%	0.20%	9.12%
<b>Developed Int'l Equity</b>	<b>0.27%</b>	<b>20.94%</b>	<b>10.61%</b>	<b>2.20%</b>	<b>8.19%</b>
Capital Guardian Trust Co.	0.80%	21.31%	10.29%	0.66%	7.41%
Clifton EAFE Index	(0.37%)	17.25%	9.03%	-	-
DFA Int'l Small Cap Value	(2.10%)	24.89%	12.34%	2.90%	-
SSgA Daily Intl Alpha NL Fund	0.89%	23.17%	10.23%	(1.09%)	6.56%
Wellington Management Co.	3.29%	26.16%	17.16%	5.82%	11.32%
MSCI EAFE Index (2)	(0.98%)	18.62%	8.10%	(0.01%)	7.23%
<b>Emerging Markets Equity</b>	<b>(7.17%)</b>	<b>4.55%</b>	<b>6.69%</b>	<b>1.86%</b>	<b>14.87%</b>
DFA	(8.00%)	9.18%	6.59%	6.51%	-
JP Morgan	(7.03%)	5.11%	4.79%	1.36%	-
PanAgora	(6.05%)	6.28%	4.48%	(0.81%)	-
UBS Global	(8.15%)	(0.62%)	3.19%	(0.59%)	-
NTGI Emerging Markets	(8.05%)	-	-	-	-
MSCI Emerging Mkts Idx Net (3)	(8.08%)	2.87%	3.48%	(0.25%)	13.94%
<b>World Equity</b>	<b>1.99%</b>	<b>17.06%</b>	-	-	-
EPOCH Investment Partners (4)	3.99%	20.85%	-	-	-
Calamos Investments	(1.96%)	8.37%	-	-	-
MSCI World Index	0.65%	18.58%	13.72%	2.70%	7.25%
LSV Asset Management (5)	1.57%	-	-	-	-
MSCI ACWI Idx	(0.23%)	17.21%	12.96%	2.86%	8.14%

(1) Large Cap Domestic Equity Benchmark is the S&P 500 Index through 12/31/2011 and the Russell 1000 Index thereafter.

(2) International Equity Target is MSCI EAFE through 12/31/1996, 50% Hedged EAFE through 03/31/2011, and MSCI EAFE again thereafter.

(3) Emerging Markets Target is MSCI Emerging Mkts Idx (Gross) through 6/30/2011, and MSCI Emerging Mkts Idx Net thereafter.

(4) EPOCH Investment Partners was removed from the Domestic Equity Composite to the World Equity Composite as of January 1, 2012.

(5) LSV Asset Management was removed from the Domestic Equity and International Equity Composites to the World Equity Composite as of February 1, 2013.

## Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2013. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2013

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>Private Equity</b>	<b>4.06%</b>	<b>6.69%</b>	<b>8.85%</b>	<b>0.30%</b>	<b>5.64%</b>
Adams Street Direct Co-Invest Fd	9.72%	11.74%	13.70%	2.69%	-
Adams Street Direct Fund 2010	0.04%	2.36%	4.96%	-	-
Adams Street 1998 Partnership	9.44%	16.27%	4.87%	(5.63%)	4.59%
Adams Street 1999 Partnership	3.06%	9.46%	10.71%	0.11%	7.04%
Adams Street 2000 Partnership	2.75%	6.03%	12.52%	2.49%	9.87%
Adams Street 2001 Partnership	6.41%	12.43%	14.42%	4.55%	7.00%
Adams Street 2002 Partnership	5.16%	6.52%	17.45%	4.44%	7.54%
Adams Street 2003 Partnership	2.64%	6.11%	8.51%	1.94%	5.42%
Adams Street 2010 Partnership	3.22%	10.31%	15.54%	-	-
Adams Street 2008 Fund	1.53%	10.58%	9.37%	(2.17%)	-
Adams Street 1999 Non-US	1.43%	27.87%	27.63%	10.21%	22.02%
Adams Street 2000 Non-US	(0.27%)	(1.13%)	9.56%	(2.43%)	12.11%
Adams Street 2001 Non-US	5.30%	9.41%	4.02%	(7.82%)	2.47%
Adams Street 2002 Non-US	(1.11%)	8.55%	15.73%	(2.59%)	13.42%
Adams Street 2003 Non-US	0.63%	32.82%	20.45%	6.00%	14.32%
Adams Street 2004 Non-US	1.79%	8.52%	9.90%	(2.55%)	-
Adams Street 2010 Non-US	0.78%	11.47%	0.81%	-	-
Adams Street 2010 Non-US Emg	(1.78%)	(5.04%)	-	-	-
Adams Street BVCF IV Fund	16.37%	32.89%	83.51%	53.35%	29.33%
Coral Partner VI	12.47%	14.19%	(4.54%)	(16.01%)	(11.66%)
CorsAir III	(1.06%)	(10.93%)	(2.07%)	(6.74%)	-
ND Investors	10.71%	8.19%	4.18%	2.09%	-
CorsAir IV	12.27%	8.75%	(5.19%)	-	-
Capital International V	3.16%	(10.03%)	7.16%	2.71%	-
Capital International VI	(14.99%)	(22.38%)	-	-	-
TCW Energy Fund XIV	2.56%	0.37%	6.68%	10.11%	-
Lewis & Clark, LP	7.48%	17.77%	10.58%	6.72%	4.16%
Lewis & Clark II	1.78%	(4.18%)	(5.04%)	-	-
Quantum Energy Partners	12.35%	18.79%	23.23%	7.86%	-
Quantum Resources	8.14%	36.60%	38.33%	(37.56%)	-
Matlin Patterson I	0.00%	18.21%	2687.13%	715.63%	199.79%
Matlin Patterson II	(11.03%)	(12.14%)	(53.08%)	(45.80%)	-
Matlin Patterson III	0.46%	25.08%	41.76%	15.29%	-

## Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2013. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2013

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>GLOBAL FIXED INCOME</b>	<b>(2.10%)</b>	<b>5.95%</b>	-	-	-
Wtd Avg Global FI Bench	(2.30%)	0.90%	-	-	-
<b>Domestic Fixed Income</b>	<b>(1.78%)</b>	<b>7.44%</b>	<b>7.39%</b>	<b>5.20%</b>	<b>7.30%</b>
Wtd Avg Domestic FI Bench	(2.08%)	2.05%	5.45%	6.96%	5.80%
<b>Inv. Grade Fixed Income</b>	<b>(1.76%)</b>	<b>5.13%</b>	<b>5.84%</b>	<b>4.09%</b>	<b>7.11%</b>
Declaration Total Return	(1.32%)	7.83%	-	-	-
PIMCO DiSCO II	0.78%	33.07%	-	-	-
PIMCO MBS	(2.14%)	(0.45%)	-	-	-
PIMCO Unconstrained	(2.01%)	2.20%	-	-	-
Western Asset Management Co.	(2.29%)	(1.31%)	4.46%	5.15%	4.13%
BC Aggregate Index	(2.32%)	(0.69%)	3.51%	5.19%	4.52%
BC Mortgage Index	(1.96%)	(1.10%)	2.51%	4.84%	4.70%
<b>Below Inv. Grade Fixed Income</b>	<b>(1.84%)</b>	<b>14.10%</b>	<b>11.75%</b>	<b>8.01%</b>	<b>7.44%</b>
Goldman Sachs 2006 Offshore	6.88%	18.49%	6.96%	1.93%	-
Goldman Sachs Offshore V	9.08%	17.11%	15.96%	13.43%	-
Loomis Sayles	(2.56%)	12.75%	11.41%	10.28%	-
BC HY Corp 2% Issuer Cap	(1.44%)	9.49%	10.69%	11.00%	8.90%
<b>International Fixed Income</b>	<b>(3.32%)</b>	<b>0.83%</b>	<b>6.89%</b>	<b>5.97%</b>	<b>6.93%</b>
Wtd Avg Intl FI Bench	(3.08%)	(3.40%)	3.57%	3.00%	5.01%
Brandywine	(3.37%)	5.00%	9.95%	8.52%	8.73%
UBS Global Asset Mgmt.	(3.26%)	(3.45%)	3.64%	2.89%	4.85%
BC Global Aggregate ex US (1)	(3.08%)	(3.40%)	3.57%	3.00%	5.01%
<b>GLOBAL REAL ASSETS</b>	<b>2.66%</b>	<b>8.23%</b>	-	-	-
Wtd Avg Global Real Assets Bench	1.73%	8.13%	-	-	-
<b>Global Real Estate</b>	<b>4.34%</b>	<b>11.05%</b>	<b>15.91%</b>	<b>(1.49%)</b>	<b>6.53%</b>
Invesco Core Real Estate	4.69%	13.36%	15.86%	0.04%	7.62%
Invesco Real Estate Fund II	14.66%	23.44%	35.58%	(16.63%)	-
Invesco Real Estate Fund III	13.71%	16.79%	-	-	-
Invesco Asia RE Feeder	(1.54%)	(5.61%)	(4.32%)	-	-
JP Morgan	3.92%	14.61%	16.21%	0.20%	7.58%
JP Morgan Alternative Fd	(5.34%)	15.24%	15.27%	(6.52%)	-
JP Morgan China Property Fd	0.75%	(4.51%)	2.26%	(2.65%)	-
JP Morgan Greater European Opp Fd	(12.80%)	(48.64%)	*****%	-	-
NCREIF Total Index	2.87%	10.72%	13.14%	2.79%	8.59%
<b>Timber</b>	<b>1.17%</b>	<b>0.58%</b>	-	-	-
TIR - Teredo	4.49%	5.64%	3.09%	5.23%	9.97%
TIR - Springbank	(0.89%)	(2.45%)	(3.02%)	(4.90%)	-
NCREIF Timberland Index	0.93%	9.37%	3.59%	2.05%	8.19%
<b>Infrastructure</b>	<b>0.38%</b>	<b>12.33%</b>	-	-	-
JP Morgan Asian Infrastructure	3.34%	23.99%	6.83%	-	-
JP Morgan IIF	(2.64%)	10.64%	7.42%	(0.12%)	-
Credit Suisse Cust. Infrastructure	8.16%	9.43%	-	-	-
CPI-W	0.30%	1.75%	2.46%	1.34%	2.50%
<b>CASH &amp; CASH EQUIVALENTS</b>	<b>0.02%</b>	<b>0.10%</b>	<b>0.13%</b>	<b>0.35%</b>	<b>1.57%</b>
Northern Trust	0.02%	0.10%	0.12%	0.33%	1.56%
3-month Treasury Bill	0.02%	0.11%	0.11%	0.29%	1.72%
<b>Total Fund</b>	<b>1.13%</b>	<b>13.84%</b>	<b>11.82%</b>	<b>3.66%</b>	<b>7.56%</b>
Target*	0.35%	11.73%	10.93%	5.28%	7.63%

\* Current Quarter Target = 16.4% Russell 1000 Index, 16.0% MSCI World Index, 13.1% Barclays Aggregate Index, 11.1% MSCI EAFE Index, 9.7% NCREIF Total Index, 5.0% Barclays HY Corp 2% Issue, 5.0% Barclays Global Agg ex US, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% NCREIF Timberland Index, 3.1% Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

(1) The International Fixed Income Benchmark is the Citigroup Non-US Govt through 12/31/2009 and the BC Global Aggregate Index ex US thereafter.

# L.A. Capital Period Ended June 30, 2013

## Investment Philosophy

The LA Capital Structured portfolio is a large growth portfolio benchmarked to the Russell 1000 Growth Index. It is an active assignment meaning that it targets a 2% alpha and constrains its risk budget (tracking error) to 4% relative to the benchmark. LA Capital believes that investment results are driven by Investor Preferences and thus recognize that when preferences shift a different posture related to that factor is warranted.

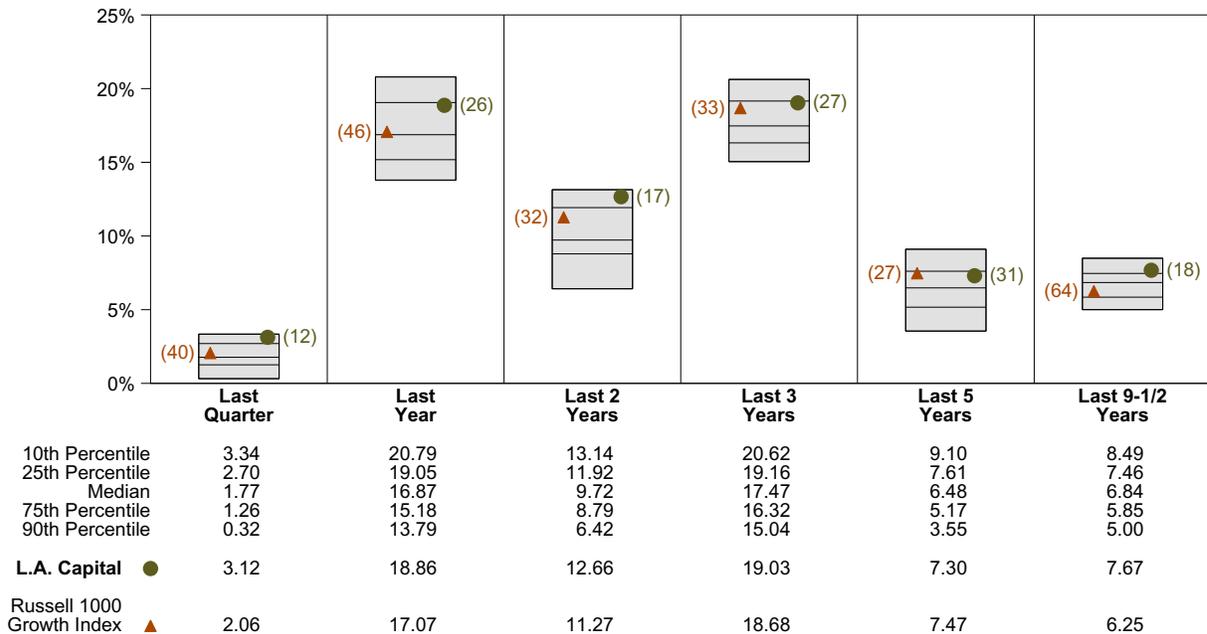
## Quarterly Summary and Highlights

- L.A. Capital's portfolio posted a 3.12% return for the quarter placing it in the 12 percentile of the CAI Large Cap Growth Style group for the quarter and in the 26 percentile for the last year.
- L.A. Capital's portfolio outperformed the Russell 1000 Growth Index by 1.06% for the quarter and outperformed the Russell 1000 Growth Index for the year by 1.80%.

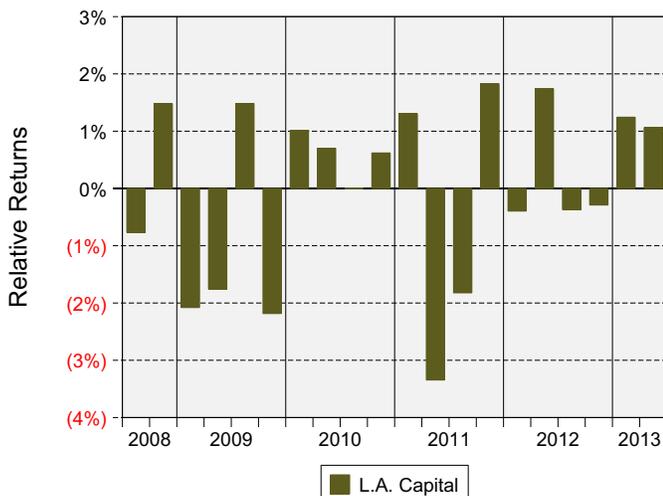
## Quarterly Asset Growth

Beginning Market Value	\$264,005,941
Net New Investment	\$-137,767
Investment Gains/(Losses)	\$8,251,591
Ending Market Value	\$272,119,765

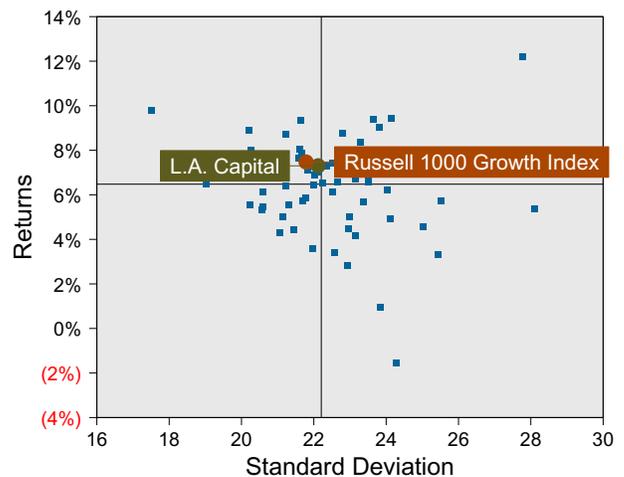
## Performance vs CAI Large Cap Growth Style (Gross)



## Relative Return vs Russell 1000 Growth Index



## CAI Large Cap Growth Style (Gross) Annualized Five Year Risk vs Return



# L.A. Capital Management Enhanced Index Period Ended June 30, 2013

## Investment Philosophy

The LA Capital Enhanced portfolio is a large core portfolio benchmarked to the Russell 1000 Index. Characterized as an enhanced index assignment, its objective is to track the benchmark with lower variability. The pension portfolio began in August of 2000 and the insurance portfolio was initiated in April of 2004. Since October of 2006 a small portion of each of the two core accounts was allocated into the Large Cap Alpha Fund with intent to add incremental alpha to the assignment given that the information ratio was expected to be higher.

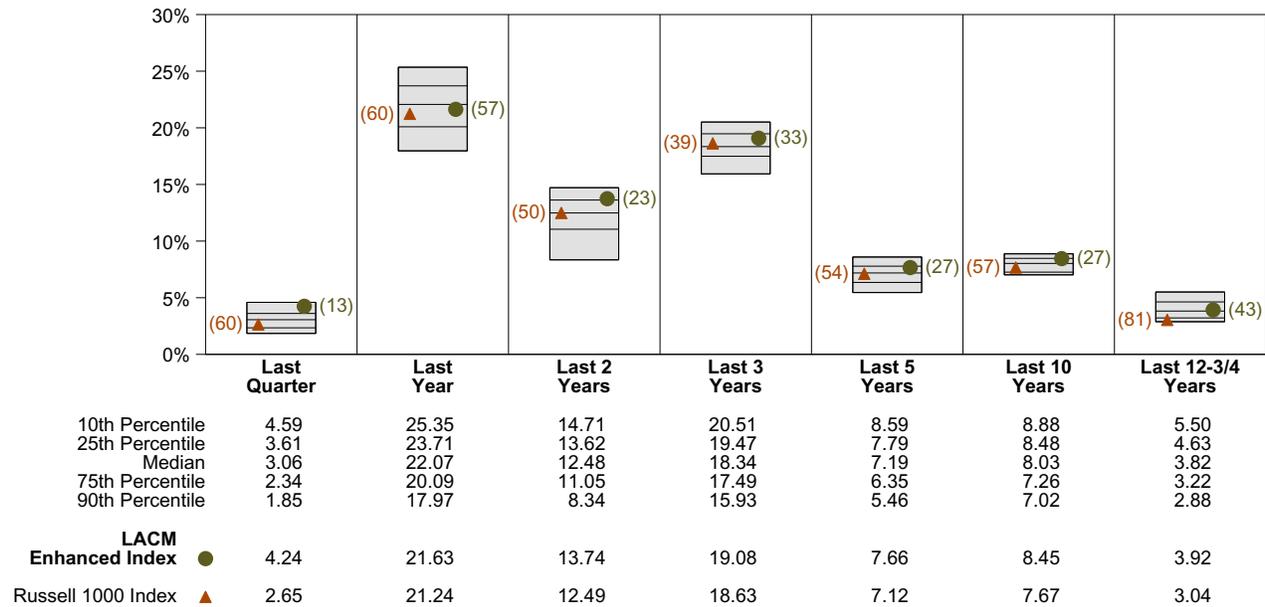
## Quarterly Summary and Highlights

- LACM Enhanced Index's portfolio posted a 4.24% return for the quarter placing it in the 13 percentile of the CAI Large Cap Core Style group for the quarter and in the 57 percentile for the last year.
- LACM Enhanced Index's portfolio outperformed the Russell 1000 Index by 1.59% for the quarter and outperformed the Russell 1000 Index for the year by 0.39%.

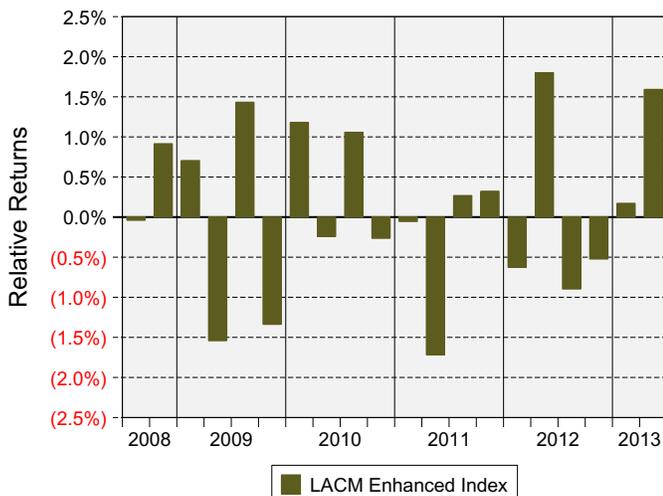
## Quarterly Asset Growth

Beginning Market Value	\$180,302,533
Net New Investment	\$-56,285
Investment Gains/(Losses)	\$7,652,654
Ending Market Value	\$187,898,903

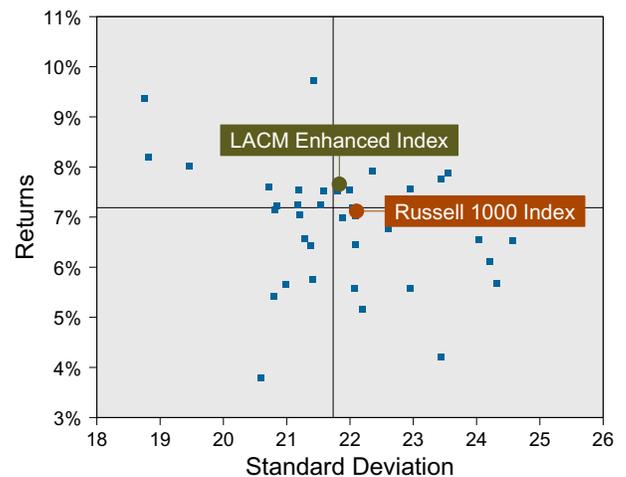
## Performance vs CAI Large Cap Core Style (Gross)



## Relative Return vs Russell 1000 Index



## CAI Large Cap Core Style (Gross) Annualized Five Year Risk vs Return



# NTGI Enhanced S&P 500 Period Ended June 30, 2013

## Investment Philosophy

NTGI Enhanced S&P 500 employs a quantitative investment approach, focusing on the stock selection process as the principal source of value added. The account invests primarily in a broadly diversified portfolio of equity securities that include securities convertible into equity securities (including common stock), warrants, rights and units or shares in trusts, exchange traded funds and investment companies. The Investment Manager intends to use futures and options to manage market risk associated with the account's investments.

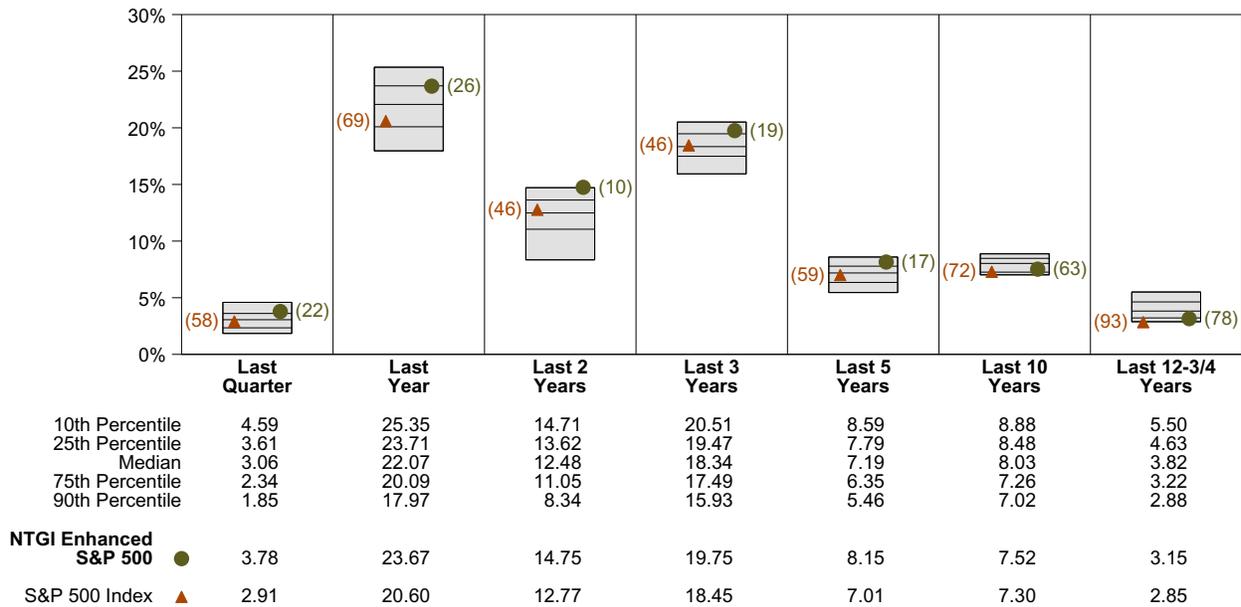
## Quarterly Summary and Highlights

- NTGI Enhanced S&P 500's portfolio posted a 3.78% return for the quarter placing it in the 22 percentile of the CAI Large Cap Core Style group for the quarter and in the 26 percentile for the last year.
- NTGI Enhanced S&P 500's portfolio outperformed the S&P 500 Index by 0.87% for the quarter and outperformed the S&P 500 Index for the year by 3.08%.

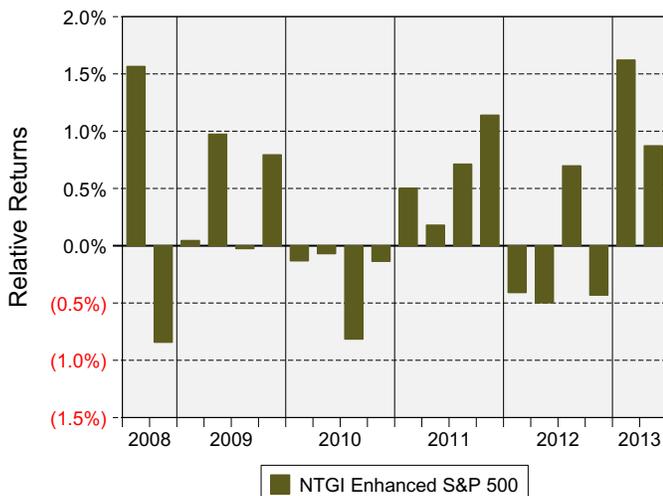
## Quarterly Asset Growth

Beginning Market Value	\$90,797,873
Net New Investment	\$-67,017
Investment Gains/(Losses)	\$3,435,915
Ending Market Value	\$94,166,770

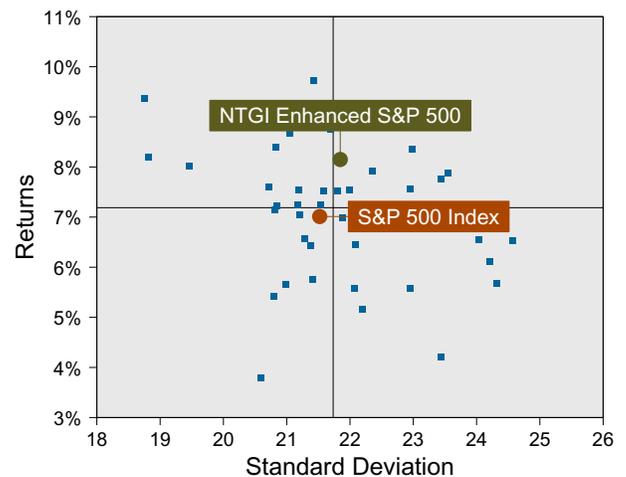
## Performance vs CAI Large Cap Core Style (Gross)



## Relative Return vs S&P 500 Index



## CAI Large Cap Core Style (Gross) Annualized Five Year Risk vs Return



# Clifton Enhanced S&P Period Ended June 30, 2013

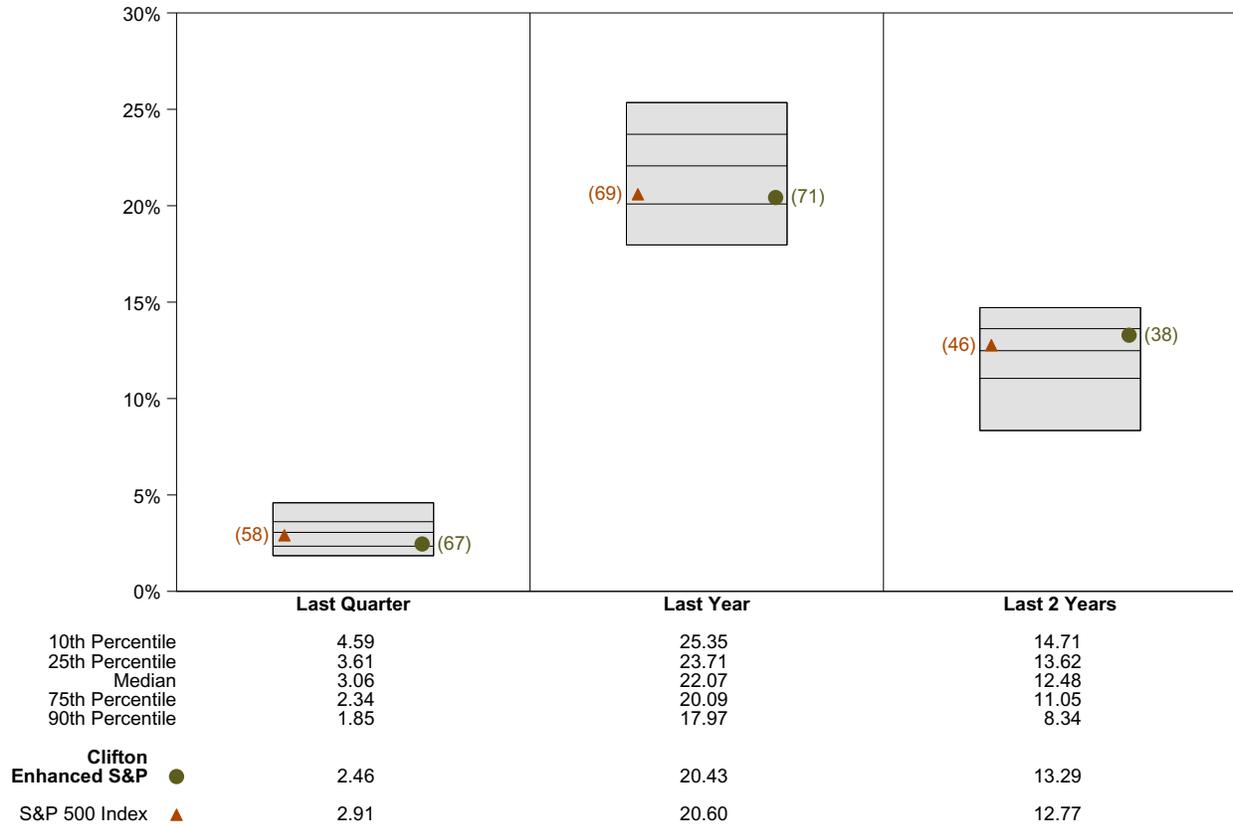
## Quarterly Summary and Highlights

- Clifton Enhanced S&P's portfolio posted a 2.46% return for the quarter placing it in the 67 percentile of the CAI Large Cap Core Style group for the quarter and in the 71 percentile for the last year.
- Clifton Enhanced S&P's portfolio underperformed the S&P 500 Index by 0.45% for the quarter and underperformed the S&P 500 Index for the year by 0.17%.

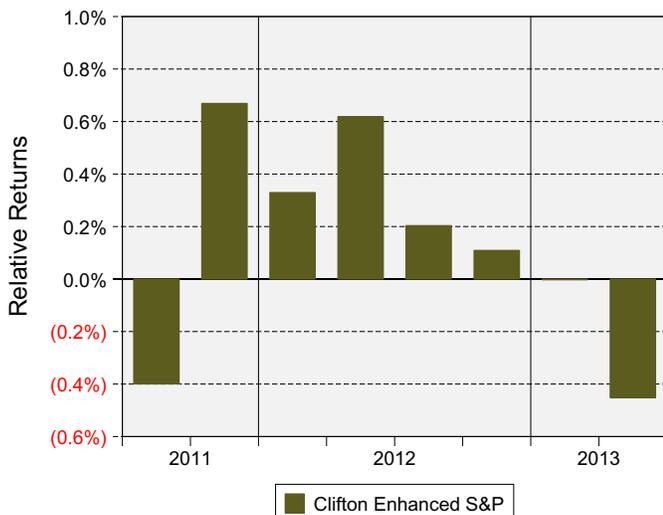
## Quarterly Asset Growth

Beginning Market Value	\$164,283,577
Net New Investment	\$-35,500,000
Investment Gains/(Losses)	\$4,008,785
Ending Market Value	\$132,792,362

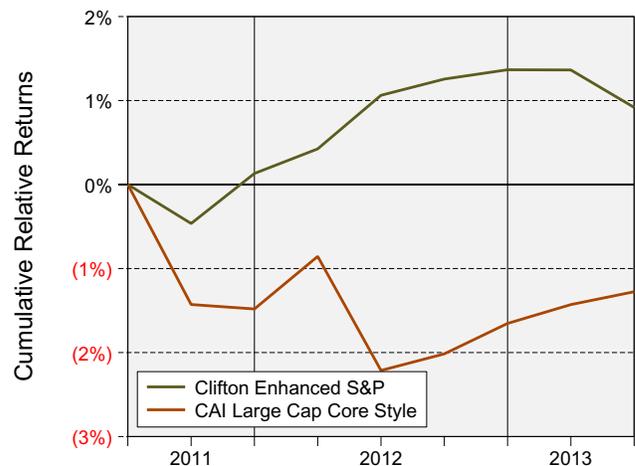
## Performance vs CAI Large Cap Core Style (Gross)



## Relative Return vs S&P 500 Index



## Cumulative Returns vs S&P 500 Index



# Callan

## Period Ended June 30, 2013

### Investment Philosophy

The fundamental belief inherent in this strategy is that the stock-weightings reflected in the average portfolio of a broad universe of institutional Small Cap managers is a more efficient representation of the Small Cap market than any of the more mechanical Small Cap indices that are typically employed as benchmarks. Hence, a portfolio designed to generate the return of this average portfolio in the most cost-effective possible manner will consistently out-perform the standard benchmarks on a risk-adjusted basis over time. This process results in a total portfolio made up of 40 equity sub-advisors, equally weighted in the Fund's portfolio, which very closely tracks the performance of the average actively managed institutional small cap product (historical tracking error since inception of approximately one percent annualized).

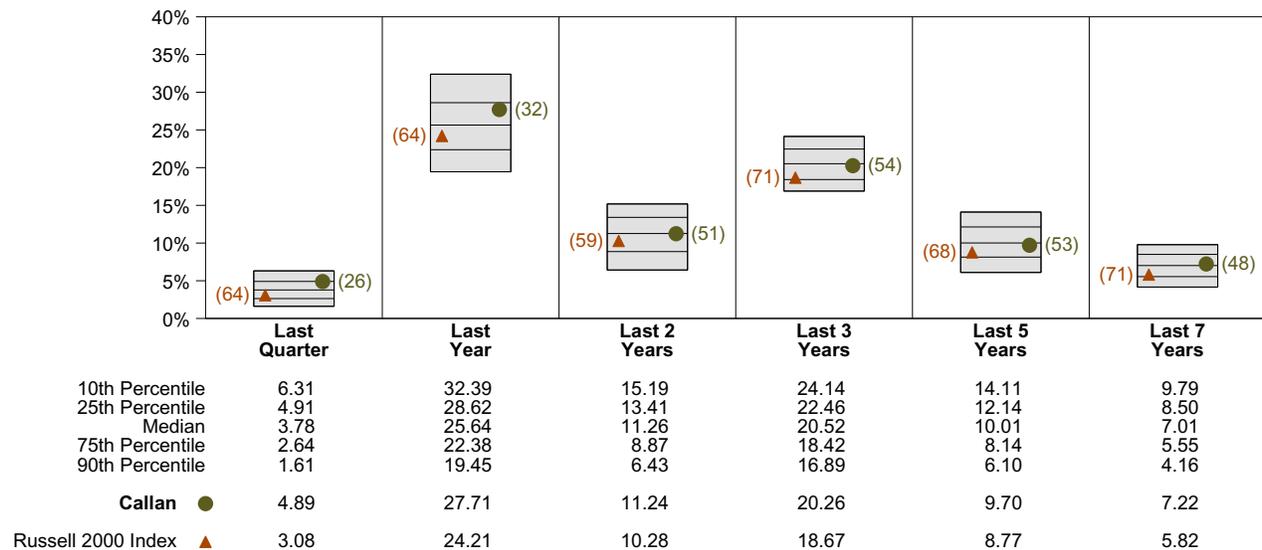
### Quarterly Summary and Highlights

- Callan's portfolio posted a 4.89% return for the quarter placing it in the 26 percentile of the CAI Small Capitalization Style group for the quarter and in the 32 percentile for the last year.
- Callan's portfolio outperformed the Russell 2000 Index by 1.81% for the quarter and outperformed the Russell 2000 Index for the year by 3.50%.

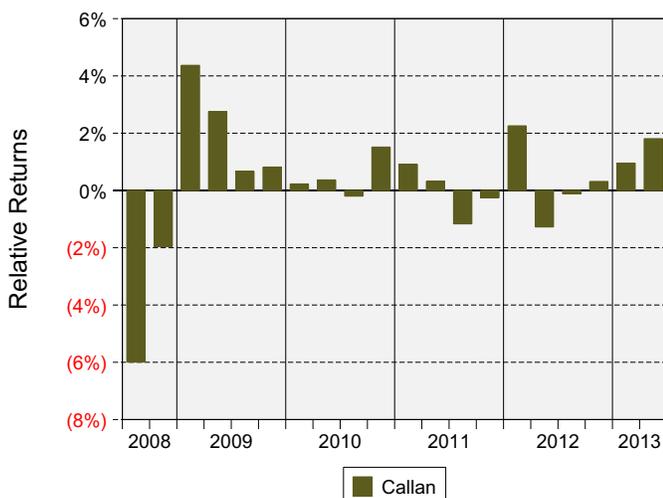
### Quarterly Asset Growth

Beginning Market Value	\$113,131,245
Net New Investment	\$-200,638
Investment Gains/(Losses)	\$5,528,835
Ending Market Value	\$118,459,443

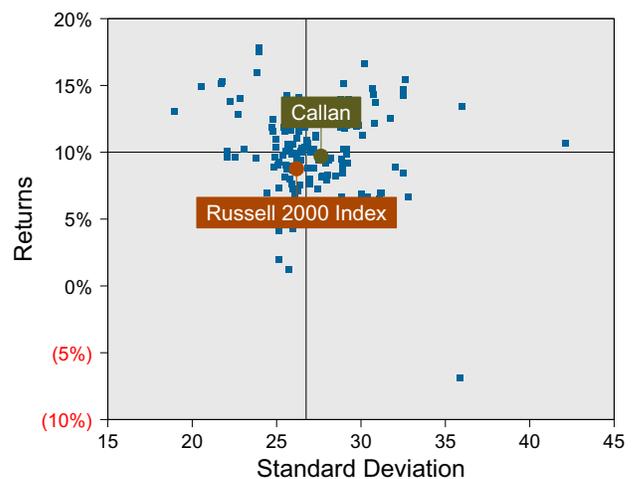
### Performance vs CAI Small Capitalization Style (Gross)



### Relative Return vs Russell 2000 Index



### CAI Small Capitalization Style (Gross) Annualized Five Year Risk vs Return



# Clifton Enhanced Small Cap Period Ended June 30, 2013

## Investment Philosophy

The Clifton Group utilizes equity futures to gain benchmark exposure in constructing the portfolio it believes provides the greatest likelihood of outperforming the index. In this construction the underlying cash portfolio is invested in a liquid, high quality short duration fixed income portfolio. Over market cycles excess return generated by the short duration portfolio, when added to the performance of futures is expected to allow the strategy to achieve 0.50% to 1.00% of gross excess annual performance.

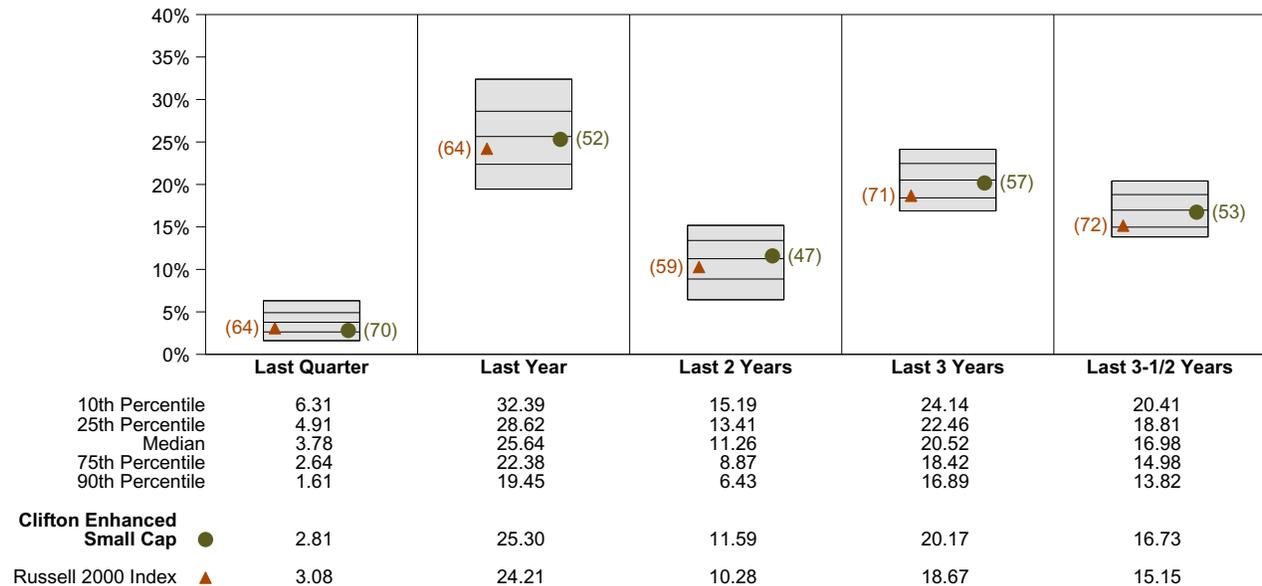
## Quarterly Summary and Highlights

- Clifton Enhanced Small Cap's portfolio posted a 2.81% return for the quarter placing it in the 70 percentile of the CAI Small Capitalization Style group for the quarter and in the 52 percentile for the last year.
- Clifton Enhanced Small Cap's portfolio underperformed the Russell 2000 Index by 0.27% for the quarter and outperformed the Russell 2000 Index for the year by 1.10%.

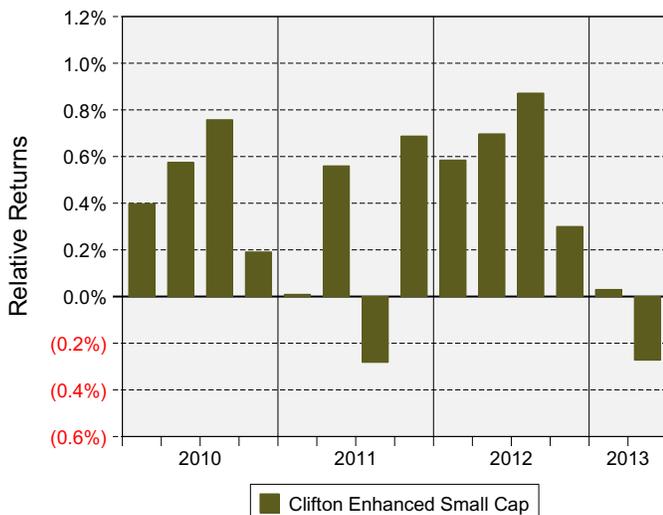
## Quarterly Asset Growth

Beginning Market Value	\$106,738,795
Net New Investment	\$-14,500,000
Investment Gains/(Losses)	\$3,010,997
Ending Market Value	\$95,249,792

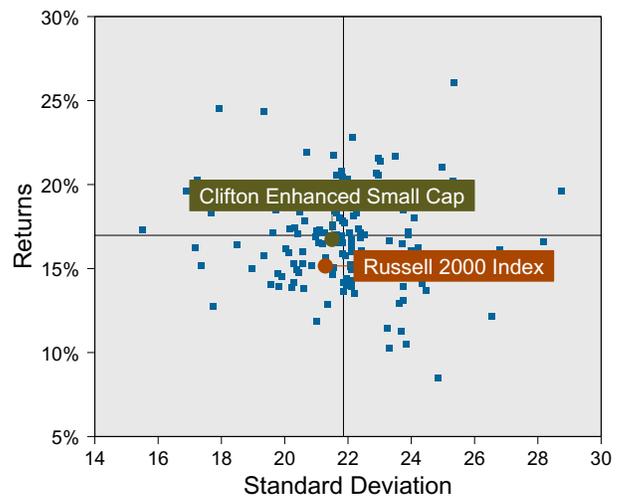
## Performance vs CAI Small Capitalization Style (Gross)



## Relative Return vs Russell 2000 Index



## CAI Small Capitalization Style (Gross) Annualized Three and One-Half Year Risk vs Return



# Capital Guardian Trust Company

## Period Ended June 30, 2013

### Investment Philosophy

The Portfolio will invest primarily in equity or equity type securities of companies in developed countries excluding the U.S. These equity securities will be listed on a stock exchange or traded in another recognized market and include, but are not limited to, common and preferred stocks, securities convertible or exchangeable into common or preferred stock, warrants, rights and depository arrangements. \*\* International Equity Target is MSCI EAFE through 12/31/1996, 50% Hedged EAFE through 03/31/2011, and MSCI EAFE again thereafter.

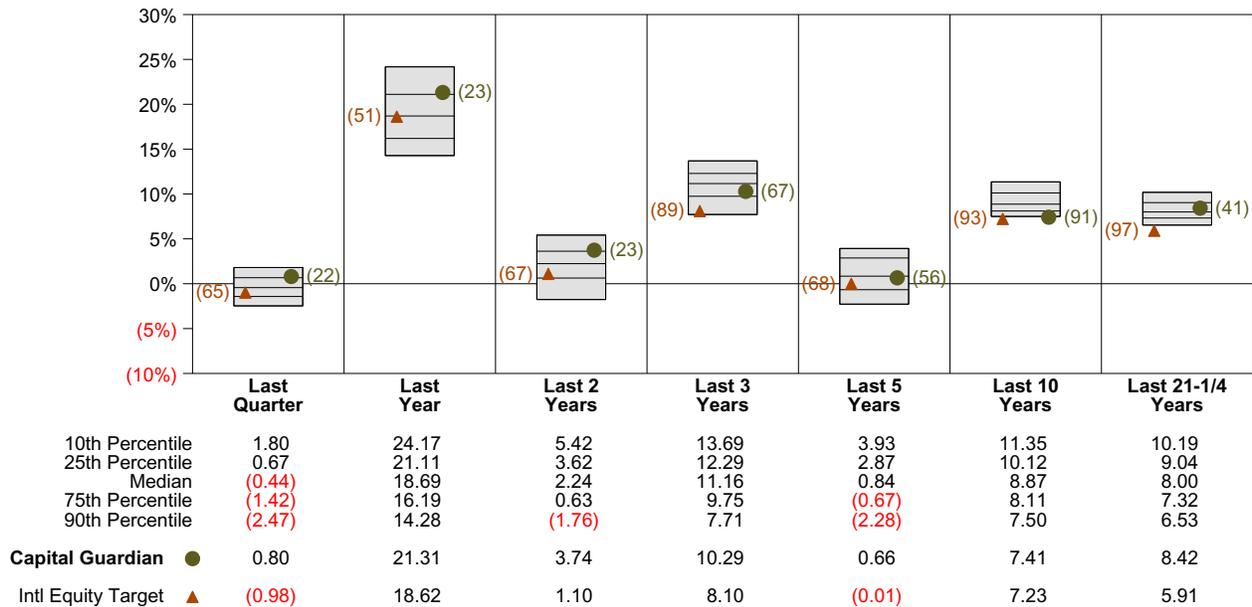
### Quarterly Summary and Highlights

- Capital Guardian's portfolio posted a 0.80% return for the quarter placing it in the 22 percentile of the CAI Non-U.S. Equity Style group for the quarter and in the 23 percentile for the last year.
- Capital Guardian's portfolio outperformed the Intl Equity Target by 1.78% for the quarter and outperformed the Intl Equity Target for the year by 2.69%.

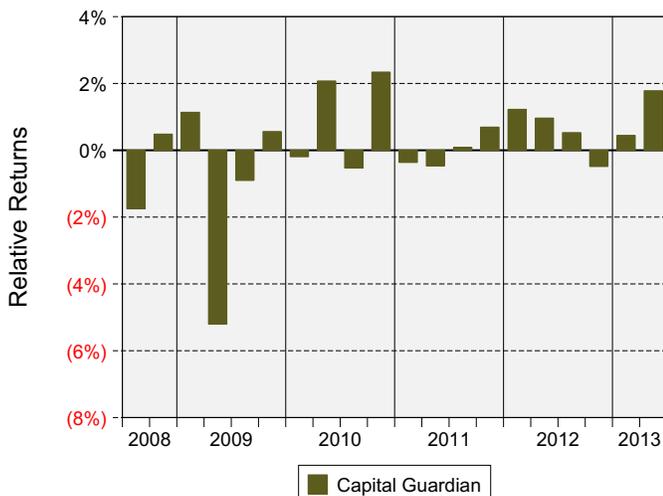
### Quarterly Asset Growth

Beginning Market Value	\$66,081,185
Net New Investment	\$-78,938
Investment Gains/(Losses)	\$532,841
Ending Market Value	\$66,535,087

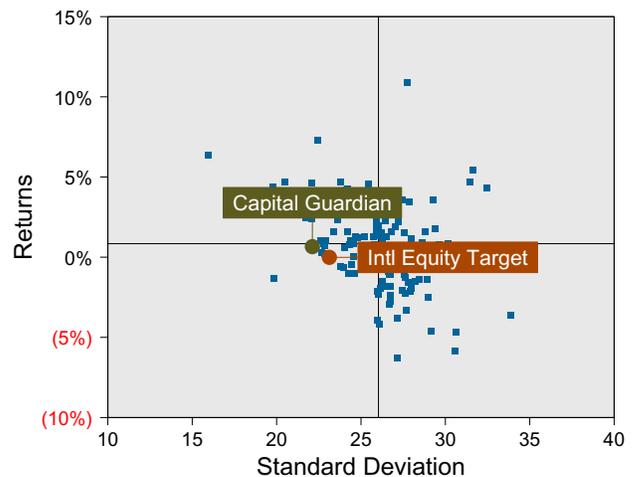
### Performance vs CAI Non-U.S. Equity Style (Gross)



### Relative Return vs Intl Equity Target



### CAI Non-U.S. Equity Style (Gross) Annualized Five Year Risk vs Return



# Clifton EAFE Index Period Ended June 30, 2013

## Investment Philosophy

The Clifton EAFE Index is an index fund using MSCI EAFE futures to earn the benchmark return and is fully collateralized with cash.

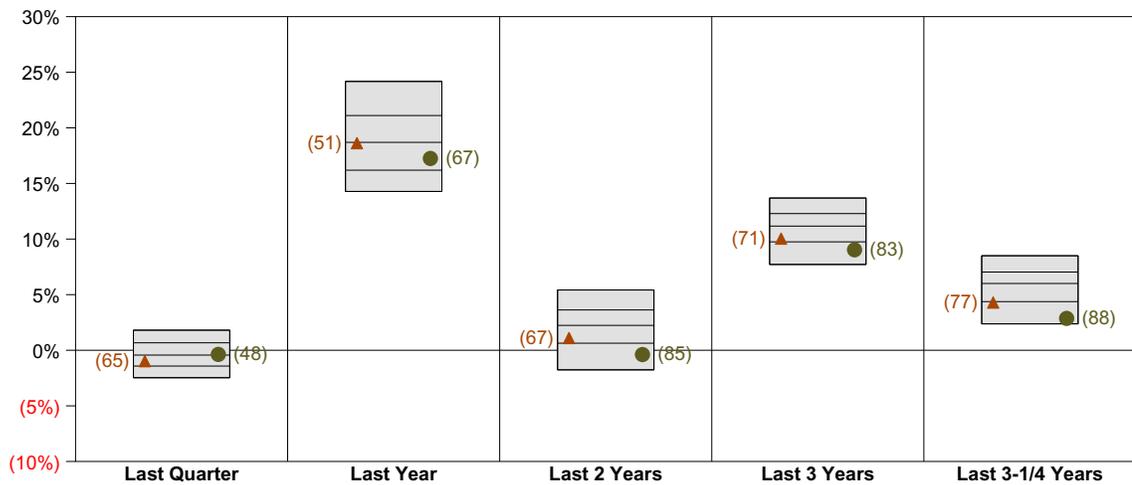
## Quarterly Summary and Highlights

- Clifton EAFE Index's portfolio posted a (0.37)% return for the quarter placing it in the 48 percentile of the CAI Non-U.S. Equity Style group for the quarter and in the 67 percentile for the last year.
- Clifton EAFE Index's portfolio outperformed the MSCI EAFE Index by 0.60% for the quarter and underperformed the MSCI EAFE Index for the year by 1.38%.

## Quarterly Asset Growth

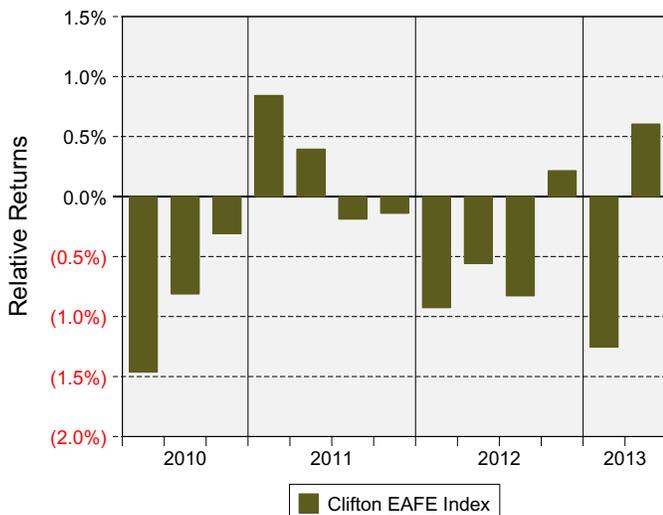
Beginning Market Value	\$207,468,245
Net New Investment	\$-10,044,572
Investment Gains/(Losses)	\$-717,623
Ending Market Value	\$196,706,051

## Performance vs CAI Non-U.S. Equity Style (Gross)



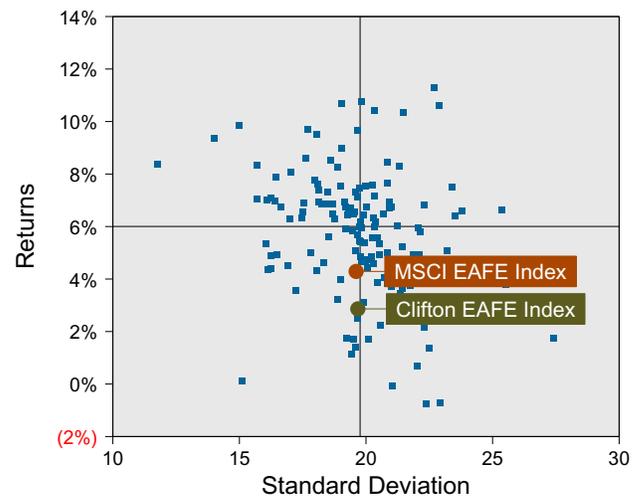
10th Percentile	1.80	24.17	5.42	13.69	8.50
25th Percentile	0.67	21.11	3.62	12.29	7.03
Median	(0.44)	18.69	2.24	11.16	6.00
75th Percentile	(1.42)	16.19	0.63	9.75	4.37
90th Percentile	(2.47)	14.28	(1.76)	7.71	2.37
Clifton EAFE Index	(0.37)	17.25	(0.39)	9.03	2.86
MSCI EAFE Index	(0.98)	18.62	1.10	10.04	4.29

## Relative Return vs MSCI EAFE Index



## CAI Non-U.S. Equity Style (Gross)

## Annualized Three and One-Quarter Year Risk vs Return



# DFA International Small Cap Value Fund

## Period Ended June 30, 2013

### Investment Philosophy

The International Small Cap Value Portfolio invests in the stocks of small, non-US developed markets companies that Dimensional believes to be value stocks at the time of purchase. Specifically, it looks at companies that fall within the smallest 8-10% of each country's market capitalization, and whose shares have a high book value in relation to their market value (BtM). It does not invest in emerging markets.

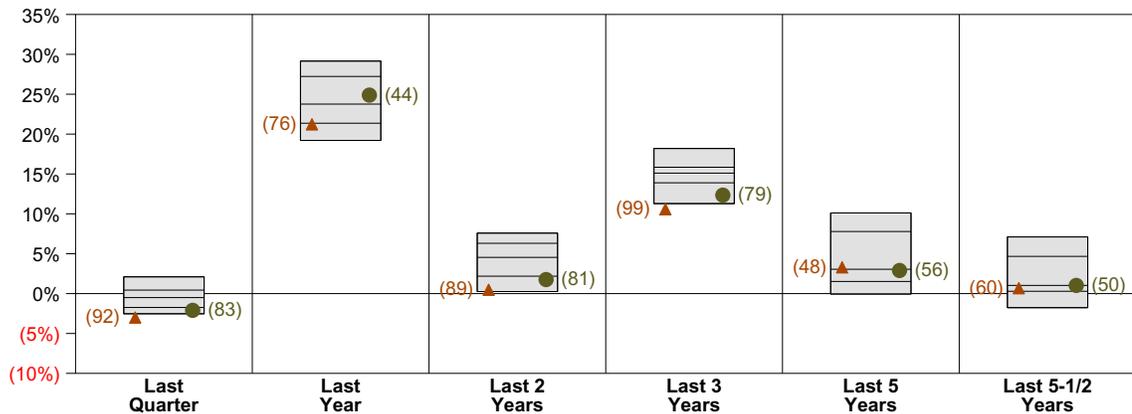
### Quarterly Summary and Highlights

- DFA International Small Value's portfolio posted a (2.10)% return for the quarter placing it in the 83 percentile of the CAI International Small Cap Style group for the quarter and in the 44 percentile for the last year.
- DFA International Small Value's portfolio outperformed the World ex US SC Va by 0.89% for the quarter and outperformed the World ex US SC Va for the year by 3.66%.

### Quarterly Asset Growth

Beginning Market Value	\$61,771,819
Net New Investment	\$-100,645
Investment Gains/(Losses)	\$-1,293,315
Ending Market Value	\$60,377,859

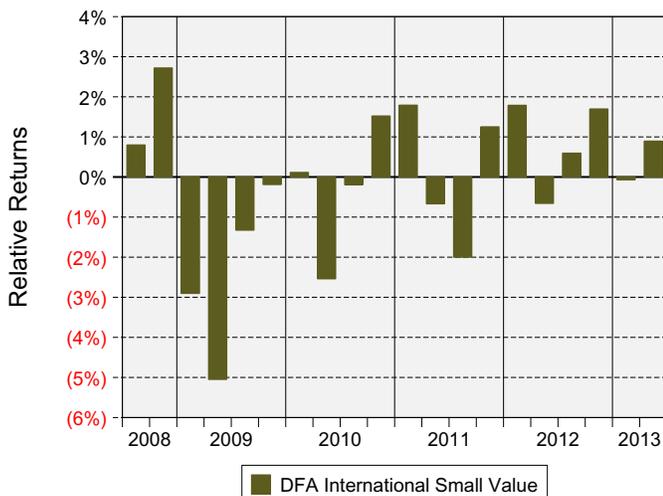
### Performance vs CAI International Small Cap Style (Gross)



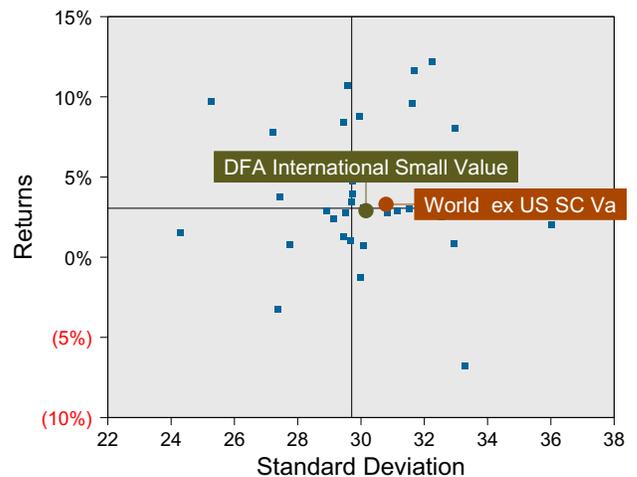
10th Percentile	2.11	29.16	7.59	18.20	10.11	7.11
25th Percentile	0.44	27.23	6.31	15.85	7.79	4.67
Median	(0.50)	23.76	4.54	15.11	3.05	1.03
75th Percentile	(1.74)	21.36	2.18	13.89	1.52	0.29
90th Percentile	(2.53)	19.21	0.26	11.28	(0.05)	(1.76)

<b>DFA International Small Value</b> ●	(2.10)	24.89	1.76	12.34	2.90	1.02
World ex US SC Va ▲	(2.99)	21.23	0.49	10.59	3.30	0.68

### Relative Return vs World ex US SC Va



### CAI International Small Cap Style (Gross) Annualized Five Year Risk vs Return



# SSgA Daily Intl Alpha NL Fund

## Period Ended June 30, 2013

### Investment Philosophy

SSgA attempts to identify stocks that it believes are undervalued, using detailed investment analysis. The strategy is normally broadly invested among countries and industries. The investable universe is equity securities of companies outside the United States within the market capitalization range of the index. \*\*Benchmark is MSCI EAFE through 12/31/1996, 50% Hedged EAFE through 12/31/04, and MSCI EAFE again thereafter.

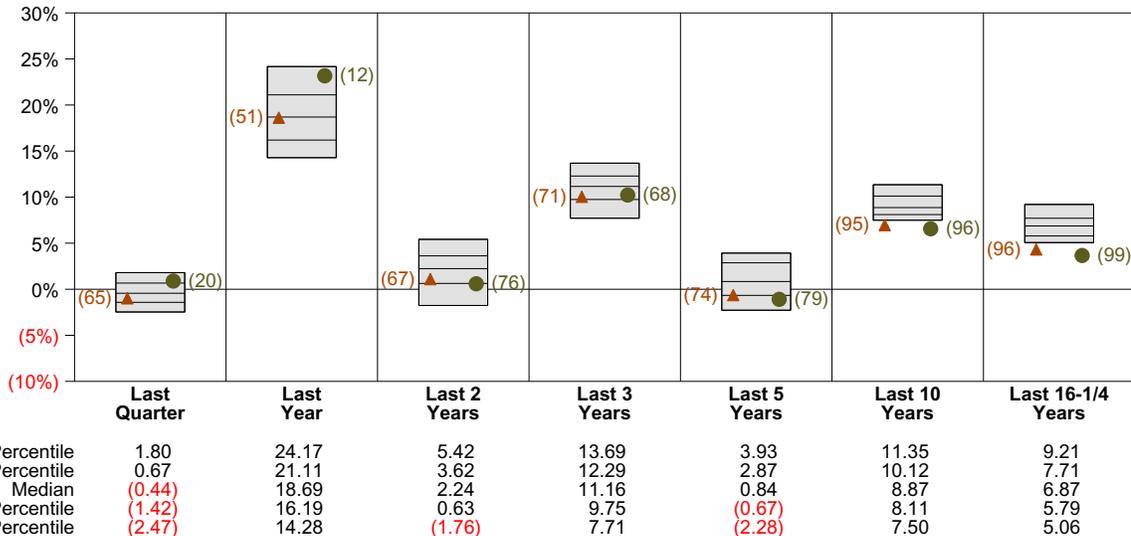
### Quarterly Summary and Highlights

- SSgA Daily Intl Alpha NL Fund's portfolio posted a 0.89% return for the quarter placing it in the 20 percentile of the CAI Non-U.S. Equity Style group for the quarter and in the 12 percentile for the last year.
- SSgA Daily Intl Alpha NL Fund's portfolio outperformed the MSCI EAFE Index by 1.87% for the quarter and outperformed the MSCI EAFE Index for the year by 4.54%.

### Quarterly Asset Growth

Beginning Market Value	\$48,042,902
Net New Investment	\$-84,594
Investment Gains/(Losses)	\$430,311
Ending Market Value	\$48,388,619

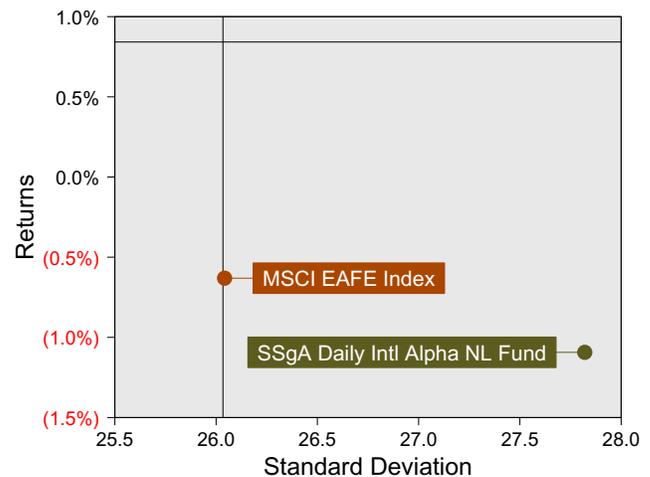
### Performance vs CAI Non-U.S. Equity Style (Gross)



### Relative Return vs MSCI EAFE Index



### CAI Non-U.S. Equity Style (Gross) Annualized Five Year Risk vs Return



# Wellington

## Period Ended June 30, 2013

### Investment Philosophy

The International Small Cap Opportunities investment approach is bottom-up focused, and leverages the global research resources at Wellington Management. In implementing purchase decisions, consideration is given to the size, liquidity, and volatility of these prospects. Sell decisions are based on changing fundamentals or valuations, or on finding better opportunities elsewhere. The assets are not hedged.

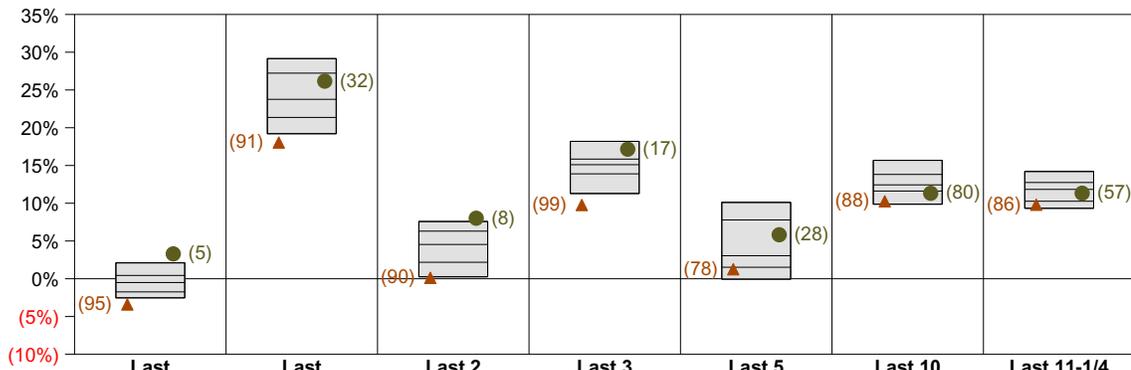
### Quarterly Summary and Highlights

- Wellington Management Co.'s portfolio posted a 3.29% return for the quarter placing it in the 5 percentile of the CAI International Small Cap Style group for the quarter and in the 32 percentile for the last year.
- Wellington Management Co.'s portfolio outperformed the S&P BMI EPAC <\$2 B by 6.69% for the quarter and outperformed the S&P BMI EPAC <\$2 B for the year by 8.12%.

### Quarterly Asset Growth

Beginning Market Value	\$68,429,599
Net New Investment	\$-144,941
Investment Gains/(Losses)	\$2,256,728
Ending Market Value	\$70,541,386

### Performance vs CAI International Small Cap Style (Gross)

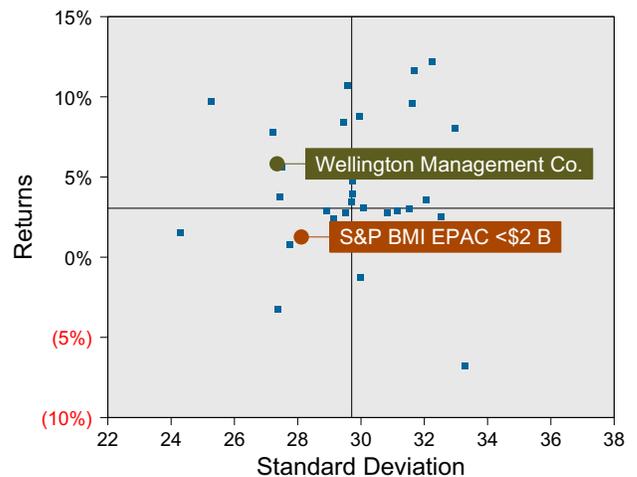


	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 10 Years	Last 11-1/4 Years
10th Percentile	2.11	29.16	7.59	18.20	10.11	15.68	14.21
25th Percentile	0.44	27.23	6.31	15.85	7.79	13.82	12.75
Median	(0.50)	23.76	4.54	15.11	3.05	12.43	11.84
75th Percentile	(1.74)	21.36	2.18	13.89	1.52	11.62	10.27
90th Percentile	(2.53)	19.21	0.26	11.28	(0.05)	9.87	9.33
<b>Wellington Management Co.</b>	● 3.29	26.16	8.02	17.16	5.82	11.32	11.33
<b>S&amp;P BMI EPAC &lt;\$2 B</b>	▲ (3.40)	18.05	0.13	9.78	1.26	10.26	9.80

### Relative Return vs S&P BMI EPAC <\$2 B



### CAI International Small Cap Style (Gross) Annualized Five Year Risk vs Return



# DFA Emerging Markets Period Ended June 30, 2013

## Investment Philosophy

The Emerging Markets Small Cap Portfolio invests in small cap emerging markets companies. Presently, this means investment in companies whose market capitalization is less than \$2.3 billion at the time of purchase. Dimensional considers, among other things, information disseminated by the International Finance Corporation in determining and approving emerging market countries.

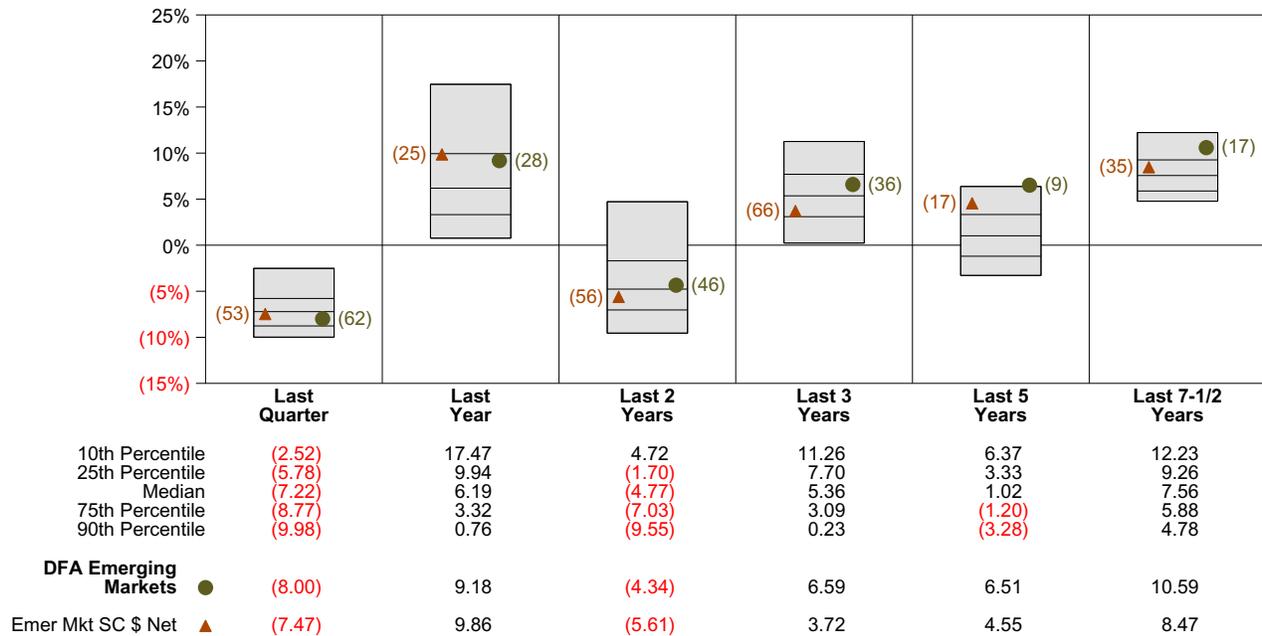
## Quarterly Summary and Highlights

- DFA Emerging Markets's portfolio posted a (8.00)% return for the quarter placing it in the 62 percentile of the CAI Emerging Markets Equity DB group for the quarter and in the 28 percentile for the last year.
- DFA Emerging Markets's portfolio underperformed the Emer Mkt SC \$ Net by 0.53% for the quarter and underperformed the Emer Mkt SC \$ Net for the year by 0.68%.

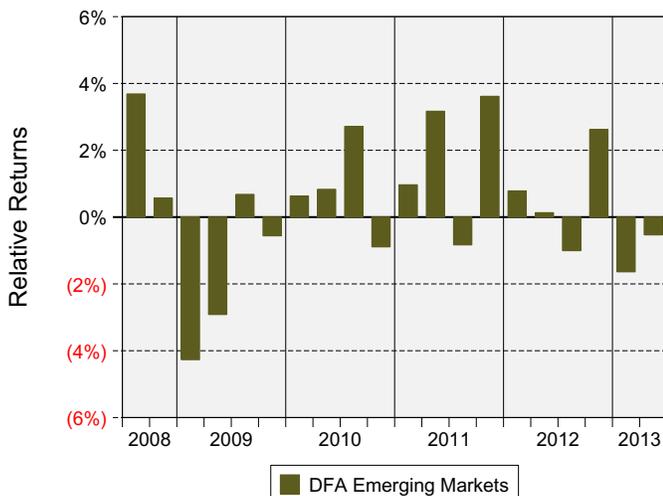
## Quarterly Asset Growth

Beginning Market Value	\$34,861,094
Net New Investment	\$-56,029
Investment Gains/(Losses)	\$-2,783,307
Ending Market Value	\$32,021,758

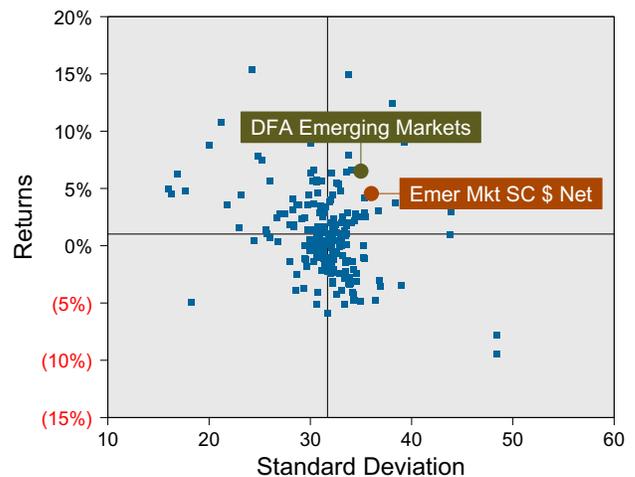
## Performance vs CAI Emerging Markets Equity DB (Gross)



## Relative Return vs Emer Mkt SC \$ Net



## CAI Emerging Markets Equity DB (Gross) Annualized Five Year Risk vs Return



# JP Morgan Emerging Markets Period Ended June 30, 2013

## Investment Philosophy

The emphasis of investments in the Emerging Markets Equity Focused Fund is in capital and common stocks, securities convertible into capital and common stocks, and other equity investments, all of which involve foreign companies and enterprises' located primarily in emerging markets. In this context, 'Emerging' refers generally to countries outside of the MSCI EAFE Universe. \*\* Emerging Markets Target is MSCI Emerging Mkts Idx (Gross) through 6/30/2011, and MSCI Emerging Mkts Idx Net thereafter.

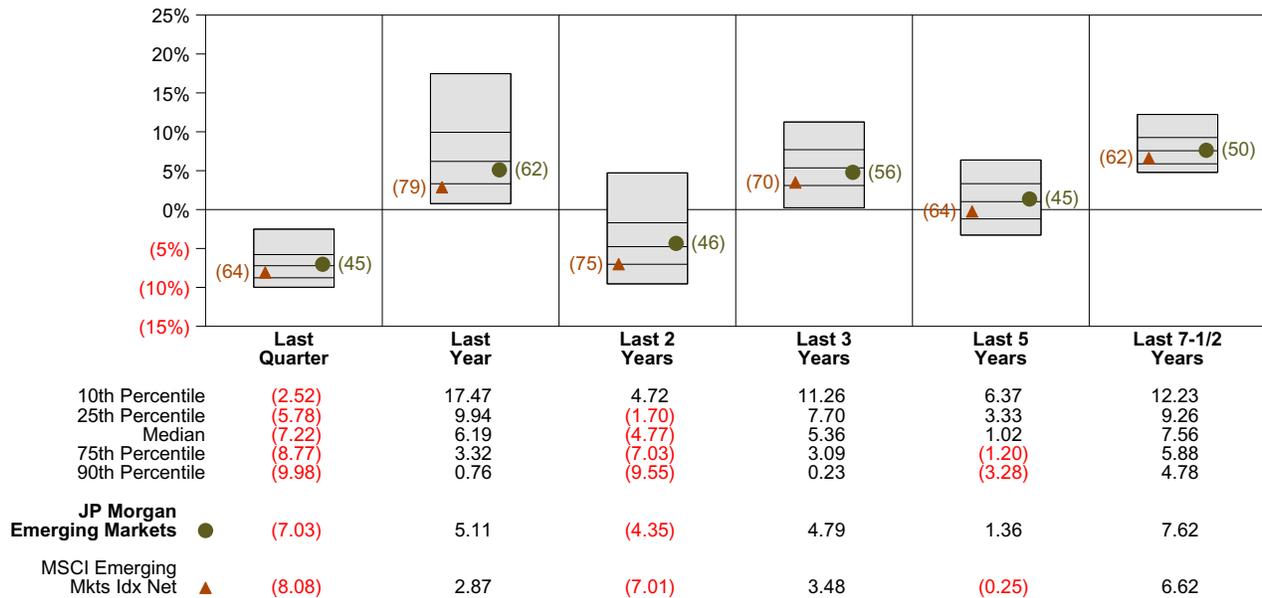
## Quarterly Summary and Highlights

- JP Morgan Emerging Markets's portfolio posted a (7.03)% return for the quarter placing it in the 45 percentile of the CAI Emerging Markets Equity DB group for the quarter and in the 62 percentile for the last year.
- JP Morgan Emerging Markets's portfolio outperformed the MSCI Emerging Mkts Idx Net by 1.05% for the quarter and outperformed the MSCI Emerging Mkts Idx Net for the year by 2.24%.

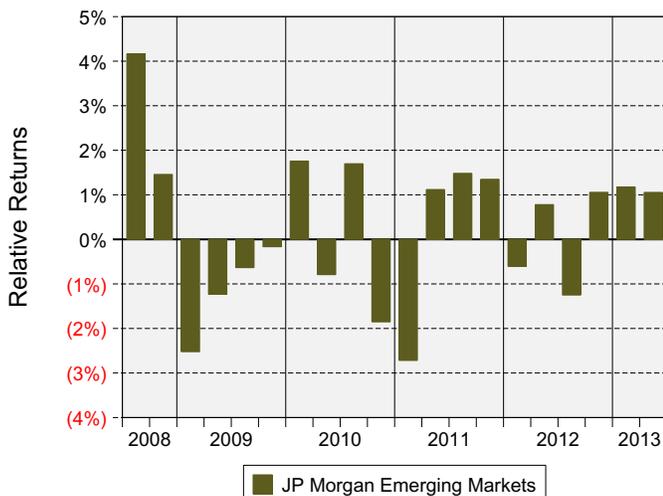
## Quarterly Asset Growth

Beginning Market Value	\$25,275,671
Net New Investment	\$0
Investment Gains/(Losses)	-\$1,776,204
Ending Market Value	\$23,499,467

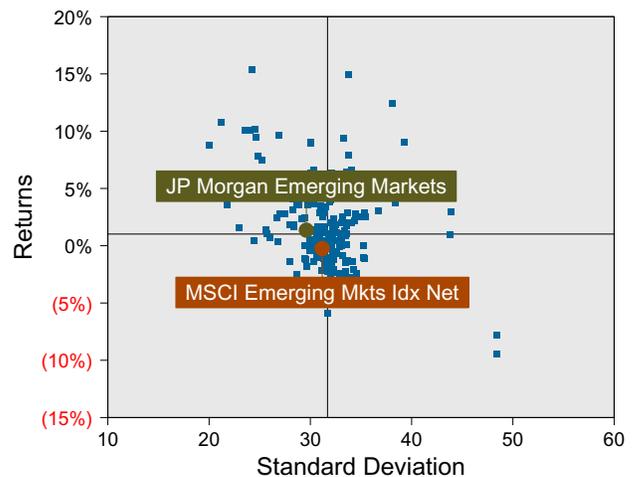
## Performance vs CAI Emerging Markets Equity DB (Gross)



## Relative Returns vs MSCI Emerging Mkts Idx Net



## CAI Emerging Markets Equity DB (Gross) Annualized Five Year Risk vs Return



# PanAgora Emerging Markets Period Ended June 30, 2013

## Investment Philosophy

The Emerging Markets Fund seeks to exceed, in the aggregate, the return of the Morgan Stanley Capital International Emerging Markets Index before fees and expenses. The Emerging Markets fund may be invested in: International equity securities, American Depository Receipts, Global Depository Receipts, European Depository Receipts, exchange traded funds based on the underlying securities in the Benchmark, spot and forward currency exchange contracts, US Treasury bills and a Daily Liquidity Fund. The maximum investment in companies which comprise the Morgan Stanley Capital International Frontier Markets Equity Index will not exceed 10% measured at time of purchase. \*\* Emerging Markets Target is MSCI Emerging Mkts Idx (Gross) through 6/30/2011, and MSCI Emerging Mkts Idx Net thereafter.

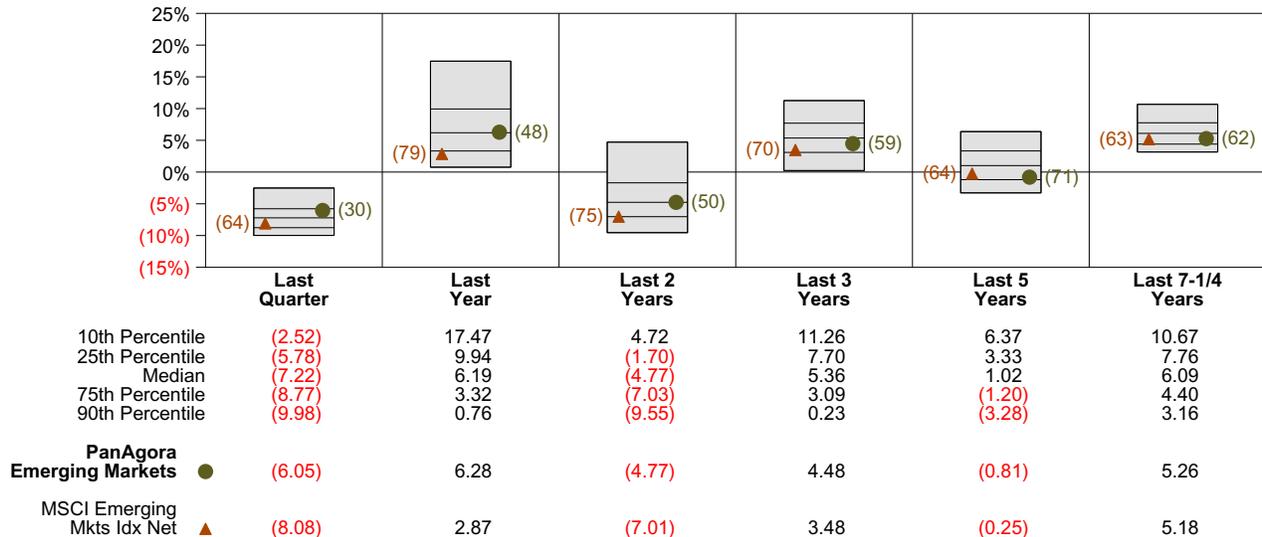
## Quarterly Summary and Highlights

- PanAgora Emerging Markets's portfolio posted a (6.05)% return for the quarter placing it in the 30 percentile of the CAI Emerging Markets Equity DB group for the quarter and in the 48 percentile for the last year.
- PanAgora Emerging Markets's portfolio outperformed the MSCI Emerging Mkts Idx Net by 2.03% for the quarter and outperformed the MSCI Emerging Mkts Idx Net for the year by 3.41%.

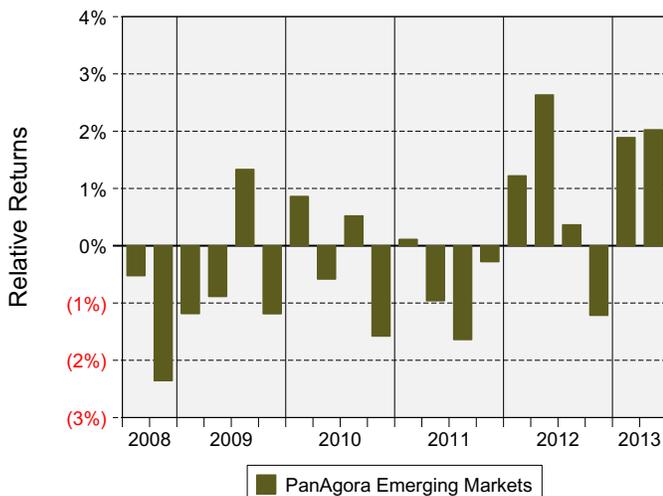
## Quarterly Asset Growth

Beginning Market Value	\$17,077,531
Net New Investment	\$0
Investment Gains/(Losses)	\$-1,033,948
Ending Market Value	\$16,043,583

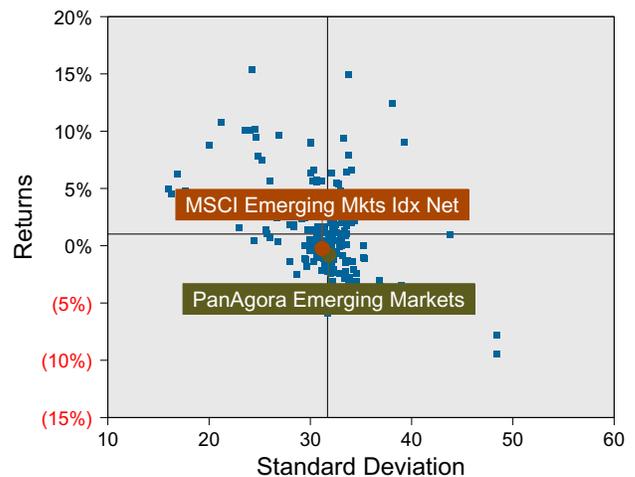
## Performance vs CAI Emerging Markets Equity DB (Gross)



## Relative Returns vs MSCI Emerging Mkts Idx Net



## CAI Emerging Markets Equity DB (Gross) Annualized Five Year Risk vs Return



# UBS Global Emerging Markets Period Ended June 30, 2013

## Investment Philosophy

The UBS Group Trust's emerging markets equity investments will be confined to the UBS Emerging Markets Equity collective Fund. The account's emerging markets equity assets will be fully-invested at all times, but such assets may be invested in the UBS US Cash Management Prime Collective Fund for operational and risk management purposes. \*\* Emerging Markets Target is MSCI Emerging Mkts Idx (Gross) through 6/30/2011, and MSCI Emerging Mkts Idx Net thereafter.

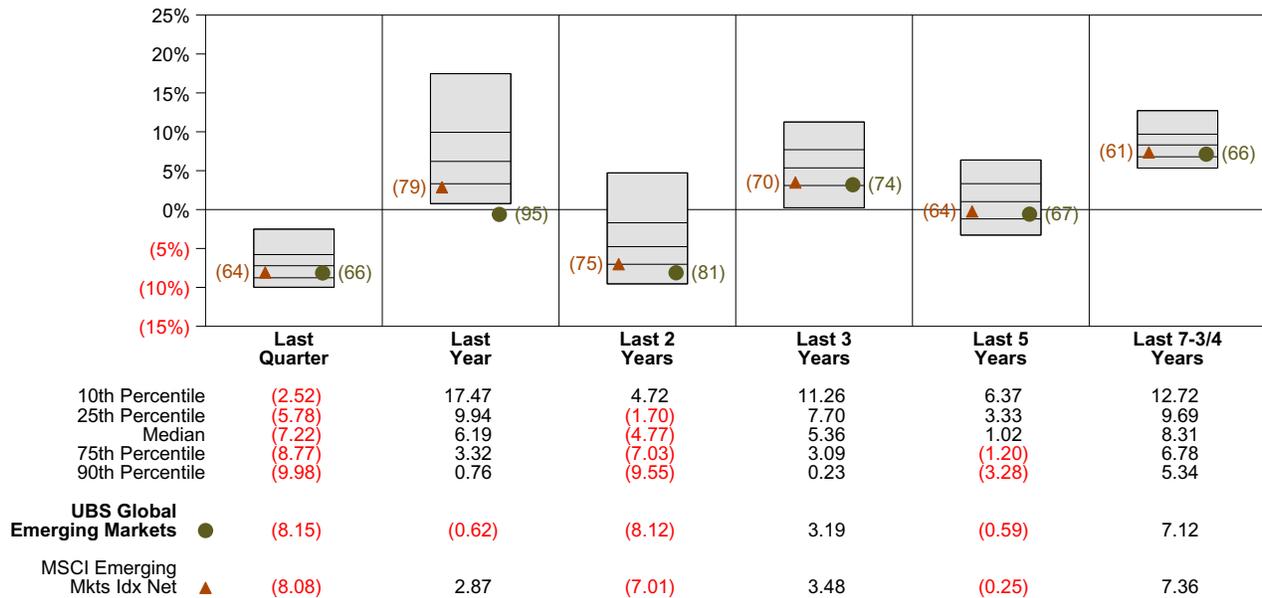
## Quarterly Summary and Highlights

- UBS Global Emerging Markets's portfolio posted a (8.15)% return for the quarter placing it in the 66 percentile of the CAI Emerging Markets Equity DB group for the quarter and in the 95 percentile for the last year.
- UBS Global Emerging Markets's portfolio underperformed the MSCI Emerging Mkts Idx Net by 0.07% for the quarter and underperformed the MSCI Emerging Mkts Idx Net for the year by 3.49%.

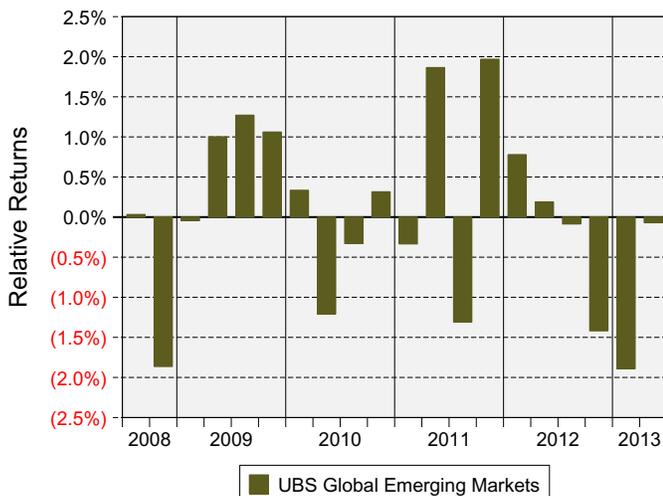
## Quarterly Asset Growth

Beginning Market Value	\$23,774,850
Net New Investment	\$0
Investment Gains/(Losses)	-\$1,937,961
Ending Market Value	\$21,836,889

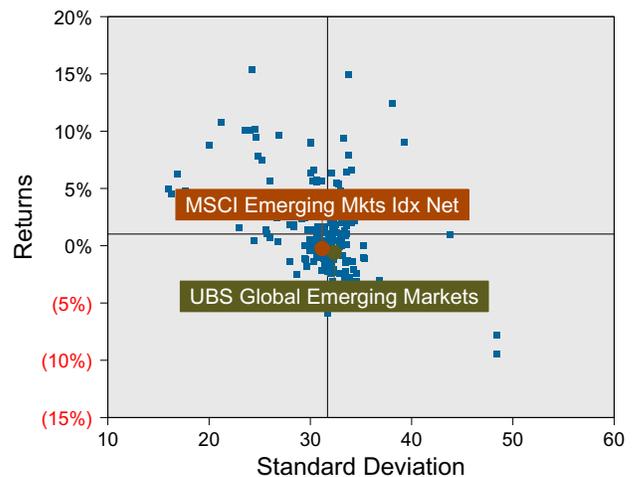
## Performance vs CAI Emerging Markets Equity DB (Gross)



## Relative Returns vs MSCI Emerging Mkts Idx Net



## CAI Emerging Markets Equity DB (Gross) Annualized Five Year Risk vs Return



# NTGI Emerging Markets Period Ended June 30, 2013

## Investment Philosophy

Northern Trust believes that providing low cost market exposure is vital to investors in order to maximize investment returns over the long term. Our core objective is to replicate the benchmark characteristics while minimizing transaction costs and preserving wealth throughout the process. Our core principles: Discipline portfolio construction of portfolios using full replication and optimization where it allows for risk reduction, increased liquidity, and lower costs. Minimizing costs such as commissions, bid/ask spread, and market impact by utilizing sophisticated trading techniques. Multi-dimensional risk controls and careful oversight throughout our investment process.

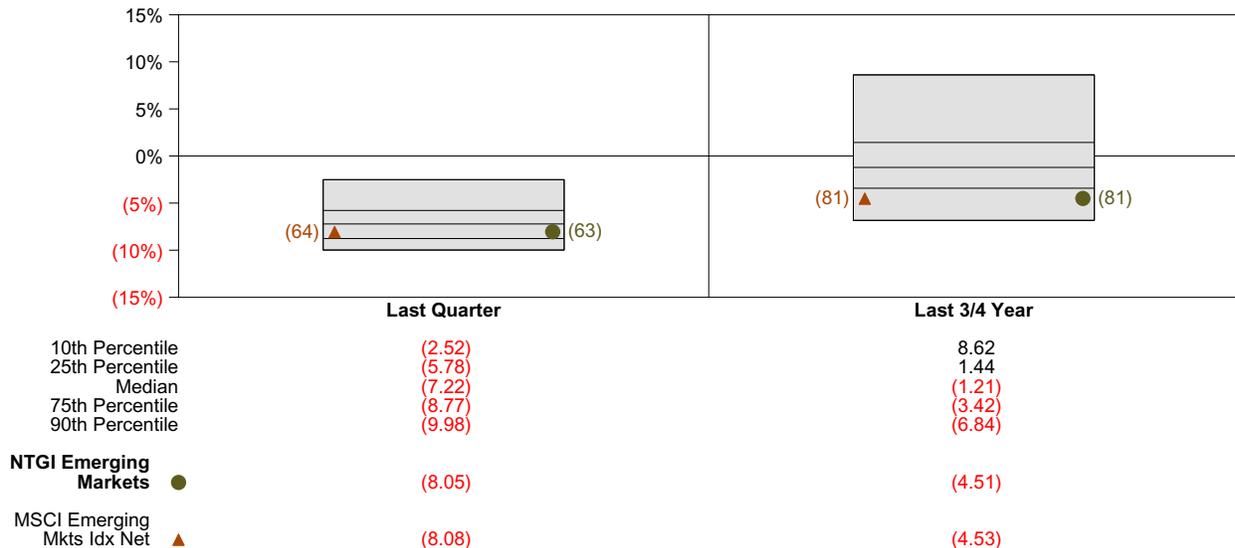
## Quarterly Summary and Highlights

- NTGI Emerging Markets's portfolio posted a (8.05)% return for the quarter placing it in the 63 percentile of the CAI Emerging Markets Equity DB group for the quarter and in the 81 percentile for the last three-quarter year.
- NTGI Emerging Markets's portfolio outperformed the MSCI Emerging Mkts Idx Net by 0.04% for the quarter and outperformed the MSCI Emerging Mkts Idx Net for the three-quarter year by 0.02%.

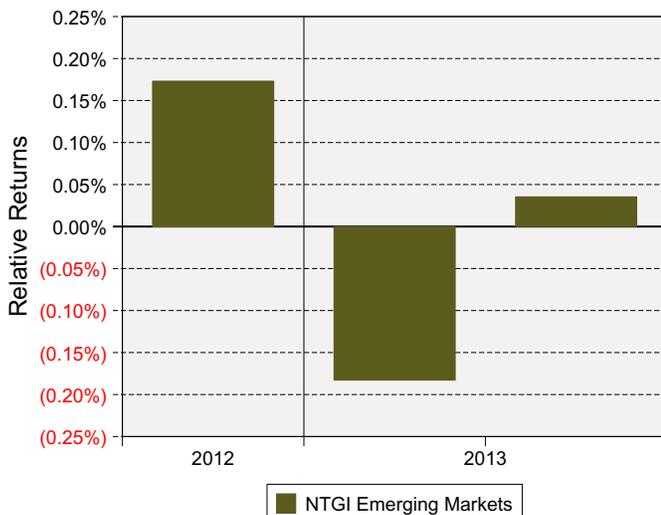
## Quarterly Asset Growth

Beginning Market Value	\$19,148,394
Net New Investment	\$14,000,000
Investment Gains/(Losses)	\$-953,784
Ending Market Value	\$32,194,610

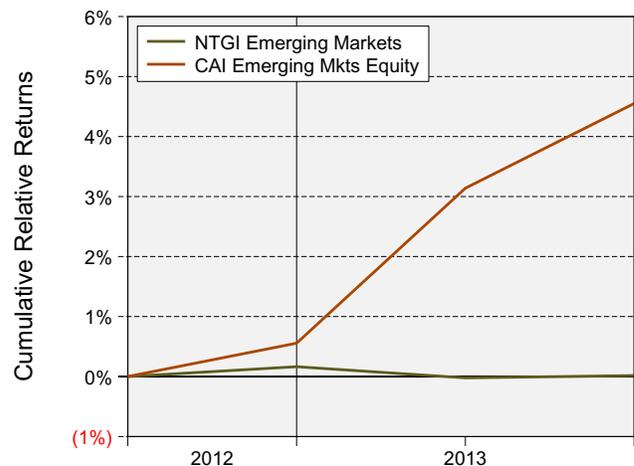
## Performance vs CAI Emerging Markets Equity DB (Gross)



## Relative Returns vs MSCI Emerging Mkts Idx Net



## Cumulative Returns vs MSCI Emerging Mkts Idx Net



# EPOCH Investment Partners Period Ended June 30, 2013

## Investment Philosophy

Epoch seeks to produce superior risk adjusted returns by building portfolios of businesses with outstanding risk/reward profiles without running a high degree of capital risk. They analyze businesses in the same manner private investors would in looking to purchase the entire company. The strategy only invests in businesses that are understood and where they have confidence in the financial statements. They seek businesses that generate "free cash flow" and securities that have unrecognized potential yet possess a combination of above average yield, above average free cash flow growth, and/or below average valuation. The EPOCH Blended Benchmark consists of the S&P 500 Index through 12/31/2011 and the MSCI World Index thereafter.

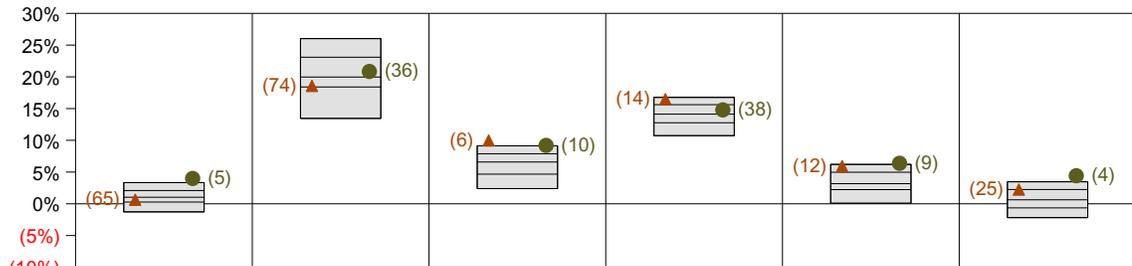
## Quarterly Summary and Highlights

- EPOCH Investment Partners's portfolio posted a 3.99% return for the quarter placing it in the 5 percentile of the CAI Global Equity Broad Style group for the quarter and in the 36 percentile for the last year.
- EPOCH Investment Partners's portfolio outperformed the EPOCH Blended Benchmark by 3.35% for the quarter and outperformed the EPOCH Blended Benchmark for the year by 2.27%.

## Quarterly Asset Growth

Beginning Market Value	\$193,923,403
Net New Investment	\$-364,068
Investment Gains/(Losses)	\$7,734,710
Ending Market Value	\$201,294,044

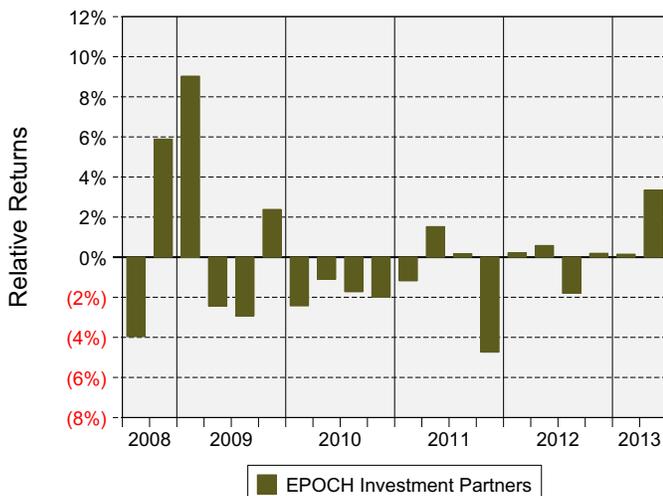
## Performance vs CAI Global Equity Broad Style (Gross)



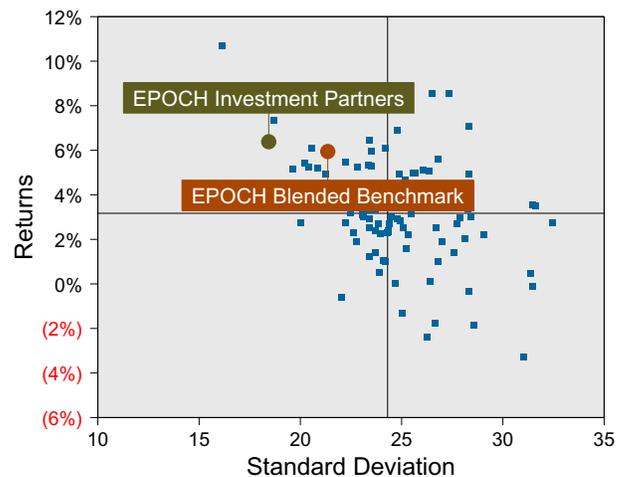
	Last Quarter	Last Year	Last 2 Years	Last 3 Years	Last 5 Years	Last 5-3/4 Years
10th Percentile	3.34	26.03	9.13	16.77	6.21	3.47
25th Percentile	2.09	23.09	7.88	15.61	4.97	2.25
Median	1.03	19.97	6.58	14.12	3.17	0.63
75th Percentile	0.27	18.40	4.67	12.77	2.24	(0.65)
90th Percentile	(1.28)	13.45	2.39	10.73	0.08	(2.18)

<b>EPOCH Investment Partners</b>	●	3.99	20.85	9.20	14.79	6.38	4.42
<b>EPOCH Blended Benchmark</b>	▲	0.65	18.58	9.98	16.49	5.94	2.25

## Relative Returns vs EPOCH Blended Benchmark



## CAI Global Equity Broad Style (Gross) Annualized Five Year Risk vs Return



# Calamos Investments

## Period Ended June 30, 2013

### Investment Philosophy

Calamos utilizes both top down and bottom up analysis. The strategy invests in equity and convertible securities. From a bottom up perspective they believe that to have a thorough understanding of a company they must assess the economic enterprise value of the business. They then look at a company's capital structure and value the equity and equity sensitive securities a company offers. They believe this holistic view of a company, and the fact they are often invested for longer periods than equity only managers, provides them with better levels of due diligence.

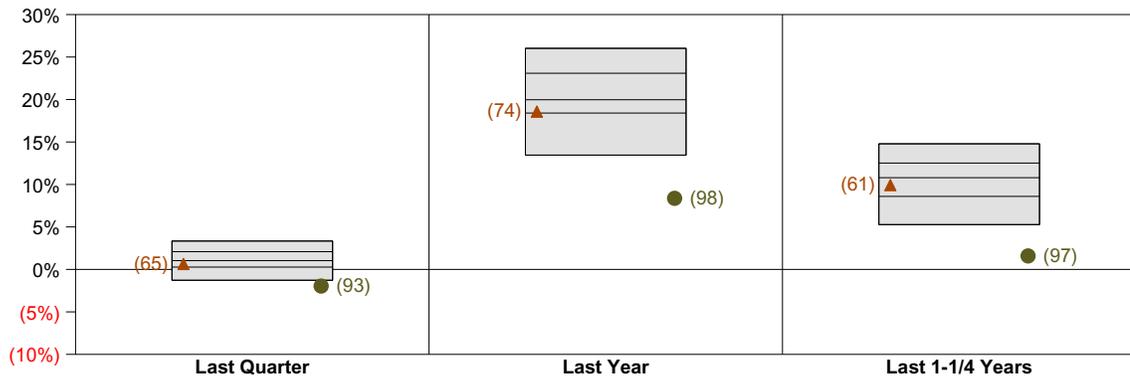
### Quarterly Summary and Highlights

- Calamos Investments's portfolio posted a (1.96)% return for the quarter placing it in the 93 percentile of the CAI Global Equity Broad Style group for the quarter and in the 98 percentile for the last year.
- Calamos Investments's portfolio underperformed the MSCI World Index by 2.61% for the quarter and underperformed the MSCI World Index for the year by 10.21%.

### Quarterly Asset Growth

Beginning Market Value	\$55,035,075
Net New Investment	\$-72,153
Investment Gains/(Losses)	\$-1,076,763
Ending Market Value	\$53,886,160

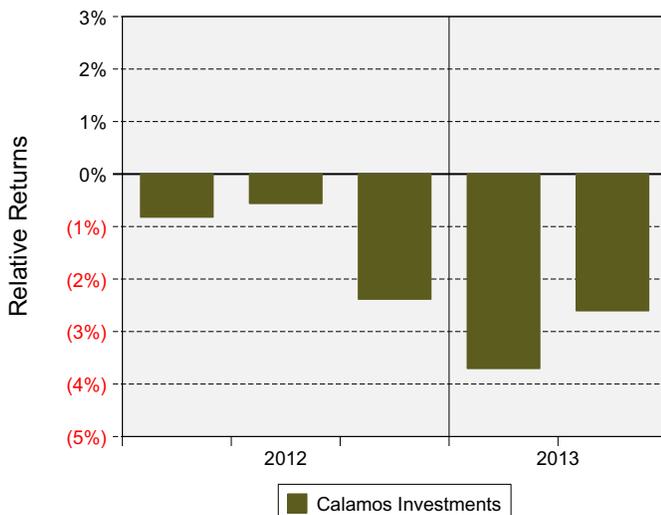
### Performance vs CAI Global Equity Broad Style (Gross)



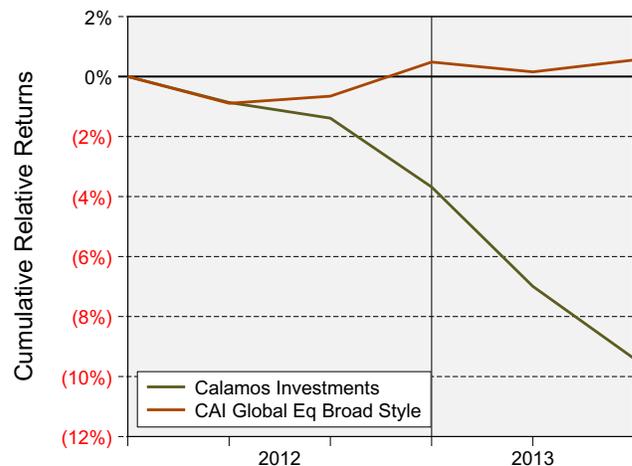
	Last Quarter	Last Year	Last 1-1/4 Years
10th Percentile	3.34	26.03	14.79
25th Percentile	2.09	23.09	12.52
Median	1.03	19.97	10.79
75th Percentile	0.27	18.40	8.59
90th Percentile	(1.28)	13.45	5.27

<b>Calamos Investments</b> ●	(1.96)	8.37	1.59
MSCI World Index ▲	0.65	18.58	9.94

### Relative Return vs MSCI World Index



### Cumulative Returns vs MSCI World Index



# LSV Asset Management

## Period Ended June 30, 2013

### Investment Philosophy

The Global Value (ACWI) Equity strategy is managed using quantitative techniques to select individual securities in a risk-controlled, bottom-up approach. Value factors and security selection dominate sector/industry factors as explainers of performance.

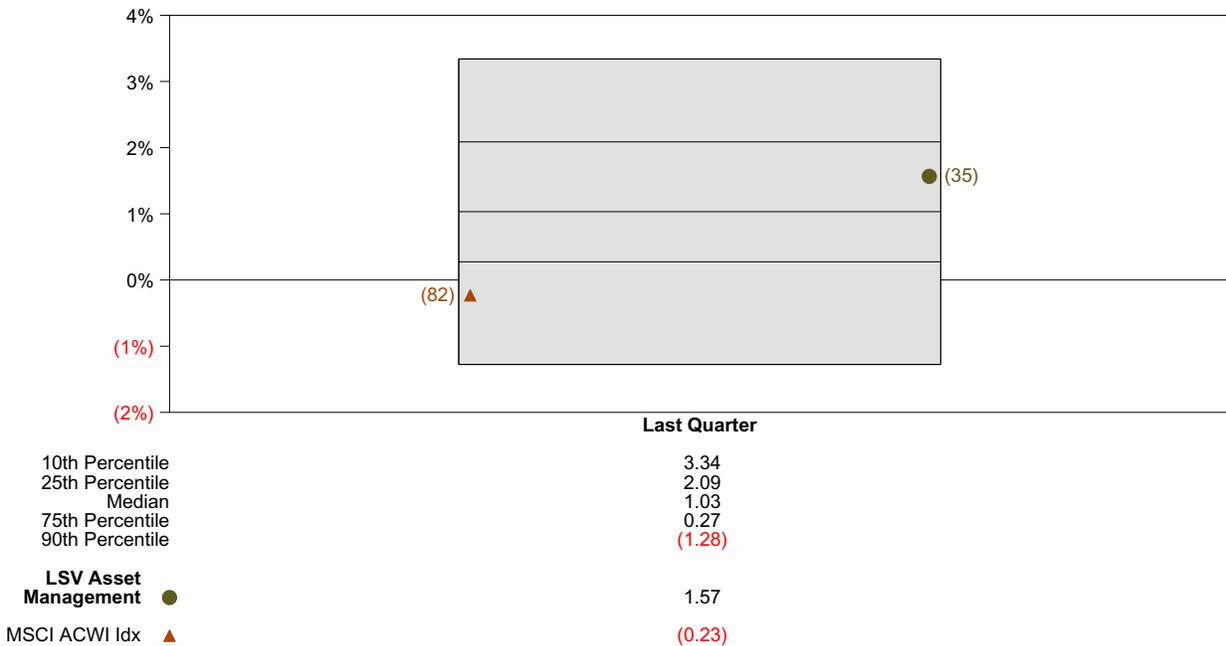
### Quarterly Summary and Highlights

- LSV Asset Management's portfolio posted a 1.57% return for the quarter placing it in the 35th percentile of the CAI Global Equity Broad Style group for the quarter.
- LSV Asset Management's portfolio outperformed the MSCI ACWI Idx by 1.80% for the quarter.

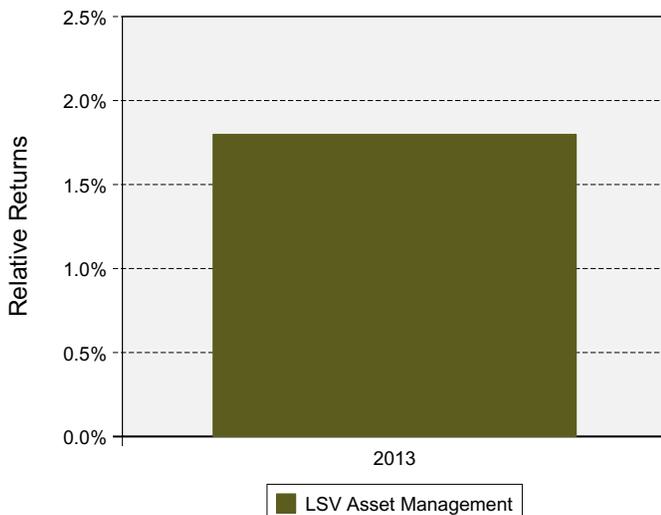
### Quarterly Asset Growth

Beginning Market Value	\$405,451,507
Net New Investment	\$-300,957
Investment Gains/(Losses)	\$6,352,889
Ending Market Value	\$411,503,439

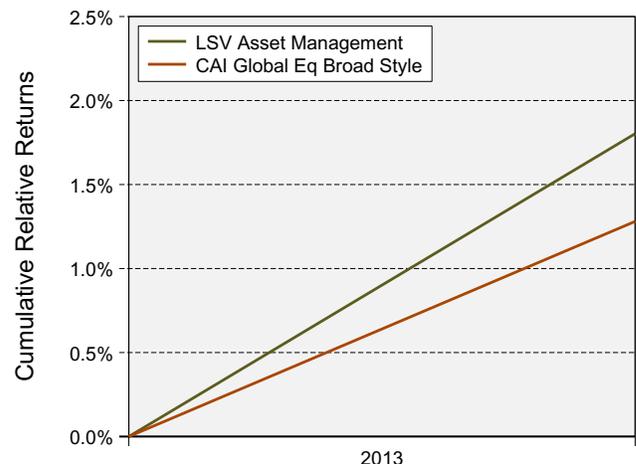
### Performance vs CAI Global Equity Broad Style (Gross)



### Relative Return vs MSCI ACWI Idx



### Cumulative Returns vs MSCI ACWI Idx



## Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2013. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2013

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 24-1/4 Years
<b>Private Equity</b>	<b>4.06%</b>	<b>6.69%</b>	<b>8.85%</b>	<b>0.30%</b>	<b>9.57%</b>
Adams Street Direct Co-Invest Fd	9.72%	11.74%	13.70%	2.69%	-
Adams Street Direct Fd 2010	0.04%	2.36%	4.96%	-	-
Adams Street 1998 Partnership	9.44%	16.27%	4.87%	(5.63%)	-
Adams Street 1999 Partnership	3.06%	9.46%	10.71%	-	-
Adams Street 2000 Partnership	2.75%	6.03%	12.52%	2.49%	-
Adams Street 2001 Partnership	6.41%	12.43%	14.42%	4.55%	-
Adams Street 2002 Partnership	5.16%	6.52%	17.45%	4.44%	-
Adams Street 2003 Partnership	2.64%	6.11%	8.51%	1.94%	-
Adams Street 2010 Partnership	3.22%	10.31%	15.54%	-	-
Adams Street 2008 Fund	1.53%	10.58%	9.37%	(2.17%)	-
Adams Street 1999 Non-US	1.43%	27.87%	27.63%	10.21%	-
Adams Street 2000 Non-US	(0.27%)	(1.13%)	9.56%	(2.43%)	-
Adams Street 2001 Non-US	5.30%	9.41%	4.02%	(7.82%)	-
Adams Street 2002 Non-US	(1.11%)	8.55%	15.73%	(2.59%)	-
Adams Street 2003 Non-US	0.63%	32.82%	20.45%	6.00%	-
Adams Street 2004 Non-US	1.79%	8.52%	9.90%	(2.55%)	-
Adams Street 2010 Non-US	0.78%	11.47%	0.81%	-	-
Adams Street 2010 NonUS Emg	(1.78%)	(5.04%)	-	-	-
Adams Street BVCF IV Fund	16.37%	32.89%	83.51%	53.35%	-
Coral Partner VI	12.47%	14.19%	(4.54%)	(16.01%)	-
CorsAir III	(1.06%)	(10.93%)	(2.07%)	(6.74%)	-
ND Investors	10.71%	8.19%	4.18%	2.09%	-
CorsAir IV	12.27%	8.75%	(5.19%)	-	-
Capital International V	3.16%	(10.03%)	7.16%	2.71%	-
Capital International VI	(14.99%)	(22.38%)	-	-	-
TCW Energy Fund XIV	2.56%	0.37%	6.68%	10.11%	-
Lewis & Clark	7.48%	17.77%	10.58%	6.72%	-
Lewis & Clark II	1.78%	(4.18%)	(5.04%)	-	-
Quantum Energy Partners	12.35%	18.79%	23.23%	7.86%	-
Quantum Resources	8.14%	36.60%	38.33%	(37.56%)	-
Matlin Patterson I	0.00%	18.21%	2687.13%	715.63%	-
Matlin Patterson II	(11.03%)	(12.14%)	(53.08%)	(45.80%)	-
Matlin Patterson III	0.46%	25.08%	41.76%	15.29%	-
Russell 1000 Index	2.65%	21.24%	18.63%	7.12%	9.76%
Russell 2000 Index	3.08%	24.21%	18.67%	8.77%	9.38%

## Declaration Total Return Period Ended June 30, 2013

### Investment Philosophy

The Fund's portfolio holdings consist primarily of RMBS issued by private sector companies (Non-Agency RMBS) and government agencies (Agency MBS) and CMBS issued by private sector companies. Agency MBS includes securities issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Government National Mortgage Association (Ginnie Mae). Portfolio holdings may range from short tenure senior classes to stressed issues or subordinated securities with substantial risk of non-payment and correspondingly higher yields. Smaller portfolio allocations may include consumer asset-backed securities (ABS), or other structured credit securities and corporate bonds. As a diversification strategy and a potential hedge to credit risk, the Fund may invest in securities which tend to benefit from slow mortgage prepayments and economic growth, such as interest only (IO) MBS.

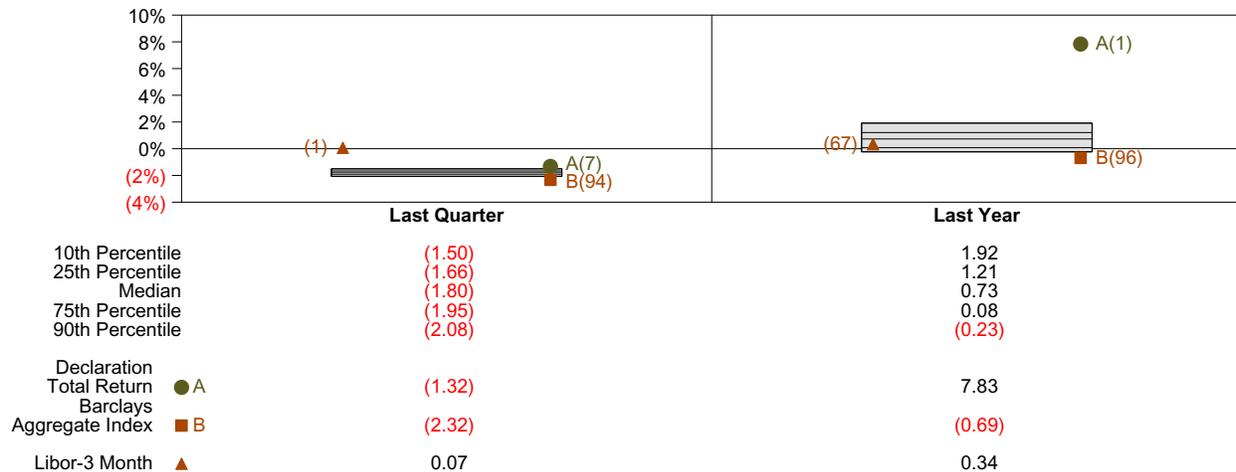
### Quarterly Summary and Highlights

- Declaration Total Return's portfolio posted a (1.32)% return for the quarter placing it in the 7 percentile of the CAI Intermediate Fixed-Inc Style group for the quarter and in the 1 percentile for the last year.
- Declaration Total Return's portfolio underperformed the Libor-3 Month by 1.39% for the quarter and outperformed the Libor-3 Month for the year by 7.49%.

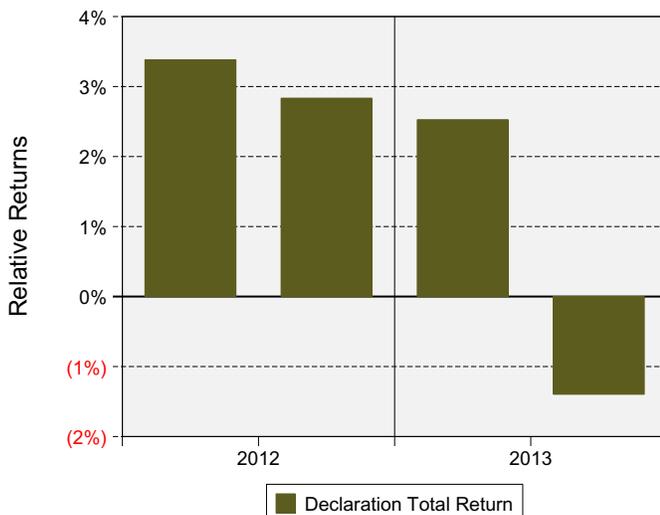
### Quarterly Asset Growth

Beginning Market Value	\$59,932,055
Net New Investment	\$5,125,000
Investment Gains/(Losses)	\$-807,342
Ending Market Value	\$64,249,713

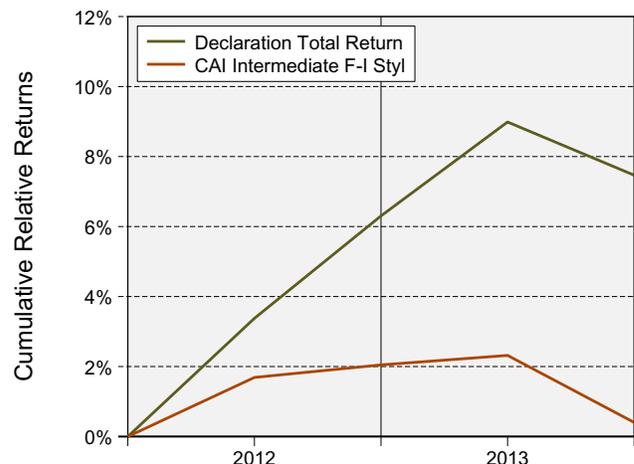
### Performance vs CAI Intermediate Fixed-Inc Style (Gross)



### Relative Return vs Libor-3 Month



### Cumulative Returns vs Libor-3 Month



# PIMCO DiSCO II

## Period Ended June 30, 2013

### Investment Philosophy

The PIMCO Distressed Senior Credit Opportunities Fund is an opportunistic private-equity style Fund which seeks to provide investors enhanced returns principally through long-biased investments in undervalued senior and super senior structured credit securities that are expected to produce attractive levels of current income and that may also appreciate in value over the long term. The fund will look to capitalize on forced sales by liquidity constrained investors.

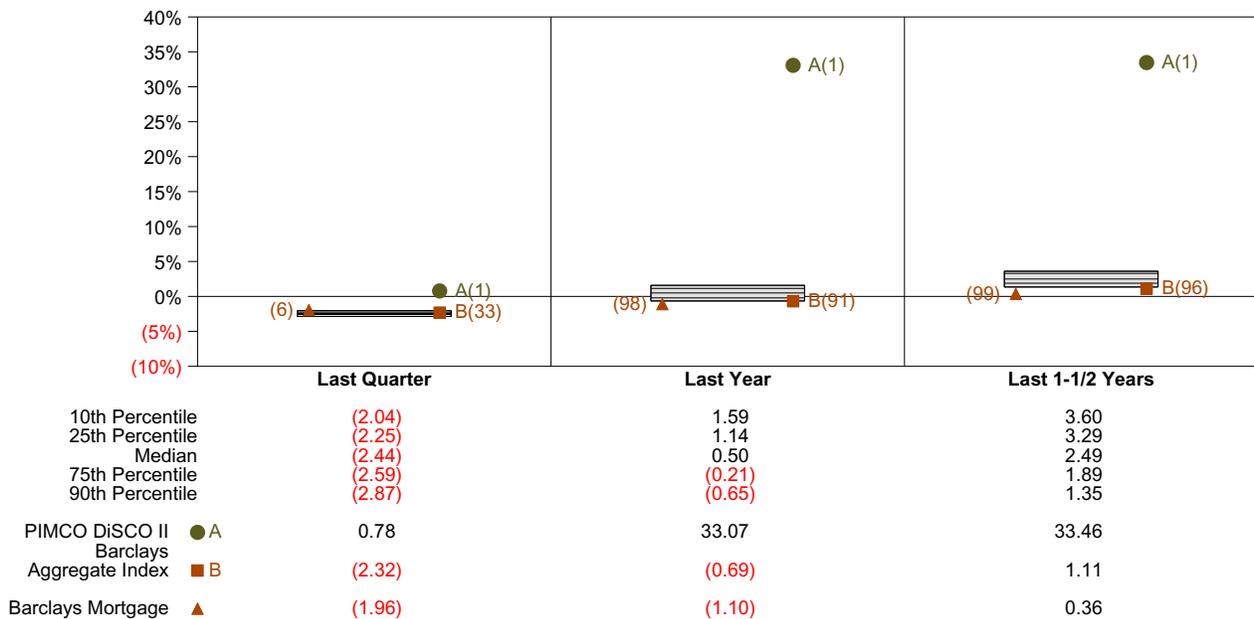
### Quarterly Summary and Highlights

- PIMCO DiSCO II's portfolio posted a 0.78% return for the quarter placing it in the 1 percentile of the CAI Core Bond Fixed-Inc Style group for the quarter and in the 1 percentile for the last year.
- PIMCO DiSCO II's portfolio outperformed the Barclays Mortgage by 2.74% for the quarter and outperformed the Barclays Mortgage for the year by 34.17%.

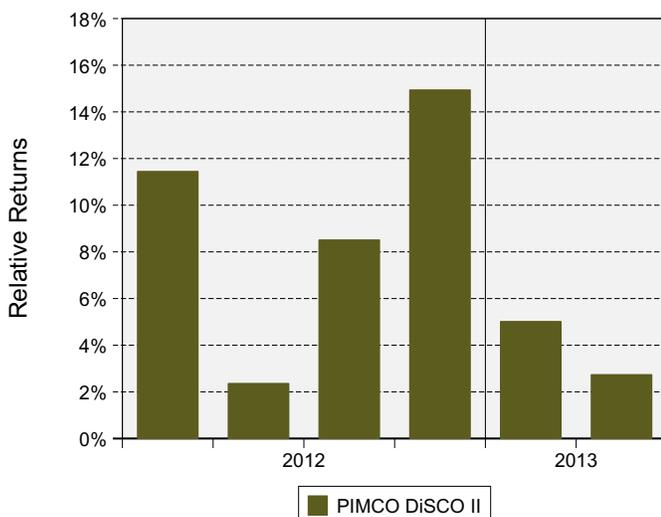
### Quarterly Asset Growth

Beginning Market Value	\$103,605,310
Net New Investment	\$0
Investment Gains/(Losses)	\$803,866
Ending Market Value	\$104,409,176

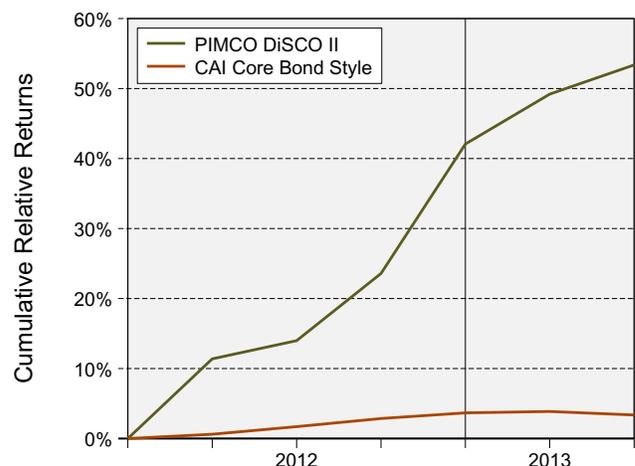
### Performance vs CAI Core Bond Fixed-Inc Style (Gross)



### Relative Return vs Barclays Mortgage



### Cumulative Returns vs Barclays Mortgage



# PIMCO MBS

## Period Ended June 30, 2013

### Investment Philosophy

The PIMCO Mortgage-Backed Securities Strategy is an actively managed bond portfolio that invests in high quality, short to intermediate duration mortgage-backed securities. The fund invests primarily in securities that are highly rated, such as US Government guaranteed Ginnie Mae securities and Agency-guaranteed Fannie Mae and Freddie Mac mortgage-backed securities.

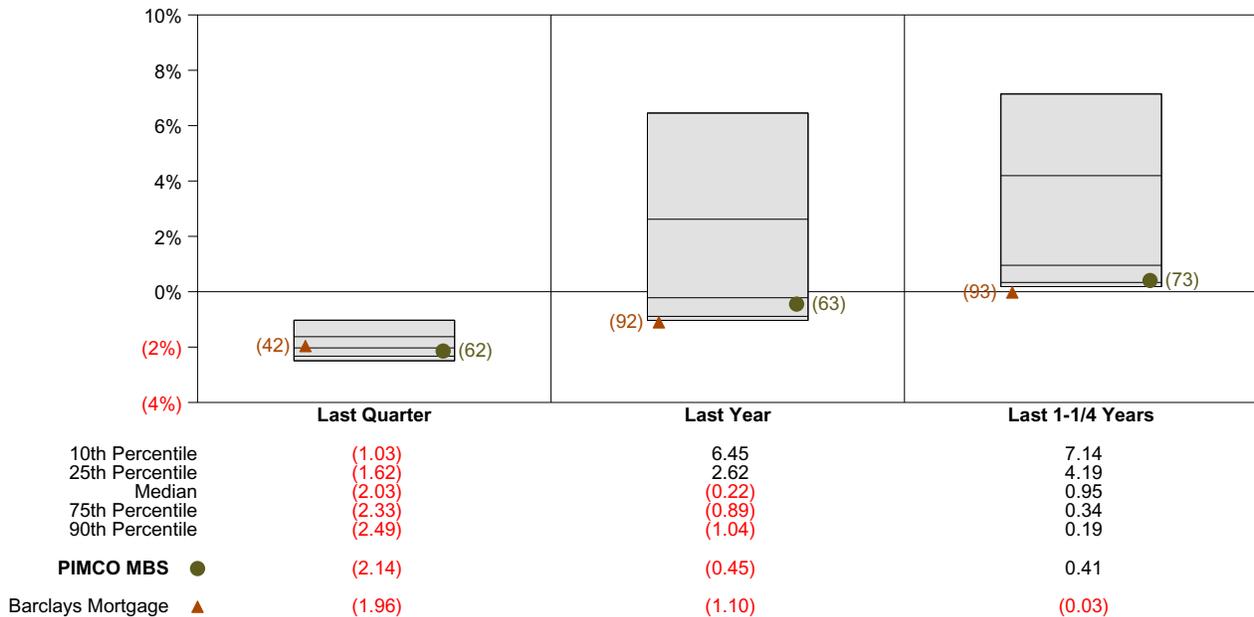
### Quarterly Summary and Highlights

- PIMCO MBS's portfolio posted a (2.14)% return for the quarter placing it in the 62 percentile of the CAI Mtg-Backed FI Style group for the quarter and in the 63 percentile for the last year.
- PIMCO MBS's portfolio underperformed the Barclays Mortgage by 0.18% for the quarter and outperformed the Barclays Mortgage for the year by 0.66%.

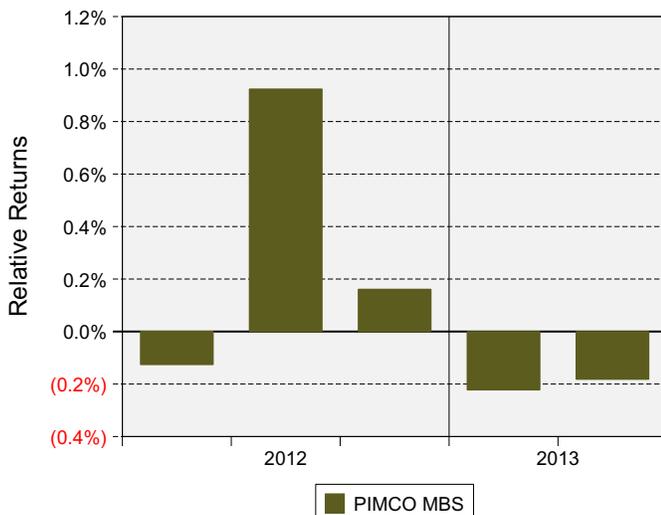
### Quarterly Asset Growth

Beginning Market Value	\$148,978,263
Net New Investment	\$16,009,402
Investment Gains/(Losses)	\$-3,464,490
Ending Market Value	\$161,523,175

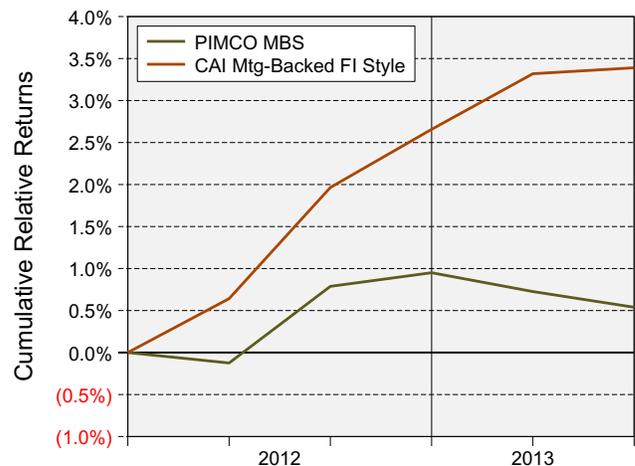
### Performance vs CAI Mtg-Backed FI Style (Gross)



### Relative Return vs Barclays Mortgage



### Cumulative Returns vs Barclays Mortgage



# PIMCO Unconstrained Period Ended June 30, 2013

## Investment Philosophy

The PIMCO Unconstrained Bond Strategy is an absolute return-oriented, investment grade quality fixed income strategy that embodies PIMCO's secular thinking, global themes, and integrated investment process without the constraints of a benchmark or significant sector/instrument limitations. The strategy is designed to offer the traditional benefits of a core bond portfolio. It seeks maximum long-term return consistent with capital preservation and prudent management but with higher potential alpha and the potential to mitigate downside risk to a greater degree than what is reasonably possible from traditional active fixed income management approaches as the strategy allows for more manager discretion to adjust duration exposure, allocate across sectors and otherwise express the firm's active views. The strategy is governed by PIMCO's investment philosophy and unique, disciplined secular investment process, which focuses on long-term economic, social and political trends that may have lasting impacts on investment returns. Moreover, over shorter cyclical time frames, the unconstrained nature of the strategy allows PIMCO to take on more risk when tactical opportunities are identified, and it allows for reduction and diversification of risk at times when the outlook may be more challenging for traditional fixed income benchmarks.

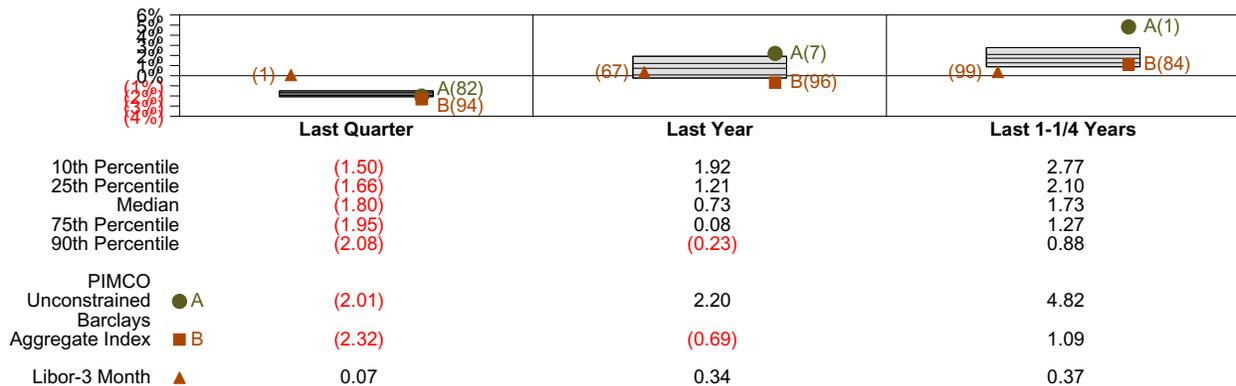
## Quarterly Summary and Highlights

- PIMCO Unconstrained's portfolio posted a (2.01)% return for the quarter placing it in the 82 percentile of the CAI Intermediate Fixed-Inc Style group for the quarter and in the 7 percentile for the last year.
- PIMCO Unconstrained's portfolio underperformed the Libor-3 Month by 2.08% for the quarter and outperformed the Libor-3 Month for the year by 1.86%.

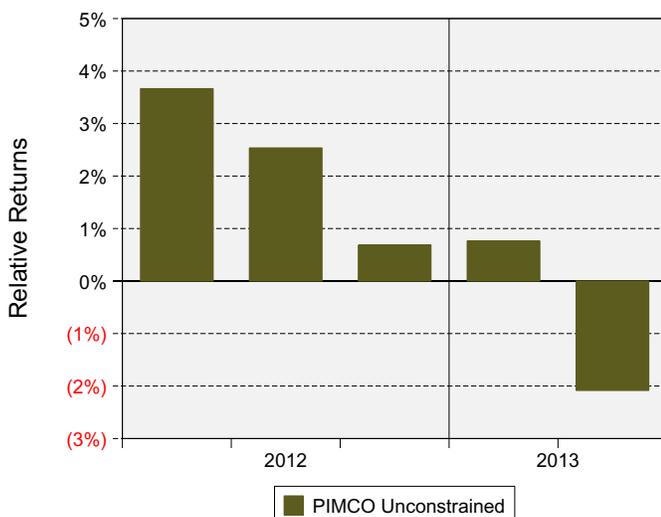
## Quarterly Asset Growth

Beginning Market Value	\$60,674,853
Net New Investment	\$5,125,000
Investment Gains/(Losses)	\$-1,209,325
Ending Market Value	\$64,590,528

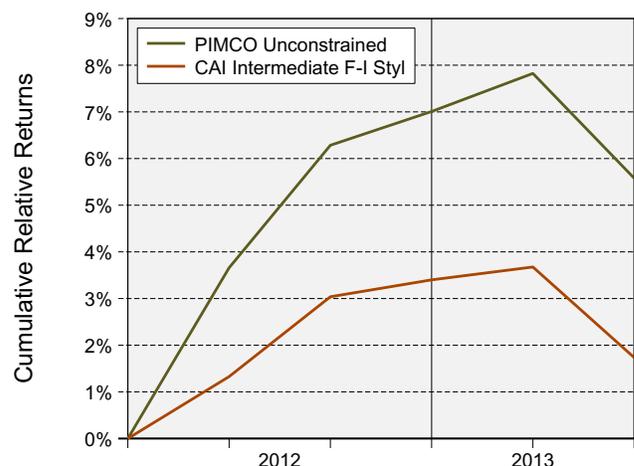
## Performance vs CAI Intermediate Fixed-Inc Style (Gross)



## Relative Return vs Libor-3 Month



## Cumulative Returns vs Libor-3 Month



**Western Asset Management Company**  
**Period Ended June 30, 2013**

**Investment Philosophy**

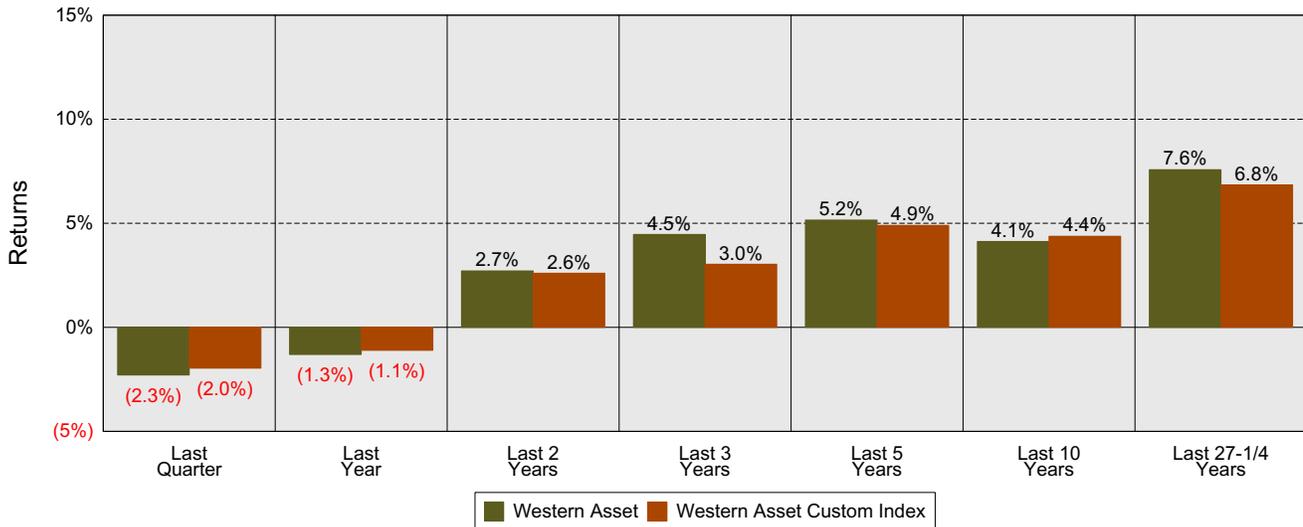
The investment objective for the Western Asset Mortgage-Backed Securities portfolio is to outperform the Barclays Capital US Mortgage Backed Securities Index over a three to five year market cycle. The portfolio is designed to hold high quality assets, with at least 90% of the portfolio rated AAA, or the rating of US Treasury or Agency securities, by at least one of the nationally recognized statistical rating organizations. The Custom Index represents the Barclays Aggregate Index through 03/31/2012, and the Barclays Mortgage Index thereafter.

**Quarterly Summary and Highlights**

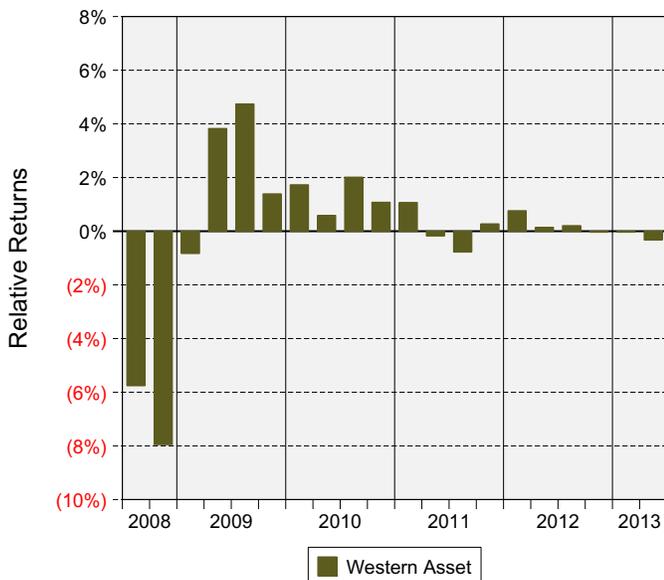
- Western Asset's portfolio underperformed the Western Asset Custom Index by 0.33% for the quarter and underperformed the Western Asset Custom Index for the year by 0.20%.

**Quarterly Asset Growth**

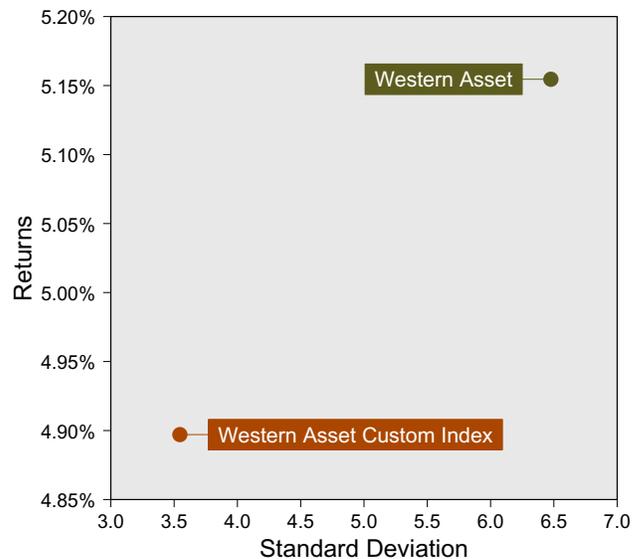
Beginning Market Value	\$100,773,159
Net New Investment	\$10,530,829
Investment Gains/(Losses)	\$-2,448,241
Ending Market Value	\$108,855,747



**Relative Returns vs Western Asset Custom Index**



**Annualized Five Year Risk vs Return**



# Goldman Sachs 2006 Offshore Period Ended June 30, 2013

## Investment Philosophy

GS Mezzanine Partners seeks large-sized mezzanine investments comprised generally of fixed income securities and an associated equity component. They focus on providing private high yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, re-financings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.

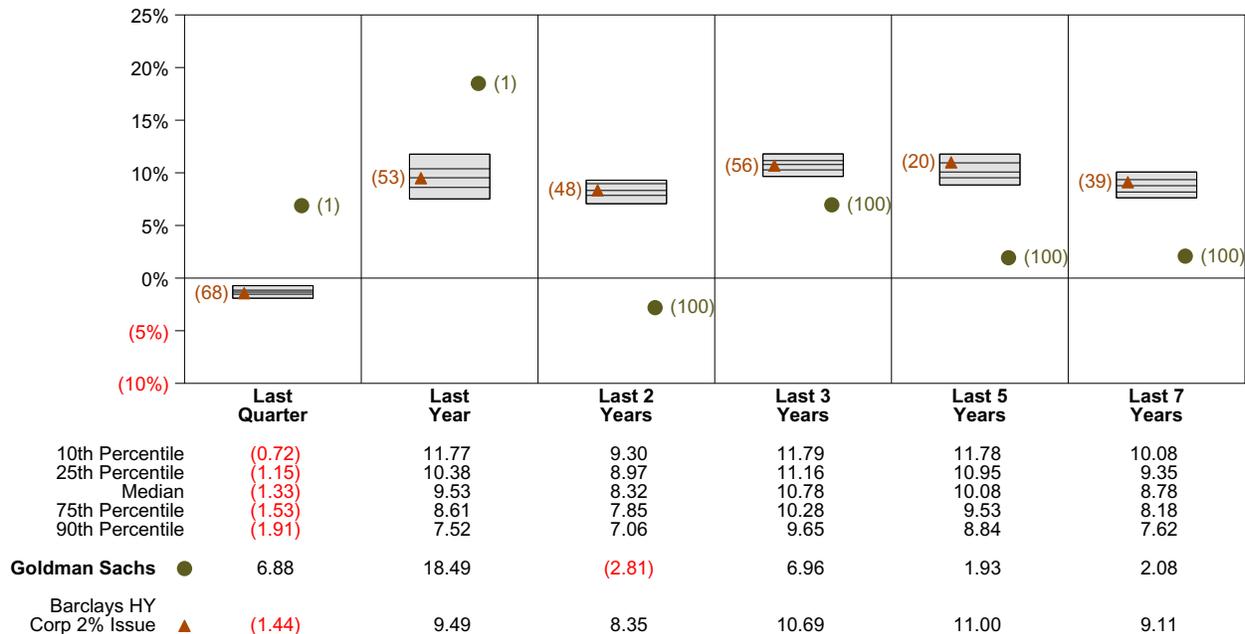
## Quarterly Summary and Highlights

- Goldman Sachs's portfolio posted a 6.88% return for the quarter placing it in the 1 percentile of the CAI High Yield Fixed-Inc Style group for the quarter and in the 1 percentile for the last year.
- Goldman Sachs's portfolio outperformed the Barclays HY Corp 2% Issue by 8.32% for the quarter and outperformed the Barclays HY Corp 2% Issue for the year by 8.99%.

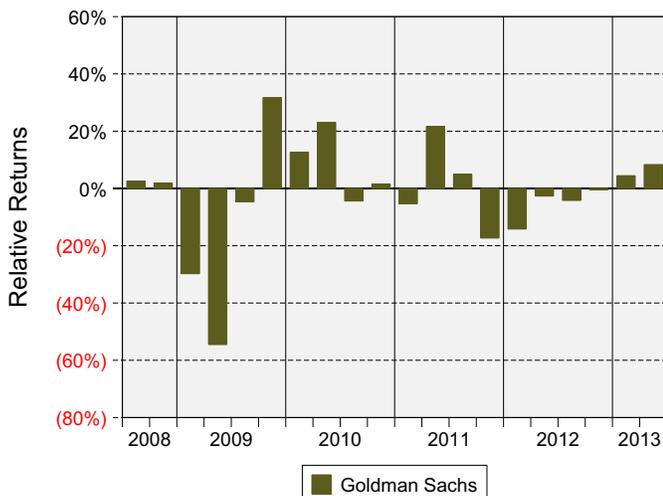
## Quarterly Asset Growth

Beginning Market Value	\$4,491,737
Net New Investment	\$-122,342
Investment Gains/(Losses)	\$300,605
Ending Market Value	\$4,670,000

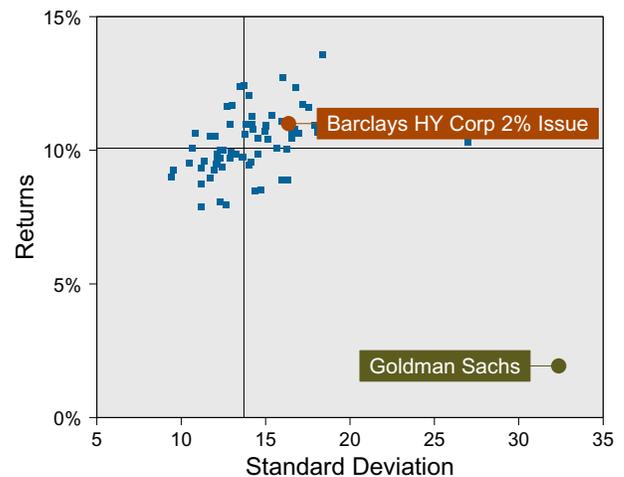
## Performance vs CAI High Yield Fixed-Inc Style (Gross)



## Relative Return vs Barclays HY Corp 2% Issue



## CAI High Yield Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



# Goldman Sachs Offshore Fund V

## Period Ended June 30, 2013

### Investment Philosophy

GS Mezzanine Partners seeks large-sized mezzanine investments comprised generally of fixed income securities and an associated equity component. They focus on providing private high yield capital for mid- to large-sized leveraged and management buyout transactions, recapitalizations, financings, re-financings, acquisitions and restructurings for private equity firms, private family companies and corporate issuers.

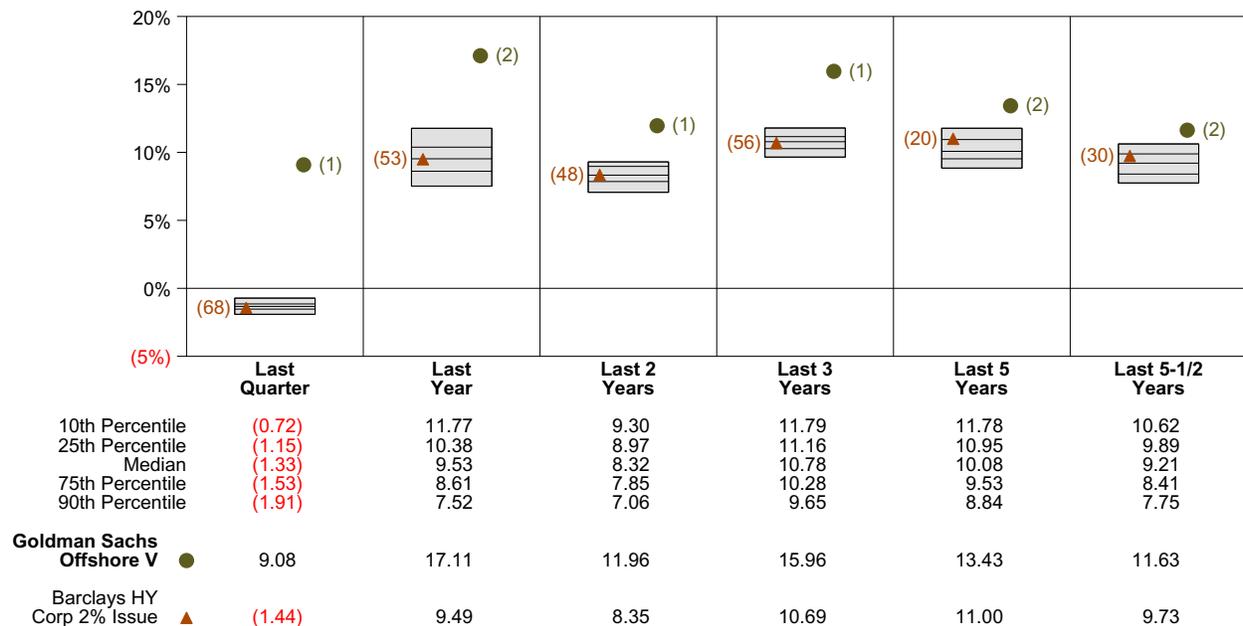
### Quarterly Summary and Highlights

- Goldman Sachs Offshore V's portfolio posted a 9.08% return for the quarter placing it in the 1 percentile of the CAI High Yield Fixed-Inc Style group for the quarter and in the 2 percentile for the last year.
- Goldman Sachs Offshore V's portfolio outperformed the Barclays HY Corp 2% Issue by 10.52% for the quarter and outperformed the Barclays HY Corp 2% Issue for the year by 7.62%.

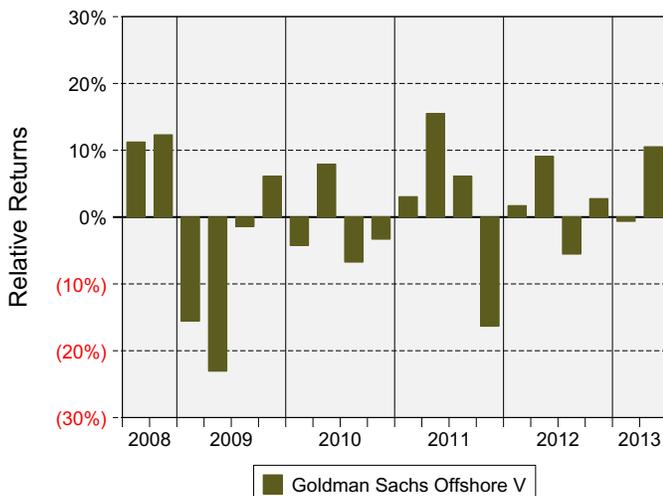
### Quarterly Asset Growth

Beginning Market Value	\$9,854,277
Net New Investment	\$450,836
Investment Gains/(Losses)	\$794,887
Ending Market Value	\$11,100,000

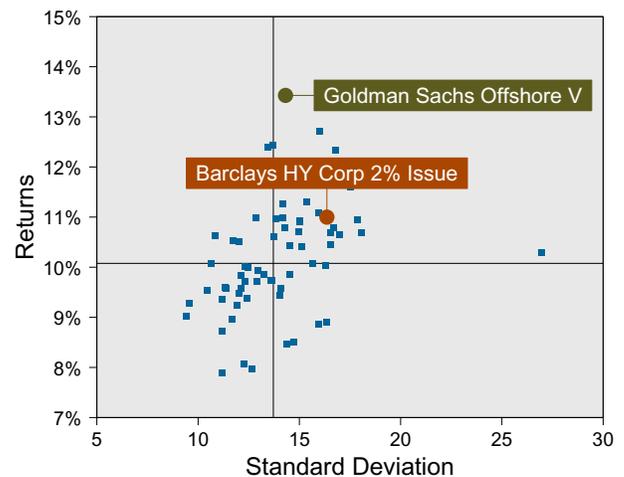
### Performance vs CAI High Yield Fixed-Inc Style (Gross)



### Relative Return vs Barclays HY Corp 2% Issue



### CAI High Yield Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



# Loomis Sayles

## Period Ended June 30, 2013

### Investment Philosophy

The High Yield Full Discretion Strategy seeks to identify attractive sectors and specific investment opportunities primarily within the global fixed income market through a global economic and interest rate framework. Portfolio managers incorporate a long-term macroeconomic view along with a stringent bottom-up investment evaluation process that drives security selection and resulting sector allocations. Opportunistic investments in non-benchmark sectors including investment grade corporate, emerging market, and non-US dollar debt and convertible bonds help to manage overall portfolio risk and enhance total return potential.

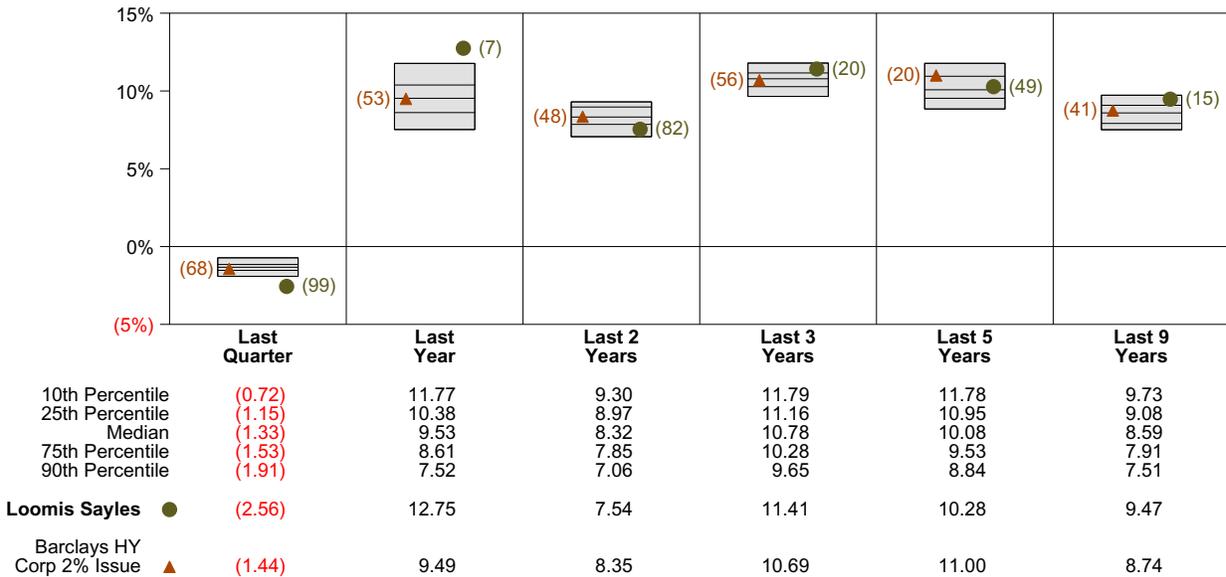
### Quarterly Summary and Highlights

- Loomis Sayles's portfolio posted a (2.56)% return for the quarter placing it in the 99 percentile of the CAI High Yield Fixed-Inc Style group for the quarter and in the 7 percentile for the last year.
- Loomis Sayles's portfolio underperformed the Barclays HY Corp 2% Issue by 1.13% for the quarter and outperformed the Barclays HY Corp 2% Issue for the year by 3.25%.

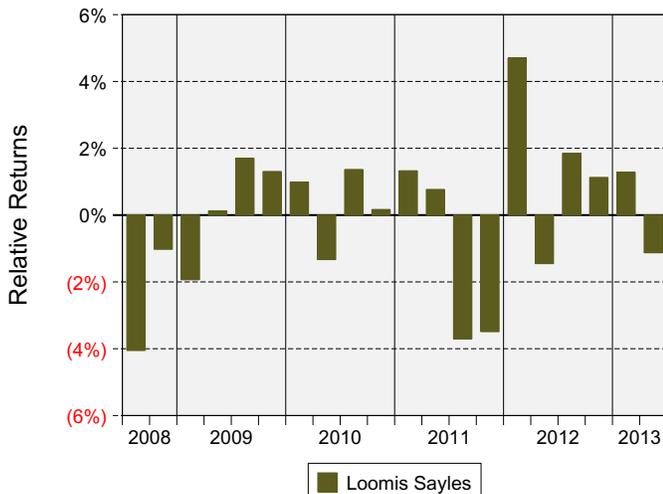
### Quarterly Asset Growth

Beginning Market Value	\$186,068,338
Net New Investment	\$-232,585
Investment Gains/(Losses)	\$-4,757,461
Ending Market Value	\$181,078,291

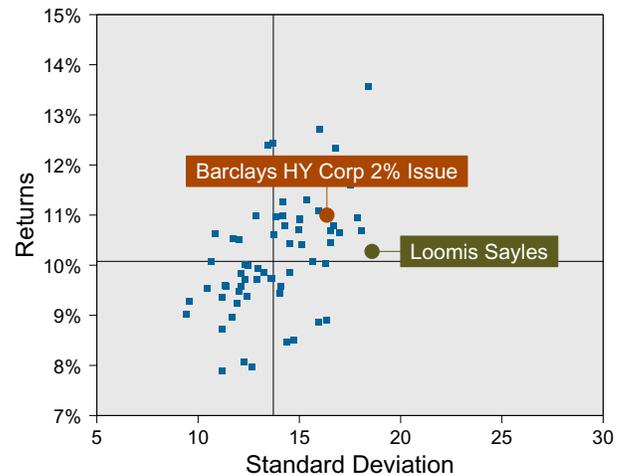
### Performance vs CAI High Yield Fixed-Inc Style (Gross)



### Relative Return vs Barclays HY Corp 2% Issue



### CAI High Yield Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



# Brandywine Asset Management

## Period Ended June 30, 2013

### Investment Philosophy

Brandywine engages in a disciplined, active, value-driven, strategic approach. Their investment strategy concentrates on top-down analysis of macro-economic conditions in order to determine where the most attractive valuations exist. Specifically, they invest in bonds with the highest real yields globally. They manage currency to protect principal and increase returns, patiently rotated among countries and attempt to control risk by purchasing undervalued securities.

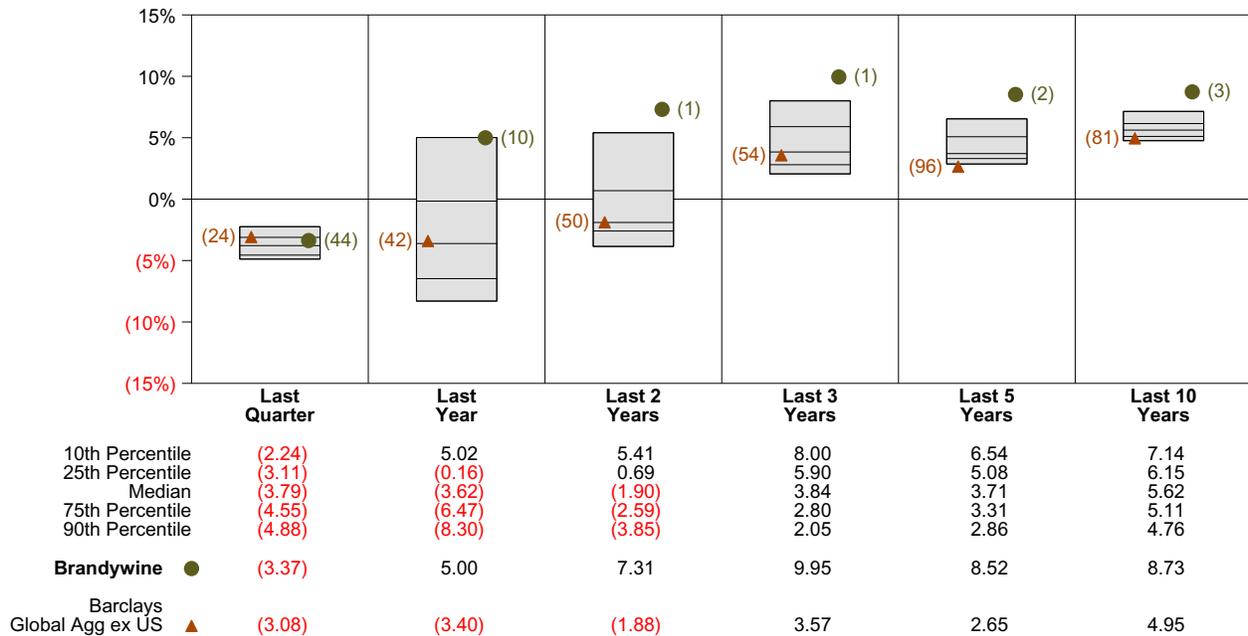
### Quarterly Summary and Highlights

- Brandywine's portfolio posted a (3.37)% return for the quarter placing it in the 44 percentile of the CAI Non-U.S. Fixed-Inc Style group for the quarter and in the 10 percentile for the last year.
- Brandywine's portfolio underperformed the Barclays Global Agg ex US by 0.29% for the quarter and outperformed the Barclays Global Agg ex US for the year by 8.40%.

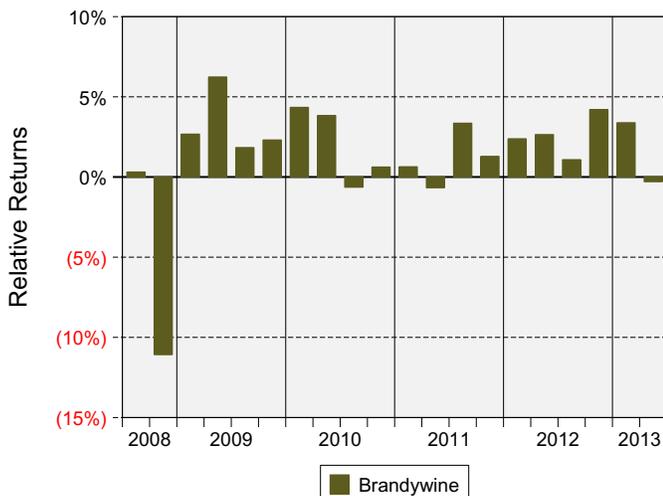
### Quarterly Asset Growth

Beginning Market Value	\$105,323,241
Net New Investment	\$-108,275
Investment Gains/(Losses)	\$-3,544,928
Ending Market Value	\$101,670,039

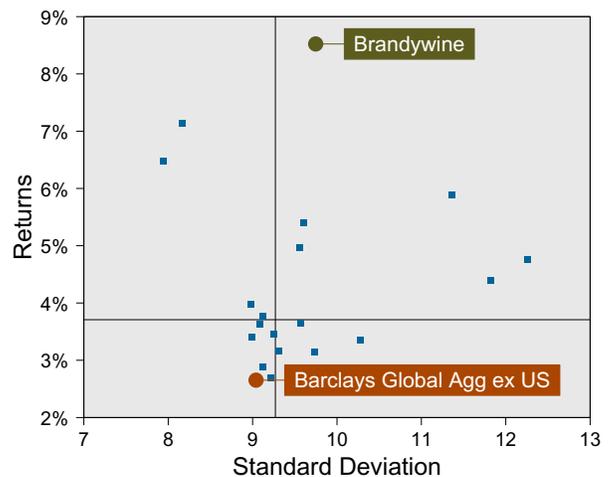
### Performance vs CAI Non-U.S. Fixed-Inc Style (Gross)



### Relative Return vs Barclays Global Agg ex US



### CAI Non-U.S. Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



# UBS Global Asset Management Period Ended June 30, 2013

## Investment Philosophy

UBS Global Asset Management's non-US fixed income portfolio's assets are invested in emerging markets debt on an opportunistic basis up to the stated maximum allocation of 5%. The account's non-US fixed income assets will be fully-invested at all times, but such assets may be invested in the UBS US Cash Management Prime Collective Fund for operational and risk management purposes. \*The UBS Blended Benchmark is comprised of the Citigroup Non-US Govt Index through 12/31/2009, and the BC Global Aggregate ex-US Index thereafter.

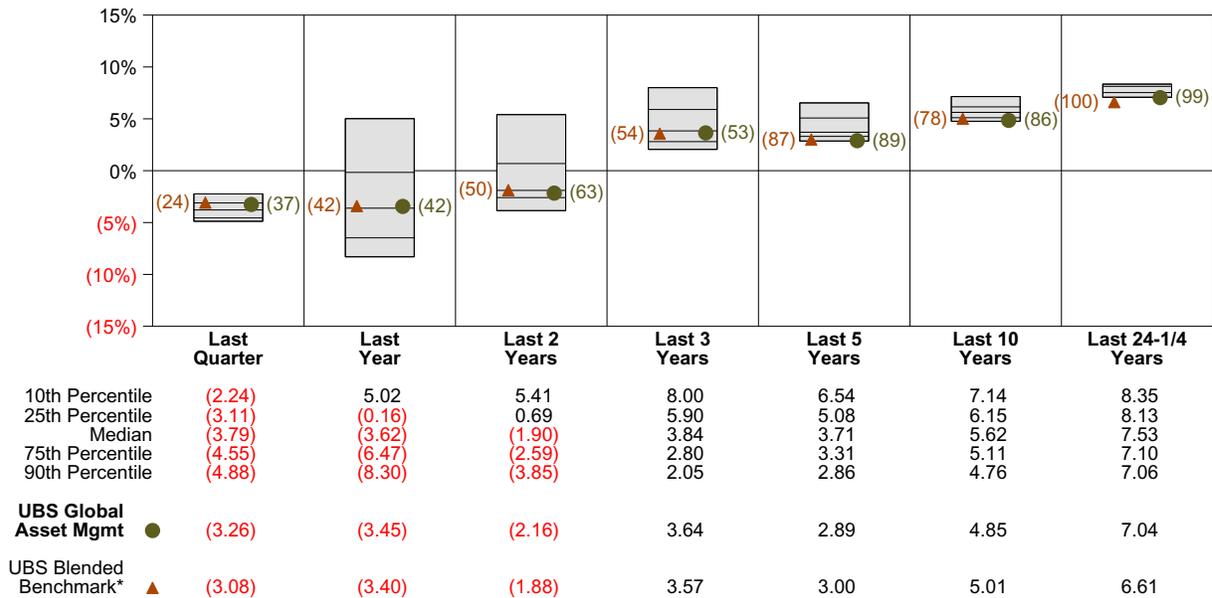
## Quarterly Summary and Highlights

- UBS Global Asset Mgmt's portfolio posted a (3.26)% return for the quarter placing it in the 37 percentile of the CAI Non-U.S. Fixed-Inc Style group for the quarter and in the 42 percentile for the last year.
- UBS Global Asset Mgmt's portfolio underperformed the UBS Blended Benchmark\* by 0.18% for the quarter and underperformed the UBS Blended Benchmark\* for the year by 0.04%.

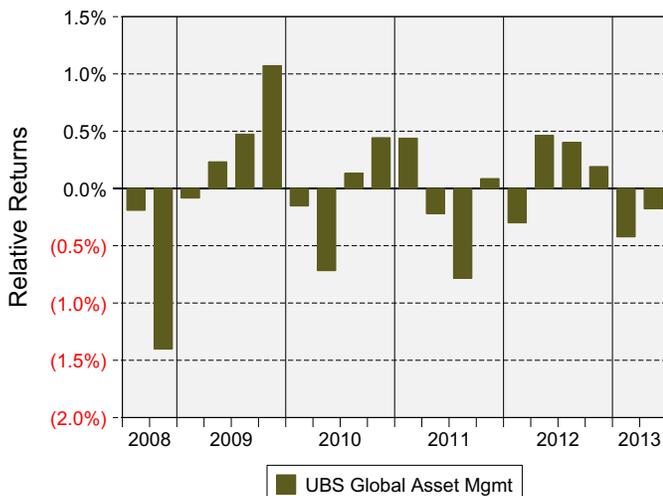
## Quarterly Asset Growth

Beginning Market Value	\$94,292,702
Net New Investment	\$-71,503
Investment Gains/(Losses)	\$-3,068,153
Ending Market Value	\$91,153,047

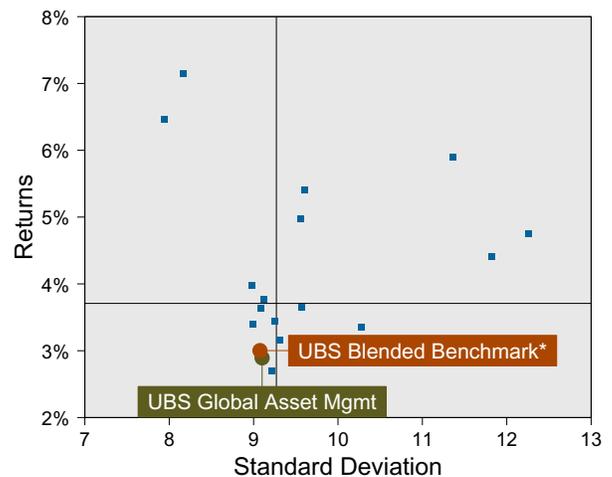
## Performance vs CAI Non-U.S. Fixed-Inc Style (Gross)



## Relative Return vs UBS Blended Benchmark\*



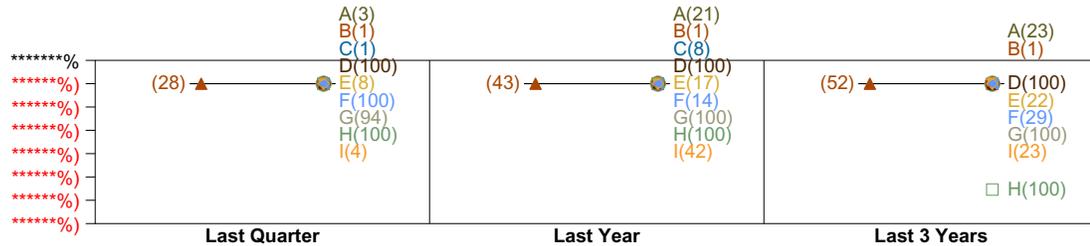
## CAI Non-U.S. Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



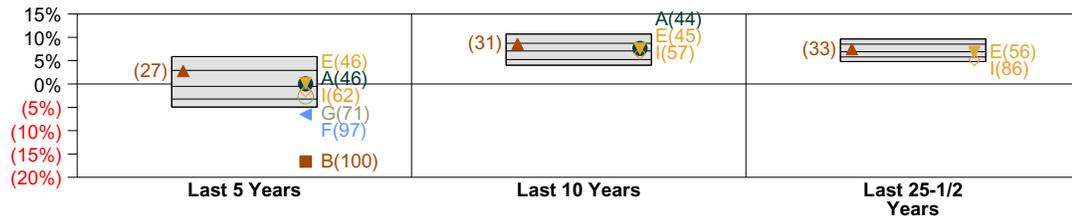
# North Dakota State Investment Board Pension Funds Performance vs Total Real Estate DB Periods Ended June 30, 2013

## Return Ranking

The chart below illustrates fund rankings over various periods versus the Total Real Estate DB. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the Total Real Estate DB. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.



	Last Quarter	Last Year	Last 3 Years
10th Percentile	3.61	15.76	18.65
25th Percentile	2.93	12.62	15.67
Median	2.29	10.04	13.43
75th Percentile	1.77	8.37	11.11
90th Percentile	1.11	5.05	7.70
Invesco Core Real Estate	4.69	13.36	15.86
Invesco Real Estate II	14.66	23.44	35.58
Invesco Real Estate III	13.71	16.79	-
Invesco Asia Real Estate	(1.54)	(5.61)	(4.32)
JP Morgan Investment	3.92	14.61	16.21
JP Morgan Alternative Fd	(5.34)	15.24	15.27
JP Morgan Greater China Fund	0.75	(4.51)	2.26
JP Morgan Greater Eur Opp Fd	(12.80)	(48.64)	(908185436)
Total Real Estate	4.34	11.05	15.91
NCREIF Total Index	2.87	10.72	13.14



	Last 5 Years	Last 10 Years	Last 25-1/2 Years
10th Percentile	5.88	10.71	9.65
25th Percentile	2.92	8.74	8.55
Median	(0.51)	7.09	6.92
75th Percentile	(3.22)	5.24	5.81
90th Percentile	(4.96)	4.03	4.81
Invesco Core Real Estate	0.04	7.62	-
Invesco Real Estate II	(16.63)	-	-
Invesco Real Estate III	-	-	-
Invesco Asia Real Estate	-	-	-
JP Morgan Investment	0.20	7.58	6.85
JP Morgan Alternative Fd	(6.52)	-	-
JP Morgan Greater China Fund	(2.65)	-	-
JP Morgan Greater Eur Opp Fd	-	-	-
Total Real Estate	(1.49)	6.53	5.15
NCREIF Total Index	2.79	8.59	7.47

# TIR - TEREDO

## Period Ended June 30, 2013

### Investment Philosophy

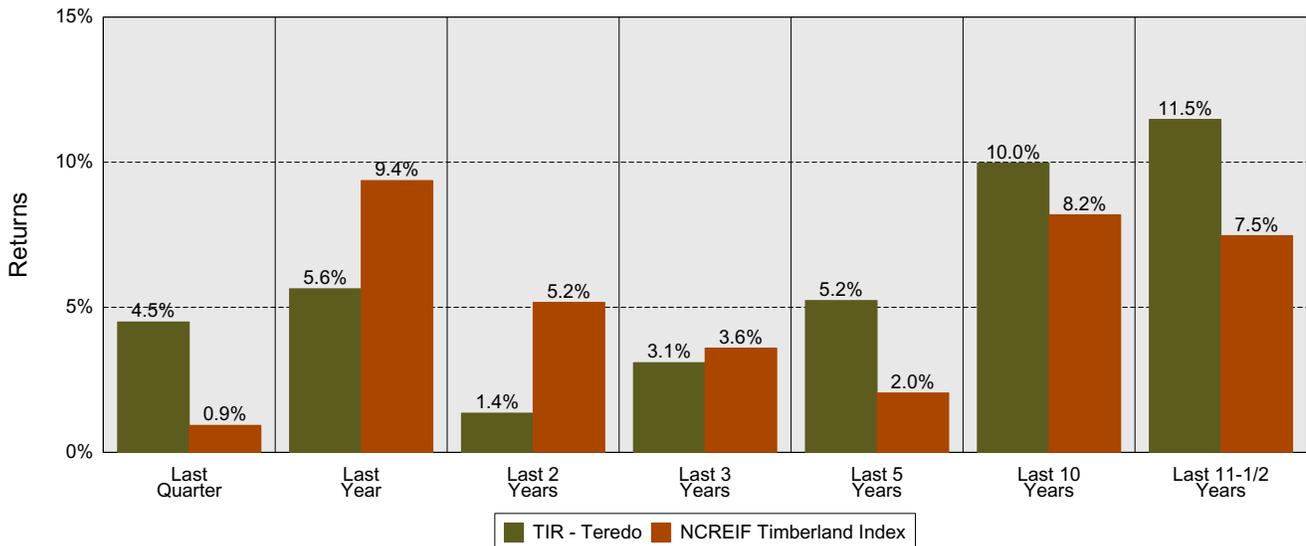
Teredo Timber LLC - The investment objective of Teredo is to provide competitive investment returns from increasing saw timber production through the 20 year term of the partnership. TIR's management strategy is to maximize saw timber volume by applying intensive forest management techniques which accelerate growth through the diameter class distribution. Periodic cash flows are produced from thinning and final harvests of the individual timber stands.

### Quarterly Summary and Highlights

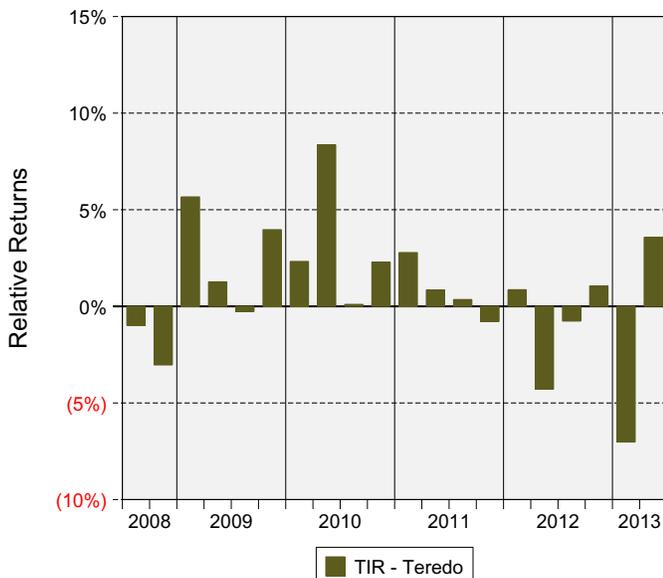
- TIR - Teredo's portfolio posted a 4.49% return for the quarter placing it in the 1 percentile of the CAI Core Bond Fixed-Inc Style group for the quarter and in the 1 percentile for the last year.
- TIR - Teredo's portfolio outperformed the NCREIF Timberland Index by 3.56% for the quarter and underperformed the NCREIF Timberland Index for the year by 3.73%.

### Quarterly Asset Growth

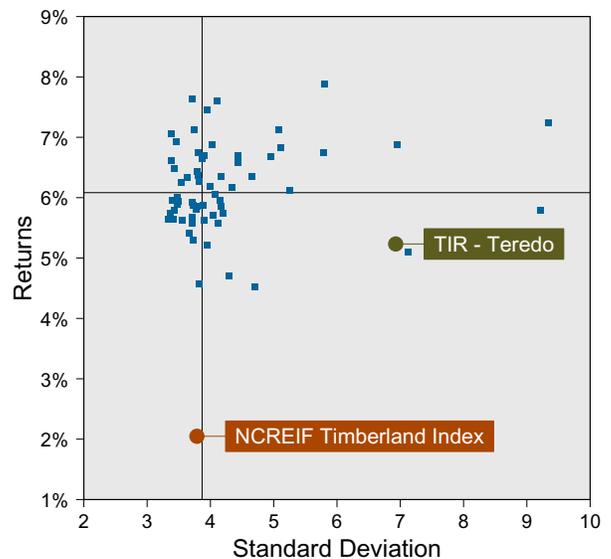
Beginning Market Value	\$75,252,013
Net New Investment	\$0
Investment Gains/(Losses)	\$3,381,092
Ending Market Value	\$78,633,105



Relative Return vs NCREIF Timberland Index



CAI Core Bond Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



# TIR - SPRINGBANK

## Period Ended June 30, 2013

### Investment Philosophy

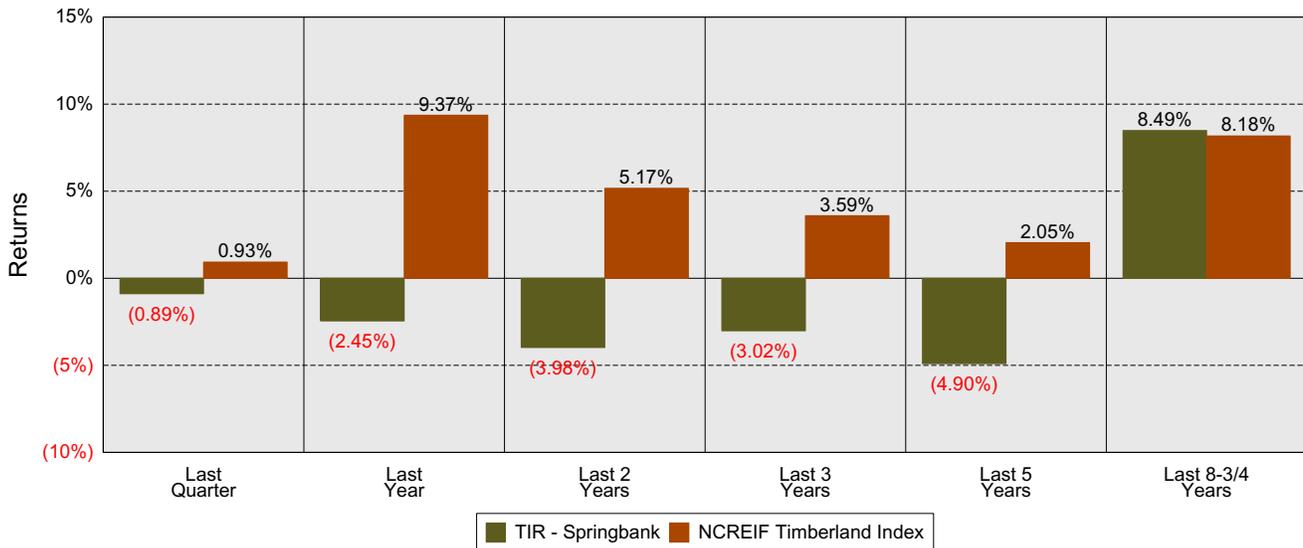
Springbank LLC - The investment objective of Springbank is to maximize long-term investment potential by means of the formation of a dedicated land management group, intensive timber management to increase timber production, the coordination of timber harvesting with land management activities and direct marketing and selective real estate partnerships.

### Quarterly Summary and Highlights

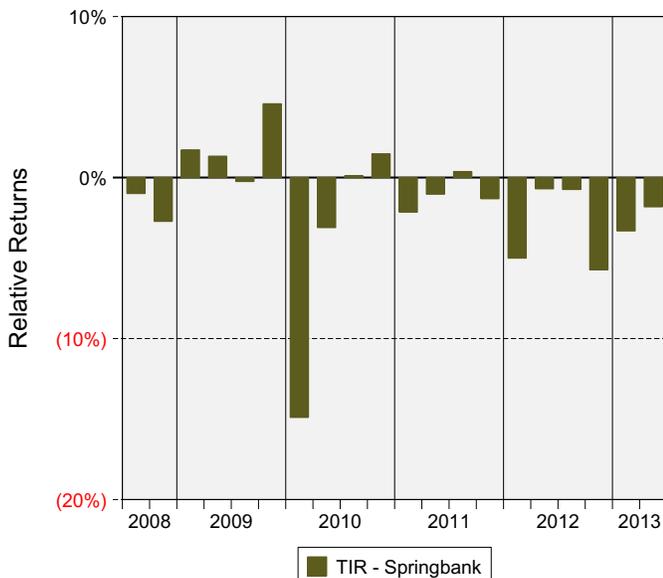
- TIR - Springbank's portfolio posted a (0.89)% return for the quarter placing it in the 1 percentile of the CAI Core Bond Fixed-Inc Style group for the quarter and in the 100 percentile for the last year.
- TIR - Springbank's portfolio underperformed the NCREIF Timberland Index by 1.82% for the quarter and underperformed the NCREIF Timberland Index for the year by 11.82%.

### Quarterly Asset Growth

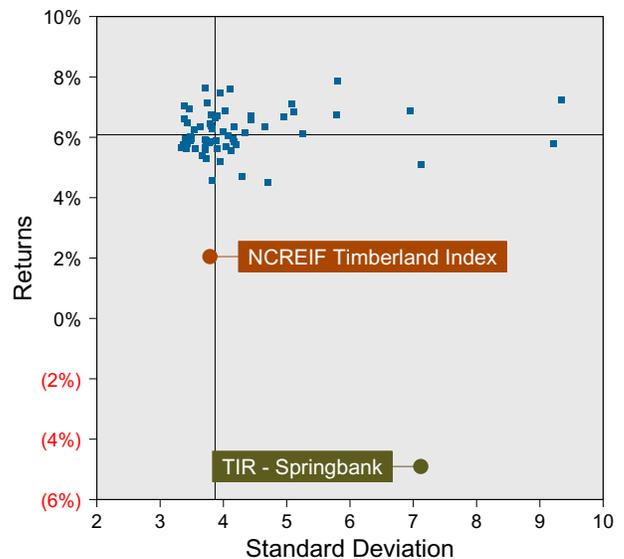
Beginning Market Value	\$121,960,528
Net New Investment	\$-26,132
Investment Gains/(Losses)	\$-1,082,407
Ending Market Value	\$120,851,989



Relative Return vs NCREIF Timberland Index



CAI Core Bond Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



# JP Morgan Asian Infrastructure Period Ended June 30, 2013

## Investment Philosophy

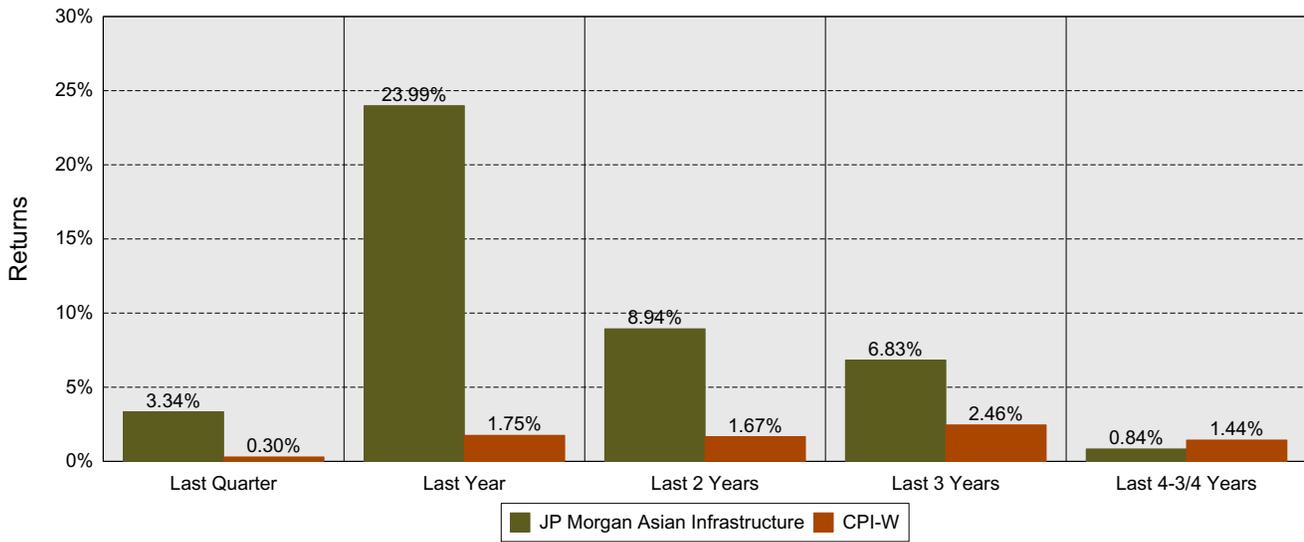
The JPMorgan Asian Infrastructure & Related Resources Opportunity ( AIRRO ) Fund seeks to invest in infrastructure and related resources opportunities across the greater Asia Pacific region. The Fund seeks to invest in a broad range of assets, including: core infrastructure, power both from conventional and renewable sources, communications, water and waste-water, public works, urban development and other "social" infrastructure assets and related resources.

## Quarterly Summary and Highlights

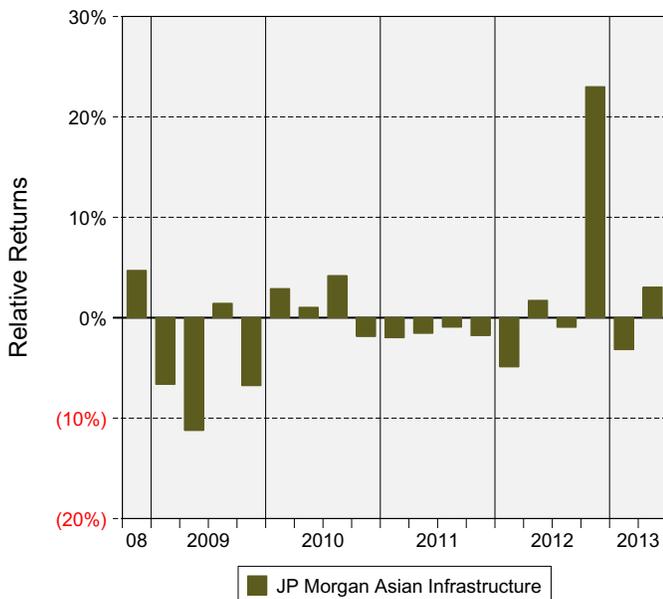
- JP Morgan Asian Infrastructure's portfolio outperformed the CPI-W by 3.05% for the quarter and outperformed the CPI-W for the year by 22.24%.

## Quarterly Asset Growth

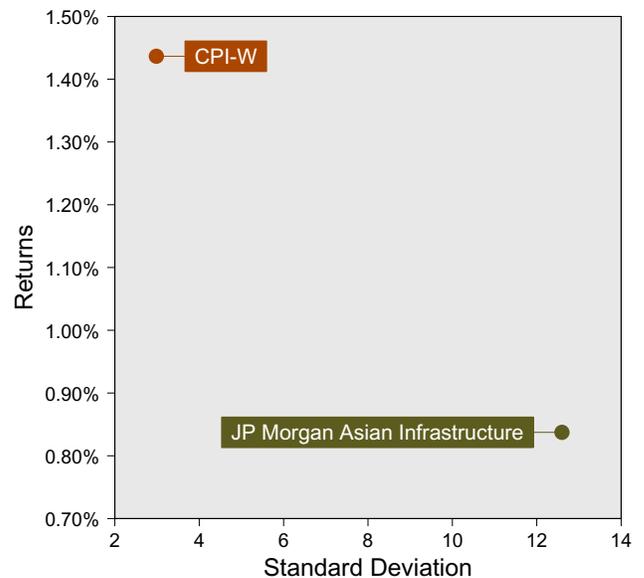
Beginning Market Value	\$26,004,004
Net New Investment	\$2,543,104
Investment Gains/(Losses)	\$952,892
Ending Market Value	\$29,500,000



Relative Return vs CPI-W



Annualized Four and Three-Quarter Year Risk vs Return



# JP Morgan Infrastructure Fund Period Ended June 30, 2013

## Investment Philosophy

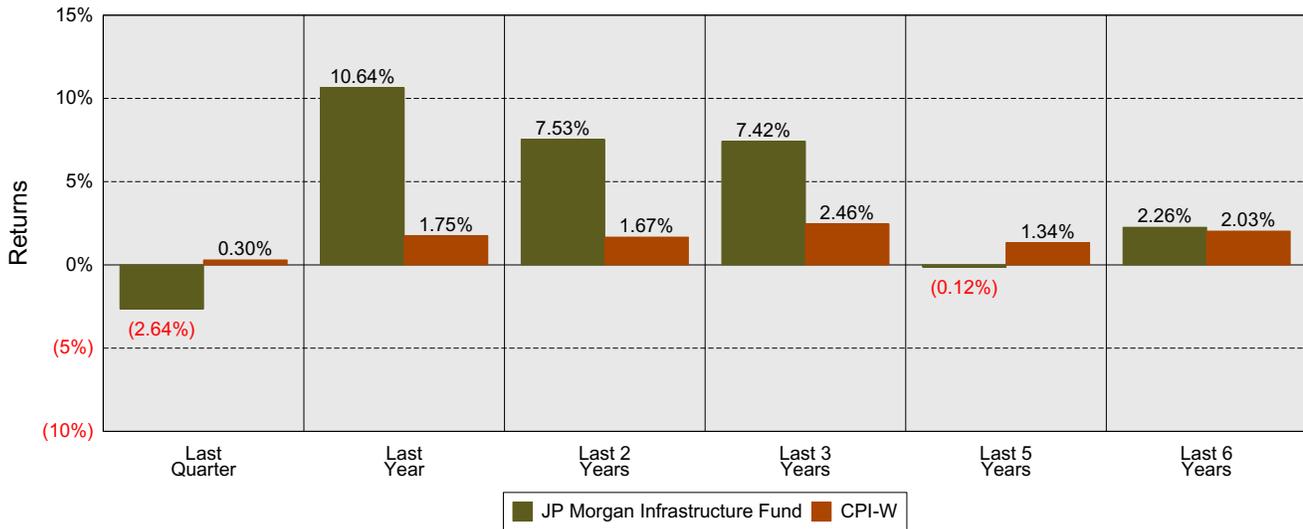
The only open-ended private commingled infrastructure fund in the U.S, the JPMorgan Infrastructure Investments Fund invests in stabilized assets in OECD countries with selected value-added opportunities, across infrastructure industry sub-sectors, including: toll roads, bridges and tunnels; oil and gas pipelines; electricity transmission and distribution facilities; contracted power generation assets; water distribution; waste-water collection and processing; railway lines and rapid rail links; and seaports and airports.

## Quarterly Summary and Highlights

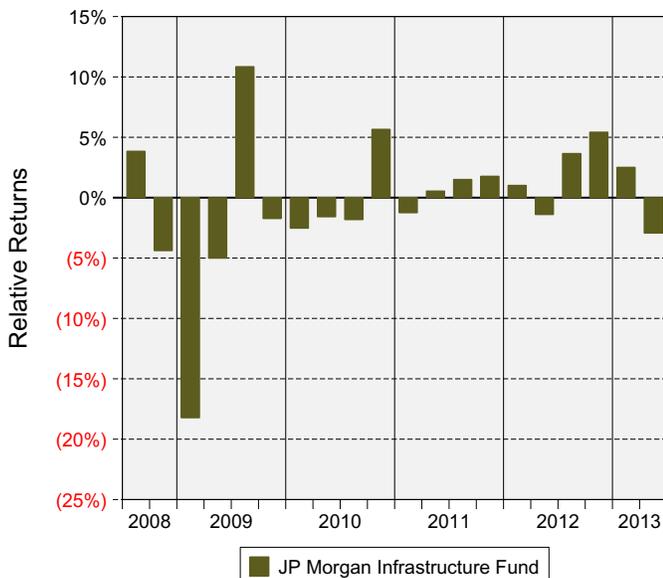
- JP Morgan Infrastructure Fund's portfolio underperformed the CPI-W by 2.94% for the quarter and outperformed the CPI-W for the year by 8.88%.

## Quarterly Asset Growth

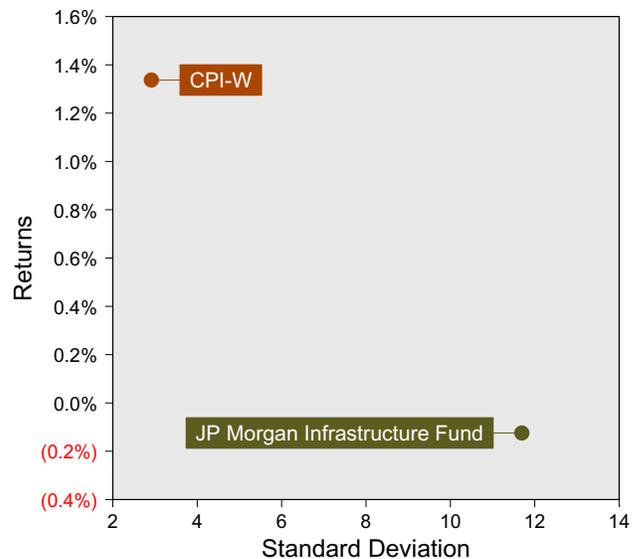
Beginning Market Value	\$99,693,795
Net New Investment	\$-307,851
Investment Gains/(Losses)	\$-2,627,707
Ending Market Value	\$96,758,237



Relative Return vs CPI-W



Annualized Five Year Risk vs Return



# Credit Suisse Cust. Infrastructure Period Ended June 30, 2013

## Investment Philosophy

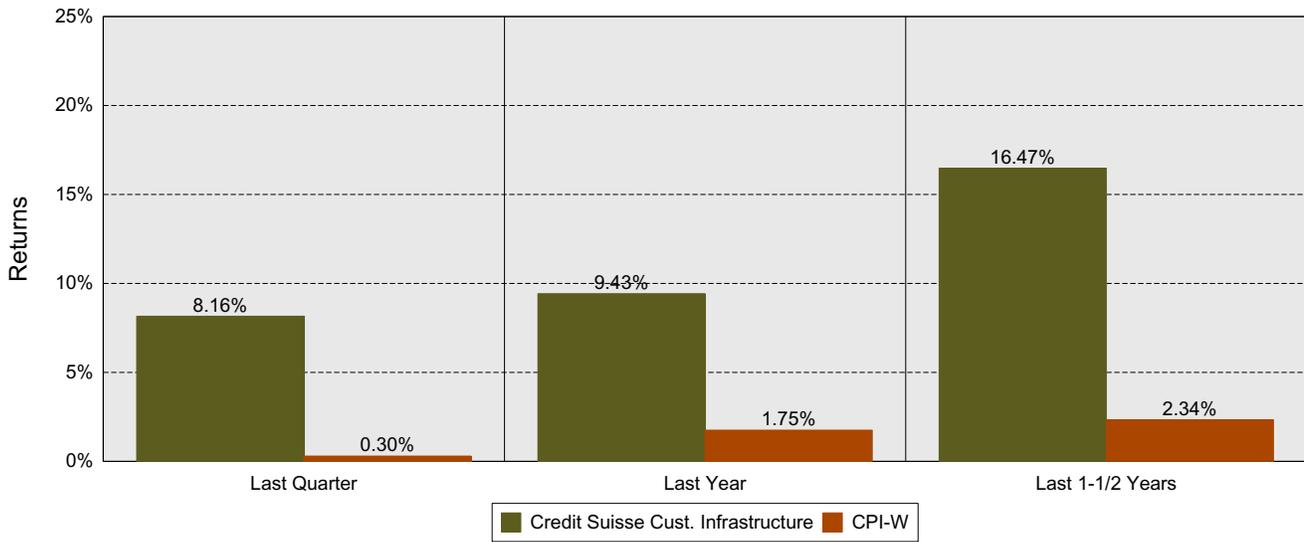
The Customized Infrastructure Strategies LP is a commingled fund focused on providing a comprehensive, diversified solution for investors looking to access the infrastructure asset class. The Fund seeks to generate stable, long-term yield and attractive risk-adjusted returns by investing in a diversified portfolio of primary core and core plus infrastructure funds (30%), co-investments (40%) and opportunistic secondary fund purchases (30%).

## Quarterly Summary and Highlights

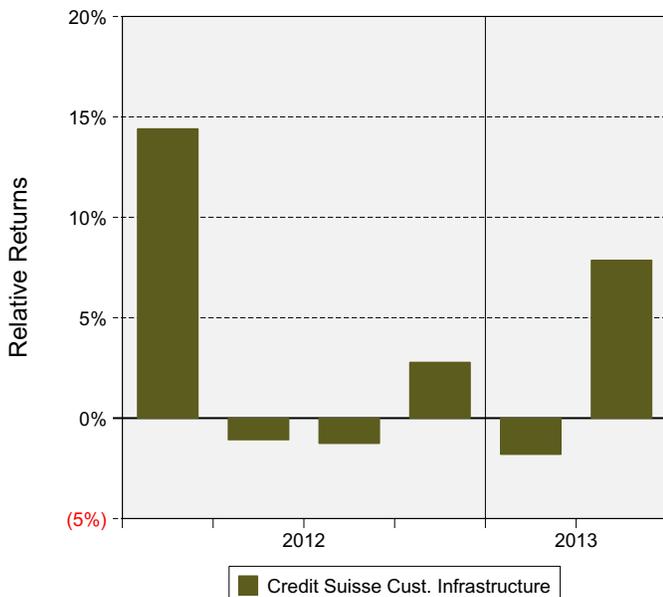
- Credit Suisse Cust. Infrastructure's portfolio outperformed the CPI-W by 7.86% for the quarter and outperformed the CPI-W for the year by 7.67%.

## Quarterly Asset Growth

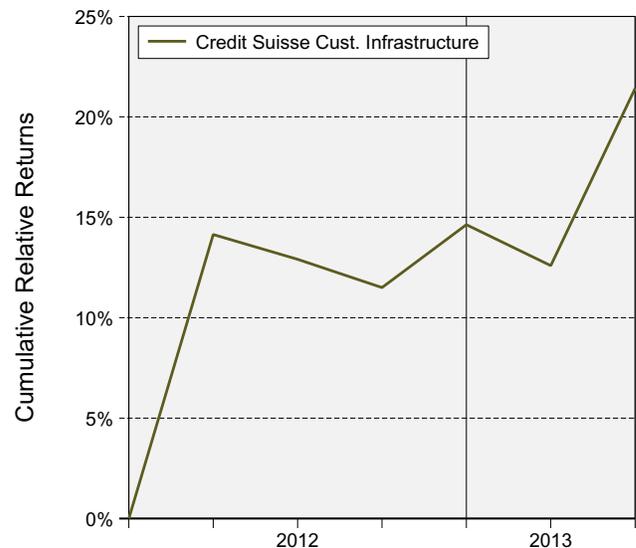
Beginning Market Value	\$26,902,760
Net New Investment	\$1,160,694
Investment Gains/(Losses)	\$2,268,734
Ending Market Value	\$30,332,188



## Relative Return vs CPI-W



## Cumulative Returns vs CPI-W



## Research and Educational Programs

The Callan Investments Institute provides research that keeps clients updated on the latest industry trends while helping them learn through carefully structured educational programs. Below are the Institute's recent publications – all of which can be found at [www.callan.com/research](http://www.callan.com/research).

### White Papers



#### **The Wide World of Investing: Capturing Global Opportunities**

Institutional investors have built significant non-U.S. equity allocations in order to expand their investment opportunity set, seek higher returns, and gain diversification benefits. Callan's Janet Becker-Wold and Andy Iseri discuss the evolving global investment universe and explore opportunities and risks facing international investors in this Ask the Expert interview.



#### **Navigating the Private Equity Niches: A Guide to Specialty Private Equity Fund-of-Funds Investment Strategies**

Author Gary Robertson describes the pros and cons of nine niche fund-of-funds strategies that might complement a core private equity program. Each niche strategy targets a relatively narrow segment of the private equity marketplace and has a unique risk and return profile.



#### **The Outsourced Chief Investment Officer (OCIO) Model: One Size Does Not Fit All**

In this paper we describe the OCIO market and Callan's approach, which acknowledges that each investor faces unique challenges that require custom solutions. We offer two case studies and a series of questions to assist fund sponsors considering the OCIO model.



#### **Taking Stock of U.S. Equities: A Roundtable Discussion with Callan's Experts**

At 33%, U.S. equities hold the greatest percentage weight in the average asset allocation of Callan's Total Fund Sponsor Database. Callan's Kevin Dolsen, Mark Andersen, Mark Stahl, Lauren Mathias, and James Danforth discuss some of the current issues facing equity investors.



#### **Charticle: Going Global?**

This charticle illustrates how the average U.S. pension plan's domestic bias stacks up against that of other developed countries. It shows the evolution in global equity markets and emerging markets plus global population trends. Seven key considerations for non-U.S. investors are also highlighted.

## Quarterly Publications

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**Quarterly Data:** The *Market Pulse* reference guide covers the U.S. economy and investment trends in domestic and international equities and fixed income, and alternatives. Our *Inside Callan's Database* report provides performance information gathered from Callan's proprietary database, allowing you to compare your funds with your peers.

**Capital Market Review:** A quarterly macroeconomic indicator newsletter that provides thoughtful insights on the economy as well as recent performance in the equity, fixed income, alternatives, international, real estate, and other capital markets.

**Private Markets Trends:** A seasonal newsletter that discusses the market environment, recent events, performance, and other issues involving private equity.

**Hedge Fund Monitor:** A quarterly newsletter that provides a current view of hedge fund industry trends and detailed quarterly performance commentary.

**DC Observer & Callan DC Index™:** A quarterly newsletter that offers Callan's observations on a variety of topics pertaining to the defined contribution industry. Each issue is updated with the latest Callan DC Index™ returns.

## Surveys

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### 2013 Risk Management Survey

The 2008 market crisis put risk in the spotlight and prompted fund fiduciaries to look at risk management in a new light. Callan fielded this survey in November 2012. Responses came from 53 fund sponsors representing \$576 billion in assets. The vast majority of this group has taken concrete steps in the past five years to address investment risks. Many facets of risk management are covered in this survey, such as stats on risk tools/systems: 55% of survey respondents find them to be effective and 14% do not, with the remainder undecided.



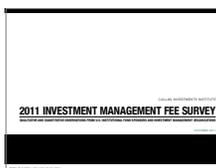
### 2013 Defined Contribution Trends Survey

This annual survey reflects on 2012 and what to look ahead to in 2013. Key findings include: plan sponsors register improvements in fiduciary awareness and activity; signs of confusion remain when it comes to meeting the DOL's fee disclosure requirements; adoption of auto features and Roth designated accounts appears to have plateaued; and plan sponsors are getting a handle on revenue sharing.



### 2012 Investment Management Compensation Survey

Callan conducted this survey of investment management firms to report on compensation practices and trends in the U.S. institutional investment market from 2010 to 2011. This survey provides an update to Callan's 2007 Investment Management Compensation Survey, which captured compensation practices from 2005 to 2006.



### 2011 Investment Management Fee Survey

We report on institutional investment management fee payment practices and trends. The survey includes published and actual fee data, and qualitative as well as quantitative observations from both fund sponsors and investment managers.

## Events

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Did you miss out on a Callan conference or workshop? If so, you can catch up on what you missed by reading our “Event Summaries” and downloading the actual presentation slides from our website. Our most recent programs:



The **2013 National Conference Summary** features a synopsis of our speakers: Robert Zoellick, Sheena Iyengar, Riz Khan, and the 2013 Capital Markets Panel. (Please note that contractual agreements prevented us from including summaries of Gordon Brown and Neil deGrasse Tyson.) The Summary also reviews our three workshops: risk management, strategically tactical investing, and alternatives in DC plans. Slide decks of select conference presentations are also available on our website.



Our October 2012 Regional Workshop, **Time to Terminate? Considerations for Making a Manager Change**, is captured in this summary. Featured in this workshop were Callan’s Bud Pellecchia, Millie Viqueira, and Kelly Cliff discussing the potential consequences and challenges of terminating a manager from a fund.

## Upcoming Educational Programs

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Our October 2013 Regional Workshops will be held on October 22 in New York, and then on October 23 in Atlanta. The topic will be announced shortly.

Our 34th Annual National Conference will be held in San Francisco on January 27-29, 2014. More information will be available this fall.

**Our research can be found at [www.callan.com/research](http://www.callan.com/research) or feel free to contact us for hard copies.**

**For more information about research or educational events, please contact Ray Combs or Gina Falsetto at [institute@callan.com](mailto:institute@callan.com) or 415-974-5060.**

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## The Center for Investment Training Educational Sessions

This educational forum offers basic-to-intermediate level instruction on all components of the investment management process. Continuing education credits are available for The CFA Institute, IBCFP, and NASBA. The “Callan College” courses cover topics that are key to understanding your responsibilities, the roles of everyone involved in this process, how the process works, and how to incorporate these strategies and concepts into an investment program. Listed below are the different types of sessions Callan offers.

### An Introduction to Investments

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#### **October 29-30, 2013, in San Francisco**

This one-and-one-half-day session is designed for individuals who have less than two years' experience with institutional asset management oversight and/or support responsibilities. The session will familiarize fund sponsor trustees, staff, and asset management advisors with basic investment theory, terminology, and practices.

Participants in the introductory session will gain a basic understanding of the different types of institutional funds, including a description of their objectives and investment session structures. The session includes:

- A description of the different parties involved in the investment management process, including their roles and responsibilities
- A brief outline of the types and characteristics of different plans (e.g., defined benefit, defined contribution, endowments, foundations, operating funds)
- An introduction to fiduciary issues as they pertain to fund management and oversight
- An overview of capital market theory, characteristics of various asset classes, and the processes by which fiduciaries implement their investment sessions

Tuition for the Introductory “Callan College” session is \$2,350 per person. Tuition includes instruction, all materials, breakfast and lunch on each day, and dinner on the first evening with the instructors.

## Standard Session

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### July, 2014 - TBD

This is a two-day session designed for individuals with more than two years' experience with institutional asset management oversight and/or support responsibilities. The session will provide attendees with a thorough overview of prudent investment practices for both defined benefit and defined contribution funds. We cover the key concepts needed to successfully meet a fund's investment objectives.

The course work addresses the primary components of the investment management process: the role of the fiduciary; capital market theory; asset allocation; manager structure; investment policy statements; manager search; custody, securities lending, fees; and performance measurement.

This course is beneficial to anyone involved in the investment management process, including: trustees and staff members of public, corporate and Taft-Hartley retirement funds (defined benefit and/or defined contribution); trustees and staff members of endowment and foundation funds; representatives of family trusts; and investment management professionals and staff involved in client service, business development, consultant relations, and portfolio management.

Tuition for the Standard "Callan College" session is \$2,500 per person. Tuition includes instruction, all materials, breakfast and lunch on each day, and dinner on the first evening with the instructors.

## Customized Sessions

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A unique feature of the "Callan College" is its ability to educate on a specialized level through its customized sessions. These sessions are tailored to meet the training and educational needs of the participants, whether you are a plan sponsor or you provide services to institutional tax-exempt plans. Past customized "Callan College" sessions have covered topics such as: custody, industry trends, sales and marketing, client service, international, fixed income, and managing the RFP process. Instruction can be tailored to be basic or advanced.

**For more information please contact Kathleen Cunnie, at 415.274.3029 or [cunnie@callan.com](mailto:cunnie@callan.com).**

## List of Managers That Do Business with Callan Associates Inc.

Confidential – For Callan Client Use Only

Callan Associates takes its fiduciary and disclosure responsibilities to clients very seriously. The list below is compiled and updated quarterly because we believe our fund sponsor clients should have a clear understanding of the investment management organizations that do business with our firm. As of 06/30/13, Callan provided educational, consulting, software, database, or reporting services to this list of managers through one or more of the following business units: Institutional Consulting Group, Independent Adviser Group, Fund Sponsor Consulting, the Callan Investments Institute and the “Callan College.” Per strict policy these manager relationships do not affect the outcome or process by which any of Callan’s services are conducted.

Fund sponsor clients may request a copy of this list at any time. Fund sponsor clients may also request specific information regarding the fees paid to Callan by the managers employed by their fund. Per company policy, information requests regarding fees are handled exclusively by Callan’s Compliance Department.

Clients should also be aware that Callan maintains an asset management division, the Trust Advisory Group (TAG). TAG specializes in the design, implementation and on-going management of multi-manager portfolios for institutional investors. Currently TAG serves as the sponsor and advisor to a multi-manager small cap equity fund and as the non-discretionary adviser to a series of Target Maturity Funds known as the Callan GlidePath® Funds. We are happy to provide clients with more specific information regarding TAG, including detail on the portfolios that it oversees. Per company policy these requests are handled by TAG’s Chief Investment Officer.

Manager Name	Educational Services	Consulting Services
1607 Capital Partners, LLC		Y
Aberdeen Asset Management		Y
Acadian Asset Management, Inc.	Y	
Advisory Research	Y	
Affiliated Managers Group		Y
AllianceBernstein	Y	
Allianz Global Investors U.S. LLC	Y	
Allianz Life Insurance Company of North America		Y
American Century Investment Management	Y	
Apollo Global Management	Y	
AQR Capital Management	Y	
Ares Management	Y	
Ariel Investments	Y	
Aronson + Johnson + Ortiz	Y	
Artio Global Management (fka, Julius Baer)	Y	
Atlanta Sosnoff Capital, LLC	Y	
Atlanta Capital Management Co., L.L.C.	Y	Y
AXA Rosenberg Investment Management	Y	
Babson Capital Management LLC	Y	
Baillie Gifford International LLC	Y	Y
Baird Advisors	Y	Y
Bank of America		Y
Barclays Capital Inc.	Y	
Baring Asset Management	Y	
Barrow, Hanley, Mewhinney & Strauss, Inc.		Y
Batterymarch Financial Management, Inc.	Y	
Bentall Kennedy	Y	
BlackRock	Y	
BMO Asset Management	Y	
BNY Mellon Asset Management	Y	Y
Boston Company Asset Management, LLC (The)	Y	Y
Brandes Investment Partners, L.P.	Y	Y
Brandywine Global Investment Management, LLC	Y	
Brown Brothers Harriman & Company	Y	
Cadence Capital Management	Y	

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Capital Group	Y	
CastleArk Management, LLC		Y
Causeway Capital Management	Y	
Central Plains Advisors, Inc.		Y
Chartwell Investment Partners	Y	
ClearBridge Investments, LLC (fka ClearBridge Advisors)	Y	
Columbia Management Investment Advisors, LLC	Y	Y
Columbus Circle Investors	Y	Y
Corbin Capital Partners	Y	
Cornerstone Capital Management Holdings (fka Madison Square)	Y	
Cramer Rosenthal McGlynn, LLC	Y	
Crawford Investment Council	Y	Y
Credit Suisse Asset Management	Y	
Crestline Investors	Y	Y
Cutwater Asset Management	Y	
DB Advisors	Y	Y
Delaware Investments	Y	Y
DePrince, Race & Zollo, Inc.	Y	Y
Deutsche Asset & Wealth Management	Y	Y
Diamond Hill Investments	Y	
DSM Capital Partners		Y
Duff & Phelps Investment Mgmt.	Y	Y
Eagle Asset Management, Inc.		Y
EARNEST Partners, LLC	Y	
Eaton Vance Management	Y	Y
Echo Point Investment Management	Y	
Epoch Investment Partners	Y	
Evanston Capital Management	Y	
Fayez Sarofim & Company		Y
Federated Investors		Y
First Eagle Investment Management	Y	
Fisher Investments	Y	
Flag Capital Management	Y	
Franklin Templeton	Y	Y
Fred Alger Management Co., Inc.	Y	
GAM (USA) Inc.	Y	
GE Asset Management	Y	Y
Goldman Sachs Asset Management	Y	Y
Grand-Jean Capital Management	Y	Y
GMO (fka Grantham, Mayo, Van Otterloo & Co., LLC)	Y	
Great Lakes Advisors, Inc.		Y
Guardian Capital	Y	
Guggenheim Investments Asset Management (fka Security Global)	Y	
Harbor Capital		Y
Hartford Investment Management Co.	Y	Y
Henderson Global Investors	Y	

## List of Managers That Do Business with Callan Associates Inc. (continued)

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Hermes Investment Management (North America) Ltd.	Y	
Hotchkis & Wiley	Y	
Income Research & Management	Y	
ING Investment Management	Y	Y
Institutional Capital LLC	Y	
INTECH Investment Management	Y	
Invesco	Y	Y
Investec Asset Management	Y	
Janus Capital Group (fka Janus Capital Management, LLC)	Y	Y
Jensen Investment Management		Y
J.P. Morgan Asset Management	Y	Y
KeyCorp		Y
Lazard Asset Management	Y	Y
Lee Munder Capital Group	Y	
Lincoln National Corporation		Y
Logan Circle Partners, L.P.	Y	
Longview Partners	Y	
Loomis, Sayles & Company, L.P.	Y	Y
Lord Abbett & Company	Y	Y
Los Angeles Capital Management	Y	
LSV Asset Management	Y	
Lyrical Partners	Y	
MacKay Shields LLC	Y	Y
Man Investments	Y	
Manulife Asset Management	Y	
Marvin & Palmer Associates, Inc.	Y	
Metropolitan West Capital Management, LLC		Y
MFS Investment Management	Y	Y
Mondrian Investment Partners Limited	Y	Y
Montag & Caldwell, Inc.	Y	Y
Morgan Stanley Alternative Investment Partners	Y	
Morgan Stanley Investment Management	Y	Y
Mountain Lake Investment Management LLC		Y
Neuberger Berman, LLC (fka, Lehman Brothers)	Y	Y
Newton Capital Management	Y	
Northern Lights Capital Group		Y
Northern Trust Global Investment Services	Y	Y
Nuveen Investments Institutional Services Group LLC	Y	Y
Old Mutual Asset Management	Y	Y
Old Mutual International	Y	
OppenheimerFunds, Inc.	Y	
Pacific Investment Management Company	Y	
Palisade Capital Management LLC	Y	
Partners Group	Y	
PAX World Management		Y
Peregrine Capital Management, Inc.		Y

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Perkins Investment Management	Y	
Philadelphia International Advisors, LP	Y	
PineBridge Investments (formerly AIG)	Y	
Pioneer Investment Management, Inc.	Y	
PNC Capital Advisors (fka Allegiant Asset Mgmt)	Y	Y
Principal Global Investors	Y	Y
Private Advisors	Y	
Prudential Fixed Income Management	Y	
Prudential Investment Management, Inc.	Y	Y
Putnam Investments, LLC		Y
Pyramis Global Advisors	Y	
Rainier Investment Management	Y	
RBC Global Asset Management (U.S.) Inc.		Y
Regions Financial Corporation		Y
RCM		Y
Robeco Investment Management	Y	Y
Rothschild Asset Management, Inc.	Y	Y
Russell Investment Management	Y	
Santander Global Facilities		Y
Schroder Investment Management North America Inc.	Y	Y
Scottish Widows Investment Partnership	Y	
SEI Investments		Y
SEIX Investment Advisors, Inc.	Y	
Smith Graham and Company		Y
Smith Group Asset Management		Y
Standard Life Investments	Y	
Standish (fka, Standish Mellon Asset Management)	Y	
State Street Global Advisors	Y	
Stone Harbor Investment Partners, L.P.		Y
Systematic Financial Management	Y	
T. Rowe Price Associates, Inc.	Y	Y
Taplin, Canida & Habacht	Y	
TCW Asset Management Company	Y	
Thompson, Siegel & Walmsley LLC	Y	
Turner Investment Partners	Y	
UBP Asset Management LLC	Y	
UBS	Y	Y
Union Bank of California		Y
Van Eck	Y	
Victory Capital Management Inc.	Y	
Vulcan Value Partners, LLC		Y
Waddell & Reed Asset Management Group	Y	Y
WCM Investment Management	Y	
WEDGE Capital Management		Y
Wellington Management Company, LLP	Y	

## List of Managers That Do Business with Callan Associates Inc. (continued)

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Wells Capital Management	Y	
Western Asset Management Company	Y	
William Blair & Co., Inc.	Y	Y

**INVESTMENT PERFORMANCE SUMMARY REPORT**  
**INSURANCE TRUST FUNDS**  
**June 30, 2013**

AGENDA ITEM VI.A.

	Quarter Ended 6/30/2013	1 Yr Ended 6/30/2013	3 Yrs Ended 6/30/2013	5 Yrs Ended 6/30/2013	Risk 5 Yrs Ended 6/30/2013	Risk Adj Excess Return 5 Yrs Ended 6/30/2013
<b>WORKFORCE SAFETY &amp; INSURANCE (WSI)</b>						
Total Fund Return - Net	-1.12%	8.32%	9.20%	5.52%	7.27%	-0.58%
Policy Benchmark Return	-1.99%	3.99%	6.99%	4.78%	5.43%	
Attribution Analysis						
Asset Allocation	0.11%	0.12%	-0.03%			
Manager Selection	0.76%	4.21%	2.24%			
Total Relative Return	0.87%	4.33%	2.20%	0.74%		
<b>FIRE &amp; TORNADO FUND</b>						
Total Fund Return - Net	-0.42%	10.59%	9.95%	6.53%	9.72%	-0.11%
Policy Benchmark Return	-0.67%	6.64%	7.57%	5.25%	7.55%	
Attribution Analysis						
Asset Allocation	0.00%	0.06%	0.00%			
Manager Selection	0.26%	3.89%	2.38%			
Total Relative Return	0.26%	3.95%	2.38%	1.28%		
<b>STATE BONDING FUND</b>						
Total Fund Return - Net	-1.31%	2.96%	4.42%	0.89%	6.07%	1.57%
Policy Benchmark Return	-1.27%	-0.32%	1.98%	-0.81%	4.75%	
Attribution Analysis						
Asset Allocation	0.00%	0.18%	0.34%			
Manager Selection	-0.04%	3.10%	2.11%			
Total Relative Return	-0.04%	3.28%	2.45%	1.70%		
<b>INSURANCE REGULATORY TRUST FUND (IRTF)</b>						
Total Fund Return - Net	-0.11%	8.49%	7.57%	5.04%	7.60%	0.46%
Policy Benchmark Return	-0.34%	5.75%	5.91%	3.86%	6.45%	
Attribution Analysis						
Asset Allocation	0.00%	0.09%	0.05%			
Manager Selection	0.23%	2.65%	1.61%			
Total Relative Return	0.23%	2.74%	1.66%	1.18%		
<b>PETROLEUM TANK RELEASE COMPENSATION FUND</b>						
Total Fund Return - Net	-1.19%	2.47%	4.09%	0.54%	5.83%	1.53%
Policy Benchmark Return	-1.15%	-0.28%	1.81%	-1.04%	4.69%	
Attribution Analysis						
Asset Allocation	0.00%	0.00%	0.37%			
Manager Selection	-0.04%	2.75%	1.91%			
Total Relative Return	-0.04%	2.75%	2.28%	1.58%		
<b>STATE RISK MANAGEMENT FUND</b>						
Total Fund Return - Net	-0.39%	10.19%	10.69%	7.45%	8.88%	-0.63%
Policy Benchmark Return	-0.69%	5.78%	7.97%	6.10%	6.42%	
Attribution Analysis						
Asset Allocation	0.00%	0.03%	0.04%			
Manager Selection	0.30%	4.37%	2.69%			
Total Relative Return	0.30%	4.41%	2.73%	1.35%		

**INVESTMENT PERFORMANCE SUMMARY REPORT**  
**INSURANCE TRUST FUNDS**  
**June 30, 2013**

	Quarter Ended 6/30/2013	1 Yr Ended 6/30/2013	3 Yrs Ended 6/30/2013	5 Yrs Ended 6/30/2013	Risk 5 Yrs Ended 6/30/2013	Risk Adj Excess Return 5 Yrs Ended 6/30/2013
<b>STATE RISK MANAGEMENT WORKERS COMP FUND</b>						
Total Fund Return - Net	0.01%	11.61%	11.69%	7.55%	10.17%	-0.43%
Policy Benchmark Return	-0.38%	7.31%	9.10%	6.41%	7.97%	
Attribution Analysis						
Asset Allocation	0.00%	0.01%	0.04%			
Manager Selection	0.39%	4.29%	2.54%			
Total Relative Return	0.38%	4.30%	2.58%	1.14%		
<b>ND ASSOCIATION OF COUNTIES FUND (NDACo)</b>						
Total Fund Return - Net	-0.67%	9.46%	9.43%	4.82%	12.65%	0.37%
Policy Benchmark Return	-0.86%	5.56%	7.09%	3.87%	11.04%	
Attribution Analysis						
Asset Allocation	0.00%	0.05%	-0.04%			
Manager Selection	0.19%	3.85%	2.38%			
Total Relative Return	0.19%	3.90%	2.34%	0.95%		
<b>CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT</b>						
Total Fund Return - Net	-0.87%	9.83%	9.73%	6.90%	9.16%	-0.36%
Policy Benchmark Return	-1.05%	5.49%	6.98%	5.34%	6.50%	
Attribution Analysis						
Asset Allocation	-0.01%	0.04%	0.02%			
Manager Selection	0.18%	4.29%	2.72%			
Total Relative Return	0.17%	4.33%	2.74%	1.56%		
<b>FARGODOME PERMANENT FUND</b>						
Total Fund Return - Net	-0.08%	13.46%	11.72%	6.55%	12.65%	-0.39%
Policy Benchmark Return	-0.64%	9.83%	9.91%	6.14%	11.04%	
Attribution Analysis						
Asset Allocation	0.00%	0.05%	-0.09%			
Manager Selection	0.56%	3.57%	1.89%			
Total Relative Return	0.56%	3.62%	1.81%	0.41%		
<b>CULTURAL ENDOWMENT FUND</b>						
Total Fund Return - Net	1.14%	15.58%	13.64%	6.56%	13.78%	-0.16%
Policy Benchmark Return	0.44%	11.68%	11.33%	5.99%	12.17%	
Attribution Analysis						
Asset Allocation	-0.02%	0.04%	0.05%			
Manager Selection	0.72%	3.86%	2.26%			
Total Relative Return	0.70%	3.90%	2.31%	0.57%		

**INVESTMENT PERFORMANCE SUMMARY REPORT**  
**INSURANCE TRUST FUNDS**  
**June 30, 2013**

	Quarter Ended 6/30/2013	1 Yr Ended 6/30/2013	3 Yrs Ended 6/30/2013	5 Yrs Ended 6/30/2013	Risk 5 Yrs Ended 6/30/2013	Risk Adj Excess Return 5 Yrs Ended 6/30/2013
<b>PERS RETIREE HEALTH</b>						
Total Fund Return - Net	1.89%	14.80%	12.73%	6.77%	15.00%	0.78%
Policy Benchmark Return	0.20%	12.00%	11.58%	5.65%	14.22%	
Attribution Analysis						
Asset Allocation						
Manager Selection						
Total Relative Return	1.69%	2.80%	1.15%	1.12%		
<b>PERS GROUP INSURANCE</b>						
Total Fund Return - Net	0.04%	0.27%	0.28%	0.45%	0.21%	0.21%
Policy Benchmark Return	0.02%	0.11%	0.11%	0.29%	0.28%	
Attribution Analysis						
Asset Allocation						
Manager Selection						
Total Relative Return	0.02%	0.15%	0.17%	0.16%		
<b>BUDGET STABILIZATION FUND</b>						
Total Fund Return - Net	0.06%	1.84%	2.37%	1.99%	4.00%	0.04%
Policy Benchmark Return	-0.07%	0.29%	0.25%	0.37%	0.29%	
Attribution Analysis						
Asset Allocation						
Manager Selection						
Total Relative Return	0.12%	1.55%	2.12%	1.62%		
<b>LEGACY FUND</b>						
Total Fund Return - Net	-0.26%	1.14%	N/A	N/A	N/A	N/A
Policy Benchmark Return	-0.11%	0.34%	N/A	N/A	N/A	
Attribution Analysis						
Asset Allocation	0.00%	0.00%				
Manager Selection	-0.15%	0.79%				
Total Relative Return	-0.15%	0.79%				

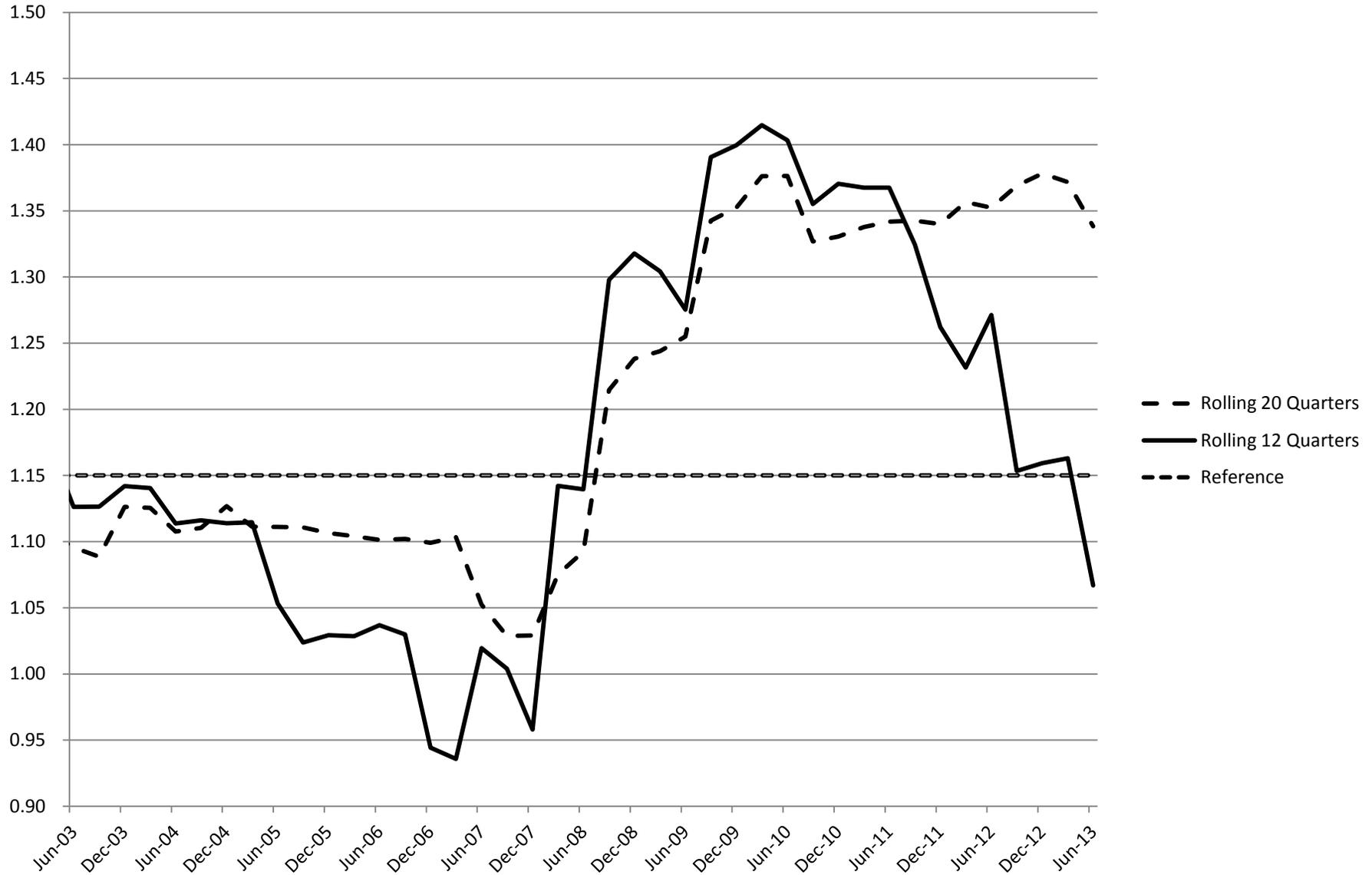
# WSI - Excess Returns Relative to Policy Benchmark 10 Years Ended 6/30/2013



# WSI - Risk Adjusted Excess Returns 10 Years Ended 6/30/2013



# WSI - Relative Standard Deviation Relative to Policy Benchmark 10 Years Ended 6/30/2013



June 30, 2013



**North Dakota State Investment  
Board Insurance Trust**

**Investment Measurement Service  
Quarterly Review**

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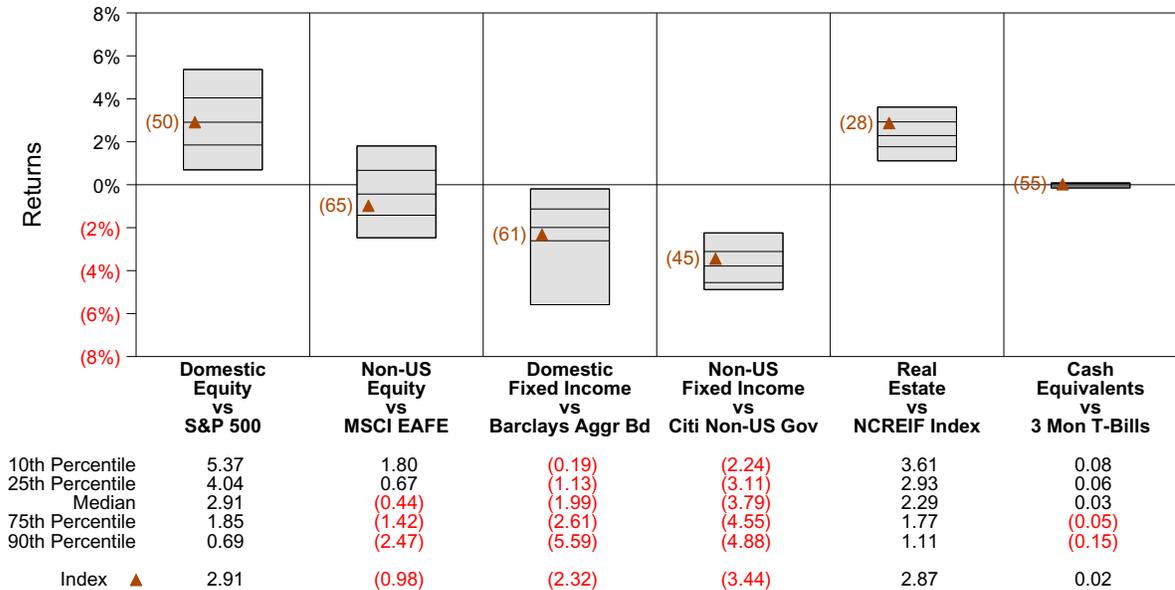
## Market Overview

### Active Management vs Index Returns

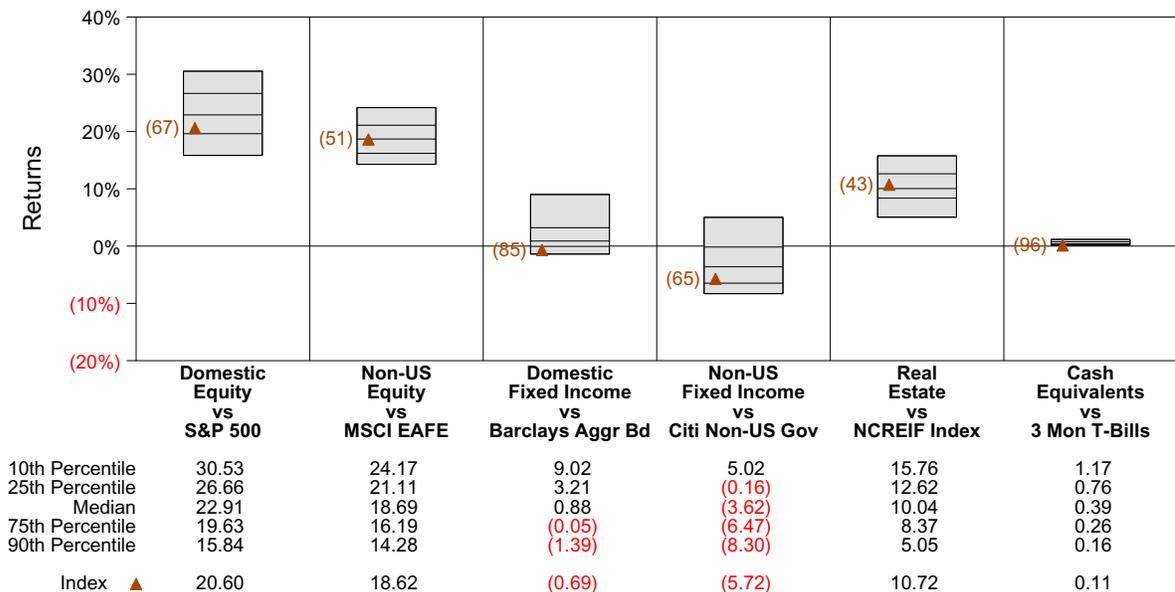
#### Market Overview

The charts below illustrate the range of returns across managers in Callan's Separate Account database over the most recent one quarter and one year time periods. The database is broken down by asset class to illustrate the difference in returns across those asset classes. An appropriate index is also shown for each asset class for comparison purposes. As an example, the first bar in the upper chart illustrates the range of returns for domestic equity managers over the last quarter. The triangle represents the S&P 500 return. The number next to the triangle represents the ranking of the S&P 500 in the domestic equity manager database.

#### Range of Separate Account Manager Returns by Asset Class One Quarter Ended June 30, 2013



#### Range of Separate Account Manager Returns by Asset Class One Year Ended June 30, 2013



Second Quarter 2013

## Stick to the Plan

### U.S. ECONOMY

**17** Real GDP grew 1.7% in the second quarter, ahead of consensus expectations and very much in line with a host of measures that suggest accelerating growth in the U.S. economy. Mortgage rates backed up, reaching 4.5% by the end of June, sparking fears that the housing recovery would die on the vine.

### A Tale of Two Quarters

#### U.S. EQUITY

**2** The second quarter started strong but derailed in mid-May. Positive investor momentum dissipated after a sharp sell-off due to fears of an end to Fed stimulus. The **S&P 500** (+2.91%) experienced high volatility and not much in return.

### When Ben Talks, People Listen

#### U.S. FIXED INCOME

**5** Interest rates jumped during the quarter amid speculation of an eventual slowdown in quantitative easing. The **Barclays Aggregate Index** returned -2.32%, its largest quarterly decline since 2004. The high yield credit sector modestly retreated, with the **Barclays Corporate High Yield Index** returning -1.44%.

### Pushing Ahead

#### REAL ESTATE

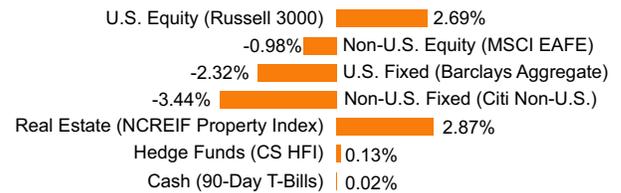
**13** Institutional real estate assets, as measured by the **NCREIF Property Index**, advanced 2.87%. Global listed real estate declined 3.63%. Weak performance of Hong Kong/China and Singapore stocks drove Asia/Pacific REITs down 7.75%.

### Heading for the Exits

#### PRIVATE EQUITY

**15** Private equity activity was up by almost all measures in the second quarter, riding a nice wave of liquidity. Exit activity increased significantly, with fundraising and new investments also rising.

## Broad Market Quarterly Returns



Sources: Barclays, Citigroup, Credit Suisse Hedge Index LLC, Merrill Lynch, MSCI Inc., NCREIF, Russell Investment Group, Standard & Poor's

### Waiting on the World to Change

#### NON-U.S. EQUITY

**8** While the U.S. has inched warily toward recovery, international markets have struggled to find purchase. Though the **MSCI EAFE Index** shed only 98 basis points, political and industrial misery dealt a focused blow to the **MSCI EM Index** (-7.95%).

### Abenomics

#### NON-U.S. FIXED INCOME

**11** Japan's aggressive approach to resolving a decade of economic malaise appears to be paying dividends. Meanwhile, global bonds as a whole were down for the third consecutive quarter, with the **Citigroup Non-U.S. WGBI Index** declining 3.44%.

### Taper Talk Unwinds Hedge Fund Gains

#### HEDGE FUNDS

**16** Overall, hedge funds surrendered early quarter gains to finish with little profit. Representing a paper portfolio without implementation costs, the **Credit Suisse Hedge Fund Index** inched ahead slightly (+0.13%).

### Holding On

#### FUND SPONSOR & DC INDEX

**19** Although most asset classes were negative for the quarter, median returns across fund types held onto fractional gains due to the support of U.S. equities. Taft-Hartley funds topped out at 1.62%, while even the best corporate funds struggled to break 1%, gaining only 0.85%.

# A Tale of Two Quarters

U.S. EQUITY | Lauren Mathias, CFA

The market experienced increased volatility compared to the first quarter of 2013, specifically in June. Though the beginning of the period saw continued optimism from the previous quarter, when the Federal Reserve announced a taper to quantitative easing (projected for late 2013), investors reacted dramatically. The 10-year Treasury yield jumped 1% and in equity markets, cyclicals and high-yielding stocks suffered. The unemployment rate remained unchanged at 7.6%, and the three-month average rate of job growth declined 52,000 from the previous quarter. Also, first-quarter GDP was revised down from 2.4% to 1.8%, gold prices hit a 34-month low, and volatility (as measured by the CBOE Volatility Index) spiked in June. Overall, solid performance turned sour after the Fed announced its potential easing later in the year, yet the U.S. economy needs to improve for the Fed to actually begin tapering.

For the second quarter, the broad benchmark **Russell 3000 Index** increased 2.69%. By capitalization size, large cap stocks (**Russell 1000**: +2.65%) closely tracked mid-cap stocks (**Russell Midcap**: +2.21%), while the smallest (**Russell 2000**

**Index**: +3.08%) and largest (**Russell Top 50**: +2.92%) gained the most. The **S&P 500** (+2.91%) achieved a similar return.

Fears of rising interest rates drove cyclical sectors within the Russell 3000 Index down: Energy (-0.84%) and Materials (-2.73%). China's decreasing GDP growth forecast and its weakening demand for oil forced energy stocks to retreat. The Materials sector suffered significant losses from the metals and mining industry as commodity prices declined, also due to slowing in China. Potential rising rates also affected the Utilities sector (-2.11%), which lost 8% in May alone.

The Consumer Discretionary (+7.27%), Financials (+5.18%), and Health Care (+4.06%) sectors led the quarter. Home Depot (+11.59%) continued to benefit from the U.S. housing market recovery as household formation and housing turn-over created opportunities. The Financials sector would have garnered a much larger return without the REITs sub-sector (-3.69%), which declined amid fears of increasing rates. Within Health Care, pharmaceutical companies have navigated a

**Economic Sector Exposure** (Russell 3000)

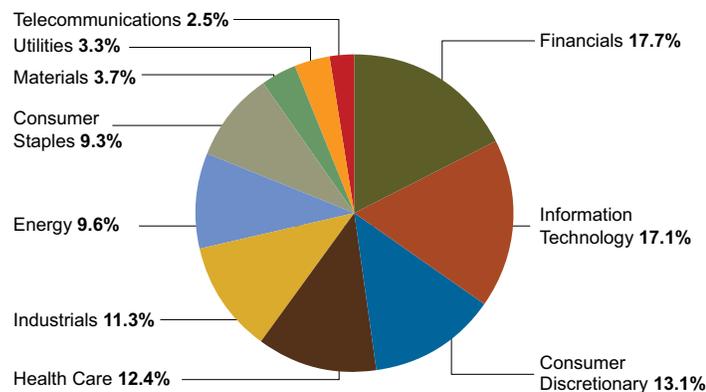
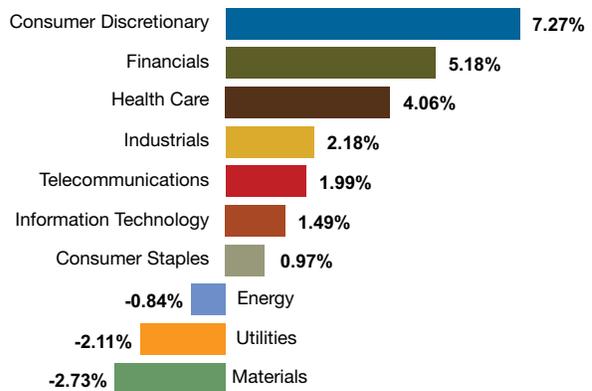
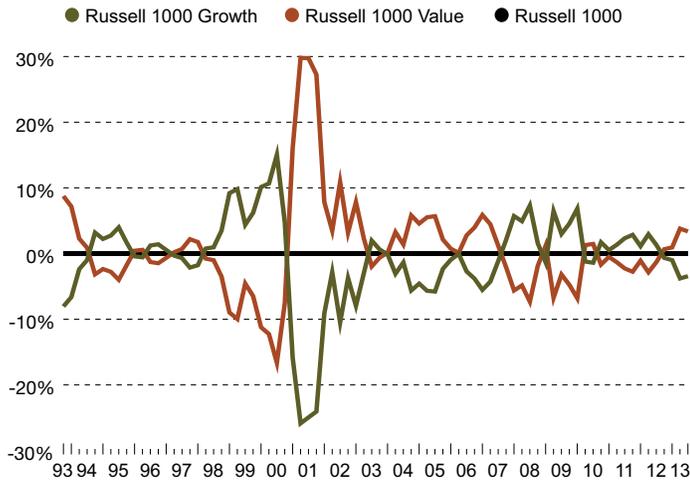


Chart may not sum to 100% due to rounding.  
Source: Russell Investment Group

**Economic Sector Quarterly Returns** (Russell 3000)

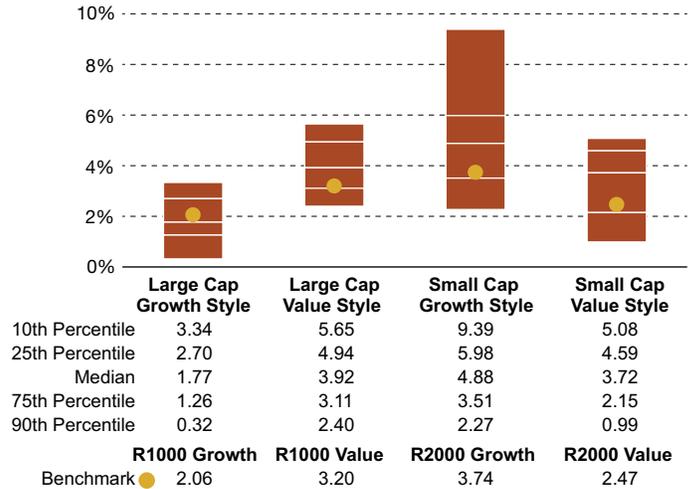


**Rolling One-Year Relative Returns** (vs. Russell 1000)



Source: Russell Investment Group

**Callan Style Group Quarterly Returns**



Sources: Callan, Russell Investment Group

tough environment by extracting growth from emerging markets, which have not been as slow as the developed world.

Mature Information Technology (+1.49%) firms buoyed the sector with a focus on shareholders; NetApp (+10.60%) and EMC (-0.071%) initiated dividends while Cisco Systems (+17.40%) and Hewlett-Packard (+4.64%) increased their payouts. Industrials (+2.18%) was led by aerospace and defense, specifically Boeing (+19.94%), which has delivered strong sales and operating margins. Consumer Staples (+0.97%) had been bid up by investors in the search for yield, but with rates presumably

on the rise, these companies trailed. Finally, Telecommunications (+1.99%) saw decent performance from merger activity; investors liked the T-Mobile US and MetroPCS combination, and T-Mobile grew 69.60% over the quarter.

Based upon the Russell style indices, dominance was mixed among small and large capitalization stocks. The **Russell 2000 Small Cap Value Index** (+2.47%) trailed its growth counterpart (+3.74%), while larger companies in the **Russell 1000 Value Index** (+3.20%) bested the **Russell 1000 Growth Index** (+2.06%).

**U.S. Equity Index Characteristics as of June 30, 2013**

	S&P 1500	S&P 500	S&P 400	S&P 600	Rus 3000	Rus 1000	Rus Midcap	Rus 2000
Cap Range Min (\$MM)	71	1,685	488	71	6	301	301	6
Cap Range Max (\$B)	401.73	401.73	17.68	7.24	422.49	422.49	30.33	4.56
Number of Issues	1,500	500	400	600	2,923	989	795	1,934
% of S&P 1500	100%	88%	8%	4%	100%	92%	28%	8%
Wtd Avg Mkt Cap (\$B)	91.06	102.81	4.57	1.51	84.95	91.98	10.08	1.58
Price/Book Ratio	2.3	2.3	2.2	2.0	2.3	2.3	2.2	1.9
P/E Ratio (forecasted)	14.1	13.8	16.5	17.6	14.3	14.0	15.7	17.7
Dividend Yield	2.1%	2.2%	1.5%	1.2%	2.0%	2.1%	1.6%	1.4%
5-Yr Earnings (forecasted)	10.9%	10.8%	10.9%	12.5%	11.2%	11.1%	12.1%	12.6%

Sources: Russell Investment Group, Standard & Poor's.

## U.S. EQUITY (Continued)

### Style Median and Index Returns\* for Periods ended June 30, 2013

Large Cap Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Large Cap–Broad Style	2.99	14.15	21.95	18.36	7.00	8.01
Large Cap–Growth Style	1.77	11.12	16.87	17.47	6.48	7.80
Large Cap–Value Style	3.92	16.41	26.00	18.78	7.24	8.28
Aggressive Growth Style	2.73	13.44	18.72	17.04	6.87	9.47
Contrarian Style	4.44	16.25	26.41	18.63	7.73	8.81
Core Style	3.06	14.27	22.07	18.34	7.19	8.03
Yield-Oriented Style	3.47	14.33	20.74	18.51	7.81	8.91
Russell 3000	2.69	14.06	21.46	18.63	7.25	7.81
Russell 1000	2.65	13.91	21.24	18.63	7.12	7.67
Russell 1000 Growth	2.06	11.80	17.07	18.68	7.47	7.40
Russell 1000 Value	3.20	15.90	25.32	18.51	6.67	7.79
S&P Composite 1500	2.63	13.79	20.94	18.54	7.24	7.69
S&P 500	2.91	13.82	20.60	18.45	7.01	7.30
NYSE	1.32	9.99	20.64	18.16	5.48	8.68
Dow Jones Industrials	2.92	15.20	18.87	18.23	8.64	7.92
Mid Cap Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Mid Cap–Broad Style	2.22	14.99	23.21	19.47	7.94	11.10
Mid Cap–Growth Style	2.14	13.15	19.89	18.88	7.21	10.58
Mid Cap–Value Style	2.44	16.09	27.80	19.63	9.04	11.37
Russell Midcap	2.21	15.45	25.41	19.53	8.28	10.65
S&P MidCap 400	1.00	14.59	25.18	19.45	8.91	10.74
Small Cap Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Small Cap–Broad Style	3.78	16.83	25.64	20.52	10.01	10.95
Small Cap–Growth Style	4.88	18.17	23.35	21.59	9.30	10.87
Small Cap–Value Style	3.72	16.24	26.87	19.47	11.14	11.27
Small Cap–Core Style	2.93	16.31	25.82	20.79	9.84	10.71
Russell 2000	3.08	15.86	24.21	18.67	8.77	9.53
S&P SmallCap 600	3.92	16.19	25.18	20.27	9.94	10.77
NASDAQ	4.52	13.42	17.84	18.78	9.47	8.69
Russell 3000 Sectors	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Consumer Staples	0.97	15.70	18.38	19.88	11.88	10.38
Consumer Discretionary	7.27	20.41	33.83	26.72	16.57	9.08
Industrials	2.18	14.68	25.20	19.38	6.92	9.13
Energy	-0.84	9.63	17.53	17.66	-1.19	13.40
Materials	-2.73	2.37	13.07	15.48	1.71	10.56
Information Technology	1.49	6.96	8.72	15.33	7.90	7.74
Utilities	-2.11	10.99	8.82	15.58	3.69	9.90
Financials	5.18	17.84	31.17	14.46	2.75	1.59
Telecommunications	1.99	10.78	13.08	20.77	7.86	8.12
Health Care	4.06	20.40	27.40	21.98	12.38	8.02

\*Returns less than one year are not annualized.

Sources: Callan, Dow Jones & Company Inc., Russell Investment Group, Standard & Poor's, The NASDAQ Stock Market Inc.

# When Ben Talks, People Listen

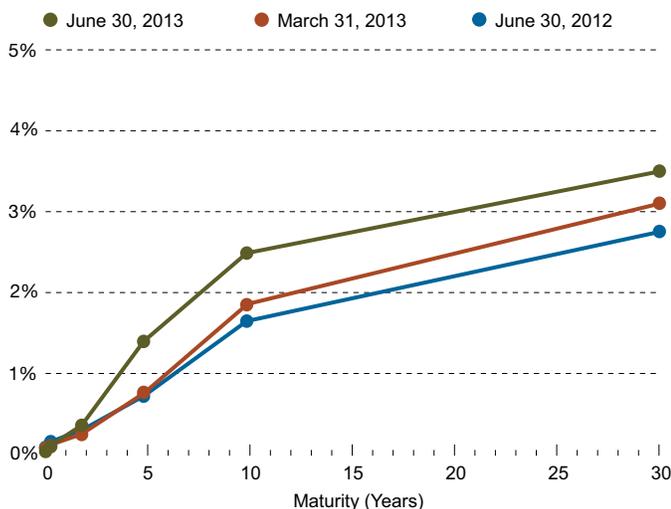
U.S. FIXED INCOME | Steven Center, CFA

Treasury yields moved markedly higher during the second quarter as investors considered how the Fed might ultimately end its cat-and-mouse game of quantitative easing. Credit spreads widened amid a drop in liquidity, resulting in decreased investment-grade corporate issuance. The **Barclays Aggregate Index** returned -2.32%, driven by rising rates and widening investment-grade credit spreads. However, tepid inflation figures and moderate improvement to the unemployment rate make near-term action by the Fed unlikely.

While Chairman Bernanke's language indicated a possible eventual ease in activity, the Fed remains committed to purchasing \$85 billion of assets per month. Additionally, the Fed maintained its low-rate stance by keeping the federal funds and discount rates at 0.00%–0.25% and 0.75%, respectively. However, potentially conflicting language from the Fed resulted in increased bond market volatility, as investors feared each positive economic announcement could result in a slowdown in Fed activity.

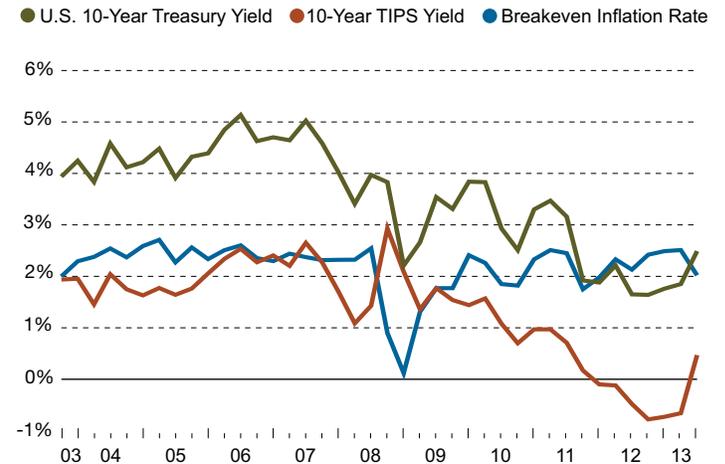
The yield curve steepened during the quarter, with the spread between two-year and 30-year Treasuries advancing 28 basis points (bps) to 314 bps. The short end of the curve remained

## U.S. Treasury Yield Curves



Source: Bloomberg

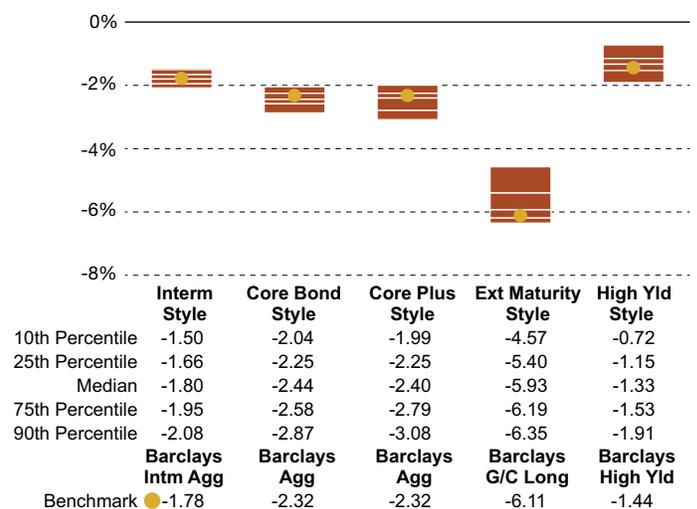
## Historical 10-Year Yields



Source: Bloomberg

fairly static, with only the rise of 11 bps for two-year Treasuries worth noting. The most dramatic expansion occurred with five-year and 10-year rates, as they advanced 63 and 64 bps, respectively; 30-year yields rallied 40 bps to 3.50%. The breakeven rate (the difference between nominal and real yields) on the 10-year Treasury plummeted 49 bps to 2.02%, its lowest level since 2011. Ten-year TIPS notched a positive real yield (+0.47%) for the first time in almost two years.

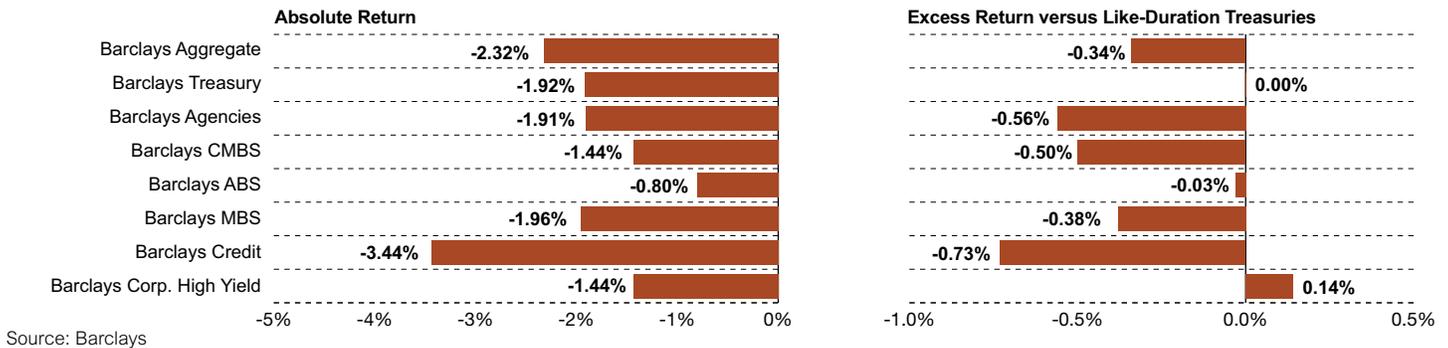
## Callan Style Group Quarterly Returns



Sources: Barclays, Callan

## U.S. FIXED INCOME (Continued)

### Fixed Income Index Quarterly Returns

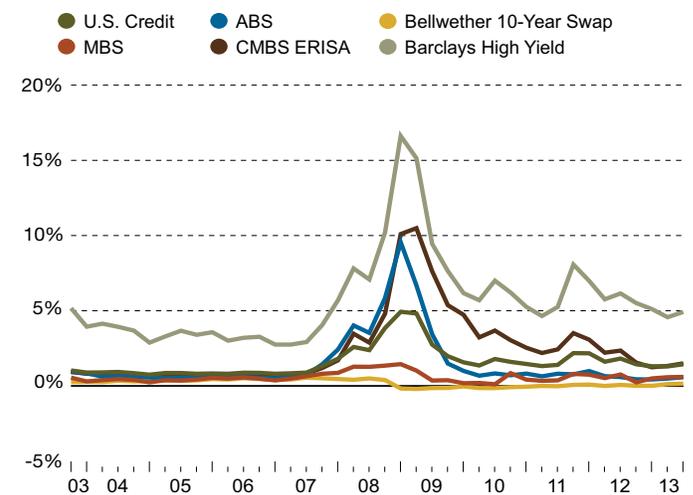


All areas of the securitized sector trailed like-duration Treasuries during the quarter. Asset-backed securities (ABS) weakened slightly (-0.03%). However, mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS) declined 0.38% and 0.50%, respectively. U.S. residential mortgage rates increased as the quarter progressed, slowing prepayments and thus extending the duration of the Barclays Aggregate Index to its highest level in more than two decades.

Investors had no place to hide as investment-grade credit suffered across the board during the quarter and trailed like-duration Treasuries. Financials widened the most, retreating 0.63%. Industrials and Utilities fared slightly better, declining 0.48% and 0.54%, respectively.

The high yield corporate sector retreated during the quarter, but still performed well relative to like-duration Treasuries. The **Barclays Corporate High Yield Index** returned -1.44%, but gained 14 bps on a like-duration basis as investors continued

### Effective Yield Over Treasuries



Source: Barclays

to accept credit risk. New issue activity remained lively despite the moderate performance hiccup, with 222 issues totaling approximately \$101 billion coming to market during the quarter.

### U.S. Fixed Income Index Characteristics as of June 30, 2013

Barclays Indices	Yield to Worst	Mod Adj Duration	Avg Maturity	% of Barclays G/C	% of Barclays Agg
Barclays Aggregate	2.35	5.49	7.45	0.00%	100.00%
Barclays Govt/Credit	2.03	5.68	7.72	100.00%	68.47%
Intermediate	1.52	3.88	4.22	82.39%	56.41%
Long-Term	4.46	14.12	24.08	17.61%	12.06%
Barclays Govt	1.23	4.97	6.08	60.14%	41.17%
Barclays Credit	3.24	6.75	10.19	39.86%	27.29%
Barclays Mortgage	3.12	5.22	7.12	-	29.35%
Barclays Asset-Backed	1.28	2.78	3.11	-	0.40%
Barclays Comm Mortgage	2.34	3.14	3.51	-	1.75%
Barclays Corp High Yield	6.66	4.41	6.73	-	-

Source: Barclays

## Style Median and Index Returns\* for Periods ended June 30, 2013

<b>Broad Fixed Income</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Core Bond Style</b>	<b>-2.44</b>	<b>-2.31</b>	<b>0.50</b>	<b>4.33</b>	<b>6.08</b>	<b>5.06</b>
<b>Core Bond Plus Style</b>	<b>-2.40</b>	<b>-2.08</b>	<b>1.81</b>	<b>5.69</b>	<b>7.16</b>	<b>5.69</b>
Barclays Aggregate	-2.32	-2.44	-0.69	3.51	5.19	4.52
Barclays Govt/Credit	-2.51	-2.67	-0.62	3.88	5.29	4.43
Barclays Govt	-1.88	-2.04	-1.51	2.94	4.37	4.07
Barclays Credit	-3.44	-3.60	0.84	5.47	6.97	5.10
Citi Broad Investment Grade	-2.28	-2.07	-0.26	3.59	5.35	4.69
<b>Long-Term</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Extended Maturity Style</b>	<b>-5.93</b>	<b>-7.45</b>	<b>-2.83</b>	<b>7.76</b>	<b>9.43</b>	<b>6.82</b>
Barclays Gov/Credit Long	-6.11	-7.97	-4.69	7.01	8.50	6.21
Barclays Gov Long	-5.71	-7.84	-8.18	6.18	7.50	6.08
Barclays Credit Long	-6.33	-8.01	-1.99	7.55	9.15	6.25
<b>Intermediate-Term</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Intermediate Style</b>	<b>-1.80</b>	<b>-1.47</b>	<b>0.73</b>	<b>3.49</b>	<b>5.40</b>	<b>4.58</b>
Barclays Intermediate Aggregate	-1.78	-1.63	-0.12	3.03	4.76	4.30
Barclays Gov/Credit Intermediate	-1.70	-1.45	0.28	3.14	4.57	4.03
Barclays Gov Intermediate	-1.37	-1.23	-0.59	2.33	3.80	3.70
Barclays Credit Intermediate	-2.30	-1.84	1.96	4.75	6.26	4.75
<b>Short-Term</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Defensive Style</b>	<b>-0.37</b>	<b>-0.09</b>	<b>0.73</b>	<b>1.62</b>	<b>2.87</b>	<b>3.12</b>
<b>Active Duration Style</b>	<b>-1.81</b>	<b>-1.59</b>	<b>0.23</b>	<b>3.75</b>	<b>5.39</b>	<b>4.80</b>
Money Market Funds (net of fees)	0.00	0.00	0.01	0.01	0.20	1.53
ML Treasury 1–3-Year	-0.11	0.00	0.33	0.82	1.90	2.59
90-Day Treasury Bills	0.02	0.04	0.11	0.11	0.29	1.72
<b>High Yield</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>High Yield Style</b>	<b>-1.33</b>	<b>1.48</b>	<b>9.53</b>	<b>10.78</b>	<b>10.08</b>	<b>8.81</b>
Barclays Corporate High Yield	-1.44	1.42	9.49	10.74	10.94	8.91
ML High Yield Master	-1.37	1.46	9.44	10.40	10.49	8.65
<b>Mortgage/Asset-Backed</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Mortgages Style</b>	<b>-2.03</b>	<b>-1.70</b>	<b>-0.22</b>	<b>3.32</b>	<b>5.36</b>	<b>4.92</b>
Barclays MBS	-1.96	-2.01	-1.10	2.51	4.84	4.70
Barclays ABS	-0.80	-0.76	0.69	2.99	5.08	3.50
Barclays CMBS	-1.44	-1.31	3.72	7.20	7.64	5.09
<b>Municipal</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Barclays Muni	-2.97	-2.69	0.24	4.46	5.33	4.42
Barclays Muni 1–10-Year	-1.83	-1.34	0.34	3.36	4.60	3.84
Barclays Muni 3-Year	-0.60	-0.05	0.52	1.85	3.30	2.99

\*Returns of less than one year are not annualized.

Sources: Barclays, Callan, Citigroup, Merrill Lynch

# Waiting on the World to Change

NON-U.S. EQUITY | Matthew Lai

International economies clumsily arrived at the halfway mark for 2013, continuing a slow and steady slide from last year's stellar returns. The common nuisances remained; namely, an unrelenting recession in Europe, a bumbling China, and eroding commodities prices. While the U.S. (cautiously) rebounds, investors wait for foreign markets to catch up.

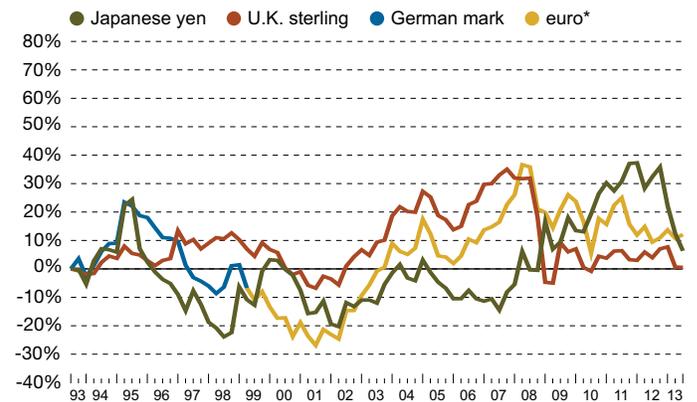
Corroborating a recovery-in-waiting, only three sectors hit the positive end of the **MSCI ACWI ex-U.S. Index**: Consumer Discretionary (+3.92%), Telecommunications (+2.53%), and Health Care (+0.78%). With a record \$63 billion pulled out of commodities in the second quarter—even more than 2008's \$57 billion drop—Materials (-12.98%) and Energy (-6.61%) stocks reeled. The U.S. dollar edged up on most currencies, save for a strengthening euro.

The **MSCI EAFE Index** fell just short of positive territory at -0.98%, but its six-month tally (+4.10%) remains respectable. **EAFE Value** (-0.74%) beat both the broad index and **EAFE Growth** (-1.20%). Small cap swung even lower (**EAFE Small Cap**: -2.52%). However, the **MSCI EM Index** undercut them all with a miserable -7.95% return.

## Europe

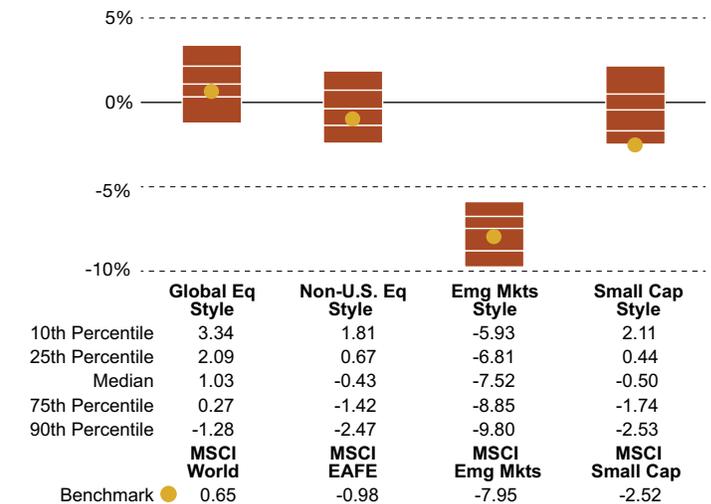
The rumbling of a European recession continued ever-onward, and despite a powerful surge from mid-April through mid-May, the **MSCI Europe Index** ended just shy of par (-0.51%). According to Eurostat, most economic indicators edged slightly south. Unemployment slipped to (yet) another record of 12.2% in May—from 12.1% in April—and industrial output suffered alongside a slight drop in housing prices in the spring. Fueling regional woes, the European benchmark interest rate was knocked to 0.50% on May 2, a drop from 0.75%. Sector trends largely mirrored their global counterparts, though European Utilities (+3.51%) and Information Technology (+1.16%) provided a boost. The Netherlands finished first with +2.83%; Germany (+2.71%) and France (+2.66%) were close behind. Greece

## Major Currencies' Cumulative Returns (vs. U.S. Dollar)



\*euro returns from 1Q99  
Source: MSCI

## Callan Style Group Quarterly Returns



Sources: Callan, MSCI

(-9.96%) had the heaviest impact on the index and was relegated to emerging market status by MSCI, effective this November.

## Pacific

It seems that Japan's Prime Minister, Shinzo Abe, hit a nerve. For the second straight quarter, Japan (+4.40%) bested its local competition, lording over the **MSCI Pacific Index** (-1.74%) as

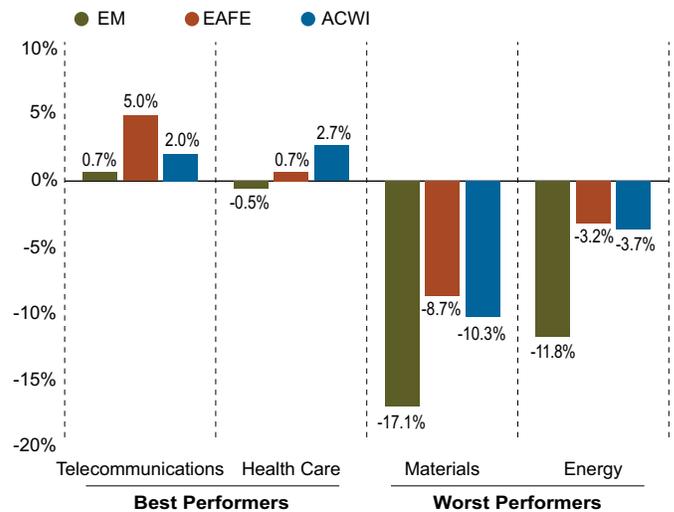
the only Pacific country in the black. The IMF revised its 2013 growth forecast for Japan up to 2.0% (from 1.6%), owing in large part to the Bank of Japan's ongoing monetary easing. The yen continued to fall while exports soared, though a late-quarter slump almost derailed this surge. Australia (-13.93%) tanked on the global commodities rout and decelerating Chinese industrial trade. Further, the Reserve Bank of Australia followed Europe and cut its benchmark interest rate to a record low of 2.75%, down from 3.0%. To no one's surprise, the region's Energy (-14.69%) and Materials (-9.45%) stocks fared the worst; Telecom (+8.07%) and Consumer Discretionary (+5.05%) did much better.

### Developing Economies

With another disappointing quarter, the MSCI EM Index (-7.95%) plummeted for the first half of 2013 (-9.40%). Manufacturing hardships in China (-6.54%) eviscerated the commodities market, and GDP growth slackened to 7.5%. Not to be outdone, China's BRICS brothers posted steep declines as well. Nota-

bly, Brazil's falling real combined with social unrest to deliver a knockout -17.2% for the quarter. Turkey also suffered political turmoil (-15.2%), while Hungary enjoyed a rare positive return (+13.18%, the EM's best), aided in part by its healthy Financials sector (+18.84%). Only EM Telecom saw positive sector returns (a paltry +0.65%). **MSCI's Frontier Markets Index** continued its ascendancy with a 2.97% gain (+11.46% year to date).

### Strong and Struggling Sectors



Source: MSCI

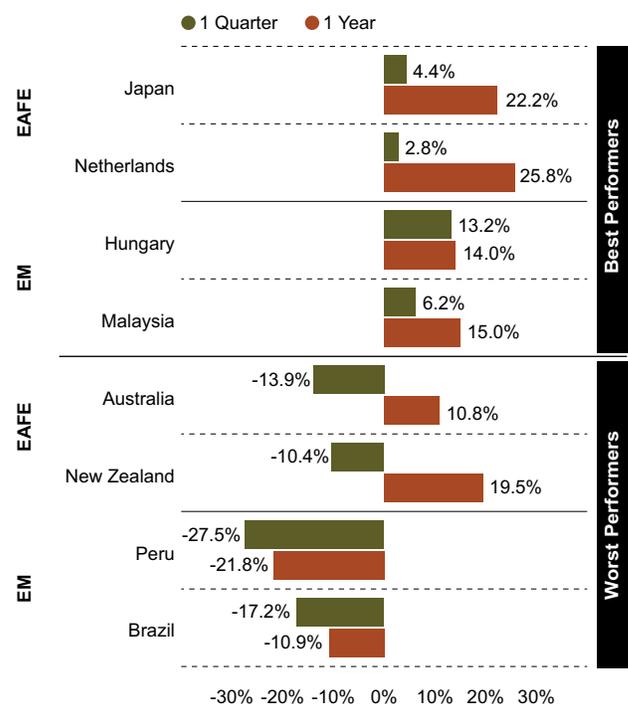
### Quarterly Return Attribution for EAFE

(U.S. Dollar)

Country	Total	Local	Currency	Wtg
Australia	-13.93%	-1.97%	-12.20%	8.02%
Austria	-3.05%	-4.23%	1.23%	0.27%
Belgium	-4.45%	-5.61%	1.23%	1.14%
Denmark	-3.92%	-5.03%	1.23%	1.11%
Finland	0.50%	-0.72%	1.23%	0.77%
France	2.66%	1.42%	1.23%	9.43%
Germany	2.71%	1.46%	1.23%	8.65%
Greece	-9.96%	-11.06%	1.23%	0.03%
Hong Kong	-4.61%	-4.69%	0.08%	3.03%
Ireland	-3.63%	-4.80%	1.23%	0.32%
Israel	-4.16%	-4.29%	-0.17%	0.50%
Italy	0.82%	-0.40%	1.23%	1.97%
Japan	4.40%	10.31%	-5.35%	22.56%
Netherlands	2.83%	1.59%	1.23%	2.61%
New Zealand	-10.38%	-2.76%	-7.84%	0.12%
Norway	-5.78%	-1.36%	-4.48%	0.82%
Portugal	-0.68%	-1.89%	1.23%	0.17%
Singapore	-6.33%	-4.28%	-2.18%	1.67%
Spain	-0.64%	-1.84%	1.23%	2.82%
Sweden	-6.10%	-2.52%	-3.67%	3.11%
Switzerland	-0.29%	-0.37%	0.08%	9.19%
U.K.	-2.16%	-2.04%	-0.12%	21.66%

Sources: Russell Investment Group, Standard & Poor's.

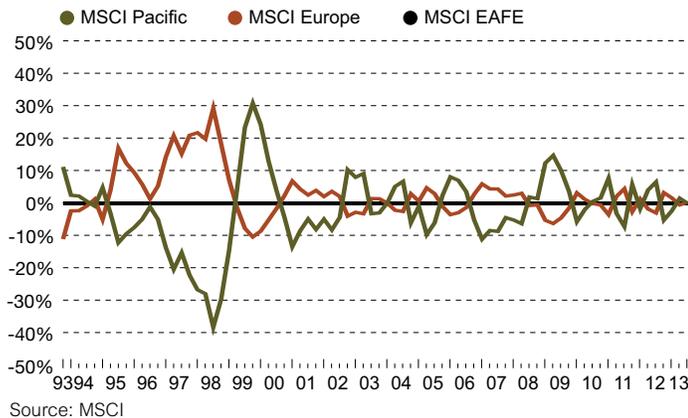
### Country Performance Snapshot



Source: MSCI

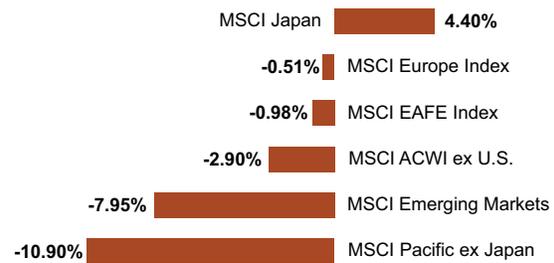
## NON-U.S. EQUITY (Continued)

### Rolling One-year Relative Returns (vs. MSCI EAFE U.S. Dollar)



### Regional Quarterly Performance

(U.S. Dollar)



Source: MSCI

### Style Median and Index Returns\* for Periods ended June 30, 2013

International Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Global Style</b>	<b>1.03</b>	<b>9.03</b>	<b>19.97</b>	<b>14.12</b>	<b>3.17</b>	<b>8.58</b>
<b>Non-U.S. Style</b>	<b>-0.43</b>	<b>4.30</b>	<b>18.69</b>	<b>11.16</b>	<b>0.84</b>	<b>8.87</b>
<b>Core Style</b>	<b>-0.33</b>	<b>4.92</b>	<b>19.61</b>	<b>11.49</b>	<b>0.84</b>	<b>8.52</b>
MSCI EAFE–Unhedged	-0.98	4.10	18.62	10.04	-0.63	7.67
MSCI EAFE–Local	1.21	11.01	24.93	8.97	1.16	6.06
MSCI EAFE Growth–Unhedged	-1.20	5.47	18.67	10.85	-0.38	7.62
MSCI EAFE Value–Unhedged	-0.74	2.74	18.56	9.17	-0.93	7.64
MSCI World–Unhedged	0.65	8.43	18.58	13.72	2.70	7.25
MSCI World–Local	1.74	11.70	21.41	13.08	3.51	6.39
MSCI AC World ex U.S.–Unhedged	-2.90	0.27	14.14	8.48	-0.34	9.09
MSCI AC World–Unhedged	-0.23	6.38	17.21	12.96	2.86	8.14
Pacific Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Pacific Basin Style</b>	<b>-2.25</b>	<b>3.95</b>	<b>16.72</b>	<b>10.53</b>	<b>2.68</b>	<b>10.55</b>
<b>Japan Style</b>	<b>4.01</b>	<b>16.78</b>	<b>22.26</b>	<b>10.48</b>	<b>1.27</b>	<b>7.45</b>
<b>Pacific Rim Style</b>	<b>-6.18</b>	<b>-4.21</b>	<b>11.39</b>	<b>8.26</b>	<b>3.00</b>	<b>14.25</b>
MSCI Pacific–Unhedged	-1.74	7.83	18.45	9.50	1.07	8.16
MSCI Pacific–Local	4.94	20.88	38.32	10.78	-0.26	5.68
MSCI Japan–Unhedged	4.40	16.55	22.24	8.62	-0.14	6.24
MSCI Japan–Local	10.31	33.90	52.19	12.89	-1.43	4.25
Europe Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Europe Style</b>	<b>0.18</b>	<b>3.48</b>	<b>21.09</b>	<b>12.33</b>	<b>-0.26</b>	<b>8.85</b>
MSCI Europe–Unhedged	-0.51	2.18	18.86	10.53	-1.35	7.50
MSCI Europe–Local	-0.79	6.11	18.77	8.39	2.23	6.50
Emerging Markets	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Emerging Markets Style</b>	<b>-7.52</b>	<b>-7.21</b>	<b>5.81</b>	<b>4.94</b>	<b>-0.31</b>	<b>14.62</b>
MSCI EM–Unhedged	-7.95	-9.40	3.23	3.72	-0.11	14.02
MSCI EM–Local	-4.29	-4.71	6.47	5.34	2.43	13.52
International Small Cap Equity	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Small Cap Style</b>	<b>-0.50</b>	<b>7.82</b>	<b>23.76</b>	<b>15.11</b>	<b>3.05</b>	<b>12.43</b>
MSCI EAFE Small Cap–Unhedged	-2.52	5.69	20.88	11.88	2.48	10.38

\*Returns less than one year are not annualized.

Sources: Callan, MSCI Inc.

# Abenomics

## NON-U.S. FIXED INCOME | Lewis Krell

Japanese Prime Minister Shinzo Abe has been the talk of the economic world, as Japan's aggressive approach to resolving a decade of economic malaise appears to be paying dividends. Under "Abenomics," as Abe's macroeconomic policy is known, the yen has depreciated significantly amid quantitative easing and a massive bond buyback effort by the Japanese government. Although the second quarter produced a -1.7% return for Japanese bonds, the year-to-date return is still positive at 0.8%. With Abe's popularity soaring in Japan, continued heavy government involvement in the economy is highly likely.

Emerging market bonds had a particularly bad quarter as the **JP Morgan GBI Emerging Markets Global Composite** fell 7.74%. Global bonds as a whole were down for the third consecutive quarter, with the **Citigroup Non-U.S. WGBI Index** declining 3.44%. China had a tough quarter as the govern-

ment struggled to deal with record levels of debt. As economic growth continues to slow down and interbank lending rates climb to record highs, the Chinese government is attempting to deleverage the financial system to avoid a credit crisis similar to the one that occurred in the U.S. In addition, Fitch downgraded Chinese debt, and Chinese regulators attempted to crack down on illicit foreign inflows. Brazil also struggled during the quarter as its central bank raised interest rates, adding additional pressure to the Brazilian economy. However, in May, Petrobras raised \$11 billion in the largest-ever emerging market corporate bond issuance.

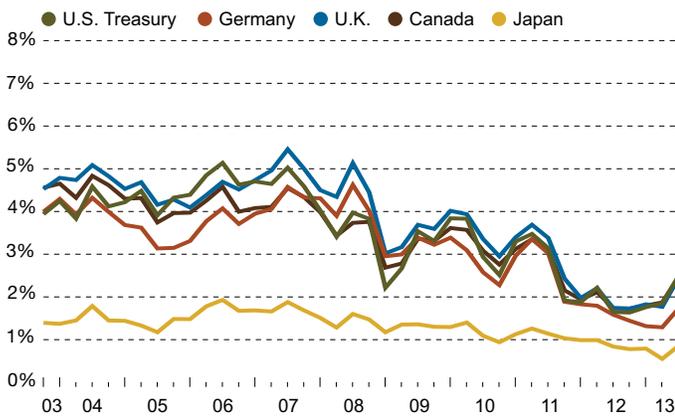
### Quarterly Return Attribution for Non-U.S. Gov't Indices (U.S. Dollar)

Country	Total	Local	Currency	Wtg
Australia	-12.29%	-0.10%	-12.20%	1.49%
Austria	-0.30%	-1.51%	1.23%	1.86%
Belgium	-0.78%	-1.98%	1.23%	2.80%
Canada	-5.79%	-2.18%	-3.70%	2.58%
Denmark	-1.50%	-2.65%	1.17%	0.88%
Finland	-0.36%	-1.57%	1.23%	0.70%
France	0.04%	-1.17%	1.23%	10.49%
Germany	-0.70%	-1.90%	1.23%	9.21%
Ireland	2.20%	0.96%	1.23%	0.82%
Italy	3.21%	1.96%	1.23%	9.96%
Japan	-7.11%	-1.86%	-5.35%	38.83%
Malaysia	-2.10%	-0.11%	-1.99%	0.54%
Mexico	-8.90%	-3.83%	-5.27%	1.04%
Netherlands	-0.21%	-1.42%	1.23%	2.90%
Norway	-5.55%	-1.12%	-4.48%	0.33%
Poland	-3.05%	-0.69%	-2.37%	0.79%
Singapore	-5.05%	-2.93%	-2.18%	0.41%
South Africa	-9.73%	-2.32%	-7.58%	0.59%
Spain	3.72%	2.47%	1.23%	5.19%
Sweden	-5.28%	-1.67%	-3.67%	0.56%
Switzerland	-1.28%	-1.37%	0.08%	0.39%
U.K.	-3.97%	-3.85%	-0.12%	7.65%

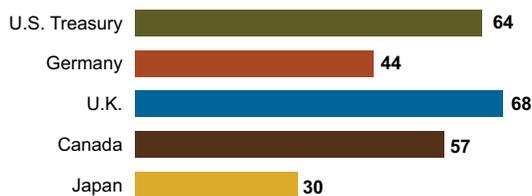
Portugal was removed in 1Q12. South Africa was added in 4Q12.

Source: Citigroup

### 10-Year Global Government Bond Yields



### Change in 10-Year Yields from 1Q13 to 2Q13 (bps)



Source: Bloomberg

## NON-U.S. FIXED INCOME (Continued)

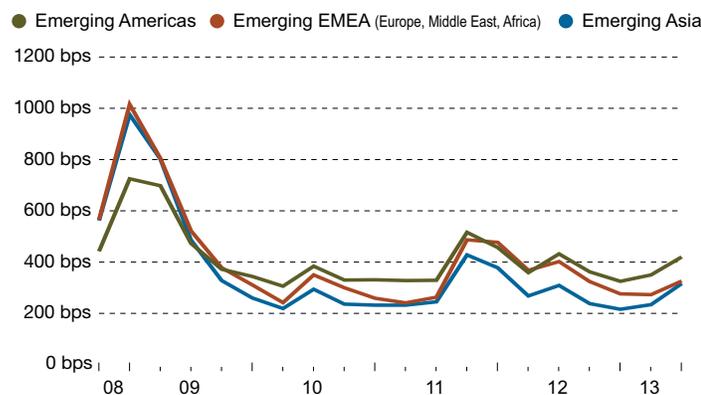
European bonds were a bright spot; it appears that the ECB's actions (like cutting interest rates to a historic low of 0.5%) are starting to slowly help dig the EU out of its ongoing sovereign debt crisis. Bond markets in Italy, Ireland, and Germany performed well, but problems persisted in countries with weaker economies such as Spain and Portugal. Any optimism must be tempered by the news of youth unemployment reaching record levels and the eurozone GDP falling for a sixth consecutive quarter. The ECB indicated that it will

continue to act as needed and use all tools at its disposal—such as maintaining downward pressure on rates or increasing stimulus action.

Emerging market currencies were devalued across the board versus the dollar, and the Japanese yen continued its aforementioned decline. The Australian, Canadian, and New Zealand dollars also weakened against the U.S. dollar as commodity prices declined.

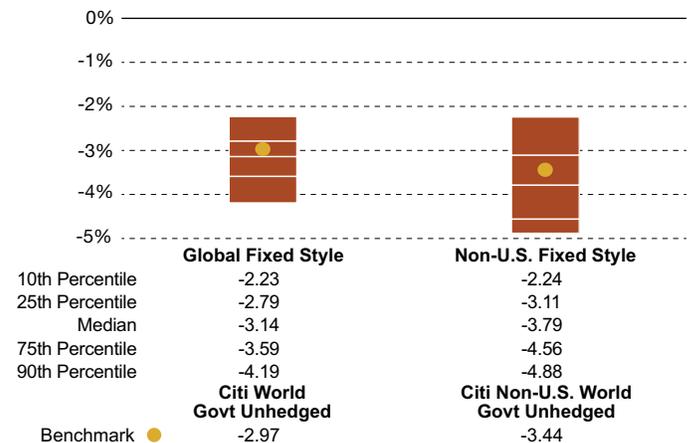
### Emerging Spreads Over Developed

(By Region)



Source: Barclays

### Callan Style Group Quarterly Returns



Sources: Callan, Citigroup

### Style Median and Index Returns\* for Periods ended June 30, 2013

	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Global Fixed</b>						
<b>Global Style</b>	-3.14	-5.32	-2.33	3.86	4.24	5.55
Citi World Govt-Unhedged	-2.97	-5.66	-4.50	2.72	3.04	4.70
Citi World Govt-Local	-1.51	-0.66	1.57	3.08	4.50	3.46
<b>Non-U.S. Fixed</b>						
<b>Non-U.S. Style</b>	-3.79	-6.95	-3.62	3.84	3.71	5.62
Citi Non-U.S. World Govt-Unhedged	-3.44	-7.14	-5.72	2.57	2.55	4.78
Citi Non-U.S. World Govt-Local	-1.36	-0.08	2.86	3.23	4.56	3.31
<b>European Fixed</b>						
Citi Euro Govt Bond-Unhedged	0.97	-1.29	9.44	6.29	1.87	5.54
Citi Euro Govt Bond-Local	-0.26	0.12	6.84	4.21	5.87	4.25
<b>Emerging Markets Fixed</b>						
JPM Emerging Mkts Bond Plus	-6.26	-9.36	0.07	7.52	8.38	8.95
JPM Emerging Local Mkts Plus	-2.37	-2.33	1.86	2.75	0.76	6.39
JPM GBI EM Global Composite	-7.74	-7.17	0.35	5.66	5.02	9.37

\*Returns less than one year are not annualized.

Sources: Callan, Citigroup, JPMorgan Chase & Co.

# Pushing Ahead

REAL ESTATE | Jay Nayak

Domestic institutional real estate assets, as measured by the **NCREIF Property Index**, advanced 2.87% during the second quarter. Income contributed 1.40%, while capital return added 1.47%. Industrial (+3.22%) led, followed closely by Retail (+3.21%), while Hotels (+1.95%) continued to lag all other major property sectors. The West (+3.09%) led the regional subindices, while the East (+2.52%) fell behind.

On a leveraged basis, NCREIF advanced 4.33% and reflected an overall leverage level of 47.3%. On a preliminary basis, NCREIF recorded 241 asset trades representing \$6.83 billion in transactional volume. The overall transactional capitalization rate for the quarter was 5.77%, increasingly converging with an overall index appraisal capitalization rate of 5.36%. The **NCREIF Open-End Diversified Core Equity Index** generated a 3.86% total return composed of a 1.30% income return and a 2.55% capital return.

Global listed real estate, as measured by the **FTSE EPRA/NAREIT Developed REIT Index**, fell 3.63%. Domestic REITs, as measured by the **FTSE NAREIT Equity REITs Index**, fell

## NCREIF Overall Capitalization Rates

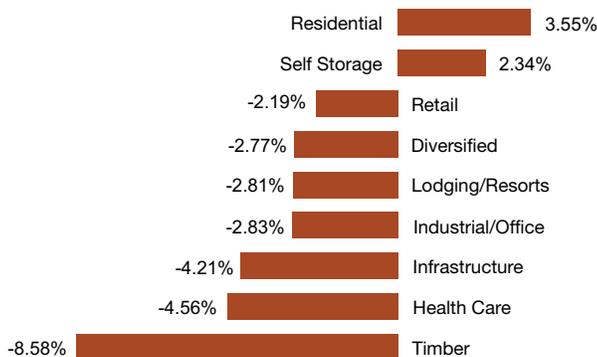
Sector	1Q13	1Q13	2Q12
Apartment	5.05%	5.03%	5.15%
Industrial	5.73%	5.82%	6.04%
Office	5.31%	5.10%	5.45%
Retail	5.64%	5.67%	5.88%

Rates based on unleveraged, value-weighted, appraisal capitalization data.  
Source: NCREIF

1.57% and traded at a 3.67% dividend yield at quarter-end. Apartments led sector performance, advancing 3.60%, followed by Self Storage (+2.34%), while mixed Industrial/Office (-6.94%) and Free Standing Retail REITs (-5.05%) lagged.

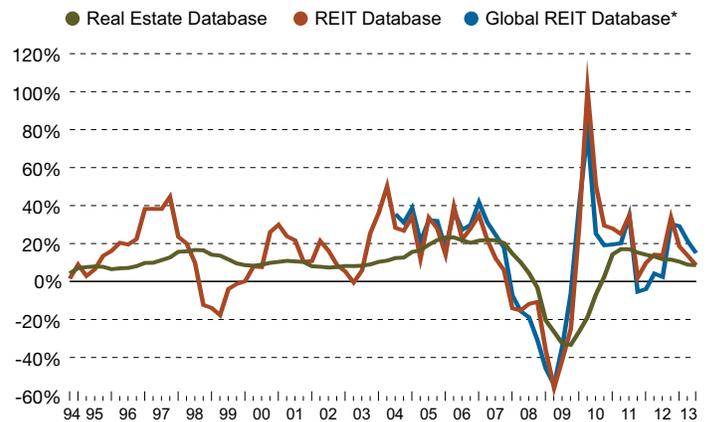
European stocks gained 1.55% as expectations of continued accommodative monetary policy in the United Kingdom drove both country and regional performance. First-quarter performance in the Asia/Pacific region reversed during the second quarter, as weak performance of Hong Kong/China and Singapore stocks drove Asia/Pacific REITs to fall 7.75%.

## NAREIT All Equity Sector Quarterly Performance



\*Timber replaced Specialty in 4Q10. Infrastructure was added in 1Q12.  
Source: NAREIT

## Rolling One-Year Returns



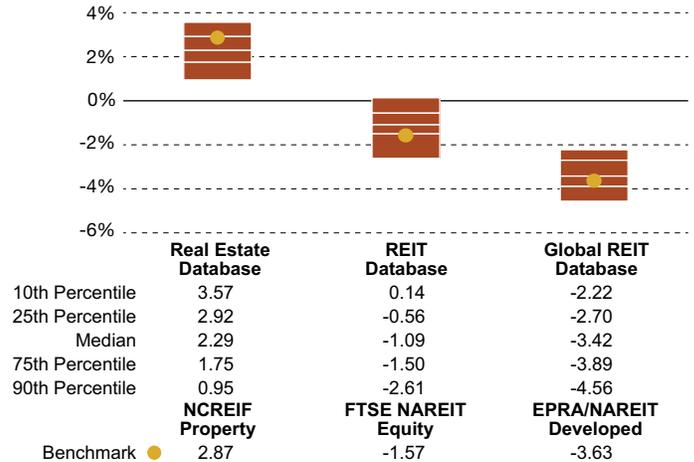
\*Global REIT returns from 2Q04  
Source: Callan

## REAL ESTATE (Continued)

Domestic REITs executed 71 offerings, raising \$23.0 billion. Four primary offerings raised \$864 million and 34 secondary offerings raised \$13.0 billion. REITs raised \$1.9 billion and \$7.2 billion in preferred equity and unsecured debt, respectively.

Domestic commercial mortgage-backed securities (CMBS) issuance totaled \$21.0 billion in the second quarter; at midyear CMBS issuance had reached \$43.9 billion, approaching the \$48.4 billion issuance total seen in 2012.

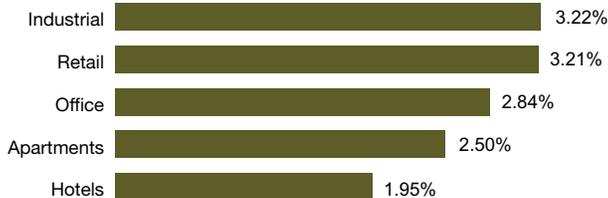
### Callan Style Group Quarterly Returns



Sources: Callan, NAREIT, NCREIF, The FTSE Group

### NCREIF All Equity Sector Quarterly Performance

#### Quarterly Returns by Property Type



#### Quarterly Returns by Region



Source: NCREIF

### Style Median and Index Returns\* for Periods ended June 30, 2013

	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Private Real Estate</b>						
Real Estate Database (net of fees)	2.29	4.57	10.00	12.93	-0.51	7.56
NCREIF Property**	2.87	5.20	10.39	13.02	2.73	8.56
<b>Public Real Estate</b>						
REIT Database	-1.09	5.44	8.27	18.65	8.39	11.97
FTSE NAREIT Equity	-1.57	6.49	9.42	18.18	7.57	10.89
<b>Global Real Estate</b>						
Global REIT Database	-3.42	1.98	14.45	16	5.74	12.15
FTSE EPRA/NAREIT Developed	-3.63	2.4	14.27	15.98	4.59	11.03

\*Returns less than one year are not annualized.

\*\*Represents data available as of publication date.

All REIT returns are reported gross in USD.

Sources: Callan, NAREIT, NCREIF, The FTSE Group

# Heading for the Exits

PRIVATE EQUITY | Gary Robertson

In fundraising, *Private Equity Analyst* reports that new second-quarter commitments totaled \$70.3 billion with 175 new partnerships formed. This represents more than double the first quarter's dollar volume and a 45% increase in partnership count. (The first quarter saw \$32.9 billion and 121 new partnerships formed.) The first half of 2013 is outpacing the first half of 2012, which produced \$88.9 billion of new commitments and 258 new funds.

According to *Buyouts* newsletter, the investment pace by funds into companies in the second quarter totaled 260 transactions with an announced dollar volume of \$40.3 billion. The transaction count was down 18% from the first quarter's 319 deals, but the announced transaction value increased 56% from \$25.9 billion the prior quarter. The \$27 billion purchase of H.J. Heinz was solely responsible for the increase. There were three other deals with announced values of \$1 billion or more that closed in the quarter.

According to the National Venture Capital Association, new investments in venture capital companies totaled \$6.7 billion in 913 rounds of financing. The dollar volume and number of rounds both increased compared to the first quarter's \$6.0 billion and 896 rounds.

## Funds Closed 1/1/13 to 6/30/13

Strategy	No. of Funds	Amt (\$MM)	Percent
Venture Capital	96	11,379	11%
Buyouts	107	58,835	57%
Subordinated Debt	20	10,387	10%
Distressed Debt	16	11,367	11%
Secondary and Other	19	6,189	6%
Fund-of-funds	38	5,039	5%
<b>Totals</b>	<b>296</b>	<b>103,195</b>	<b>100%</b>

Source: Private Equity Analyst

Regarding exits, *Buyouts* reports that 113 private M&A exits of buyout-backed companies occurred during the second quarter of 2013, with 28 deals disclosing values totaling \$8.1 billion. There were also 16 buyout-backed IPOs that floated \$7.5 billion, a significant increase from the eight IPOs totaling \$2.4 billion in the first quarter.

Venture-backed M&A exits totaled 84 transactions, with 15 disclosing a total dollar volume of \$3.0 billion. The first quarter had seen a comparable number of investments but the announced value in the second quarter was higher, as the first quarter had 86 deals with 10 announcing dollar values totaling \$984.4 million. There were 21 VC-backed IPOs in the second quarter with a combined float of \$2.1 billion. For comparison, the first quarter had only eight IPOs and total issuance of \$716.9 million.

## Private Equity Performance Database (%)

(Pooled Horizon IRRs Through December 31, 2012\*)

Strategy	3 Months	Year	3 Years	5 Years	10 Years	20 Years
All Venture	1.5	8.7	4.3	0.6	4.4	15.7
All Buyouts	3.6	15.7	10.9	3.8	11.0	10.5
Mezzanine	1.9	2.6	6.5	3.2	7.1	7.9
<b>All Private Equity</b>	<b>3.3</b>	<b>14.1</b>	<b>9.3</b>	<b>3.5</b>	<b>9.4</b>	<b>11.4</b>
S&P 500	-0.4	16.0	10.9	1.7	7.1	8.2

Private equity returns are net of fees.

Source: Thomson ONE

\* Latest quarterly data available.

# Taper Talk Unwinds Hedge Fund Gains

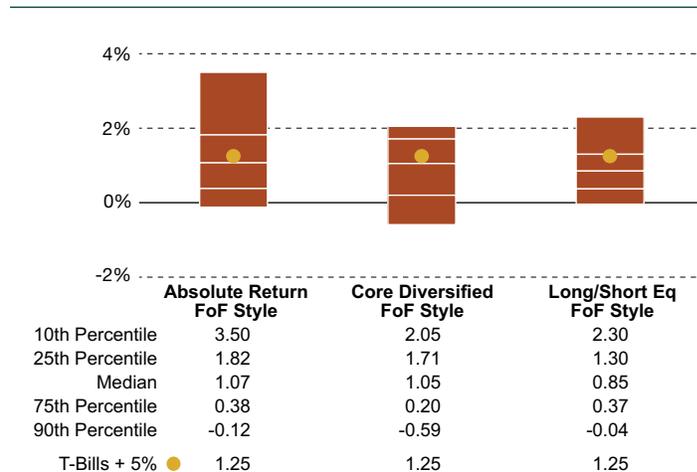
HEDGE FUNDS | Jim McKee

Encouraged by strength in domestic fundamentals, the Fed openly discussed possibly reducing its quantitative easing program sooner than expected. Consequently, capital markets were forced to imagine life with less liquidity. Given expectations of fewer Fed purchases in the future, the **Citi 10-Year Treasury** lost 4.53%.

Overall, hedge funds surrendered early-quarter gains to finish with little profit. Representing a paper portfolio without implementation costs, the **Credit Suisse Hedge Fund Index (CS HFI)** inched ahead slightly (+0.13%). As a live hedge fund portfolio proxy, net of all fees, the median manager in the **Callan Hedge Fund-of-Funds Database** gained 1.03% during the quarter.

Within the CS HFI, *Distressed* (+2.85%) was the best-performing strategy, as bankrupt securities responded more to underlying asset values being realized in the near term and less to interest rates. Despite the late-quarter market reversal, *Long/Short Equity* gained 1.82%, trailing the **S&P 500** (+2.91%). Whipsawing markets undermined tactical trading strategies like *Managed Futures* (-6.99%) and *Global Macro* (-0.81%).

## Callan Style Group Quarterly Returns



Sources: Callan, Merrill Lynch

Within Callan's Hedge Fund-of-Funds Database, market exposures affected performance. Less exposed to volatile markets, the median *Callan Absolute Return FoF* (+1.07%) held on to profits marginally better than the *Callan Long/Short Equity FoF* (+0.85%). Diversified across both non-directional and directional styles, the *Core Diversified FoF* advanced 1.05%.

## Style Median and Index Returns\* for Periods ended June 30, 2013

Diversified Hedge Fund Strategies	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Hedge Fund-of-Funds Database</b>	<b>1.03</b>	<b>4.94</b>	<b>9.52</b>	<b>5.39</b>	<b>1.98</b>	<b>4.94</b>
CS Hedge Fund Index	0.13	3.68	9.23	6.26	2.88	6.48
CS Investable Blue Chip Index	-1.28	1.27	6.00	4.65	1.03	3.34
Credit Suisse Subindices	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
Equity Market Neutral	1.98	2.73	5.04	3.99	-8.47	-0.52
Convertible Arb	1.10	3.81	7.54	6.95	6.03	4.67
Fixed Income Arb	-0.80	1.35	7.51	7.90	4.62	4.07
Multi-Strategy	0.71	3.83	10.39	8.54	4.54	6.71
Distressed	2.85	7.98	15.52	7.36	4.44	8.08
Risk Arb	1.62	1.96	4.22	2.97	2.70	4.75
Event Driven Multi	1.81	6.60	14.05	5.40	3.71	7.75
Long-Short Equity	1.82	7.01	13.28	6.62	2.47	6.94
Short Bias	-4.15	-12.35	-22.36	-16.71	-15.56	-8.09
Global Macro	-0.81	1.33	5.83	7.10	4.51	8.68
Managed Futures	-6.99	-3.59	-4.99	0.12	-0.64	3.37

\*Returns less than one year are not annualized.  
Sources: Callan, Credit Suisse Hedge Index LLC

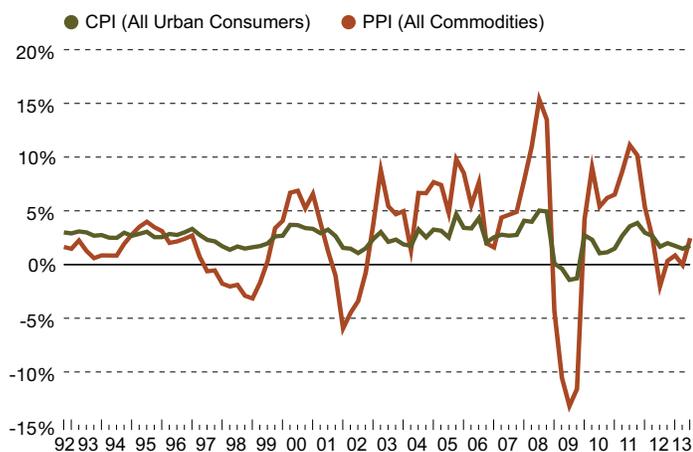
# Stick to the Plan

U.S. ECONOMY | Jay Kloepfer

Real GDP grew 1.7% in the second quarter, ahead of consensus expectations and very much in line with a host of measures that suggest accelerating growth in the U.S. economy. In particular, job creation is at a remarkably strong and steady rate of close to 200,000 per month, well ahead of the 100,000 needed to simply accommodate labor force growth.

Since the start of the financial crisis and the Great Recession, the consensus opinion has maintained that the economy will struggle until we stabilize the housing market. Without jobs and a rebound in consumer confidence, the housing and commercial real estate markets are doomed to languish and will hold back a true recovery. However, the housing market appears to have hit bottom over the past year, the job market is now churning out solid growth, and consumer confidence has rebounded solidly. Commercial real estate started its recovery some time ago. While modest, the latest GDP numbers support the market expectations that the Fed will stick to its plan to begin reducing the massive monetary stimulus that has become such an important feature of this economic recovery. Expect “tapering” to now supersede “quantitative easing” or “QE II” as the prevalent policy buzzword.

## Inflation Year-Over-Year



Source: Bureau of Labor Statistics

The Bureau of Economic Analysis (BEA) undertook a complete revision of the GDP data back to 1929, a periodic exercise guaranteed to excite economics aficionados. The revisions suggest the U.S. economy ground to a near-halt in the fourth quarter of 2012, crippled by fears of the fiscal cliff; the incredible uncertainty in Europe over the financial crisis, the euro, and the state of many EU economies; sharp declines in U.S. federal government spending; and the potential impact of Hurricane Sandy. The data support the Fed’s decision to restart quantitative easing last September. By the same token, the 1.1% and 1.7% growth in GDP during the first two quarters of 2013, respectively, support the market expectations for tapering. Looking back further, the GDP revisions suggest a less-severe Great Recession (-2.9% annualized decline versus -3.2% in previous estimates), slightly greater growth since 2002 (1.8% per year versus 1.6%), and long-term real GDP growth since 1929 that was in line with previous estimates (3.3% per year). The bulk of the revisions were due to changes in definitions and classifications to better capture the dynamics of the evolving U.S. economy, with the remainder attributable to improved statistical methods and new data sources. One of the main goals of the changes is to improve the BEA’s measurement of the effects of innovation and intangible assets on the economy.

Most of the major components of GDP—consumption, housing, non-residential fixed investment, inventories, and exports—added to growth during the second quarter, so why has overall growth been so mild? The answer lies primarily with federal government spending. Since the start of the economic recovery in the second quarter of 2009, reduction in federal spending has subtracted 1% from annualized GDP growth. Sequestration of spending hit during the first half of 2013, albeit the impact has been substantially smaller than the hype surrounding it. The tax hikes implemented at the start of the

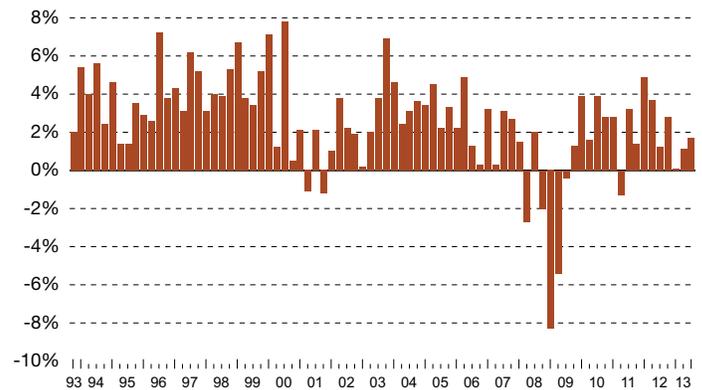
## U.S. ECONOMY (Continued)

year compound the fiscal contraction, particularly the expiration of the 2% payroll tax cut and the increase in taxes in certain states, such as California. As the economy moves forward in the second half of 2013, memories of the payroll tax hike and of sequestration will fade amid a consensus expectation of continued acceleration in economic growth.

Back to the housing market: Mortgage rates backed up in the second quarter, reaching 4.5% by the end of June, sparking fears that the housing recovery would die on the vine. For context, mortgage rates averaged over 6% from 2002 through 2007. Existing home sales fell slightly in June to just over five million units, from 5.18 million in May. However, year-over-year sales for existing homes are up 15.2%, while new home sales rose a whopping 38%. Higher mortgage rates do remain a challenge, as low rates have been a key component to increased affordability along with lower home prices. As prices firm, the rise in rates could be a double whammy. The June sales data reflect contracts entered 60 to 90 days prior, so the true impact of the recent rise in mortgage rates will likely show up in July, August, and September. The continued recovery in housing remains the crucial piece of the economic puzzle, given its large multiplier effect on the economy, its reflection of underlying consumer confidence, its effect on the economic health and well-being of the local economy, and its serving as a source of local

### Quarterly Real GDP Growth\*

(20 Years)



Source: Bureau of Economic Analysis

government tax revenues. Tapering by the Fed will initially mean a slowdown in the purchase of financial assets (not the sale of the existing stock), a very tentative step toward normalization that is being met with a gigantic, collective wringing of the hands. The concern is that much of the Fed asset purchases have been mortgage securities; even a slowdown in the rate of purchase could lead to further increases in mortgage interest rates, thereby toppling the housing recovery. Whatever the Fed does, no good deed shall go unpunished.

### Recent Quarterly Indicators

Economic Indicators (seasonally adjusted)	2Q13	1Q13	4Q12	3Q12	2Q12	1Q12	4Q11	3Q11
Employment Cost–Total Compensation Growth	1.7%	1.7%	2.0%	1.7%	2.1%	1.7%	2.1%	1.4%
Nonfarm Business–Productivity Growth	1.5%	0.5%	-1.7%	3.1%	1.9%	-0.5%	1.2%	1.8%
GDP Growth*	1.7%	1.1%	0.1%	2.8%	1.2%	3.7%	4.9%	1.4%
Manufacturing Capacity Utilization	75.8%	76.3%	75.7%	75.5%	77.5%	77.6%	76.1%	75.2%
Consumer Sentiment Index (1966=100)	81.7	76.7	79.4	75.0	76.3	75.5	64.7	59.5

\*The GDP estimates reflect the results of the comprehensive (or benchmark) revision of the national income and product accounts, according to the Bureau of Economic Analysis (BEA) website. More information on the revision is available at [www.bea.gov/national/an1.htm](http://www.bea.gov/national/an1.htm).

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve, Reuters/University of Michigan

# Holding On

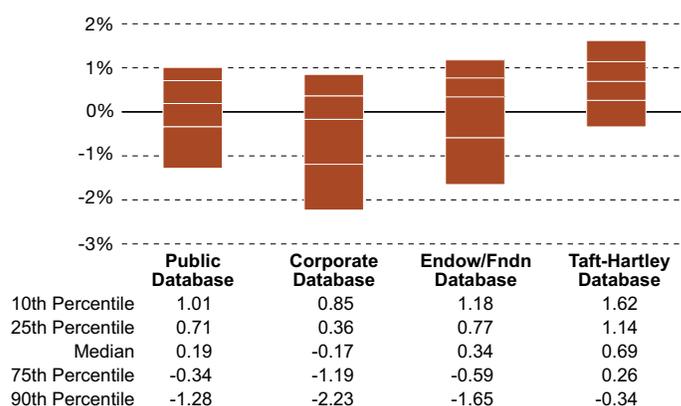
FUND SPONSOR | Connie Lee, CFA

All asset classes retreated in the second half of the quarter as comments from the Federal Reserve regarding an exit strategy from its \$85 billion a month asset purchase program shook investors. Despite stumbling later in the quarter, U.S. stocks held on to positive returns thanks to gains in April and May (**Russell 3000**: +2.69%). Foreign equities were not as fortunate and fell into negative territory (**MSCI ACWI ex-U.S.**: -2.90%). At the same time, broad fixed income markets sold off sharply with longer-dated bonds experiencing the most dramatic losses (**Barclays Aggregate**: -2.32%; **Barclays Government Long Credit**: -6.11%). Mirroring equity markets, non-U.S. bonds were worse off as yields for most developed countries rose in tandem with the U.S. (**Citi Non-U.S. World Government Bond**: -3.44%).

The Callan Fund Sponsor Returns chart—illustrating the range of returns for public, corporate, and Taft-Hartley pension plans, as well as endowments and foundations—depicts more-or-less flat returns across the board. Although most asset classes were negative for the quarter, median returns across fund types held onto fractional gains due to the support of U.S. equities. Corporate funds were the exception; the median fund dipped 17 basis points.

Examining the range of returns along the bottom (90th percentile), all fund types lost money in the second quarter. The

## Callan Fund Sponsor Quarterly Returns



Source: Callan

magnitude varied from -0.34% to -2.23%. There was less dispersion along the 10th percentile. The winning Taft-Hartley funds topped out at 1.62%, while even the best corporate funds struggled to break one percent, petering out at 0.85%.

Asset allocation differences provide further insight into the disparity in performance. The span of returns for corporate funds skewed negatively, the magnitude of which was dictated by the dollars allocated to and duration of fixed income in their plan. On the positive side, corporate funds that fell to the bottom rung due to their long duration bonds saw their liabilities decrease

## Style Median and Index Returns\* for Periods ended June 30, 2013

Fund Sponsor	Quarter	2 Quarters	Year	3 Years	5 Years	10 Years
<b>Public Database</b>	<b>0.19</b>	<b>5.24</b>	<b>11.99</b>	<b>11.02</b>	<b>5.32</b>	<b>7.06</b>
<b>Corporate Database</b>	<b>-0.17</b>	<b>4.10</b>	<b>11.14</b>	<b>11.38</b>	<b>5.86</b>	<b>7.25</b>
<b>Endowments/Foundations Database</b>	<b>0.34</b>	<b>5.05</b>	<b>12.10</b>	<b>10.56</b>	<b>4.50</b>	<b>7.03</b>
<b>Taft-Hartley Database</b>	<b>0.69</b>	<b>6.05</b>	<b>12.56</b>	<b>11.42</b>	<b>4.80</b>	<b>6.45</b>
<b>Diversified Manager</b>	<b>Quarter</b>	<b>2 Quarters</b>	<b>Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
<b>Asset Allocator Style</b>	<b>1.33</b>	<b>7.99</b>	<b>13.42</b>	<b>11.45</b>	<b>6.06</b>	<b>7.23</b>
Domestic Balanced Database	-0.12	5.98	13.47	12.30	5.45	7.11
Global Balanced Database	-1.38	1.33	7.78	10.01	5.84	8.34
60% Russell 3000 + 40% Barclays Agg	0.68	7.32	12.28	12.83	7.15	6.92
60% MSCI World + 40% Barclays Gbl Agg	-0.73	3.05	9.95	9.90	3.71	6.66

\*Returns less than one year are not annualized.

Sources: Callan, Barclays, MSCI Inc., Russell Investment Group

## FUND SPONSOR (Continued)

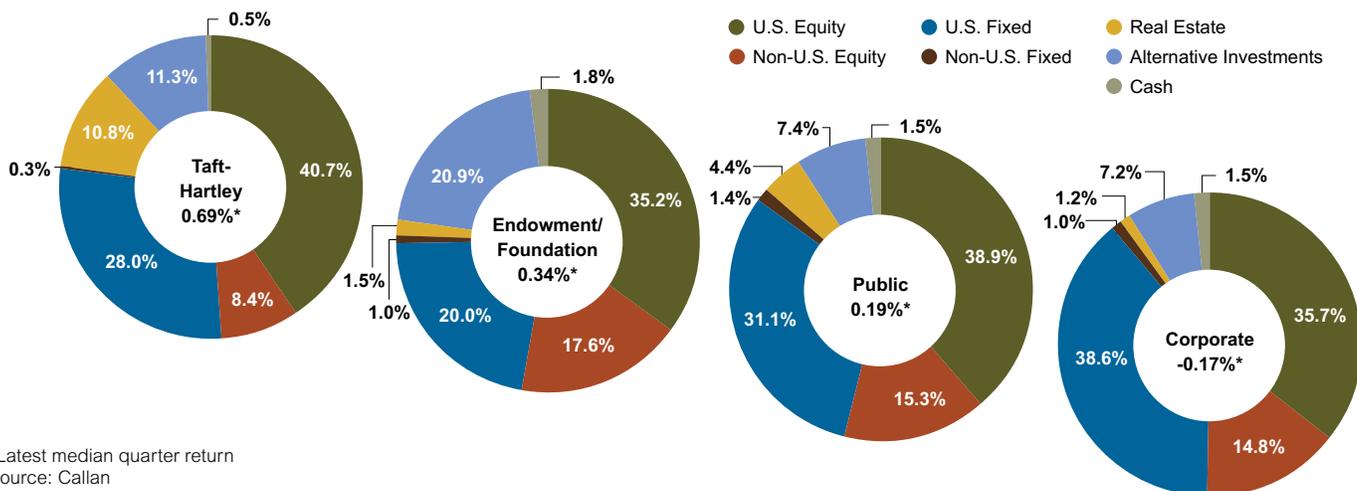
to improve funded status ratios. Meanwhile, Taft-Hartley funds beat their peers across the board, likely due to their higher allocation to U.S. stocks.

Propped up by U.S. equity results, most funds held on in the second quarter. Year-to-date performance holds steady at 4%–6%. One- and three-year returns paint an even rosier picture, with all fund types increasing 10%–12%. Five-year figures, though less robust, sit firmly in the black; 10-year returns are sound with all fund types hovering near 7%.

Callan's balanced manager groups generally maintain well-diversified portfolios and attempt to add value by underweighting or overweighting asset classes, as well as through stock selection. Asset allocators capitalized on the dispersion of returns across asset classes, ending the quarter up 1.3%. Balanced managers, both domestic and global, did not fare as well; the latter lost more as non-U.S. equities sold off during the quarter. Over the long term, diversified managers have performed in line with—and at times even surpassed—their institutional peers.

### Callan Fund Sponsor Average Asset Allocation

(as of March 31, 2013)



\*Latest median quarter return  
Source: Callan

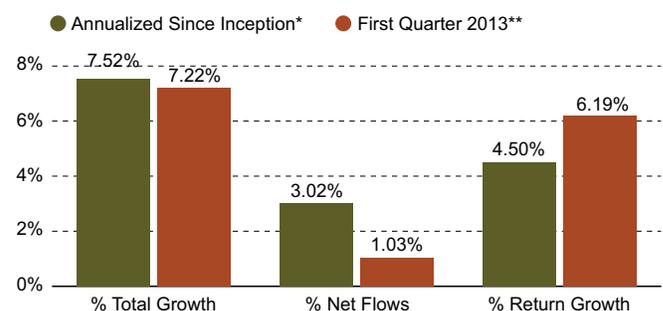
## Callan DC Index

### DEFINED CONTRIBUTION | James Veneruso, CFA

#### Market Returns Sizzle

For the quarter ended March 31, 2013,<sup>1</sup> Callan DC Index™ balances rose an impressive 7.22%. This gain was almost entirely from return growth (+6.19%) rather than inflows, or plan sponsor and participant contributions (+1.03%). Since the Index's 2006 inception, growth in balances has been primarily driven by investment returns (+4.50%); however, inflows account for

#### Growth Sources



<sup>1</sup> Latest quarterly data available.

\* January 2006.

\*\*Latest quarterly data available.

just under half of the growth in balances (+3.02%). As such, plan contributions continue to be a crucial aspect in growing retirement savings.

The average DC plan had a strong start to 2013, earning 1.69% more than the average corporate DB plan. However, going back to the Index's inception in January 2006, the average corporate DB plan's performance remains well ahead of its DC equivalent.

**Quiet Quarter for Cashflows**

Turnover (i.e., net transfer activity levels) in the DC Index was muted during the first quarter. In fact, at 0.42%, turnover was at its lowest point since mid-2011. When money did move, it followed the market, as it typically does. Domestic equity, both large cap and small/mid cap, experienced net inflows. International and global equities also had positive inflows despite being unable to match U.S. market results. In contrast, stable value, fixed income, and money market funds had outflows.

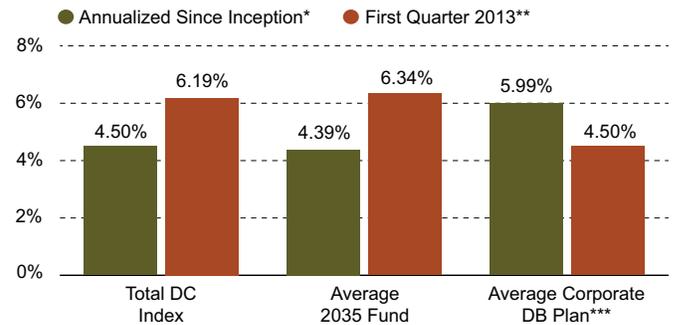
Target date funds attracted more than half (58.6%) of every dollar that flowed within DC plans. This is consistent with prior quarters and reflective of the fact that many participant accounts are defaulted into target date funds and—due to the power of inertia—remain there. Flow data reflects participant and plan sponsor contributions, withdrawals, transfer activity, and any changes in the fund or asset class lineup.

**Equities Increase**

The DC Index's equity allocation rose to 64.5%. This is still well below its historic high of more than 70% reached prior to the 2008 market collapse. Domestic large cap is still the largest holding within the Index, accounting for nearly 24% of DC assets. Target date funds, on the other hand, have had explosive growth since inception, and now account for more than 16% of DC plan assets. Among the more than 80% of plans that offer target date funds, those balances average 22.6% of the portfolio—the largest average allocation after large cap equity.

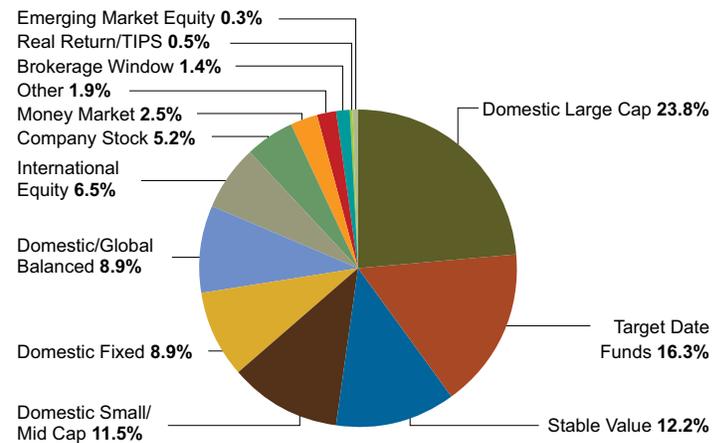
*The Callan DC Index™, created in 2006, is an equally weighted index tracking the cash flows and performance of over 70 plans, representing more than 800,000 DC participants and over \$80 billion in assets. The Index is updated quarterly and reflects 401(k) plans as well as other type of DC plans.*

**Investment Performance**



\* January 2006.  
 \*\* Latest quarterly data available.  
 \*\*\* Performance is gross of fees.

**Callan DC Index Asset Allocation (as of March 31, 2013\*)**



\*Latest quarterly data available.

**Net Cash Flow Analysis for First Quarter 2013\* (Top Two and Bottom Two Asset Gatherers)**

Asset Class	Flows as % of Total Net Flows
Target Date Funds	58.58%
Domestic/Global Balanced	12.33%
Stable Value	-29.66%
Company Stock	-47.16%
<b>Total Turnover<sup>1</sup></b>	<b>0.42%</b>

\* Latest quarterly data available.

<sup>1</sup> Total Index "turnover" measures the percentage of total invested assets (transfers only, excluding contributions and withdrawals) that moved between asset classes.

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## Authors

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**Jay Kloepfer** is director of Capital Markets and Alternatives Research. He oversees Callan's Capital Markets, Hedge Fund, and Private Markets research groups. Jay is author of the "Callan Periodic Table of Investment Returns."



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The *Capital Market Review* is a quarterly macroeconomic indicator newsletter that provides thoughtful insights on the economy and recent performance in the equity, fixed income, alternatives, international, real estate, and other capital markets.

*Authored by Callan Associates Inc.*

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## ASSET ALLOCATION AND PERFORMANCE

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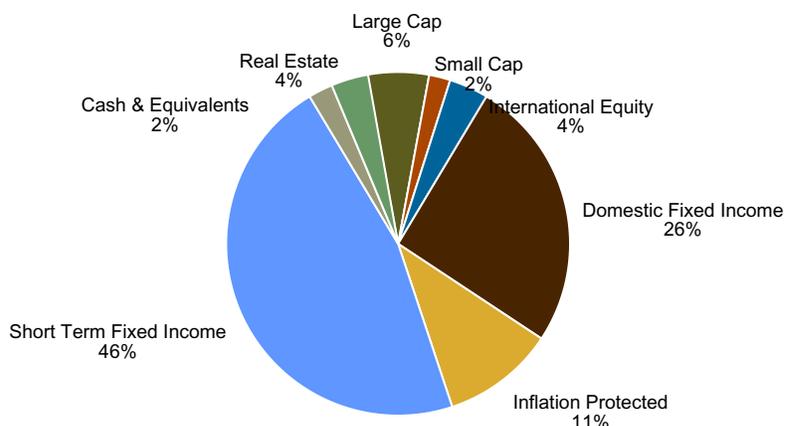
### **Asset Allocation and Performance**

This section begins with an overview of the fund's asset allocation at the broad asset class level. This is followed by a top down performance attribution analysis which analyzes the fund's performance relative to the performance of the fund's policy target asset allocation. The fund's historical performance is then examined relative to funds with similar objectives. Performance of each asset class is then shown relative to the asset class performance of other funds. Finally, a summary is presented of the holdings of the fund's investment managers, and the returns of those managers over various recent periods.

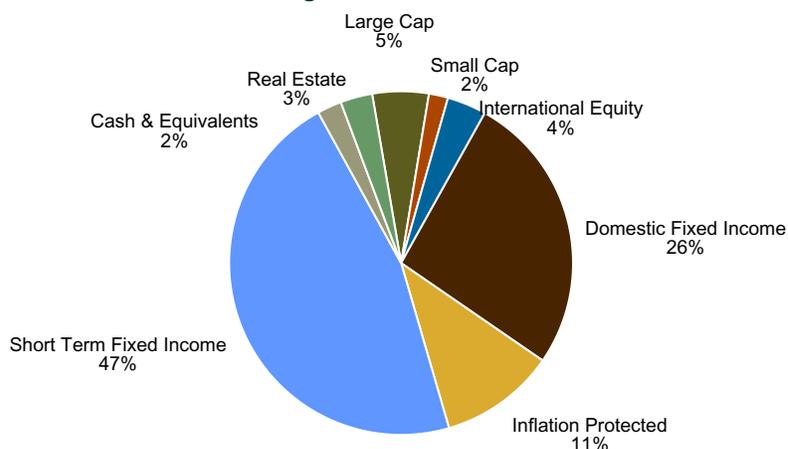
## Actual vs Target Asset Allocation As of June 30, 2013

The first chart below shows the Fund's asset allocation as of June 30, 2013. The second chart shows the Fund's target asset allocation as outlined in the investment policy statement.

### Actual Asset Allocation



### Target Asset Allocation



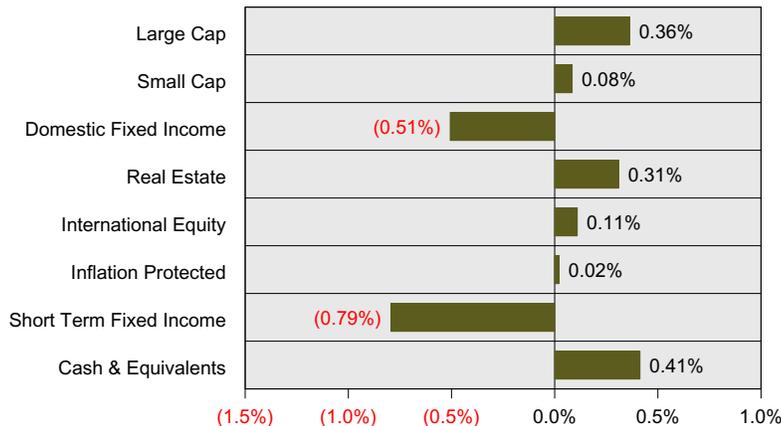
Asset Class	\$000s Actual	Percent Actual	Percent Target	Percent Difference	\$000s Difference
Large Cap	182,906	5.8%	5.3%	0.5%	14,917
Small Cap	62,636	2.0%	1.8%	0.2%	5,584
International Equity	117,400	3.7%	3.7%	0.0%	125
Domestic Fixed Income	813,654	25.7%	26.5%	(0.8%)	(26,288)
Inflation Protected	336,122	10.6%	10.9%	(0.3%)	(9,364)
Short Term Fixed Income	1,473,284	46.5%	46.5%	0.0%	(577)
Cash & Equivalents	72,511	2.3%	2.3%	0.0%	(390)
Real Estate	111,081	3.5%	3.0%	0.5%	15,993
<b>Total</b>	<b>3,169,594</b>	<b>100.0%</b>	<b>100.0%</b>		

\* Current Quarter Target = 46.5% Barclays Gov 1-3 Yr, 26.5% Barclays Aggregate Index, 10.9% Barclays Gbl Infn-Lnked, 5.3% Russell 1000 Index, 3.7% MSCI EAFE Index, 3.0% NCREIF Total Index, 2.3% 3-month Treasury Bill and 1.8% Russell 2000 Index.

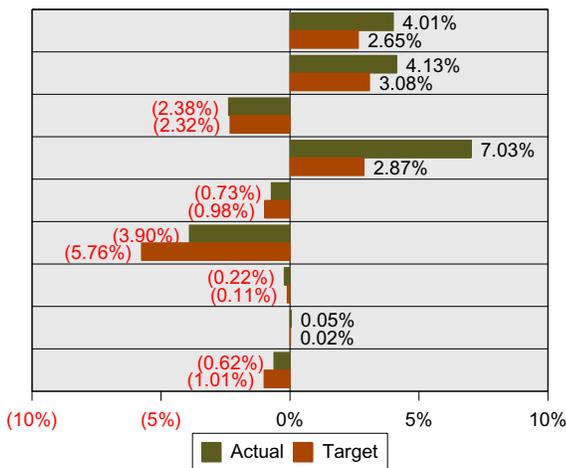
## Quarterly Total Fund Relative Attribution - June 30, 2013

The following analysis approaches Total Fund Attribution from the perspective of relative return. Relative return attribution separates and quantifies the sources of total fund excess return relative to its target. This excess return is separated into two relative attribution effects: Asset Allocation Effect and Manager Selection Effect. The Asset Allocation Effect represents the excess return due to the actual total fund asset allocation differing from the target asset allocation. Manager Selection Effect represents the total fund impact of the individual managers excess returns relative to their benchmarks.

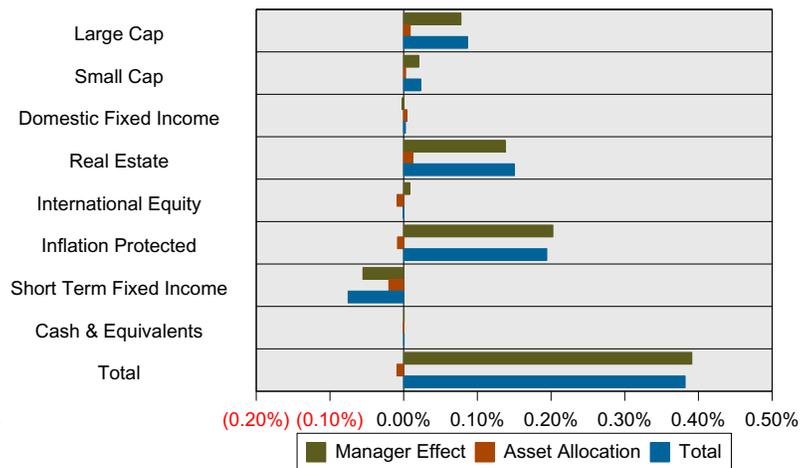
### Asset Class Under or Overweighting



### Actual vs Target Returns



### Relative Attribution by Asset Class



### Relative Attribution Effects for Quarter ended June 30, 2013

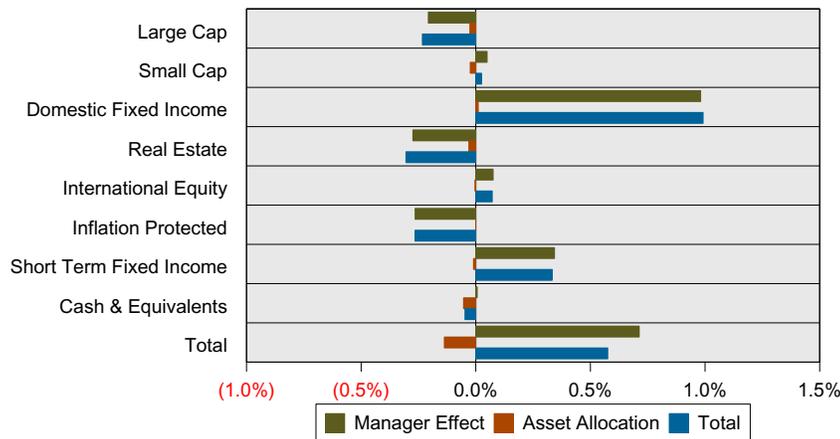
Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	6%	5%	4.01%	2.65%	0.08%	0.01%	0.09%
Small Cap	2%	2%	4.13%	3.08%	0.02%	0.00%	0.02%
Domestic Fixed Income	27%	27%	(2.38%)	(2.32%)	(0.00%)	0.00%	0.00%
Real Estate	3%	3%	7.03%	2.87%	0.14%	0.01%	0.15%
International Equity	4%	4%	(0.73%)	(0.98%)	0.01%	(0.01%)	(0.00%)
Inflation Protected	11%	11%	(3.90%)	(5.76%)	0.20%	(0.01%)	0.19%
Short Term Fixed Income	44%	45%	(0.22%)	(0.11%)	(0.06%)	(0.02%)	(0.08%)
Cash & Equivalents	3%	2%	0.05%	0.02%	0.00%	(0.00%)	0.00%
<b>Total</b>					<b>(0.62%)</b>	<b>(1.01%)</b>	<b>0.39%</b>
							<b>0.38%</b>

\* Current Quarter Target = 46.5% Barclays Gov 1-3 Yr, 26.5% Barclays Aggregate Index, 10.9% Barclays Gbl Infn-Lnked, 5.3% Russell 1000 Index, 3.7% MSCI EAFE Index, 3.0% NCREIF Total Index, 2.3% 3-month Treasury Bill and 1.8% Russell 2000 Index.

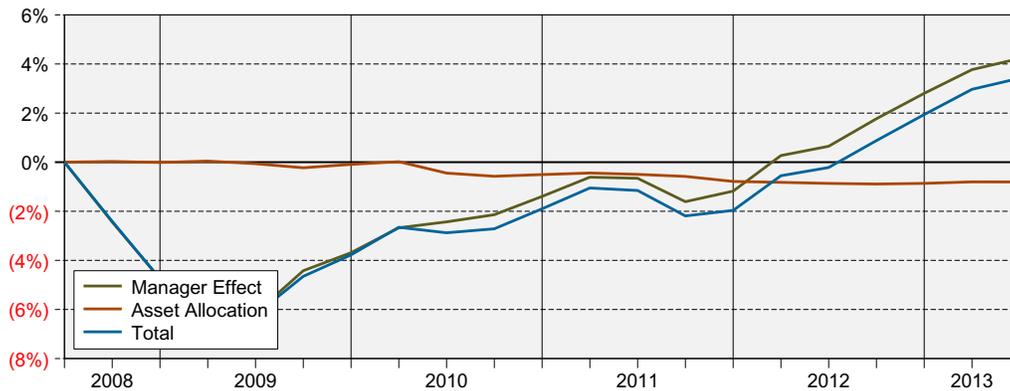
## Cumulative Total Fund Relative Attribution - June 30, 2013

The charts below accumulate the Total Fund Attribution Analysis (shown earlier) over multiple periods to examine the cumulative sources of excess total fund performance relative to target. These cumulative results quantify the longer-term sources of total fund excess return relative to target by asset class. These relative attribution effects separate the cumulative sources of total fund excess return into Asset Allocation Effect and Manager Selection Effect.

### Five Year Annualized Relative Attribution Effects



### Cumulative Relative Attribution Effects



### Five Year Annualized Relative Attribution Effects

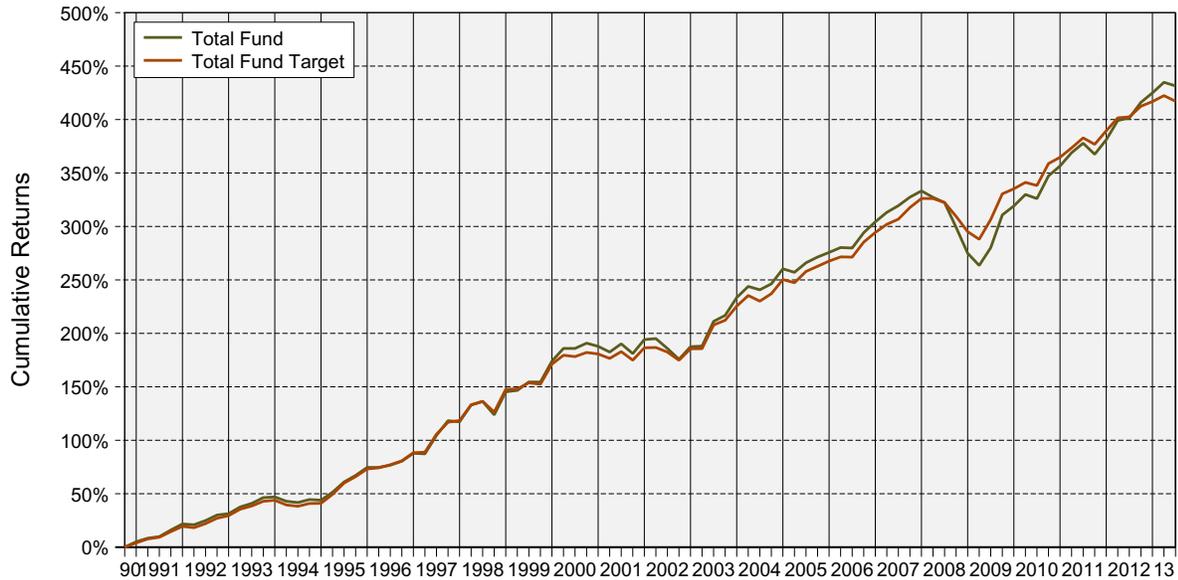
Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Large Cap	9%	8%	5.28%	7.10%	(0.21%)	(0.03%)	(0.23%)
Small Cap	3%	3%	10.27%	8.77%	0.05%	(0.02%)	0.03%
Domestic Fixed Income	41%	41%	8.10%	5.19%	0.98%	0.01%	0.99%
Real Estate	4%	5%	(3.81%)	2.79%	(0.27%)	(0.03%)	(0.30%)
International Equity	6%	6%	1.00%	(0.01%)	0.08%	(0.00%)	0.07%
Inflation Protected	17%	17%	2.45%	3.50%	(0.26%)	(0.00%)	(0.26%)
Short Term Fixed Income	16%	16%	-	-	0.34%	(0.01%)	0.33%
Cash & Equivalents	4%	4%	0.45%	0.29%	0.01%	(0.05%)	(0.05%)
<b>Total</b>			<b>4.71%</b>	<b>4.13%</b>	<b>+ 0.71%</b>	<b>+ (0.14%)</b>	<b>0.58%</b>

\* Current Quarter Target = 46.5% Barclays Gov 1-3 Yr, 26.5% Barclays Aggregate Index, 10.9% Barclays Gbl Infn-Lnked, 5.3% Russell 1000 Index, 3.7% MSCI EAFE Index, 3.0% NCREIF Total Index, 2.3% 3-month Treasury Bill and 1.8% Russell 2000 Index.

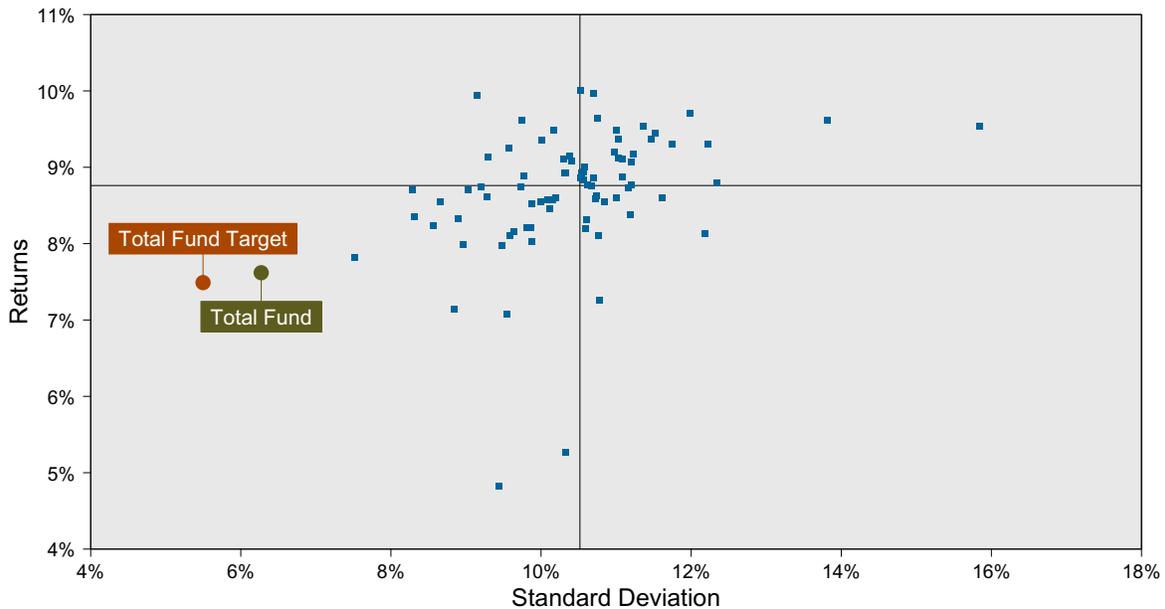
## Cumulative Performance Relative to Target

The first chart below illustrates the cumulative performance of the Total Fund relative to the cumulative performance of the Fund's Target Asset Mix. The Target Mix is assumed to be rebalanced each quarter with no transaction costs. The difference between the Total Fund return and the Target Mix return is explained by the performance attribution on the next page. The second chart below shows the return and the risk of the Total Fund and the Target Mix, contrasted with the returns and risks of the funds in the Public Fund Sponsor Database.

### Cumulative Returns Actual vs Target



### Twenty-Two and Three-Quarter Year Annualized Risk vs Return



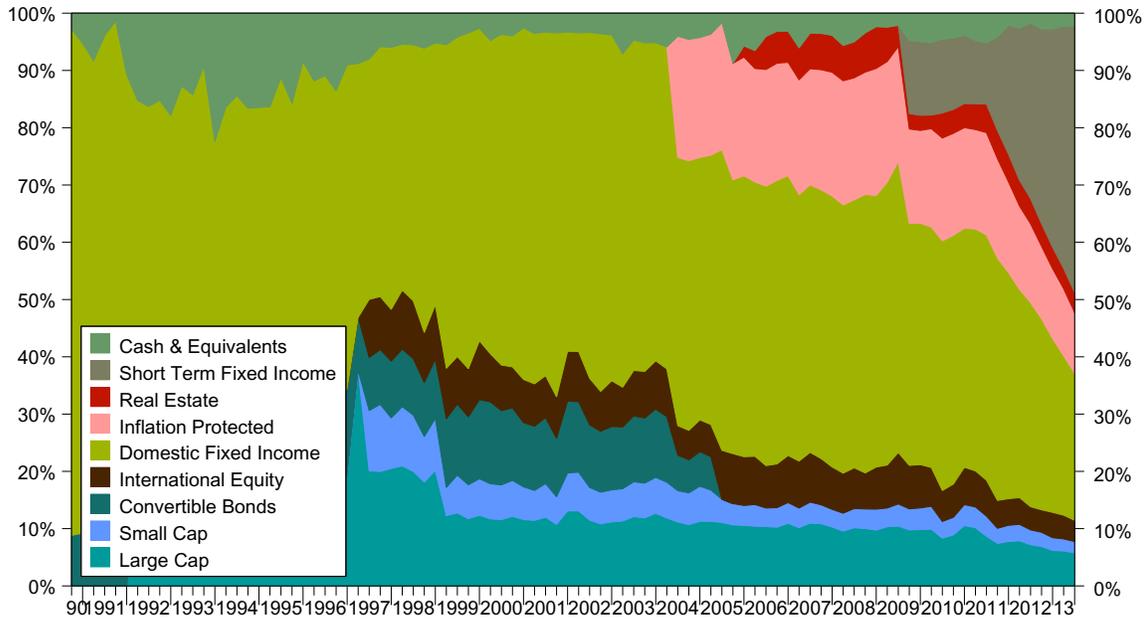
Squares represent membership of the Public Fund Sponsor Database

\* Current Quarter Target = 46.5% Barclays Gov 1-3 Yr, 26.5% Barclays Aggregate Index, 10.9% Barclays Gbl Inftn-Linkd, 5.3% Russell 1000 Index, 3.7% MSCI EAFE Index, 3.0% NCREIF Total Index, 2.3% 3-month Treasury Bill and 1.8% Russell 2000 Index.

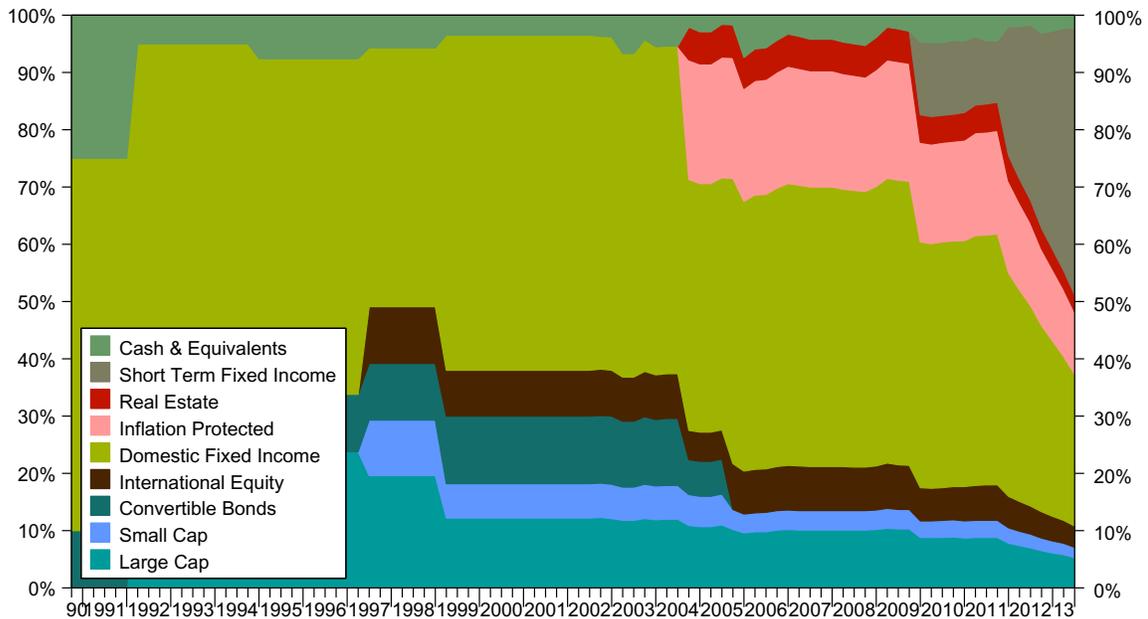
## Actual vs Target Historical Asset Allocation

The Historical asset allocation for a fund is by far the largest factor explaining its performance. The charts below show the fund's historical actual asset allocation, and the fund's historical target asset allocation.

### Actual Historical Asset Allocation



### Target Historical Asset Allocation

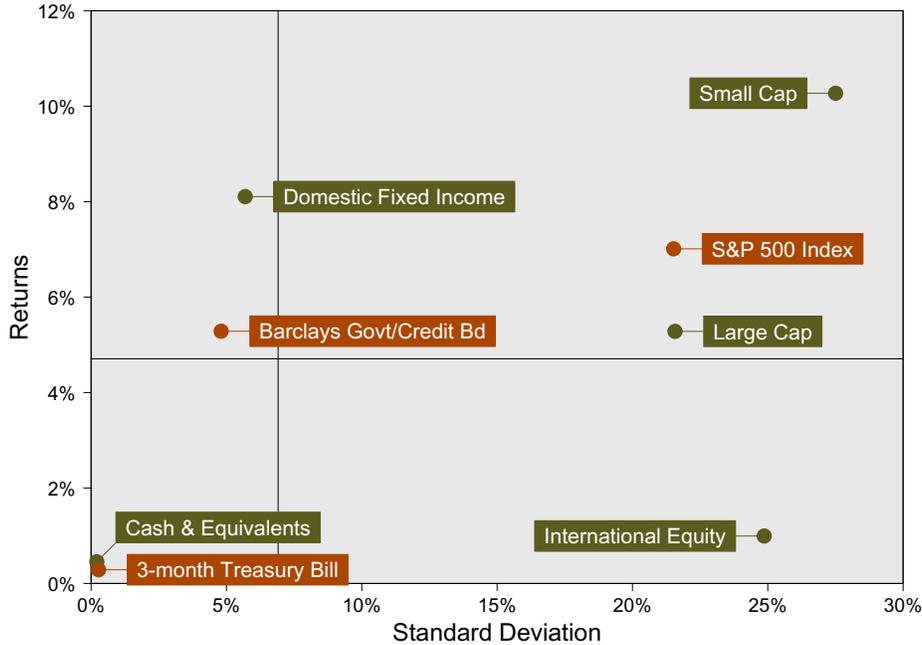


\* Current Quarter Target = 46.5% Barclays Gov 1-3 Yr, 26.5% Barclays Aggregate Index, 10.9% Barclays Gbl Infn-Linked, 5.3% Russell 1000 Index, 3.7% MSCI EAFE Index, 3.0% NCREIF Total Index, 2.3% 3-month Treasury Bill and 1.8% Russell 2000 Index.

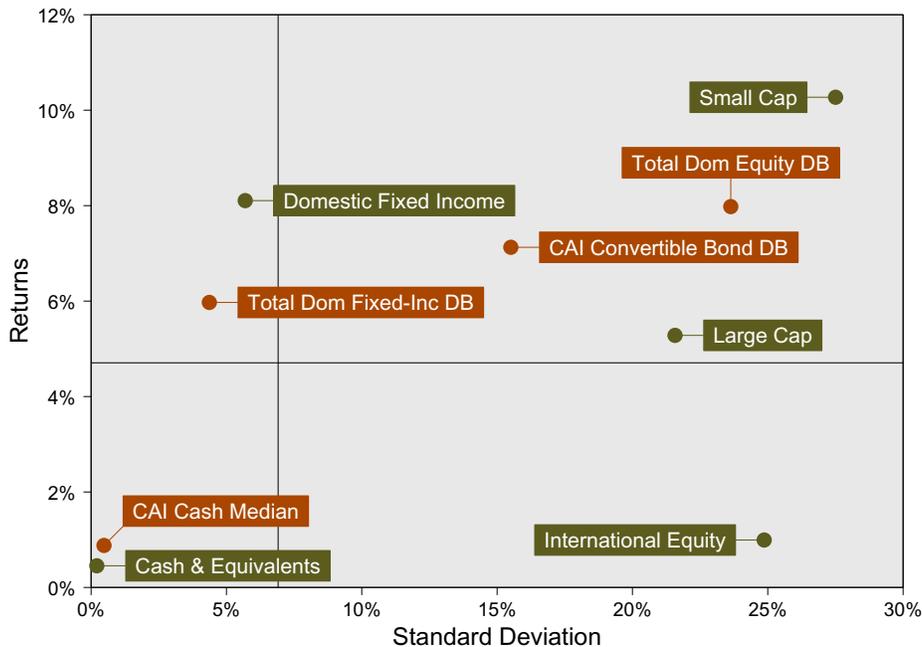
## Asset Class Risk and Return

The charts below show the five year annualized risk and return for each asset class component of the Total Fund. The first graph contrasts these values with those of the appropriate index for each asset class. The second chart contrasts them with the risk and return of the median portfolio in each of the appropriate CAI comparative databases. In each case, the crosshairs on the chart represent the return and risk of the Total Fund.

### Five Year Annualized Risk vs Return Asset Classes vs Benchmark Indices



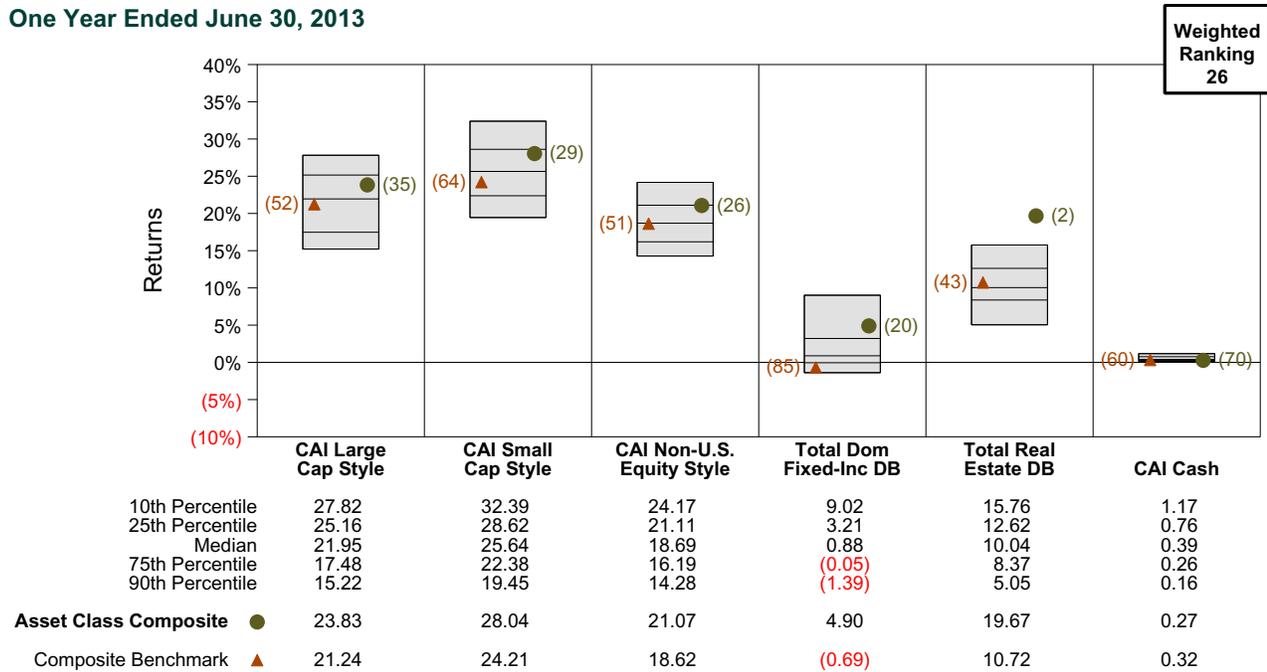
### Five Year Annualized Risk vs Return Asset Classes vs Asset Class Median



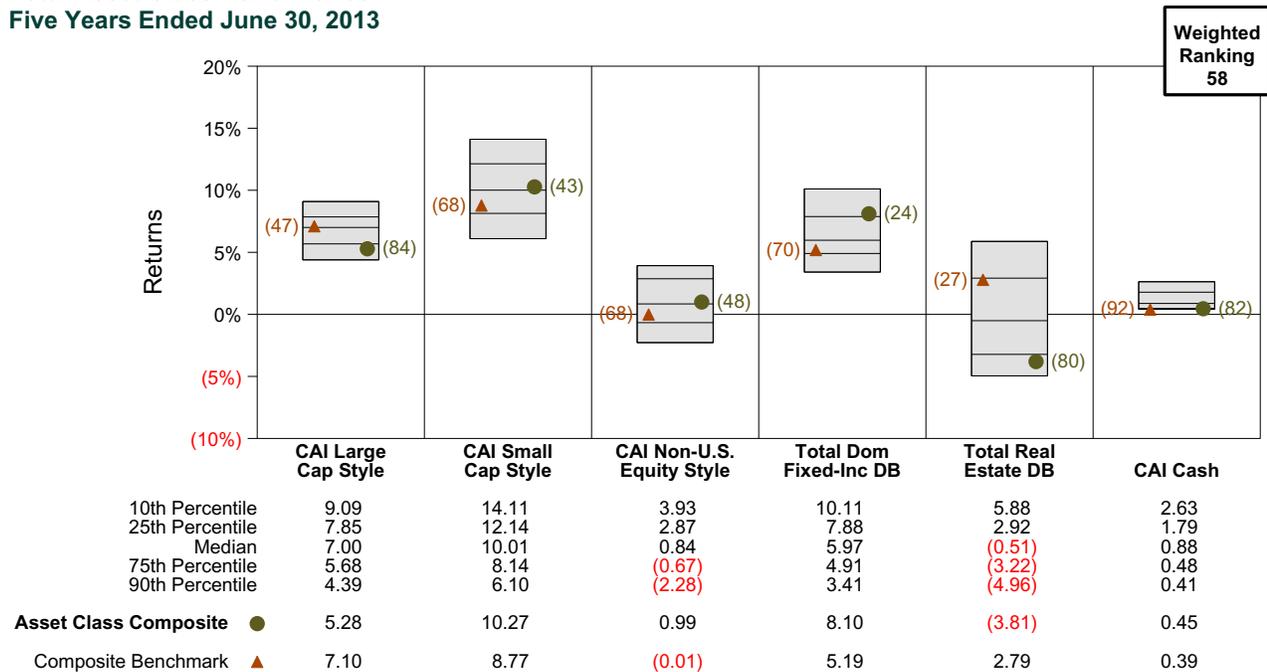
## Asset Class Rankings

The charts below show the rankings of each asset class component of the Total Fund relative to appropriate comparative databases. In the upper right corner of each graph is the weighted average of the rankings across the different asset classes. The weights of the fund's actual asset allocation are used to make this calculation. The weighted average ranking can be viewed as a measure of the fund's overall success in picking managers and structuring asset classes.

### Total Asset Class Performance One Year Ended June 30, 2013



### Total Asset Class Performance Five Years Ended June 30, 2013



\* Current Quarter Target = 46.5% Barclays Gov 1-3 Yr, 26.5% Barclays Aggregate Index, 10.9% Barclays Gbl Infn-Linked, 5.3% Russell 1000 Index, 3.7% MSCI EAFE Index, 3.0% NCREIF Total Index, 2.3% 3-month Treasury Bill and 1.8% Russell 2000 Index.

## Investment Manager Asset Allocation

The table below contrasts the distribution of assets across the Fund's investment managers as of June 30, 2013, with the distribution as of March 31, 2013. The change in asset distribution is broken down into the dollar change due to Net New Investment and the dollar change due to Investment Return.

### Asset Distribution Across Investment Managers

	June 30, 2013		Net New Inv.	Inv. Return	March 31, 2013	
	Market Value	Percent			Market Value	Percent
<b>Domestic Equity</b>	<b>\$245,542,396</b>	<b>7.75%</b>	<b>\$(6,115,326)</b>	<b>\$9,537,899</b>	<b>\$242,119,822</b>	<b>8.20%</b>
<b>Large Cap</b>	<b>\$182,905,938</b>	<b>5.77%</b>	<b>\$(4,079,818)</b>	<b>\$7,051,260</b>	<b>\$179,934,496</b>	<b>6.10%</b>
Clifton Large Cap	36,024,980	1.14%	0	934,900	35,090,080	1.19%
L.A. Capital	54,097,208	1.71%	(27,916)	1,605,529	52,519,595	1.78%
L.A. Capital Enhanced	36,966,179	1.17%	(11,146)	1,516,254	35,461,070	1.20%
LSV Asset Management	55,817,571	1.76%	(4,040,756)	2,994,577	56,863,751	1.93%
<b>Small Cap</b>	<b>\$62,636,458</b>	<b>1.98%</b>	<b>\$(2,035,508)</b>	<b>\$2,486,640</b>	<b>\$62,185,326</b>	<b>2.11%</b>
Clifton Small Cap	31,037,776	0.98%	0	881,640	30,156,136	1.02%
Research Affiliates	31,598,682	1.00%	(2,035,508)	1,604,999	32,029,190	1.08%
<b>International Equity</b>	<b>\$117,399,718</b>	<b>3.70%</b>	<b>\$(4,179,484)</b>	<b>\$(857,629)</b>	<b>\$122,436,831</b>	<b>4.15%</b>
Capital Guardian Trust Co.	48,311,848	1.52%	(66,150)	(65,415)	48,443,413	1.64%
DFA Int'l Small Cap Value	11,186,207	0.35%	(18,647)	(239,612)	11,444,466	0.39%
LSV Asset Management	46,620,635	1.47%	(4,060,952)	(671,907)	51,353,494	1.74%
Vanguard Intl Explorer Fund	11,281,029	0.36%	(33,736)	119,306	11,195,459	0.38%
<b>Domestic Fixed Income</b>	<b>\$813,653,785</b>	<b>25.67%</b>	<b>\$11,612,071</b>	<b>\$(19,601,648)</b>	<b>\$821,643,361</b>	<b>27.83%</b>
Bank of North Dakota	59,272	0.00%	(111,484,565)	(1,179,634)	112,723,471	3.82%
Declaration	56,544,452	1.78%	(67,358)	(1,090,429)	57,702,239	1.95%
PIMCO DiSCO II	91,932,953	2.90%	0	707,809	91,225,144	3.09%
Prudential	67,968,954	2.14%	(51,691)	(2,252,186)	70,272,831	2.38%
SSgA US Govt Credit Bd Idx	121,888,817	3.85%	123,462,007	(1,573,189)	-	-
Wells Capital	269,743,738	8.51%	(152,826)	(9,465,233)	279,361,797	9.46%
Western Asset Management	205,515,598	6.48%	(93,495)	(4,748,786)	210,357,879	7.13%
<b>Inflation Protected</b>	<b>\$336,121,967</b>	<b>10.60%</b>	<b>\$4,282,509</b>	<b>\$(13,694,123)</b>	<b>\$345,533,582</b>	<b>11.70%</b>
Western Asset Management	192,941,821	6.09%	3,912,800	(14,089,316)	203,118,338	6.88%
JP Morgan Infrastructure	66,160,909	2.09%	(210,638)	(1,840,811)	68,212,358	2.31%
Eastern Timber Opportunities	61,853,153	1.95%	0	1,101,642	60,751,511	2.06%
Credit Suisse Cust. Infra.	15,166,084	0.48%	580,347	1,134,362	13,451,375	0.46%
<b>Real Estate</b>	<b>\$111,080,910</b>	<b>3.50%</b>	<b>\$(798,919)</b>	<b>\$7,310,814</b>	<b>\$104,569,014</b>	<b>3.54%</b>
Invesco Core Real Estate	44,068,945	1.39%	0	1,975,852	42,093,093	1.43%
JP Morgan RE	67,011,965	2.11%	(798,919)	5,334,963	62,475,921	2.12%
<b>Short Term Fixed Income</b>	<b>\$1,473,284,087</b>	<b>46.48%</b>	<b>\$228,638,744</b>	<b>\$(3,347,930)</b>	<b>\$1,247,993,273</b>	<b>42.28%</b>
JPM Short Term - Budget	138,849,282	4.38%	(690,000)	(547,249)	140,086,531	4.75%
Babson Short Term - Budget	139,725,596	4.41%	(27,493,398)	23,340	167,195,654	5.66%
Babson Bank Loan - Budget	966	0.00%	(1,874,628)	(598)	1,876,192	0.06%
Babson Short Term Legacy	595,690,249	18.79%	126,108,770	(664,867)	470,246,346	15.93%
JPM Short Term Legacy	599,017,995	18.90%	132,588,000	(2,158,556)	468,588,551	15.87%
<b>Cash &amp; Equivalents</b>	<b>\$72,510,745</b>	<b>2.29%</b>	<b>\$4,742,901</b>	<b>\$44,193</b>	<b>\$67,723,651</b>	<b>2.29%</b>
Bank of ND - Money Mkt	72,510,745	2.29%	4,742,901	44,193	67,723,651	2.29%
<b>Total Fund</b>	<b>\$3,169,593,609</b>	<b>100.0%</b>	<b>\$238,182,497</b>	<b>\$(20,608,422)</b>	<b>\$2,952,019,534</b>	<b>100.0%</b>

## Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended June 30, 2013. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

### Returns for Periods Ended June 30, 2013

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
<b>Domestic Equity</b>	<b>4.04%</b>	<b>24.92%</b>	<b>19.51%</b>	<b>6.52%</b>	<b>7.61%</b>
<b>Large Cap</b>	<b>4.01%</b>	<b>23.83%</b>	<b>19.34%</b>	<b>5.28%</b>	<b>7.42%</b>
Clifton Large Cap	2.66%	20.94%	19.20%	-	-
L.A. Capital	3.06%	18.87%	19.01%	7.73%	-
L.A. Capital Enhanced	4.28%	21.58%	19.18%	8.08%	-
LSV Asset Management	5.67%	32.50%	20.05%	8.24%	10.10%
Large Cap Benchmark (1)	2.65%	21.24%	18.62%	7.10%	7.34%
<b>Small Cap</b>	<b>4.13%</b>	<b>28.04%</b>	<b>20.25%</b>	<b>10.27%</b>	<b>10.10%</b>
Clifton Small Cap	2.92%	25.51%	20.17%	-	-
Research Affiliates	5.35%	30.62%	20.28%	11.06%	-
Russell 2000	3.08%	24.21%	18.67%	8.77%	9.53%
<b>International Equity</b>	<b>(0.73%)</b>	<b>21.07%</b>	<b>9.74%</b>	<b>0.99%</b>	<b>7.85%</b>
Capital Guardian Trust Co.	(0.14%)	20.78%	9.88%	0.43%	7.49%
DFA International Small Cap Value	(2.10%)	24.89%	12.35%	2.90%	-
LSV Asset Management	(1.44%)	20.71%	8.65%	0.50%	-
Vanguard Intl Explorer Fund	1.06%	21.16%	10.68%	2.52%	11.33%
MSCI EAFE Index (2)	(0.98%)	18.62%	8.10%	(0.01%)	7.23%
<b>Domestic Fixed Income</b>	<b>(2.38%)</b>	<b>4.90%</b>	<b>7.50%</b>	<b>8.10%</b>	<b>5.67%</b>
Declaration	(1.89%)	2.49%	6.76%	(2.48%)	-
PIMCO DISCO II	0.78%	33.07%	-	-	-
Prudential	(3.21%)	2.03%	6.55%	8.13%	-
Wells Capital	(3.39%)	3.19%	7.43%	9.56%	6.75%
Western Asset Management	(2.26%)	2.17%	6.29%	7.14%	5.44%
Barclays Aggregate	(2.32%)	(0.69%)	3.51%	5.19%	4.52%
<b>Insurance Inflation Protected Assets</b>	<b>(3.90%)</b>	<b>1.04%</b>	<b>4.54%</b>	<b>2.45%</b>	-
Western Asset Management	(6.77%)	(3.22%)	4.37%	2.88%	-
JP Morgan Infrastructure	(2.70%)	10.62%	7.37%	-	-
Eastern Timber Opportunities	1.81%	3.36%	1.56%	-	-
Credit Suisse Cust. Infra.	8.16%	9.43%	-	-	-
Barclays Global Inflation Linked (3)	(5.76%)	(1.05%)	5.88%	3.50%	-
<b>Real Estate</b>	<b>7.03%</b>	<b>19.67%</b>	<b>23.36%</b>	<b>(3.81%)</b>	-
Invesco Core Real Estate	4.69%	-	-	-	-
JP Morgan RE	8.60%	23.90%	24.80%	(3.14%)	-
NCREIF Total Index	2.87%	10.72%	13.14%	2.79%	8.59%
<b>Short Term Fixed Income</b>	<b>(0.22%)</b>	<b>1.29%</b>	<b>1.88%</b>	-	-
JPM Short Term - Budget	(0.39%)	0.68%	-	-	-
Babson Short Term - Budget	(0.08%)	1.89%	-	-	-
Babson Short Term Legacy	(0.09%)	1.83%	-	-	-
JPM Short Term Legacy	(0.38%)	0.65%	-	-	-
BC Gov 1-3 Yr	(0.11%)	0.34%	0.86%	2.06%	2.69%
<b>Cash &amp; Equivalents</b>	<b>0.05%</b>	<b>0.27%</b>	<b>0.28%</b>	<b>0.45%</b>	<b>1.91%</b>
Bank of ND - Money Mkt	0.05%	0.27%	0.28%	0.46%	1.91%
90 Day Treasury Bills	0.02%	0.11%	0.11%	0.29%	1.72%
<b>Total Fund</b>	<b>(0.62%)</b>	<b>5.98%</b>	<b>7.65%</b>	<b>4.71%</b>	<b>5.50%</b>
Policy Target*	(1.01%)	2.91%	5.67%	4.13%	5.32%

\* Current Quarter Target = 46.5% Barclays Gov 1-3 Yr, 26.5% Barclays Aggregate Index, 10.9% Barclays Gbl Inftn-Linked, 5.3% Russell 1000 Index, 3.7% MSCI EAFE Index, 3.0% NCREIF Total Index, 2.3% 3-month Treasury Bill and 1.8% Russell 2000 Index.

(1) The Large Cap Benchmark is comprised of the S&P 500 Index through 12/31/2011, and the Russell 1000 Index thereafter.

(2) International Equity target is MSCI EAFE through 9/30/2000, 50% Hedged EAFE through 3/31/2011, and MSCI EAFE again thereafter.

(3) Inflation Protected Benchmark is the Barclays US TIPS through 12/31/09 and the Barclays Global Inflation-Linked thereafter.

# Clifton Large Cap Period Ended June 30, 2013

## Investment Philosophy

The Clifton Group utilizes equity futures to gain benchmark exposure in constructing the portfolio it believes provides the greatest likelihood of outperforming the index. In this construction the underlying cash portfolio is invested in a liquid, high quality short duration fixed income portfolio. Over market cycles excess return generated by the short duration portfolio, when added to the performance of futures is expected to allow the strategy to achieve 0.50% to 1.00% of gross excess annual performance.

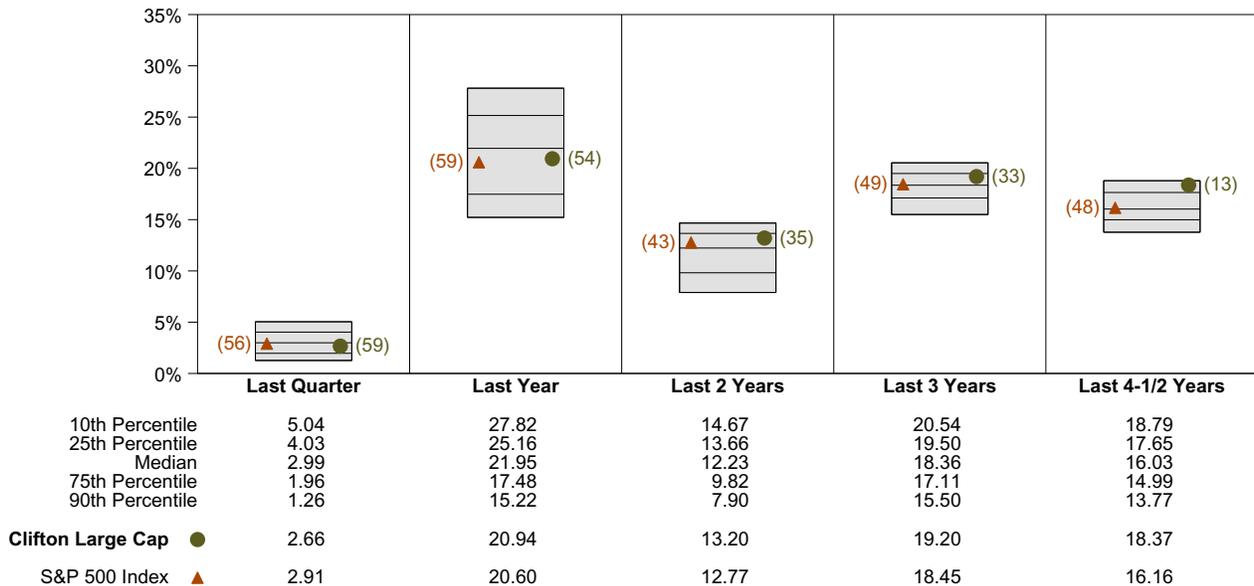
## Quarterly Summary and Highlights

- Clifton Large Cap's portfolio posted a 2.66% return for the quarter placing it in the 59 percentile of the CAI Large Capitalization Style group for the quarter and in the 54 percentile for the last year.
- Clifton Large Cap's portfolio underperformed the S&P 500 Index by 0.25% for the quarter and outperformed the S&P 500 Index for the year by 0.34%.

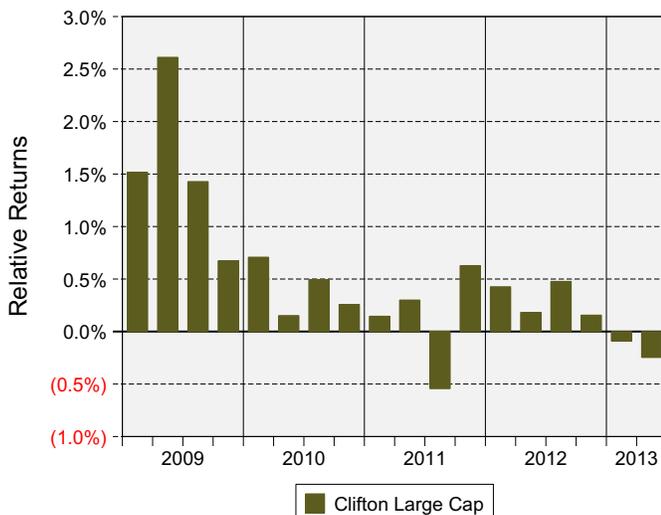
## Quarterly Asset Growth

Beginning Market Value	\$35,090,080
Net New Investment	\$0
Investment Gains/(Losses)	\$934,900
Ending Market Value	\$36,024,980

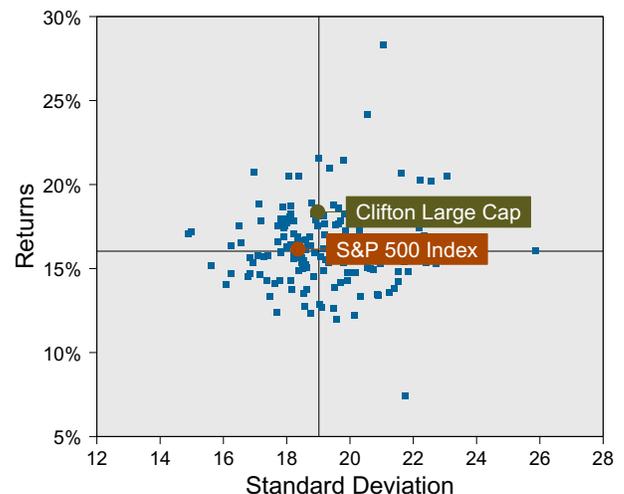
## Performance vs CAI Large Capitalization Style (Gross)



## Relative Return vs S&P 500 Index



## CAI Large Capitalization Style (Gross) Annualized Four and One-Half Year Risk vs Return



# L.A. Capital Period Ended June 30, 2013

## Investment Philosophy

The LA Capital Structured portfolio is a large growth portfolio benchmarked to the Russell 1000 Growth Index. It is an active assignment meaning that it targets a 2% alpha and constrains its risk budget (tracking error) to 4% relative to the benchmark. LA Capital believes that investment results are driven by Investor Preferences and thus recognize that when preferences shift a different posture related to that factor is warranted.

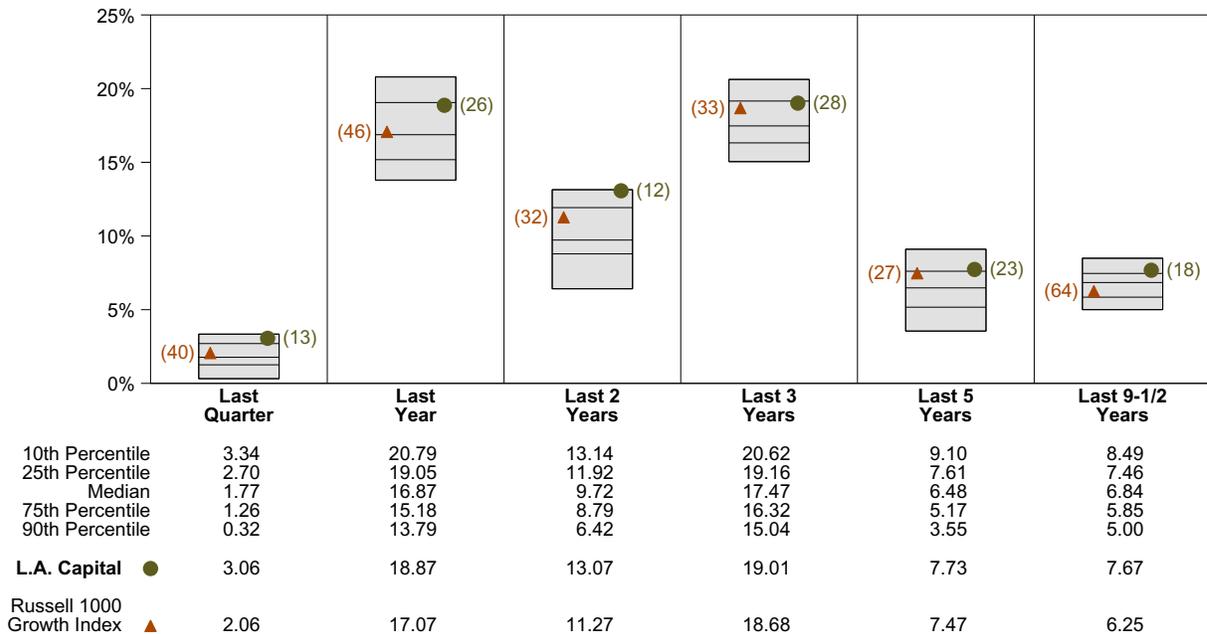
## Quarterly Summary and Highlights

- L.A. Capital's portfolio posted a 3.06% return for the quarter placing it in the 13 percentile of the CAI Large Cap Growth Style group for the quarter and in the 26 percentile for the last year.
- L.A. Capital's portfolio outperformed the Russell 1000 Growth Index by 0.99% for the quarter and outperformed the Russell 1000 Growth Index for the year by 1.80%.

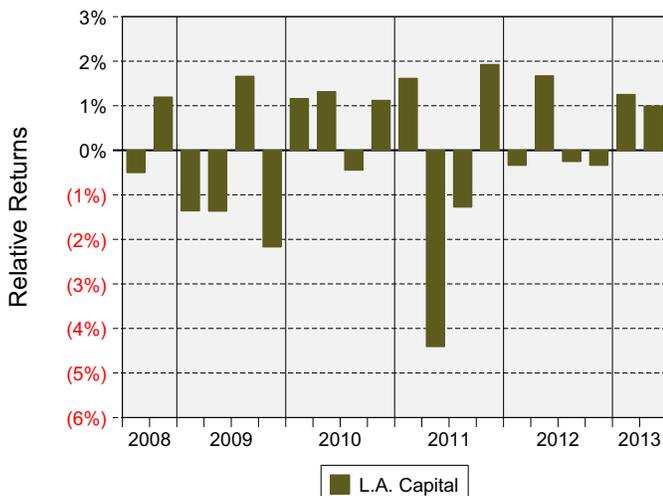
## Quarterly Asset Growth

Beginning Market Value	\$52,519,595
Net New Investment	\$-27,916
Investment Gains/(Losses)	\$1,605,529
Ending Market Value	\$54,097,208

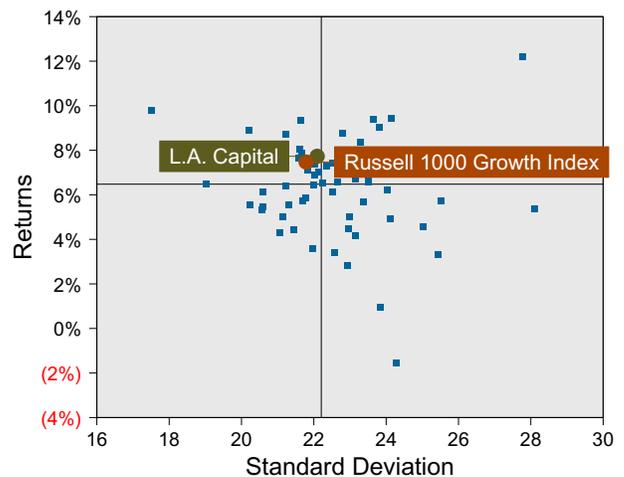
## Performance vs CAI Large Cap Growth Style (Gross)



## Relative Return vs Russell 1000 Growth Index



## CAI Large Cap Growth Style (Gross) Annualized Five Year Risk vs Return



# L.A. Capital Enhanced Period Ended June 30, 2013

## Investment Philosophy

The LA Capital Enhanced portfolio is a large core portfolio benchmarked to the Russell 1000 Index. Characterized as an enhanced index assignment, its objective is to track the benchmark with lower variability. The pension portfolio began in August of 2000 and the insurance portfolio was initiated in April of 2004. Since October of 2006 a small portion of each of the two core accounts was allocated into the Large Cap Alpha Fund with intent to add incremental alpha to the assignment given that the information ratio was expected to be higher.

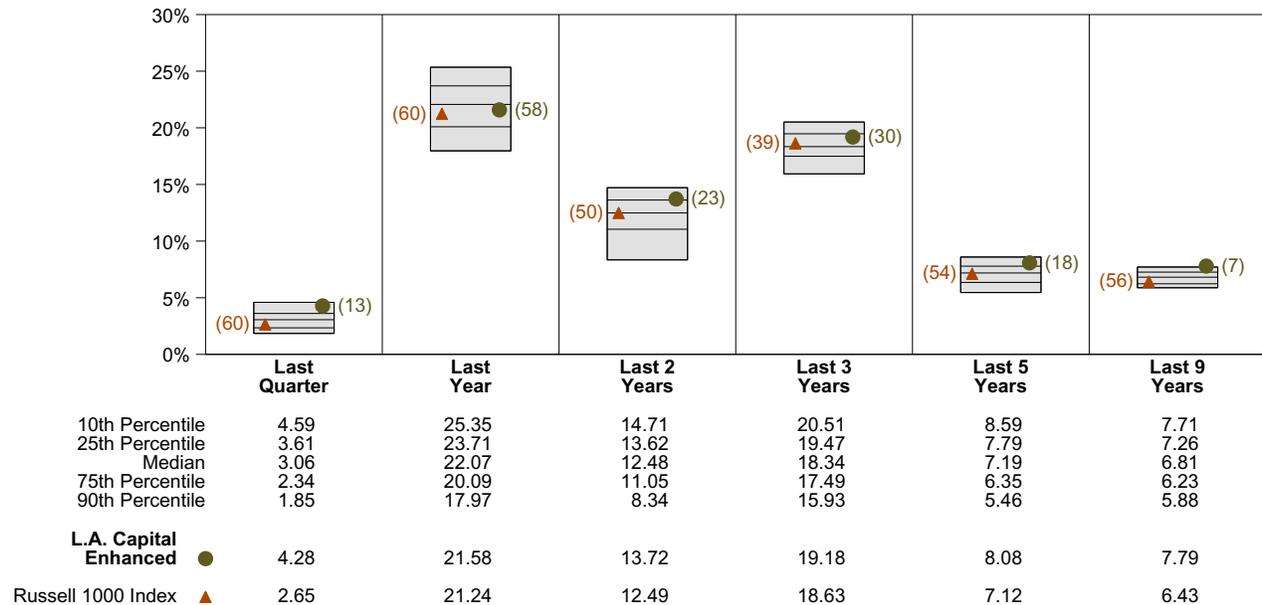
## Quarterly Summary and Highlights

- L.A. Capital Enhanced's portfolio posted a 4.28% return for the quarter placing it in the 13 percentile of the CAI Large Cap Core Style group for the quarter and in the 58 percentile for the last year.
- L.A. Capital Enhanced's portfolio outperformed the Russell 1000 Index by 1.62% for the quarter and outperformed the Russell 1000 Index for the year by 0.34%.

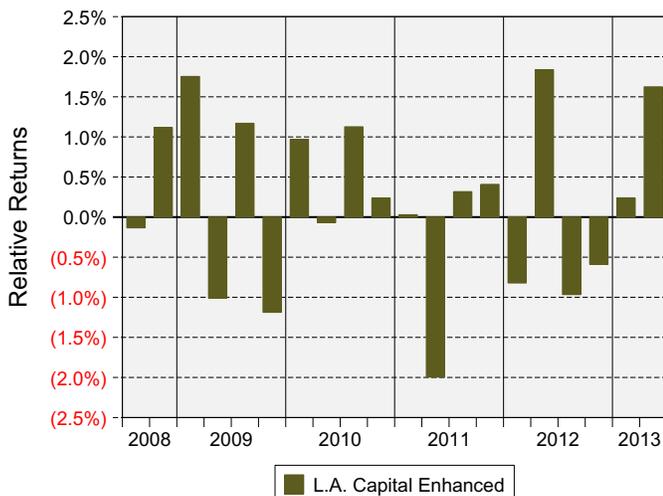
## Quarterly Asset Growth

Beginning Market Value	\$35,461,070
Net New Investment	\$-11,146
Investment Gains/(Losses)	\$1,516,254
Ending Market Value	\$36,966,179

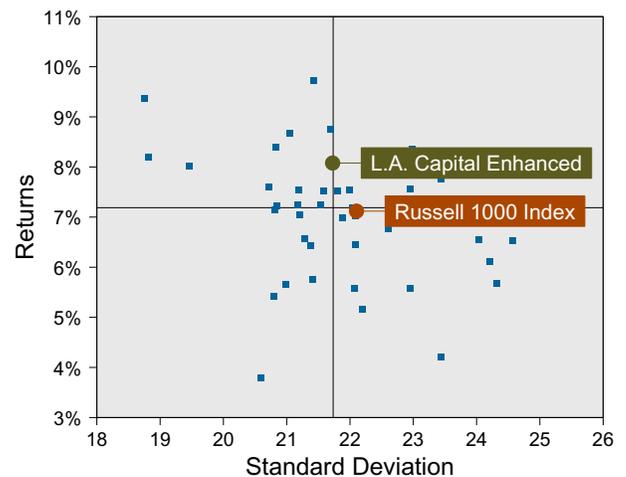
## Performance vs CAI Large Cap Core Style (Gross)



## Relative Return vs Russell 1000 Index



## CAI Large Cap Core Style (Gross) Annualized Five Year Risk vs Return



# LSV Asset Management Period Ended June 30, 2013

## Investment Philosophy

The objective of LSV Asset Management's Large Cap Value Equity (U.S.) strategy is to outperform the Russell 1000 Value by at least 200 basis points (gross of fees) per annum over a 3-5 year period with a tracking error of approximately 4%. Their stock selection process is a quantitative approach that ranks a broad universe of stocks on a combination of value and momentum factors and seeks to invest approximately 100 stocks in the most attractive securities possible within strict risk parameters to control the portfolio's tracking error relative to the benchmark. The resulting portfolio is broadly diversified across industry groups and fully invested.

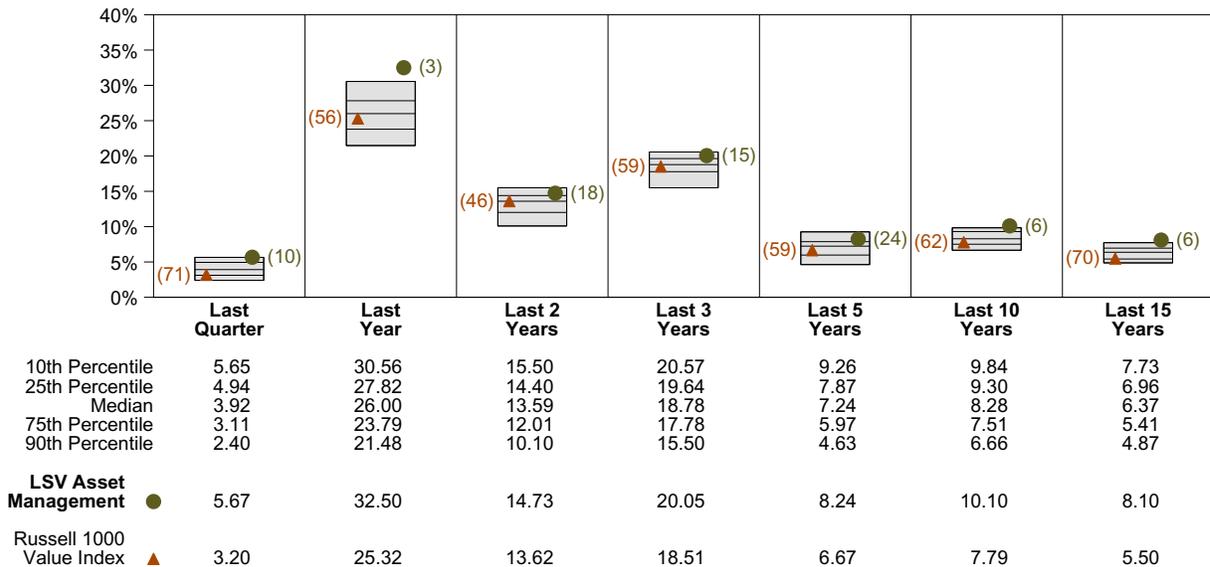
## Quarterly Summary and Highlights

- LSV Asset Management's portfolio posted a 5.67% return for the quarter placing it in the 10 percentile of the CAI Large Cap Value Style group for the quarter and in the 3 percentile for the last year.
- LSV Asset Management's portfolio outperformed the Russell 1000 Value Index by 2.47% for the quarter and outperformed the Russell 1000 Value Index for the year by 7.18%.

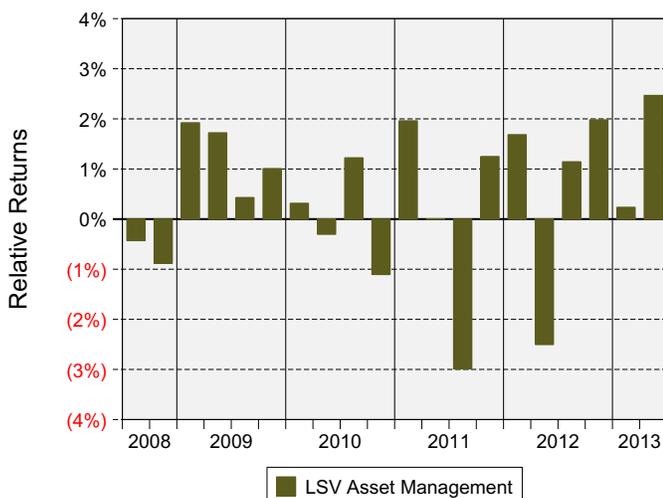
## Quarterly Asset Growth

Beginning Market Value	\$56,863,751
Net Net Investment	\$-4,040,756
Investment Gains/(Losses)	\$2,994,577
Ending Market Value	\$55,817,571

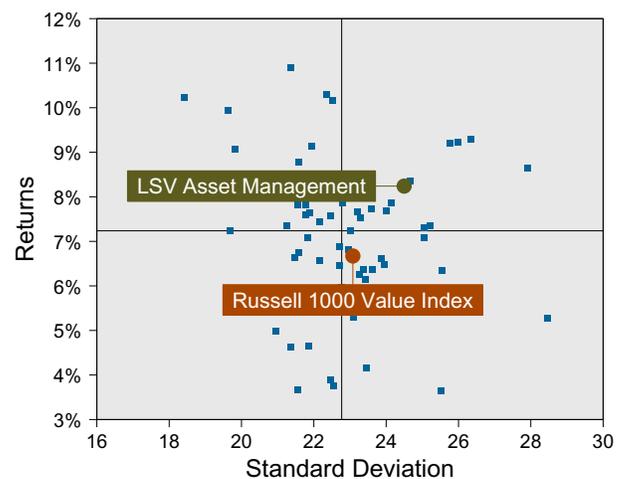
## Performance vs CAI Large Cap Value Style (Gross)



## Relative Return vs Russell 1000 Value Index



## CAI Large Cap Value Style (Gross) Annualized Five Year Risk vs Return



# Clifton Small Cap Period Ended June 30, 2013

## Investment Philosophy

The Clifton Group utilizes equity futures to gain benchmark exposure in constructing the portfolio it believes provides the greatest likelihood of outperforming the index. In this construction the underlying cash portfolio is invested in a liquid, high quality short duration fixed income portfolio. Over market cycles excess return generated by the short duration portfolio, when added to the performance of futures is expected to allow the strategy to achieve 0.50% to 1.00% of gross excess annual performance.

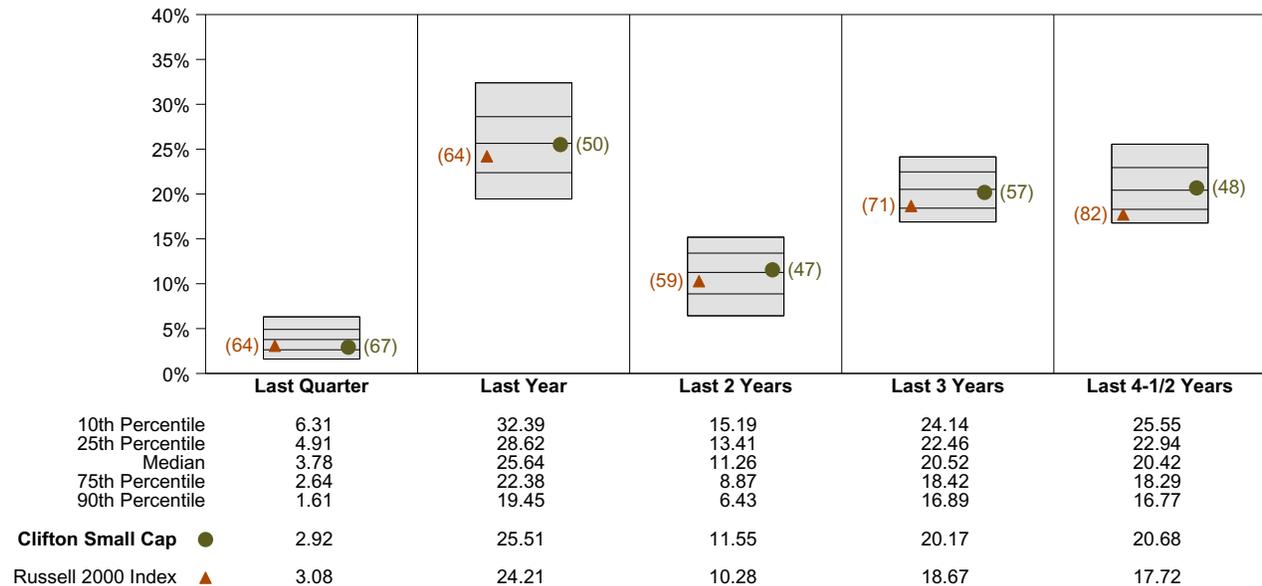
## Quarterly Summary and Highlights

- Clifton Small Cap's portfolio posted a 2.92% return for the quarter placing it in the 67 percentile of the CAI Small Capitalization Style group for the quarter and in the 50 percentile for the last year.
- Clifton Small Cap's portfolio underperformed the Russell 2000 Index by 0.16% for the quarter and outperformed the Russell 2000 Index for the year by 1.30%.

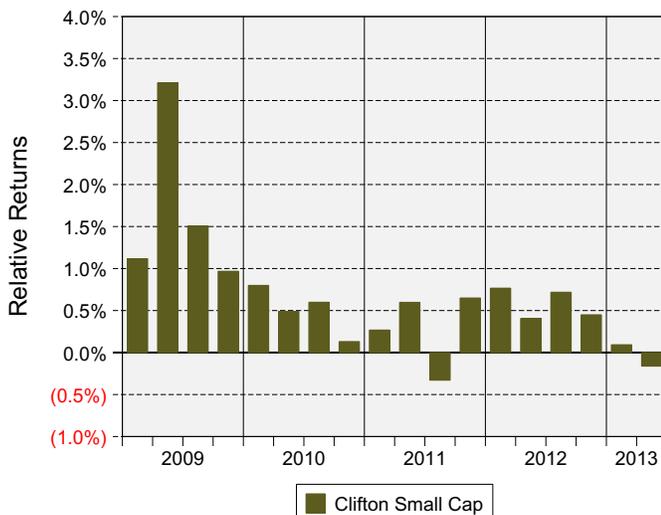
## Quarterly Asset Growth

Beginning Market Value	\$30,156,136
Net New Investment	\$0
Investment Gains/(Losses)	\$881,640
Ending Market Value	\$31,037,776

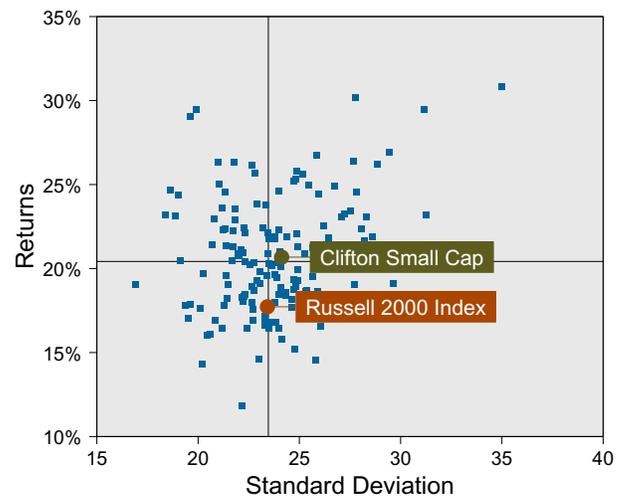
## Performance vs CAI Small Capitalization Style (Gross)



## Relative Return vs Russell 2000 Index



## CAI Small Capitalization Style (Gross) Annualized Four and One-Half Year Risk vs Return



# Research Affiliates Period Ended June 30, 2013

## Investment Philosophy

Small company value equity portfolio utilizing the index strategy and philosophy described as the Enhanced RAFI US Small strategy which relies on portfolio weights derived from firm fundamentals (free cash flow, book equity value, total sales and gross dividend), instead of market capitalization. Additionally, the enhanced portfolio strategy uses a quality of earnings screening and a financial distress screening to augment portfolio returns and reduce portfolio volatility.

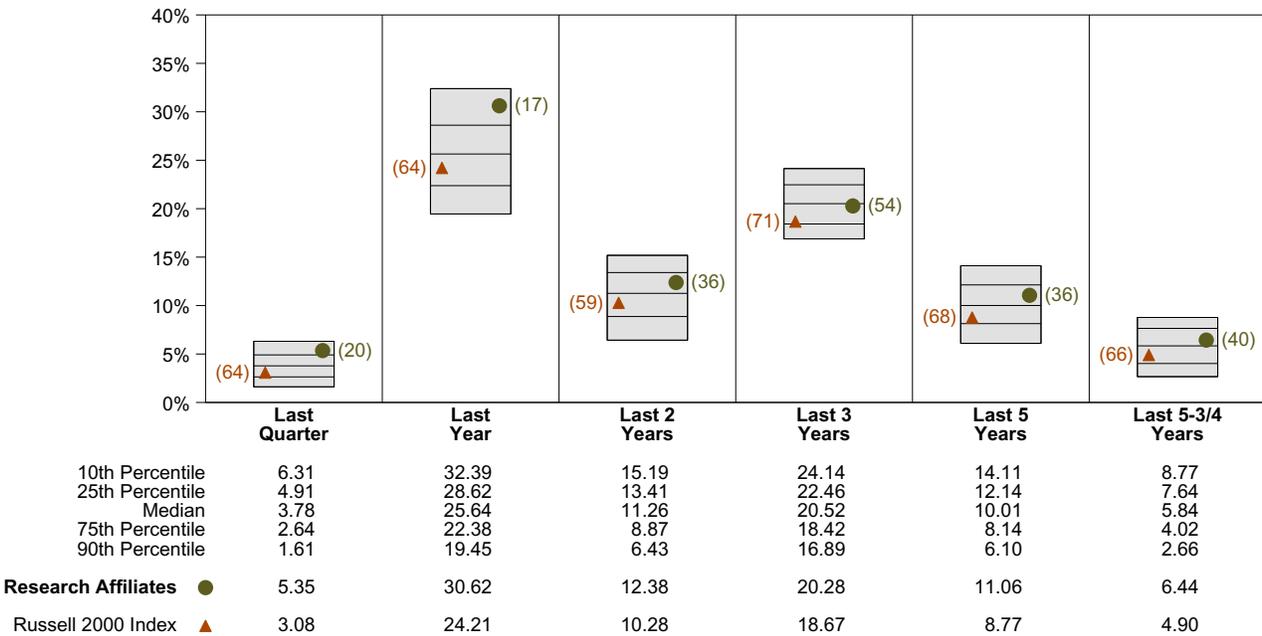
## Quarterly Summary and Highlights

- Research Affiliates's portfolio posted a 5.35% return for the quarter placing it in the 20 percentile of the CAI Small Capitalization Style group for the quarter and in the 17 percentile for the last year.
- Research Affiliates's portfolio outperformed the Russell 2000 Index by 2.27% for the quarter and outperformed the Russell 2000 Index for the year by 6.42%.

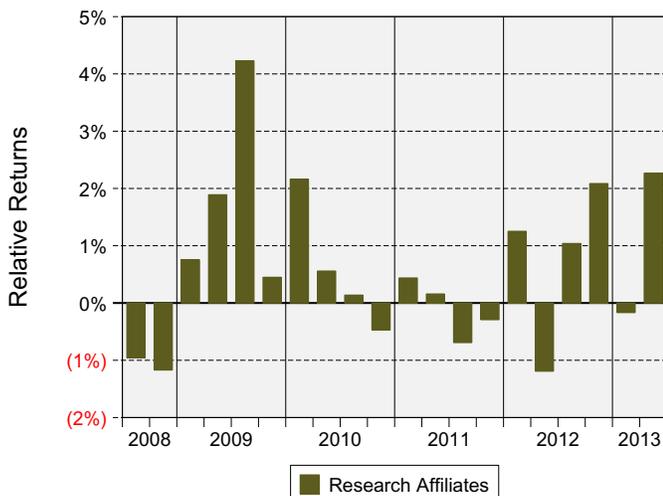
## Quarterly Asset Growth

Beginning Market Value	\$32,029,190
Net New Investment	\$-2,035,508
Investment Gains/(Losses)	\$1,604,999
Ending Market Value	\$31,598,682

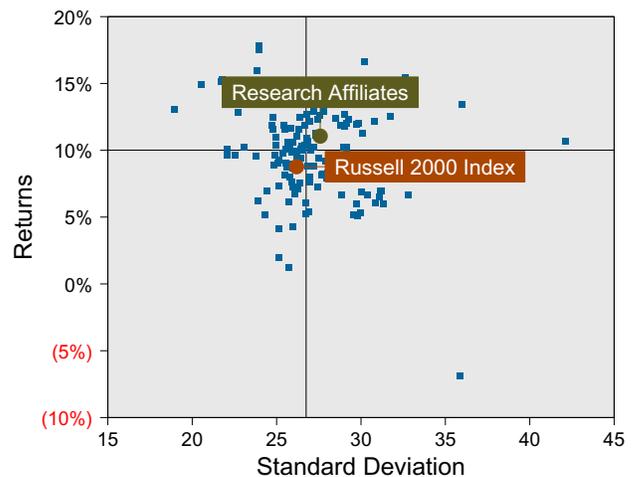
## Performance vs CAI Small Capitalization Style (Gross)



## Relative Return vs Russell 2000 Index



## CAI Small Capitalization Style (Gross) Annualized Five Year Risk vs Return



# Capital Guardian Trust Company

## Period Ended June 30, 2013

### Investment Philosophy

The Portfolio will invest primarily in equity or equity type securities of companies in developed countries excluding the U.S. These equity securities will be listed on a stock exchange or traded in another recognized market and include, but are not limited to, common and preferred stocks, securities convertible or exchangeable into common or preferred stock, warrants, rights and depository arrangements. \*\*International Equity target is MSCI EAFE through 9/30/2000, 50% Hedged EAFE through 3/31/2011, and MSCI EAFE again thereafter.

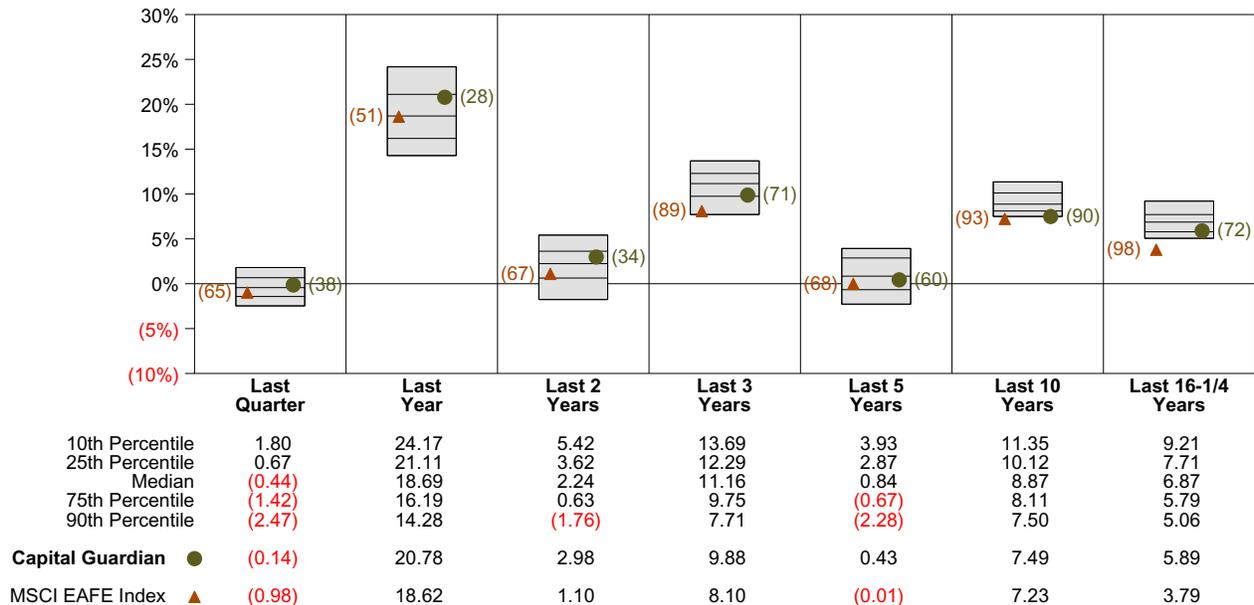
### Quarterly Summary and Highlights

- Capital Guardian's portfolio posted a (0.14)% return for the quarter placing it in the 38 percentile of the CAI Non-U.S. Equity Style group for the quarter and in the 28 percentile for the last year.
- Capital Guardian's portfolio outperformed the MSCI EAFE Index by 0.84% for the quarter and outperformed the MSCI EAFE Index for the year by 2.16%.

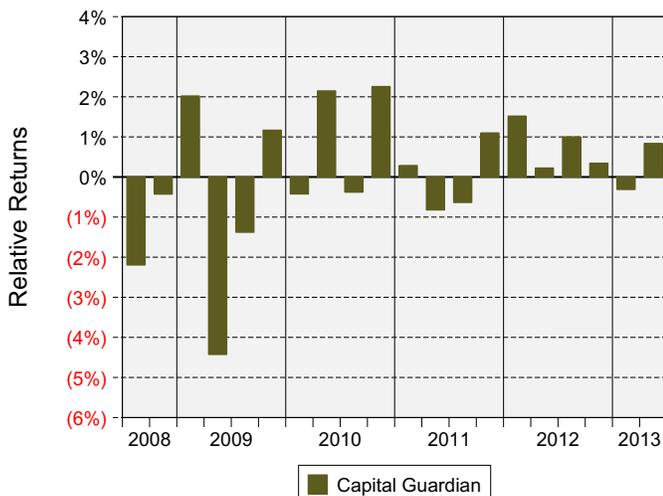
### Quarterly Asset Growth

Beginning Market Value	\$48,443,413
Net New Investment	\$-66,150
Investment Gains/(Losses)	\$-65,415
Ending Market Value	\$48,311,848

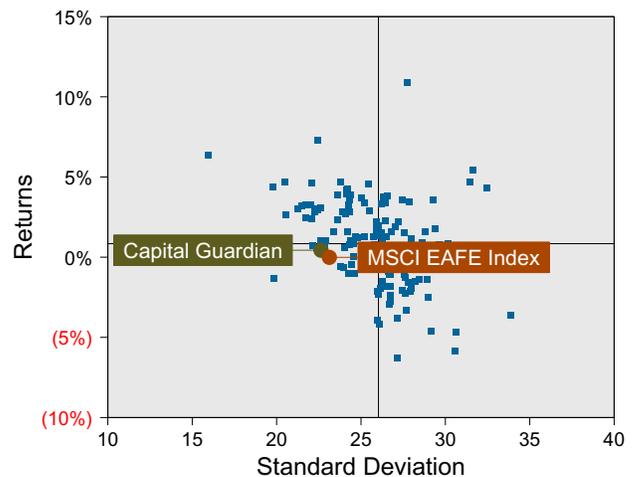
### Performance vs CAI Non-U.S. Equity Style (Gross)



### Relative Return vs MSCI EAFE Index



### CAI Non-U.S. Equity Style (Gross) Annualized Five Year Risk vs Return



# DFA International Small Value Period Ended June 30, 2013

## Investment Philosophy

The International Small Cap Value Portfolio invests in the stocks of small, non-US developed markets companies that Dimensional believes to be value stocks at the time of purchase. Specifically, it looks at companies that fall within the smallest 8-10% of each country's market capitalization, and whose shares have a high book value in relation to their market value (BtM). It does not invest in emerging markets.

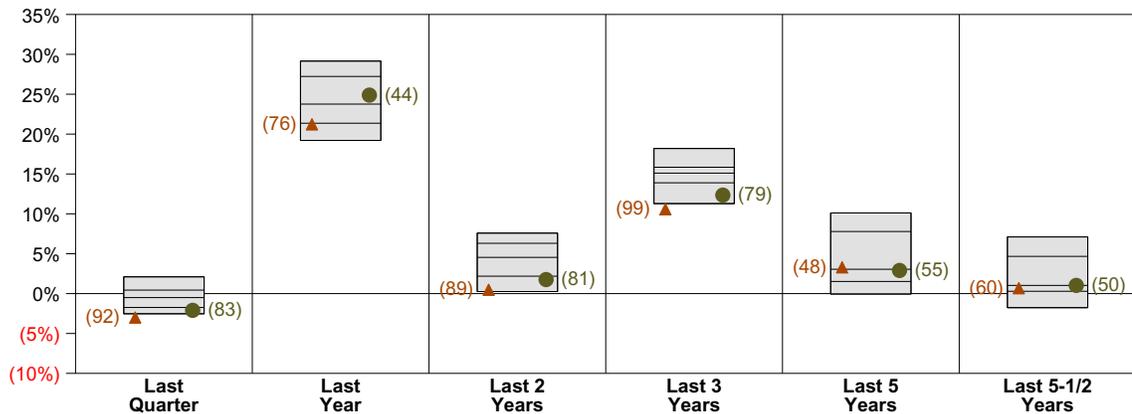
## Quarterly Summary and Highlights

- DFA International Small Value's portfolio posted a (2.10)% return for the quarter placing it in the 83 percentile of the CAI International Small Cap Style group for the quarter and in the 44 percentile for the last year.
- DFA International Small Value's portfolio outperformed the World ex US SC Va by 0.89% for the quarter and outperformed the World ex US SC Va for the year by 3.66%.

## Quarterly Asset Growth

Beginning Market Value	\$11,444,466
Net New Investment	\$-18,647
Investment Gains/(Losses)	\$-239,612
Ending Market Value	\$11,186,207

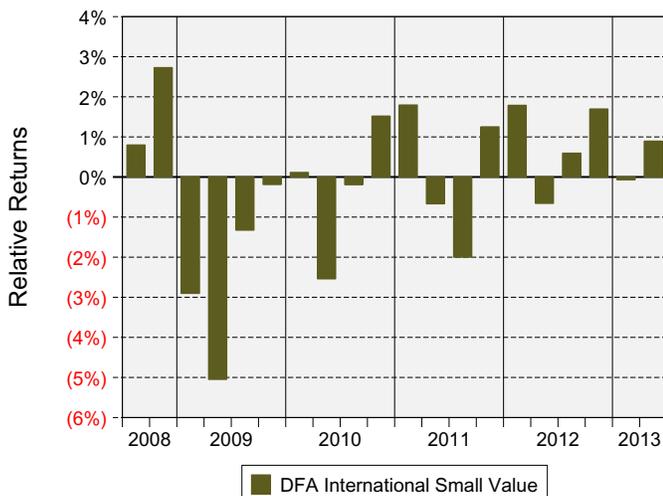
## Performance vs CAI International Small Cap Style (Gross)



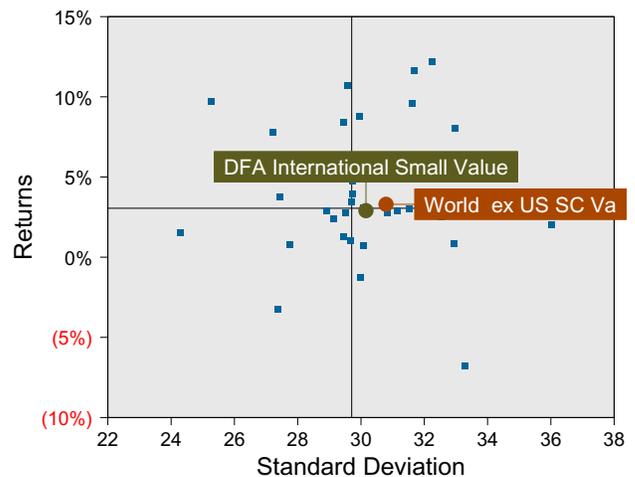
10th Percentile	2.11	29.16	7.59	18.20	10.11	7.11
25th Percentile	0.44	27.23	6.31	15.85	7.79	4.67
Median	(0.50)	23.76	4.54	15.11	3.05	1.03
75th Percentile	(1.74)	21.36	2.18	13.89	1.52	0.29
90th Percentile	(2.53)	19.21	0.26	11.28	(0.05)	(1.76)

<b>DFA International Small Value</b> ●	(2.10)	24.89	1.76	12.35	2.90	1.03
World ex US SC Va ▲	(2.99)	21.23	0.49	10.59	3.30	0.68

## Relative Return vs World ex US SC Va



## CAI International Small Cap Style (Gross) Annualized Five Year Risk vs Return



# LSV Asset Management

## Period Ended June 30, 2013

### Investment Philosophy

The objective of LSV Asset Management's International Large Cap Value strategy is to outperform the MSCI EAFE Index by at least 250 basis points (gross of fees) per annum over an annualized 3-5 year period with a tracking error of approximately 5-6%. Their stock selection process is a quantitative approach that ranks a broad universe of stocks on a combination of value and momentum factors and seeks to invest approximately 150 stocks in the most attractive securities possible within strict risk parameters to control the portfolio's tracking error relative to the benchmark. The resulting portfolio is broadly diversified across industry groups and fully invested. LSV weights countries at a neutral weight relative to the benchmark country weights. 50% of the portfolio is US dollar hedged. \*\*International Equity target is MSCI EAFE through 9/30/2000, 50% Hedged EAFE through 3/31/2011, and MSCI EAFE again thereafter.

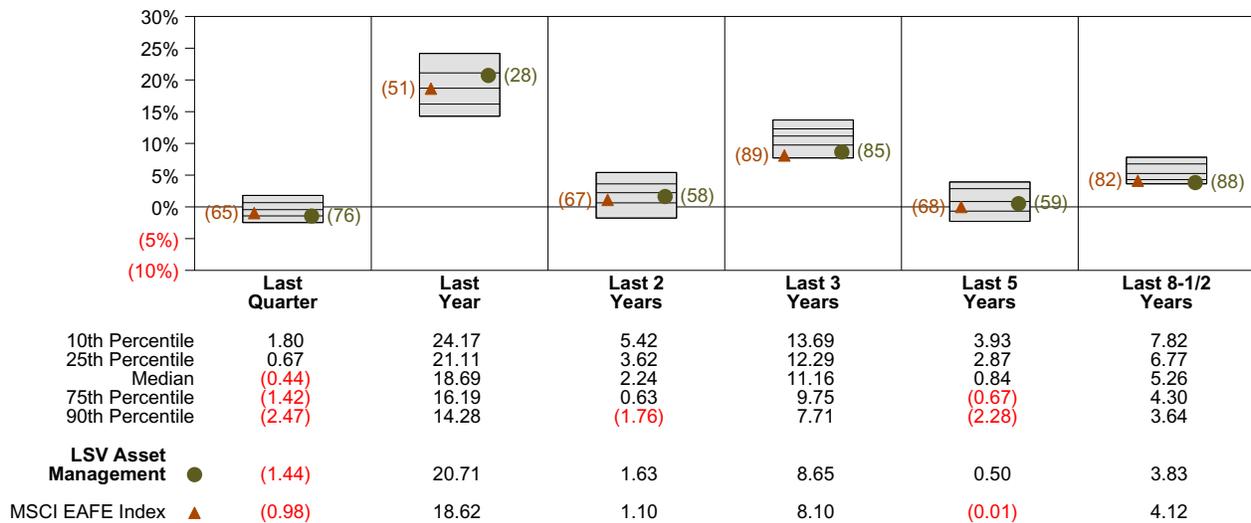
### Quarterly Summary and Highlights

- LSV Asset Management's portfolio posted a (1.44)% return for the quarter placing it in the 76 percentile of the CAI Non-U.S. Equity Style group for the quarter and in the 28 percentile for the last year.
- LSV Asset Management's portfolio underperformed the MSCI EAFE Index by 0.46% for the quarter and outperformed the MSCI EAFE Index for the year by 2.08%.

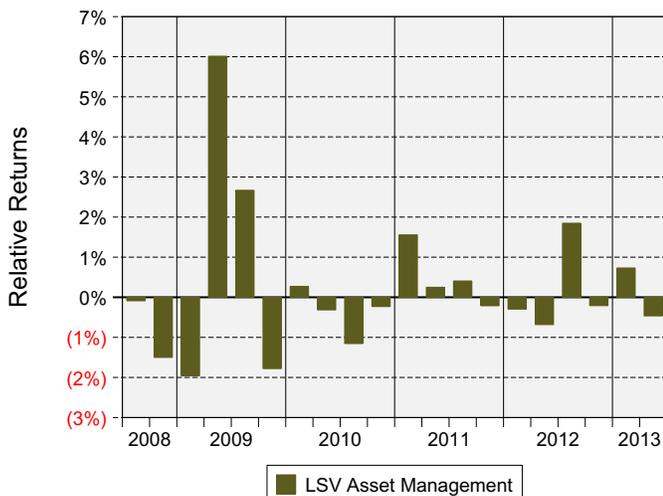
### Quarterly Asset Growth

Beginning Market Value	\$51,353,494
Net New Investment	\$-4,060,952
Investment Gains/(Losses)	\$-671,907
Ending Market Value	\$46,620,635

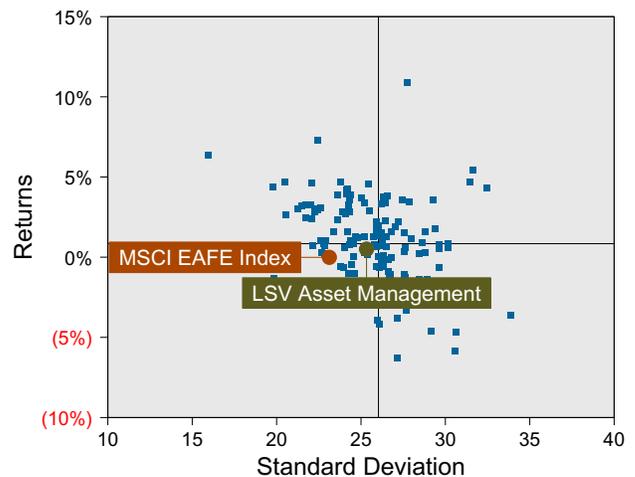
### Performance vs CAI Non-U.S. Equity Style (Gross)



### Relative Return vs MSCI EAFE Index



### CAI Non-U.S. Equity Style (Gross) Annualized Five Year Risk vs Return



# Vanguard Intl Explorer Fund

## Period Ended June 30, 2013

### Investment Philosophy

Vanguard International Explorer Fund invests primarily in the equity securities of small-capitalization companies located outside the United States that the advisor believes offer the potential for long-term capital appreciation. The advisor considers, among other things, whether a company is likely to have above-average earnings growth, whether the company's securities are attractively valued, and whether the company has any proprietary advantages.

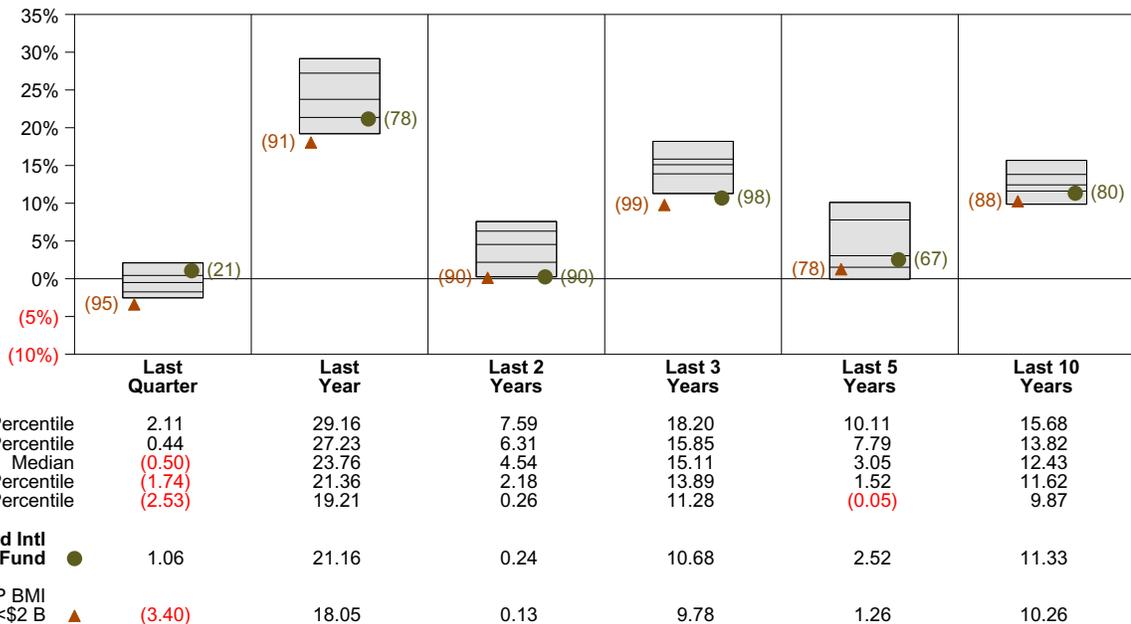
### Quarterly Summary and Highlights

- Vanguard Intl Explorer Fund's portfolio posted a 1.06% return for the quarter placing it in the 21 percentile of the CAI International Small Cap Style group for the quarter and in the 78 percentile for the last year.
- Vanguard Intl Explorer Fund's portfolio outperformed the S&P BMI EPAC <\$2 B by 4.46% for the quarter and outperformed the S&P BMI EPAC <\$2 B for the year by 3.11%.

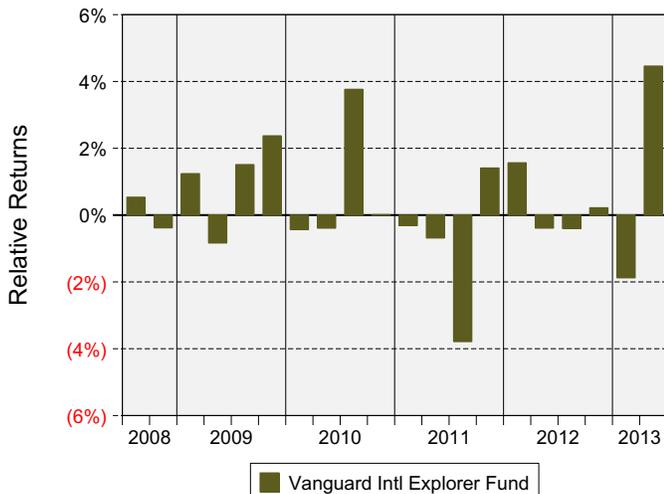
### Quarterly Asset Growth

Beginning Market Value	\$11,195,459
Net New Investment	\$-33,736
Investment Gains/(Losses)	\$119,306
Ending Market Value	\$11,281,029

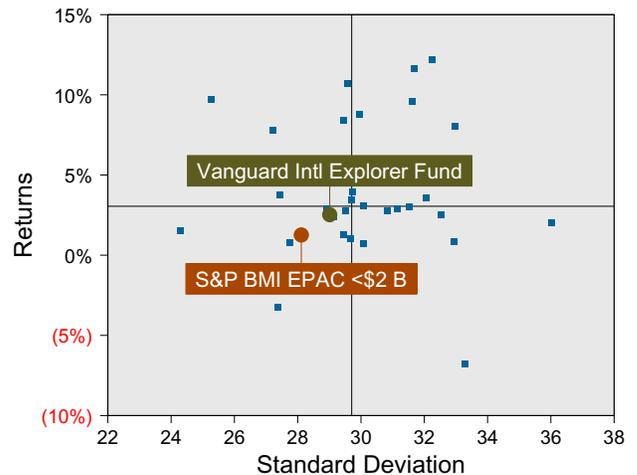
### Performance vs CAI International Small Cap Style (Gross)



### Relative Return vs S&P BMI EPAC <\$2 B



### CAI International Small Cap Style (Gross) Annualized Five Year Risk vs Return



# Declaration Period Ended June 30, 2013

## Investment Philosophy

DMR assumed management of mortgage assets originally acquired by Brookfield (Hyperion). DMR will provide a fresh perspective on the holdings, some of which are credit impaired. The portfolio management services will include loan-level analysis on individual securities and portfolio level risk management of liquidity and volatility. Holdings include structured finance assets: agency and non-agency RMBS, CMBS, and ABS. DMR will seek to optimize the risk-return profile of the portfolio and will look to identify and execute re-investment opportunities with focus on lower volatility, par-based assets. The performance target of the portfolio is a gross total return of 1.25% above the return of the Benchmark over a full market cycle. The Benchmark is the Securitized Portion of Barclays U.S. Aggregate Index. Declaration took over management of this fund on April 1, 2010. Prior performance reflects Hyperion Brookfield.

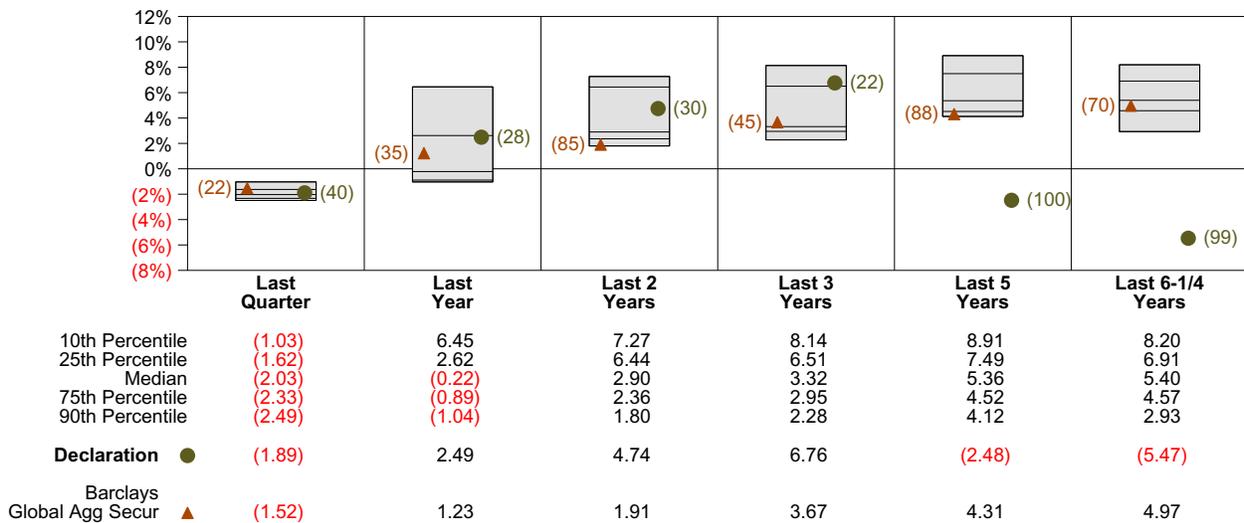
## Quarterly Summary and Highlights

- Declaration's portfolio posted a (1.89)% return for the quarter placing it in the 40 percentile of the CAI Mtg-Backed FI Style group for the quarter and in the 28 percentile for the last year.
- Declaration's portfolio underperformed the Barclays Global Agg Secur by 0.37% for the quarter and outperformed the Barclays Global Agg Secur for the year by 1.26%.

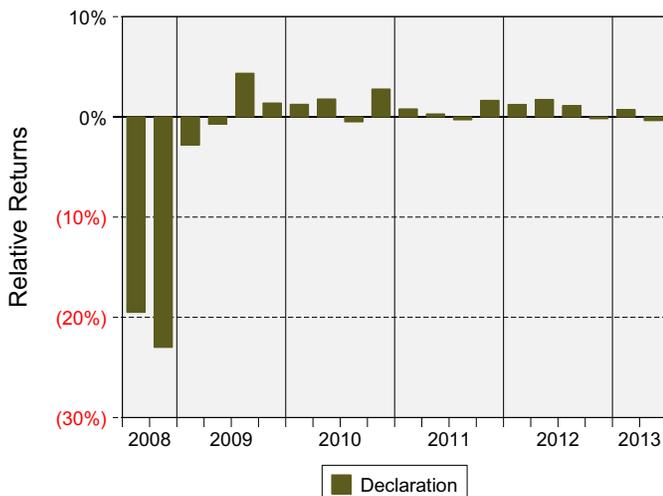
## Quarterly Asset Growth

Beginning Market Value	\$57,702,239
Net New Investment	\$-67,358
Investment Gains/(Losses)	\$-1,090,429
Ending Market Value	\$56,544,452

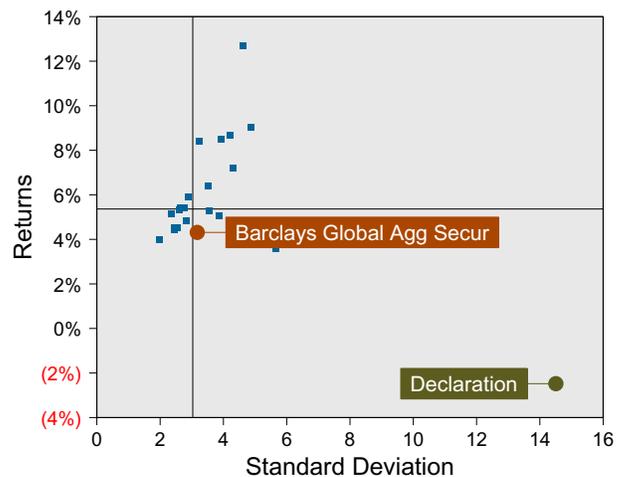
## Performance vs CAI Mtg-Backed FI Style (Gross)



## Relative Return vs Barclays Global Agg Secur



## CAI Mtg-Backed FI Style (Gross) Annualized Five Year Risk vs Return



# PIMCO DiSCO II

## Period Ended June 30, 2013

### Investment Philosophy

The PIMCO Distressed Senior Credit Opportunities Fund is an opportunistic private-equity style Fund which seeks to provide investors enhanced returns principally through long-biased investments in undervalued senior and super senior structured credit securities that are expected to produce attractive levels of current income and that may also appreciate in value over the long term. The fund will look to capitalize on forced sales by liquidity constrained investors.

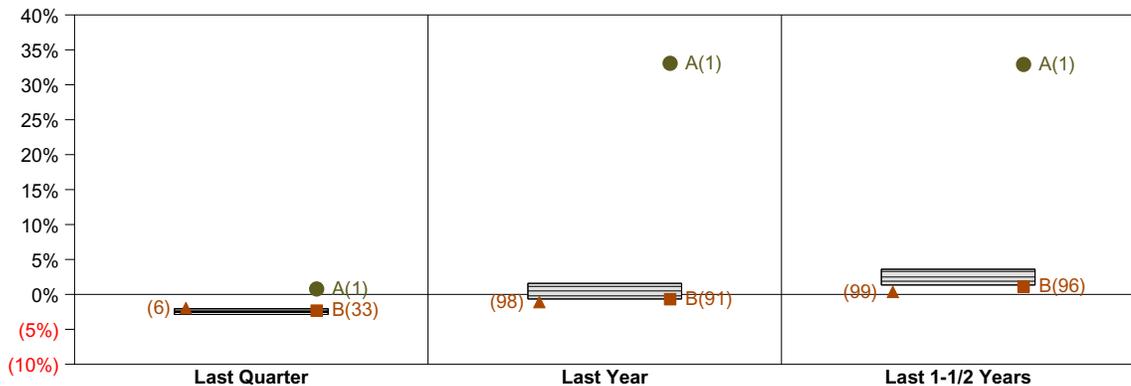
### Quarterly Summary and Highlights

- PIMCO DiSCO II's portfolio posted a 0.78% return for the quarter placing it in the 1 percentile of the CAI Core Bond Fixed-Inc Style group for the quarter and in the 1 percentile for the last year.
- PIMCO DiSCO II's portfolio outperformed the Barclays Mortgage by 2.74% for the quarter and outperformed the Barclays Mortgage for the year by 34.17%.

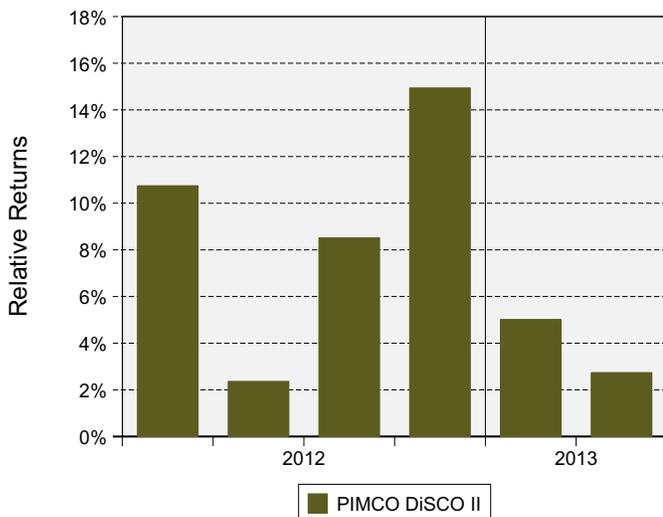
### Quarterly Asset Growth

Beginning Market Value	\$91,225,144
Net New Investment	\$0
Investment Gains/(Losses)	\$707,809
Ending Market Value	\$91,932,953

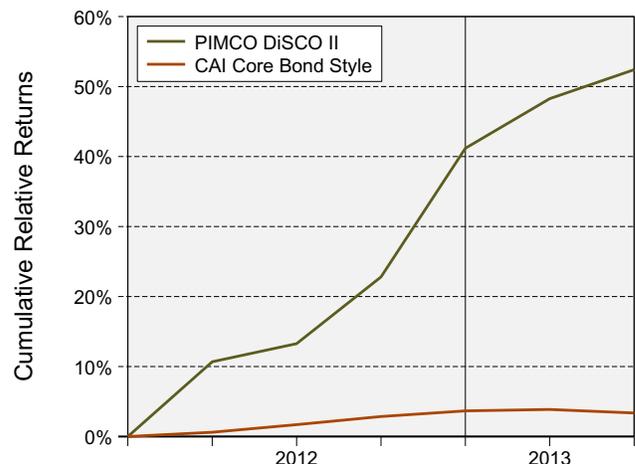
### Performance vs CAI Core Bond Fixed-Inc Style (Gross)



### Relative Return vs Barclays Mortgage



### Cumulative Returns vs Barclays Mortgage



# Prudential Period Ended June 30, 2013

## Investment Philosophy

The core plus fixed income account is a multi-sector strategy that is diversified across a broad range of fixed income sectors, including Treasuries, agencies, mortgage-backed securities, structured product (asset-backed securities, commercial mortgage-backed securities), investment grade corporate bonds, high yield bonds, bank loans and international debt. The primary sources of excess return are sector allocation and security selection, with duration and yield curve less of a focus.

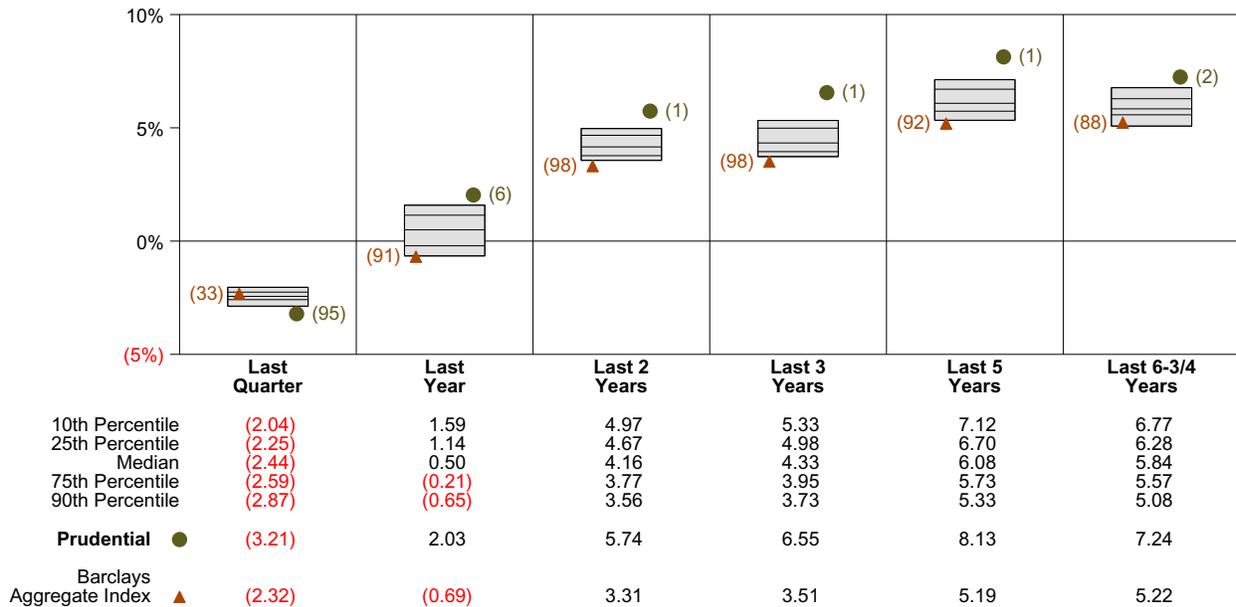
## Quarterly Summary and Highlights

- Prudential's portfolio posted a (3.21)% return for the quarter placing it in the 95 percentile of the CAI Core Bond Fixed-Inc Style group for the quarter and in the 6 percentile for the last year.
- Prudential's portfolio underperformed the Barclays Aggregate Index by 0.88% for the quarter and outperformed the Barclays Aggregate Index for the year by 2.72%.

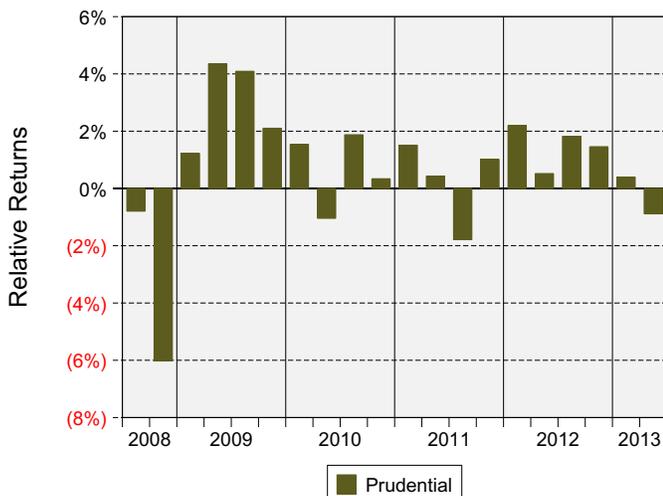
## Quarterly Asset Growth

Beginning Market Value	\$70,272,831
Net New Investment	\$-51,691
Investment Gains/(Losses)	\$-2,252,186
Ending Market Value	\$67,968,954

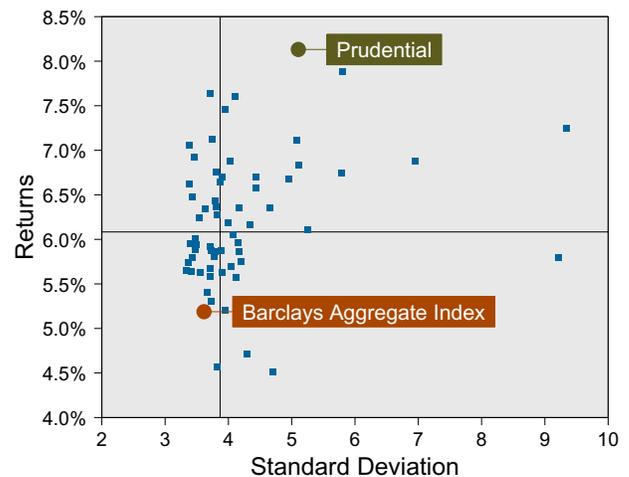
## Performance vs CAI Core Bond Fixed-Inc Style (Gross)



## Relative Return vs Barclays Aggregate Index



## CAI Core Bond Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



# Wells Capital Period Ended June 30, 2013

## Investment Philosophy

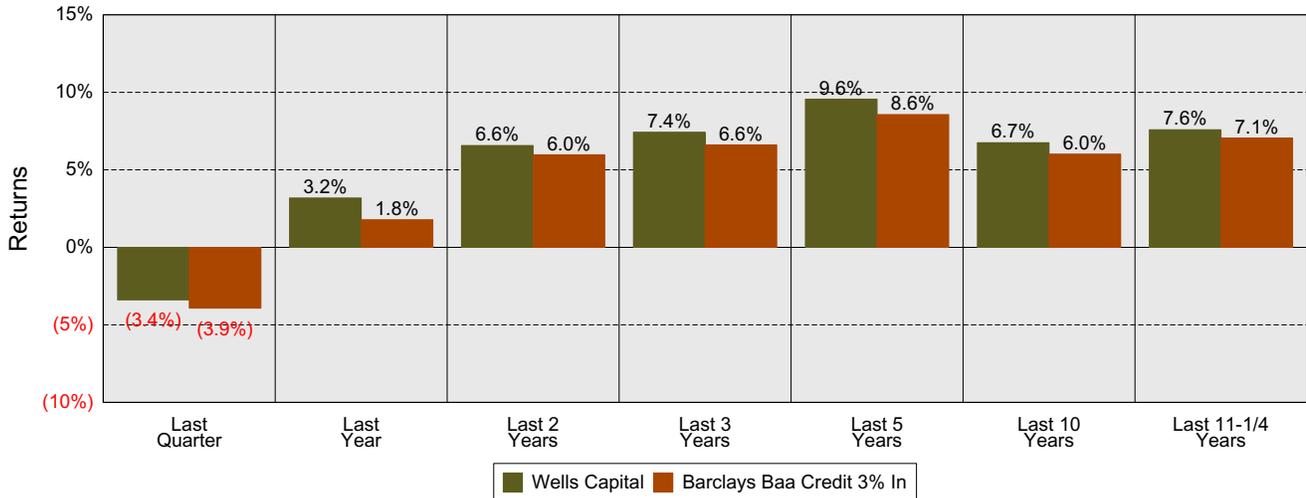
The Medium Quality Credit fixed income strategy is designed to maximize total return from the high-grade corporate bond market while maintaining a strategic allocation to the BBB portion of the high yield market. The investment process for this fund starts with a "top-down" strategy. Security selection is determined by in-depth credit research, holding that in-depth knowledge of industries, companies, and their management teams can help identify credit trends that can lead to investment opportunities. Furthermore, a disciplined relative value framework is applied to help determine the optimal position to invest within an industry and within an individual issuer's capital structure.

## Quarterly Summary and Highlights

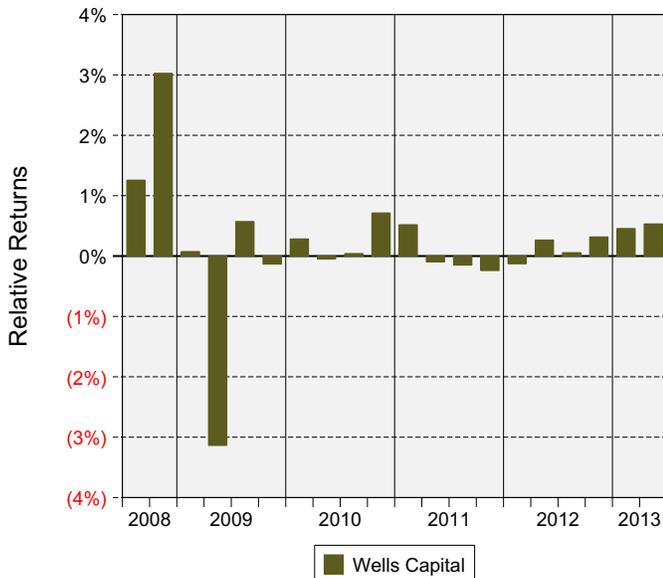
- Wells Capital's portfolio posted a (3.39)% return for the quarter placing it in the 100 percentile of the CAI Core Bond Fixed-Inc Style group for the quarter and in the 2 percentile for the last year.
- Wells Capital's portfolio outperformed the Barclays Baa Credit 3% In by 0.53% for the quarter and outperformed the Barclays Baa Credit 3% In for the year by 1.40%.

## Quarterly Asset Growth

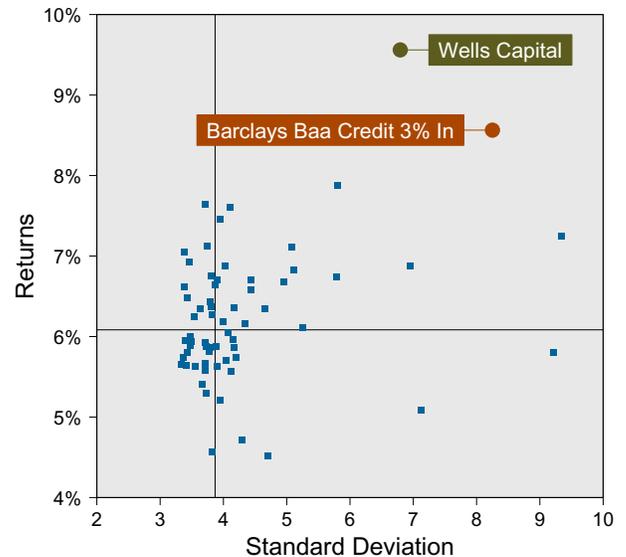
Beginning Market Value	\$279,361,797
Net New Investment	\$-152,826
Investment Gains/(Losses)	\$-9,465,233
Ending Market Value	\$269,743,738



Relative Return vs Barclays Baa Credit 3% In



CAI Core Bond Fixed-Inc Style (Gross)  
Annualized Five Year Risk vs Return



# Western Asset Management Company

## Period Ended June 30, 2013

### Investment Philosophy

Western Asset designs this portfolio using all major fixed-income sectors with a bias towards non-Treasuries, especially corporate, mortgage-backed and asset-backed securities. Value can be added through sector rotation, issue selection, duration and term structure weighting.

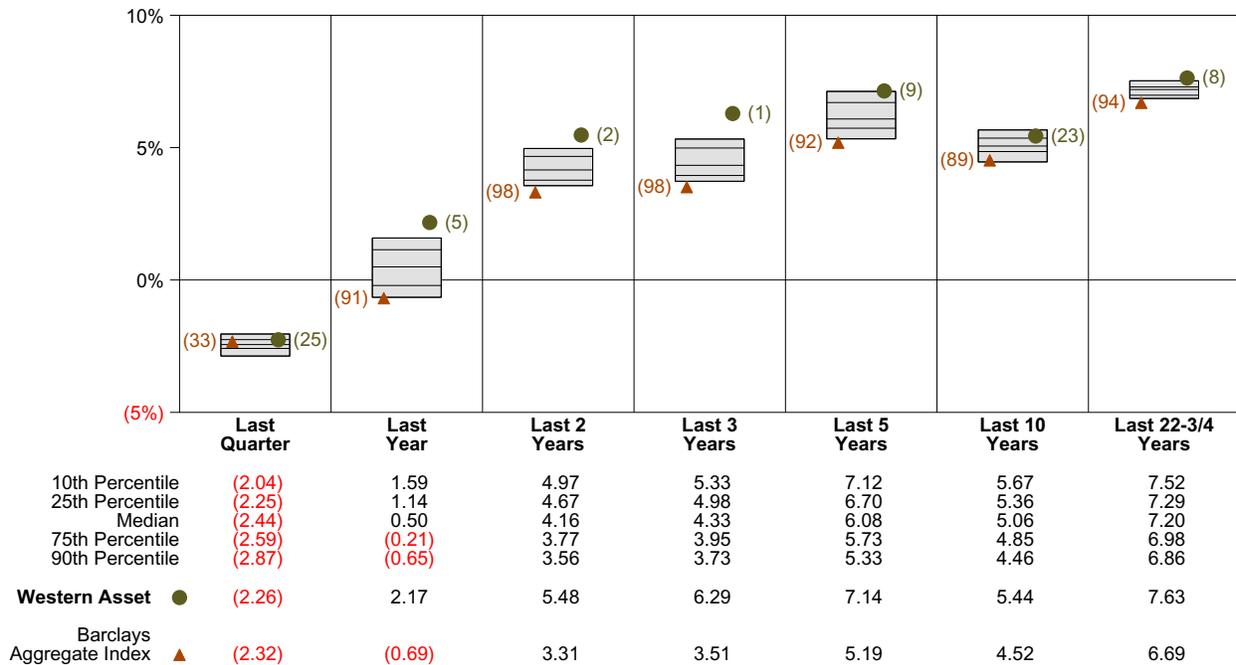
### Quarterly Summary and Highlights

- Western Asset's portfolio posted a (2.26)% return for the quarter placing it in the 25 percentile of the CAI Core Bond Fixed-Inc Style group for the quarter and in the 5 percentile for the last year.
- Western Asset's portfolio outperformed the Barclays Aggregate Index by 0.07% for the quarter and outperformed the Barclays Aggregate Index for the year by 2.86%.

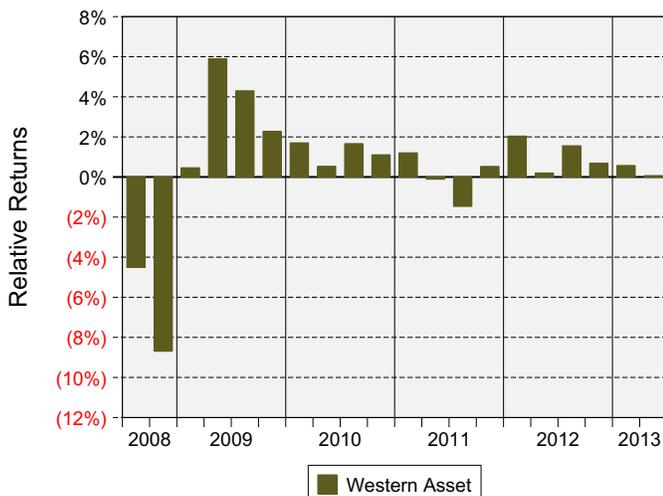
### Quarterly Asset Growth

Beginning Market Value	\$210,357,879
Net New Investment	\$-93,495
Investment Gains/(Losses)	\$-4,748,786
Ending Market Value	\$205,515,598

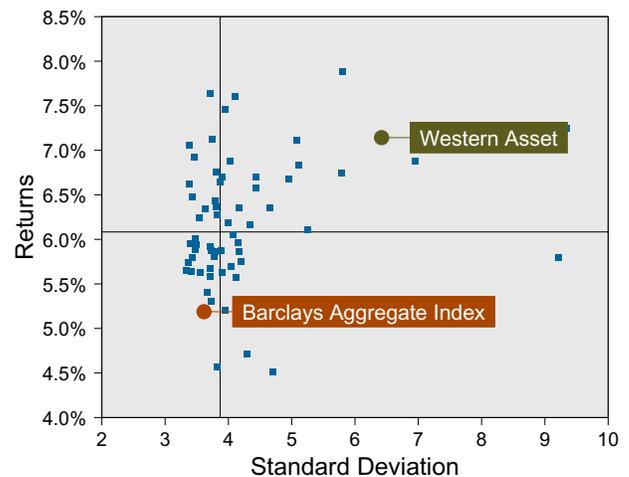
### Performance vs CAI Core Bond Fixed-Inc Style (Gross)



### Relative Return vs Barclays Aggregate Index



### CAI Core Bond Fixed-Inc Style (Gross) Annualized Five Year Risk vs Return



# Western Asset Management TIPS Period Ended June 30, 2013

## Investment Philosophy

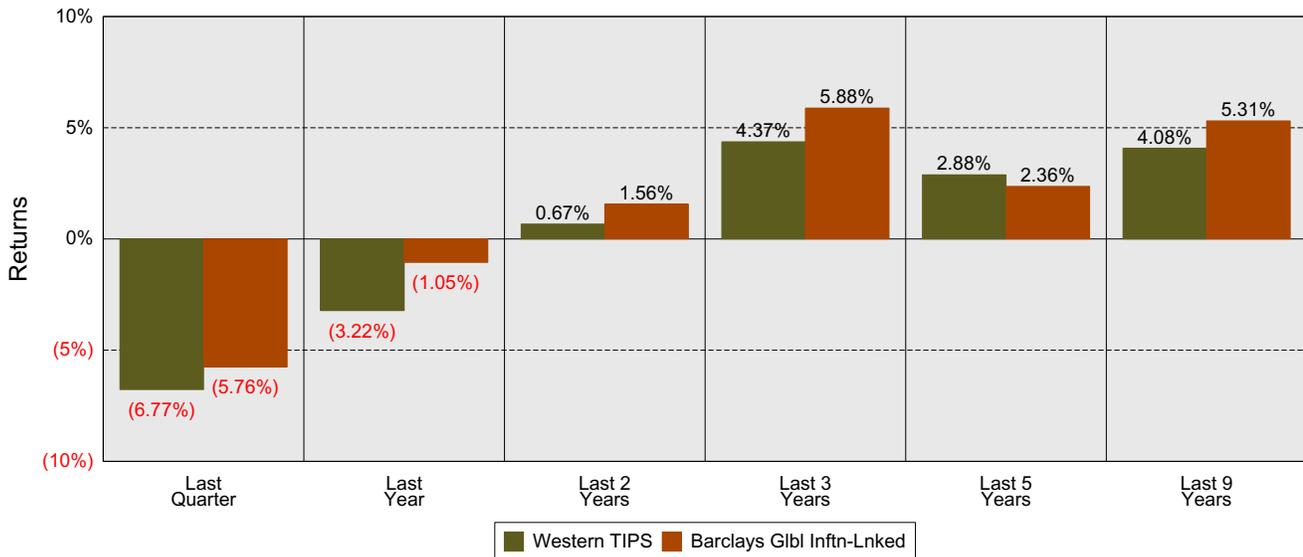
Western Asset's Global Inflation-Linked composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented investment philosophy. Constructed primarily of inflation-indexed securities, these portfolios use diversified strategies in seeking to add value while minimizing risk. Value can be added through country selection, term structure, issue selection, duration management and currency management.

## Quarterly Summary and Highlights

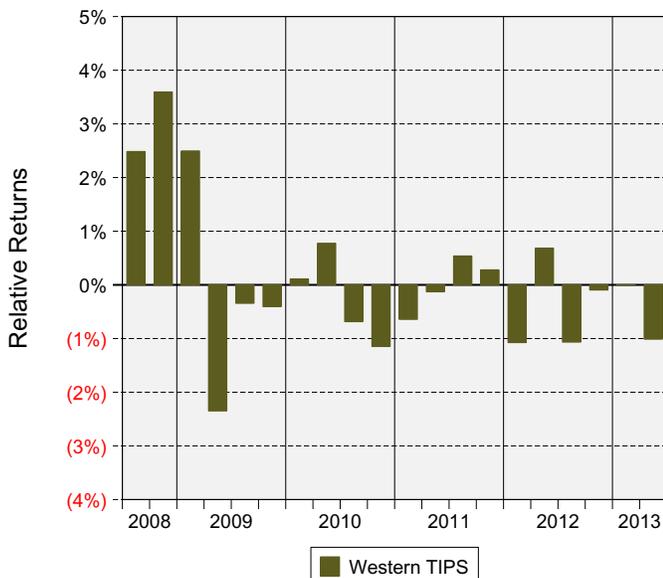
- Western TIPS's portfolio underperformed the Barclays Gbl Inftn-Lnked by 1.01% for the quarter and underperformed the Barclays Gbl Inftn-Lnked for the year by 2.17%.

## Quarterly Asset Growth

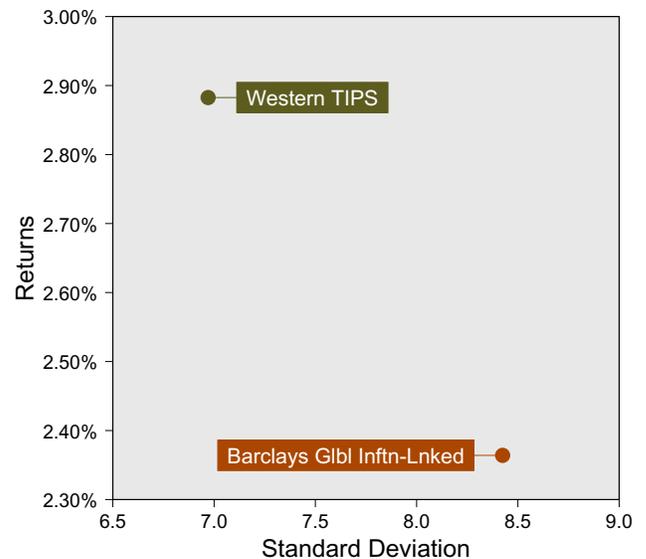
Beginning Market Value	\$203,118,338
Net New Investment	\$3,912,800
Investment Gains/(Losses)	\$-14,089,316
Ending Market Value	\$192,941,821



Relative Return vs Barclays Gbl Inftn-Lnked



Annualized Five Year Risk vs Return



# Eastern Timber Opportunities

## Period Ended June 30, 2013

### Investment Philosophy

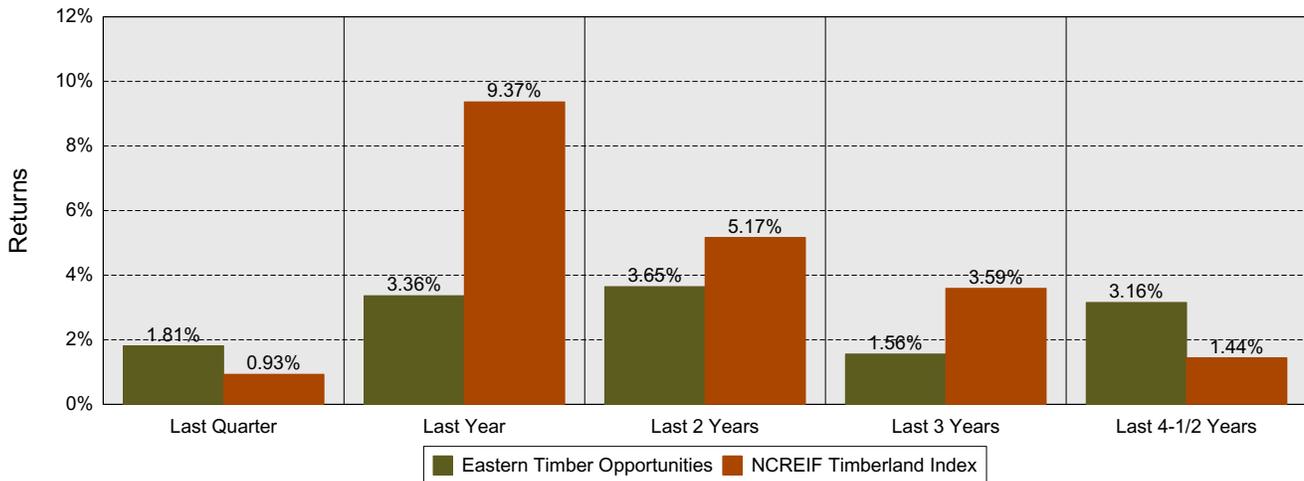
The investment objective of the Eastern Timberland Opportunities fund is to provide competitive timberland investment returns from Eastern US timberland investments by pursuing management strategies to increase timber production and land values through the investment term. TIR will maximize timber values within the portfolio with the application of intensive forest management techniques to accelerate the growth in timber volume and movement into higher value product categories. Additional value will be captured by realizing higher and better use opportunities for select timberland properties throughout the portfolio.

### Quarterly Summary and Highlights

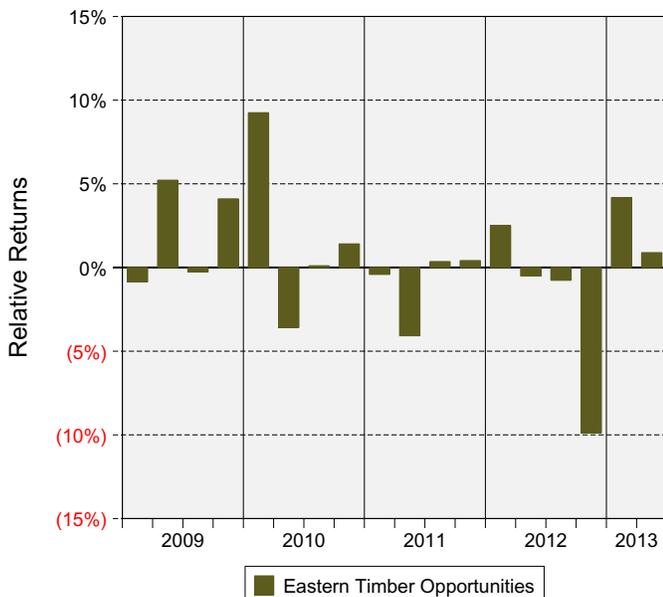
- Eastern Timber Opportunities's portfolio outperformed the NCREIF Timberland Index by 0.88% for the quarter and underperformed the NCREIF Timberland Index for the year by 6.00%.

### Quarterly Asset Growth

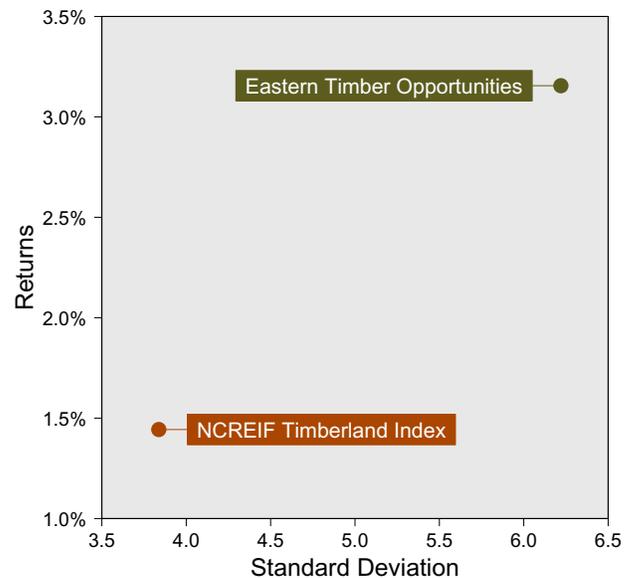
Beginning Market Value	\$60,751,511
Net New Investment	\$0
Investment Gains/(Losses)	\$1,101,642
Ending Market Value	\$61,853,153



Relative Return vs NCREIF Timberland Index



Annualized Four and One-Half Year Risk vs Return



# JP Morgan Infrastructure Period Ended June 30, 2013

## Investment Philosophy

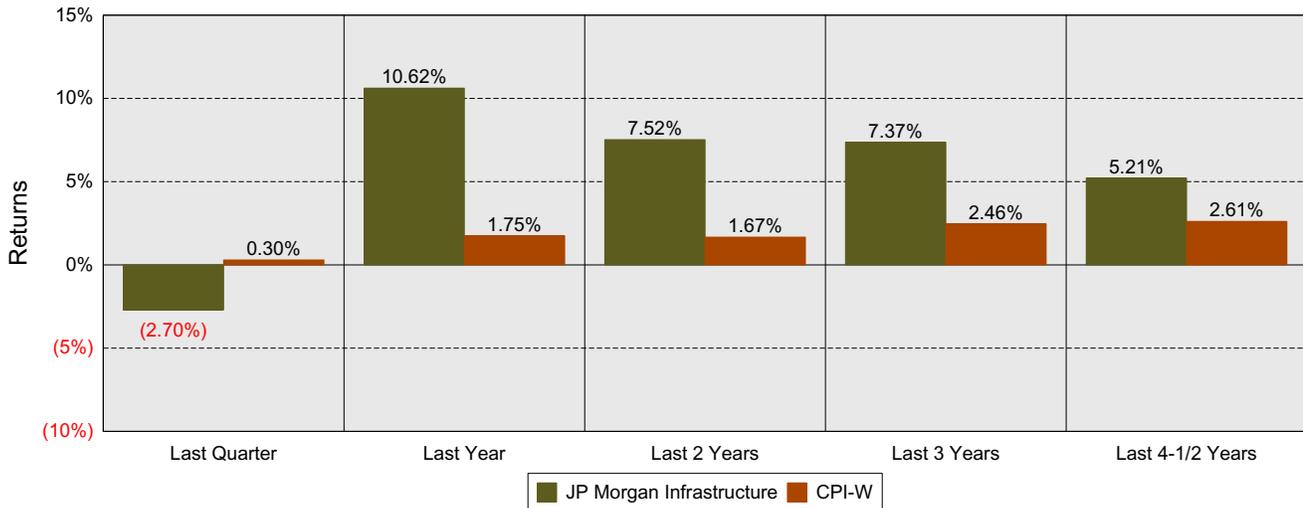
The only open-ended private commingled infrastructure fund in the U.S, the JPMorgan Infrastructure Investments Fund invests in stabilized assets in OECD countries with selected value-added opportunities, across infrastructure industry sub-sectors, including: toll roads, bridges and tunnels; oil and gas pipelines; electricity transmission and distribution facilities; contracted power generation assets; water distribution; waste-water collection and processing; railway lines and rapid rail links; and seaports and airports.

## Quarterly Summary and Highlights

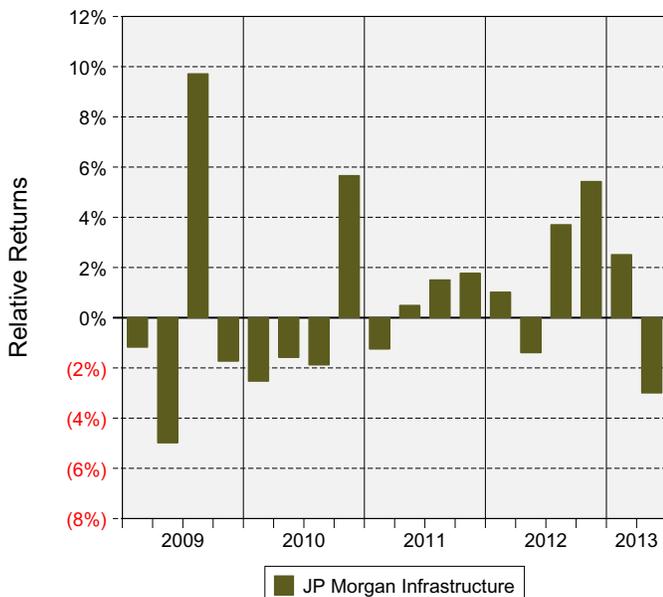
- JP Morgan Infrastructure's portfolio underperformed the CPI-W by 3.00% for the quarter and outperformed the CPI-W for the year by 8.86%.

## Quarterly Asset Growth

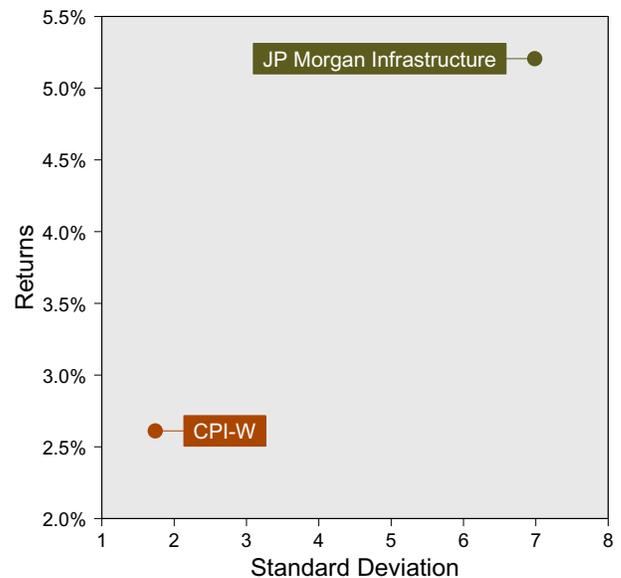
Beginning Market Value	\$68,212,358
Net New Investment	\$-210,638
Investment Gains/(Losses)	\$-1,840,811
Ending Market Value	\$66,160,909



## Relative Return vs CPI-W



## Annualized Four and One-Half Year Risk vs Return



# Credit Suisse Cust. Infrastructure Period Ended June 30, 2013

## Investment Philosophy

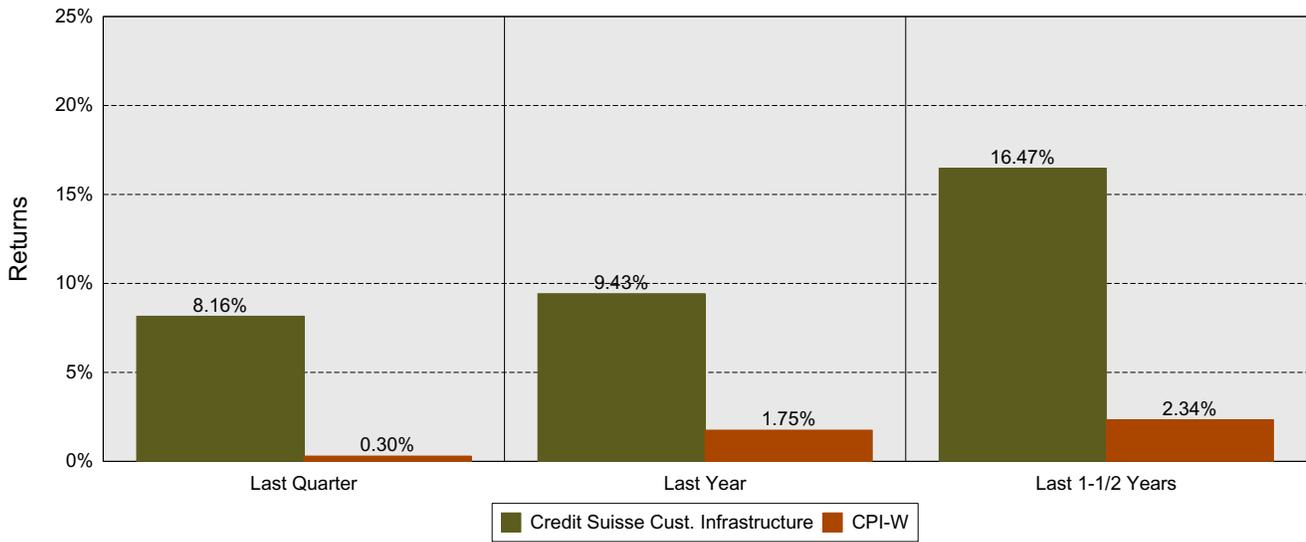
The Customized Infrastructure Strategies LP is a commingled fund focused on providing a comprehensive, diversified solution for investors looking to access the infrastructure asset class. The Fund seeks to generate stable, long-term yield and attractive risk-adjusted returns by investing in a diversified portfolio of primary core and core plus infrastructure funds (30%), co-investments (40%) and opportunistic secondary fund purchases (30%).

## Quarterly Summary and Highlights

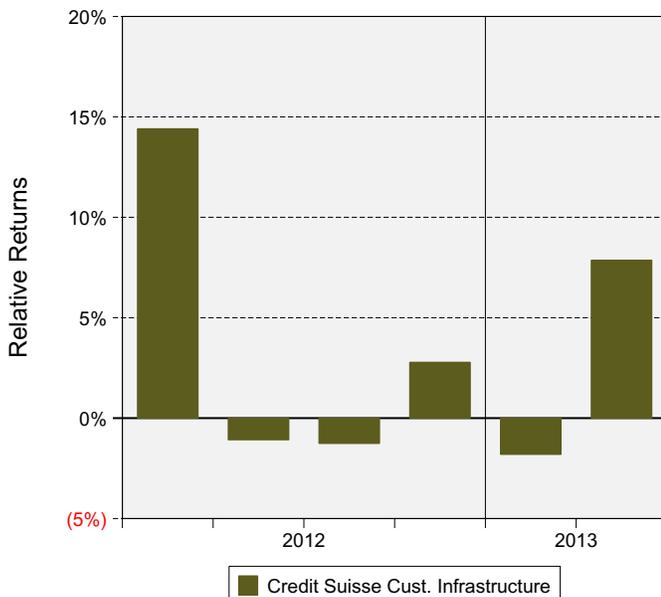
- Credit Suisse Cust. Infrastructure's portfolio outperformed the CPI-W by 7.86% for the quarter and outperformed the CPI-W for the year by 7.67%.

## Quarterly Asset Growth

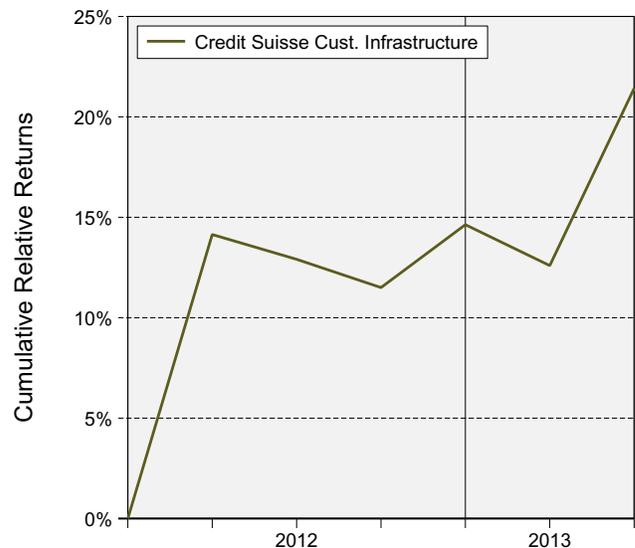
Beginning Market Value	\$13,451,375
Net New Investment	\$580,347
Investment Gains/(Losses)	\$1,134,362
Ending Market Value	\$15,166,084



## Relative Return vs CPI-W



## Cumulative Returns vs CPI-W



# Invesco Core Real Estate

## Period Ended June 30, 2013

### Investment Philosophy

IREs real estate investment philosophy states that portfolio design and investment selection should maximize the predictability and consistency of investment returns and minimize the risk of capital loss. This philosophy forms the cornerstone of the company's investment strategy. The key elements of IREs investment strategy are as follows: Emphasize Current Returns Avoid Overheating Markets Invest in Quality Properties Actively Manage Investments

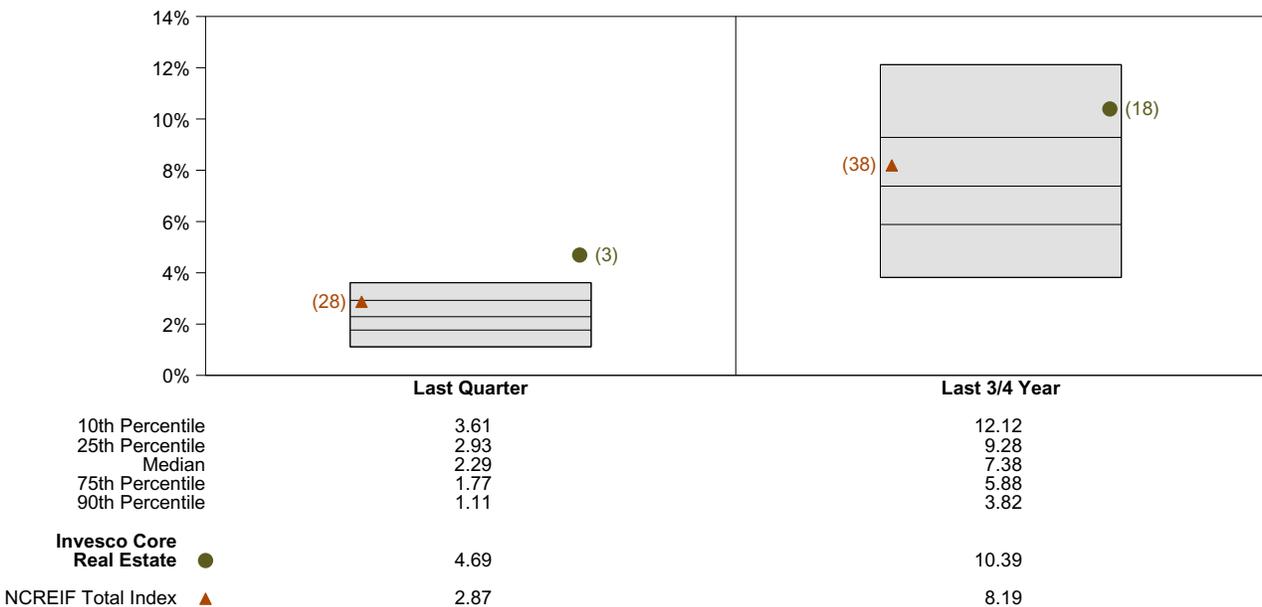
### Quarterly Summary and Highlights

- Invesco Core Real Estate's portfolio posted a 4.69% return for the quarter placing it in the 3 percentile of the Total Real Estate DB group for the quarter and in the 18 percentile for the last three-quarter year.
- Invesco Core Real Estate's portfolio outperformed the NCREIF Total Index by 1.82% for the quarter and outperformed the NCREIF Total Index for the three-quarter year by 2.20%.

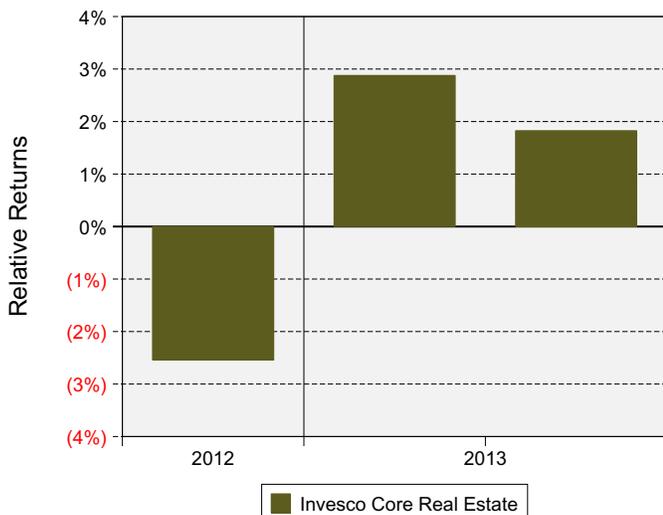
### Quarterly Asset Growth

Beginning Market Value	\$42,093,093
Net New Investment	\$0
Investment Gains/(Losses)	\$1,975,852
Ending Market Value	\$44,068,945

### Performance vs Total Real Estate DB (Net)



### Relative Return vs NCREIF Total Index



### Cumulative Returns vs NCREIF Total Index



# JP Morgan Real Estate Period Ended June 30, 2013

## Investment Philosophy

The J.P. Morgan U.S. Real Estate Income and Growth Fund seeks to construct and opportunistically manage a portfolio of core direct real estate investments, complemented by other real estate and real estate-related assets. The Fund pursues a broadly diversified absolute-return strategy and pursues all property investments on an opportunistic basis. The majority of the Fund's investments will be in direct core properties in the office, industrial, retail and residential sectors.

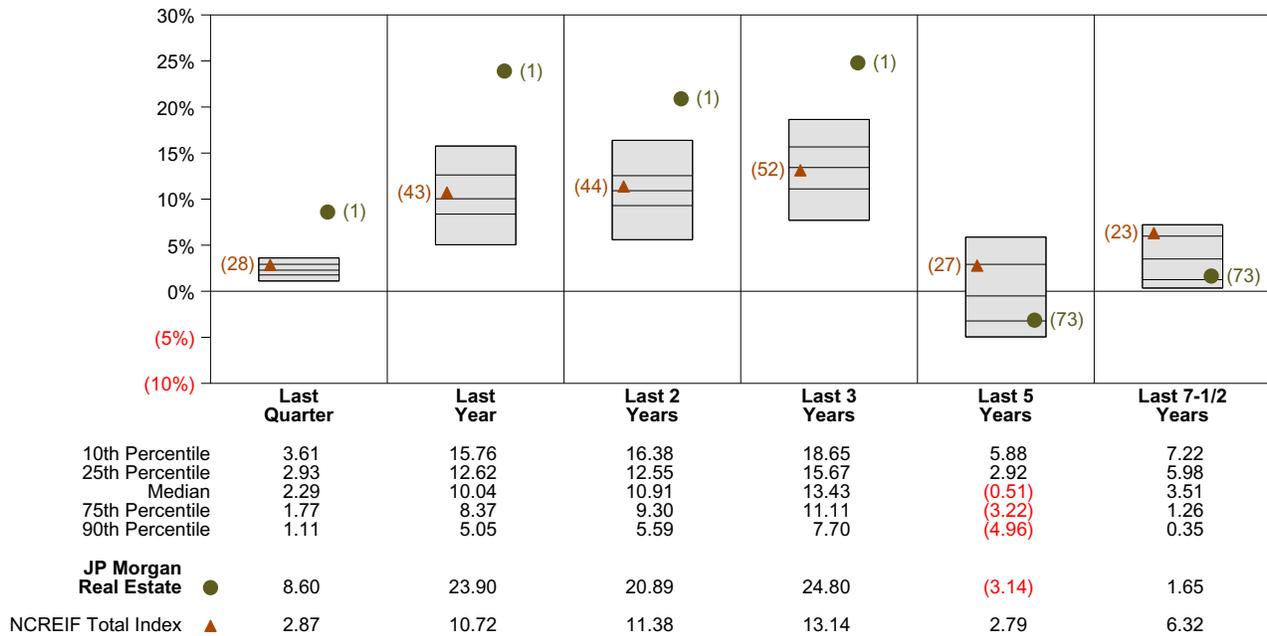
## Quarterly Summary and Highlights

- JP Morgan Real Estate's portfolio posted a 8.60% return for the quarter placing it in the 1 percentile of the Total Real Estate DB group for the quarter and in the 1 percentile for the last year.
- JP Morgan Real Estate's portfolio outperformed the NCREIF Total Index by 5.73% for the quarter and outperformed the NCREIF Total Index for the year by 13.18%.

## Quarterly Asset Growth

Beginning Market Value	\$62,475,921
Net New Investment	\$-798,919
Investment Gains/(Losses)	\$5,334,963
Ending Market Value	\$67,011,965

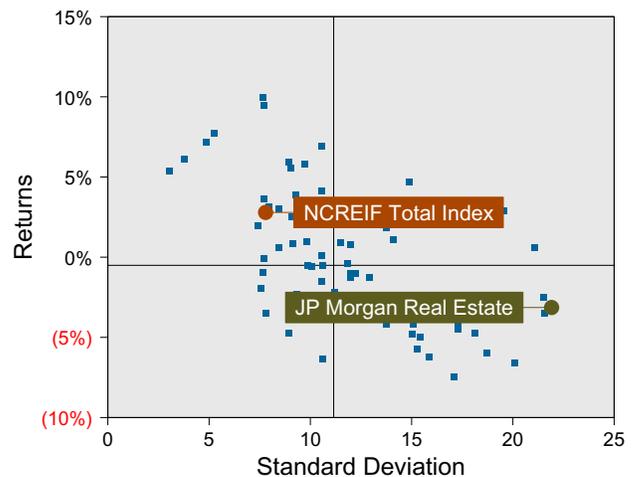
## Performance vs Total Real Estate DB (Net)



## Relative Return vs NCREIF Total Index



## Total Real Estate DB (Net) Annualized Five Year Risk vs Return



# JP Morgan Short Term Bonds - Budget Stabilization Fund

## Period Ended June 30, 2013

### Investment Philosophy

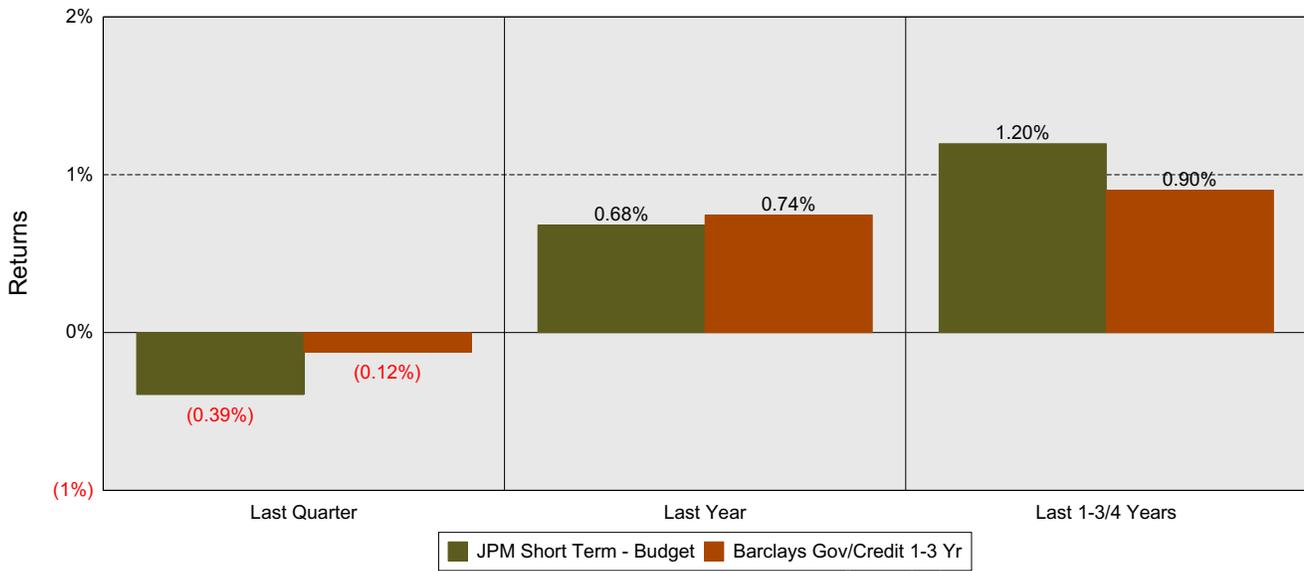
The investment objective of this account is to outperform the Barclays Capital 1-3 year Government/Credit Index while maintaining total return risk similar to that of the benchmark as measured over a market cycle. The weighted average effective duration of the portfolio will typically remain within +/- 30% of the benchmark.

### Quarterly Summary and Highlights

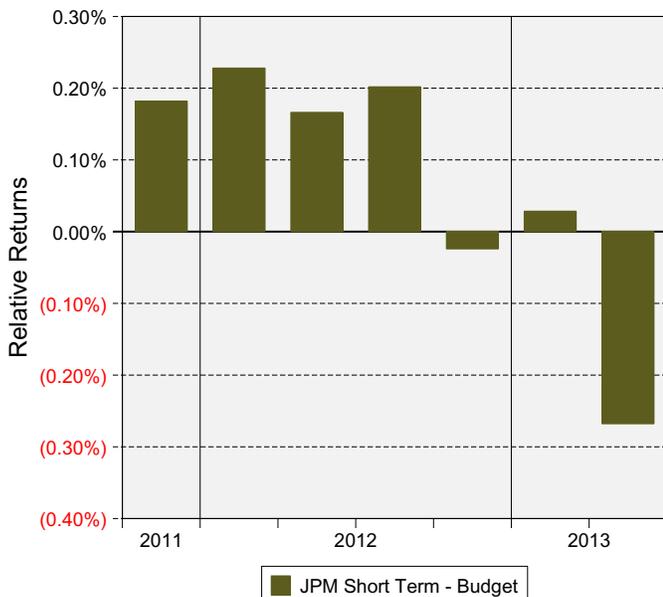
- JPM Short Term - Budget's portfolio underperformed the Barclays Gov/Credit 1-3 Yr by 0.27% for the quarter and underperformed the Barclays Gov/Credit 1-3 Yr for the year by 0.06%.

### Quarterly Asset Growth

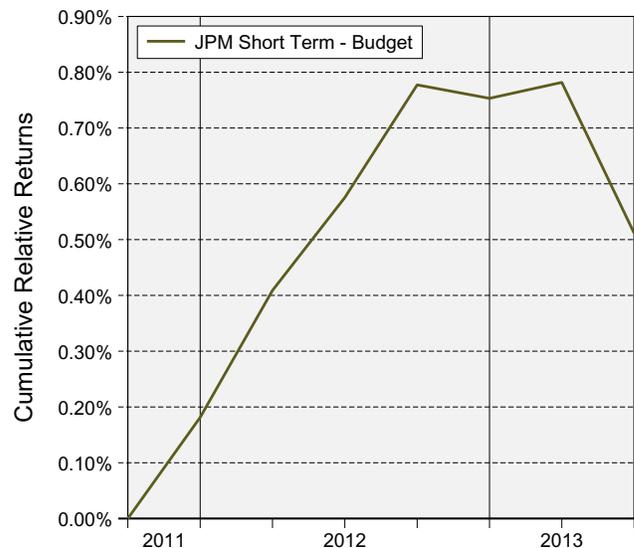
Beginning Market Value	\$140,086,531
Net New Investment	\$-690,000
Investment Gains/(Losses)	\$-547,249
Ending Market Value	\$138,849,282



Relative Return vs Barclays Gov/Credit 1-3 Yr



Cumulative Returns vs Barclays Gov/Credit 1-3 Yr



# Babson Short Term Bonds - Budget Stabilization Fund

## Period Ended June 30, 2013

### Investment Philosophy

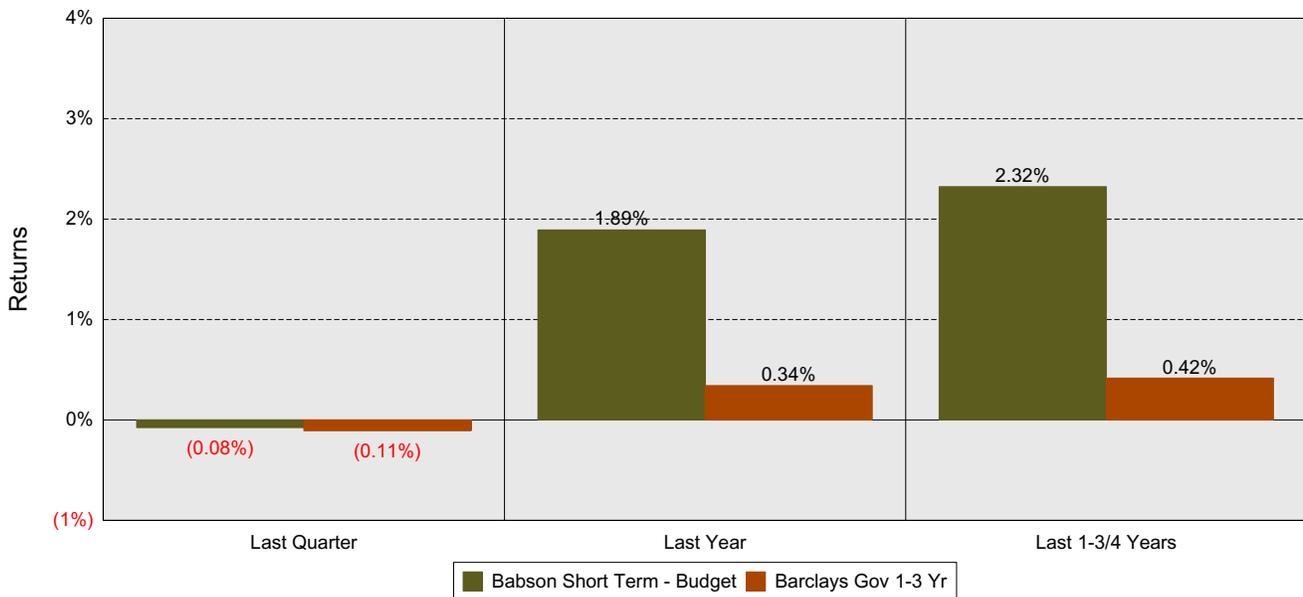
The investment objective of this account is to outperform the total return of the Barclays Capital 1-3 year US Government Index while minimizing fluctuations in capital value and providing sufficient liquidity to fund withdrawals.

### Quarterly Summary and Highlights

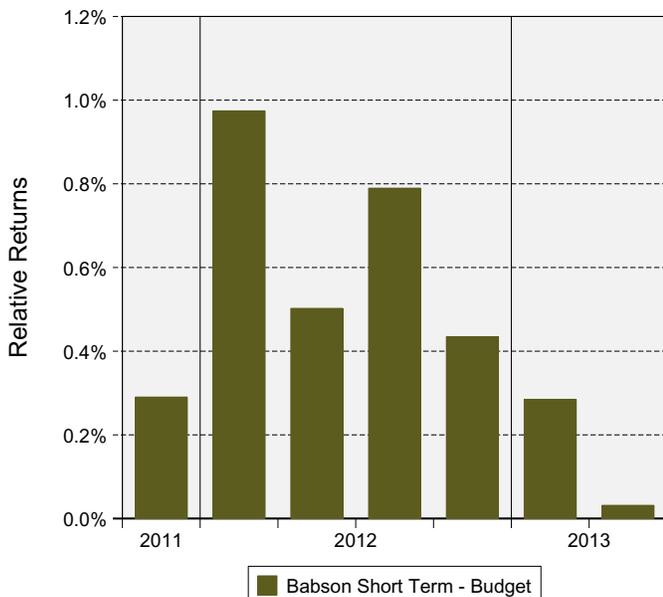
- Babson Short Term - Budget's portfolio outperformed the Barclays Gov 1-3 Yr by 0.03% for the quarter and outperformed the Barclays Gov 1-3 Yr for the year by 1.55%.

### Quarterly Asset Growth

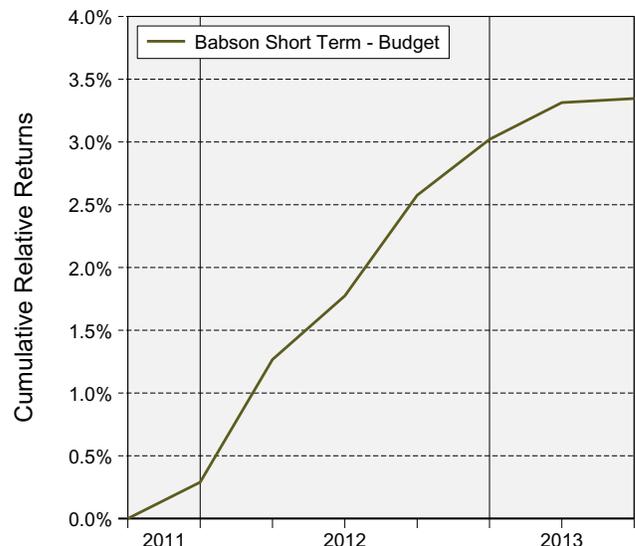
Beginning Market Value	\$167,195,654
Net New Investment	\$-27,493,398
Investment Gains/(Losses)	\$23,340
Ending Market Value	\$139,725,596



Relative Return vs Barclays Gov 1-3 Yr



Cumulative Returns vs Barclays Gov 1-3 Yr



# Babson Short Term Bonds - Legacy Fund

## Period Ended June 30, 2013

### Investment Philosophy

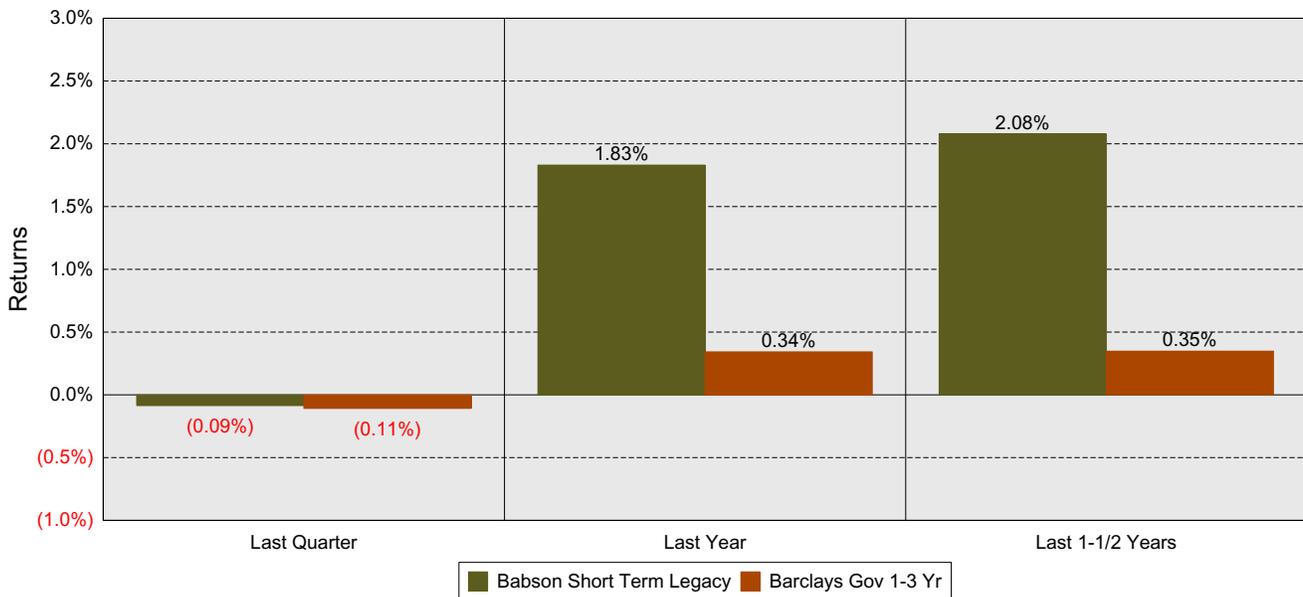
The investment objective of this account is to outperform the total return of the Barclays Capital 1-3 year US Government Index while minimizing fluctuations in capital value and providing sufficient liquidity to fund withdrawals.

### Quarterly Summary and Highlights

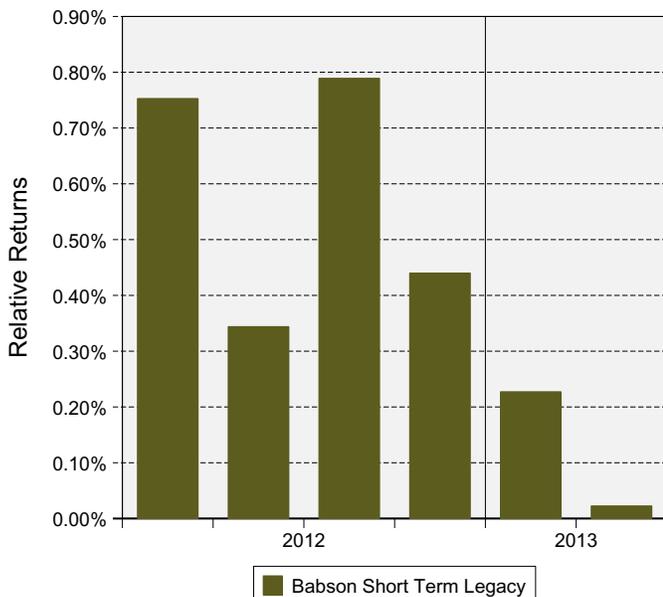
- Babson Short Term Legacy's portfolio outperformed the Barclays Gov 1-3 Yr by 0.02% for the quarter and outperformed the Barclays Gov 1-3 Yr for the year by 1.49%.

### Quarterly Asset Growth

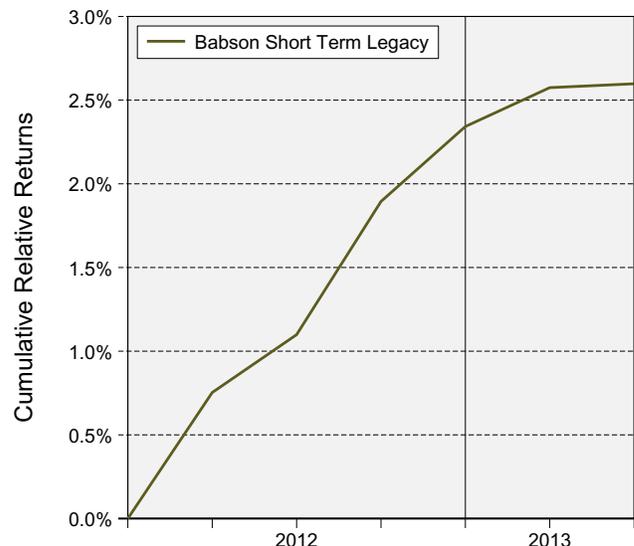
Beginning Market Value	\$470,246,346
Net New Investment	\$126,108,770
Investment Gains/(Losses)	\$-664,867
Ending Market Value	\$595,690,249



Relative Return vs Barclays Gov 1-3 Yr



Cumulative Returns vs Barclays Gov 1-3 Yr



# JP Morgan Short Term Bonds - Legacy Fund

## Period Ended June 30, 2013

### Investment Philosophy

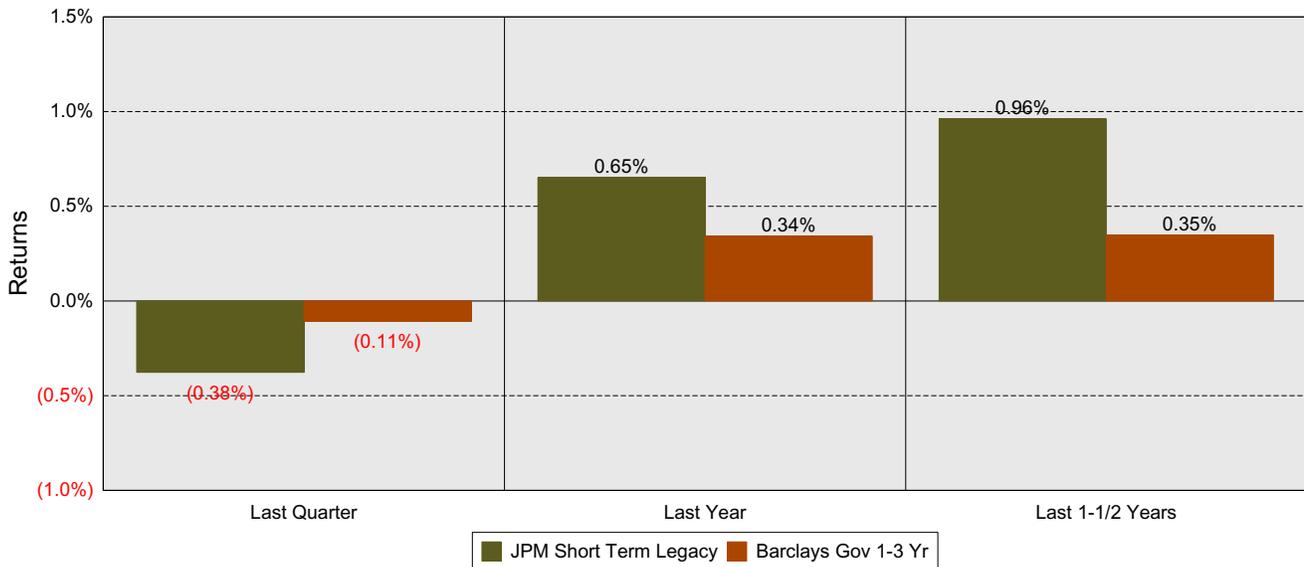
The investment objective of this account is to outperform the Barclays Capital 1-3 year Government/Credit Index while maintaining total return risk similar to that of the benchmark as measured over a market cycle. The weighted average effective duration of the portfolio will typically remain within +/- 30% of the benchmark.

### Quarterly Summary and Highlights

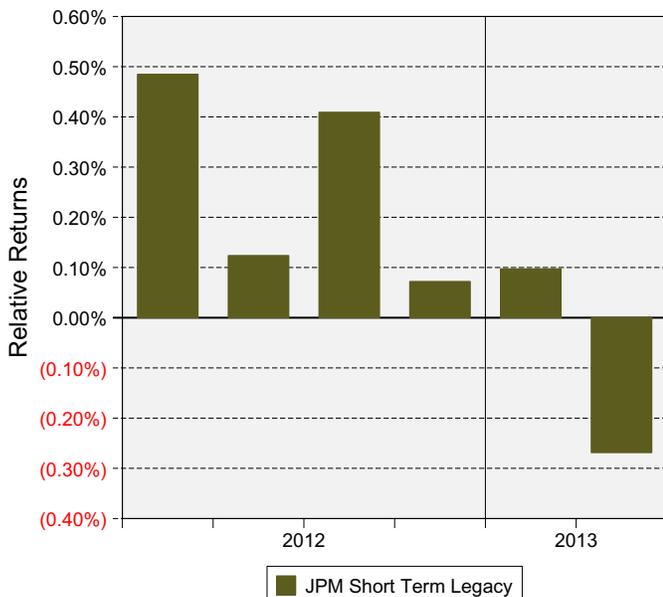
- JPM Short Term Legacy's portfolio underperformed the Barclays Gov 1-3 Yr by 0.27% for the quarter and outperformed the Barclays Gov 1-3 Yr for the year by 0.31%.

### Quarterly Asset Growth

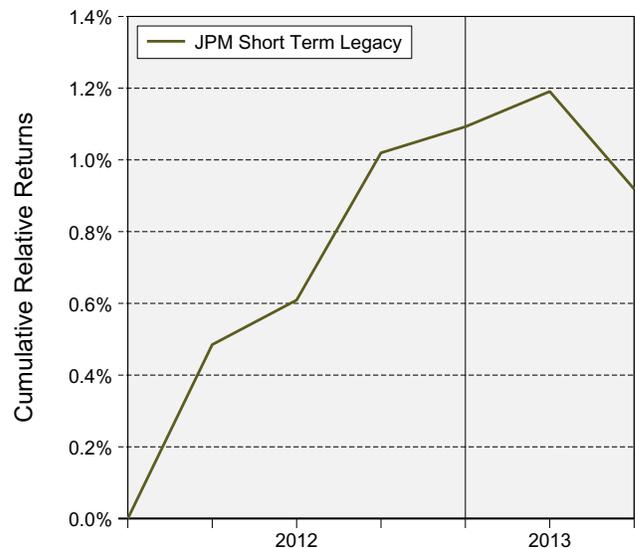
Beginning Market Value	\$468,588,551
Net New Investment	\$132,588,000
Investment Gains/(Losses)	\$-2,158,556
Ending Market Value	\$599,017,995



Relative Return vs Barclays Gov 1-3 Yr



Cumulative Returns vs Barclays Gov 1-3 Yr



## Research and Educational Programs

The Callan Investments Institute provides research that keeps clients updated on the latest industry trends while helping them learn through carefully structured educational programs. Below are the Institute's recent publications – all of which can be found at [www.callan.com/research](http://www.callan.com/research).

### White Papers



#### **The Wide World of Investing: Capturing Global Opportunities**

Institutional investors have built significant non-U.S. equity allocations in order to expand their investment opportunity set, seek higher returns, and gain diversification benefits. Callan's Janet Becker-Wold and Andy Iseri discuss the evolving global investment universe and explore opportunities and risks facing international investors in this Ask the Expert interview.



#### **Navigating the Private Equity Niches: A Guide to Specialty Private Equity Fund-of-Funds Investment Strategies**

Author Gary Robertson describes the pros and cons of nine niche fund-of-funds strategies that might complement a core private equity program. Each niche strategy targets a relatively narrow segment of the private equity marketplace and has a unique risk and return profile.



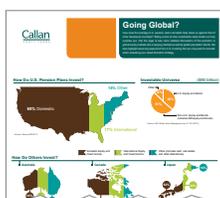
#### **The Outsourced Chief Investment Officer (OCIO) Model: One Size Does Not Fit All**

In this paper we describe the OCIO market and Callan's approach, which acknowledges that each investor faces unique challenges that require custom solutions. We offer two case studies and a series of questions to assist fund sponsors considering the OCIO model.



#### **Taking Stock of U.S. Equities: A Roundtable Discussion with Callan's Experts**

At 33%, U.S. equities hold the greatest percentage weight in the average asset allocation of Callan's Total Fund Sponsor Database. Callan's Kevin Dolsen, Mark Andersen, Mark Stahl, Lauren Mathias, and James Danforth discuss some of the current issues facing equity investors.



#### **Charticle: Going Global?**

This charticle illustrates how the average U.S. pension plan's domestic bias stacks up against that of other developed countries. It shows the evolution in global equity markets and emerging markets plus global population trends. Seven key considerations for non-U.S. investors are also highlighted.

## Quarterly Publications

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**Quarterly Data:** The *Market Pulse* reference guide covers the U.S. economy and investment trends in domestic and international equities and fixed income, and alternatives. Our *Inside Callan's Database* report provides performance information gathered from Callan's proprietary database, allowing you to compare your funds with your peers.

**Capital Market Review:** A quarterly macroeconomic indicator newsletter that provides thoughtful insights on the economy as well as recent performance in the equity, fixed income, alternatives, international, real estate, and other capital markets.

**Private Markets Trends:** A seasonal newsletter that discusses the market environment, recent events, performance, and other issues involving private equity.

**Hedge Fund Monitor:** A quarterly newsletter that provides a current view of hedge fund industry trends and detailed quarterly performance commentary.

**DC Observer & Callan DC Index™:** A quarterly newsletter that offers Callan's observations on a variety of topics pertaining to the defined contribution industry. Each issue is updated with the latest Callan DC Index™ returns.

## Surveys

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### 2013 Risk Management Survey

The 2008 market crisis put risk in the spotlight and prompted fund fiduciaries to look at risk management in a new light. Callan fielded this survey in November 2012. Responses came from 53 fund sponsors representing \$576 billion in assets. The vast majority of this group has taken concrete steps in the past five years to address investment risks. Many facets of risk management are covered in this survey, such as stats on risk tools/systems: 55% of survey respondents find them to be effective and 14% do not, with the remainder undecided.



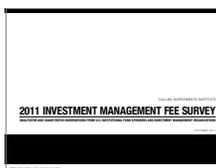
### 2013 Defined Contribution Trends Survey

This annual survey reflects on 2012 and what to look ahead to in 2013. Key findings include: plan sponsors register improvements in fiduciary awareness and activity; signs of confusion remain when it comes to meeting the DOL's fee disclosure requirements; adoption of auto features and Roth designated accounts appears to have plateaued; and plan sponsors are getting a handle on revenue sharing.



### 2012 Investment Management Compensation Survey

Callan conducted this survey of investment management firms to report on compensation practices and trends in the U.S. institutional investment market from 2010 to 2011. This survey provides an update to Callan's 2007 Investment Management Compensation Survey, which captured compensation practices from 2005 to 2006.



### 2011 Investment Management Fee Survey

We report on institutional investment management fee payment practices and trends. The survey includes published and actual fee data, and qualitative as well as quantitative observations from both fund sponsors and investment managers.

## Events

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Did you miss out on a Callan conference or workshop? If so, you can catch up on what you missed by reading our “Event Summaries” and downloading the actual presentation slides from our website. Our most recent programs:



The **2013 National Conference Summary** features a synopsis of our speakers: Robert Zoellick, Sheena Iyengar, Riz Khan, and the 2013 Capital Markets Panel. (Please note that contractual agreements prevented us from including summaries of Gordon Brown and Neil deGrasse Tyson.) The Summary also reviews our three workshops: risk management, strategically tactical investing, and alternatives in DC plans. Slide decks of select conference presentations are also available on our website.



Our October 2012 Regional Workshop, **Time to Terminate? Considerations for Making a Manager Change**, is captured in this summary. Featured in this workshop were Callan’s Bud Pellecchia, Millie Viqueira, and Kelly Cliff discussing the potential consequences and challenges of terminating a manager from a fund.

## Upcoming Educational Programs

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Our October 2013 Regional Workshops will be held on October 22 in New York, and then on October 23 in Atlanta. The topic will be announced shortly.

Our 34th Annual National Conference will be held in San Francisco on January 27-29, 2014. More information will be available this fall.

**Our research can be found at [www.callan.com/research](http://www.callan.com/research) or feel free to contact us for hard copies.**

**For more information about research or educational events, please contact Ray Combs or Gina Falsetto at [institute@callan.com](mailto:institute@callan.com) or 415-974-5060.**

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## The Center for Investment Training Educational Sessions

This educational forum offers basic-to-intermediate level instruction on all components of the investment management process. Continuing education credits are available for The CFA Institute, IBCFP, and NASBA. The “Callan College” courses cover topics that are key to understanding your responsibilities, the roles of everyone involved in this process, how the process works, and how to incorporate these strategies and concepts into an investment program. Listed below are the different types of sessions Callan offers.

### An Introduction to Investments

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#### **October 29-30, 2013, in San Francisco**

This one-and-one-half-day session is designed for individuals who have less than two years' experience with institutional asset management oversight and/or support responsibilities. The session will familiarize fund sponsor trustees, staff, and asset management advisors with basic investment theory, terminology, and practices.

Participants in the introductory session will gain a basic understanding of the different types of institutional funds, including a description of their objectives and investment session structures. The session includes:

- A description of the different parties involved in the investment management process, including their roles and responsibilities
- A brief outline of the types and characteristics of different plans (e.g., defined benefit, defined contribution, endowments, foundations, operating funds)
- An introduction to fiduciary issues as they pertain to fund management and oversight
- An overview of capital market theory, characteristics of various asset classes, and the processes by which fiduciaries implement their investment sessions

Tuition for the Introductory “Callan College” session is \$2,350 per person. Tuition includes instruction, all materials, breakfast and lunch on each day, and dinner on the first evening with the instructors.

## Standard Session

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### July, 2014 - TBD

This is a two-day session designed for individuals with more than two years' experience with institutional asset management oversight and/or support responsibilities. The session will provide attendees with a thorough overview of prudent investment practices for both defined benefit and defined contribution funds. We cover the key concepts needed to successfully meet a fund's investment objectives.

The course work addresses the primary components of the investment management process: the role of the fiduciary; capital market theory; asset allocation; manager structure; investment policy statements; manager search; custody, securities lending, fees; and performance measurement.

This course is beneficial to anyone involved in the investment management process, including: trustees and staff members of public, corporate and Taft-Hartley retirement funds (defined benefit and/or defined contribution); trustees and staff members of endowment and foundation funds; representatives of family trusts; and investment management professionals and staff involved in client service, business development, consultant relations, and portfolio management.

Tuition for the Standard "Callan College" session is \$2,500 per person. Tuition includes instruction, all materials, breakfast and lunch on each day, and dinner on the first evening with the instructors.

## Customized Sessions

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A unique feature of the "Callan College" is its ability to educate on a specialized level through its customized sessions. These sessions are tailored to meet the training and educational needs of the participants, whether you are a plan sponsor or you provide services to institutional tax-exempt plans. Past customized "Callan College" sessions have covered topics such as: custody, industry trends, sales and marketing, client service, international, fixed income, and managing the RFP process. Instruction can be tailored to be basic or advanced.

**For more information please contact Kathleen Cunnie, at 415.274.3029 or [cunnie@callan.com](mailto:cunnie@callan.com).**

## List of Managers That Do Business with Callan Associates Inc.

Confidential – For Callan Client Use Only

Callan Associates takes its fiduciary and disclosure responsibilities to clients very seriously. The list below is compiled and updated quarterly because we believe our fund sponsor clients should have a clear understanding of the investment management organizations that do business with our firm. As of 06/30/13, Callan provided educational, consulting, software, database, or reporting services to this list of managers through one or more of the following business units: Institutional Consulting Group, Independent Adviser Group, Fund Sponsor Consulting, the Callan Investments Institute and the “Callan College.” Per strict policy these manager relationships do not affect the outcome or process by which any of Callan’s services are conducted.

Fund sponsor clients may request a copy of this list at any time. Fund sponsor clients may also request specific information regarding the fees paid to Callan by the managers employed by their fund. Per company policy, information requests regarding fees are handled exclusively by Callan’s Compliance Department.

Clients should also be aware that Callan maintains an asset management division, the Trust Advisory Group (TAG). TAG specializes in the design, implementation and on-going management of multi-manager portfolios for institutional investors. Currently TAG serves as the sponsor and advisor to a multi-manager small cap equity fund and as the non-discretionary adviser to a series of Target Maturity Funds known as the Callan GlidePath® Funds. We are happy to provide clients with more specific information regarding TAG, including detail on the portfolios that it oversees. Per company policy these requests are handled by TAG’s Chief Investment Officer.

Manager Name	Educational Services	Consulting Services
1607 Capital Partners, LLC		Y
Aberdeen Asset Management		Y
Acadian Asset Management, Inc.	Y	
Advisory Research	Y	
Affiliated Managers Group		Y
AllianceBernstein	Y	
Allianz Global Investors U.S. LLC	Y	
Allianz Life Insurance Company of North America		Y
American Century Investment Management	Y	
Apollo Global Management	Y	
AQR Capital Management	Y	
Ares Management	Y	
Ariel Investments	Y	
Aronson + Johnson + Ortiz	Y	
Artio Global Management (fka, Julius Baer)	Y	
Atlanta Sosnoff Capital, LLC	Y	
Atlanta Capital Management Co., L.L.C.	Y	Y
AXA Rosenberg Investment Management	Y	
Babson Capital Management LLC	Y	
Baillie Gifford International LLC	Y	Y
Baird Advisors	Y	Y
Bank of America		Y
Barclays Capital Inc.	Y	
Baring Asset Management	Y	
Barrow, Hanley, Mewhinney & Strauss, Inc.		Y
Batterymarch Financial Management, Inc.	Y	
Bentall Kennedy	Y	
BlackRock	Y	
BMO Asset Management	Y	
BNY Mellon Asset Management	Y	Y
Boston Company Asset Management, LLC (The)	Y	Y
Brandes Investment Partners, L.P.	Y	Y
Brandywine Global Investment Management, LLC	Y	
Brown Brothers Harriman & Company	Y	
Cadence Capital Management	Y	

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Capital Group	Y	
CastleArk Management, LLC		Y
Causeway Capital Management	Y	
Central Plains Advisors, Inc.		Y
Chartwell Investment Partners	Y	
ClearBridge Investments, LLC (fka ClearBridge Advisors)	Y	
Columbia Management Investment Advisors, LLC	Y	Y
Columbus Circle Investors	Y	Y
Corbin Capital Partners	Y	
Cornerstone Capital Management Holdings (fka Madison Square)	Y	
Cramer Rosenthal McGlynn, LLC	Y	
Crawford Investment Council	Y	Y
Credit Suisse Asset Management	Y	
Crestline Investors	Y	Y
Cutwater Asset Management	Y	
DB Advisors	Y	Y
Delaware Investments	Y	Y
DePrince, Race & Zollo, Inc.	Y	Y
Deutsche Asset & Wealth Management	Y	Y
Diamond Hill Investments	Y	
DSM Capital Partners		Y
Duff & Phelps Investment Mgmt.	Y	Y
Eagle Asset Management, Inc.		Y
EARNEST Partners, LLC	Y	
Eaton Vance Management	Y	Y
Echo Point Investment Management	Y	
Epoch Investment Partners	Y	
Evanston Capital Management	Y	
Fayez Sarofim & Company		Y
Federated Investors		Y
First Eagle Investment Management	Y	
Fisher Investments	Y	
Flag Capital Management	Y	
Franklin Templeton	Y	Y
Fred Alger Management Co., Inc.	Y	
GAM (USA) Inc.	Y	
GE Asset Management	Y	Y
Goldman Sachs Asset Management	Y	Y
Grand-Jean Capital Management	Y	Y
GMO (fka Grantham, Mayo, Van Otterloo & Co., LLC)	Y	
Great Lakes Advisors, Inc.		Y
Guardian Capital	Y	
Guggenheim Investments Asset Management (fka Security Global)	Y	
Harbor Capital		Y
Hartford Investment Management Co.	Y	Y
Henderson Global Investors	Y	

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Hermes Investment Management (North America) Ltd.	Y	
Hotchkis & Wiley	Y	
Income Research & Management	Y	
ING Investment Management	Y	Y
Institutional Capital LLC	Y	
INTECH Investment Management	Y	
Invesco	Y	Y
Investec Asset Management	Y	
Janus Capital Group (fka Janus Capital Management, LLC)	Y	Y
Jensen Investment Management		Y
J.P. Morgan Asset Management	Y	Y
KeyCorp		Y
Lazard Asset Management	Y	Y
Lee Munder Capital Group	Y	
Lincoln National Corporation		Y
Logan Circle Partners, L.P.	Y	
Longview Partners	Y	
Loomis, Sayles & Company, L.P.	Y	Y
Lord Abbett & Company	Y	Y
Los Angeles Capital Management	Y	
LSV Asset Management	Y	
Lyrical Partners	Y	
MacKay Shields LLC	Y	Y
Man Investments	Y	
Manulife Asset Management	Y	
Marvin & Palmer Associates, Inc.	Y	
Metropolitan West Capital Management, LLC		Y
MFS Investment Management	Y	Y
Mondrian Investment Partners Limited	Y	Y
Montag & Caldwell, Inc.	Y	Y
Morgan Stanley Alternative Investment Partners	Y	
Morgan Stanley Investment Management	Y	Y
Mountain Lake Investment Management LLC		Y
Neuberger Berman, LLC (fka, Lehman Brothers)	Y	Y
Newton Capital Management	Y	
Northern Lights Capital Group		Y
Northern Trust Global Investment Services	Y	Y
Nuveen Investments Institutional Services Group LLC	Y	Y
Old Mutual Asset Management	Y	Y
Old Mutual International	Y	
OppenheimerFunds, Inc.	Y	
Pacific Investment Management Company	Y	
Palisade Capital Management LLC	Y	
Partners Group	Y	
PAX World Management		Y
Peregrine Capital Management, Inc.		Y

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Perkins Investment Management	Y	
Philadelphia International Advisors, LP	Y	
PineBridge Investments (formerly AIG)	Y	
Pioneer Investment Management, Inc.	Y	
PNC Capital Advisors (fka Allegiant Asset Mgmt)	Y	Y
Principal Global Investors	Y	Y
Private Advisors	Y	
Prudential Fixed Income Management	Y	
Prudential Investment Management, Inc.	Y	Y
Putnam Investments, LLC		Y
Pyramis Global Advisors	Y	
Rainier Investment Management	Y	
RBC Global Asset Management (U.S.) Inc.		Y
Regions Financial Corporation		Y
RCM		Y
Robeco Investment Management	Y	Y
Rothschild Asset Management, Inc.	Y	Y
Russell Investment Management	Y	
Santander Global Facilities		Y
Schroder Investment Management North America Inc.	Y	Y
Scottish Widows Investment Partnership	Y	
SEI Investments		Y
SEIX Investment Advisors, Inc.	Y	
Smith Graham and Company		Y
Smith Group Asset Management		Y
Standard Life Investments	Y	
Standish (fka, Standish Mellon Asset Management)	Y	
State Street Global Advisors	Y	
Stone Harbor Investment Partners, L.P.		Y
Systematic Financial Management	Y	
T. Rowe Price Associates, Inc.	Y	Y
Taplin, Canida & Habacht	Y	
TCW Asset Management Company	Y	
Thompson, Siegel & Walmsley LLC	Y	
Turner Investment Partners	Y	
UBP Asset Management LLC	Y	
UBS	Y	Y
Union Bank of California		Y
Van Eck	Y	
Victory Capital Management Inc.	Y	
Vulcan Value Partners, LLC		Y
Waddell & Reed Asset Management Group	Y	Y
WCM Investment Management	Y	
WEDGE Capital Management		Y
Wellington Management Company, LLP	Y	

## List of Managers That Do Business with Callan Associates Inc. (continued)

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Wells Capital Management	Y	
Western Asset Management Company	Y	
William Blair & Co., Inc.	Y	Y

## SIB Managers Currently Under Review

<b>Manager</b>	<b>Pool</b>	<b>Review Inception</b>	<b>Reason</b>	<b>Status</b>
Calamos	Pension	Feb-13	Nick Calamos resignation as co-CIO, Gary Black hiring as co-CIO	Ongoing review following on-site visit on July 30 and global equity mandate structure review.
Clifton Group	Pension, Insurance	Nov-12	Acquisition by Parametric Portfolio Associates	Following a meeting on August 9, the Clifton Group was removed from the Watchlist.
Credit Suisse	Pension, Insurance	Aug-12	Credit Suisse announced intention to divest Customized Fund Investment Group (CFIG)	On August 1, Credit Suisse announced the sale of CFIG to Grosvenor Capital Management. As a result, CFIG was removed from the Watchlist.
Epoch Investment Partners	Pension	Dec-12	Acquisition by TD Bank Group	Ongoing review, on-site visit pending.
Loomis Sayles	Pension	Oct-12	Full Discretion co-PM Kathleen Gaffney departure	Ongoing review of two additions to Full Discretion team and Dan Fuss succession plan.
State Street	Pension	Jun-12	Process change: Addition of dynamic component to existing static model	Ongoing review of dynamic model, contingent upon global equity mandate structure review.

# Annual Certification of Compliance with Investment Guidelines

Manager	6-30-13 Certification Rec'd
Adams Street Partners (All Funds)	yes
Babson Capital	yes
Brandywine	yes
Calamos	yes
Callan	yes
Capital Guardian	yes
Capital International V, VI	yes
Clifton Group	yes
Coral Momentum Fund	yes
Corsair III,IV,ND Inv LLC	yes
Credit Suisse	second request sent
Declaration	yes
DFA	yes
EIG (TCW)	yes
Epoch	yes
Goldman Sachs 2006 & V	yes
Hearthstone II, III	yes
INVESCO (Core, II & III)	yes
Invest America (L & C & L & C II)	yes
JP Morgan	yes
LACM	yes
Loomis Sayles	yes
LSV	yes
Matlin Patterson I, II, III	yes
Northern Trust Global Investments	yes
PanAgora	yes
PIMCO	MBS only (working on unconstrained and DiSCO II)
Prudential (Fixed Income)	yes
Quantum Energy	yes
Quantum Resources	second request sent
Research Affiliates	yes
SEI	yes
State Street	yes
TIR (3 accounts)	yes
UBS	yes
Vanguard	yes
Wellington	yes
Wells Capital	yes
Western	yes
multiple accounts	

**Investment Guideline Exceptions Log**  
**For Fiscal Year Ended June 30, 2013**

Date Received	Manager	Guideline Exception	Cusip	Description	Manager Recommendation	Action Taken	Maturity Date	Par	Cost	Fair Value
5/26/2011	Clifton Group	Minimum Quality Issue (min BBB - currently Caa3)	760985A84	Residential Asset Mtg.	HOLD until maturity or until opp to liq	concur	10/25/2033	61,269	60,819	60,069
5/26/2011	Clifton Group	Minimum Quality Issue (min BBB - currently Caa3)	760985A84	Residential Asset Mtg.	HOLD until maturity or until opp to liq	concur	10/25/2033	61,269	60,819	60,069
10/17/2011	Clifton Group	Minimum Quality Issue (min BBB - currently Ba2)	75970NAK3	Renaissance Mtge	HOLD until maturity or until opp to liq	concur	8/25/2035	20,185	19,706	20,232
10/17/2011	Clifton Group	Minimum Quality Issue (min BBB - currently Ba2)	75970NAK3	Renaissance Mtge	HOLD until maturity or until opp to liq	concur	8/25/2035	20,185	18,255	20,232
1/16/2013	Clifton Group	Minimum Quality Issue (min BBB - currently B)	76110HJR1	Residential Accredited Loans, Inc.	HOLD until maturity or until opp to liq	concur	9/25/2018	297,611	309,888	306,264
2/7/2013	Loomis Sayles	Illiquid Security due to small size and structure	05462GAF1	Axtel SAB	HOLD convertible June 1 2013	concur	1/31/2020	453,100	329,643	35,610
7/2/2013	Babson (Legacy Fund)	Minimum Quality Issue (min BBB - currently B)	92769VAB5	Virgin Median Finance	Continue to hold	concur	10/15/2019	100,000	114,875	108,500

## Internal Control (SSAE 16) and Audit Reports Received for Fiscal Year 2013

<u>Manager</u>	<u>Audit</u>	<u>Internal Controls</u>
Adams Street Partners	12/31/2012	N/A
Calamos Investments	12/31/2012	10/31/2012
Callan Associates	12/31/2012	N/A
Capital International	12/31/2012	N/A
Coral Partners Capital Management	12/31/2012	N/A
Corsair Capital LLC	12/31/2012	N/A
Credit Suisse	12/31/2012	6/30/2012
Declaration Management	12/31/2012	9/30/2012
Dimensional Fund Advisors	10/31/2012	9/30/2012
EIG (formerly TCW)	12/31/2012	2nd request
Goldman Sachs	12/31/2012	N/A
Hearthstone	12/31/2012	N/A
Invesco	12/31/2012	N/A
InvestAmerica	12/31/2012	N/A
JP Morgan - Income & Growth	12/31/2012	11/30/2012
JP Morgan - Strategic Prop	09/30/2012	11/30/2012
JP Morgan - Special Situations	09/30/2012	11/30/2012
JP Morgan - Alternative Prop. Fund	12/31/2012	11/30/2012
JP Morgan - Emerging Markets	04/30/2013	11/30/2012
JP Morgan - Greater China	12/31/2012	11/30/2012
JP Morgan - Asian Infrastructure	12/31/2012	11/30/2012
JP Morgan - Greater Europe	12/31/2012	11/30/2012
JP Morgan - IIF (Pension & Insurance)	12/31/2012	11/30/2012
LA Capital	12/31/2012	10/31/2012
Matlin Patterson	12/31/2012	N/A
Northern Trust	7/31/2012	3/31/2013
Panagora	9/30/2012	6/30/2012
PIMCO DiSCO II	12/31/2012	9/30/2012
PIMCO Unconstrained		9/30/2012
Quantum Energy	12/31/2012	9/30/2012
Quantum Resources	12/31/2012	N/A
SEI	5/31/2013	7/31/2012
State Street	12/31/2012	2nd request
Timberland Investment Resources	12/31/2012	N/A
UBS	2nd request	2nd request
Vanguard	10/31/2012	N/A
Wellington Management	8/31/2012	10/31/2012
Western Asset Management	12/31/2012	6/30/2012

All Separately Managed Accounts

Northern Trust as Custodian

### **Statement on Standards for Attestation Engagement (SSAE) No. 16**

A compliance audit for assessing the internal control framework on service organizations that provide critical outsourcing activities for other entities.

SSAE 16 is the reporting standard for all service auditors' reports from June 15th 2011, and beyond. SSAE 16 was preceded by SAS 70. A main difference between SSAE 16 and SAS70 is the SSAE 16 requires the management of the service company to provide written assertion to the auditor that their description accurately represents their organizational system.

**N/A** - SSAE 16 reviews generally apply to service organizations with a large number of transactions, such as custody services. These firms have determined that a SSAE 16 review is not necessary based on the number of transactions and types of investments held. We will continue to monitor them but concur with their determination at this time.