ND STATE INVESTMENT BOARD

AGENDA

Friday, October 25, 2013, 8:00 a.m.
Workforce Safety & Insurance
Bismarck ND

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (September 27, 2013, October 1, 2013, October 8, 2013, October 9, 2013)

III. INVESTMENTS

A. Declaration (Account Updates) - Mr. Pluta, Mr. Casey (60 min)
B. Global Equity Portfolio - Mr. Schulz (enclosed) (60 min)

IV. GOVERNANCE

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

V. QUARTERLY MONITORING - 9/30/13 (enclosed). (Questions Only - Board Acceptance) (5 min)

A. Executive Limitations/Staff Relations - Ms. Kopp (enclosed).
B. Budget/Financial Conditions - Ms. Walcker (enclosed).
C. Investment Program - Mr. Schulz (enclosed).
D. Retirement Program - Ms. Kopp (enclosed).

VI. EXECUTIVE DIRECTOR/CHIEF INVESTMENT OFFICER CANDIDATE INTERVIEW

10:30 am Board Interview - David Hunter

12:30 pm Conclusion and Wrap Up of Interview

VII. OTHER

Next Meetings:
SIB meeting - November 22, 2013, 8:30 a.m. - Peace Garden Room, State Capitol
SIB Audit Committee meeting - November 22, 2013, 1:00 p.m. - Peace Garden Room, State Capitol

VIII. ADJOURNMENT

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
SEPTEMBER 27, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:
Drew Wrigley, Lt. Governor, Chair
Mike Sandal, Vice Chair
Clarence Corneil, TFFR Board
Jeff Engleson, Deputy Land Commissioner
Mike Gessner, TFFR Board
Adam Hamm, Insurance Commissioner (teleconference)
Rob Lech, TFFR Board
Howard Sage, PERS Board
Kelly Schmidt, State Treasurer
Cindy Ternes, Workforce Safety & Insurance
Kim Wassim, PERS Board

STAFF PRESENT:
Connie Flanagan, Fiscal & Investment Officer
Bonnie Heit, Assistant to the SIB
Fay Kopp, Interim Executive Director
Darren Schulz, Interim CIO

OTHERS PRESENT:
Sparb Collins, PERS
David Hunter, ED/CIO Candidate
Michael Kennedy, Korn/Ferry
Bryan Klipfel, Workforce Safety & Insurance
Jan Murtha, Attorney General's Office
Deric Righter, ED/CIO Candidate

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, September 27, 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 MR. GESSNER AND SECONDED BY MR. LECH AND CARRIED ON A VOICE VOTE TO ACCEPT THE REVISED AGENDA FOR SEPTEMBER 27, 2013.

AYES: MR. ENGLESON, TREASURER SCHMIDT, MR. SANDAL, COMMISSIONER HAMM, MR. CORNEIL, MS. TERNES, MR. GESSNER, MS. WASSIM, MR. LECH, MR. SAGE, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

MINUTES:

The minutes were considered from the August 23, 2013, meeting,

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. CORNEIL AND CARRIED ON A VOICE VOTE TO ACCEPT THE AUGUST 23, 2013, MINUTES AS WRITTEN.

AYES: MR. GESSNER, MR. ENGLESON, MR. SAGE, MS. TERNES, TREASURER SCHMIDT, MR. LECH, COMMISSIONER HAMM, MR. CORNEIL, MS. WASSIM, MR. SANDAL, AND LT. GOVERNOR WRIGLEY
NAYS: NONE

MOTION CARRIED

EXECUTIVE DIRECTOR/CHIEF INVESTMENT OFFICER CANDIDATE INTERVIEWS:

Mr. Kennedy reviewed with the SIB Korn/Ferry's timeframe and process for the recruitment of candidates for the ED/CIO position of the Retirement and Investment Office (RIO) to date. Mr. Kennedy then reviewed the backgrounds of Mr. Righter and Mr. Hunter.

The SIB interviewed Mr. Righter.

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

The SIB interviewed Mr. Hunter and concluded at 12:15 pm.

The SIB reviewed and discussed the two candidates; interviews, presentation skills, backgrounds, overall impressions, and each trustee's ratings. The SIB also discussed compensation and benefits available, within state guidelines, for the ED/CIO position.

The SIB also discussed with Mr. Kennedy reference and background checks completed by Korn/Ferry thus far on the two candidates and all were favorable. Korn/Ferry will conduct additional reference checks on the finalist and will report those findings back to the SIB. The State of ND will also conduct a background check on the finalist as required by NDCC 12-60-24.

After discussion,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. WASSIM AND CARRIED ON A ROLL CALL VOTE TO OFFER THE POSITION OF ED/CIO OF RIO TO MR. DERIC RIGHTER CONTINGENT UPON ADDITIONAL REFERENCE CHECKS BY KORN/FERRY AND A BACKGROUND CHECK BY THE STATE OF ND.

AYES: TREASURER SCHMIDT, MR. SANDAL, MS. TERNES, MR. LECH, MR. CORNEIL, MS. WASSIM, MR. ENGLESON, MR. GESSNER, COMMISSIONER HAMM, MR. SAGE, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. GESSNER AND CARRIED ON A ROLL CALL VOTE TO OFFER MR. RIGHTER AN ANNUAL SALARY OF $220,000 FOR THE POSITION OF ED/CIO OF RIO CONTINGENT UPON ADDITIONAL REFERENCE CHECKS BY KORN/FERRY AND A BACKGROUND CHECK BY THE STATE OF ND.

Discussion followed,

Mr. Sage called the question,

AYES: MR. LECH, MS. TERNES, TREASURER SCHMIDT, MR. SANDAL, MR. SAGE, COMMISSIONER HAMM, MR. GESSNER, MR. ENGLESON, MS. WASSIM. MR. CORNEIL, LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

A roll call vote was then taken on the motion,

AYES: TREASURER SCHMIDT, MR. GESSNER, COMMISSIONER HAMM, MR. LECH, MR. SANDAL
NAYS: MS. TERNES, MR. ENGLESON, MR. SAGE, MS. WASSIM, MR. CORNEIL, LT. GOVERNOR WRIGLEY

MOTION FAILED

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MR. SAGE AND CARRIED ON A ROLL CALL VOTE TO OFFER MR. RIGHTER AN ANNUAL SALARY OF $210,000 FOR THE POSITION OF ED/CIO OF RIO CONTINGENT UPON ADDITIONAL REFERENCE CHECKS BY KORN/FERRY AND A BACKGROUND CHECK BY THE STATE OF ND.

AYES: MR. CORNEIL, MR. SANDAL, MR. SAGE, MR. LECH, MS. WASSIM, MS. TERNES, COMMISSIONER HAMM, MR. ENGLESON, LT. GOVERNOR WRIGLEY
NAYS: MR. GESSNER, TREASURER SCHMIDT
MOTION CARRIED

IT WAS MOVED BY MR. CORNEIL AND SECONDED BY MS. WASSIM AND CARRIED ON A ROLL CALL VOTE TO OFFER THE SAME BENEFIT PACKAGE TO MR. RIGHTER AS WAS OFFERED TO THE PREVIOUS ED/CIO AND TO ALSO ALLOW UP TO $8,000 FOR RELOCATION EXPENSES.

AYES: COMMISSIONER HAMM, MR. GESSNER, MR. SAGE, MS. TERNES, MS. WASSIM, TREASURER SCHMIDT, MR. CORNEIL, MR. ENGLESON, MR. LECH, MR. SANDAL, AND LT. GOVERNOR WRIGLEY
NAYS: NONE
MOTION CARRIED

Lt. Governor Wrigley thanked the Search Committee; Treasurer Schmidt, Commissioner Gaebe, Mr. Sandal, Mr. Gessner, the staff of RIO, and Mr. Michael Kennedy for their assistance in the search for a new ED/CIO.

OTHER:

Ms. Connie Flanagan will be resigning as Fiscal and Investment Officer of RIO effective October 15, 2013. The SIB thanked Ms. Flanagan for her years of service to the State and RIO and wished her well.

Ms. Kopp and Mr. Schulz reviewed their action plan to address the Fiscal & Investment Officer vacancy as well as other vacancies in the office.

The next SIB meeting is scheduled for October 25, 2013, at 8:30 am at the Peace Garden Room, State Capitol, Bismarck, ND.

The next SIB Audit Committee meeting is scheduled for September 27, 2013, at 2:00 pm at Workforce Safety & Insurance.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 1:30 p.m.

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 1, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Clarence Corneil, TFFR Board Jeff Engleson, Deputy Land Commissioner Mike Gessner, TFFR Board Adam Hamm, Insurance Commissioner Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer
ABSENT:	Cindy Ternes, Workforce Safety & Insurance Tom Trenbeath, PERS Board
STAFF PRESENT:	Bonnie Heit, Assistant to the SIB Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 2:00 pm on Tuesday, October 1, 2013. The meeting was conducted by teleconference.

A quorum was present for the purpose of conducting business.

The meeting was called to order to review recruiting expenses for the final candidate for the position of ED/CIO of the Retirement and Investment Office. The SIB, at their September 27, 2013, meeting, directed Korn/Ferry to offer the ED/CIO position of RIO to Mr. Deric Righter. Mr. Michael Kennedy, Korn/Ferry, contacted the SIB on September 30, 2013, and updated the SIB on the discussions he has had with Mr. Righter since September 27, 2013. Mr. Kennedy indicated Mr. Righter is still very interested in the position and that the family is reviewing the impact of a move to North Dakota. Mr. Kennedy inquired if the SIB would be willing to pay for Mr. Righter and his wife to come to Bismarck to tour the Bismarck/Mandan community and to check on the school systems and real estate.

After discussion,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. ENGLESON AND CARRIED ON A VOICE VOTE TO AUTHORIZE PAYMENT OF FIFTY PERCENT OF THE EXPENSES (AIRFARE, RENTAL CAR, HOTEL, AND MEALS), AT THE STATE PER DIEM RATE, FOR MR. RIGHTER AND HIS WIFE TO COME TO BISMARCK TO TOUR THE BISMARCK/MANDAN COMMUNITY, CHECK INTO THE SCHOOL SYSTEMS, AND REAL ESTATE.

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

The SIB also authorized Mr. Sandal to discuss the offer with Mr. Kennedy on behalf of the SIB.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 2:30 p.m.

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 8, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Clarence Corneil, TFFR Board Commissioner Gaebe, Land Commissioner Mike Gessner, TFFR Board Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Tom Trenbeath, PERS Board
ABSENT:	Adam Hamm, Insurance Commissioner
STAFF PRESENT:	Bonnie Heit, Assistant to the SIB Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO
OTHERS:	Michael Kennedy, Korn/Ferry Jan Murtha, Attorney General's Office Kim Wassim, HRMS

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 4:00 pm on Tuesday, October 8, 2013. The meeting was conducted by teleconference.

A quorum was present for the purpose of conducting business.

The meeting was called to order to review the recruiting progress of Mr. Deric Righter for the position of ED/CIO of the Retirement and Investment Office since the position was verbally offered to him on September 27, 2013.

The SIB received an update from Mr. Michael Kennedy, Korn/Ferry, on October 7, 2013. Mr. Kennedy discussed with the SIB his recruitment efforts and indicated Mr. Righter is getting closer to making his decision and is leaning towards accepting the offer. At this point, Mr. Righter and his family have decided that Mr. Righter would relocate to Bismarck but his family would stay in Detroit for the next three years and Mr. Righter would commute back and forth. Mr. Kennedy also informed the SIB Mr. Righter was inquiring if there was flexibility on the vacation days offered and was also inquiring about the relocation allowance and if a sign-on bonus and a severance package is available.

The SIB discussed their options at this point of the recruiting process and after discussion,

Commissioner Gaebe exited the meeting at 4:30 pm.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. TRENBEATH AND CARRIED ON A ROLL CALL VOTE TO WITHDRAW THE CURRENT OFFER OF EMPLOYMENT TO MR. RIGHTER BASED ON THE ISSUES THAT HAVE COME UP IN THE RECRUITING EFFORTS.

Discussion followed,

Mr. Trenbeath called the question and a roll call vote was taken,

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

A roll call vote was taken on the motion,

AYES: TREASURER SCHMIDT, MR. CORNEIL, MR. LECH, MR. TRENBEATH, MS. TERNES, LT. GOVERNOR WRIGLEY
NAYS: MR. SANDAL, MR. GESSNER, MR. SAGE
ABSENT: COMMISSIONER HAMM, COMMISSIONER GAEBE

A letter to rescind the offer of employment to Mr. Righter will be drafted by Ms. Murtha, signed by Lt. Governor Wrigley, and forwarded to Mr. Righter as soon as possible.

Lt. Governor Wrigley thanked Ms. Murtha for her excellent work and advice.

OTHER:

The next SIB meeting will be held by teleconference on October 9, 2013, at 9:30 am to discuss the pool of applicants for the position of Executive Director/CIO of the Retirement and Investment Office.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 5:10 p.m.

Lt. Governor Wrigley, Chair
State Investment Board

Bonnie Heit
Assistant to the Board

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
OCTOBER 9, 2013, BOARD MEETING

BOARD MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Clarence Corneil, TFFR Board Commissioner Gaebe, Land Commissioner Mike Gessner, TFFR Board Rob Lech, TFFR Board Howard Sage, PERS Board Kelly Schmidt, State Treasurer Cindy Ternes, Workforce Safety & Insurance Tom Trenbeath, PERS Board
ABSENT:	Adam Hamm, Insurance Commissioner
STAFF PRESENT:	Bonnie Heit, Assistant to the SIB Fay Kopp, Interim Executive Director Darren Schulz, Interim CIO
OTHERS:	Michelle Booth, Korn/Ferry Michael Kennedy, Korn/Ferry Jan Murtha, Attorney General's Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 9:30 am on Wednesday, October 9, 2013. The meeting was conducted by teleconference.

A quorum was present for the purpose of conducting business.

The meeting was called to order to review the pool of applicants for the position of ED/CIO of the Retirement and Investment Office.

Mr. Kennedy updated the SIB on Mr. Righter. Mr. Kennedy notified Mr. Righter on October 8, 2013, that the SIB had decided to withdraw their offer of employment to him. Mr. Righter, although disappointed in the decision, thanked the SIB for their consideration of him as a viable candidate.

Mr. Kennedy updated the SIB on Mr. David Hunter, the second candidate interviewed on September 27, 2013. Mr. Kennedy stated Mr. Hunter is still interested in the position. Mr. Kennedy reviewed with the SIB Mr. Hunter's background and reference checks completed thus far and everything is positive.

Mr. Kennedy also discussed with the SIB one other candidate that may be of interest to the SIB. At this point in the process, the SIB concurred to not bring in any other candidates until the SIB reaches a resolution with Mr. Hunter.

COMMISSIONER GAEBE MOVED AND MR. SAGE SECONDED TO INVITE MR. HUNTER BACK FOR A THIRD INTERVIEW BEFORE THE SIB AND ALSO ENCOURAGE HIS SPOUSE TO COME AND TOUR THE BISMARCK/MANDAN COMMUNITY.

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

For clarification purposes, the SIB will pay 100% of the expenses (airfare, rental vehicle, hotel room, and meals), at the state per diem rate, for Mr. Hunter only.

Mr. Kennedy inquired if the SIB had any specific items they would like Mr. Hunter to address for the interview on October 25, 2013. If not, Mr. Kennedy will present some ideas to the SIB for their feedback prior to the meeting.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 10:05 am.

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

North Dakota State Investment Board

Securitized Markets and Portfolio Overview

October 25, 2013

Presentation by Declaration Management & Research LLC, a Manulife Asset Management Company

Securitized Strategies for North Dakota

Strategy	Return Objective	Investment Period	Contributions	Distributions or Ending MV	Actual Returns
Distressed Debt Fund	15%-20% Net IRR	May 2008 – Dec 2009	$15,000,000	$19,184,944	25.25% net IRR
Short Tenor CMBS Fund	Low-Mid Teens	July 2009 – Dec 2011	$50,000,000	$60,907,243	12.03% net IRR
Insurance Trust Separate Account	Benchmark + 1.25%	Inception: March 2010	$47,982,225	$56,938,946	Benchmark + 4.38%
Total Return Bond Fund	6%-10% Net	Inception: April 2012	$59,125,000	$64,871,822	11.04% net
TOTAL			$172,107,225	$201,902,955	

Notes

1. *Distressed Debt Fund: The investment has been realized in full for a 25.25% net realized IRR since inception.*
2. *Short Tenor CMBS TALF Fund: The investment has been realized in full for a 12.03% net realized IRR since inception.*
3. *Insurance Trust Separate Account: The ending market value of $56,938,946 is as of September 30, 2013. The portfolio's since inception annualized gross return was 7.76% versus 3.38% for the benchmark "Securitized Portion of Barclays US Aggregate" as of September 30, 2013.*
4. *Total Return Bond Fund: The ending market value of $64,871,822 is as of September 30, 2013. The net cumulative rime weighted return shown above of 11.04% net is from April 2, 2012 to September 30, 2013.*

Performance shown for Distressed Debt Fund, Short Tenor CMBS Fund and Total Return Bond Fund reflects Declaration Management & Research LLC composites. The portfolio management team for the Total Return Bond Strategy are dual employees of Declaration and Manulife Asset Management as of April 1, 2012. Distressed Debt, Short Tenor CMBS and Total Return Bond composites are shown net of fees. Insurance Trust Separate Account performance is shown gross of fees, including advisory fees and other expenses an investor would incur. Past performance is not indicative of future results.

The ending value of each strategy is the market value of the strategy as of September 30, 2013 unless it has already liquidated, in which case the value shown is the sum of all distributions.

Manulife Asset Management™

Securitized Markets — The Opportunity Set

Securitized markets are large

- Securitized markets are larger than high yield sectors.
- Securitized assets range from high to low volatility.

Securitized markets are complex

- Information barriers may allow better access to specialists.
- Pricing anomalies may be due to public policy, GSE reform, mortgage lending practices, supply-demand imbalances.

Securitized markets are segmented

- Collateral varies by loan type, quality, servicer, vintage.
- Securities vary by seniority, tenor, duration, volatility.
- Segmentation allows for tactical flexibility across the risk spectrum depending upon market conditions.

Limited competition

- Relatively few investment specialists in securitized markets versus corporate bond and high yield managers.

Major Spread Sectors	Market Value
Securitized Assets	**$6.95 trillion**
Agency MBS	$4.87 trillion
Non-Agency MBS (RMBS)	$886 billion
CMBS Conduit and Agency CMBS	$790 billion
Consumer ABS and Other ABS	$400 billion
Investment Grade Corporate Bonds	**$3.56 trillion**
High Yield Corporate Bonds	**$1.16 trillion**
EM High Yield Debt (USD)	**$323 billion**
High Yield Bank Loans	**$526 billion**

Source: Barclays Capital, Amherst Securities, JP Morgan as of 2Q 2013. Market values shown for Agency MBS, Investment Grade and High Yield Bonds, EM High Yield Debt and High Yield Bank Loans are market values of each sector in the Barclays indices as of June 30, 2013.

Investment Thesis for Securitized Strategies

- Securitized markets are large, complex and segmented. These attributes are favorable for active management.
- Information barriers in securitized assets can lead to security specific pricing anomalies, diverse views on collateral and a competitive advantage to managers with skill and experience in the securitized sectors.
- Securitized assets are complementary and offer diversification to corporate bond and bank loan strategies.
- In periods of rising or volatile interest rates, securitized markets are a good source of short-intermediate term assets with moderate duration and opportunities for reinvestment of principal and interest proceeds throughout the cycle.
- Property fundamentals in the U.S. are generally improving. This helps to control downside risk and volatility.
  - Residential and commercial property prices have been trending up over the past 12-18 months.
  - Older vintage securitizations (2003-2006) have been de-leveraging, which adds credit support to senior classes and has led to an upgrade trend in some RMBS issues over the past two years.
  - Supply / Demand: Household formations continue to exceed completions / new supply in many regions.
  - Mortgage availability is slowly expanding for homeowners.

Manulife Asset Management™

Sector Outlook and Portfolio Strategy

Exploiting Market Conditions through Mortgage Prepayment and Credit Strategies

Macro View & Sector Allocation	▪ Federal Reserve policy indicates a willingness to reduce stimulus should the economic recovery continue ▪ We expect further deleveraging with a modest recovery in credit performance in Residential and CRE cashflows ▪ Interest rates should remain low from a historical perspective but we are cautious on long term rates ▪ Prefer more senior credit bonds and interest only securities that perform well in low and rising rate environments
Agency MBS	▪ Expect additional government intervention and longer term reform in mortgage markets ▪ Fed policy, mortgage underwriting, and GSE reform affect Agency MBS collateral and valuation characteristics ▪ Government programs are leading to anomalies and episodic increases in prepayments ▪ We focus on better call protected collateral in specified pools with upside potential in varied interest rate regimes
Non-Agency MBS	▪ Expect disparate views on delinquencies, severities, home prices, deal structures, servicer actions and public policy ▪ We target "high carry" securities that can perform in a variety of market environments with an emphasis on stable or improving collateral trends
CMBS	▪ Dislocations will persist from a mixed assessment of real estate fundamentals and individual property outcomes ▪ We target senior securities (or subordinate with improving collateral trends) with an emphasis on CMBS Interest Only and multifamily securitizations ▪ Opportunities can be found in single borrower transactions where we can preform exhaustive credit underwriting
Yield Curve	▪ The front end should remain anchored by Fed policy into 2014 and we expect long term rates to rise over time ▪ Target lower duration assets with high yields that can perform in both low and rising interest rate scenarios

Real Estate Market Outlook

We Assume Continued Stabilization in Property Fundamentals and Deleveraging in Legacy Securitized Assets

US Residential Housing Market Fundamentals

- Home Prices: National average home prices declined 35% from peak (2006) to trough (2012). As of 2Q 2013, HPA had moved up 12% off the lows.
- Valuation: Affordability remains high given relatively low interest rates, price-to-income ratios and discounts on existing homes versus new construction.
- Capital: Lending is still tighter than pre-crisis, but mortgage capacity from the private sector is slowly expanding. Government programs have promoted refinancing activity for high LTV and low credit quality homeowners.
- Loan Performance: Delinquencies have moderated and recoveries have improved due to loan modification, HPA gains and credit burnout effects.
- Demand-Supply: Household formation has exceeded new construction over the past several years, helping the absorption rates of new supply.

US Commercial Real Estate Market Fundamentals

- Prices: Commercial property prices declined 20–40% from the peak and have recovered 10-30% depending on the property type and location.
- Valuation: Current CRE prices are comparable to 2003–2004 levels with low interest rates supporting capitalization rates and improving cash flows.
- Capital: Lending is improving as insurance companies and bank conduit programs compete for loans.
- Loan Performance: Delinquencies have moderated, severities remain in the 40–50% historical range and rising CRE prices reduce losses / aid refinancing.
- Property Performance: Multi-family and hotels have recovered well. Office, retail and industrial sector show mixed performance depending on the MSA.

Source: Manulife, Barclays Securitized Products Research March 2013 and Deutsche Bank US Housing Research July 2013.

Total Return Bond Strategy

Portfolio Characteristics

As of September 30, 2013

Portfolio Summary	Total Return Bond Strategy
Yield*	4.88%
OAS vs. Libor	329 bps
Duration	3.26 years
Weighted Average Life	6.02 years

Quality Breakdown	Total Return Bond Strategy
AAA	36.5%
AA	4.0%
A	6.2%
BBB	14.7%
BB & Below	38.6%

Sector Allocations	Total Return Bond Strategy
Agency MBS	5.0%
Agency CMO / IO / IIO	3.4%
CMBS Conduit and Large Loan	17.5%
CMBS IO	28.5%
Corporate Bonds	4.8%
RMBS and Consumer ABS	40.1%
US Treasury and Cash	0.8%

* Yield for Total Return Bond Strategy is the loss-adjusted gross yield to the forward curve. The Cash Yield (similar to Yield to Worst) is 5.49% as of September 30, 2013.

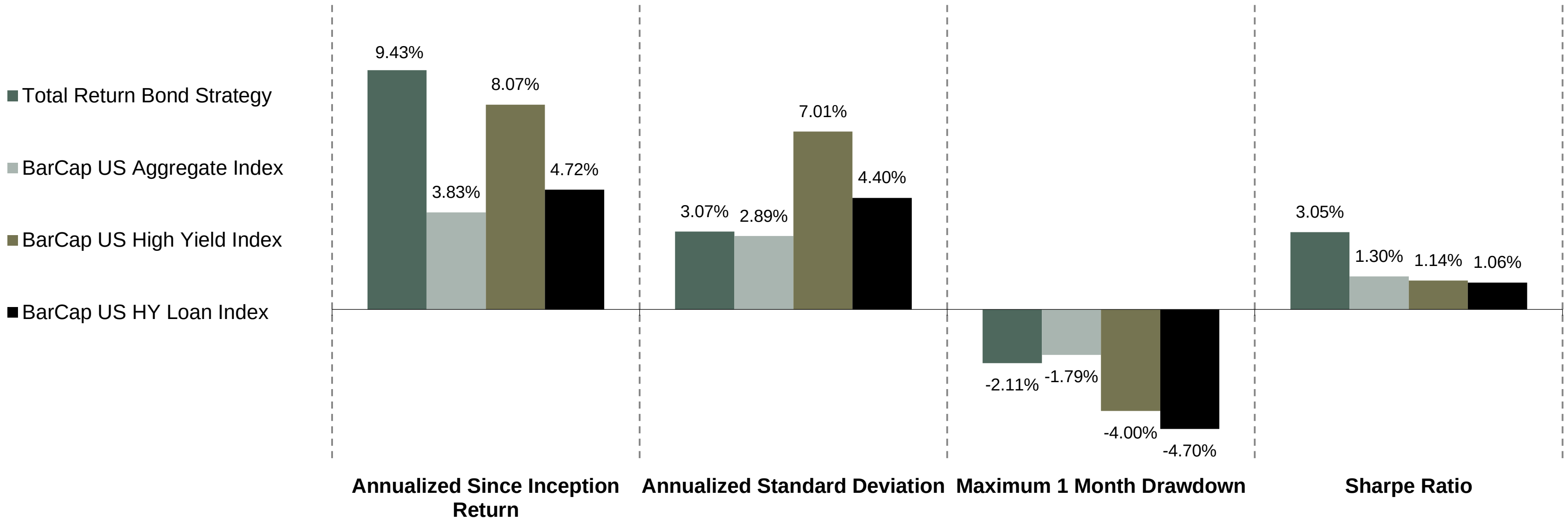
The portfolio used for presentation above is representative of the investment strategy. Portfolio holdings and characteristics are subject to change at any time, may differ for a specific account and are not a recommendation to buy/sell a security. The securities identified and described do not represent all of the securities purchased, sold or recommended for the portfolio. It should not be assumed that an investment in these securities or sectors was or will be profitable. This information is supplemental to the GIPS-compliant presentation included as a part of this presentation.

Manulife Asset Management™

Total Return Bond Strategy

Risk Efficiency and Diversification versus Core and High Yield Sectors

June 30, 2013 — Since Inception Return and Risk Metrics



CORRELATIONS	Total Return Bond	BarCap US Aggregate	BarCap US High Yield	BarCap US HY Loan
Total Return Bond	1.00			
BarCap US Aggregate	0.45	1.00		
BarCap US High Yield	0.62	0.14	1.00	
BarCap US HY Loan	0.51	-0.13	0.81	1.00

Performance shown is the Declaration Management & Research LLC Total Return Bond composite gross of fees. Manulife Asset Management does not currently have assets under management in these strategies. The portfolio management team for the Total Return Bond Strategy are dual employees of both firms as of April 1, 2012. Past performance is not indicative of future results. Returns are gross unless otherwise noted as net. Return and standard deviation data is from inception of the composite until June 30, 2013.

Past performance is not indicative of future results. Please refer to the Performance Disclosure at the end of the presentation, which is an integral part of this presentation.

* Inception Date: February 2011

Manulife Asset Management™

Total Return Bond Strategy
Rank in US Mortgage Manager Fixed Income Universe

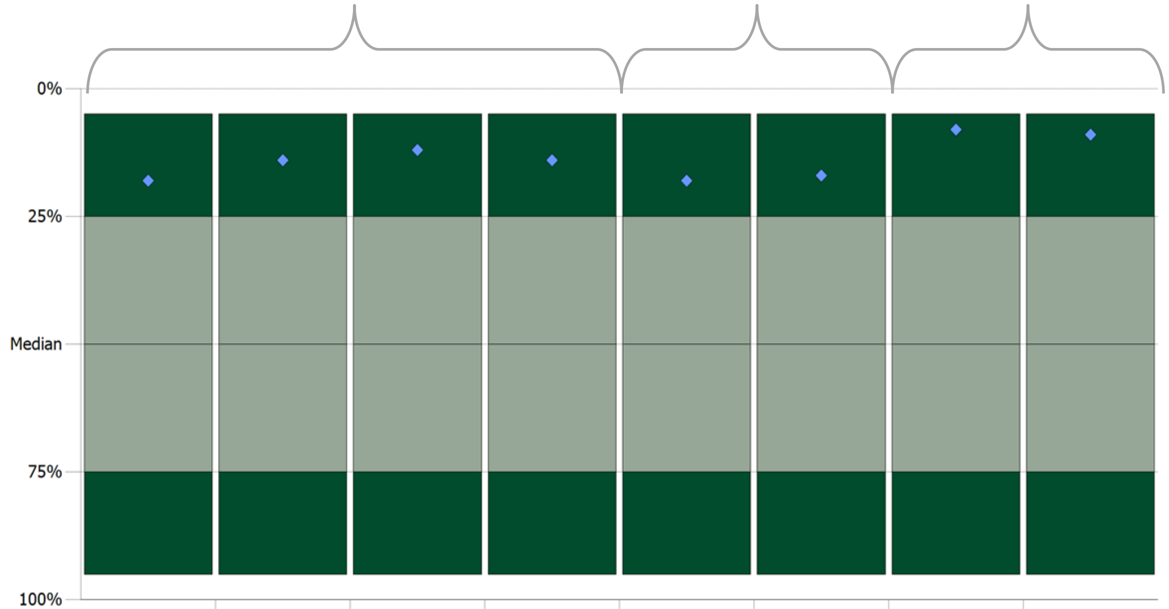
As of June 30, 2013

Annualized Returns[1] — Strong rankings when compared against the peer universe

Standard Deviation — Volatility within the strategy's target range over a cycle.

Sharpe Ratio — Risk-efficient strategy with top quartile rankings

◆ Total Return Bond Strategy:



Universe:
eVestment US Mortgage Fixed Income

	VT	RM	Returns YTD	Rk	Returns 1 Year	Rk	Returns 2 Years	Rk	Returns[2] Since Inception 2	Rk	Std Dev 2 Years	Rk	Std Dev[2] Since Inception 2	Rk	Sharpe[1] 2 Years	Rk	Sharpe[1,2] Since Inception 2	Rk
5th percentile			5.85		24.89		14.97		13.50		7.44		7.31		3.36		3.51	
25th percentile			-0.09		4.47		6.59		6.71		2.80		2.69		2.22		2.32	
Median			-1.51		0.85		3.47		3.99		2.17		2.14		1.51		1.69	
75th percentile			-2.03		-0.66		2.47		3.29		2.01		1.98		1.07		1.40	
95th percentile			-2.70		-1.33		1.87		2.69		1.64		1.56		0.91		1.26	
# of Observations			59		59		59		59		59		59		59		59	
◆ Total Return Bond Strategy	CF	GF	0.58	18	8.52	14	9.77	12	9.42	14	3.07	18	3.07	17	3.16	8	3.04	9

Results displayed in US Dollar (USD)

[1] Citigroup 3-Month T-Bill; [2] 2/2011 - 6/2013

Source: eVestment Alliance, June 2013

[1] Performance shown is the Declaration Management & Research LLC Total Return Bond composite gross of fees which does not include advisory and other expenses an investor would incur. Past performance is no guarantee of future results.

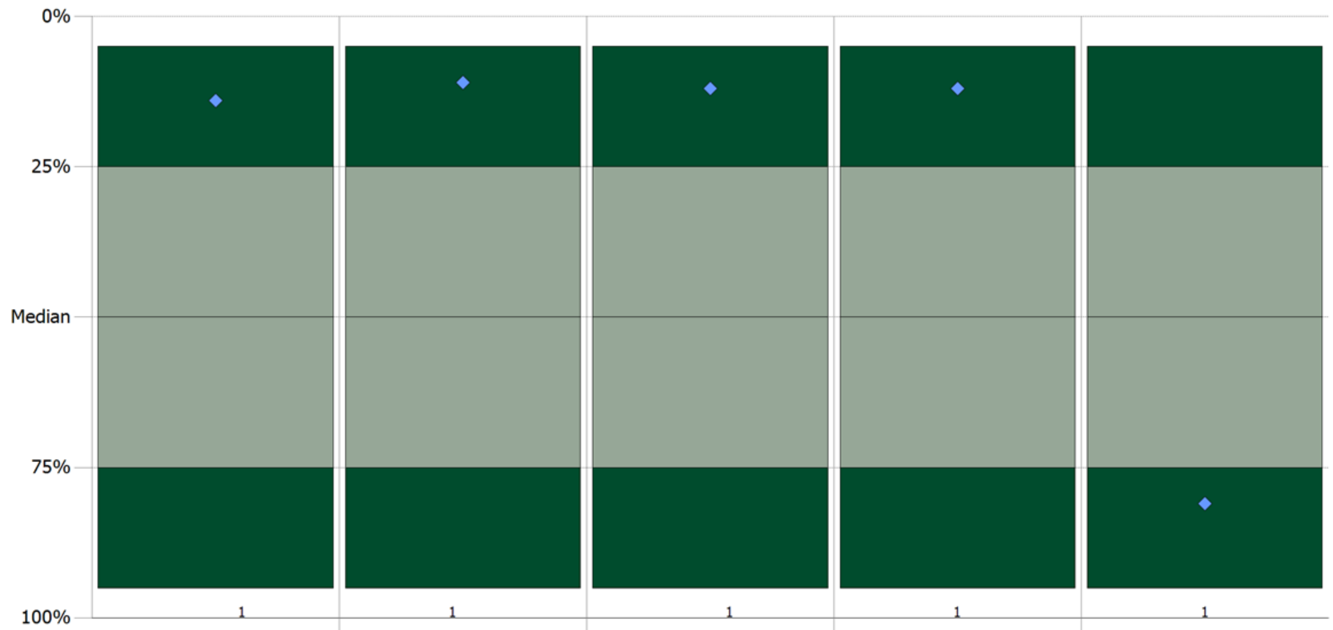
Manulife Asset Management

Total Return Bond Strategy

Risk Efficient Returns versus Barclays US Securitized Index

Since Inception. February 2011–June 2013

◆ Total Return Bond Strategy:



Universe:
eVestment US Mortgage Fixed Income

	VT	RM	Excess Rtn	Rk	IR	Rk	Bat. Avg.	Rk	UMC	Rk	DMC	Rk
5th percentile			10.63		2.92		0.80		251.85		125.34	
25th percentile			3.84		1.73		0.72		166.36		97.55	
Median			1.12		1.15		0.66		122.08		81.47	
75th percentile			0.42		0.68		0.57		105.53		24.84	
95th percentile			-0.18		-0.43		0.38		92.39		-164.92	
# of Observations			59		59		59		59		59	
◆ Total Return Bond Strategy	CF	GF	6.55	14	2.48	11	0.76	12	217.56	12	-14.93	81

Results displayed in US Dollar (USD)

Barclays US Securitized; [1]2/2011 - 6/2013

Source: eVestment Alliance, June 2013

[1] Performance shown is the Declaration Management & Research LLC Total Return Bond composite gross of fees which does not include advisory and other expenses an investor would incur. Past performance is no guarantee of future results.

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TRB.HGLTS.2Q13.MH

Total Return Bond Fund and Separate Account

	DMR Total Return Bond Fund	Separate Account Mortgage Strategy
Strategy Focus:	Securitized Assets diversified across many sub-sectors. Income Generation / Focus on stable, senior cash flows. Moderate Duration / Focus on short-medium tenor assets. Moderate Credit Risk / Small allocation to distressed debt. "Best Ideas" strategy with tactical flexibility.	Initial portfolio consisted of credit impaired assets-in-kind Optimize risk/return; control potential for large losses. Monitor collateral trends / Upgrade quality over time. Primarily reinvest proceeds in Agency MBS.
Return Target:	6%-10% net over the market cycle	Gross Return of 1.25% over Benchmark
Volatility Target:	6%-8%	Moderate, similar to benchmark
Benchmark:	The Fund's return and volatility targets.	Barclays US Securitized Index
Duration Range:	0-5 Year target	Benchmark Duration +/- 1.0 Year

Return and Risk Data	TRBF	Barx High Yield	Barx BankLoans	Barx Agg	Separate Account	Barx Securitized
Since Inception Annualized Return:	8.96%	8.20%	4.73%	3.69%	7.76%	3.38%
Standard Deviation:	2.96%	6.76%	4.22%	2.82%	2.71%	2.05%
Worst One Month Return:	-2.11%	-4.00%	-4.70%	-1.79%	-1.39%	-1.49%
Duration:	3.26	4.26	0.25	5.52	4.20	5.23
Quality:	A2/A3	B1/B2	B	AA1/AA2	AA2/AA3	AAA/AA1
Size of Universe or Index:	$7 trillion	$1.2 trillion	$577 billion	$16.7 trillion	$7 trillion	$5.2 trillion

Performance shown is the Declaration Management & Research LLC Total Return Bond composite and the Insurance Trust Separate Account, both gross of fees which does not include advisory and other expenses an investor would incur. Past performance is no guarantee of future results. For Total Return Bond, the since inception period is February 1, 2011 to September 30, 2013. For Insurance Trust Separate Account, the since inception period is March 17, 2010 to September 30, 2013.

Manulife Asset Management™

Investment Team & Process

Securitized Assets Team

Portfolio Management Team

Peter Farley, CFA
18 Years Experience

Bond Griffin, CFA
10 Years Experience

Jeffrey Given, CFA
20 Years Experience

Research, Analytics & Execution

RMBS & CMBS Analysis

William Paolino
13 Years Experience

Brad Murphy
10 Years Experience

David Bees
11 Years Experience

Connor Minaar, CFA
9 Years Experience

Quantitative Research

Joshua Kuhnert, CFA
11 Years Experience

Glenn Martin
15 Years Experience

Shereef Osman
8 Years Experience

Stephen LaPlante
9 Years Experience

Trading & Pricing

Jennifer Bowers, CFA
20 Years Experience

Michael Lorizio, CFA
12 Years Experience

Terry McCubbin, CFA
19 Years Experience

Additional Resources

Product Management

John Pluta, CFA
33 Years Experience

Risk Management

Dave Rickards, CFA
15 Years Experience

Daniel Cook
3 Year Experience

Corporate Credit Research

Global Fixed Income PM Team

Economic Research Team

Legal & Compliance

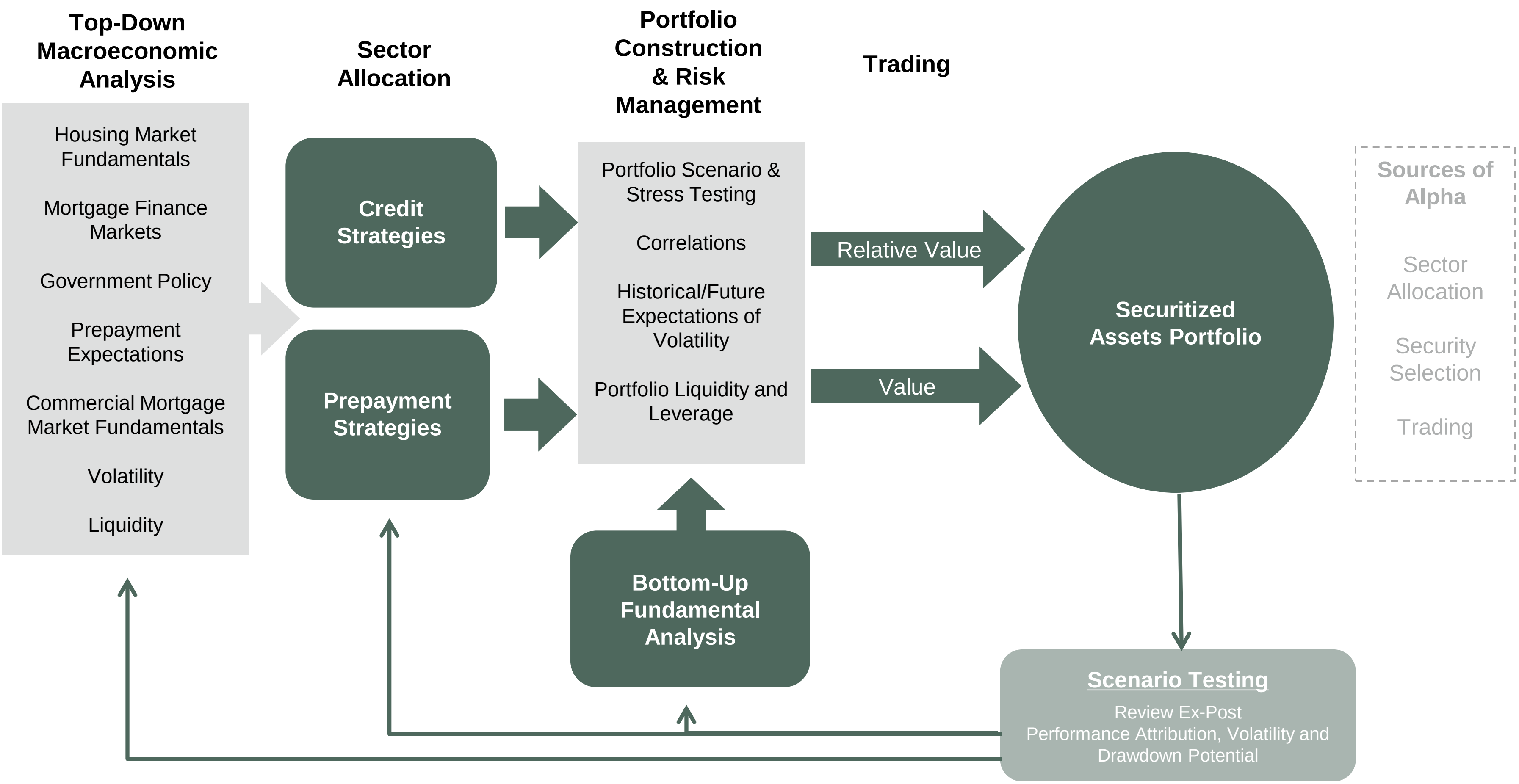
Operations

As of June 2013

Manulife Asset Management

Investment Process

Our strategy is focused on income-generating assets from the securitized sectors



Dynamic Investment Process

Manulife Asset Management

SAs.Master.2Q13.MH

Capital Allocation and Tactical Asset Allocation

RELATIVE VALUE: The return potential of each asset and sub-sector in relation to its volatility and our degree of confidence in the outcome.

VOLATILITY: Risk positions are sized by each asset's expected volatility and our goal to limit portfolio volatility.

LIQUIDITY: Issue liquidity is a key factor in sizing individual positions and sub-sector weightings.

CREDIT UNDERWRITING CUSHION: We prefer senior bonds with credit enhancement … Low allocations are given to subordinated classes and we avoid assets with binary return profiles.

DIVERSIFICATION: We allocate capital to build an optimal mix between prepayment-sensitive and credit-sensitive assets and seek to diversify by asset tenor, quality, fixed vs. floating, etc.

Credit Strategies

- Non-Agency RMBS
- CMBS
- Other Structured Credit Assets

Prepayment Strategies

- Agency MBS
- Agency IO/IIO

Non-Agency RMBS Research

- Investment Process for Non Agency RMBS focuses on risk-efficient assets with stable cash flows.
- Views on broader market form the base of the RMBS investment process and those views feed into proprietary loan-level analysis and forecasting models.
- Loan level analysis on borrower characteristics: loan to value (LTV) ratios, FICO score, product type, underwriting quality, loan size, and other coefficients drive the credit experience of the mortgage pool.
- We use a scenario based approach to analyze pool performance under a range of macro scenarios. Proper understanding of security specific sensitivities to various endogenous and exogenous risk factors is key.
- We optimize security selection to choose securities in our approach that are attractive in 'base case' scenarios as well as have a significant 'margin for error' in more stressful environments.

MACRO ANALYSIS

- Mortgage Finance Markets
- Home Supply / Demand
- Housing Affordability
- Home Prices
- Government & Fed Policy
- Macro Economy

COLLATERAL ANALYSIS

- Loan Level Default, Severity and Prepay Models
- Fundamental analysis of loan underwriting quality
- Re-indexing of borrower LTV status

STRUCTURAL ANALYSIS

- Capital Structure analysis & indenture review
- Security specific performance & factor sensitivity
- Cash flow waterfall modeling

Scenario Analysis

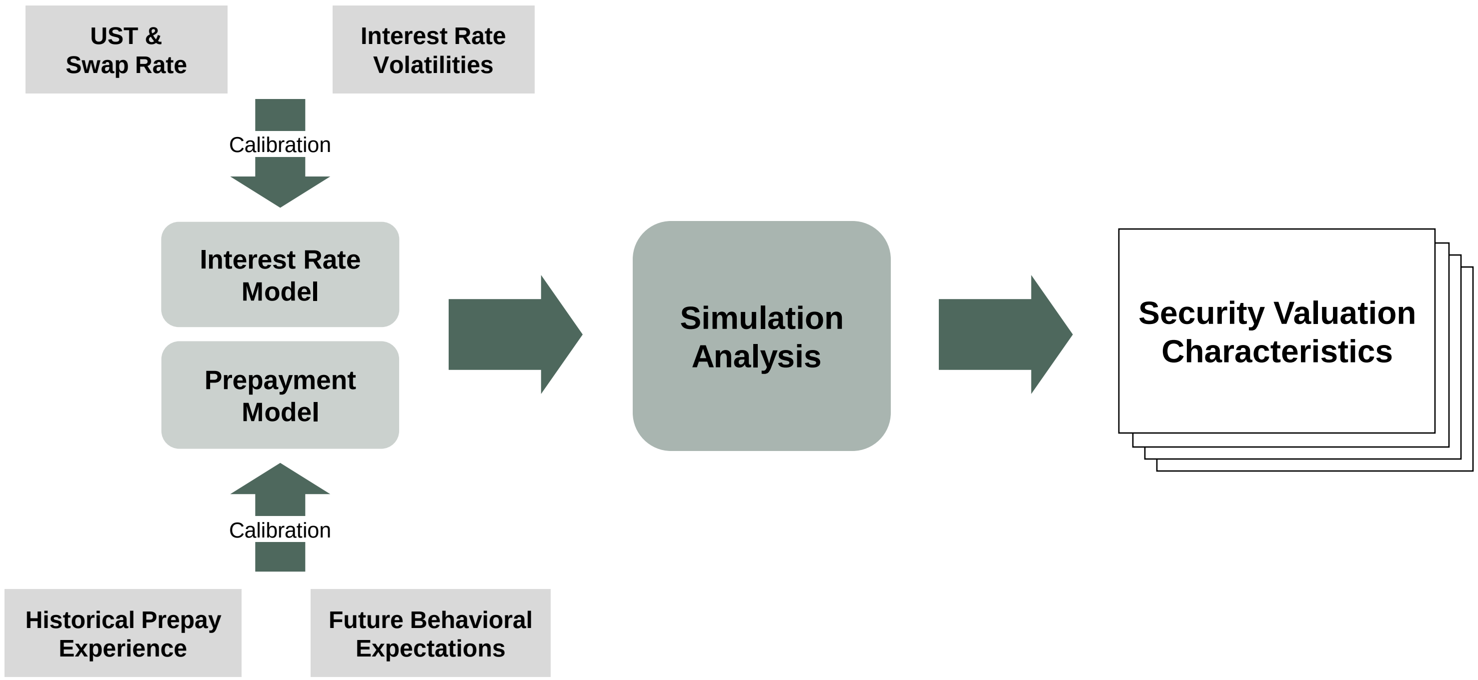
RELATIVE VALUE ANALYSIS

- Return Attractiveness
- Stress Tests
- Asset Sensitivities
- Capital Structure Positioning
- Potential Liquidity
- Exogenous Risk Factors

Manulife Asset Management™

Agency MBS Research

- Option Adjusted Spread (OAS) analysis is used to incorporate information on interest rates and volatilities, and combine it with our calibrated expectations of future prepayment behavior. OAS analysis is a robust tool, useful in comparing relative value between securities and in risk management.
- In highly policy driven environments, ex-ante forecasts of policy changes, both potential and realized, must be incorporated into future expectations around voluntary and involuntary prepayments.
- Especially in this environment, prepayment and default model calibration is required to prevent models from behaving in an overly "backward looking" manner.



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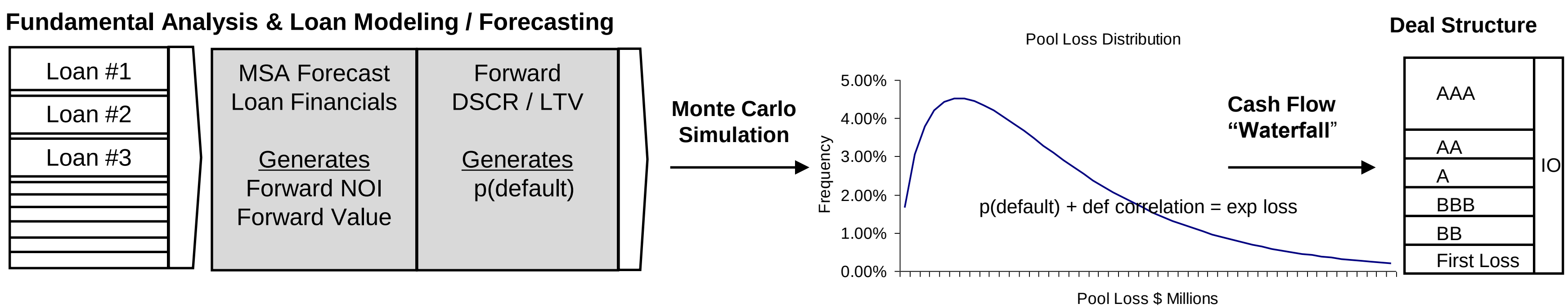
CMBS Research

- **Data Collection** — Obtain MSA, Property and Loan level financial data from sources such as Trepp, REIS, Servicers, etc.
- **Loan Level Modeling** — Use REIS MSA effective rent and vacancy forecasts and loan-level data to project NOI growth and property valuations
- **Loan Level Forecasting** — Generate paths of NOI and property valuations to determine forward DSCRs and LTV's
- **Stochastic Simulation** — Determine individual loan default probabilities from forward DSCRs and LTVs to calculate pool expected losses
- **Distribution of Results** — Simulation cash flow is run through Intex or a modeled waterfall to assess deal and tranche return / risk attributes



Sample Deal: Agency CMBS Freddie Mac K Program

- The K-Program provides liquidity to multifamily, a sector which has benefited from lower home ownership rates.
- Freddie underwrites all loans to a single standard whether the loan will be securitized or held on balance sheet.
  - Maximum LTV of 80%, with average closer ~ 70%.
  - Minimum DSCR of 1.25x, with average closer ~ 1.5x to 1.6x.
  - Cap Rates range from 5.25%-7.00% depending on the property, occupancy and rent levels.
  - NOI based on trailing 3-month actual in-place rent. Expenses are based on trailing 12-month actual plus inflation factor.
  - Prepayment protection: Mortgages are fixed rate with hard lockouts followed by defeasance or yield maintenance make-whole charges.

Freddie K Solid Collateral: Historical Delinquency Rates for Multifamily Loans 2003-2012

	1Q03	1Q04	1Q05	1Q06	1Q07	1Q08	1Q09	1Q10	1Q11	1Q12	3Q12
Freddie Mac Multifamily	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%	0.8%	0.6%	0.4%	0.3%
Commercial Banks MF Loans	0.3%	0.3%	0.3%	0.3%	1.0%	1.0%	2.2%	4.3%	3.8%	2.1%	2.0%
CMBS MF Conduit	0.8%	1.5%	2.1%	1.5%	1.0%	1.2%	3.8%	12.5%	14.0%	10.5%	9.6%

Note: Source for underwriting information and delinquency rates is Freddie Mac Multifamily Securitization Report Jan 2013 including data from TREPP and FDIC.

Senior IO and Sub IO Classes off FHMS Multifamily K-Program: Loss-Adjusted Yield Projections

	WAL	OAS	Yield Zero Loss CPY	Yield Base 50th%	Yield Base 90th%	Yield Stress 50th%	Yield Stress 90th%
Senior IO	7.70	390	5.50%	5.31%	4.17%	4.98%	2.94%
Sub IO	7.92	826	11.12%	10.98%	1.38%	7.32%	-10.55%
Expected Collateral Loss			0.00%	3.71%	8.40%	6.01%	11.56%

Note: Source for WAL, OAS and Yield Projections is Declaration as of 1Q 2012. WAL and OAS are base case estimates. The Yield/IRR estimates and other data above do not reflect actual trading or the impact of material economic or market factors on DMR's decision making process for actual managed accounts.

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Sample Deal: Non Agency RMBS

RMBS: Super Senior bond (Class A6) off 2005 Vintage Collateral					
Collateral Description:		**Collateral Performance:**		**Historical Collateral Performance:**	
Mortgage Type	Fixed Rate 30 yr	Current Loans	79%	Prepayment Rate (last 6 months)	9
Average Mortgage Rate	5.75%	Always Current Loans	56%	Default Rate (last 6 months)	6
Average FICO	720	Current Last 24 months	65%	Loss Severity (last 6 months)	63%
Current Loan to Value (LTV)	65%	Current but Reperforming	23%		
Effective Mark to Market LTV	91%				
Average Loan Size	$192,000	60+ Delinquent	7%		
Average Loan Age	6.6 years	Foreclosure, Bankrupt & REO	11%		
Loan Purpose	92% Owner, 5% Investor, 3% Vacation	Total Seriously Delinquent	18%		

Return Profile: Super Senior Bond (Class A6) acquired @ $83			
Scenario	**Stress**	**Base Case**	**Upside**
Yield on Class A6:	4.2%	6.1%	7.2%
Weighted Average Life	7.1 years	6.8 years	6.3 years
Modified Duration	5.2 years	4.6 years	4.1 years
Principal Writedown	34%	21%	16%
Projected Collateral Performance			
Prepayment Rate	5 CPR	7 CPR	9 CPR
Average Severity	70%	61%	57%
Collateral Defaulted	46%	36%	30%
Collateral Losses	32%	22%	17%

Key Investment Risks:
Our forecasts of lifetime collateral defaults and losses prove to be too low.
Assumptions around refinanceability of underlying mortgages prove to be too optimistic.
Loan modifications prove to be more ineffective than expectations and are detrimental to the trust's net cash flow.

Note: Source for Duration and Yield Projections is Declaration as of 3Q 2012. The Yield estimates and other data above do not reflect actual trading or the impact of material economic or market factors on DMR's decision making process for actual managed accounts.

Declaration Management & Research LLC

Total Return Bond Fund Composite

Schedule of Calendar Year Returns and Assets			Creation Date: *2/1/2011*		Inception Date: *2/1/2011*		Reporting Currency: *USD*		
Year End	Gross of Fees Return (%)	Net of Fees Return (%)	Merrill Lynch 3 Month Libor Constant Maturity Index Return (%)	Composite 3-Yr St Dev (%)[2]	Benchmark 3-Yr St Dev (%)[2]	Number of Portfolios End of Period	Composite Dispersion (%)[3]	Total Assets End of Period ($ thousands)	Total Firm Assets End of Period ($ thousands)[4]
2012	16.27	15.50	0.51	N/A	N/A	<=5	nm	240,919	6,826,705
2011[1]	6.32	5.02	0.25			<=5	nm	114,916	8,788,737

Firm Definition
Declaration Management & Research LLC ("Declaration") is an SEC registered investment adviser specializing in fixed income management. The firm is a Manulife Asset Management company, indirectly wholly owned by John Hancock Life Insurance Company (U.S.A.), a unit of Manulife Financial Corporation. DMR manages core and alternative investment strategies for institutional investors, wealth management platforms and absolute return vehicles. Declaration claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards.
Compliance Statement
Declaration has been independently verified for periods ending 12/31/09. The verification reports are available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.
General Disclosure
A complete list of the Firm's composite descriptions and policies regarding valuing portfolios, calculating performance, and preparing GIPS compliant presentations are available upon request. Gross performance results do not reflect the deduction of investment management fees, and are net of commissions and foreign withholding tax. Net performance results reflect the application of the highest incremental rate of the standard investment advisory fee schedule and a performance fee to gross performance results. Actual fees may vary depending on, among other things, the applicable fee schedule and portfolio size. Advisory fees are available upon request and may be found in the Firm's Form ADV. Dispersion of annual returns is measured by an asset-weighted standard deviation calculation of gross of fee returns. Past performance is not a guarantee of the manager's future investment results. As of 12/31/12, approximately 6% of Declaration's total firm AUM represents notional value of Synthetic CDOs. For prior periods, notional value of Synthetic CDOs ranged from 3%-16% of total firm AUM. The manager's future investments and strategies may differ from those undertaken by it historically, resulting in future performance that may vary substantially from past performance.
Composite Description
The Total Return Bond Composite includes all portfolios with a return of objective of 6-10% net annualized over a market cycle. The strategy invests primarily in the securitized markets and is designed to generate high current income with controlled exposures to credit, prepayment and interest rate risk. Holdings include both investment and non-investment grade securities.

Composites Criteria
New accounts are generally eligible for inclusion in the composite at the beginning of the first full calendar month under management and are removed from the composite at the end of their last full month under management. There is no account minimum for inclusion in the composite.
Fee Schedule
This presentation is intended for institutional investors and the standard investment advisory fee schedule is 0.60%.
Benchmark Description
The Merrill Lynch 3 Month Constant maturity index is based on the assumed purchase of a synthetic instrument having 3 months to maturity and with a coupon equal to the closing quote for 3-Month LIBOR. That issue is sold the following day (priced at a yield equal to the current day closing 3-Month LIBOR rate) and is rolled into a new 3-Month instrument. The index, therefore, will always have a constant maturity equal to exactly 3 months.
Footnote
[1] Performance is shown since composite inception of 02/01/2011.
[2] Three year annualized standard deviation for composite gross of fees is not shown because composite inception is less than three years prior to 12/31/2012.
[3] nm is acronym for "not meaningful".
[4] Total firm assets at year end did not include non-discretionary assets for the following period (assets in millions); $398.8, 2011.

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Declaration Management & Research LLC

Distressed Debt Composite

Schedule of Calendar Year Returns and Assets

Year	Total Return Gross of Fees %	Total Return Net of Fees %	Benchmark Return %	Number of Portfolios	Dispersion %	Total Composite Assets End of Period ($ millions)	Total Firm Assets End of Period ($ millions)	Percentage of Firm Assets %
2009[2]	N/A	31.45	0.99	2	N/A	513,844,800	N/A	
2008[1]	N/A	-18.24	1.99	2	N/A	145,767,908	11,600,620,399	1

Firm Information: Declaration Management & Research LLC ("Declaration") is an SEC registered investment adviser specializing in fixed income management. DMR was founded in 1989 and is located in McLean, Virginia. The firm is a Manulife Asset Management company, indirectly wholly owned by John Hancock Life Insurance Company (U.S.A.), a unit of Manulife Financial Corporation. DMR manages core and alternative investment strategies for institutional investors, wealth management platforms and absolute return vehicles.

Composite Characteristics: Inception: June 2008. Composite creation: November 2008. Closed: November 2009. The Distressed Debt composite includes all portfolios primarily invested in distressed non-Agency RMBS and CMBS securities with a return target of 15-20%. The returns of these portfolios are net of management fees (1.50%) and all other operating expenses (including but not limited to: Administrator, Audit fee, Tax fee, Legal fees for external counsel, D&O insurance, fidelity bond and annual filings). The composite is benchmarked against the Merrill Lynch USD 3 Month Constant Maturity Index. A complete list and description of all firm composites is available upon request. New accounts that fit the composite definition are added in accordance of Declaration's Performance Standards Policies & Procedures Compliance Manual. Closed account data is included in the composite as mandated by the standards in order to eliminate a survivorship bias. Previous composite name: Distressed Mortgage. Changed as of 9/30/10.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars, and individual portfolios are revalued daily. Net of fees returns are calculated net of management fees. The composite results portrayed reflect the reinvestment of coupons and other earnings. The dispersion measure is the asset-weighted standard deviation of accounts in the composite for the entire year. Dispersion is only calculated for composites with more than 5 accounts.

Other Disclosures: Declaration has been verified for the periods December 31, 2000 – December 31, 2009. A copy of the verification report is available upon request. Additional information regarding policies for calculating and reporting returns is available upon request. As of 12/31/09, approximately 4% of Declaration's total firm AUM represents notional value of Synthetic CDOs. For prior periods, notional value of Synthetic CDOs ranged from 3%-16% of total firm AUM. Total Firm Assets do not include the firm's non-discretionary assets, which totaled $383,803,055 as of 12/31/09.

Past performance is not a guarantee of the manager's future investment results. The manager's future investments and strategies may differ from those undertaken by it historically, resulting in future performance that may vary substantially from past performance.

1 Inception June 2008.
2 Composite closed as of 11/30/2009.

Manulife Asset Management™

Declaration Management & Research LLC
Short Tenor CMBS Composite

Schedule of Calendar Year Returns and Assets

Year	Total Return Gross of Fees %	Total Return Net of Fees %	Benchmark Return %	Number of Portfolios	Dispersion %	Total Composite Assets End of Period ($ millions)	Total Firm Assets End of Period ($ millions)	Percentage of Firm Assets %
2011[2]	N/A	6.48	0.24	1	N/A	N/A	N/A	N/A
2010	N/A	16.22	0.33	1	N/A	128,235,949	10,346,721,136	1.2
2009[1]	N/A	4.8	0.19	1	N/A	141,290,769	10,929,867,075	1.3

Firm Information: Declaration Management & Research LLC (“Declaration”) is an SEC registered investment adviser specializing in fixed income management. DMR was founded in 1989 and is located in Boston, Massachusetts. The firm is a Manulife Asset Management company, indirectly wholly owned by John Hancock Life Insurance Company (U.S.A.), a unit of Manulife Financial Corporation. DMR manages core and alternative investment strategies for institutional investors, wealth management platforms and absolute return vehicles.

Composite Characteristics: Inception: August 2009. Composite creation: September 2010. The Short Tenor CMBS composite includes all portfolios invested in senior classes of consumer ABS and CMBS. Returns are expected to be achieved primarily through cash flow yield from securities using TALF leverage. The total return of these portfolios is net of management fees (1.50%) and all other operating expenses (including but not limited to: Administrator, Audit fee, Tax fee, Legal fees for external counsel and annual filings). The composite is benchmarked against the Merrill Lynch USD 3 Month Constant Maturity Index. A complete list and description of all firm composites is available upon request. New accounts that fit the composite definition are added in accordance of Declaration’s Performance Standards Policies & Procedures Compliance Manual. Closed account data is included in the composite as mandated by the standards in order to eliminate a survivorship bias.

Calculation Methodology: Valuations and returns are computed and stated in U.S. dollars, and individual portfolios are revalued daily. Net of fees returns are calculated net of management fees. The composite results portrayed reflect the reinvestment of coupons and other earnings. The dispersion measure is the asset-weighted standard deviation of accounts in the composite for the entire year. Dispersion is only calculated for composites with more than 5 accounts.

Other Disclosures: Declaration has been verified for the periods December 31, 2000 – December 31, 2011. A copy of the verification report is available upon request. Additional information regarding policies for calculating and reporting returns is available upon request. As of 12/31/11, approximately 4% of Declaration’s total firm AUM represents notional value of Synthetic CDOs. For prior periods, notional value of Synthetic CDOs ranged from 3%-16% of total firm AUM. Total Firm Assets do not include the firm’s non-discretionary assets, which totaled $398,769,956 as of 12/31/11.

Past performance is not a guarantee of the manager’s future investment results. The manager’s future investments and strategies may differ from those undertaken by it historically, resulting in future performance that may vary substantially from past performance.

1 Inception August 2009.
2 Closed November 2011.

Manulife Asset Management™

Disclaimer

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Manulife Asset Management™

Declaration Management & Research Insurance Mandate

Executive Summary

Recommendation:

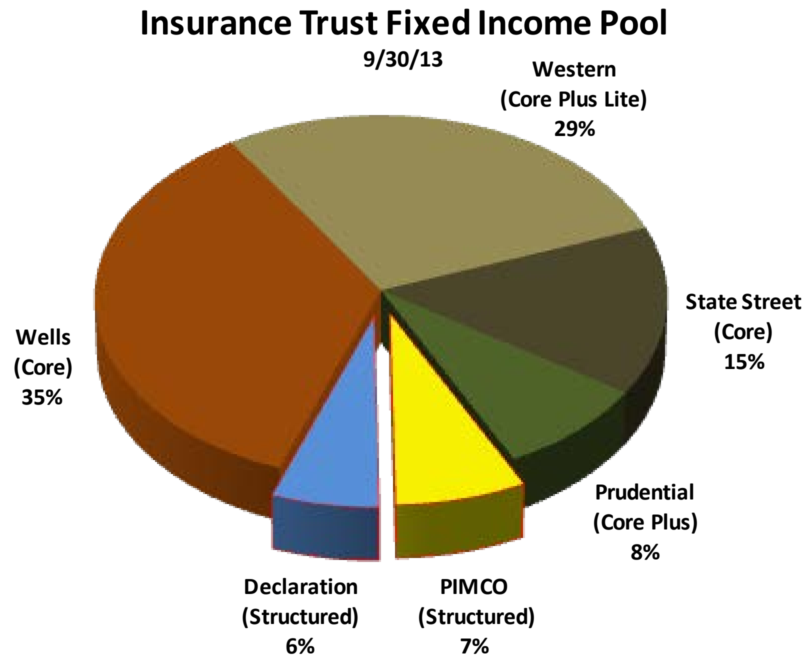
Staff recommends that the existing fixed income separate account managed by Declaration Management & Research (DMR) within the insurance trust be transitioned to the DMR Total Return Bond Fund. In contrast to the benchmark-constrained nature of the existing mandate, the Total Return fund allows for greater flexibility with respect to portfolio duration, permitting the control of price volatility within the portfolio in a rising interest rate environment.

Rationale:

In April 2010, DMR assumed management of mortgage assets originally acquired by Brookfield (Hyperion) over the period 2006-2009 with the goal of optimizing the risk-return profile of the portfolio and developing a workout plan for the credit-risky portion of the portfolio. Since assuming management of the portfolio, DMR has taken several measures to rehabilitate the portfolio, such as upgrading the quality of the portfolio through reinvestment opportunities in lower volatility, par-based assets.

As with the existing DMR mortgage mandate, the DMR Total Return Bond Fund seeks to identify and exploit anomalies within securitized assets, such as Agency MBS, RMBS, CMBS and Consumer ABS securities. In contrast to the benchmark-sensitive constraints of the existing mandate, however, the DMR Total Return Bond Fund allows greater flexibility to pursue opportunities that exist outside of the constraints imposed within a benchmark-aware mandate. For example, the Fund may invest in floating rate, short tenor and amortizing assets which have lower price risk than longer tenor bonds in periods of rising rates. Additionally, whereas the current mandate restricts overall duration to within plus or minus one year of the Barclays Capital U.S. Securitized segment of the U.S. Aggregate Index, the Total Return Bond Fund permits a wider portfolio duration range of zero to five years, allowing for the potential to mitigate the adverse effects of interest rate risk in rising rate environment.

One final point to note concerns the role of the mandate within the insurance trust. Currently, approximately 87 percent of the fixed income asset class within the insurance trust is invested in traditional core/core plus mandates, with the remaining percentage in specialized/non-core strategies as indicated below:



The recommended transition would complement the existing fixed income manager structure, which is dominated by traditional core/core plus mandates, by allocating exposure to specialized/benchmark agnostic strategies with tactical flexibility while maintaining a high quality bias for the overall fixed income structure given the importance of capital preservation and income generation.

An analysis of historical return and risk measures of the existing mandate and the Total Return Bond Fund relative to existing core/core plus suggests greater diversification benefits relative to the existing mandate at a comparable level of volatility. Furthermore, the DMR Total Return Fund is a suitable complement to PIMCO DISCO II in that it provides unlevered exposure to stable, income-producing senior securitized assets with the flexibility to acquire below investment grade assets opportunistically.

	DMR Total Return Bond Fund	Separate Account Mortgage Strategy
North Dakota Investment Entity:	Pension Trust	Insurance Trust
North Dakota Start Date:	April 2012	March 2010
MV of North Dakota Investment:	$64 million	$56 million
Vehicle:	Collective Investment Vehicle, Delaware Limited Partnership	Separate Account
Strategy Focus:	Securitized Assets Diversified Across Multiple Sub-Sectors. Income Generation / Focus on Stable, Senior Cash Flows. Moderate Portfolio Duration via Short-Intermediate Tenor Assets. Moderate Credit Risk / Small allocation to distressed or subordinated debt. "Best Ideas" Strategy with Broad Parameters and Tactical Flexibility.	Assets-in-kind, some credit impaired, received March 2010. Optimize risk/return and control the potential for large losses. Monitor collateral trends / Upgrade quality over time.
Strategy Objectives		
Return Target over the Market Cycle:	6%-10% net	Gross Excess Return of 1.25% versus Benchmark
Volatility Target:	Less than 6%-8%	Moderate
Benchmark:	The Fund's return and volatility targets.	Barclays US Securitized Index
Duration Range:	0-5 Years	Benchmark Duration +/- 1.0 Year

		Barclays Indices				
Return and Risk Data as of 8-31-2013	TRBF	High Yield Bond	Bank Loans	Aggregate	Separate Account	Barclays Securitized
Since Inception Gross Annualized Return:	8.95%	8.06%	4.79%	3.43%	7.56%	3.05%
Standard Deviation:	3.00%	6.86%	4.29%	2.84%	2.72%	1.99%
Worst One Month Return:	-2.11%	-4.00%	-4.70%	-1.79%	-1.39%	-1.49%
Duration:	3.01	4.25	0.25	5.55	4.51	5.39
Quality:	A2/A3	B1/B2	B	AA1/AA2	AA3/A1	AAA/AA1
Inception Date of Strategy:	1/31/2011				3/17/2010	
Size of Investment Universe or Index:	$7 trillion	$1.2 trillion	$559 billion	$16.5 trillion	$7 trillion	$5.2 trillion

	DMR Total Return Bond Fund	Separate Account Mortgage Strategy
Investment Thesis:	Securitized markets are large, complex and segmented. Anomalies may arise from information barriers or market dislocations. Securitized markets are a good source for short-intermediate term bonds.	The portfolio was initiated to provide exposure to Agency MBS and other securitized assets in a benchmark constrained strategy.

Portfolio Characteristics 8/31/2013	**TRBF**	**Separate Account**	**Barclays Securitized**
Agency MBS	3.7%	49.3%	94.4%
Agency CMO and IO/IIO	3.5%	1.4%	0.0%
RMBS and Consumer ABS	39.8%	32.8%	0.0%
CMBS	46.1%	14.7%	5.6%
Corporate Bonds	5.1%	0.0%	0.0%
Cash and US Treasuries	1.8%	1.8%	0.0%
AAA	35.6%	58.7%	97.7%
AA	4.1%	11.6%	1.0%
A	6.2%	7.3%	0.7%
BAA	14.4%	12.9%	0.6%
Below Investment Grade	39.7%	9.6%	0.0%
Duration	3.01	4.57	5.39
Weighted Average Life	5.79	5.56	7.25
Quality:	A2/A3	AA3/A1	AAA/AA1
Loss Adjusted Yield	4.79%	3.57%	NA
Yield-to-Worst or Cash Yield	5.59%	3.66%	3.20%

Yield Definitions

Loss Adjusted Yield assumes base case defaults on each security over the life of each investment.

Yield-to-Worst or Cash Yield assumes constant spread on each asset, yield to call date if the asset is callable but no defaults.

Global Equity Manager Structure Consolidation Proposal

October 25, 2013

Darren Schulz

Interim Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Agenda and Objective

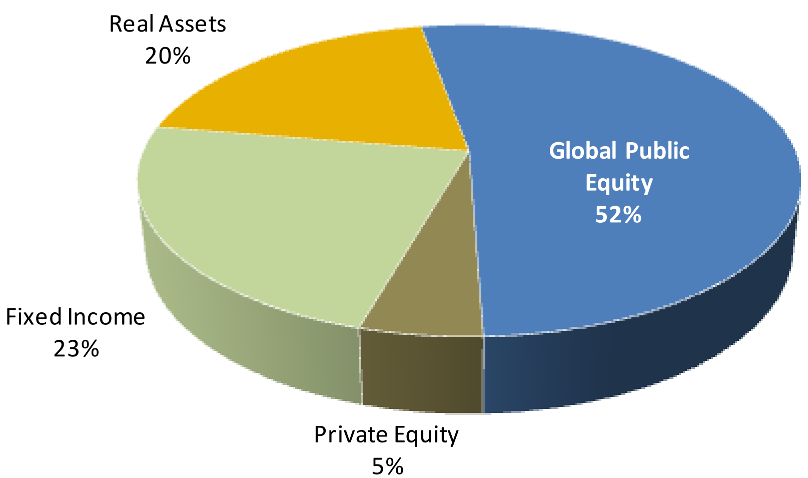
- **Agenda**
  - Review the current manager structure for the pension global equity portfolio.

- **Objective**
  - Identify existing manager mandates to be consolidated into existing accounts as part of the first phase of restructuring the pension global equity portfolio.

Introduction

- After determining the strategic asset allocation, manager structure within an asset class is the most important determinant of fund performance.
- The global public equity allocation within the pension trust, which includes U.S. equity, developed and emerging non-U.S. equity, and global equity, represents 52% of the pension trust.

Pension Trust Policy Allocation



- The global public equity allocation uses a custom weighted policy benchmark comprised of the Russell 1000, Russell 2000, MSCI EAFE, MSCI Emerging Markets and MSCI World indices.

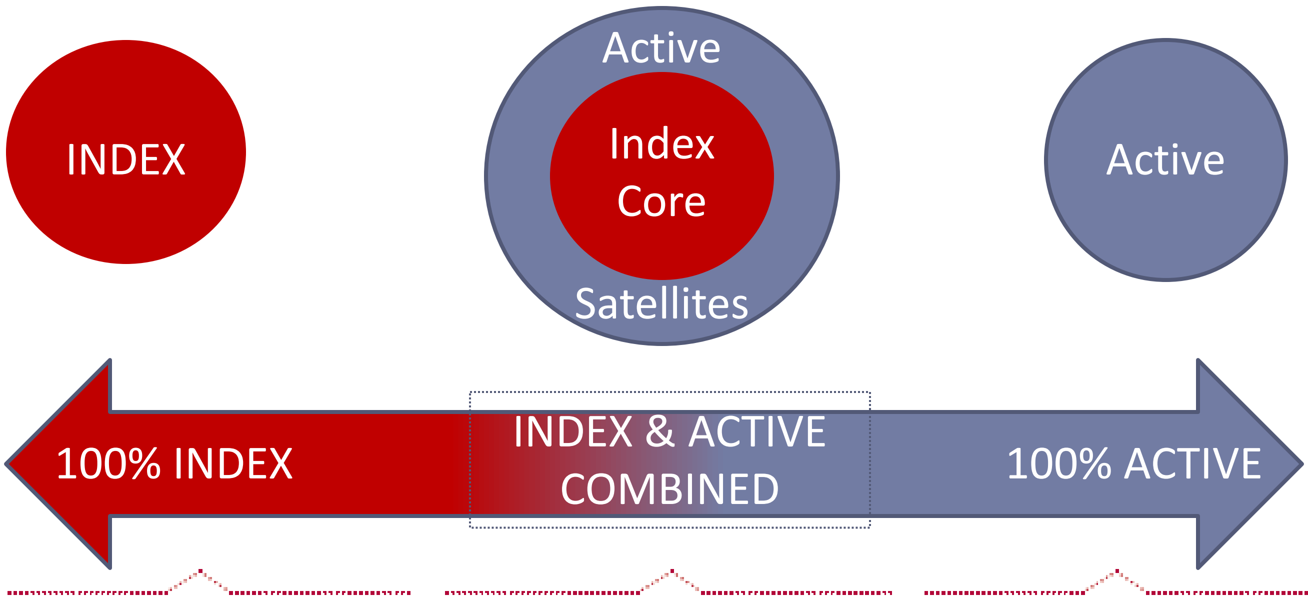
Global Equity Mandate Structure: General Guiding Principles (Redux)

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

Global Equity Mandate Structure: Guiding Principles for Phase 1 Restructuring

- When considering multiple specialist mandates within sub-asset classes, the diversification benefits should be weighed against the degree of specialization, higher costs and layers of diluted investment and administrative oversight.
- Passive management provides low-cost exposure to the market, are good liquidity vehicles for rebalancing and transition management, and are simpler to monitor with less manager risk. Passive mandates can also lower tracking error for the overall portfolio.
- The allocation of assets among managers should optimize efficiency while accurately reflecting the long-term strategic philosophy for the portfolio.
- Any changes to the existing manager structure should minimize the associated transition costs and any misalignment between the overall portfolio and benchmark exposures.

Implementation Options



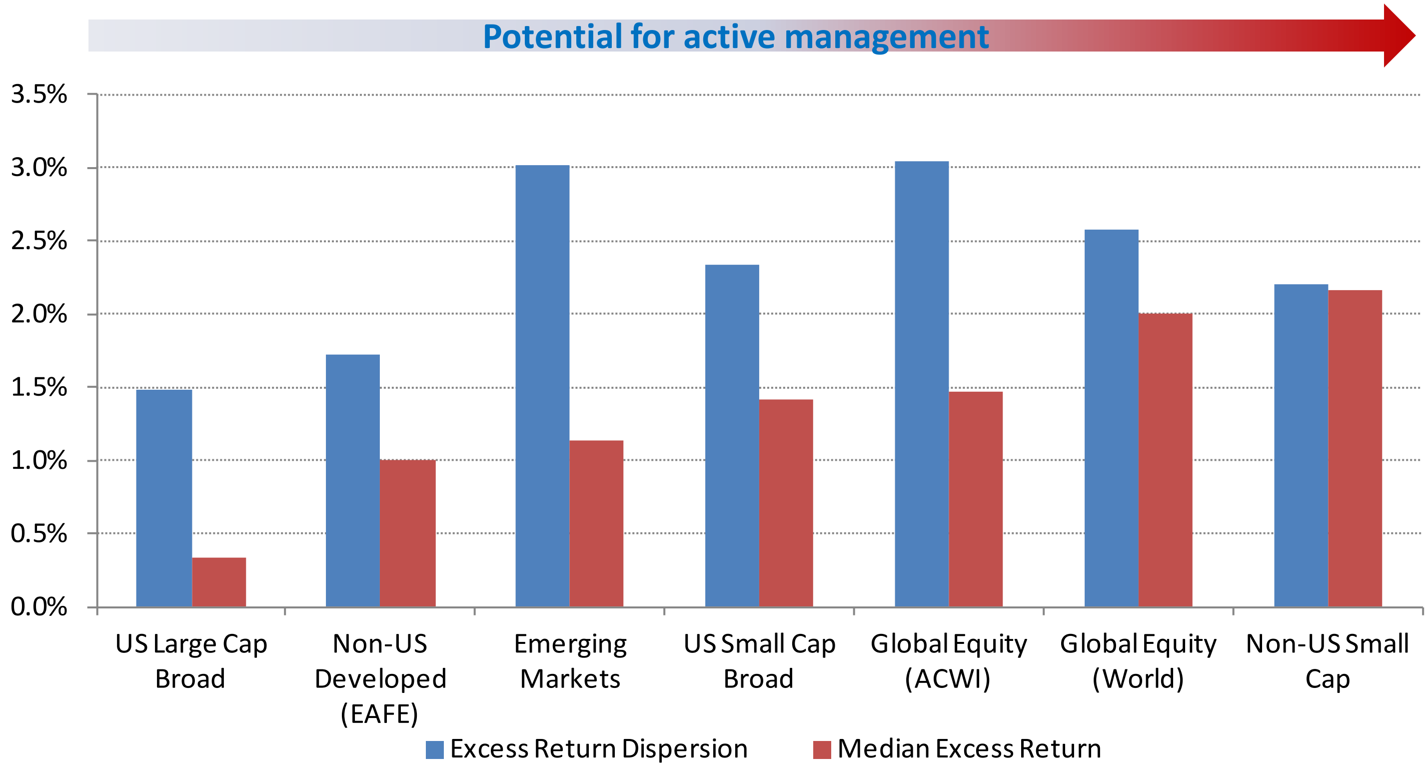
- Asset class returns
- Lowest expenses
- Low manager risk

- Asset class returns plus potential to outperform
- Highly selective in choosing active managers
- Consider passive with high active risk mandates

- Seeks to outperform
- Willingness to assume higher costs, tracking error and manager risk
- Commitment and capabilities in identifying and assessing managers

Active Management Premiums Across Equity Segments

- Manager return dispersion, as measured by the gap between the excess returns of top and bottom quartile managers, and median excess returns are relevant measures of the potential for active management across equity segments.



Source: Callan CAI manager database, 10-year annualized data as of 6/30/13.

Current Global Equity Manager Structure

	Market Value	% of Total
TOTAL PENSION TRUST:	**4,124,557,729**	**100.0%**
GLOBAL EQUITIES:	**2,182,661,310**	**52.9%**

	Market Value	% of Total
Domestic Large Cap		
LA Capital (growth)	278,873,612	6.8%
LA Capital (enhanced core)	194,680,915	4.7%
Northern Trust (enhanced S&P 500)	95,973,494	2.3%
Clifton (synthetic S&P 500)	135,323,751	6.2%
Total Large Cap	**704,851,772**	**32.3%**
Domestic Small Cap		
Clifton (synthetic Russell 2000)	97,944,554	2.4%
Callan (multi-manager core)	123,478,136	3.0%
Total Small Cap	**221,422,690**	**5.4%**
Non-US Developed		
Capital Guardian (core)	69,391,288	1.7%
State Street (core)	50,402,900	1.2%
Clifton EAFE (synthetic EAFE)	204,879,667	5.0%
DFA (non-US developed small value)	64,081,135	1.6%
Wellington (non-US developed small growth)	74,376,226	1.8%
Total Developed	**463,131,216**	**11.2%**

	Market Value	% of Total
Emerging Markets		
Northern Trust (passive EM)	31,965,968	0.8%
DFA (EM small value)	22,319,815	0.5%
JP Morgan (core)	25,684,480	0.6%
Panagora (diversified risk)	20,990,416	0.5%
UBS (core)	30,823,774	0.7%
Total Emer Mkts	**131,784,453**	**3.2%**
Global Equity		
Epoch (quality growth)	206,792,750	5.0%
Calamos (growth)	55,105,002	1.3%
LSV (value)	399,573,427	9.7%
Total Global	**661,471,179**	**16.0%**

Source: Northern Trust, data as of 8/31/13.

Recommendation

- Following a study of holdings overlap, excess return correlation, and performance, Staff recommends a reduction in the number of non-U.S. manager mandates as part of the first phase of restructuring the pension global equity asset class.

- Consolidating manager mandates provides the following benefits:
  - A reduction in overlapping exposures/redundant holdings
  - Lower management fees through the migration to passive management and the realization of fee breaks
  - Lower tracking error and complexity
  - Efficiencies realized through monitoring and administering fewer managers

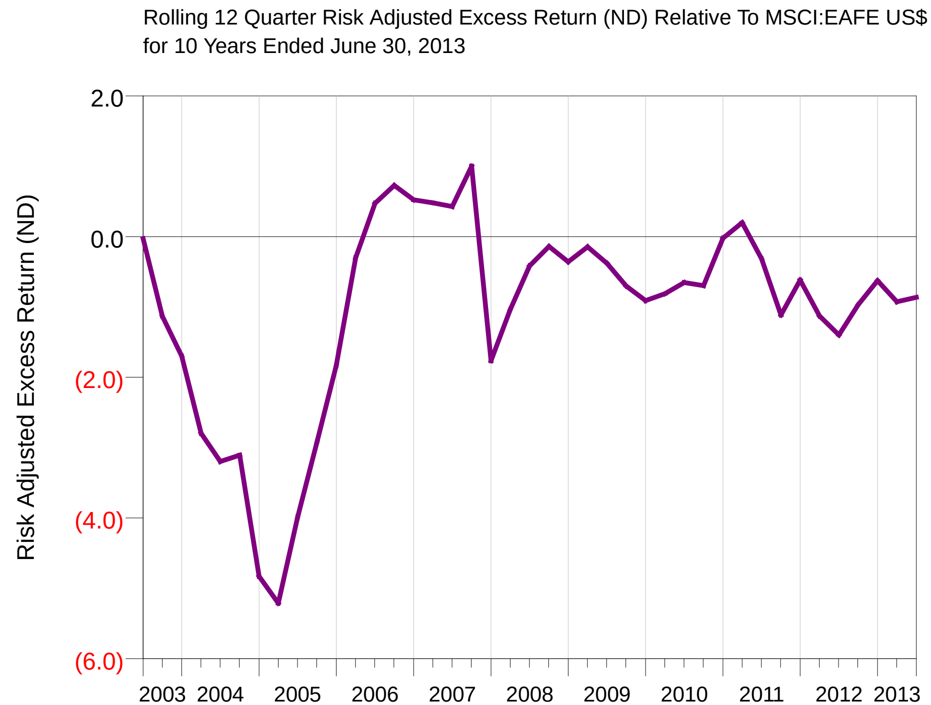
SSgA International Alpha

Observations

- Correlation/overlap with other mandates
- Sub-par long-term performance
- Investment staff turnover
- Investment process change

Recommendation

- Transition the mandate to a pure passive MSCI World ex-U.S. mandate



	3 Years	5 Years	10 Years
Excess Return (Gross)	0.19%	-0.46%	-1.11%
Risk-Adjusted Excess Return	-0.86%	-0.37%	-1.29%
Relative Standard Deviation	1.12	1.07	1.04
Tracking Error	3.16%	2.86%	2.81%

Clifton Group Synthetic MSCI EAFE

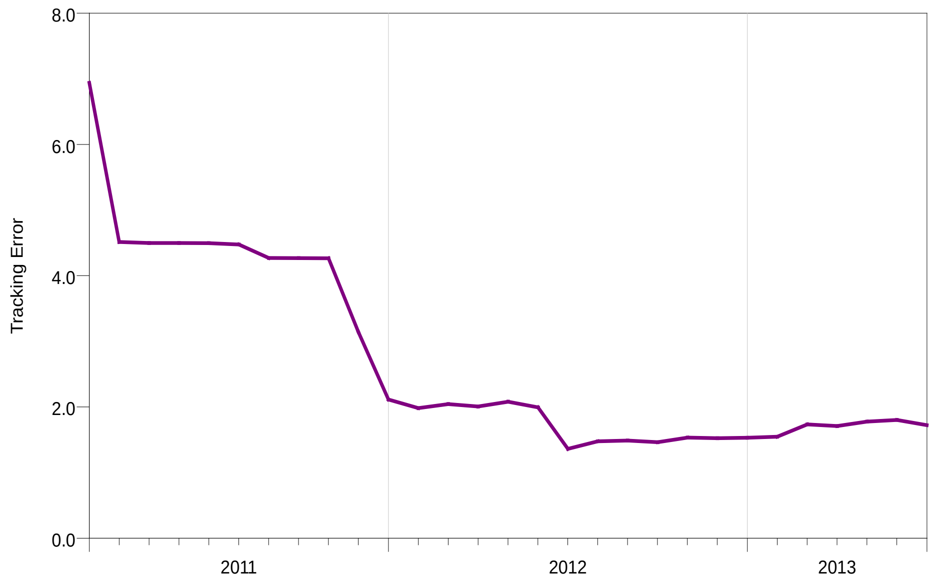
Observations

- Higher tracking error than a passively managed mandate consisting of physical securities
- Performance drag from rolling futures contracts each expiration cycle

Recommendation

- Transition the mandate to a pure passive MSCI World ex-U.S. mandate

Rolling 12 Month Tracking Error Relative To MSCI:EAFE US$
Since Inception of ND Pen-Clifton EAFE Index
Ended June 30, 2013



	3 Years
Excess Return (Gross)	-1.01%
Risk-Adjusted Excess Return	-0.85%
Relative Standard Deviation	0.98
Tracking Error	1.25%

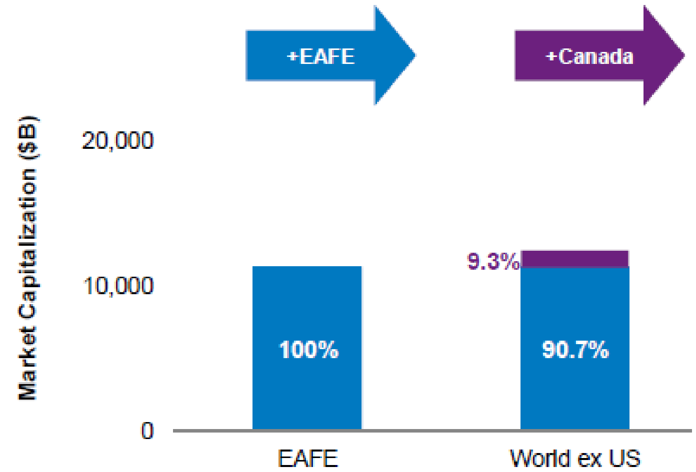
MSCI World ex-U.S. Index Mandate

Observations

- MSCI World ex-US index selected as developed non-U.S, benchmark for broader geographic coverage than EAFE with the inclusion of Canadian equities
- World ex-U.S. mandate pricing the same as EAFE

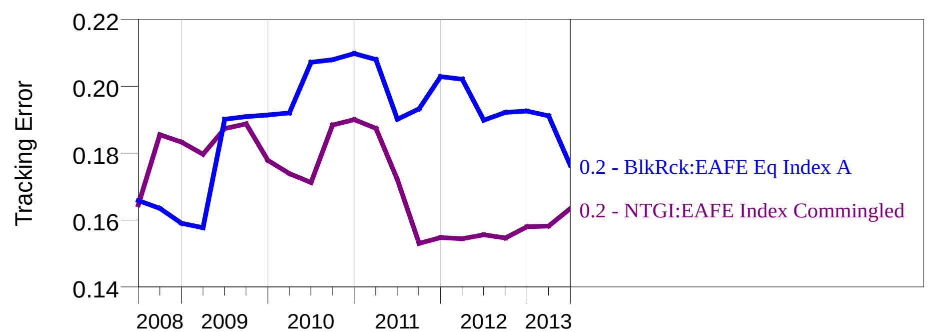
Recommendation

- Award MSCI World ex-U.S. mandate to Northern Trust based on fee proposal and tracking error



	EAFE	World ex US
Total Market Cap (USD, $B)	11,283	12,440
# of Securities	908	1,003

Rolling 12 Quarter Tracking Error Relative To MSCI:EAFE US$
for 5 Years Ended June 30, 2013



UBS Emerging Markets

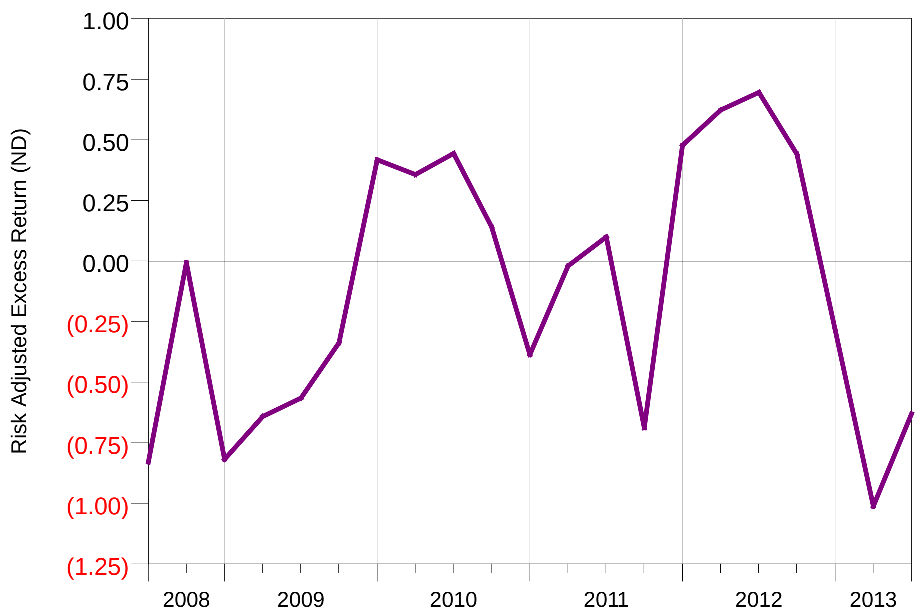
Observations

- Correlation/overlap with other mandates
- Sub-par long-term performance

Recommendation

- Transition the mandate to a pure passive MSCI Emerging Markets mandate in advance of a future EM manager search

Rolling 12 Quarter Risk Adjusted Excess Return (ND) Relative To MSCI:Emer Markets
Since Inception of ND Pen-UBS Emer Mkt
Ended June 30, 2013



	3 Years	5 Years	10 Years
Excess Return (Gross)	-0.19%	-0.16%	-0.57%
Risk-Adjusted Excess Return	-0.30%	-0.13%	-0.72%
Relative Standard Deviation	1.03	1.04	1.02
Tracking Error	2.46%	2.41%	2.69%

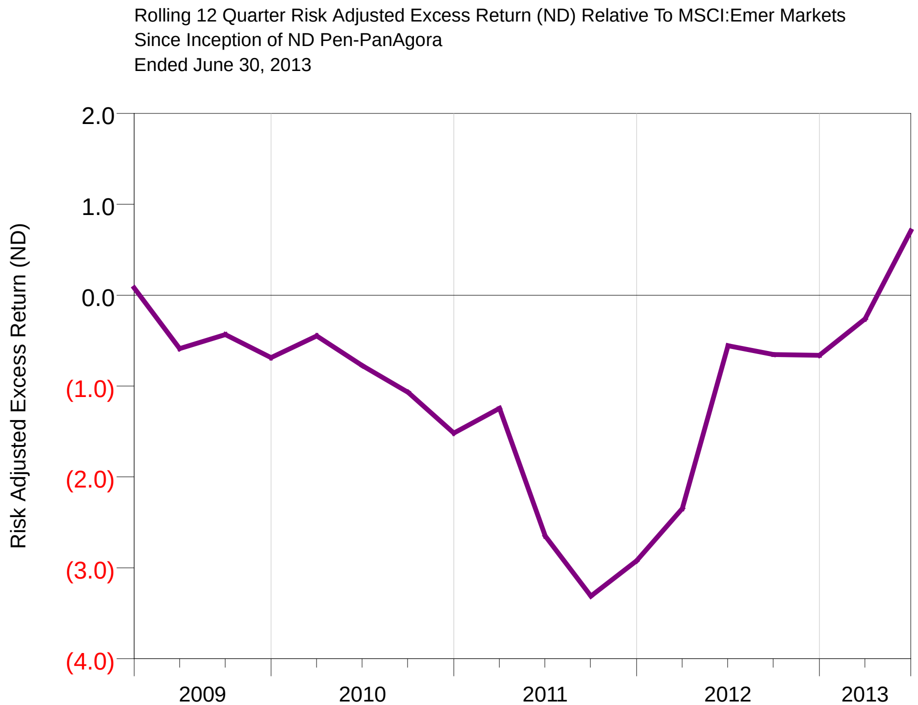
Panagora Diversified Risk Emerging Markets

Observations

- Risk mitigating benefit of risk parity approach within EM asset class is de minimus given size of mandate
- Any exposure to risk mitigation strategies should be applied to a broader universe

Recommendation

- Transition the mandate to a pure passive MSCI Emerging Markets mandate in advance of a future EM manager search



	3 Years	5 Years	7 Years
Excess Return (Gross)	1.09%	-0.38%	0.30%
Risk-Adjusted Excess Return	1.04%	-0.36%	0.20%
Relative Standard Deviation	1.01	1.02	1.03
Tracking Error	3.10%	3.01%	2.91%

Calamos Global Opportunities

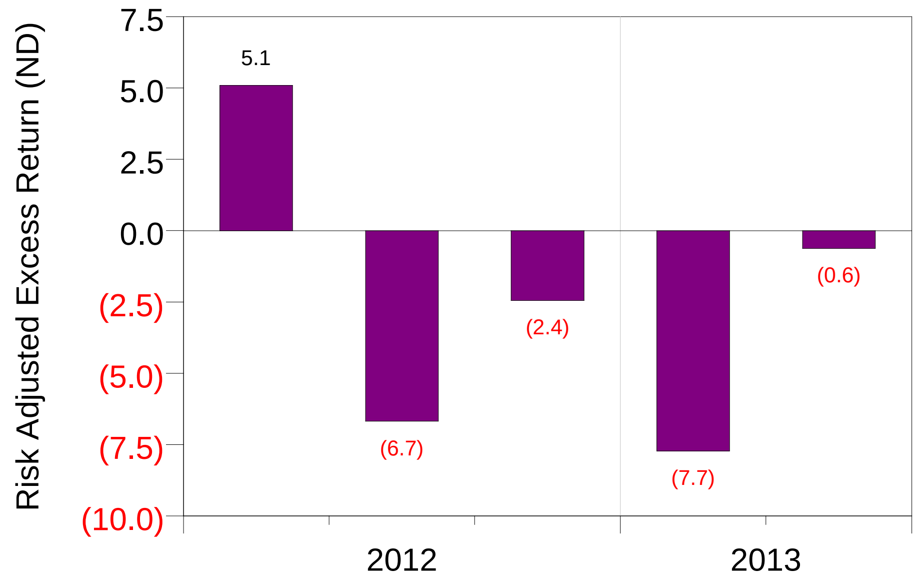
Observations

- Organizational changes, including co-CIO and research staff
- Sub-par performance

Recommendation

- Transition the mandate to Epoch Global Choice given growth bias and favorable downside risk/capture attributes

Risk Adjusted Excess Return (ND) Relative To MSCI:World US$
Since Inception of ND Pen-Calamos Investments
Ended June 30, 2013



	1 1/4 Years
Excess Return (Gross)	-8.35%
Risk-Adjusted Excess Return	-8.24%
Relative Standard Deviation	0.93
Tracking Error	2.44%

Summary of Targeted Mandates

	Market Value	% of Total Fund	% of Global Equity
State Street (core)	50,402,900	1.2%	2.3%
Clifton EAFE (synthetic EAFE)	204,879,667	5.0%	9.4%
UBS (core)	30,823,774	0.7%	1.4%
Panagora (diversified risk)	20,990,416	0.5%	1.0%
Calamos (growth)	55,105,002	1.3%	2.5%
	362,201,759	8.8%	16.6%

5 Year Historical Statistics vs. Global Equity Policy

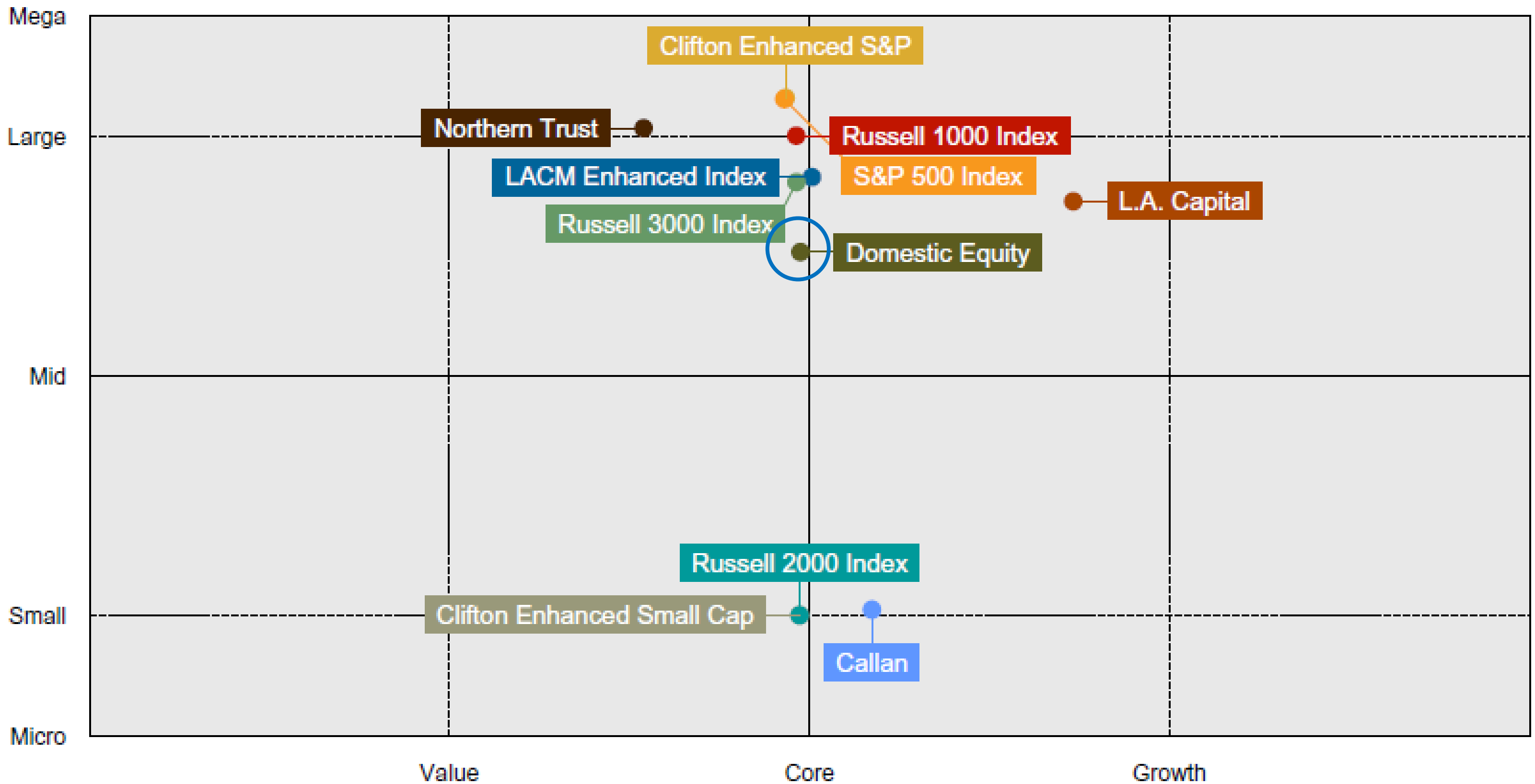
	Excess Return	Risk Adjusted Excess Return	Relative Standard Deviation	Tracking Error
Global Equity Current	1.07%	-0.38%	1.02	1.87%
Global Equity Proposed	1.26%	0.01%	1.01	1.68%

	Growth/Value Factor	Large/Small Factor
Global Equity Current	23.57	44.47
Global Equity Proposed	30.86	47.28
Global Equity Policy	42.27	51.17

Next Steps

- Complete the global equity structure study with the assistance of Callan to include a review of the existing domestic equity manager structure. Alternative manager structures will be identified and recommended to the SIB for approval and implementation.
- Identify active manager mandates for future search activity, including emerging markets and global equity.

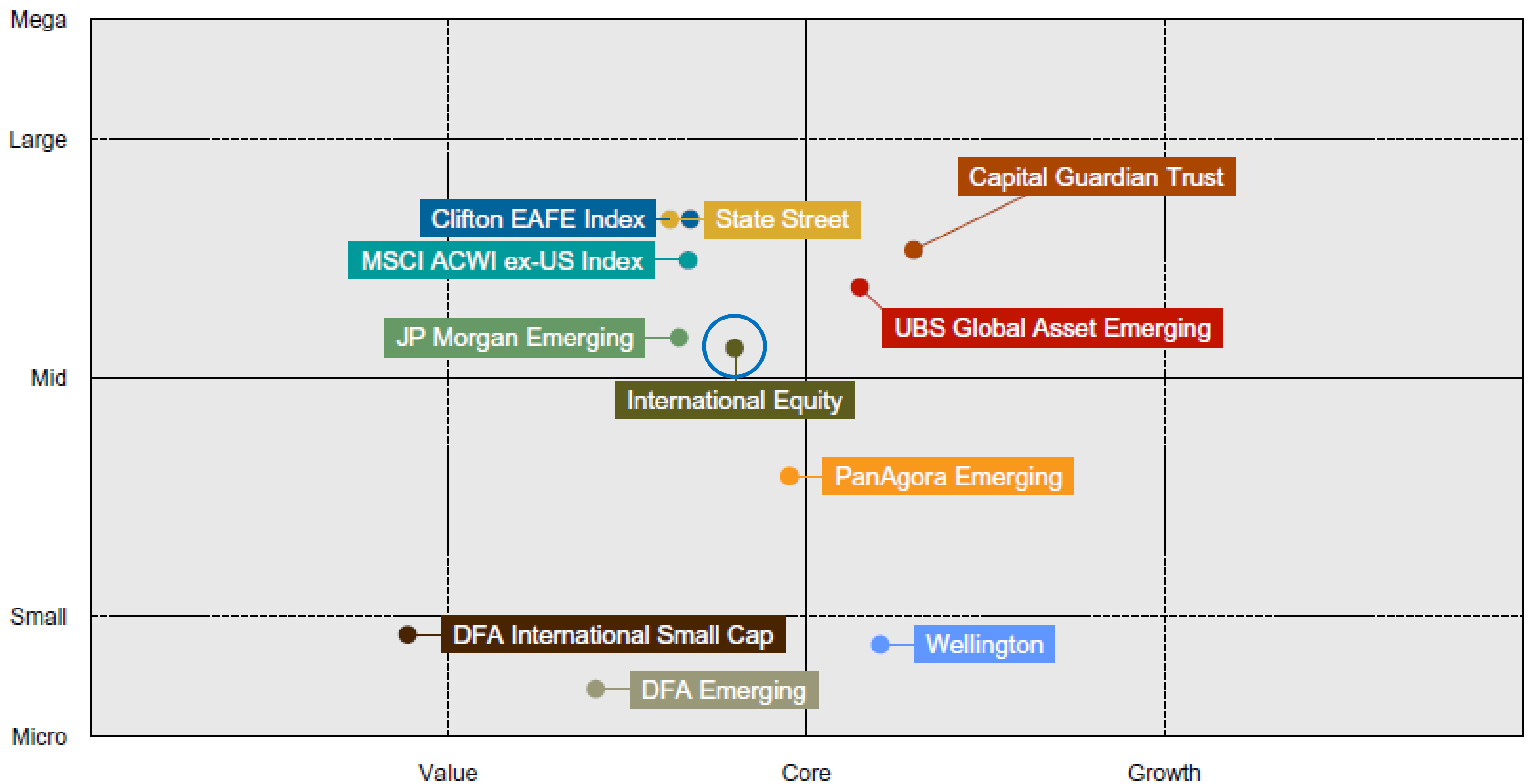
Historical Domestic Equity Characteristics



- Based on historical holdings-based analysis the aggregate domestic equity portfolio exhibits a marginal value small cap bias relative to benchmark exposures.

Source: Callan Associates, three year data as of 6/30/13.

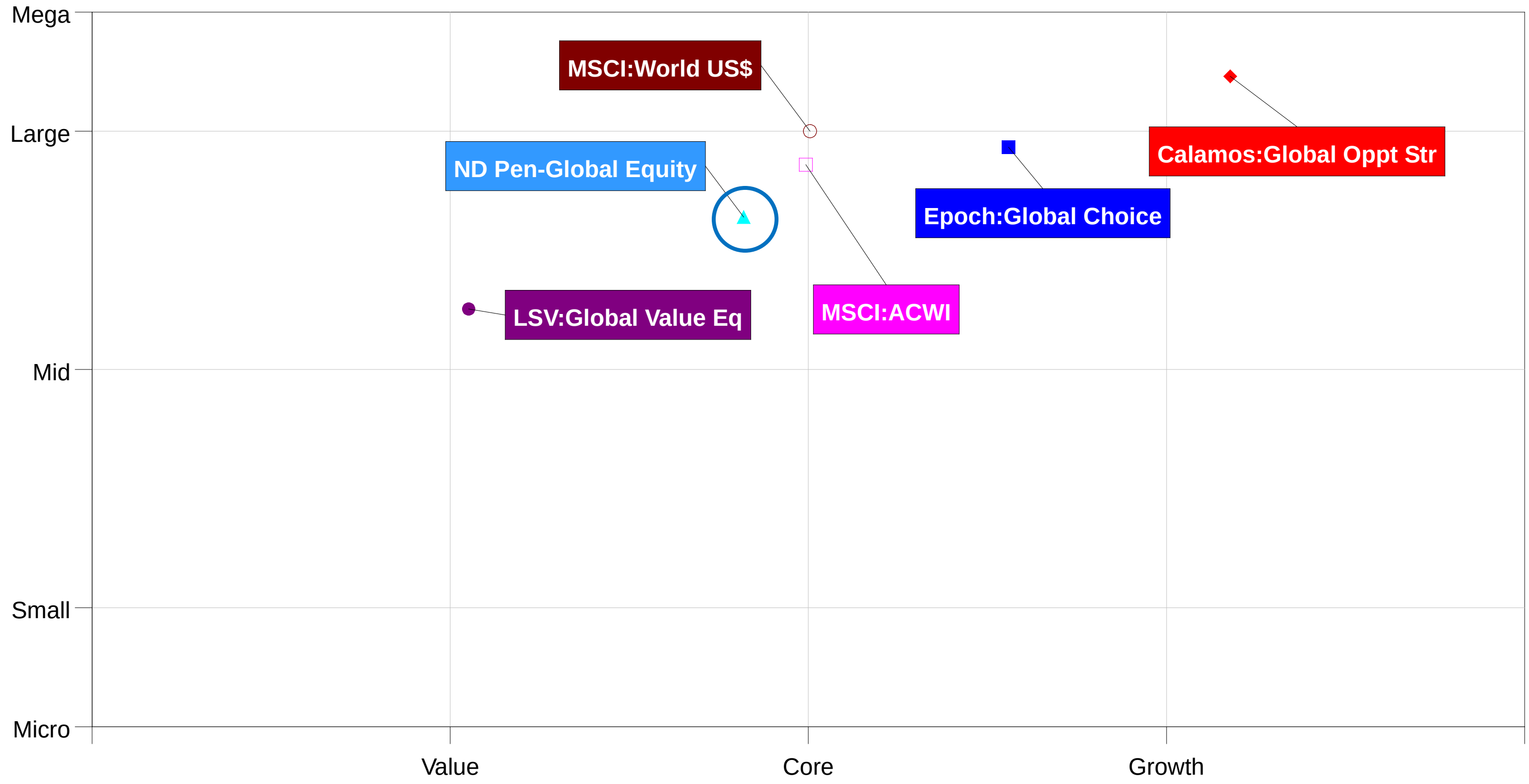
Historical International Equity Characteristics



- Based on historical holdings-based analysis the aggregate international equity portfolio exhibits a marginal value and small cap bias relative to benchmark exposures.

Source: Callan Associates, three year data as of 6/30/13.

Historical Global Equity Characteristics



- Based on historical holdings-based analysis the aggregate global equity portfolio exhibits a marginal value and small cap bias relative to benchmark exposures.

Source: Callan Associates, three year data as of 6/30/13.

Pension Trust Global Equity Manager Structure Recommendation

Executive Summary

<u>Recommendation</u>:

As part of a review of the current manager structure for the global public equity portfolio within the pension trust, Staff recommends a reduction in the number of non-U.S. manager mandates as part of the first phase of restructuring the pension global equity asset class. The rationale behind the recommendation is to reduce the number of specialist mandates across equity segments so as to lower management fees, reduce tracking error and complexity, and realize investment and administrative efficiencies.

The following manager mandates are recommended to be transitioned to pure passive mandates: SSgA International Alpha, PanAgora Diversified Risk Emerging Markets Equity Plus and UBS Emerging Market Equity. Staff also recommends that the Clifton MSCI EAFE synthetic mandate be transitioned to a physical passive MSCI World ex-US mandate to reduce tracking error. Lastly, Staff recommends the termination of Calamos Global Opportunities as a global equity manager and the transition of the legacy assets to the Epoch Global Choice mandate.

<u>Rationale</u>:

As of September 30, 2013, the pension trust global equity composite consisted of 19 manager mandates with assets totaling approximately $2.3 billion. Following a review of the individual mandates within the pension global equity asset allocation in isolation and in the context of the role each mandate performs in the overall global equity structure, Staff recommends making reductions in the number of existing manager mandates based on the following guiding principles:

1. When considering multiple specialist mandates within sub-asset classes, the diversification benefits should be weighed against the degree of specialization, higher costs and layers of diluted investment and administrative oversight.

2. Passive management provides low-cost exposure to the market, are good liquidity vehicles for rebalancing and transition management, and are simpler to monitor with less manager risk. Passive mandates can also lower tracking error for the overall portfolio.

3. The allocation of assets among managers should optimize efficiency while accurately reflecting the long-term strategic philosophy for the portfolio. Any changes to the existing manager structure should minimize the associated transition costs and any misalignment between the overall portfolio and benchmark exposures.

Accordingly, the following manager changes are recommended as part of the first phase of restructuring the pension trust global equity asset class for reasons cited below.

Developed International Equity

Staff recommends that the SSgA International Alpha and Clifton EAFE Index mandates be transitioned to a pure passive MSCI World ex-US mandate. The SSgA mandate has experienced turnover of investment staff directly responsible for the strategy, as well as investment process changes, and long-term performance has been sub-par. Additionally, the degree to which the strategy's excess returns are correlated with other managers suggests that it does not suitably complement the overall structure.

With regards to the Clifton Group, the synthetic MSCI EAFE Index mandate displays higher tracking error relative to a passively managed portfolio of physical securities due to the inability to fully replicate the index using a basket of country futures contracts. Not all of the 22 constituent MSCI EAFE countries offer a stock index contract and the Swiss futures contract is closed to U.S. investors. Additionally, for strategic core exposure, MSCI futures tend to have a performance drag relative to their physical counterparts due to the cost associated with rolling futures contracts each expiration cycle. The MSCI World ex-US index was selected for core developed international exposure, as it has slightly broader geographic exposure with the inclusion of Canadian equities at the same cost as an EAFE mandate.

Emerging Markets Equity

Staff recommends that the UBS Emerging Market Equity and PanAgora Diversified Risk Emerging Markets Equity Plus mandates be transitioned to passive mandates in advance of the completion of a new mandate search given the time needed from the search inception to retention and contract completion. A combination of the UBS strategy's excess returns correlated with other managers and sub-par performance with higher volatility relative to the MSCI Emerging Markets index ushers in the need to identify a suitable replacement through a search.

Panagora employs a risk parity approach within emerging markets, in which risk exposures within the portfolio are optimized to avoid risk concentration, seeking to achieve higher risk-adjusted returns, with lower volatility and drawdowns than more traditional approaches. Given the small size of the mandate (0.5% of the total pension trust), any risk mitigation benefit at the total fund level is de minimus. Staff recommends that any exposure to risk mitigation strategies be applied to a broader asset class universe or at a multi-asset class level, where the impact is likely to be more meaningful at the total fund level.

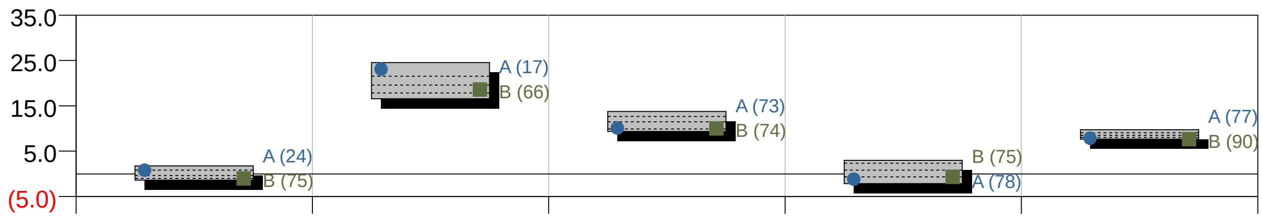
<u>Global Equity</u>

Staff recommends that the assets managed by Calamos as part of the Global Opportunities Strategy be transitioned to the existing Epoch Global Choice mandate given the alignment of poor performance and significant organizational changes at Calamos. In August 2012, Calamos announced that Nick Calamos was stepping down as co-CIO and Gary Black was joining the firm as Global co-CIO. In addition to the uncertainty introduced by leadership and material changes to the firm's global sector research team, Staff's confidence in the firm has deteriorated given the timing, nature and extent of the strategy's underperformance.

Staff recommends transitioning the legacy Calamos mandate to Epoch Global Choice. Epoch's quality growth bias has similar style characteristics to the equity portion of the Calamos strategy. Additionally, Epoch Global Choice employs a portfolio construction process designed to reduce the volatility of returns, which has been demonstrated through an analysis of a variety of risk measures relative to the MSCI World benchmark.

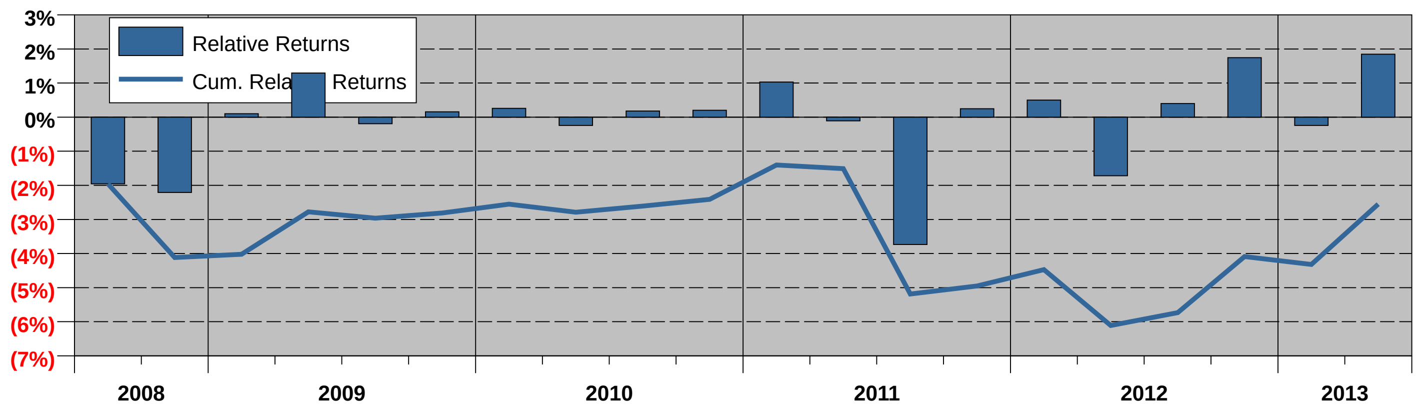
Return Analysis

The graphs below measure the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the CAI:Intl EQ Core Style Group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.

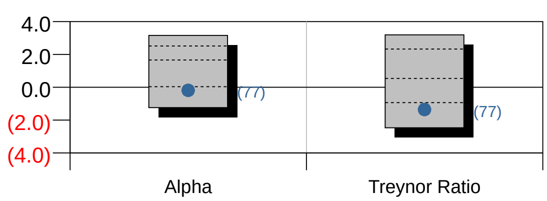


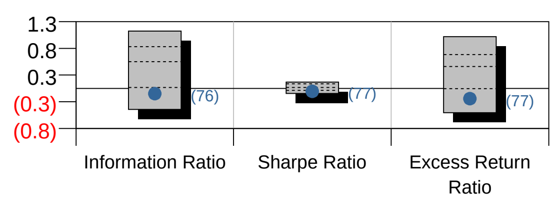
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile		1.79	24.60	13.81	3.00	9.78
25th Percentile		0.82	21.56	12.70	2.35	9.09
Median		(0.33)	19.61	11.49	0.84	8.52
75th Percentile		(0.97)	17.88	9.94	(0.64)	8.06
90th Percentile		(1.39)	16.59	9.38	(2.15)	7.67
SSGA:Intl Alpha	A	0.85	23.12	10.13	(1.14)	7.89
MSCI:EAFE US$	B	(0.98)	18.62	10.04	(0.63)	7.67

Cumulative and Quarterly Relative Returns vs MSCI:EAFE US$ Index



Risk Adjusted Return Measures vs MSCI EAFE Index
Five Years Ended June 30, 2013





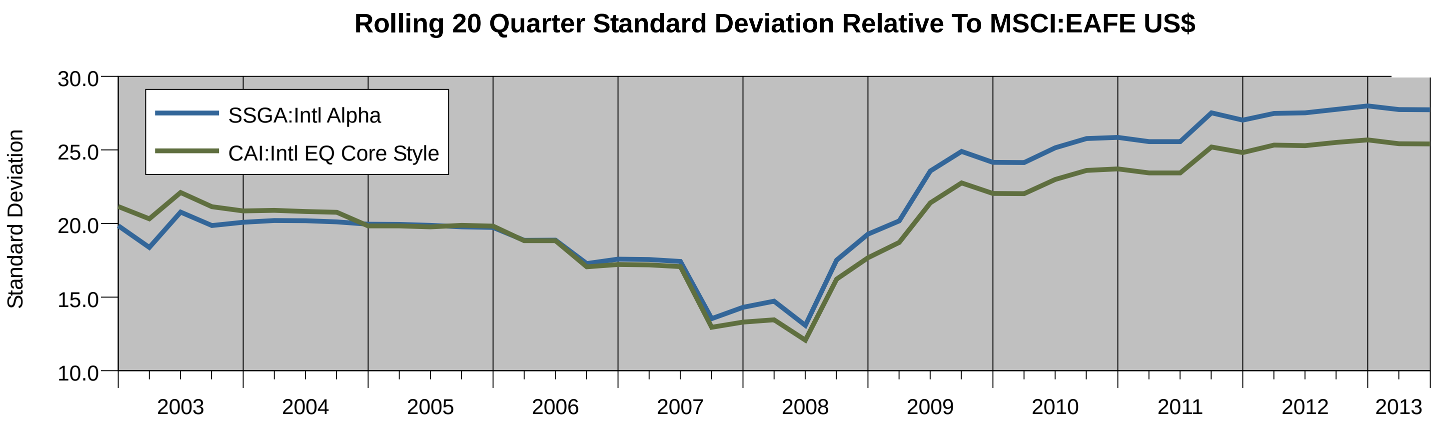
		Alpha	Treynor Ratio
10th Percentile		3.16	3.20
25th Percentile		2.52	2.34
Median		1.67	0.55
75th Percentile		0.04	(0.93)
90th Percentile		(1.23)	(2.46)
SSGA:Intl Alpha	●	(0.18)	(1.35)

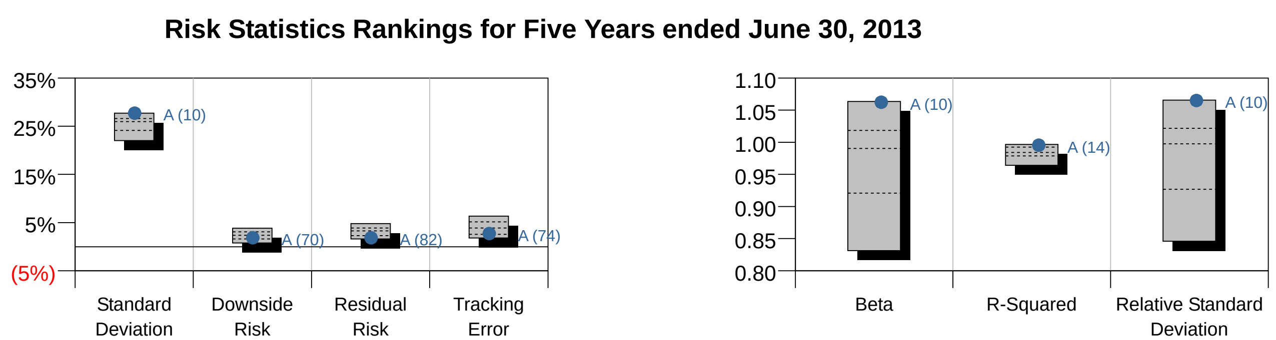
		Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile		1.08	0.12	0.97
25th Percentile		0.78	0.09	0.63
Median		0.50	0.02	0.41
75th Percentile		0.02	(0.04)	0.00
90th Percentile		(0.39)	(0.09)	(0.45)
SSGA:Intl Alpha	●	(0.10)	(0.05)	(0.19)

Peer Group: CAI:Intl EQ Core Style

Risk Analysis

The graph below analyze the risk or variation of a manger's return pattern relative to the MSCI EAFE Index. The last two charts show the ranking of the manager's risk statistics versus the peer group.



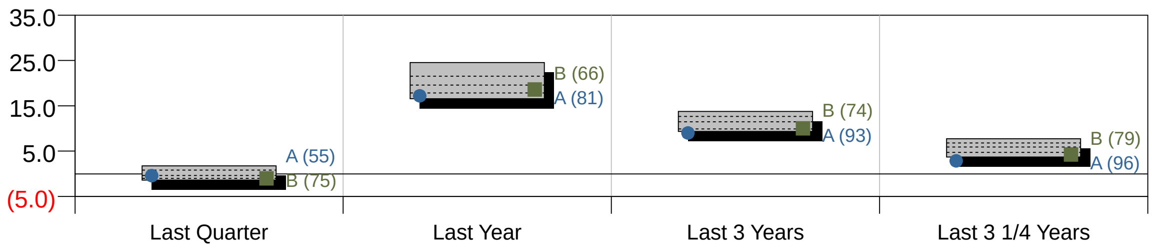


	Standard Deviation	Downside Risk	Residual Risk	Tracking Error
10th Percentile	27.75	3.84	4.83	6.34
25th Percentile	26.61	3.10	3.90	5.16
Median	25.99	2.38	3.31	3.88
75th Percentile	24.14	1.64	2.32	2.56
90th Percentile	22.04	0.79	1.63	1.82
SSGA:Intl Alpha ● A	27.74	1.86	1.88	2.73

	Beta	R-Squared	Relative Standard Deviation
10th Percentile	1.06	1.00	1.07
25th Percentile	1.02	0.99	1.02
Median	0.99	0.98	1.00
75th Percentile	0.92	0.98	0.93
90th Percentile	0.83	0.96	0.85
SSGA:Intl Alpha ● A	1.06	1.00	1.07

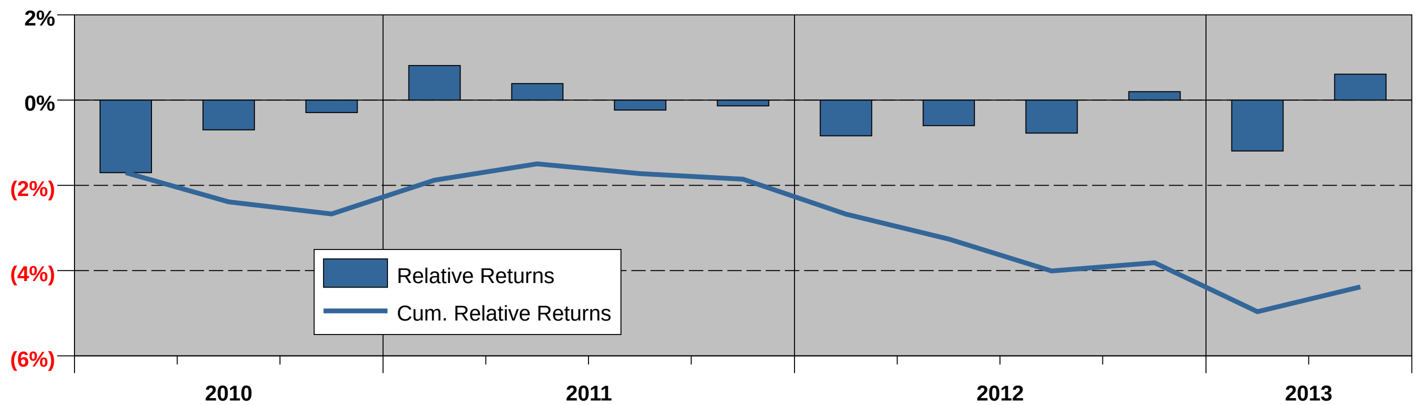
Return Analysis

The graphs below measure the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the CAI:Intl EQ Core Style Group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.

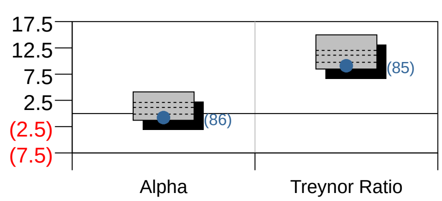


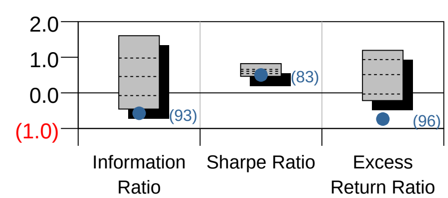
	Last Quarter	Last Year	Last 3 Years	Last 3 1/4 Years
10th Percentile	1.79	24.60	13.81	7.76
25th Percentile	0.82	21.56	12.70	6.81
Median	(0.33)	19.61	11.49	5.94
75th Percentile	(0.97)	17.88	9.94	4.73
90th Percentile	(1.39)	16.59	9.38	3.73
ND Pen-Clifton EAFE Index ● A	(0.37)	17.25	9.03	2.86
MSCI:EAFE US$ ■ B	(0.98)	18.62	10.04	4.29

Cumulative and Quarterly Relative Returns vs MSCI:EAFE US$ Index



Risk Adjusted Return Measures vs MSCI EAFE Index
Three Years Ended June 30, 2013





	Alpha	Treynor Ratio
10th Percentile	4.13	15.01
25th Percentile	2.13	12.05
Median	1.20	11.11
75th Percentile	(0.09)	9.79
90th Percentile	(1.27)	8.48
ND Pen-Clifton EAFE Index ●	(0.76)	9.11

	Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile	1.61	0.83	1.20
25th Percentile	0.98	0.66	0.94
Median	0.46	0.61	0.52
75th Percentile	(0.07)	0.54	(0.03)
90th Percentile	(0.45)	0.47	(0.21)
ND Pen-Clifton EAFE Index ●	(0.57)	0.50	(0.73)

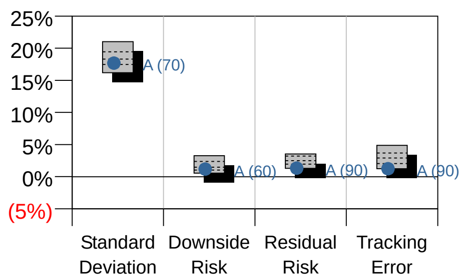
Peer Group: CAI:Intl EQ Core Style

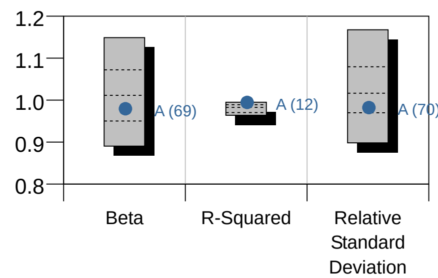
Risk Analysis

The graph below analyze the risk or variation of a manger's return pattern relative to the MSCI EAFE Index. The last two charts show the ranking of the manager's risk statistics versus the peer group.

Rolling 12 Quarter Standard Deviation Relative To MSCI:EAFE US$

Risk Statistics Rankings for Three Years ended June 30, 2013



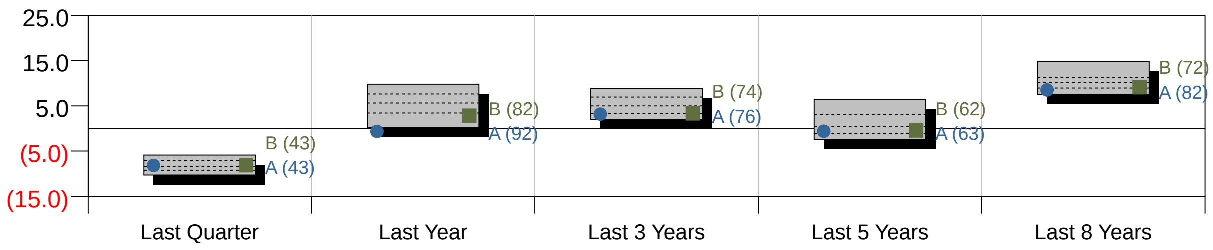


	Standard Deviation	Downside Risk	Residual Risk	Tracking Error
10th Percentile	21.05	3.29	3.56	4.90
25th Percentile	19.46	2.39	3.23	3.70
Median	18.33	1.51	2.49	2.92
75th Percentile	17.49	1.03	1.97	2.05
90th Percentile	16.20	0.55	1.32	1.25
ND Pen-Clifton EAFE Index ● A	17.71	1.19	1.33	1.25

	Beta	R-Squared	Relative Standard Deviation
10th Percentile	1.15	1.00	1.17
25th Percentile	1.07	0.99	1.08
Median	1.01	0.98	1.02
75th Percentile	0.95	0.97	0.97
90th Percentile	0.89	0.96	0.90
ND Pen-Clifton EAFE Index ● A	0.98	0.99	0.98

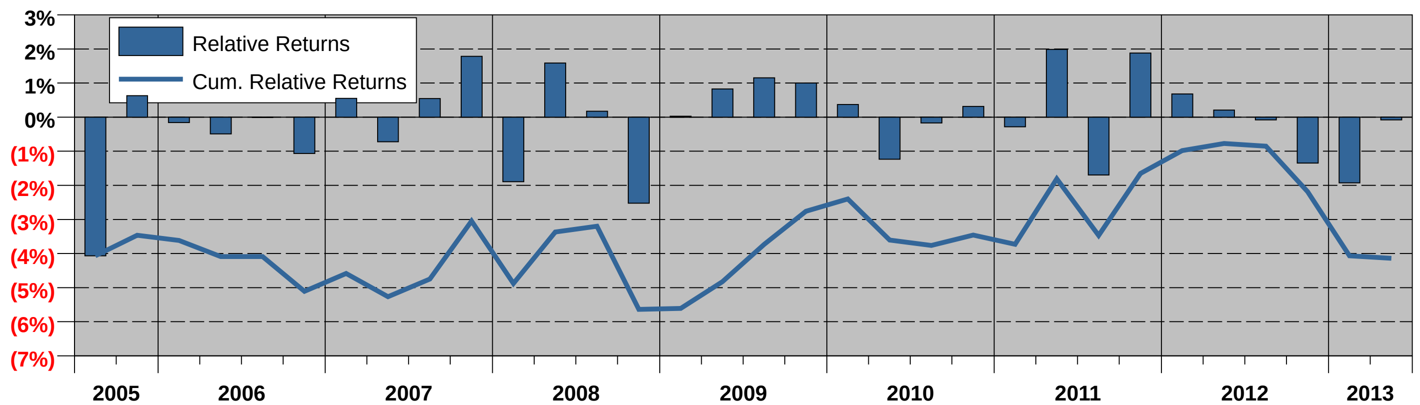
Return Analysis

The graphs below measure the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the CAI:Emer Mkt Core Style Group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.

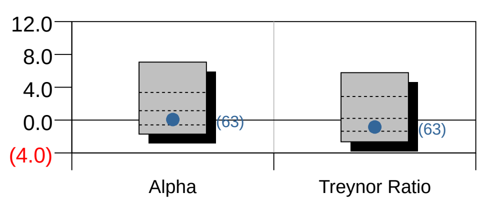


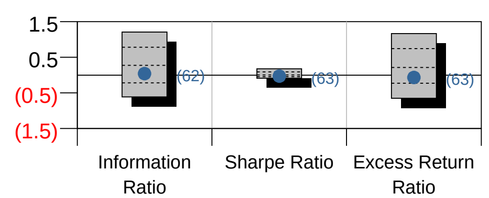
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 8 Years
10th Percentile		(5.86)	9.83	8.90	6.38	14.83
25th Percentile		(7.03)	7.63	6.96	3.14	11.28
Median		(8.38)	5.65	5.04	0.51	10.22
75th Percentile		(9.20)	3.46	3.32	(1.06)	8.95
90th Percentile		(10.27)	0.25	2.06	(2.42)	7.52
ND Pen-UBS Emer Mkt	A	(8.15)	(0.62)	3.19	(0.59)	8.56
MSCI:Emer Mkts -Net	B	(8.08)	2.87	3.38	(0.43)	9.13

Cumulative and Quarterly Relative Returns vs MSCI:Emer Mkts -Net Index



Risk Adjusted Return Measures vs Emerging Mkts - Net Idx
Five Years Ended June 30, 2013





	Alpha	Treynor Ratio
10th Percentile	7.07	5.78
25th Percentile	3.37	2.89
Median	1.16	0.22
75th Percentile	(0.58)	(1.34)
90th Percentile	(1.70)	(2.64)
ND Pen-UBS Emer Mkt	0.09	(0.84)

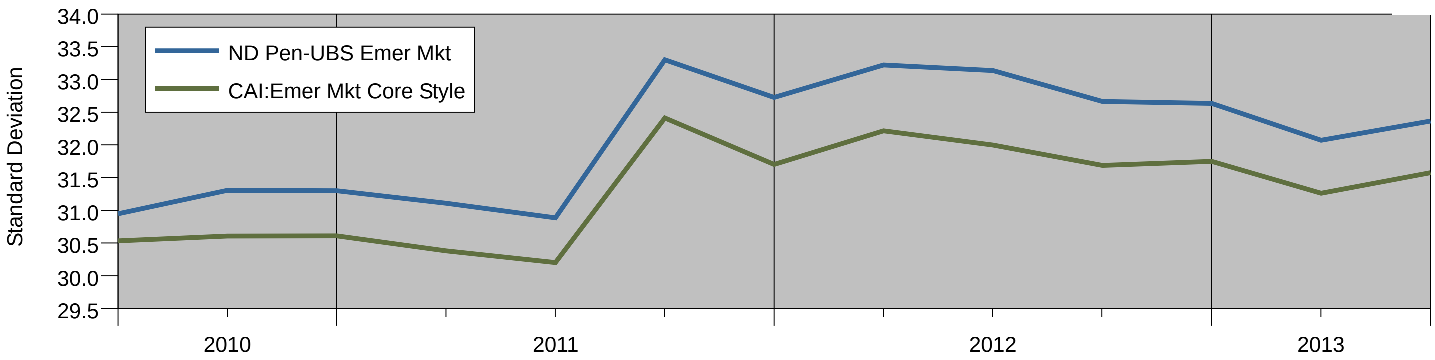
	Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile	1.21	0.18	1.17
25th Percentile	0.78	0.09	0.74
Median	0.28	0.01	0.22
75th Percentile	(0.22)	(0.04)	(0.23)
90th Percentile	(0.61)	(0.08)	(0.65)
ND Pen-UBS Emer Mkt	0.04	(0.03)	(0.07)

Peer Group: CAI:Emer Mkt Core Style

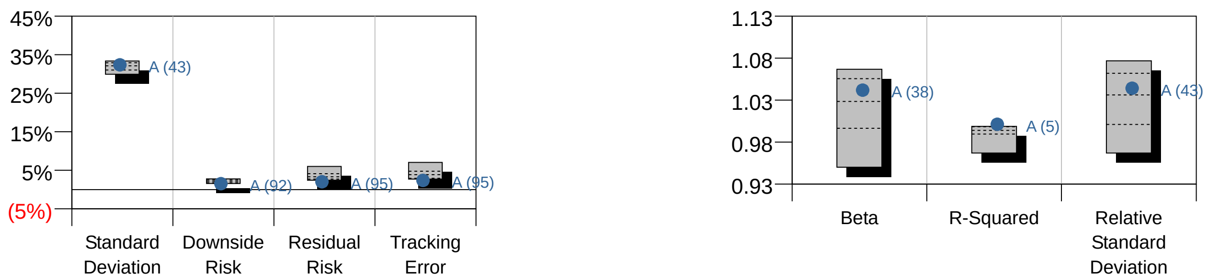
Risk Analysis

The graph below analyze the risk or variation of a manger's return pattern relative to the Emerging Mkts - Net Idx. The last two charts show the ranking of the manager's risk statistics versus the peer group.

Rolling 20 Quarter Standard Deviation Relative To MSCI:Emer Mkts -Net



Risk Statistics Rankings for Five Years ended June 30, 2013

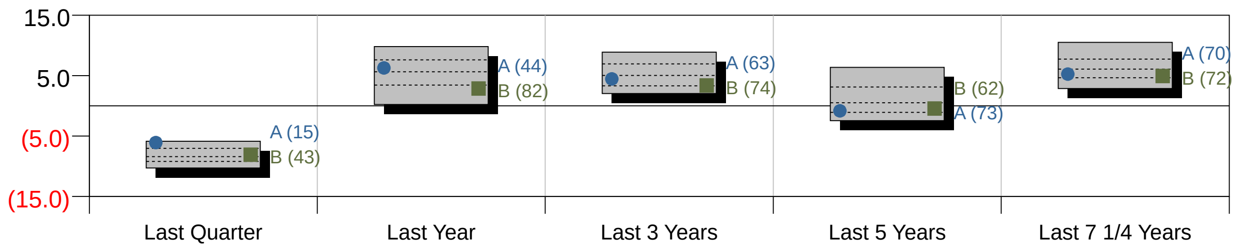


	Standard Deviation	Downside Risk	Residual Risk	Tracking Error
10th Percentile	33.39	2.80	6.02	7.04
25th Percentile	32.92	2.56	4.15	4.76
Median	32.12	2.19	3.34	3.87
75th Percentile	31.03	1.78	2.73	2.92
90th Percentile	29.96	1.58	2.46	2.73
ND Pen-UBS Emer Mkt ● A	32.37	1.55	2.04	2.41

	Beta	R-Squared	Relative Standard Deviation
10th Percentile	1.06	0.99	1.07
25th Percentile	1.05	0.99	1.06
Median	1.02	0.99	1.03
75th Percentile	0.99	0.98	1.00
90th Percentile	0.95	0.96	0.96
ND Pen-UBS Emer Mkt ● A	1.04	1.00	1.04

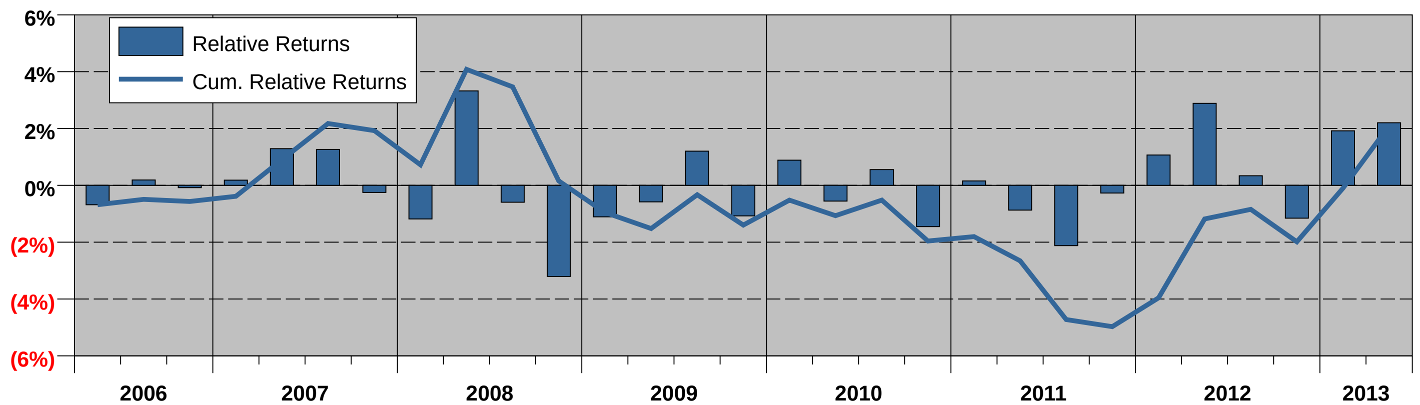
Return Analysis

The graphs below measure the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the CAI:Emer Mkt Core Style Group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.



		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 1/4 Years
10th Percentile		(5.86)	9.83	8.90	6.38	10.54
25th Percentile		(7.03)	7.63	6.96	3.14	7.75
Median		(8.38)	5.65	5.04	0.51	6.11
75th Percentile		(9.20)	3.46	3.32	(1.06)	4.67
90th Percentile		(10.27)	0.25	2.06	(2.42)	2.87
ND Pen-PanAgora	● A	(6.05)	6.28	4.48	(0.81)	5.26
MSCI:Emer Mkts -Net	■ B	(8.08)	2.87	3.38	(0.43)	4.96

Cumulative and Quarterly Relative Returns vs MSCI:Emer Mkts -Net Index



Risk Adjusted Return Measures vs Emerging Mkts - Net Idx
Five Years Ended June 30, 2013

		Alpha	Treynor Ratio
10th Percentile		7.07	5.78
25th Percentile		3.37	2.89
Median		1.16	0.22
75th Percentile		(0.58)	(1.34)
90th Percentile		(1.70)	(2.64)
ND Pen-PanAgora	●	(0.18)	(1.08)

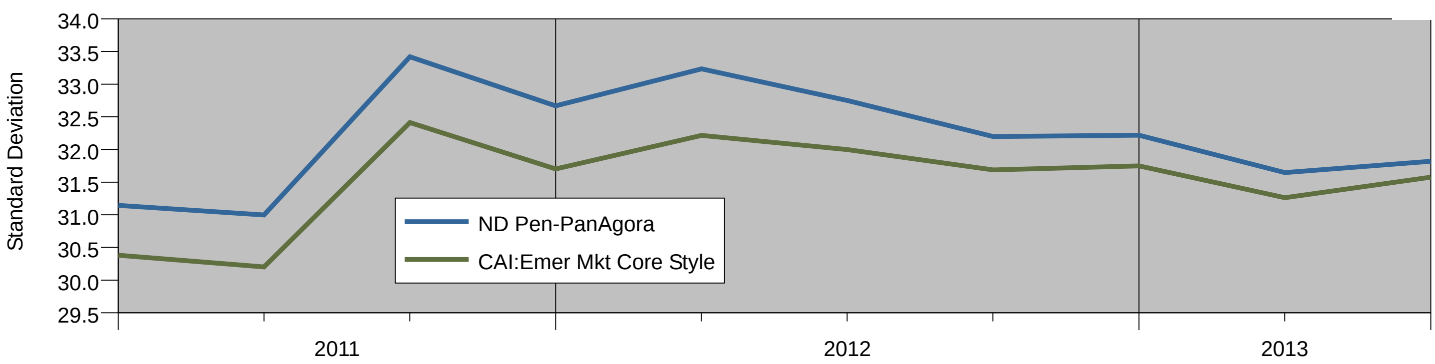
		Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile		1.21	0.18	1.17
25th Percentile		0.78	0.09	0.74
Median		0.28	0.01	0.22
75th Percentile		(0.22)	(0.04)	(0.23)
90th Percentile		(0.61)	(0.08)	(0.65)
ND Pen-PanAgora	●	(0.06)	(0.03)	(0.13)

Peer Group: CAI:Emer Mkt Core Style

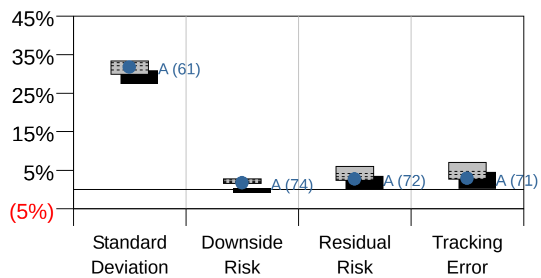
Risk Analysis

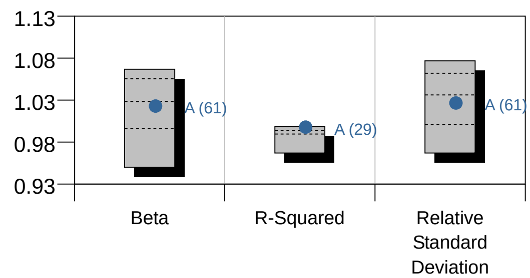
The graph below analyze the risk or variation of a manger's return pattern relative to the Emerging Mkts - Net Idx. The last two charts show the ranking of the manager's risk statistics versus the peer group.

Rolling 20 Quarter Standard Deviation Relative To MSCI:Emer Mkts -Net



Risk Statistics Rankings for Five Years ended June 30, 2013



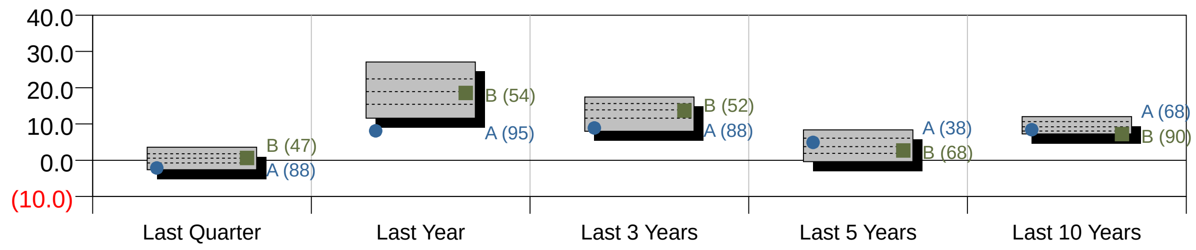


	Standard Deviation	Downside Risk	Residual Risk	Tracking Error
10th Percentile	33.39	2.80	6.02	7.04
25th Percentile	32.92	2.56	4.15	4.76
Median	32.12	2.19	3.34	3.87
75th Percentile	31.03	1.78	2.73	2.92
90th Percentile	29.96	1.58	2.46	2.73
ND Pen-PanAgora ● A	31.82	1.81	2.77	3.01

	Beta	R-Squared	Relative Standard Deviation
10th Percentile	1.06	0.99	1.07
25th Percentile	1.05	0.99	1.06
Median	1.02	0.99	1.03
75th Percentile	0.99	0.98	1.00
90th Percentile	0.95	0.96	0.96
ND Pen-PanAgora ● A	1.02	0.99	1.02

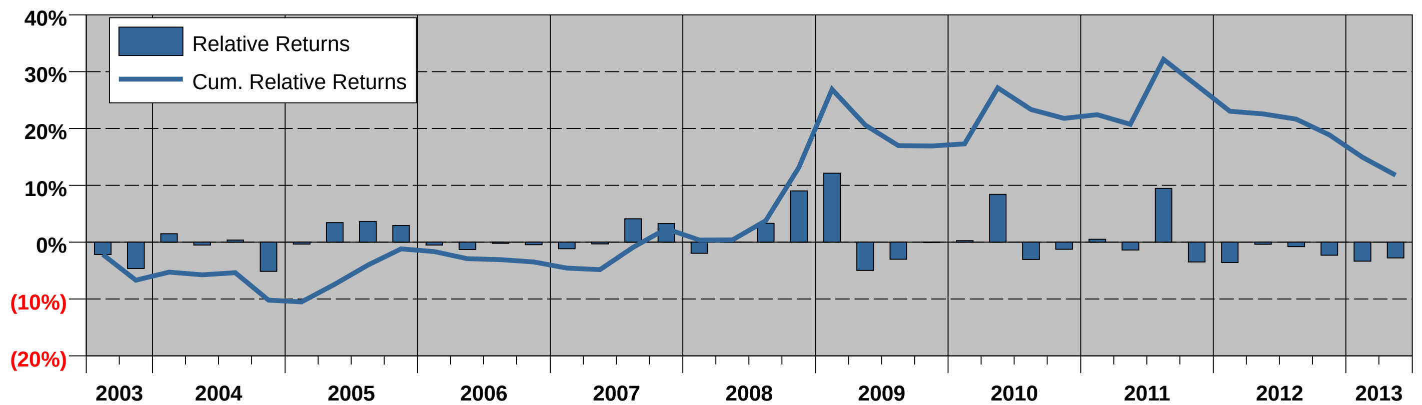
Return Analysis

The graphs below measure the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the CAI:Global Equity Group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.



		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile		3.61	27.11	17.44	8.41	12.05
25th Percentile		1.83	22.43	15.66	6.10	10.66
Median		0.59	18.94	13.92	3.77	9.26
75th Percentile		(0.75)	15.44	11.65	1.90	8.08
90th Percentile		(2.62)	11.60	8.00	(0.36)	7.28
Calamos:Global Oppt Str	● A	(2.11)	8.15	8.94	4.93	8.45
MSCI:World US$	■ B	0.65	18.58	13.72	2.70	7.25

Cumulative and Quarterly Relative Returns vs MSCI:World US$ Index



Risk Adjusted Return Measures vs MSCI World Index USD Net
Five Years Ended June 30, 2013

		Alpha	Treynor Ratio
10th Percentile		5.91	10.80
25th Percentile		3.50	6.13
Median		1.36	3.54
75th Percentile		(0.54)	1.59
90th Percentile		(2.62)	(0.59)
Calamos:Global Oppt Str	●	2.46	7.06

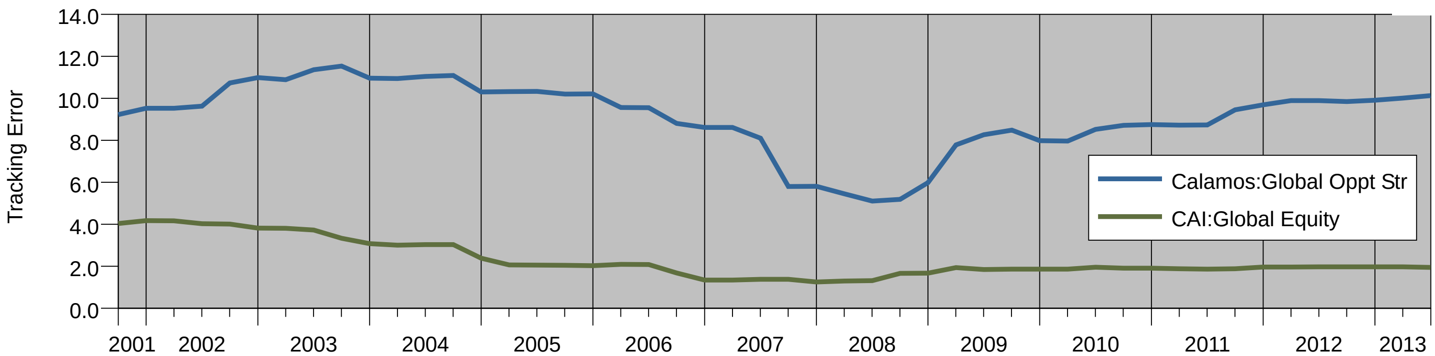
		Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile		1.12	0.43	0.81
25th Percentile		0.76	0.26	0.53
Median		0.32	0.15	0.23
75th Percentile		(0.09)	0.07	(0.13)
90th Percentile		(0.39)	(0.02)	(0.40)
Calamos:Global Oppt Str	●	0.53	0.29	0.21

Peer Group: CAI:Global Equity

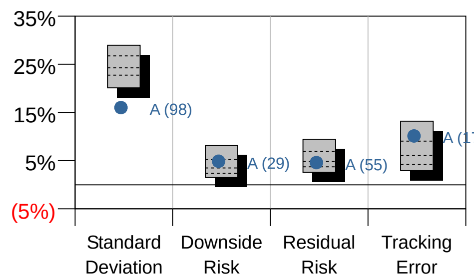
Risk Analysis

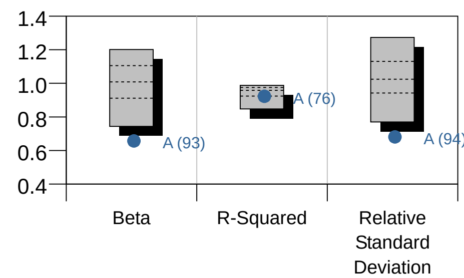
The graph below analyze the risk or variation of a manger's return pattern relative to the MSCI World Index USD Net. The last two charts show the ranking of the manager's risk statistics versus the peer group.

Rolling 20 Quarter Tracking Error Relative To MSCI:World US$



Risk Statistics Rankings for Five Years ended June 30, 2013



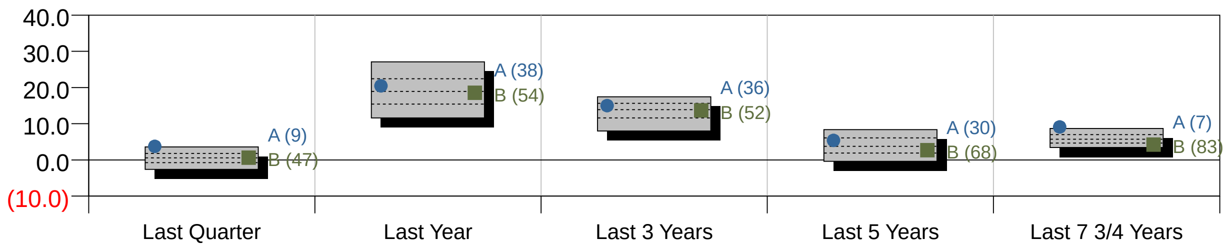


	Standard Deviation	Downside Risk	Residual Risk	Tracking Error
10th Percentile	28.95	8.18	9.49	13.21
25th Percentile	26.78	5.24	6.96	9.07
Median	24.31	3.50	4.84	6.08
75th Percentile	22.77	2.38	3.73	4.21
90th Percentile	20.14	1.51	2.59	2.94
Calamos:Global Oppt Str ● A	16.05	4.90	4.62	10.13

	Beta	R-Squared	Relative Standard Deviation
10th Percentile	1.20	0.99	1.27
25th Percentile	1.11	0.98	1.13
Median	1.01	0.96	1.02
75th Percentile	0.91	0.93	0.94
90th Percentile	0.74	0.85	0.77
Calamos:Global Oppt Str ● A	0.66	0.92	0.68

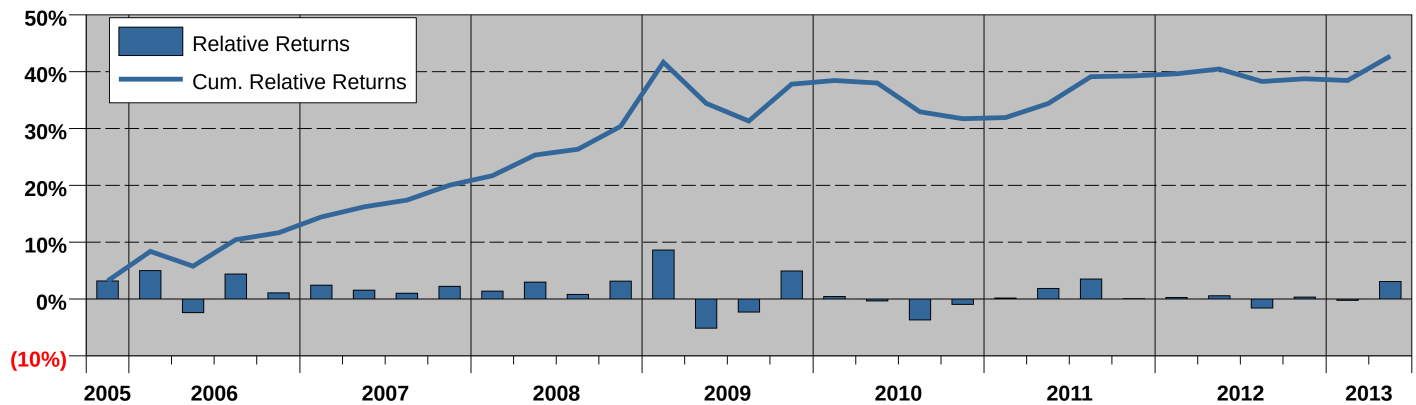
Return Analysis

The graphs below measure the manager's return on both a risk-adjusted and unadjusted basis. The first chart illustrates the manager's ranking over different periods versus the CAI:Global Equity Group. The second chart shows the historical quarterly and cumulative manager returns versus the appropriate market benchmark. The last two charts illustrate the manager's ranking relative to their style using various risk-adjusted return measures.

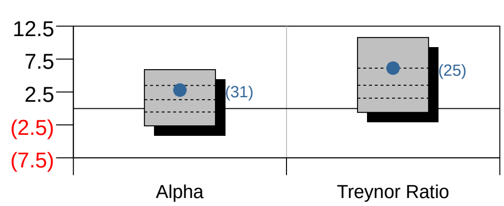


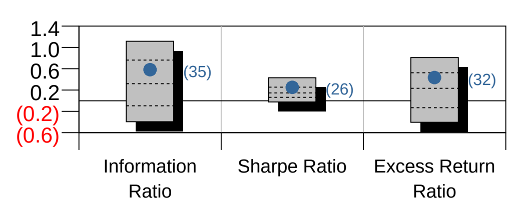
		Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 3/4 Years
10th Percentile		3.61	27.11	17.44	8.41	8.68
25th Percentile		1.83	22.43	15.66	6.10	7.00
Median		0.59	18.94	13.92	3.77	5.71
75th Percentile		(0.75)	15.44	11.65	1.90	4.70
90th Percentile		(2.62)	11.60	8.00	(0.36)	3.45
Epoch:Global Choice	● A	3.76	20.50	15.01	5.41	9.13
MSCI:World US$	■ B	0.65	18.58	13.72	2.70	4.23

Cumulative and Quarterly Relative Returns vs MSCI:World US$ Index



Risk Adjusted Return Measures vs MSCI World Index USD Net
Five Years Ended June 30, 2013





		Alpha	Treynor Ratio
10th Percentile		5.91	10.80
25th Percentile		3.50	6.13
Median		1.36	3.54
75th Percentile		(0.54)	1.59
90th Percentile		(2.62)	(0.59)
Epoch:Global Choice	●	2.79	6.13

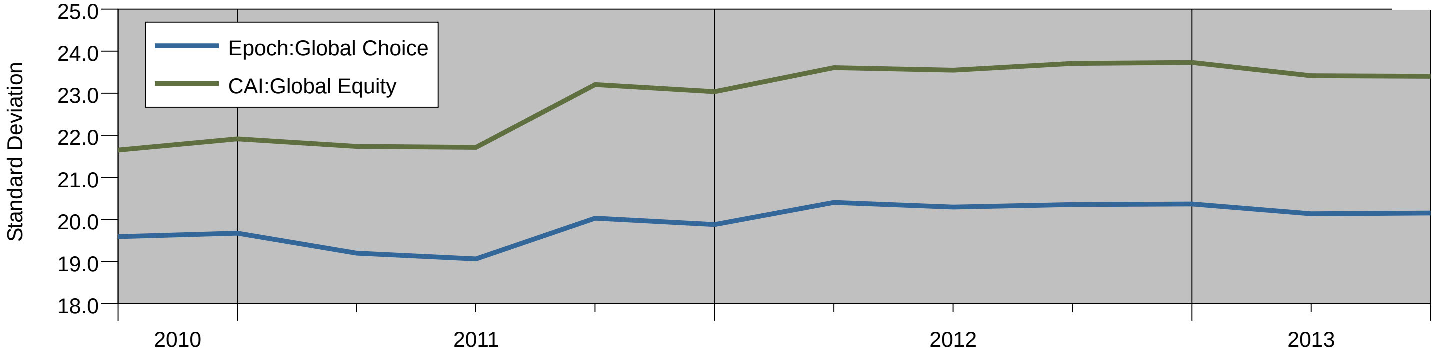
		Information Ratio	Sharpe Ratio	Excess Return Ratio
10th Percentile		1.12	0.43	0.81
25th Percentile		0.76	0.26	0.53
Median		0.32	0.15	0.23
75th Percentile		(0.09)	0.07	(0.13)
90th Percentile		(0.39)	(0.02)	(0.40)
Epoch:Global Choice	●	0.58	0.25	0.43

Peer Group: CAI:Global Equity

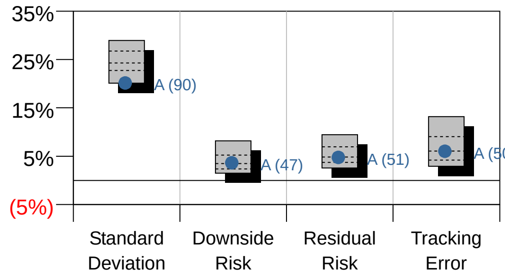
Risk Analysis

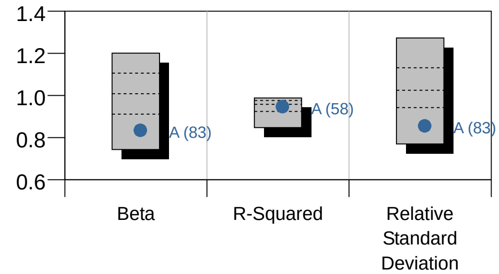
The graph below analyze the risk or variation of a manger's return pattern relative to the MSCI World Index USD Net. The last two charts show the ranking of the manager's risk statistics versus the peer group.

Rolling 20 Quarter Standard Deviation Relative To MSCI:World US$



Risk Statistics Rankings for Five Years ended June 30, 2013





		Standard Deviation	Downside Risk	Residual Risk	Tracking Error
10th Percentile		28.95	8.18	9.49	13.21
25th Percentile		26.78	5.24	6.96	9.07
Median		24.31	3.50	4.84	6.08
75th Percentile		22.77	2.38	3.73	4.21
90th Percentile		20.14	1.51	2.59	2.94
Epoch:Global Choice	● A	20.15	3.65	4.78	6.06

		Beta	R-Squared	Relative Standard Deviation
10th Percentile		1.20	0.99	1.27
25th Percentile		1.11	0.98	1.13
Median		1.01	0.96	1.02
75th Percentile		0.91	0.93	0.94
90th Percentile		0.74	0.85	0.77
Epoch:Global Choice	● A	0.83	0.95	0.86

MEMORANDUM

TO: STATE INVESTMENT BOARD

FROM: REBECCA DORWART, SIB AUDIT COMMITTEE CHAIRPERSON

DATE: SEPTEMBER 27, 2013

SUBJECT: AUDIT COMMITTEE ACTIVITIES UPDATE FOR THE FISCAL YEAR JULY 1, 2012 TO JUNE 30, 2013

The Audit Committee is a standing committee of the State Investment Board (SIB) authorized under SIB Governance Policy B-6, Standing Committees. Its primary function is to assist the SIB in fulfilling its oversight responsibilities of the Retirement and Investment Office (RIO) internal and external audit programs, including the financial reporting process, internal controls, and compliance with laws, regulations, policies and procedures.

Members of the Audit Committee for the 2012-13 fiscal year were: Rebecca Dorwart, Chair; Lonny Mertz, Vice Chair; Cindy Ternes, designee from Workforce Safety representing elected and appointed officials; Michael Gessner, representing the Teachers' Fund for Retirement (TFFR) Board; and Mike Sandal, representing the Public Employees Retirement System (PERS) Board. The Audit Committee held four regular meetings during the fiscal year.

Activities of the Audit Committee during the past year included:

- ♦ The Committee established the 2012-13 audit work plan and monitored progress on a quarterly basis. Audit activities included:

  - TFFR school district compliance audits – completed 45 regular audits and 4 follow up reviews of not-in-compliance audits.
  - TFFR benefit payments audit – completed annual review of deaths, purchases, refunds, and outstanding payments.
  - TFFR file maintenance audit – completed 4 quarterly reviews of changes made to member account data.
  - SIB Executive limitations audit – completed annual review of governance policy relating to Executive Director/CIO.

  The Committee worked closely with the Audit Supervisor and Interim Executive Director on improving the process, timeliness, and monitoring of school district compliance audits.

- ♦ The Committee held private meetings with the Audit Supervisor and the Interim Executive Director-Chief Retirement Officer.

- ♦ The Committee received the results of the RIO financial audit for the fiscal year ended June 30, 2012 from independent auditors, CliftonLarsonAllen, LLP. The firm issued an unqualified opinion on RIO's financial statements.

- ♦ The Committee reviewed the RIO financial audit plan for the fiscal year ended June 30, 2013 with CliftonLarsonAllen. Discussion included the scope of the audit to ensure complete coverage of financial information.

- ♦ The Committee approved the audit work plan for the fiscal year ending June 30, 2014. The plan includes:

  - TFFR school district compliance audits and follow-up reviews of not-in-compliance audits
  - TFFR benefit payments audit
  - TFFR file maintenance audit
  - SIB Executive limitations audit
  - Special projects, including creation of an audit procedures manual

  Please note that Les Mason, RIO Audit Supervisor, retired in July 2013 which will impact the 2013-14 work plan. The Audit Committee is reviewing the audit supervisor position and audit function before filling the vacancy.

The above activities support the Committee's fulfillment of its oversight responsibilities. Please inform the Committee if there are special audits or activities the Board would like to have reviewed.

SIB AUDIT COMMITTEE MEETING

September 27, 2013, 2:00 p.m.
Workforce Safety & Insurance Board Room
1600 East Century Avenue, Bismarck, ND

AGENDA

1. Call to Order and Approval of Agenda – Chair (committee action)

2. Approval of May 17, 2013 Minutes – Chair (committee action)

3. Election of Chair, Vice Chair, and Liaison – Chair (committee action)

4. 2012-13 Audit Activities Report – Fay Kopp, Dottie Thorsen (committee action)
   - School district compliance audit reports
   - Benefits payments audit report
   - File maintenance audit report
   - 2012-13 year end reports

5. 2012-13 Audit Committee Report to SIB – Chair, Fay Kopp (committee action)

6. 2013-14 Audit Progress Report – Fay Kopp, Dottie Thorsen (discussion only) action)

7. Chief Investment Officer-Exec. Director Search – Mike Sandal (discussion only)

8. Audit Supervisor Position – Chair, Fay Kopp (discussion only)

9. Audit Committee Charter – Fay Kopp (discussion only)

10. Other
    Next SIB Audit Committee meeting – November 22, 2013 – 1:00 pm

11. Adjournment

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

STATE INVESTMENT BOARD
AUDIT COMMITTEE MEETING
MINUTES OF THE
MAY 17, 2013 MEETING

COMMITTEE MEMBERS PRESENT:	Rebecca Dorwart, Chair Lonny Mertz, Vice Chair Mike Gessner, TFFR Board/Liaison to the SIB Mike Sandal, PERS Board
COMMITTEE MEMBERS ABSENT:	Cindy Ternes, Workforce Safety & Insurance
STAFF PRESENT:	Connie Flanagan, Fiscal & Investment Officer Fay Kopp, Interim Executive Director Les Mason, Internal Audit Superviser Darlene Roppel, Retirement Assistant Dottie Thorsen, Internal Audit
OTHERS PRESENT:	Thomas Rey, CliftonLarsonAnderson

CALL TO ORDER:

Ms. Dorwart called the State Investment Board (SIB) Audit Committee meeting to order at 1:00 p.m., on Friday, May 17, 2013, at the State Capitol, Peace Garden Room, Bismarck, ND.

A quorum was present for the purpose of conducting business.

AGENDA:

The Audit Committee considered the May 17, 2013, agenda.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MAY 17, 2013, MEETING.

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

MINUTES:

The Audit Committee considered the minutes from the February 22, 2013, meeting.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE FEBRUARY 22, 2013, MINUTES AS WRITTEN.

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

EXTERNAL AUDIT:

Mr. Thomas Rey, CliftonLarsonAllen, reviewed the Retirement and Investment Office's financial audit scope and approach for the period of July 1, 2012 to

June 30, 2013. CliftonLarsonAllen is performing preliminary field work the week of May 13, 2013.

Mr. Rey reviewed clarity audit standards, that primarily the external auditors will need to follow, and new GASB statements: Statement 67 (Financial Reporting for Pension Plans) and Statement 68 (Accounting and Financial Reporting for Pensions) that RIO will be required to meet in 2014 and 2015, respectively.

IT WAS MOVED BY MR. MERTZ AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT CLIFTONLARSONALLEN'S AUDIT SCOPE AND APPROACH FOR THE RETIREMENT AND INVESTMENT OFFICE FOR THE PERIOD OF JULY 1, 2012 - JUNE 30, 2013.

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

INTERNAL AUDIT ACTIVITIES:

Mr. Mason reviewed the Internal Audit Division's work activity for the period of July 1, 2012 through May 10, 2013.

School District Audit Progress - The objective is to complete 43 or more school district audits during FY2013. Currently, 37 audits have been completed, four audits are in progress, and information on four or more school districts has been received, and information has been requested from seven additional school districts.

Ms. Dorwart and Ms. Kopp have been meeting with Mr. Mason on a biweekly basis to review and revise the policies and procedures as they relate to the school district audit process, monitoring workflow, and discussing any concerns staff may have as they work through the audits.

TFFR File Maintenance - Ms. Thorsen reported she reviewed various member account transactions to the member accounts for the months of January - March 2013. There were no exceptions noted.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. SANDAL AND CARRIED ON A VOICE VOTE TO ACCEPT THE INTERNAL AUDIT DIVISION'S INTERNAL AUDIT ACTIVITY REPORT FOR THE PERIOD OF JULY 1, 2012 - MAY 10, 2013.

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

WORK PLAN:

Proposed Work Plan - Mr. Mason reviewed the proposed work plan, budgeted hours, and risk assessment/selection of school district audits for fiscal year July 1, 2013 through June 30, 2014.

Discussion followed on the content of the work plan, policies, procedures, and practices that are in place to achieve the work plan that had been presented to the Audit Committee.

IT WAS MOVED BY MR. SANDAL AND SECONDED BY MR. MERTZ AND CARRIED ON A VOICE VOTE TO ACCEPT THE JULY 1 2013 - JUNE 30, 2014 WORK PLAN.

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

CHARTER:

Mr. Mason stated a revised charter will be presented at the September 27, 2013, meeting for the Audit Committee's consideration. Mr. Mason is in the process of gathering information to reference and also comparing the language of the charter to other entities. Mr. Mertz volunteered to work with staff on updating the charter.

Mr. Gessner noted he will begin providing updates on the Audit Committee meetings to the Teachers' Fund for Retirement Board.

MEETING SCHEDULE:

Mr. Mason reviewed the July 1, 2013 - June 30, 2014, Audit Committee meeting schedule. The Audit Committee was in agreement with the schedule.

OTHER:

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

ADJOURNMENT:

With no further business to come before the Audit Committee, Ms. Dorwart adjourned the meeting at 2:30 p.m.

Respectfully Submitted:

Rebecca J Dorwart

Ms. Rebecca Dorwart, Chair
SIB Audit Committee

Bonnie Heit

Bonnie Heit
Assistant to the Audit Committee

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended September 30, 2013

STAFF RELATIONS

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

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

Connie Flanagan, Fiscal & Investment Officer, resigned effective October 15, 2013.

RIO staff is kept informed of status of search for Executive Director/CIO/ and other vacant positions.

RIO staff has signed off on annual review of administrative policies.

BUDGETING / FINANCIAL CONDITION

AS OF SEPTEMBER 30, 2013

	2013-2015 BUDGET	ADJUSTED APPROPRIATION	EXPENDITURES BIENNIUM TO DATE ACTUAL	BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	$ 3,772,504.00	$ 3,772,504.00	$ 343,764.50	$ 3,428,739.50	90.89%	87.50%
ACCRUED LEAVE PAYMENTS	71,541.00	71,541.00	8,936.65	62,604.35	87.51%	87.50%
OPERATING EXPENDITURES	973,324.00	973,324.00	98,559.18	874,764.82	89.87%	87.50%
CONTINGENCY	82,000.00	82,000.00	27,732.33	54,267.67	66.18%	87.50%
TOTAL	$ 4,899,369.00	$ 4,899,369.00	$ 478,992.66	4,420,376.34	90.22%	87.50%

EXPENDITURE REPORT

QUARTER ENDED SEPTEMBER 30, 2013

	INVESTMENT	RETIREMENT	QUARTERLY TOTALS	FISCAL YEAR TO - DATE	BIENNIUM TO - DATE
CONTINUING APPROPRIATIONS					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	$ 6,790,983.61	$ 0.00	$ 6,790,983.61	$ 6,790,983.61	$ 6,790,983.61
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	39,229,299.93	39,229,299.93	39,229,299.93	39,229,299.93
2. REFUND PAYMENTS	0.00	1,554,244.44	1,554,244.44	1,554,244.44	1,554,244.44
TOTAL MEMBER CLAIMS	0.00	40,783,544.37	40,783,544.37	40,783,544.37	40,783,544.37
OTHER CONTINUING APPROPRIATIONS	6,917.01	506.25	7,423.26	7,423.26	7,423.26
TOTAL CONTINUING APPROPRIATIONS	6,797,900.62	40,784,050.62	47,581,951.24	47,581,951.24	47,581,951.24
BUDGETED EXPENDITURES					
1. SALARIES & BENEFITS					
SALARIES	88,469.19	164,975.33	253,444.52	253,444.52	253,444.52
OVERTIME/TEMPORARY	0.00	0.00	0.00	0.00	0.00
TERMINATION SALARY & BENEFITS	0.00	0.00	0.00	0.00	0.00
FRINGE BENEFITS	26,924.19	63,395.79	90,319.98	90,319.98	90,319.98
TOTAL SALARY & BENEFITS	115,393.38	228,371.12	343,764.50	343,764.50	343,764.50
2. ACCRUED LEAVE PAYMENTS	893.66	8,042.99	8,936.65	8,936.65	8,936.65
3. OPERATING EXPENDITURES					
DATA PROCESSING	1,545.76	10,616.37	12,162.13	12,162.13	12,162.13
TELECOMMUNICATIONS - ISD	543.34	1,430.56	1,973.90	1,973.90	1,973.90
TRAVEL	2,121.01	3,406.84	5,527.85	5,527.85	5,527.85
IT - SOFTWARE/SUPPLIES	1,014.60	1,210.40	2,225.00	2,225.00	2,225.00
POSTAGE SERVICES	718.46	14,315.80	15,034.26	15,034.26	15,034.26
IT - CONTRACTUAL SERVICES	110.39	29,114.58	29,224.97	29,224.97	29,224.97
BUILDING/LAND RENT & LEASES	6,588.33	13,443.96	20,032.29	20,032.29	20,032.29
DUES & PROF. DEVELOPMENT	2,297.85	2,486.15	4,784.00	4,784.00	4,784.00
OPERATING FEES & SERVICES	1,056.62	1,030.66	2,087.28	2,087.28	2,087.28
REPAIR SERVICE	0.00	69.25	69.25	69.25	69.25
PROFESSIONAL SERVICES	432.78	1,217.22	1,650.00	1,650.00	1,650.00
INSURANCE	40.36	85.76	126.12	126.12	126.12
OFFICE SUPPLIES	28.54	117.69	146.23	146.23	146.23
PRINTING	3.50	3,454.16	3,457.66	3,457.66	3,457.66
PROFESSIONAL SUPPLIES & MATERIAL	0.00	0.00	0.00	0.00	0.00
MISCELLANEOUS SUPPLIES	15.96	42.28	58.24	58.24	58.24
IT EQUIPMENT UNDER $5000	0.00	0.00	0.00	0.00	0.00
OTHER EQUIPMENT UNDER $5000	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	16,517.50	82,041.68	98,559.18	98,559.18	98,559.18
3. CONTINGENCY	27,732.33	0.00	27,732.33	27,732.33	27,732.33
TOTAL BUDGETED EXPENDITURES	160,536.87	318,455.79	478,992.66	478,992.66	478,992.66
TOTAL EXPENDITURES	$ 6,951,520.48	$ 41,102,000.16	$ 48,060,943.90	$ 48,060,943.90	$ 48,060,943.90

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2013

FOR QUARTER ENDED 9/30/12		
BUDGET STABILIZATION SHORT TERM FIXED		
JP Morgan		37,394.86
LEGACY FUND SHORT TERM FIXED		
JP Morgan		60,182.84
TOTAL FOR QUARTER ENDED 9/30/12		**97,577.70**
FOR QUARTER ENDED 12/31/12		
BUDGET STABILIZATION SHORT TERM FIXED		
JP Morgan		36,484.75
LEGACY FUND SHORT TERM FIXED		
JP Morgan		75,661.34
TOTAL FOR QUARTER ENDED 12/31/12		**112,146.09**
FOR QUARTER ENDED 3/31/13		
PENSION REAL ESTATE		
Invesco	134,960.42	
JP Morgan (Special & Strategic)	295,724.90	
TOTAL PENSION REAL ESTATE		430,685.32
INSURANCE REAL ESTATE		
Invesco		41,690.71
BUDGET STABILIZATION SHORT TERM FIXED		
JP Morgan		34,208.42
LEGACY FUND SHORT TERM FIXED		
JP Morgan		91,711.31
TOTAL FOR QUARTER ENDED 3/31/13		**598,295.76**
FOR QUARTER ENDED 6/30/13		
PENSION DEVELOPED INTERNATIONAL EQUITY POOL		
Capital Guardian	81,174.16	
Clifton - EAFE Index	44,117.00	
Wellington	152,895.63	
TOTAL PENSION INTERNATIONAL EQUITY		278,186.79
PENSION GLOBAL EQUITY POOL		
Epoch	376,613.45	
LSV	102,169.00	
LSV - Performance Fee	1,031,280.00	
Pension Global Equity Pool		1,510,062.45
PENSION BELOW INVESTMENT GRADE FIXED		
Loomis Sayles		226,347.86

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2013

PENSION INVESTMENT GRADE FIXED INCOME POOL		
PIMCO	66,992.26	
Western Asset	46,782.12	
TOTAL PENSION FIXED INCOME		113,774.38
PENSION INFRASTRUCTURE POOL		
JP Morgan		311,311.27
PENSION LARGE CAP EQUITY POOL		
Northern Trust	164,207.46	
LA Capital	206,500.17	
TOTAL PENSION LARGE CAP EQUITY		370,707.63
PENSION SMALL CAP EQUITY POOL		
Clifton (Performance Fee)		525,735.00
PENSION REAL ESTATE		
Invesco		137,482.34
PENSION INTERNATIONAL FIXED INCOME		
Brandywine	105,169.53	
UBS	69,915.74	
TOTAL PENSION INTERNATIONAL FIXED INCOME		175,085.27
PENSION EMERGING MARKETS		
JP Morgan	45,356.72	
Northern Trust	7,180.65	
PanAgora	29,400.54	
UBS	46,548.47	
TOTAL PENSION EMERGING MARKETS		128,486.38
PENSION PRIVATE EQUITY		
Adams Street Partners		27,301.00
PENSION CASH		
Northern Trust		17,376.78
INSURANCE FIXED INCOME POOL		
Declaration	71,785.00	
Prudential	50,078.27	
Wells	148,317.38	
Western Asset	91,889.50	
TOTAL INSURANCE FIXED INCOME		362,070.15
INSURANCE LARGE CAP EQUITY POOL		
Clifton (Performance Fee)	35,780.00	
LA Capital	41,021.61	
LSV	41,713.00	
TOTAL INSURANCE LARGE CAP		118,514.61
INSURANCE SMALL CAP EQUITY POOL		
Clifton (Performance Fee)	129,312.00	
Research Affiliates	35,000.21	
TOTAL INSURANCE SMALL CAP		164,312.21

INVESTMENT EXPENDITURE DETAIL

FEES PAID DURING THE QUARTER ENDED SEPTEMBER 30, 2013

INSURANCE INT'L EQUITY		
Capital Guardian	65,916.95	
LSV	55,996.00	
TOTAL INSURANCE INT'L EQUITY		121,912.95
INSURANCE INFLATION PROTECTED		
JP Morgan	213,004.99	
Western Asset	86,267.55	
TOTAL INSURANCE INFLATION PROTECTED		299,272.54
INSURANCE REAL ESTATE		
Invesco	42,469.77	
JP Morgan	208,310.00	
TOTAL INSURANCE REAL ESTATE		250,779.77
BUDGET STABILIZATION SHORT TERM FIXED		
Babson	51,261.73	
JP Morgan	29,589.29	
TOTAL BUDGET STABILIZATION SHORT TERM FIXED		80,851.02
LEGACY FUND SHORT TERM FIXED		
Babson	187,055.31	
JP Morgan	111,815.88	
TOTAL LEGACY FUND SHORT TERM FIXED		298,871.19
PERS RETIREE HEALTH INSURANCE CREDIT FUND		
SEI		51,119.24
CUSTODIAN		
Northern Trust		292,945.60
CONSULTANT		
Adams Street	38,902.00	
Callan	81,555.63	
TOTAL CONSULTANT		120,457.63
TOTAL FOR QUARTER ENDED 6/30/13		**5,982,964.06**
TOTAL FEES PAID DURING QUARTER ENDED 9/30/2013		**6,790,983.61**

Quarterly Report on Ends
Q1:FY14

Investment Program

Continuing due diligence conducted on following:

JPMorgan	Western	Blackrock
Rhumbline	Goldman Sachs	Clifton Group
Babson Capital	PIMCO	AllianceBernstein
Brandes	Northern Trust	UBS
Epoch	Calamos	Prudential
Twinbridge	Loomis Sayles	Dyal Capital
Invesco	LA Capital	Arrowstreet

At the July SIB meeting, the State Investment Board approved a transition plan to implement the new Legacy Fund policy allocation over an 18-month time period with existing insurance pool managers. Staff initiated the transition plan in August.

Staff is working with Callan Associates to finalize the consulting services agreement.

Staff attended meetings with the following entities: PERS Investment Subcommittee, Land Department, TFFR Board, ND Board of Medical Examiners, ND Insurance Department, WSI, and the Legislative Employee Benefits Programs Committee.

Staff continues to work on its review and pending restructuring of the current global equity mandate structure. The first phase of recommended changes will be presented at the October SIB meeting.

Staff is researching risk analytics software solutions offered by MSCI Barra, Blackrock and Bloomberg.

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

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

Quarterly Monitoring Report on TFFR Ends
Quarter Ended September 30, 2013

Retirement Program

This report highlights exceptions to normal operating conditions.

- Completed "grandfathering" process as required by 2011 funding improvement legislation. Of the 7,100 Tier 1 members, 3,655 were grandfathered under current retirement benefit provisions. The remaining 3,445 Tier 1 members and all of the 3,038 Tier 2 members were not grandfathered, so will be subject to modified retirement benefit provisions effective July 1, 2013. Benefit modifications and contribution increases have been incorporated into all pension software programs, reports, forms, publications, processes, procedures, and presentations.

- Created special edition TFFR newsletter highlighting TFFR's 100- year history (1913-2013). Also developed centennial slide show for use at membership meetings, conferences, and other commemorative events.

- TFFR outreach programs continue to be very popular and well attended. First quarter included preretirement seminars in Grand Forks and Bismarck; benefits counseling sessions in Rugby, Wahpeton, Jamestown, Garrison, Grand Forks, Williston, and Minot; and RTA convention in Fargo.

North Dakota Retirement & Investment Office

Chief Investment Officer & Executive Director

CANDIDACY FOR DAVID J. HUNTER

OCTOBER 25, 2013

Fixed Income Investing in Today's Environment

Question: Fixed income investors are faced with numerous challenges today including low yields, the potential for rising interest rates, and a great deal of economic uncertainty. What recommendations can you offer for structuring the fixed income asset class for an income oriented investor, such as an insurance entity, and a total return investor, such as a public pension or endowment?

Recommendations:

1. Minimize the impact of interest rate risk by shortening duration (term or maturity);
2. Increase diversification by incorporating investments which are less sensitive to rising interest rates; and
3. Increase reliance on active management as security selection is critical.

Why is shortening duration the # 1 Recommendation?
Answer: Bond investors get crushed when interest rates rise.

3

- The 10 year U.S. Treasury rates peaked at 16% in 1981 versus 1.4% in July of 2012 (and 2.5% on 10/22).

Increase Exposure to Less Interest Rate Sensitive Sectors & Enhance Diversification

- **Fixed rate bonds get crushed when interest rates rise, particularly long-term government bonds.**
- As example, the index representing long-term U.S. Gov't. bonds declined by more than 9% in 2013, while Corporate bonds declined by only 1.5% and High Yield increased by 5.5%.
- **Recommendation:** Increase the asset allocation to short-term Corporates, MBS, ABS and CMBS (all of which declined by less than 1.5% in 2013), while decreasing the fixed income allocation to long-term Gov't. bonds. Consider increasing the allocation to High Yield on a selective basis.
- **This strategy will dampen interest rate risk while diversifying the portfolio's overall risk profile.**

Market Indices	(Yrs.) Duration	YTD Return
Barclays Aggregate	5.5	-1.4%
- Treasury	5.1	-1.8%
- Corporate	6.9	-1.5%
- MBS	5.4	-0.6%
- ABS	3.6	-0.4%
- CMBS	3.2	0.1%
TIPS	7.0	-6.5%
Long Gov/Credit	14.1	-7.3%
Long Government	16.0	-9.1%
High Yield	**4.1**	**5.5%**
Global Aggregate	6.2	-1.3%
Treasuries	**1/1/13 to 10/18/13**	
- 2 years		0.1%
- 5 years		-2.2%
- 10 years		-5.6%
- 30 years		-10.4%
FTSE REITS		8.4%

Fixed Income Investing in 2013

A Gradual Shift in Management Strategies Can Help Lower the Risk of Negative Returns

- The bond market rally experienced for the last 30-plus years is most likely near its end.
- Although interest rates may decline in the short-term, there is a far greater likelihood that rates will trend upwards over the longer term, particularly given the Federal Reserves desire to gradually withdrawal stimulus over the next few years.

Fixed Income Investing in 2013

Fed Unwind – Not If but When

- The unprecedented monetary stimulus initiated by the Federal Reserve and other central banks will eventually need to be unwound.
- Recent central bank actions have generally pushed out most forecasts as to when such action may begin, but have underscored the belief that interest rates will likely rise slowly and steadily in the future, causing bond prices to gradually deflate over time.

Mitigate Interest Rate Risk by Diversifying into Higher Coupon, Shorter Dated Assets

- In early 2013, I worked with our investment consultant to identify a core group of fixed income managers which have consistently generated strong returns by investing in a variety of structured debt strategies which generated higher investment income over shorter dated maturities.
- These "Diversified Credit" sectors outperformed the more widely utilized fixed income indices (such as the Barclays Aggregate, TIPS and Long Gov/Credit) by a wide margin as highlighted in green in the table.
- **<u>Recommendation</u>:** This same approach could be easily replicated to mitigate the impact of interest rate risk in any fixed income portfolio.

Market Indices	(Yrs.) Duration	YTD Return
Barclays Aggregate	5.5	-1.4%
- MBS	5.4	-0.6%
- ABS	3.6	-0.4%
- CMBS	3.2	0.1%
TIPS	7.0	-6.5%
Long Gov/Credit	14.1	-7.3%
Long Government	16.0	-9.1%
High Yield	**4.1**	**5.5%**
Global Aggregate	6.2	-1.3%
Treasuries	**1/1/13 to 10/18/13**	
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- 10 years		-5.6%
- 30 years		-10.4%
FTSE REITS		8.4%

Summary Recommendation

- The Fixed Income recommendations included in this presentation should be used to enhance the already outstanding overall asset allocation strategies deployed by the North Dakota RIO and SIB.
- As evidence, the TFFR and PERS plans have consistently generated impressive results with 3-year returns exceeding 11.5% and 30-year returns exceeding 8.5% (versus an expected return of 8%).
- These excellent results are even more impressive when noting they have been achieved while maintaining an outstanding reputation for Excellence in Financial Reporting as evidenced by its Comprehensive Annual Financial Report being assigned the highest standard in state and local government accounting and financial reporting for <u>15 consecutive years</u>.
- Given the likelihood that interest rates will likely rise in the future, the duration shortening recommendation should be implemented in a measured manner for the insurance trust and focus on shorter term corporate credit investments over medium to long term U.S. Treasury investments. The public pension plan investment allocation can be expanded to achieve the desired total return goal and include a higher allocation to other diversified credit strategies such as high yield, securitization, emerging market debt and convertibles in a reasonable and prudent manner.

Leadership Philosophy

- Leadership has been described as "a process of social influence in which one person can enlist the aid and support of others in the accomplishment of a common goal or task".

  - A leader can be defined as someone who people follow or someone who guides or directs.

- I take great pride in my leadership approach which is based on open communication, establishing respect and trust, and centers around building a collaborative, team oriented approach to developing successful solutions.
- I stress the development of open communication and trust in order to develop a strong participative approach within my team. I invite the open exchange of ideas in order to expand my awareness to potential obstacles foreseen by other team members.
- After gathering the relevant key facts or criteria, I develop a solution which is addresses the material concerns raised in the initial "fact finding" or "issue identification" stage and then share my recommendation with the key decision makers (i.e. CEO, CFO or Board).
- In most cases, I create a 1 or 2 page "Executive Summary" outlining the opportunity or risk, key determinants impacting the success of the recommendation, the expected reward generated by the attaining the desired goal or the risk mitigated by the chosen course of action.
- This approach allows me to confidently present my recommendation to the "Board" and allows me to be highly successful in obtaining unanimous approval of nearly all recommendations.

Creating a Pension Stress Testing Framework

- **Please provide the Board with two specific examples of leadership successes that you have had.**

  # 1 – Created a Pension Stress Testing Framework to meet expanded regulatory reporting.
- **Did you develop the initiative or strategy?** Yes
- **How did you provide leadership to get the initiative implemented?** Engaged subject matters experts (the pension plan's largest fixed income manager, accountants, actuaries, consultants, and staff) to develop a framework to run scenario analyses prescribed by the Federal Reserve (and FSA) to ensure the U.S. pension could withstand all downside stress test scenarios.
- **How did you get the management team, Board or the appropriate stakeholders on board to support your initiative?** Created a four page presentation which summarized all of the Fed and FSA stress test scenarios and results in a relatively simple and straightforward noting the following key overall statement, "Under all stress test scenarios, the U.S. Pension Plan will be no less than 80% funded at any time during the forecast period".
- **How did you communicate your initiative to a variety of stakeholders?** Written materials were distributed in advance of a formal group meeting with the Investment & Risk Committees.
- **What was the outcome?** The Pension Investment Committee and Risk Committee unanimously confirmed the pension stress testing results.

Public Reporting & Disclosure Requirements

- **Please provide the Board with two specific examples of leadership successes that you have had.**

  # 2 Public Reporting & Disclosure Requirements (i.e. "every day" leadership opportunities)
- **Did you develop the initiative or strategy?** Yes
- **How did you provide leadership to get the initiative implemented?** Engaged subject matters experts (accountants, attorneys, consultants, operations, servicing and staff) to confirm the key facts and criteria, understand any potential ramifications of the agreed upon solution, assess any implementation risks, confirm the implementation timeline and anticipated public perception.
- **How did you get the management team, Board or the appropriate stakeholders on board to support your initiative?** Presented the CEO, CFO & CAO with the key points of a comprehensive solution which could be implemented in a timely manner with a high degree of success.
- **How did you communicate your initiative to a variety of stakeholders?** Written materials were distributed in advance of a brief group meeting (or conference call).
- **What was the outcome?** The CEO, CFO & CAO unanimously confirmed the recommendations which were successfully implemented in the agreed upon timeline.

North Dakota State Investment Board
CIO & Executive Director Interview Questions

October 25, 2013

1. Fixed income investors face a multitude of challenges in the current environment, such as low yields, the potential for rising rates, valuations that are not cheap by historical standards, and a dysfunctional political system and uncertain macro environment. What recommendations can you offer for structuring the fixed income asset class for an income oriented investor, such as a insurance entity, and a total return investor, such as a public pension or endowment?

2. Please provide the Board with two specific examples of leadership successes that you have had. Did you develop the initiative or strategy? How did you provide leadership to get the initiative implemented? How did you get the management team, Board or the appropriate stakeholders on board to support your initiative? How did you communicate your initiative to a variety of stakeholders?

ND Retirement and Investment Office

Chief Investment Officer

David Hunter	
Leadership/Management	
Board Interaction	
Communications Abilities	
Investment Knowledge/Experience	
Vision/Strategic	
Culture Fit	
TOTAL SCORE	

Legend: Score on a scale of ___ to ___, with ___ being the highest rating.

Candidate Report on

David Hunter

For the Position of

Chief Investment officer
North Dakota State Investment Board

October 25, 2013

EXECUTIVE EVALUATION

The following is an assessment of David Hunter as an executive candidate for the position of Chief Investment Officer and Executive Director at the North Dakota State Investment Board.

CONTACT INFORMATION

Address	21560 Chapel Hill Dr. Deer Park, IL 60010
Telephone	630-886-4611 (Cell)
Email	Dhunter33@aol.com

EDUCATION

1997	University of Chicago; Chicago, IL M.B.A. - Finance Verification Pending or Verified
1985	Northern Illinois University; DeKalb, IL B.S. - Accounting Verification Pending or Verified

COMPENSATION

Base	$165,000
Bonus	$35,000 Performance (approximate)

PROFESSIONAL AFFILIATIONS/CERTIFICATIONS

Certified Public Accountant
FINRA Series 7 & 63

CAREER DETAILS

2002 to Present
HSBC – North America Holdings, Inc.
Mettawa, Illinois

2008 to Present
Vice President & Director – Pension Investments

Lead investment officer for over $7 billion of pension and deferred compensation plans in the U.S. and Canada.

- Managed a $3.5 billion portfolio of pension investments in over a dozen asset class sectors using 18 different investment managers via separate accounts, commingled trusts, limited partnerships and mutual funds.
- Consistently generated first quartile pension plan performance including five-year annualized returns in excess of 7.7%, while reducing the plan's risk profile using a liability driven investment strategy.
- Redesigned the U.S. and Canadian defined contribution plans by significantly expanding investment options while lowering management fees by over $5 million annually.
- Member of a five-person committee responsible for all recommendations to the pension and retirement plan board, including the development and implementation of all investment policies and asset allocation decisions.
- Directed the preparation of all monthly investment manager performance reporting, including the hiring of all new investment managers and termination of all under-performing managers and consultants.
- Prepared all quarterly investment committee presentation materials, including the annual review and refinement of the pension funding policy formula to ensure the plan is fully funded and immunized by January 1, 2015.
- Established and maintained working relationships across all organizational groups including accounting, administration, benefits, compliance, human resources, legal, tax and various external advisors including actuaries, auditors, consultants, custodians, investment managers, record keepers and trustees.
- In conjunction with the external investment consultant, reviewed the overall asset allocation strategy including the development of a new dynamic investment policy and liability driven investment guidelines.
- Directed the preparation of all reporting requirements, including the annual

actuarial valuation report and public reporting to shareholders, participants and the IRS in addition to internal SOX compliance monitoring.

- Monitored investment performance and policy compliance using self-developed spreadsheets and check lists.
- Negotiated and structured investment management agreements with eight global firms during the past three plus years, including the development of new investment guidelines for each new investment manager.
- Significant involvement with the Canadian and UK pension investment committees during the past two years.

2002 to 2007
Director, Vice President & Assistant Treasurer

Project manager for all sub-prime, real estate loan securitizations involving over $30 billion in closed end mortgages.

- Managed an $8 billion pool of 12 residential mortgage backed debt facilities, including loan selection, hedging decisions and supervision of due diligence procedures, legal documentation and file delivery requirements.
- Raised $10 billion of financing in the public and private RMBS market with the assistance of HSBC Securities syndication and structuring personnel.
- Enhanced investor and rating agency relations by frequently meeting with key decision makers and continuously striving to improve and expand collateral performance reporting.
- Highly skilled in guiding client expectations to achieve desired results opposite investor demands and rating agency requirements.
- Extensive experience in developing resources to meet expanding regulatory reporting requirements.

1997 to 2002
Sumitomo Mitsui Banking Corporation / SMBC Securities, Inc.
Chicago, Illinois

2002 to 2002
Senior Vice President

Senior corporate finance professional in charge of originating and obtaining credit approval of all ABS facilities in the Central, Western and Southern U.S. regions in addition to managing a billion dollar ABS portfolio.

- Promoted to Senior Vice President on July 1, 2001, after being instrumental in expanding the strategic focus and product development of ABS throughout the bank.
- Significantly improved the group's reputation and relationship with account officers in New York, Seattle and Los Angeles by consistently meeting or exceeding expectations internally and externally.
- Acted as Agent and the primary negotiator for a complex equipment lease transaction involving ten competing financial institutions for a joint venture between two Fortune 500 companies.

1997 to 2001
Vice President

Corporate finance professional in charge of originating and obtaining credit approval of ABS facilities in the Midwest.

- Supervised the monitoring and oversaw the annual auditing of all ABS facilities in the Central U.S.
- Arranged and syndicated $1.0 billion of ABS facilities that generated over $4.0 million of fee income in the asset backed commercial paper and private term ABS markets during 2001.

1989 to 1997
Citicorp North America, Inc. / Citicorp Securities, Inc.
Chicago, Illinois

1993 to 1997
Assistant Vice President

Account officer for large corporate ABS customers in the Midwest Region.

- Jointly managed a $4.0 billion portfolio of ABS facilities, including the following asset types: trade receivables, equipment leases, credit cards, consumer installment loans and commercial business loans.
- Successfully completed major amendments on several large, high profile transactions including a $1.75 billion credit card receivable facility and over $750 million of trade accounts receivable facilities.
- Structured and syndicated over $1.0 billion of new securitization facilities.

1989 to 1993
Senior Operations Officer

Senior due diligence officer for large, high risk lending transactions.

- Developed and recommended account management strategies for commercial business and real estate loans using corporate valuation principles and asset based lending guidelines.
- Transferred into the business analyst pool after completing Citicorp's credit training program in 1992.

1985 to 1989
Arthur Andersen & Co.
Chicago, Illinois

Senior Auditor

Performed auditing and served as financial consultant for high growth companies with annual revenues up to $250 million.

- Supervised, directed and managed 20 professionals working on up to four concurrent engagements.
- Developed significant auditing and financial reporting experience in addition to meaningful MIS consulting and corporate income tax preparation skills.

David Hunter Assessment Summary

As no candidate in any search follows the best-in-class benchmark perfectly, it is helpful to identify individual strengths and potential areas for development. Below are some interview questions to help probe areas of gap identified in the candidate's assessment results. To aid the interviewer, the appropriate behaviors to look for in the candidate's answers are provided, along with some indications of behaviors that may benefit from further investigation (signs of potential under/overuse).

Strengths

- Collaborative, teamwork oriented leader who comes across as approachable and interested in hearing other people's input and ideas.
- Initiates and maintains relationships, uses social influence to inspire and motivate others, and aims for win-win solutions so as to garner buy-in from others .
- Articulate communicator able to provide well-informed expertise, data, and reasons for his positions based on logic and rationale to win people over to his view.
- Strategic thinker who will analyze complex information, examine problems in context and aim for sophisticated solutions that simultaneously solve multiple interrelated issues.
- Moves readily from exploration to implementation; strong results-orientation and focus on deadlines and the bottom line.
- Will remain calm and cool under pressure and remain tenacious in the face of complex, long-lasting tasks.
- Appropriately assertive and confident in the face of risk and difficult challenges

Areas to Explore Further

When problem-solving, David reviews the global and strategic landscape, sees the larger context and understands how past experiences impact future decisions; he prefers to spend time examining the issues, considering all angles, and trying out different options. While David's approach to problem-solving is very close to the ideal, he may at times benefit from moving more swiftly from exploration to action to insure that his good ideas are implemented. Listen for signs that he recognizes when it is important to act decisively and quickly, and when innovation is not required. Listen for signs that he is skilled at moving away from exploration toward timely, structured and tenacious implementation of his good ideas.

- *Tell me about one of your creative ideas that worked. How did you go about implementing that plan?*
- *Describe a time when you made a quick decision that was against the prevailing opinion of others.*
- *What was the fastest major decision you made? What was the outcome?*

Assessment in Context: While assessment results, in our experience, add considerable insight into the behavioral and motivational dimensions of an executive's capabilities they are derived through an exercise typically requiring less than an hour of an executive's time. As we often say, "this reflects 45 minutes of an executive's life, not their life's work." As a result, the findings should always be integrated with other data and insights gathered regarding an executive, and should be verified through additional questioning and referencing to confirm their accuracy.

Position Specification

ND Retirement & Investment Office

Chief Investment Officer & Executive Director

October 25, 2013

CONFIDENTIAL POSITION SPECIFICATION

Position	Chief Investment Officer & Executive Director
Company	North Dakota Retirement & Investment Office (RIO)
Location	Bismarck, North Dakota
Reporting Relationship	This position will report to the North Dakota State Investment Board.
Website	http://www.nd.gov/rio

COMPANY BACKGROUND/CULTURE

The North Dakota Retirement and Investment Office (RIO) was established in 1989 to coordinate the activities of the State Investment Board (SIB) and The Teachers' Fund for Retirement (TFFR). The SIB is the governing authority for RIO.

The SIB has statutory responsibility for the administration of the investment programs of 23 funds, including the Public Employees Retirement System (PERS), the Teachers' Fund for Retirement (TFFR), the Workforce Safety & Insurance Fund, and the Legacy and Budget Stabilization Funds. The SIB also maintains contractual relationships for investment management with certain political sub-divisions. The 11 member SIB includes the Lt. Governor, State Treasurer, State Insurance Commissioner, Executive Director of Workforce Safety & Insurance, Land Commissioner, three representatives of PERS, and three representatives of TFFR.

In addition to administering the state's investment program, RIO is also responsible for administration of the TFFR pension program for ND educators. The TFFR serves over 10,000 members from 222 employer groups and pays benefits to more than 7,100 retirees and beneficiaries.

RIO employs a staff of 19, which includes the Executive Director – CIO, Deputy CIO, and five other positions generally allocated to the SIB investment program. RIO staff also includes a Deputy Executive Director – Chief Retirement Officer, who works with the TFFR Board and 11 other employees to administer the TFFR pension program.

All funds invested under the direction of the SIB follow the "Prudent Investor Rule." Investments are managed exclusively in the interest of meeting each funds' individual objectives. Asset allocation and investment policy are determined by each funds' individual governing board. All funds are managed externally, and professional investment managers, consultants and custodians are retained to assist in the implementation of the investment program.

The ND SIB believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues include:

A. Asset Allocation Targets: (1) setting appropriate benchmarks; (2) finding the right managers; (3) monitoring the program; and (4) searching for appropriate new opportunities.

B. To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process which involves three phases: (1) investment policy development/modification; (2) implementation/monitoring; and (3) evaluation.

The SIB investment team oversees externally-managed assets of approximately $6.1 billion. The assets are comprised of $3.7 billion in pension investments and $2.4 billion in insurance investments. The TFFR and the PERS plans comprise the bulk of the pension pool investments.

Recently added to SIB management, the ND Legacy Fund was created by a constitutional amendment in 2010, and provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011 be transferred to the Legacy Fund. The fund is projected to grow to approximately $3 billion by the end of the 2013-15 biennium.

As of March 31, 2013, the Pension and Insurance Trusts target asset allocation were as follows:

	Pension Trust Target
Domestic Large Cap	16.5%
Domestic Small Cap	4.9%
Developed International Equity	11.1%
Emerging Markets Equity	3.1%
Global Equity	16.0%

Private Equity	4.9%
Investment Grade Fixed Income	13.1%
Below Investment Grade Fixed Income	5.1%
Developed Investment Grade International Fixed Income	5.0%
Global Real Estate	9.7%
Timberland	4.9%
Infrastructure	4.9%
Cash & Equivalent	1.0%
	100.0%

	Insurance Trust Target
Domestic Large Cap	5.8%
Domestic Small Cap	2.0%
International Equity	4.0%
Domestic Fixed Income	28.6%
Inflation Protected	11.8%
Short Term Fixed Income	42.3%
Cash & Equivalent	2.3%
Real Estate	3.2%
	100.0%

KEY RESPONSIBILITIES

The Chief Investment Officer (CIO) of the SIB also serves as the Executive Director of RIO. The CIO manages the day-to-day investment activity and the multiple outside investment managers and advisors, formulates long-term investment policies and strategies, makes recommendations to the SIB and individual plan governing boards, and implements approved polices and strategies. The CIO also is responsible for serving as the in-house investment expert to the SIB and individual plan governing boards, providing education and advice on asset allocation, portfolio structure, and investment strategies. The Executive Director manages RIO's strategic planning process and leads the formulation of the organizational mission, objectives, and strategies.

Essential Duties and Responsibilities:

Investment Administration/Policy

- Formulate, evaluate and recommend an investment policy for all of SIB client assets, including asset allocation, structure of investment assets and, upon SIB approval, implementation of the policy.
- Monitor and evaluate total portfolio risk and return, and recommend adjustments to the asset allocation, investment strategy, manager structure and guidelines.
- Adjust managers' assets to maintain proper risk levels and asset allocation targets.
- Monitor and oversee SIB clients' external investment managers.
- On a monthly basis, evaluate and review the investment activity and portfolio management of the investment managers.
- Report a summary of investment manager activity and compliance with investment policy and contractual guidelines to the SIB and individual plan governing boards.
- Regularly meet with the investment managers to review performance and other activity.
- Oversee and, from time to time, participate in searches for new investment managers and consultants, negotiate fees and contracts, and recommend termination of managers when necessary.
- Coordinate direction on all investment issues for external investment consultant(s).
- Monitor, analyze, and recommend changes for all investment costs, including commissions, manager fees and other costs.
- Formulate, recommend and implement investment strategies in the U.S. and international public and private investment markets.
- Research and recommend new asset classes and innovative investment management styles that can increase the return on assets, reduce risk, or reduce costs to the plan.

- Assist the SIB and individual plan governing boards with investment education and other efforts to promote sound decision-making on investments.
- Provide written and verbal investment education and research to the SIB and individual plan governing boards, Legislative Committees, and other stakeholders, as necessary.

Office Administration

- Provides leadership, coaching and feedback to RIO staff, recommending measures to improve performance and increase efficiency.
- Direct the preparation and execution of the RIO budget and SIB legislative agenda. Assure follow-through and evaluate results.
- Establish and maintain working relationships across all organizational work units and levels.
- Represent the RIO and promote SIB programs to various stakeholders, constituencies, political subdivisions and the state legislature.
- Assure accountability and compliance with all statutory and SIB prescribed policies and procedures.
- Oversee the Deputy Executive Director/Chief Retirement Officer and subordinate staff responsible for administering accurate, prompt and efficient TFFR pension benefits program to constituents and educational outreach initiatives.

PROFESSIONAL EXPERIENCE/QUALIFICATIONS

Minimum ten years of relevant investment experience with a pension plan, foundation/ endowment, trust organization, investment banking firm, money management firm or financial consulting firm, with responsibility for the formulation and/or implementation of investment policy for substantial portfolios utilizing all major asset classes (e.g., stocks, bonds, real estate, private equity, etc.).

The person must have a superior intellectual capacity and be someone who is a natural leader, and be able to enhance the current investment management and retirement administration organization. He/She will also have to be a visionary and a strategic thinker. The right person will have demonstrable skills in building and motivating successful teams.

The ideal candidate will have a passion for excellence and the desire to have a significant impact on the organization. He/She will have outstanding people skills and experience in building, leading and mentoring a team of professionals in pension fund management, and will exhibit demonstrated leadership qualities, including the ability to engage and inspire a talented and dedicated senior staff. Ethics must be of the highest quality.

The successful candidate will possess excellent interpersonal skills, a compelling presence, and strong skills in working with diverse groups to assist each in meeting its respective goals. Presentation skills, both oral and written, shall be superb. Must be able to explain complicated topics in an understandable manner without talking down to the audience. Mature and self-assured, the successful candidate must be able to demonstrate credibility and gain respect, both internally and externally. Creative leadership is a critical success factor. He/She must continue to build a team that is supportive of one another, respects individual skills, is innovative, and takes opportunities to develop professional skills.

The successful candidate will have the following experience/traits:

- A deep and broad knowledge of institutional investment management, public sector funds preferred.
- A proven record of success in both academic and professional pursuits, established outstanding results, and a record of rapid advancement in every challenge undertaken.
- Superb team-building skills, with a predisposition to building consensus and achieving goals through collaboration rather than purely direct line authority.
- A positive, results-oriented style, evidenced by listening, motivating, delegating, influencing and monitoring the work being done.
- A high level of energy, sense of urgency, creativity and decisiveness, coupled with the ability/willingness to work hard and well under pressure.
- An engaging/open interpersonal style, complemented by the analytical pragmatism necessary to quickly dissect highly complex issues.
- Strong operations leadership and management skills.
- Ability to establish immediate credibility among his/her staff; a professional who is respected for his/her intelligence and technical expertise.
- A genuine interest in mentoring and developing professional staff members.
- Unquestionable integrity, credibility and character, demonstrating high moral and ethical behavior.

Additionally, the successful candidate will possess the following knowledge, skills and abilities:

- Extensive knowledge of investment concepts, strategies, styles, and analytical methodologies from the total portfolio level to individual security selection.
- Knowledge of global and domestic macro economic and capital market issues relating to investments.
- Knowledge of statistical concepts, methods and models, and their application to investments.
- Extensive skill in managing, mentoring and motivating staff to meet organization goals and objectives.
- Extensive skill in negotiating issues and resolving problems.
- Extensive skill in effective written and verbal communications, including preparing and delivering complex correspondence, reports, presentations, policies and proposals.
- Experience in interfacing and working collaboratively with governmental entities, such as legislative bodies, as needed.
- Ability to promote and maintain harmonious working relationships with co-workers, division staff and external contacts, and to work effectively in a professional team environment.
- Demonstrated ability in developing investment objectives and establishing performance benchmarks, policies, strategies and tactics for diversified investment programs.
- Strong media relations acumen. Outstanding written, verbal and presentation skills are required.
- A strong understanding of the public sector environment is critical, including financial reporting, accounting rules, media interface, open meetings and public record laws, and overall public sector processes.
- Experience interfacing and interacting with public funds boards is desired, as well as with consultants and investment advisors.

LEADERSHIP CHARACTERISTICS

Understanding the Business

- Knows the business and the mission-critical technical and functional skills needed to do the job; understands various types of business propositions and understands how businesses operate in general; learns new methods and technologies easily.

Making Complex Decisions

- Can solve even the toughest and most complex of problems; great at gleaning meaning from whatever data is available; is a quick study of the new and different; adds personal wisdom and experience to come to the best conclusion and solution, given the situation; uses multiple problem-solving tools and techniques.

Being Organizationally Savvy

- Maneuvers well to get things done; maze bright; knows where to go to get what he/she needs; politically aware and agile; knows what the right thing to do is; presents views and arguments well.

Communicating Effectively

- Writes and presents effectively; adjusts to fit the audience and the message; strongly gets a message across.

Relating Skills

- Warm, friendly, and interpersonally agile; easy to approach and talk to; relates well to all kinds of people; makes a pleasant first impression and builds solid relationships.

Inspiring Others

- Is skilled at getting individuals, teams, and an entire organization to perform at a higher level and to embrace change; negotiates skillfully to achieve a fair outcome or promote a common cause; communicates a compelling vision and is committed to what needs to be done; inspires others; builds motivated, high-performing teams; understands what motivates different people.

Acting with Honor and Character

- Is a person of high character; is consistent and acts in line with a clear and visible set of values and beliefs; deals and talks straight; walks his/her talk; is direct and truthful but at the same time can keep confidences.

EDUCATION

Candidates should have a Bachelor's degree from an accredited four-year college or university with major course work in business administration, finance, accounting, economics, or a related area. Either a master's degree in accounting, finance, economics, or a closely related field OR a CFA is strongly preferred.

COMPENSATION

The successful candidate will be paid a base salary ranging from $180,000 to $220,000 per year as well as benefits including: (1) paid family health insurance, (2) life insurance, and (3) a defined benefit retirement plan.

EQUAL OPPORTUNITY EMPLOYER

The State of North Dakota and this hiring agency do not discriminate on the basis of race, color, national origin, sex, genetics, religion, age or disability in employment or the provision of services, and complies with the provisions of the North Dakota Human Rights Act.

KORN/FERRY CONTACTS

Michael Kennedy
Senior Client Partner
Korn/Ferry International
1201 West Peachtree St., NW
Suite 2500
Atlanta, GA 30309
404-222-4009
michael.kennedy@kornferry.com

Michele Booth
Senior Associate
Korn/Ferry International
1201 W. Peachtree St., NW
Suite 2500
Atlanta, GA 30309
843-795-8287
michele.booth@kornferry.com

Lin Downs
Project Coordinator
Korn/Ferry International
1201 W. Peachtree St., NW
Suite 2500
Atlanta, GA 30309
404-222-4049
lin.downs@kornferry.com