ND STATE INVESTMENT BOARD MEETING

Friday, September 25, 2015, 8:30 a.m.
Fort Union Room, State Capitol
600 E Blvd., Bismarck, ND

I. APPROVAL OF AGENDA

II. APPROVAL OF MINUTES (AUGUST 28, 2015)

III. INVESTMENTS

A. Investment Fees and Expenses - Mr. Hunter (enclosed) (30 min) **Board Acceptance Requested**
B. Novarca Fee Review - Mr. Schulz (enclosed) (15 min) *Informational*
C. Private Equity Update - Mr. Hunter (15 min) *Informational*
D. Adams Street Partners Presentation - Mr. Jeff Diehl and Mr. Gonzalo (45 min)

========================== Break from 10:15 to 10:30 a.m. ===========================

E. Private Equity Recommendation - Mr. Hunter (enclosed) (30 min) **Board Action Requested**

IV. BOARD EDUCATION

A. Investment Conferences Attended by SIB Members (enclosed) - Mr. Schulz (10 min) *Informational*

V. MONITORING REPORTS (Board Acceptance Requested)

A. Annual Compliance Reports - Ms. Flanagan (enclosed) (5 min)
B. RIO Budget Update - Mr. Hunter (enclosed) (5 min)
C. RIO Staffing Update - Mr. Hunter (enclosed) (5 min)

VI. OTHER

Next Meetings: SIB Audit Committee meeting - September 25, 2015, 1:00 p.m., Ft. Union Room
SIB meeting - October 23, 2015, 8:30 a.m., Peace Garden Room

VII. ADJOURNMENT

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

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
AUGUST 28, 2015, BOARD MEETING

MEMBERS PRESENT:	Drew Wrigley, Lt. Governor, Chair Mike Sandal, Vice Chair Lance Gaebe, Land Commissioner Mike Gessner, TFFR Board Adam Hamm, Insurance Commissioner Rob Lech, TFFR Board Kelly Schmidt, State Treasurer Yvonne Smith, PERS Board Cindy Ternes, WSI designee Tom Trenbeath, PERS Board
MEMBERS ABSENT:	Mel Olson, TFFR Board
STAFF PRESENT:	Eric Chin, Investment Analyst Connie Flanagan, Fiscal & Invt Op Mgr Bonnie Heit, Assist to the SIB David Hunter, ED/CIO Terra Miller Bowley, Supvr Audit Services Cody Schmidt, Compliance Officer Darren Schulz, Dep CIO Susan Walcker, Invt Acct
GUESTS PRESENT:	Bill Howard, Callan Associates Inc. Jan Murtha, Attorney General’s Office

CALL TO ORDER:

Lt. Governor Wrigley called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, August 28, 2015, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MR. LECH AND SECONDED BY MS. SMITH AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE AUGUST 28, 2015, MEETING AS DISTRIBUTED.

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

MINUTES:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO APPROVE THE JULY 24, 2015, MINUTES AS DISTRIBUTED.

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

INVESTMENTS:

Asset and Performance Overview – Mr. Hunter updated the SIB on the status of the portfolios they manage on behalf of their clients as of June 30, 2015. Assets under management grew by approximately 14 percent or $1.3 billion. The SIB’s client assets, based on unaudited valuations, currently exceed $10.7 billion. The Pension Trust posted a net return of 3.5 percent with gains of $164 million. The Insurance Trust generated a net return of 2.3 percent with gains of $58 million. The Legacy Fund’s net return was 3.3 percent and assets increased by $1.1 billion.

Capital Group Watch List – RIO investment personnel recommended the SIB place the Capital Group International Equity mandate on the Watchlist. In May of 2015 the firm announced three of the seven portfolio managers would be relinquishing their responsibilities. Staff will continue to closely monitor the organizational changes.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED BY A ROLL CALL VOTE TO PLACE CAPITAL GROUP’S INTERNATIONAL EQUITY MANDATE ON THE WATCH LIST.

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

US Small Cap Equity - RIO investment personnel recommended the SIB approve a manager search to potentially replace Callan’s US small cap equity mandate within the Pension Trust. Staff also requested authorization to contract with Aon Hewitt to conduct a manager search given the relationship with Callan Associates. Staff is recommending the search given the recent reduction in assets under management within this strategy, the recent change in the number of managers used in the investment process, combined with the sharp decline in returns during the last year.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION REGARDING CALLAN’S US SMALL CAP EQUITY MANDATE.

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

Job Service De-Risking Strategy - RIO investment personnel recommended the transition of the Job Service pension plan assets to SEI Investments as part of a strategic plan to develop and manage a dynamic de-risking program on behalf of the Plan. Staff also requested authorization to implement a multi-manager structure utilizing SEI’s multi-manager investment platform.

IT WAS MOVED BY COMMISSIONER GAEBE AND SECONDED BY MR. TRENBEATH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION REGARDING THE JOB SERVICE PENSION DE-RISKING STRATEGY.

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

North Dakota Bankers Association – Mr. Hunter updated the SIB on the North Dakota Bankers Association meetings. Interested banks were supplied the SIB due diligence questionnaire which is required to be completed by all SIB managers on an annual basis. Five firms completed and returned the questionnaire and results indicated two firms were better suited to provide investment services to SIB clients based on current client investment guidelines and practices at this time. Mr. Hunter will share the findings with Callan Associates and these firms may be considered in future manager due diligence and selection processes in the event there is a mutual alignment of the investment needs of the SIB clients with the investment services offered by these firms.

Tobacco Free Trust Fund – RIO investment personnel conducted a search for managers that offer tobacco-free fixed income and equity strategies on behalf of the Tobacco Prevention and Control Trust Fund. Proposals were received from four firms; BlackRock iShares, Calvert Investments, Northern Trust Asset Management, and State Street Global Advisors. Staff requested authorization from the SIB to select State Street Global Advisors to manage a 90 percent total fund allocation in the State Street Global Advisors Barclays US Treasury 1-3 year index strategy and a 10 percent allocation in the State Street Global Advisors S&P 500 ex-tobacco strategy.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. SANDAL AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION REGARDING THE TOBACCO PREVENTION AND CONTROL TRUST FUND.

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

BOARD EDUCATION – Mr. Hunter reviewed board educational opportunities for the SIB's consideration and provided the board with a current version of Asset Class Definitions and Callan's Glossary of Investment Terms. The SIB requested staff put together a listing of educational events trustees have attended.

MONITORING REPORTS -

Trust Performance Measurement – Mr. Howard reviewed the Pension Trust and Insurance Trust performance measurement results by Callan Associates for the period ending June 30, 2015. Mr. Howard also provided an economic and market environment overview for the same time period.

The board recessed at 10:05 a.m. and reconvened at 10:15 a.m.

Budget Stabilization Fund – Mr. Hunter requested approval of the revised Investment Policy Statement (IPS) for the Budget Stabilization Fund. The IPS had been revised to reflect performance standards along with enhanced documentation standards and risk control factors for the Bank of North Dakota Match Loan CD Program.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MR. GESSNER AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION REGARDING THE BUDGET STABILIZATION FUND INVESTMENT POLICY STATEMENT.

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

QUARTERLY MONITORING:

Per Governance Policy, Board/Staff Relationship/Monitoring Executive Performance C-4, the following monitoring reports for the quarter ending June 30, 2015, were provided to the SIB for their consideration: Budget/Financial Conditions, Executive Limitations/Staff Relations, Investment Program, and Retirement Program. An updated Watch List was also included.

Mr. Hunter updated the SIB on the Information Technology Department's investigation of a cyber-attack against a state-run server earlier this summer. Final forensic testing recently determined that certain Teachers' Fund for Retirement member information was also affected. RIO retirement personnel will be contacting those individuals whose personal information was accessible although there is no evidence that cyber-attackers moved or duplicated any data.

RIO personnel continue to work through the process of finding a qualified candidate for the Data Processing Coordinator III position, which has been vacant since May 29, 2015.

IT WAS MOVED BY MS. TERNES AND SECONDED BY MS. SMITH AND CARRIED BY A VOICE VOTE TO ACCEPT THE MONITORING REPORTS FOR THE PERIOD ENDING JUNE 30, 2015.

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

ADMINISTRATION:

Mr. Hunter updated the SIB on RIO's enhanced website transparency. RIO will strive to enhance its overall level of transparency in order to expand public awareness and understanding, while instilling greater levels of trust and support with the community. The goal is to complete the website enhancements by December 2015.

Mr. Hunter also reviewed the Strategic Investment Plan for 2015-17.

OTHER:

The next scheduled SIB meeting is September 25, 2015, at 8:30 a.m. in the Ft. Union Room. The next scheduled SIB Audit Committee meeting is September 25, 2015, at 1:00 p.m. in the Ft. Union Room.

ADJOURNMENT:

With no further business to come before the SIB, Lt. Governor Wrigley adjourned the meeting at 10:35 a.m.

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Lt. Governor Wrigley, Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

State Investment Board

Investment Fees and Expenses

September 18, 2015

Dave Hunter, Executive Director / CIO
Darren Schulz, Deputy Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Investment Fees and Expenses - Overview

Summary: During the last two-years, investment management fees and expenses as a % of average assets under management declined from **0.65%** (or 65 basis points) in fiscal 2013 to **0.51%** (or 51 basis points) in fiscal 2014 to **0.47%** (or 47 basis points) in fiscal 2015.

All State Investment Board Clients	Average Assets Under Management	Investment Fees and Expenses	Basis Points
Fiscal Year Ended June 30, 2013	**$ 6.9 billion**	**$ 44.7 million**	**0.65%**
Fiscal Year Ended June 30, 2014	**$ 8.6 billion**	**$ 43.6 million**	**0.51%**
Fiscal Year Ended June 30, 2015	**$ 10.1 billion**	**$ 47.8 million**	**0.47%**

➢ Based on $10 billion of average assets under management, this decline of **14 bps** in fiscal 2014 and **3 bps** in fiscal 2015 translates into approximately $17 million of annual incremental savings.

➢ RIO expects to realize additional savings in future years including approximately $3 million (one-time adjustment) in reduced timber management incentive fees in late-2015 and over $200,000 (per year) of incremental savings from the Novarca fee review initiative. SIB clients will also benefit from the recent implementation of a conservative securities lending program (estimated at $500,000/year).

A basis point (or "bp") is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points ("bps") is equivalent to 1%.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

Pension and Insurance Trust Fee Comparisons

Comparison of Investment Management Fees and Expenses for the fiscal years ended June 30, 2014 and 2015	Pension Investment Pool			Insurance Investment Pool & Individual Investment Account			All State Investment Board Clients		
	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points
Fiscal Year Ended June 30, 2014:									
Investment manager fees	$ 4,470,165,619	$ 29,971,568	67	$ 4,162,072,107	$ 11,937,643	29	$ 8,632,237,726	$ 41,909,211	49
Total investment expenses		$ 1,071,465	2		$ 658,703	2		$ 1,730,168	2
	$ 4,470,165,619	**$ 31,043,033**	**69**	**$ 4,162,072,107**	**$ 12,596,346**	**30**	**$ 8,632,237,726**	**$ 43,639,379**	**51**
Fiscal Year Ended June 30, 2015:									
Investment manager fees	$ 4,710,192,594	$ 28,515,448	61	$ 5,436,559,874	$ 17,635,548	32	$ 10,146,752,469	$ 46,150,996	45
Total investment expenses		$ 886,186	2		$ 798,641	1		$ 1,684,827	2
	$ 4,710,192,594	**$ 29,401,634**	**62**	**$ 5,436,559,874**	**$ 18,434,189**	**34**	**$ 10,146,752,469**	**$ 47,835,823**	**47**
Decline (Increase) in Investment Manager Expenses during last year (basis points)			**7**			**-4**			**3**
Decline (Increase) in Investment Manager Expenses during last year (basis points			**10%**			**-12%**			**7%**

Notes: Preliminary data is deemed to be materially accurate, but unaudited and subject to change. Amounts in the table may not foot due to rounding.

- **Pension Trust** - Investment management fees and expenses as a % of average assets under management declined by 10**%** or 7 basis points between years.
- **Insurance Trust** - Investment management fees and expenses as a % of average assets under management increased by 12**%** or 4 basis points between years as a result of the implementation of the new strategic asset allocation on behalf of the Legacy Fund, which was completed in January 2015.

A basis point (or "bp") is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points ("bps") is equivalent to 1%.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

PERS: Investment Manager Fees by Asset Class

ND Public Employees Retirement System
Schedule of Investment Expenses

Performance fees approx. 0.17% the last two years.

	FY 2015				FY 2014			
	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	367,748,943	2,847,819	0.77%	0.12%	365,981,245	2,955,213	0.81%	0.12%
Domestic large cap equity managers	424,019,221	610,866	0.14%	0.03%	384,861,486	1,147,029	0.30%	0.05%
Domestic small cap equity managers	121,601,493	550,418	0.45%	0.02%	120,164,086	634,024	0.53%	0.03%
Developed international equity managers	265,970,201	911,722	0.34%	0.04%	256,155,282	870,056	0.34%	0.04%
Emerging markets equity managers	83,685,353	692,265	0.83%	0.03%	76,989,246	345,776	0.45%	0.01%
Investment grade domestic fixed income managers	312,406,325	1,176,165	0.38%	0.05%	275,056,490	1,801,790	0.66%	0.08%
Below investment grade fixed income managers	128,164,584	1,405,329	1.10%	0.06%	112,518,187	829,449	0.74%	0.04%
Developed international fixed income managers	115,019,321	421,044	0.37%	0.02%	107,270,172	379,087	0.35%	0.02%
Real estate managers	226,488,804	2,631,744	1.16%	0.11%	207,258,155	2,089,297	1.01%	0.09%
Timber managers	93,271,813	351,187	0.38%	0.01%	98,298,540	376,571	0.38%	0.02%
Infrastructure managers	100,057,644	1,150,098	1.15%	0.05%	84,925,843	751,175	0.88%	0.03%
Private equity managers	97,531,474	1,567,051	1.61%	0.07%	104,032,964	2,652,948	2.55%	0.11%
Cash & equivalents managers	33,606,169	36,755	0.11%	0.00%	25,974,562	35,935	0.14%	0.00%
Total investment managers' fees	**2,369,571,345**	**14,352,462**	**0.61%**		**2,219,486,259**	**14,868,351**	**0.67%**	
Custodian fees		238,481	0.01%	0.01%		322,750	0.01%	0.01%
Investment consultant fees		189,876	0.01%	0.01%		191,403	0.01%	0.01%
Total investment expenses		**14,780,818**	**0.62%**			**15,382,504**	**0.69%**	
Actual Investment Performance (Net of Fees)			**3.53%**				**16.38%**	
Policy Benchmark			**2.16%**				**15.67%**	
Outperformance			**1.37%**				**0.71%**	

➢ **PERS' fees declined to 62 bps from 69 bps in the last year** (and 81 bps in fiscal 2013) **due to various fee reduction initiatives which have benefitted from strong asset growth in North Dakota. SIB client assets under management have increased by 43% (or $3.2 billion) in the last two years.**

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

TFFR: Investment Manager Fees by Asset Class

ND Teachers' Fund for Retirement
Schedule of Investment Expenses

Performance fees approx. 0.17% the last two years.

	FY 2015				FY 2014			
	Average Market Value	Fees in $	Fees as % of Average MV	Contribution to Total Fees	Average Market Value	Fees in $	Fees as % of Average MV	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	321,891,600	2,485,008	0.77%	0.12%	326,235,450	2,605,453	0.80%	0.13%
Domestic large cap equity managers	361,755,481	522,029	0.14%	0.03%	340,895,908	1,018,026	0.30%	0.05%
Domestic small cap equity managers	101,678,471	460,633	0.45%	0.02%	105,239,002	551,815	0.52%	0.03%
Developed international equity managers	242,786,431	825,671	0.34%	0.04%	242,199,904	822,849	0.34%	0.04%
Emerging markets equity managers	61,770,280	510,947	0.83%	0.02%	57,526,583	258,679	0.45%	0.01%
Investment grade domestic fixed income managers	264,435,526	994,837	0.38%	0.05%	242,206,182	1,585,083	0.65%	0.08%
Below investment grade fixed income managers	114,424,543	1,254,560	1.10%	0.06%	100,794,001	747,407	0.74%	0.04%
Developed international fixed income managers	101,497,930	369,873	0.36%	0.02%	96,622,044	340,634	0.35%	0.02%
Real estate managers	205,843,933	2,391,856	1.16%	0.12%	188,509,149	1,899,944	1.01%	0.09%
Timber managers	84,600,686	318,538	0.38%	0.02%	89,210,349	341,757	0.38%	0.02%
Infrastructure managers	89,786,228	1,031,424	1.15%	0.05%	76,493,621	676,349	0.88%	0.03%
Private equity managers	89,522,760	1,438,374	1.61%	0.07%	95,436,733	2,433,316	2.55%	0.12%
Cash & equivalents managers	25,407,621	26,995	0.11%	0.00%	15,765,017	23,964	0.15%	0.00%
Total investment management fees	**2,065,401,488**	**12,630,744**	**0.61%**		**1,977,133,942**	**13,305,276**	**0.67%**	
Custodian fees		210,361	0.01%	0.01%		293,776	0.01%	0.01%
Investment consultant fees		169,068	0.01%	0.01%		172,148	0.01%	0.01%
Total investment expenses		**13,010,173**	**0.63%**			**13,771,200**	**0.70%**	
Actual Investment Performance (Net of Fees)			**3.52%**				**16.53%**	
Policy Benchmark			**2.16%**				**15.74%**	
Outperformance			**1.36%**				**0.79%**	

- **TFFR's fees declined to 63 bps from 70 bps in the last year** (and 81 bps in fiscal 2013) **due to various fee reduction initiatives which have benefitted from strong asset growth in North Dakota. SIB client assets under management have increased by 43% (or $3.2 billion) in the last two years.**

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

Legacy Fund: Investment Manager Fees by Asset Class

Legacy Fund
Schedule of Investment Expenses

	FY 2015				FY 2014			
	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Domestic large cap equity managers	657,310,185	1,280,864	0.19%	0.04%	221,898,125	502,317	0.23%	0.03%
Domestic small cap equity managers	240,214,984	1,043,694	0.43%	0.03%	80,140,583	350,670	0.44%	0.02%
International equity managers	587,722,699	2,397,207	0.41%	0.08%	208,777,033	884,793	0.42%	0.05%
Domestic fixed income managers	985,960,253	2,910,709	0.30%	0.10%	341,169,338	1,199,773	0.35%	0.07%
Diversified real assets managers	249,618,003	599,955	0.24%	0.02%	8,725,730	33,040	0.38%	0.00%
Real estate managers	151,340,748	1,125,359	0.74%	0.04%	48,719,775	490,567	1.01%	0.03%
Short-term fixed income managers	152,806,876	202,772	0.13%	0.01%	854,086,155	1,053,958	0.12%	0.06%
Cash & equivalents managers	15,892,632	21,374	0.13%	0.00%	57,174,100	60,350	0.11%	0.00%
Total investment managers' fees	**3,040,866,380**	**9,581,934**	**0.32%**		**1,820,690,839**	**4,575,468**	**0.25%**	
Custodian fees		313,311	0.01%	0.01%		216,970	0.01%	0.01%
Investment consultant fees		152,627	0.01%	0.01%		68,630	0.00%	0.00%
Total investment expenses		**10,047,873**	**0.33%**			**4,861,068**	**0.27%**	
Total Performance Fees Paid		**1,754,110**	**0.06%**			**558,086**	**0.03%**	
Actual Investment Performance (Net of Fees)			**3.31%**				**6.64%**	
Policy Benchmark			**2.37%**				**5.54%**	
Outperformance			**0.94%**				**1.10%**	

- **Investment fees for the Legacy Fund increased to 0.33% from 0.27% during the last year as the approved asset allocation strategy (of 50% equity, 35% fixed income and 15% real assets) was implemented. Performance fees doubled to approximately 0.06% from 0.03% in the prior year largely due to higher active management.**

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

WSI Fund: Investment Manager Fees by Asset Class

WSI Fund
Schedule of Investment Expenses

	FY 2015				FY 2014			
	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Domestic large cap equity managers	207,880,121	383,044	0.18%	0.02%	166,986,900	378,036	0.23%	0.02%
Domestic small cap equity managers	71,853,491	323,682	0.45%	0.02%	56,832,544	155,764	0.27%	0.01%
International equity managers	152,503,784	713,304	0.47%	0.04%	120,576,064	446,643	0.37%	0.03%
Domestic fixed income managers	911,298,376	2,678,697	0.29%	0.15%	827,438,595	2,756,064	0.33%	0.17%
Diversified real assets managers	253,626,477	1,651,100	0.65%	0.10%	355,360,774	1,465,980	0.41%	0.09%
Real estate managers	111,820,176	813,505	0.73%	0.05%	103,075,513	748,284	0.73%	0.05%
Cash & equivalents managers	23,081,195	31,892	0.14%	0.00%	14,893,021	22,587	0.15%	0.00%
Total investment managers' fees	**1,732,063,619**	**6,595,222**	**0.38%**		**1,645,163,411**	**5,973,359**	**0.36%**	
Custodian fees		204,289	0.01%	0.01%		204,289	0.01%	0.01%
Investment consultant fees		61,050	0.00%	0.00%		61,050	0.00%	0.00%
Total investment expenses		**6,860,561**	**0.40%**			**6,238,698**	**0.38%**	
Total Performance Fees Paid		**991,223**	**0.06%**			**820,266**	**0.05%**	
Actual Investment Performance (Net of Fees)			**3.27%**				**11.71%**	
Policy Benchmark			**2.65%**				**9.95%**	
Outperformance			**0.62%**				**1.76%**	

- **WSI's investment management fees increased slightly to 40 bps from 38 bps between years primarily due to slightly higher performance fees.**
- **WSI's investment management fees decreased sharply between fiscal 2014 (40 bps) and 2013 (66 bps) primarily due to lower performance fees.**

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

Budget Stabilization Fund: Investment Fees by Asset Class

Budget Stabilization Fund
Schedule of Investment Expenses

	FY 2015				FY 2014			
	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Short-term fixed income managers	478,363,794	660,665	0.14%	0.14%	466,375,734	507,502	0.11%	0.11%
Cash & equivalents managers	7,565,653	9,835	0.13%	0.00%	16,402,731	21,324	0.13%	0.00%
Total investment managers' fees	**485,929,447**	**670,500**	**0.14%**		**482,778,465**	**528,824**	**0.11%**	
Custodian fees		40,150	0.01%	0.01%		49,602	0.01%	0.01%
Investment consultant fees		26,509	0.01%	0.01%		17,623	0.00%	0.00%
Total investment expenses		**737,159**	**0.15%**			**596,049**	**0.12%**	
Actual Investment Performance (Net of Fees)			**1.86%**				**1.94%**	
Policy Benchmark			**0.75%**				**0.61%**	
Outperformance			**1.11%**				**1.33%**	

➢ **Investment management fees for the Budget Stabilization Fund increased to 15 bps from 12 bps between years but still remain reasonable at 15 bps when compared to the benefit provided by strong active management.**

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

Active Management Incremental Returns Exceed Investment Fees

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)				**115% Limit**	
Total Fund Return - Net	3.53%	10.98%	10.61%	7.9%	**0.22%**
Policy Benchmark Return	2.16%	9.73%	10.00%	7.6%	
Total Relative Return	**1.38%**	**1.25%**	**0.61%**	**104%**	
TEACHERS' FUND FOR RETIREMENT (TFFR)				**115% Limit**	
Total Fund Return - Net	3.52%	11.06%	10.94%	7.9%	**0.57%**
Policy Benchmark Return	2.16%	9.78%	9.97%	7.6%	
Total Relative Return	**1.36%**	**1.28%**	**0.97%**	**104%**	

Risk: Investment performance has been achieved while adhering to prescribed risk management guidelines which limit portfolio risk (as measured by standard deviation) to 115% of policy, as the actual level of **105%** is within the approved limit.

Five-Year Impact on Returns: Active management has generated over $130 million of incremental income for the Pension Trust for the 5-year period ended June 30, 2015.

One-Year Impact on Returns:

- **Active management has generated $60 million of incremental income for PERS and TFFR in fiscal 2015 ($4.44 billion x 1.37% = $60 million).**
- **This $60 million of incremental income is after $28 million in fees (for TFFR and PERS), so we received $3 back for every $1 paid out for fees last year ($60 million + $28 million = $88 million / $28 million).**
- **PERS generated 1.38% of excess return during the past year. Based on average invested assets of $2.37 billion, this translates into over $32 million of incremental plan income.**
- **TFFR generated 1.36% of excess return in fiscal 2015. Based on $2.06 billion on average assets, this translates into $28 million of additional income.**
- **Overall, SIB clients received a 3:1 return on $48 million of investment management fees in the last fiscal year.**

Note: PERS/TFFR = $60 million Legacy = $24 million WSI = $10 million BSF = $6 million Total = $100 million

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

State Investment Board

Novarca Fee Review Update

September 18, 2015

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Novarca Progress Update: September 18, 2015

To date, Novarca reduced fees by ~$220K per annum on a partial mandate of the NDSIB portfolio

SELECT PUBLIC EQUITY INVESTMENTS

- Initial overview of NDSIB portfolio showed fees already at or among lowest offered by its managers
- Further fee optimization achievable with effort but likely “singles” rather than “home runs”
- Transaction cost analysis performed

	# OF ACTIVE FUNDS	MARKET VALUE OF INVESTMENTS	STATUS	OBSERVATIONS AND RESULTS
SELECT PUBLIC EQUITY INVESTMENTS				
LSV Asset Management	3	1,108,927,397	Complete-$220K/yr savings achieved	U.S. Large Cap Strategy (30 bps) and Global Equity Strategy (10 bps) already very low for market. International Equity Strategy (46 bps) was previously competitive but growth of AUM outpaced current best-in-market rates. Fees on International Strategy (originally 46 bps) successfully reduced by $228K per annum (7 bps) on to better align with best in market.
Epoch Investment Partners	1	318,000,000	Complete	NDSIB already had best terms from manager for its size, and strategy outperformed benchmark by 300bps since inception, so investors have little leverage to improve existing fee terms. Transaction cost analysis revealed less-than-efficient trading on low turnover portfolio but market size of strategy prohibits more nimble execution.
Capital Guardian Trust Company	1	460,798,453	Just started	To be determined. Fees are relatively low but steps must be taken to ensure that full value of account taken into consideration.
Wellington Trust Company	1	90,419,925	Just started	To be determined. Smaller mandate offers less leverage with manager but Novarca has previous experience with this manager and similar in this sub-asset class.

PRIVATE EQUITY INVESTMENTS

- After an initial analysis, Novarca expects the PE portfolio will yield no savings despite high costs but analysis is ongoing
- Little leverage for fee concessions while NDSIB is gradually reducing PE portfolio size through attrition
- Majority of PE portfolio is in distribution mode

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

State Investment Board

Private Equity Update

September 18, 2014

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Private Equity Performance Summary

Pension Trust Private Equity
As of March 31, 2015
($ in millions)

		Vintage		Unfunded	Net Asset	% Total	Internal Rates of Return (IRR) — Net Returns				
	Adams Street Partnerships (ASP)	Year	Commitment	Commitment	Value	Pension	1-year	3-years	5-years	10-years	Inception
1	Direct Co-Investment	2006	$ 20.0	$ 0.9	$ 13.8	0.3%	22.9%	16.1%	16.9%		5.5%
2	BVCF IV	1999	$ 25.0	$ -	$ 5.7	0.1%	(1.9%)	20.1%	56.6%	27.7%	7.3%
3	ASP 2008 Non-US Fund	2008	$ 10.0	$ 2.4	$ 7.5	0.2%	7.8%	10.4%	9.7%		7.8%
4	1999 BPF Non-U.S. Trust Subscription	1999	$ 24.5	$ 0.6	$ 4.3	0.1%	(5.6%)	4.1%	7.4%	17.1%	12.0%
5	1999 BPF Trust Subscription	1999	$ 24.5	$ 1.1	$ 3.8	0.1%	(5.2%)	4.3%	8.2%	11.0%	6.1%
6	ASP 2010 US Fund	2010	$ 7.5	$ 3.3	$ 4.9	0.1%	22.0%	16.2%			16.5%
7	1998 BPF Trust Subscription	1998	$ 23.7	$ 0.9	$ 2.7	0.1%	(6.0%)	3.5%	6.9%	11.0%	5.1%
8	ASP 2010 Non-US Developed Fund	2010	$ 4.5	$ 2.1	$ 2.2	0.0%	(4.5%)	3.8%			3.8%
9	ASP 2010 Direct Fund	2010	$ 1.5	$ 0.1	$ 1.8	0.0%	7.1%	14.6%			14.4%
10	ASP 2010 Emerging Markets Fund	2010	$ 1.5	$ 0.6	$ 1.0	0.0%	25.8%	12.6%			9.3%
	Total ASP Private Equity		$ 142.7	$ 12.0	$ 47.6	1.0%	8.2%	11.1%	14.4%	14.1%	10.9%
	Non-ASP Primary Fund Partnerships										
11	Matlin Patterson Global III	2007	$ 40.0	$ 3.59	$ 28.0	0.6%	(7.5%)	12.9%	9.4%		5.6%
12	EIG Energy Fund XIV	2007	$ 45.0	$ 3.2	$ 20.2	0.4%	(14.6%)	(6.4%)	0.7%		5.6%
13	Capital International V	2007	$ 35.0	$ 6.3	$ 17.1	0.4%	(2.7%)	(4.2%)	5.4%		4.2%
14	Corsair III	2007	$ 25.0	$ 2.8	$ 14.0	0.3%	(3.6%)	2.5%	(3.1%)		(4.6%)
15	Capital International VI	2011	$ 35.0	$ 17.3	$ 12.2	0.3%	(17.4%)	(16.4%)			(17.5%)
16	Corsair IV	2010	$ 25.0	$ 12.8	$ 14.5	0.3%	10.6%	10.9%			5.1%
17	Quantum Energy Partners IV	2007	$ 15.0	$ 2.0	$ 7.7	0.2%	(17.5%)	10.5%	16.2%		9.0%
20	Corsair III - ND Investors	2008	$ 10.9	$ -	$ 11.8	0.2%	(9.2%)	2.9%	2.2%		1.2%
21	Lewis & Clark II	2009	$ 15.0	$ 1.7	$ 10.0	0.2%	(7.9%)	(7.0%)	(7.2%)		(8.0%)
18	Quantum Resources	2006	$ 15.0	$ 1.4	$ 1.3	0.0%	(25.2%)	(10.8%)	13.6%		3.6%
19	InvestAmerica (Lewis & Clark I)	2002	$ 7.5	$ 0.8	$ 2.2	0.0%	(39.5%)	(2.0%)	0.4%	3.1%	1.5%
20	Matlin Patterson Global II	2004	$ 40.6	$ 0.0	$ 1.2	0.0%	(3.8%)	(10.8%)	(40.4%)	(27.0%)	(27.0%)
20	Coral Partners VI	2002	$ 25.0	$ -	$ 0.6	0.0%	(54.8%)	(37.2%)	(21.5%)	(18.7%)	(18.2%)
21	Hearthstone MSIII	2003	$ 35.0	$ 35.2	$ 0.2	0.0%	(0.2%)	0.0%	0.0%	51.6%	25.2%
22	Matlin Patterson Global I	2002	$ 25.3	$ -	$ 0.0	0.0%	1.1%	(18.4%)	6.7%	6.1%	16.7%
23	Hearthstone MSII	1999	$ 3.5	$ 3.5	$ (0.0)	0.0%	153.0%	(100.0%)	23.0%	(28.3%)	27.5%
	Total - Non-ASP Private Equity		$ 397.8	$ 90.5	$ 141.0	3.0%	(9.6%)	(0.9%)	0.4%	0.8%	0.3%
	Total - Private Equity		$ 540.5	$ 102.5	$ 188.6	4.0%	(5.5%)	2.1%	3.8%	4.9%	4.2%

Source: Adams Street ASPIRE

Returns are reviewed, but not audited.

Summary: The private equity portfolio within the Pension Trust can largely be divided into two groups:

1) the Adams Street Partnerships which have generally performed in line with expectations with a net IRR of 14.4% in the last 5-years and 10.9% since inception; and

2) the Non-ASP Partnerships which have generally performed below expectations with a net IRR of 0.4% in the last 5-years and 0.3% since inception (with a few positive exceptions).

Key Takeaway: Promote the development of ***strategic partnerships*** like ASP to leverage a "best ideas" approach while increasing pricing leverage.

State Investment Board
Asset and Investment Performance Overview

September 18, 2015

Note: The "Asset and Investment Performance Overview" is provided for information purposes only as it was previously distributed at our SIB meeting on August 28, 2015.

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

State Investment Board – Client Assets Under Management

Fund Name	Market Values as of 6/30/15 [1]	Market Values as of 6/30/14 [2]
Pension Trust Fund		
Public Employees Retirement System (PERS)	2,422,579,596	2,332,744,037
Teachers' Fund for Retirement (TFFR)	2,103,807,352	2,061,684,912
Job Service of North Dakota Pension	96,392,560	97,825,769
City of Bismarck Employees Pension	81,745,818	78,804,326
City of Grand Forks Employees Pension	59,232,374	57,896,611
City of Bismarck Police Pension	35,889,943	34,643,204
Grand Forks Park District	6,035,137	5,938,993
City of Fargo Employees Pension	1,461	9,702
Subtotal Pension Trust Fund	**4,805,684,242**	**4,669,547,555**
Insurance Trust Fund		
Legacy Fund		2,215,941,142
Workforce Safety & Insurance (WSI)	1,762,659,137	1,703,987,980
Budget Stabilization Fund	574,011,150	586,199,881
City of Fargo FargoDome Permanent Fund	41,007,046	41,775,992
PERS Group Insurance Account	39,653,686	37,425,567
State Fire and Tornado Fund	23,416,231	29,223,707
Petroleum Tank Release Compensation Fund	7,162,837	7,092,998
State Risk Management Fund	6,849,216	6,948,162
State Risk Management Workers Comp Fund	6,224,541	5,965,322
ND Association of Counties (NDACo) Fund	3,833,499	3,445,373
State Bonding Fund	3,180,024	3,268,991
Insurance Regulatory Trust Fund	2,636,660	1,146,038
ND Board of Medical Examiners	2,174,702	1,889,897
Bismarck Deferred Sick Leave Account	872,178	849,818
Cultural Endowment Fund	383,050	364,979
Subtotal Insurance Trust Fund	**2,474,063,957**	**4,645,525,847**
Legacy Trust Fund		
Legacy Fund	3,328,631,302	
PERS Retiree Insurance Credit Fund	97,671,059	90,360,366
Total Assets Under SIB Management	**10,706,050,560**	**9,405,433,768**

[1] *6/30/15 market values are unaudited and subject to change.*

[2] *6/30/14 market values as stated in the Comprehensive Annual Financial Report.*

- SIB Client Assets Under Management grew by approximately 14% or $1.3 billion in the last year.
- The Pension Trust posted a net return of 3.5%, while the Insurance Trust generated a 2.3% net return in the last year. Investments were responsible for gains of $164 million for the Pension Trust and $58 million for the Insurance Trust excluding Legacy Fund assets.
- Legacy assets increased by 50% (or $1.1 billion) primarily due to tax collections, although net returns were 3.3% for the year ended June 30, 2015.
- SIB client assets exceeded $10.7 billion based on unaudited valuations as of June 30, 2015.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

Client Level Return & Risk Summary – June 30, 2015

Overview: **Pursuant to Section D.3 of the SIB Governance Manual**, SIB clients should receive investment returns consistent with their investment policies and market variables. This "End" is evaluated based on comparison of each client's actual net rate of return, standard deviation and risk adjusted excess return, to the client's policy benchmark over a minimum period of 5 years. The following five pages summarizes actual client level returns (net of fees), for the 1-, 3- and 5-year periods ended June 30, 2015. In order to determine relative performance, actual returns (net of fees) are compared to the policy benchmark for each relevant period. Risk metrics (standard deviation and risk adjusted excess return) are also reported for each SIB client, if applicable, for the 5-year period ended June 30, 2015.

Pension Trust: **All Pension Trust clients generated positive Excess Returns for the 1-, 3- and 5-year periods ended June 30, 2015, as summarized on the following two pages.** Over the past year, PERS and TFFR generated a net return of approximately 3.5% which exceeded the policy benchmark by over 1.36%. **Based on $4.44 billion of total assets for PERS and TFFR, this translates into $60 million of incremental income for the State's two largest pension plans in the last year** (e.g. $4.44 billion x 1.36% = $60 million). *The main drivers of excess returns in the overall Pension Trust were World Equity (0.49%), Domestic Fixed Income (0.40%), U.S. Equity (0.34%), International Equity and Fixed Income (0.23%) and Real Estate (0.18%), with Timber (-0.30%) representing the largest detractor during the past year.* **Risk Adjusted Excess Returns** for the five-years ended June 30, 2015 were positive for all current Pension Trust clients with one exception for the Grand Forks Park District Plan (which still generated a 11.1% return over the last along with 0.59% of excess return over the past five-years).

Insurance Trust: **All Insurance Trust clients generated positive Excess Returns for the 1-, 3- and 5-year periods ended June 30, 2015, with two 1-year exceptions for PERS Retiree Heath and PERS Group Insurance**. The PERS Retiree Health Insurance Credit Fund ($96 million) and Group Insurance Fund ($41 million) experienced negative excess returns of 0.51% and 0.01%, respectively, in the past year. Both funds had positive excess return for the 3- and 5-year periods ended June 30, 2015. RIO and PERS are reviewing the asset allocation for Group Insurance based on changing liquidity requirements. *The top two drivers of excess returns in the Insurance Trust were Domestic Fixed Income (0.23%) and Real Estate (0.17%), while the top three drivers of excess return in the Legacy Fund were International Equity (0.45%), U.S. Large Cap Equity (0.36%) and Real Estate (0.15%), over the last year.* **Risk Adjusted Excess Returns** were positive for all but one Insurance Trust client for the five-year period ended June 30, 2015.

Actual asset allocations are within Target ranges and guidelines as confirmed by Callan Associates as of June 30, 2015.

Note: Current year returns are unaudited and subject to change.

Pension Trust Return & Risk Summary – June 30, 2015

<u>Returns and Risk</u>: Every single Pension Trust client portfolio generated positive "Excess Return" over the last 1-, 3- and 5-year periods ended June 30, 2015, while adhering to prescribed risk levels (i.e. < 115% of policy) **with no exceptions.**

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
PERS (Main Plan)					
$ 2,401,309,136					
Total Fund Return - Net	**3.53%**	**10.98%**	**10.61%**	7.9%	**0.22%**
Policy Benchmark Return	2.16%	9.73%	10.00%	7.6%	
EXCESS RETURN	**1.38%**	**1.25%**	**0.61%**	**103.8%**	
TEACHERS' FUND FOR RETIREMENT (TFFR)					
$ 2,090,299,471					
Total Fund Return - Net	**3.52%**	**11.06%**	**10.94%**	7.9%	**0.57%**
Policy Benchmark Return	2.16%	9.78%	9.97%	7.6%	
EXCESS RETURN	**1.36%**	**1.28%**	**0.97%**	**103.8%**	
CITY OF BISMARCK EMPLOYEES PENSION					
$ 81,230,926					
Total Fund Return - Net	**3.69%**	**10.12%**	**10.29%**	6.9%	**0.55%**
Policy Benchmark Return	2.31%	8.59%	9.37%	6.6%	
EXCESS RETURN	**1.38%**	**1.53%**	**0.92%**	**103.8%**	

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

Pension Trust Return & Risk Summary – June 30, 2015

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
CITY OF BISMARCK POLICE PENSION					
$ 35,631,338					
Total Fund Return - Net	**3.56%**	**10.50%**	**10.61%**	7.4%	**0.54%**
Policy Benchmark Return	2.23%	9.07%	9.81%	7.2%	
EXCESS RETURN	**1.33%**	**1.44%**	**0.80%**	**102.5%**	
JOB SERVICE					
Total Fund Return - Net	**3.30%**	**9.43%**	**9.47%**	6.0%	**0.63%**
Policy Benchmark Return	1.59%	7.38%	8.33%	5.7%	
EXCESS RETURN	**1.71%**	**2.05%**	**1.14%**	**105.7%**	
CITY OF GRAND FORKS PENSION PLAN					
$ 56,504,623					
Total Fund Return - Net	**3.53%**	**11.15%**	**11.04%**	7.98%	**0.40%**
Policy Benchmark Return	2.23%	9.90%	10.36%	7.78%	
EXCESS RETURN	**1.30%**	**1.25%**	**0.68%**	**102.6%**	
GRAND FORKS PARK DISTRICT PENSION PLAN					
$ 6,033,693					
Total Fund Return - Net	**4.22%**	**11.57%**	**11.12%**	8.18%	**-0.15%**
Policy Benchmark Return	2.89%	10.27%	10.54%	7.63%	
EXCESS RETURN	**1.33%**	**1.29%**	**0.59%**	**107.2%**	

Risk Adjusted Excess Returns for the five-years ended June 30, 2015 were positive for all Pension Trust clients with one exception - the Grand Forks Park District Plan (which still generated 0.59% of excess return over the past five-years).

Risk Adjusted Excess Return measures actual portfolio results versus a benchmark adjusted by its risk relative to a benchmark portfolio. This metric is positive if excess returns are due to "smart" investment decisions or negative if driven by excess risk.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

Insurance Trust Return & Risk Summary – June 30, 2015

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
WORKFORCE SAFETY & INSURANCE (WSI)					
$ 1,770,406,238					
Total Fund Return - Net	**3.27%**	**7.71%**	**8.48%**	**3.9%**	**1.24%**
Policy Benchmark Return	2.65%	5.48%	6.69%	**3.6%**	
EXCESS RETURN	**0.61%**	**2.22%**	**1.78%**		
LEGACY FUND					
$ 3,194,769,809					
Total Fund Return - Net	**3.31%**	**3.69%**	**N/A**	**N/A**	**N/A**
Policy Benchmark Return	2.37%	2.73%	N/A	**N/A**	
EXCESS RETURN	**0.94%**	**0.96%**			
BUDGET STABILIZATION FUND					
$ 595,135,717					
Total Fund Return - Net	**1.86%**	**1.89%**	**2.28%**	**0.7%**	**0.32%**
Policy Benchmark Return	0.75%	0.55%	0.42%	**0.2%**	
EXCESS RETURN	**1.11%**	**1.34%**	**1.86%**		
FIRE & TORNADO FUND					
$ 25,431,804					
Total Fund Return - Net	**3.16%**	**8.76%**	**9.11%**	**5.3%**	**0.46%**
Policy Benchmark Return	2.49%	6.57%	7.15%	**4.4%**	
EXCESS RETURN	**0.67%**	**2.19%**	**1.95%**		

Returns and Risk: Actual investment returns of every Insurance Trust client exceeded their performance benchmarks for the five-years ended June 30, 2015 (if applicable). These "Excess Returns" were achieved while adhering to reasonable risk levels which were generally within 100 bps of policy levels.

Note: Excess Return values for WSI and the Legacy Fund were impacted by asset allocation changes in the last year.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

Insurance Trust Return & Risk Summary – June 30, 2015

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
STATE BONDING FUND					
$ 3,339,532					
Total Fund Return - Net	**1.25%**	**2.75%**	**3.71%**	**2.0%**	**1.31%**
Policy Benchmark Return	1.04%	1.04%	1.88%	**1.7%**	
EXCESS RETURN	**0.21%**	**1.71%**	**1.83%**		
INSURANCE REGULATORY TRUST FUND (IRTF)					
$ 658,357					
Total Fund Return - Net	**2.04%**	**6.75%**	**6.90%**	**4.5%**	**0.32%**
Policy Benchmark Return	1.75%	5.33%	5.59%	**3.8%**	
EXCESS RETURN	**0.29%**	**1.42%**	**1.30%**		
PETROLEUM TANK RELEASE COMPENSATION FUND					
$ 7,232,124					
Total Fund Return - Net	**1.13%**	**2.42%**	**3.41%**	**1.8%**	**1.23%**
Policy Benchmark Return	0.94%	0.95%	1.71%	**1.5%**	
EXCESS RETURN	**0.19%**	**1.47%**	**1.69%**		
STATE RISK MANAGEMENT FUND					
$ 6,929,517					
Total Fund Return - Net	**4.08%**	**8.80%**	**9.65%**	**4.8%**	**0.36%**
Policy Benchmark Return	3.46%	6.41%	7.46%	**3.9%**	
EXCESS RETURN	**0.62%**	**2.39%**	**2.19%**		
STATE RISK MANAGEMENT WORKERS COMP FUND					
$ 6,290,439					
Total Fund Return - Net	**4.57%**	**9.88%**	**10.62%**	**5.7%**	**0.39%**
Policy Benchmark Return	3.88%	7.55%	8.53%	**4.8%**	
EXCESS RETURN	**0.69%**	**2.33%**	**2.09%**		
ND ASSOCIATION OF COUNTIES FUND (NDACo)					
$ 3,562,951					
Total Fund Return - Net	**2.77%**	**7.88%**	**8.49%**	**6.1%**	**0.61%**
Policy Benchmark Return	2.16%	5.73%	6.58%	**5.1%**	
EXCESS RETURN	**0.61%**	**2.15%**	**1.91%**		

Risk Adjusted Excess Return measures a portfolio's excess return adjusted by its risk relative to a benchmark portfolio. This metric is positive if returns are due to "smart" investment decisions or negative if driven by excess risk.

Note: Every Insurance Trust client generated positive Risk Adjusted Excess Return over the past 5-years, with one exception for PERS Retiree Health Insurance Credit Fund (on the next page).

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

Insurance Trust Return & Risk Summary – June 30, 2015

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT					
$ 881,132					
Total Fund Return - Net	**2.95%**	**8.29%**	**8.84%**	**4.8%**	**0.44%**
Policy Benchmark Return	2.31%	5.88%	6.62%	**3.8%**	
EXCESS RETURN	**0.65%**	**2.42%**	**2.22%**		
FARGODOME PERMANENT FUND					
$ 41,752,458					
Total Fund Return - Net	**3.38%**	**10.92%**	**10.89%**	**7.6%**	**0.54%**
Policy Benchmark Return	2.57%	8.94%	9.34%	**6.9%**	
EXCESS RETURN	**0.81%**	**1.98%**	**1.55%**		
CULTURAL ENDOWMENT FUND					
$ 383,865					
Total Fund Return - Net	**5.22%**	**12.46%**	**12.55%**	**8.0%**	**0.59%**
Policy Benchmark Return	4.24%	10.38%	10.69%	**7.2%**	
EXCESS RETURN	**0.98%**	**2.08%**	**1.85%**		
BOARD OF MEDICAL EXAMINERS					
$ 2,168,964					
Total Fund Return - Net	**2.70%**				**N/A**
Policy Benchmark Return	1.84%				
EXCESS RETURN	**0.86%**				
PERS RETIREE HEALTH					
$ 96,499,236					
Total Fund Return - Net	**3.06%**	**11.30%**	**11.47%**	**8.6%**	**-0.22%**
Policy Benchmark Return	3.57%	10.51%	10.85%	**8.0%**	
EXCESS RETURN	**-0.51%**	**0.79%**	**0.62%**		
PERS GROUP INSURANCE					
$ 41,205,242					
Total Fund Return - Net	**0.01%**	**0.10%**	**0.17%**	**0.1%**	**0.04%**
Policy Benchmark Return	0.02%	0.06%	0.08%	**0.0%**	
EXCESS RETURN	**-0.01%**	**0.03%**	**0.09%**		

PERS Retiree Heath and PERS Group Insurance did not generate positive "Excess Return" over the past year, although 3- and 5-year performance was consistent with expectations.

Note: Every Insurance Trust client generated positive Risk Adjusted Excess Return over the past 5-years (if applicable), excluding the PERS Retiree Health Insurance Credit Fund which still posted a net return of 11.47% and excess return of 0.62% over the last 5-years.

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

AGENDA ITEM III.D.

40+ YEARS PRIVATE EQUITY LEADER

North Dakota State Investment Board

September 25, 2015

Presented by: Miguel Gonzalo, CFA and Jeff Diehl

Adams Street Partners

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Topics for Discussion

Adams Street Partners

Firm Overview

Adams Street Partners
Mission Statement

"Our mission is to be the premier private equity investment manager in the world by sustaining world-class investment performance and the confidence of our clients through our deep understanding of the global private equity marketplace and exemplary client service."

Adams Street Partners

A proven track record since 1972

- Shared insights across four global teams = better deal flow, due diligence and portfolio monitoring
- Approximately $27 billion* in assets under management:
  - 880+ fund investments
  - 240+ venture/growth investments
  - 80+ co-investments
  - 160+ secondary transactions
  - 300+ General Partner relationships
  - 340+ current advisory board seats
- Independent and 100% employee-owned with broad alignment of interests
- Signatory to the United Nations Principles for Responsible Investments (UNPRI)

* As of June 30, 2015.

Adams Street Performance Across Strategies

Primary, Secondary, Direct, and Co-Investment Investments[1]

Performance attribution as of March 31, 2015

	Adams Street Partners [2]					Public Market Equivalent [3]	Value Add
	1-Year	3-Year	5-Year	10-Year	Since Inception	Since Inception	Since Inception
Primary Only [4]	11.76%	12.55%	13.49%	11.84%	21.24%	13.15% [9]	8.09%
Secondary Only [5]	4.45%	10.56%	14.53%	16.96%	20.07%	9.49% [9]	10.58%
Primary Venture Capital [4]	27.04%	18.76%	17.53%	11.37%	25.89%	15.92% [9]	9.97%
Primary Buyout [6]	3.85%	9.48%	11.92%	12.99%	13.29%	6.58%	6.71%
Direct Funds [7]	17.47%	20.30%	19.96%	12.74%	13.04%	7.56% [9]	5.48%
Co-Investment Funds [8]	20.34%	23.32%	22.55%	–	21.59%	16.42%	5.17%

1 This chart, in USD, shows composite performance of private equity fund investments in Adams Street Partners "Core Portfolios" which are funds and separate accounts (excluding special mandate funds and non-discretionary separate accounts) of which Adams Street Partners is the general partner, manager or investment adviser (as applicable) and for which Adams Street Partners makes discretionary investments in private equity. For each strategy listed in the chart, performance is shown on a composite basis for all investments in Core Portfolios that are within that strategy. The returns presented in this chart do not represent returns achieved by any particular Adams Street Partners fund or any investor in an Adams Street Partners fund. For Adams Street Partners funds' net returns, please see the Adams Street Partners Net Performance chart in the notes section of this presentation.

2 With respect to Adams Street Partners partnership investments, IRRs are net of fees, carried interest and expenses charged to the underlying private equity funds, but are gross of Adams Street Partners' fees, carried interest and expenses, which reduce returns to investors. For the effect of Adams Street Partners' fees, carried interest and expenses on Adams Street Partners' fund returns to investors, please see Adams Street Partners Net Performance chart in the notes section of this presentation. There can be no guarantee that unrealized investments will ultimately be liquidated at the values reflected in this return data. With respect to Adams Street Partners direct/co-investment funds included in this data, performance is net of Adams Street Partners' fees, carried interest and expenses.

3 Public Market Equivalent (PME) is calculated using the MSCI World Index.

4 Inception date as of November 1, 1979. Past performance is not a guarantee of future results.

5 Inception date as of August 29, 1986. Past performance is not a guarantee of future results.

6 Inception date as of February 21, 1985. Past performance is not a guarantee of future results.

7 Direct Funds includes BVCF III (1993), BVCF IV (1999), AS V (2003), ASP 2006, ASP 2007, ASP 2008, ASP 2009, ASP 2010, ASP 2011, ASP 2012, ASP 2013 and ASP 2014.

8 Co-Investment Funds includes a separate account (1992-1998), Co-Investment I (2006), II (2009) and III (2014).

9 For some periods, it was not possible to calculate traditional PME because the pace of distributions would have created a short position in the public index. In these cases PME is calculated using the "Direct Alpha" PME methodology (Gredil, Griffiths, Stucke, "Benchmarking Private Equity: The Direct Alpha Method," 2014).

Long History as a Private Equity Leader

ADAMS STREET PARTNERS

1970s

1972: Began direct investing

1979: Established industry's first fund of funds

1980s

1985: Established first private equity performance benchmarks with Venture Economics (predecessor to the Thomson Reuters Private Equity Fund Performance Survey)

1986: Began secondary investing

1988: Helped NVCA establish valuation guidelines for PE industry

Established one of first dedicated secondary funds

1990s

1992: Helped establish AIMR/CFA performance guidelines for the industry

1996: Began annual fundraising process

1997: Opened London office (began international investing program)

1999: Began dedicated research in Asia

2000s

2000: Inducted into Private Equity Hall of Fame

2001: Became independent, employee-owned firm

2004: First commitment to India

2005: First commitment to China

2006: Opened Menlo Park and Singapore offices

2007: First commitment to Russia

2009: First commitment to Latin America

2010s

40+ YEARS PRIVATE EQUITY LEADER

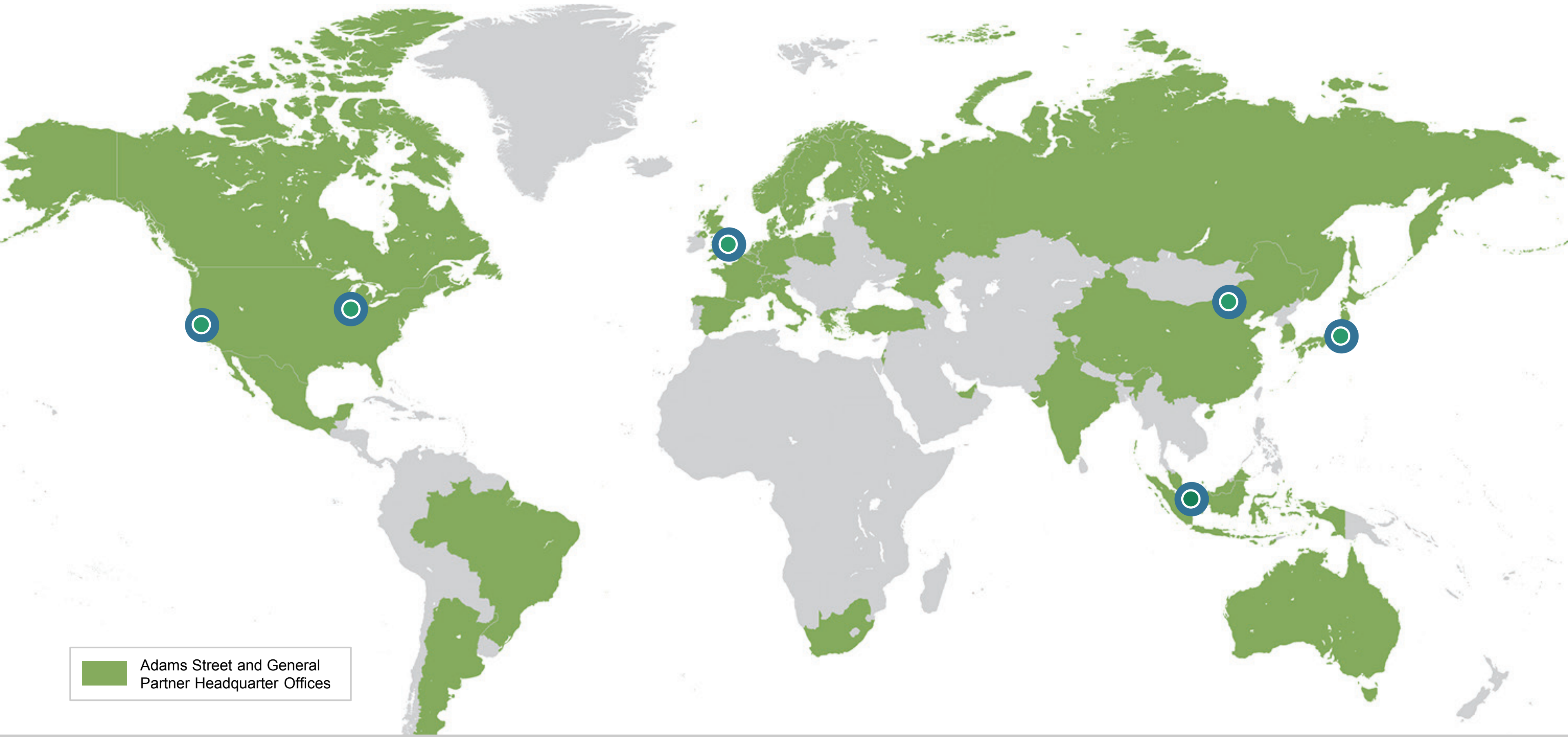
2011: Opened Beijing office

2012: 40 Years in Private Equity

2014: Opened Tokyo Office

Six Offices Sharing Insights Globally

Adams Street and General Partners headquarter offices



6 Adams Street Offices

- Beijing
- Chicago
- London
- Menlo Park
- Singapore
- Tokyo

32 General Partner Headquarter Offices

- Argentina
- Australia
- Belgium
- Brazil
- Canada
- China
- Denmark
- Finland
- France
- Germany
- Greece
- Hong Kong
- India
- Indonesia
- Israel
- Italy
- Japan
- Korea
- Malaysia
- Netherlands
- Norway
- Poland
- Russia
- Singapore
- South Africa
- Spain
- Sweden
- Switzerland
- Turkey
- United Arab Emirates
- United Kingdom
- United States

The Investment Team

ADAMS STREET PARTNERS

Bon French
Executive Chairman
Chicago

Jeff Diehl
Managing Partner &
Head of Investments
Chicago

FUND INVESTMENTS

SECONDARY

Jason Gull
Head of Secondary Investments
Chicago

Jeff Akers — *Chicago*
Joe Goldrick — *Chicago*
Troy Barnett — *Chicago*
Greg Holden — *London*
Charlie Denison — *Chicago*
Pinal Nicum — *London*
Sarah Finneran — *Chicago*
Joel Niekamp — *Chicago*
Kristof Van Overloop — *London*

ASSOCIATES

Jason Frank — *Chicago*
Eric Klen — *Chicago*
Clinton Miller — *Chicago*

PRIMARY

Kelly Meldrum
Head of Primary Investments
Menlo Park

David Arcaux — *London*
Tom Gladden — *Chicago*
Sunil Mishra — *Singapore*
Piau-Voon Wang — *Singapore*
Jeff Burgis — *Chicago*
Doris (Yiyang) Guo — *Beijing*
Ross Morrison — *London*
Kathy Wanner — *Chicago*
Adam Chenoweth — *Chicago*
Jim Korczak — *Chicago*
Sergey Sheshuryak — *London*
Morgan Webber — *Chicago*
Arnaud de Cremiers — *London*
Dominic Maier — *London*
Yar-Ping Soo — *Singapore*
Ling Jen Wu — Singapore
Saguna Malhotra — *Menlo Park*
Michael Taylor — *Menlo Park*

ASSOCIATES

Alex Bozoglou — *London*
Jonathan Goh — *Singapore*
Marcus Lindroos — *Chicago*

DIRECT INVESTMENTS

Terry Gould
Head of Direct Investments
Chicago

CO-INVESTMENTS

Dave Brett
Head of Co-Investments
Chicago

Sachin Tulyani — *London*
Benjamin Wallwork — *London*
Craig Waslin — *Chicago*

VENTURE CAPITAL/ GROWTH EQUITY

Tom Bremner — *Chicago*
Jeff Diehl — *Chicago*
Robin Murray — *Menlo Park*
Dave Welsh — *Menlo Park*
Mike Zappert — *Menlo Park*

ASSOCIATES

Brian Dudley — *Menlo Park*
Sam Shanley — *Chicago*
Michaela Venuti — *Menlo Park*

INVESTMENT ANALYTICS

Ray Chan
Head of Risk Management and Advanced Analytics
Chicago

Mhahesh Madhavan — *Chicago*
Toby True — *Chicago*
Jian Zhang — *Chicago*

STRATEGY

Miguel Gonzalo
Head of Investment Strategy
Chicago

Organized to Ensure Investment Focus

Adams Street Partners

EXECUTIVE COMMITTEE			
Bon French	Executive Chairman	**Terry Gould**	Head of Direct Investments
Kevin Callahan	Chief Operating Officer	**Jason Gull**	Head of Secondary Investments
Jeff Diehl	Managing Partner & Head of Investments	**Quintin Kevin**	Chief Financial Officer
Gary Fencik	Head of Business Development	**Kelly Meldrum**	Head of Primary Investments

INVESTMENT

PRIMARY

David Arcauz
Jeff Burgis
Adam Chenoweth
Arnaud de Cremiers
Tom Gladden
Doris (Yiyang) Guo
Jim Korczak
Saguna Malhotra
Dominic Maier
Sunil Mishra
Ross Morrison
Sergey Sheshuryak
Yar-Ping Soo
Michael Taylor
Piau-Voon Wang
Kathy Wanner
Morgan Webber
Ling Jen Wu

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Marcus Lindroos

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Joe Goldrick
Greg Holden
Pinal Nicum
Joel Niekamp
Kristof Van Overloop

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Eric Klen
Clinton Miller

DIRECT

Thomas Bremner
Dave Brett
Robin Murray
Sachin Tulyani
Ben Wallwork
Craig Waslin
Dave Welsh
Mike Zappert

ASSOCIATES

Brian Dudley
Sam Shanley
Michaela Venuti

ADVANCED ANALYTICS

Ray Chan
Mhahesh Madhavan
Tobias True
Jian Zhang

STRATEGY

Miguel Gonzalo
Alex Storer

CLIENT SERVICE

ACCOUNT MANAGEMENT

Lauren Bozzelli
John Gray
Ana Maria Harrison
Scott Hazen
Jana Monier
Isamu Sai
Steven Wilde

LEGAL

Ben Benedict
Tim Bryant
Gail Carey
Sara Robinson Dasse
Jennifer Goodman
Eric Mansell
Valencia Redding
Anne Semik
Shoko Shinohara

BUSINESS DEVELOPMENT

Mike Chia
John Kremer

COMMUNICATIONS

Martin Gawne
Melissa Lefko
Greta Nolan
Megan Schroeder

FINANCE, PERFORMANCE REPORTING, IT AND HR

FINANCE

Stephen Baranowski
Sarah Bass
Sejal Bell
Juan Beltran
Naz Busch
Ellen Castellini
Sara Cushing
Scott Fisher
Jessica Garvey
Lynn Hayden
Karolina Janus
Christopher Larson
Alex Lesch
Megan Martis
Steve Montag
Joe Peck
Lena Pugh
Jamie Raibley
Scott Rybak
Olivia Schreader
Jason Swanson
Christina Totton
Douglas Wong
Triste Wyckoff-Heintz

PERFORMANCE REPORTING

Mike Rosa
Renee Vogl
Molly Winans

INFORMATION TECHNOLOGY

Philipp Bohren
Curt De Witt
Mike Giannangelo
Megan Heneghan
Derek Piunti

HUMAN RESOURCES

Carolyn Flanagan
Kristen Lampert
Erin Perry

Adams Street Partners' Cultural Norms and Operating Guidelines

- ✓ We share common goals
- ✓ We operate with integrity
- ✓ We are decisive and accountable
- ✓ We communicate transparently
- ✓ We are meritocratic

History and Overview of Private Equity Markets

What is Private Equity?

Adams Street Partners

- Investments in companies that are not listed on a publicly-traded exchange.

- Private equity is appealing from a total portfolio perspective because of:
  - Potentially attractive, risk-adjusted returns
  - Imperfect correlation with other asset classes
  - Market inefficiency; transactions are negotiated

- But private equity is:
  - A long-term investment
  - Relatively illiquid
  - High risk, particularly on an individual transaction basis

Evolution of Private Equity

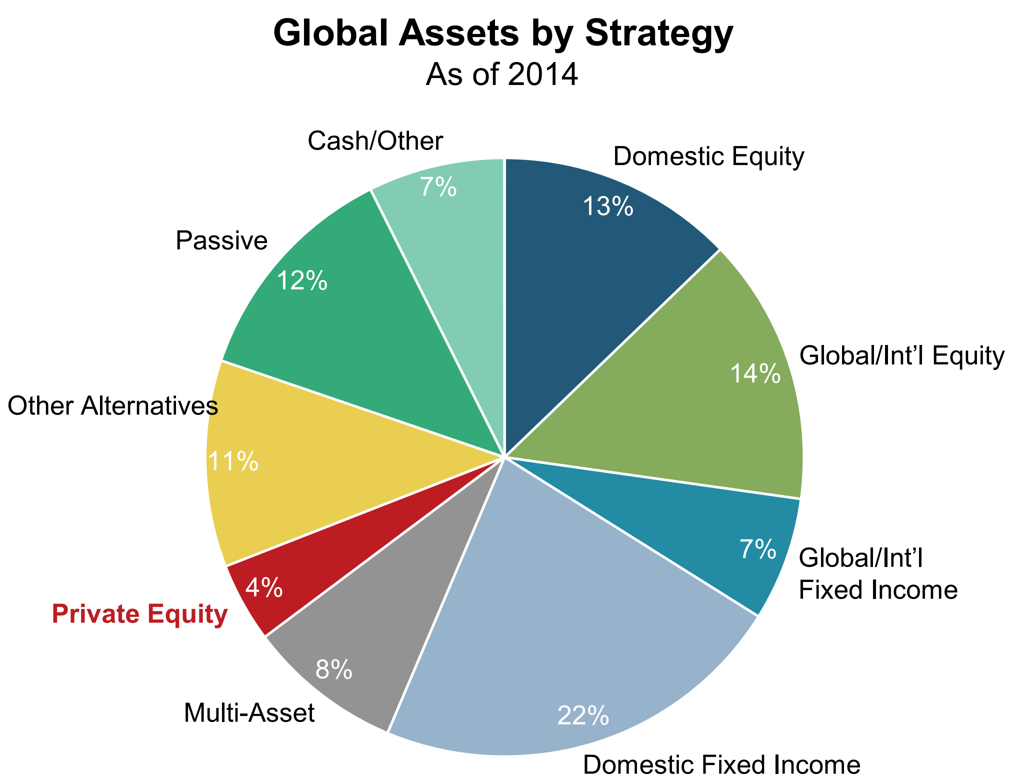
Private equity has driven many of the industries largest transactions

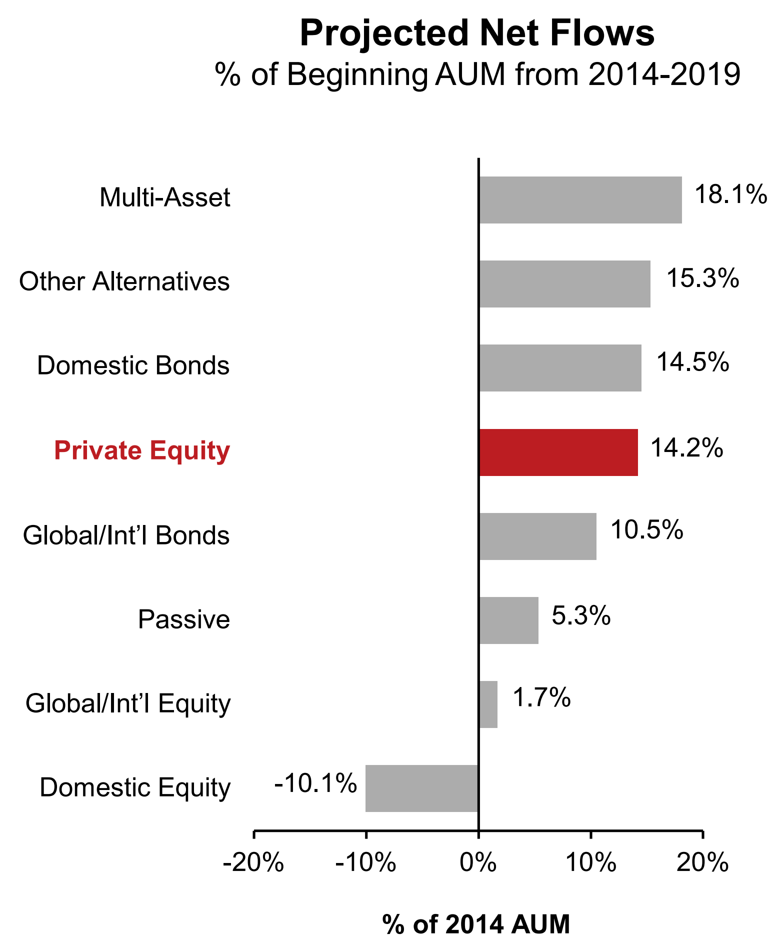
ADAMS STREET PARTNERS

	Origin of PE *1950-1970*	**Rapid Expansion** *1970-2000*	**Global** *2000-Today*
Description:	▪ Began with Venture Capital space being invested in by high net worth individuals ▪ The growth of Silicon Valley drove high returns and investor interest	▪ Driven largely by changing regulation, institutional investors flooded the private equity space ▪ Leveraged buyouts rapidly grew in popularity culminating with the buyout of RJR Nabisco	▪ Rapid asset growth has continued, but become more specialized… ▪ …moving toward niche strategies and new markets (Europe, Asia, Latin America)
PE Strategies:	▪ Venture Capital	▪ Venture Capital ▪ Buyout ▪ Fund of Funds ▪ Distressed investing	▪ Buyout ▪ Fund of funds ▪ Secondaries ▪ Co-investments ▪ Private Debt/Mezzanine Lending
Key Investors:	▪ Wealthy families and individuals	▪ Pensions ▪ Endowments/Foundations ▪ Family Offices/High-net worth	▪ Pensions ▪ Endowments/Foundations ▪ Family Offices/High-net worth ▪ Sovereign wealth funds
Representative Investments:	FAIRCHILD SEMICONDUCTOR	Nabisco, Genentech, Apple	facebook, Hilton HOTELS & RESORTS, twitter

Global Assets under Management

Private equity represents about 4% of assets

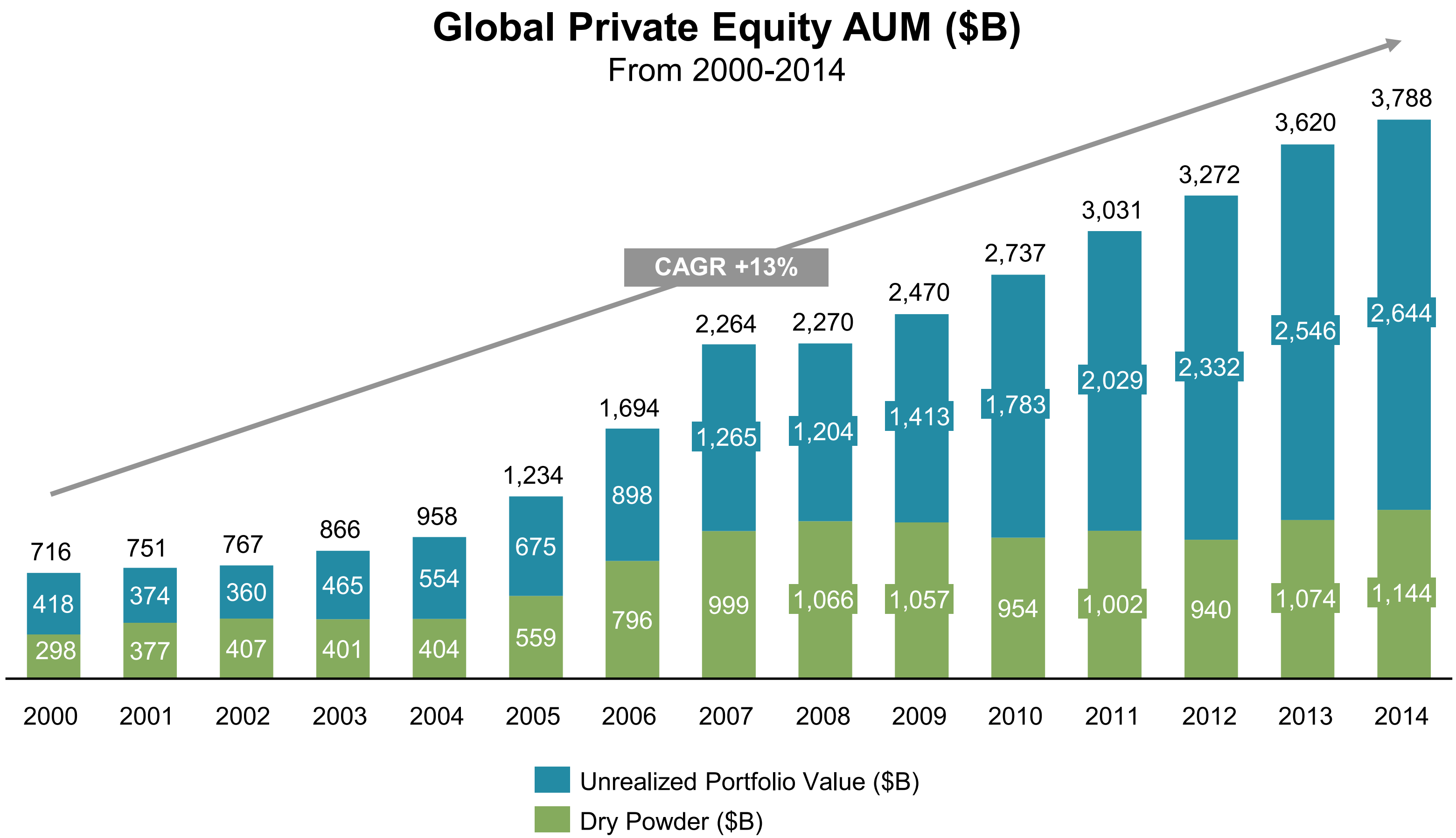




Source: Casey Quirk analysis

Size of Market

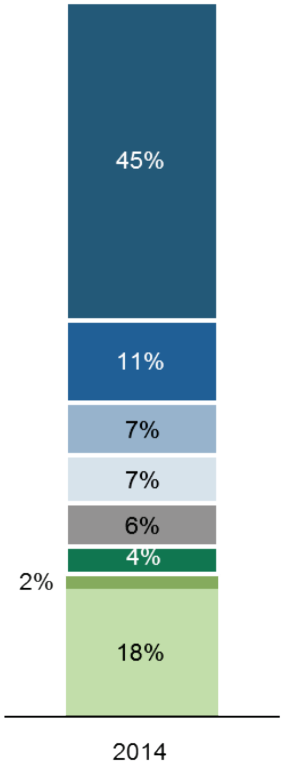
Globally, the private equity market has reached nearly $4T



Source: Preqin

Subclasses

Buyout continues to lose ground to other PE subclasses



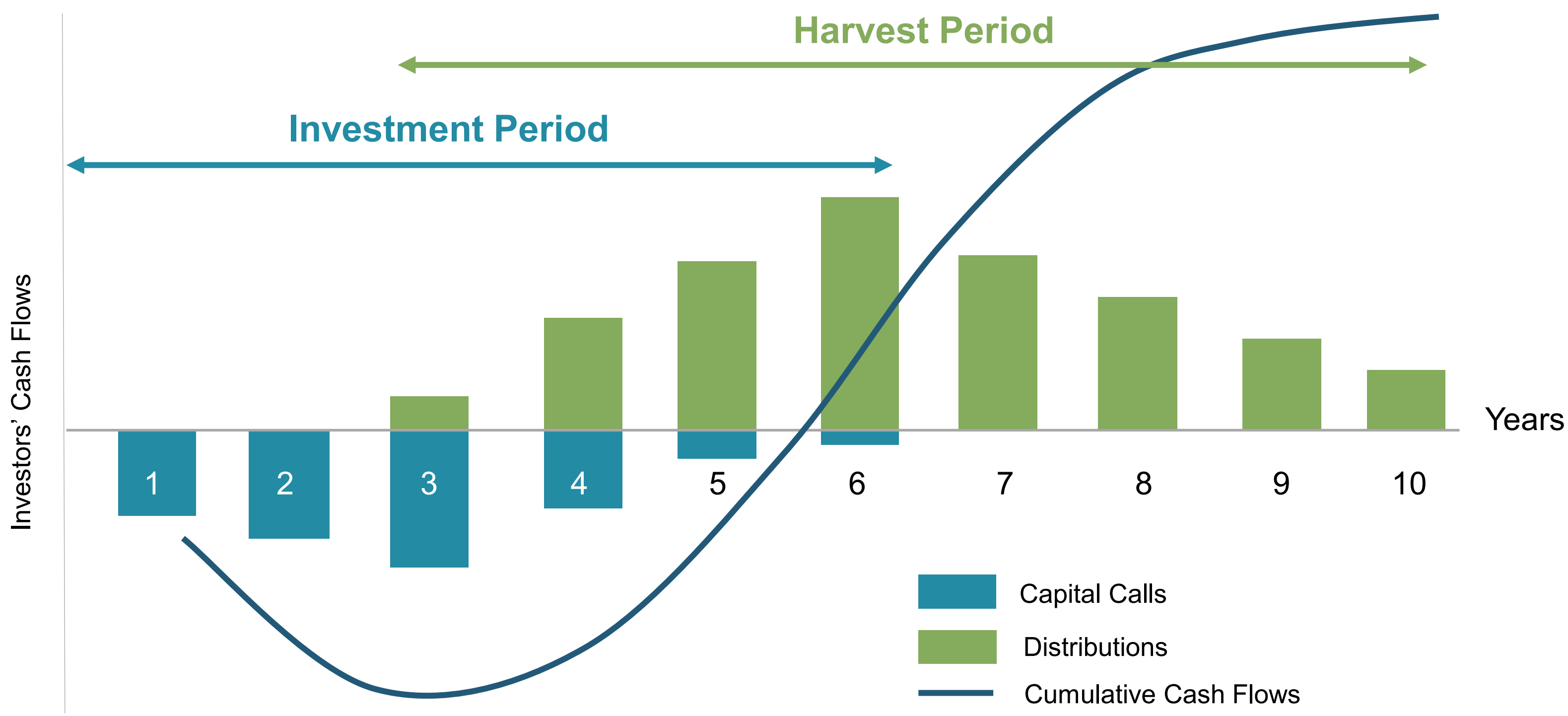
2014 PE Capital Raised by Strategy

Strategy	% of Capital Raised	Description
Buyout	45%	• Invests in established companies, often with the intention of improving operations and/or financials
Venture	11%	• Provides capital to new or growing businesses with perceived, long-term growth potential
Growth	7%	• Targets profitable, but still maturing, investee companies with significant scope for growth
Distressed PE	7%	• Buys corporate bonds of companies that have either filed for bankruptcy or appear likely to do so in the near future
Secondaries	6%	• Acquires stakes in private equity funds from existing limited partners
Fund of Funds	4%	• Invests in a diversified mix of private equity partnerships
Mezzanine	2%	• Debts used to finance acquisitions and buyouts
Other	18%	• Includes infrastructure, natural resources, and other private asset classes

Source: Preqin

Private Equity Returns

The "J-Curve"



- Investors' capital commitments are made at fund closing
- Capital is drawn down as needed during investment period (years 1-6)
- Capital is distributed to investors as investment exits are realized (years 3-10)
- Distributions normally commence before the entire commitment has been drawn down

Portfolio Update

North Dakota State Investment Board

Private equity portfolio summary

Total portfolio as of March 31, 2015

ADAMS STREET PARTNERS

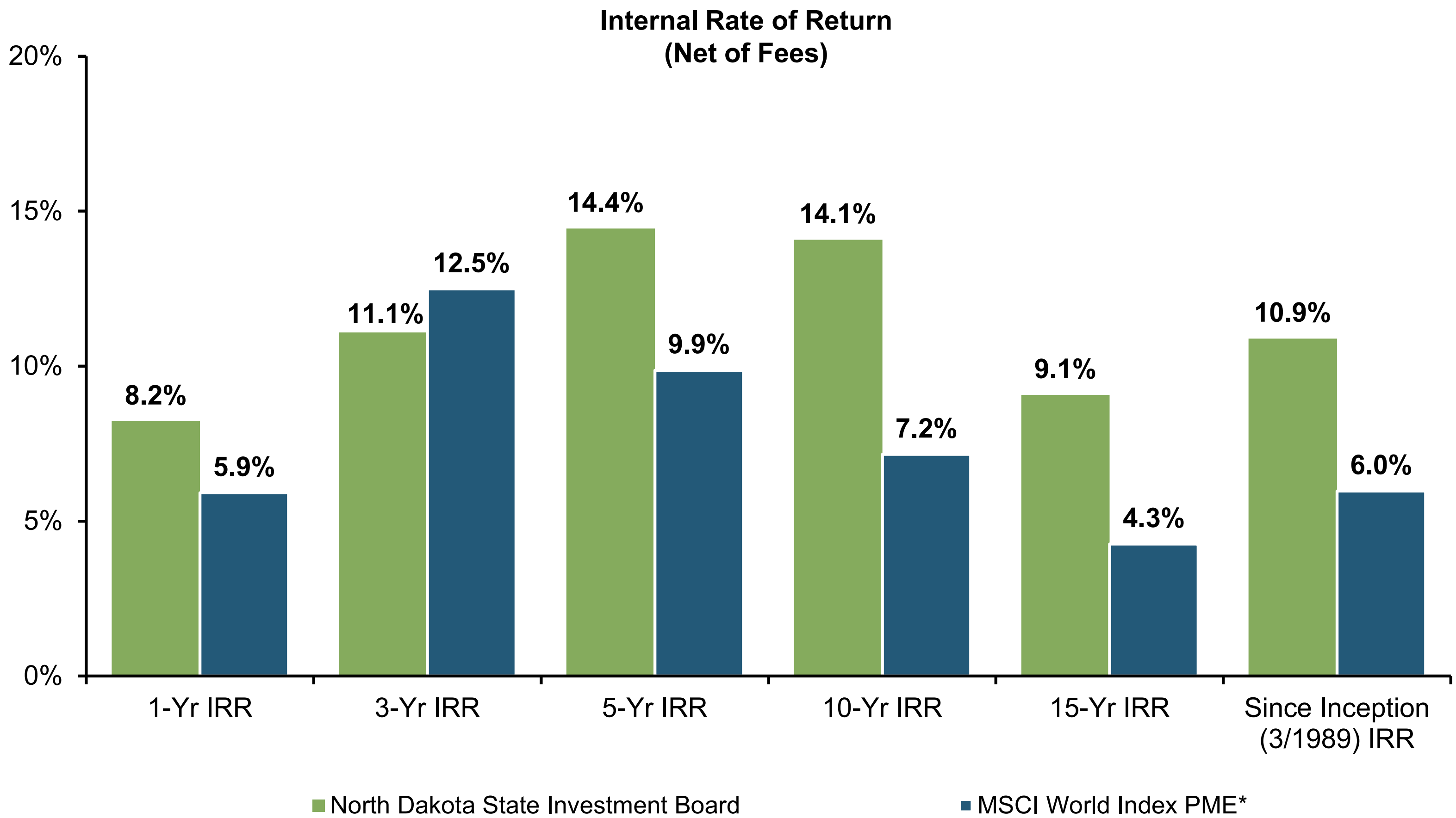
	Subscription	Investment Commitments	Amount Drawn	Amount UnDrawn	Market Value (NAV)	Distributions Received (D)	Total Value (NAV + D)	Net IRR Since Inception	Inception Date	Total Value / Amount Drawn
Institutional Venture Capital Fund II	$5,000,000	$5,000,000	$5,000,000	$0	$0	$13,434,867	$13,434,867	21.34%	3/1989	2.69x
Institutional Venture Capital Fund III	$6,000,000	$6,000,000	$6,000,000	$0	$0	$18,438,143	$18,438,143	34.15%	1/1993	3.07x
1998 Global Fund	$23,701,761	$23,984,482	$22,848,073	$853,688	$2,665,816	$31,902,762	$34,568,578	5.07%	1/1998	1.51x
1999 Global Fund	$24,489,864	$24,704,938	$23,421,339	$1,068,525	$3,790,810	$33,088,783	$36,879,594	6.10%	1/1999	1.57x
1999 Non-U.S. Fund	$24,523,732	$24,535,122	$23,944,608	$579,124	$4,264,786	$42,459,204	$46,723,990	11.97%	1/1999	1.95x
Venture Capital Fund IV	$25,000,000	$25,000,000	$25,000,000	$0	$5,724,657	$38,878,785	$44,603,442	7.28%	5/1999	1.78x
Direct Co-Investment	$20,000,000	$20,000,000	$19,100,000	$900,000	$13,782,238	$13,811,476	$27,593,714	5.55%	9/2006	1.44x
ASP 2008 Non-US Fund	$10,000,000	$9,959,438	$7,555,000	$2,445,000	$7,469,263	$1,874,726	$9,343,989	7.83%	1/2008	1.24x
2010 Global Fund	$15,000,000	$14,981,391	$8,892,750	$6,107,250	$9,940,422	$1,721,431	$11,661,853	12.71%	4/2010	1.31x
Grand Total	$153,715,357	$154,165,370	$141,761,770	$11,953,587	$47,637,992	$195,610,178	$243,248,170	10.89%		1.72x

MSCI World Since Inception	5.97%	Added Value	4.92%
Russell 3000 Since Inception	7.03%	Added Value	3.86%

April 1, 2015 – September 15, 2015
Draws: $1.3 million
Distributions: $11.4 million

North Dakota State Investment Board

Intraperiod returns as compared to benchmark data
Total portfolio as of March 31, 2015



* Direct Alpha Methodology

North Dakota State Investment Board

Annualized general partner returns (net of their fee and carry)

Total portfolio as of March 31, 2015

ADAMS STREET PARTNERS

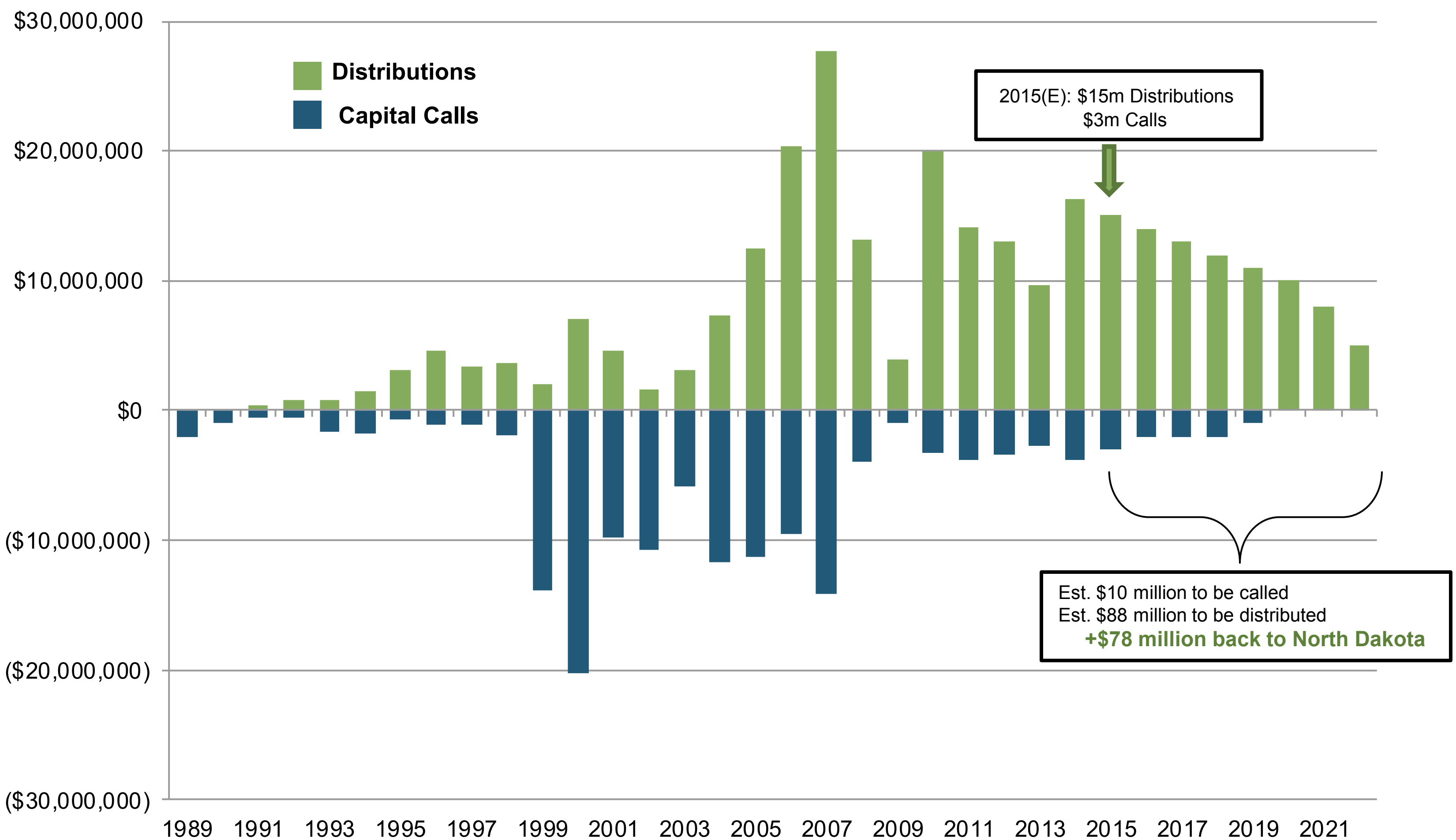
	North Dakota State Investment Board						Public Market Equivalent*
	1-Year	3-Year	5-Year	10-Year	15-Year	Since Inception (1989)	Since Inception
All Private Equity	9.3%	12.7%	16.6%	16.6%	8.6%	12.6%	6.0%
Venture Capital	8.8%	16.3%	25.2%	18.6%	4.5%	11.0%	5.5%
Non-Venture Capital	9.6%	11.3%	13.7%	15.3%	13.7%	14.1%	6.5%
Secondaries	4.3%	12.8%	20.2%	34.7%	21.6%	19.2%	9.3%
Primaries	9.6%	12.7%	16.5%	16.3%	8.3%	12.2%	5.8%

NDSIB has outperformed the public markets by a wide margin across all strategies

* PME is based on MSCI World Index linked by cash flow equivalents

North Dakota State Investment Board

ASP portfolio cash flow model: actual and forecast estimate



Portfolio is in full liquidation

2015 Global Private Equity Program

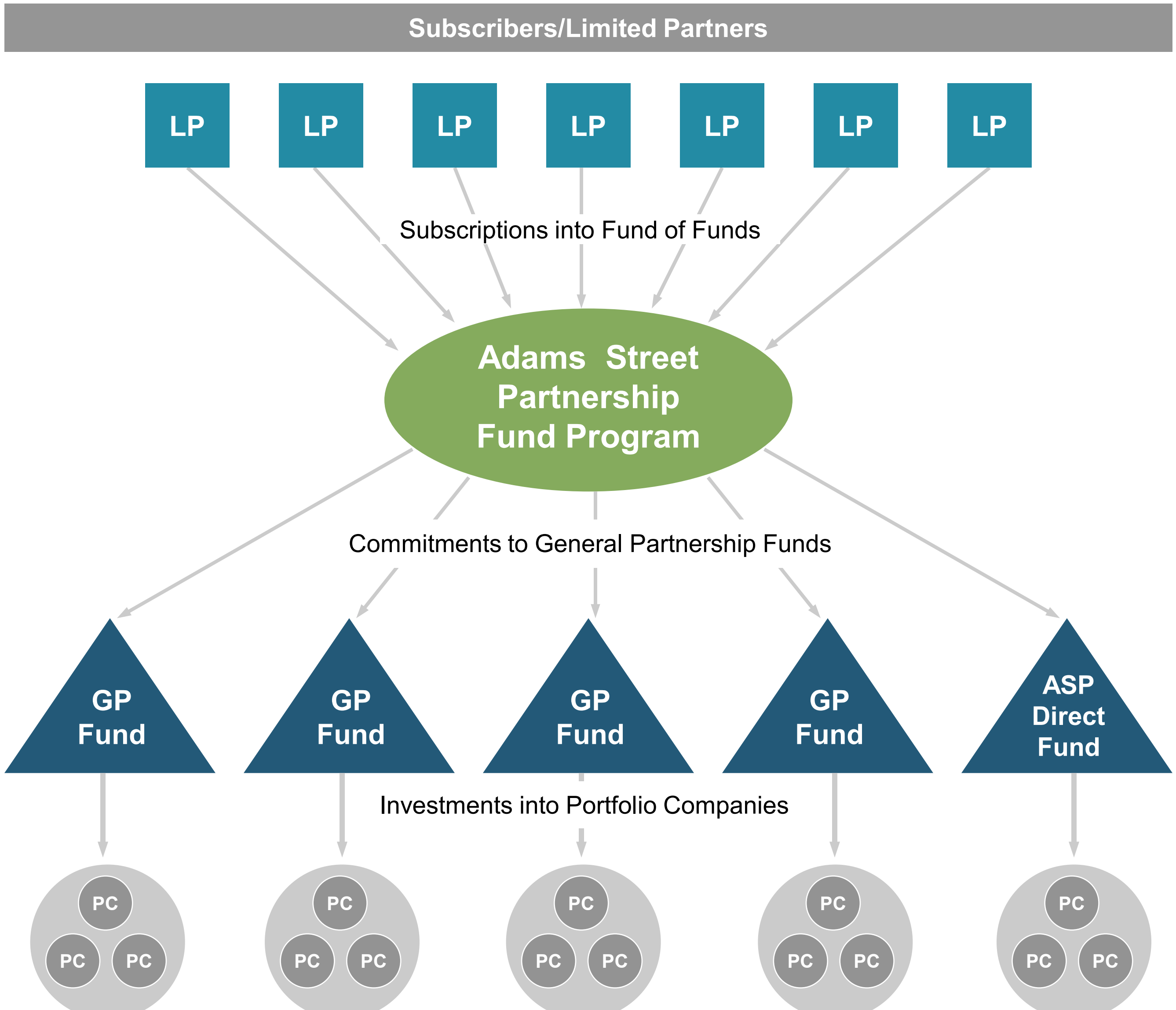
Annual Global Program

Strategy highlights

- Target net of fee return of MSCI World + 300-500 basis points with downside protection[1]
- One cohesive global team providing exceptional access to top-performing private equity investments
- Focus on maximizing IRR and minimizing the J-Curve
- Access to differentiated deal flow in the secondary, co-investment and venture/growth strategies
- Overweight US Information Technology venture capital and growth in middle market buyouts globally
- Prioritizing time diversification while maintaining consistent primary bite sizes

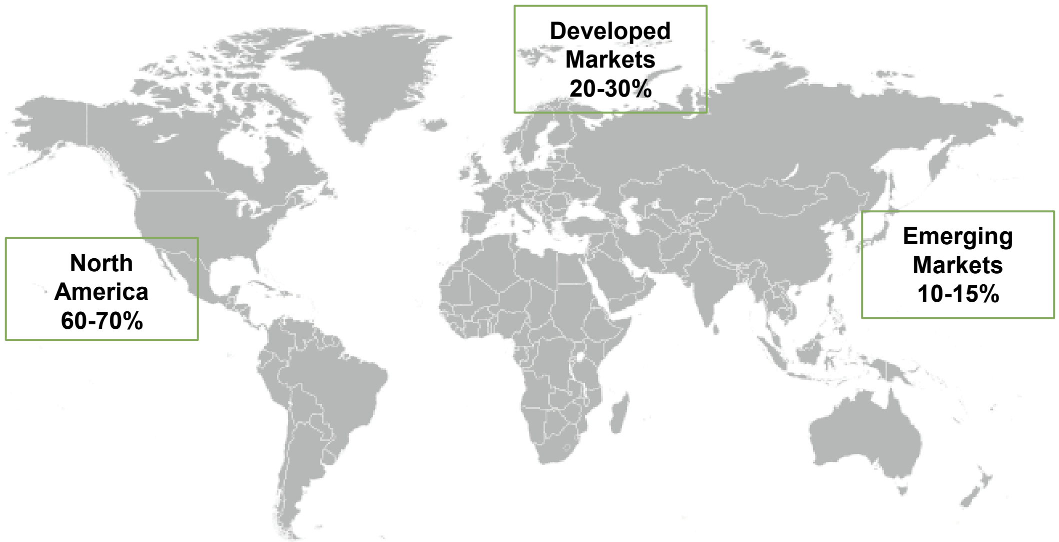
1. The targeted return is a target only; there can be no guarantee that a return within the targeted range will be achieved. The targeted return is net of Adams Street Partners' management fees, carried interest and expenses, and where applicable, underlying general partner management fees, carried interest and expenses.

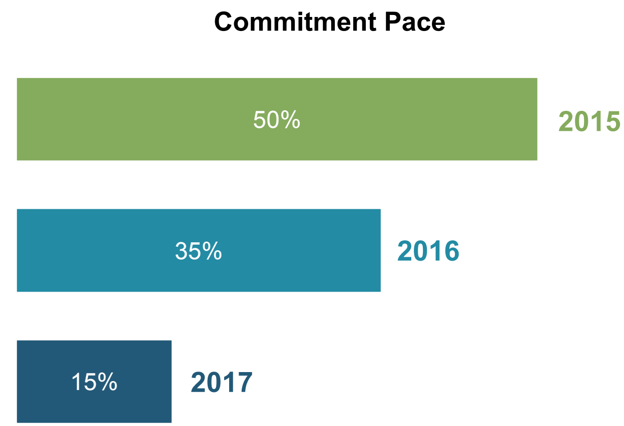
Configuration of a Private Equity Fund of Funds

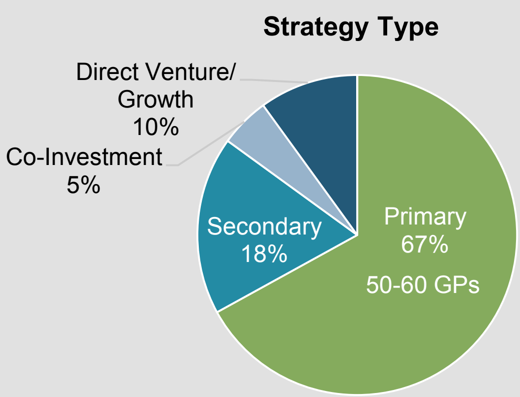


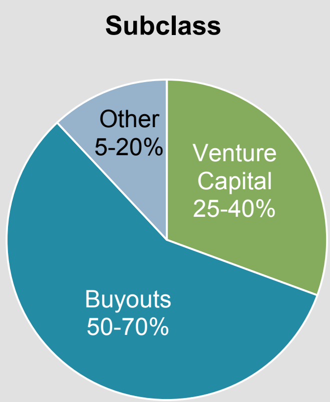
2015 Global Private Equity Program

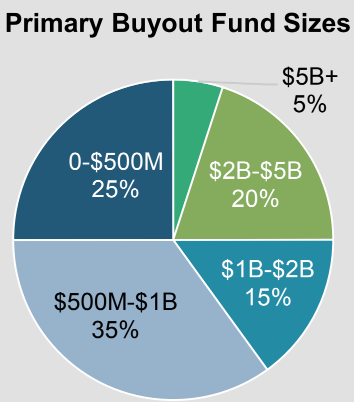
Projected allocations*











*Actual allocations will differ once the Program is fully invested.

Looking Forward

Investment strategy and portfolio construction

ADAMS STREET PARTNERS

Role by Strategy

- **Primaries**
  - Diversification across manager, time, geography and subclass
  - Higher risk/reward venture and emerging markets
  - Developed markets buyout
- **Secondaries, Directs and Co-Investments**
  - Rapid deployment and early return of capital
  - Take advantage of market dislocations
  - Further utilization of ASP GP network
  - Improves overall economic terms

ASP Strategy by Subclass

- **Buyouts**
  - Growth opportunities less correlated with GDP
  - Experienced operators applying talents to smaller companies
  - Less debt dependent strategies
  - Export-oriented strategies (European managers)
  - Differentiated sourcing models
- **Venture Capital**
  - Focus mostly on Information Technology
  - Invest in GPs and companies that access top entrepreneurs
  - Focus on limited number of proven investors
  - Invest in funds able to generate outsized returns
  - Avoid volatile pre-IPO strategies that are dependent upon strong capital markets to generate attractive returns

Investment Themes

ADAMS STREET PARTNERS

ASP is looking for managers with the skills and experience to navigate through and invest successfully in changing and maturing markets.

US Themes

- ✓ Global Innovation in Technology Markets
- ✓ Healthcare 2020
- ✓ Re-Industrialization of US and Shale Boom
- ✓ Changing Preferences of Consumers

Developed Markets Themes

- ✓ Secular Growth
- ✓ Healthy Economies
- ✓ Export Led Industries

Differentiated Value Creation

Benchmark Capital, Industrial Opportunity Partners, Berkshire Capital, Water Street, The Energy & Minerals Group, Accel/KKR, RoundTable Healthcare Partners, Andreessen Horowitz

HitecVision, Accel India, Livingbridge, Index Ventures, Oakley Capital, TDR Capital, Investindustrial, Waterland Private Equity Investments

* All of the listed General Partners have funds that are forecasted to be included in the 2015 Global Program.

Bottom Up Views – Opportunity Set is Attractive

ADAMS STREET PARTNERS

The 2015 Global Fund is approximately 25% committed

	2015 US	2015 Non-US
Primaries **~25% of Primary Capital Committed**	TA XII August VII Harrison Metal IV HomeBrew II Ignition VI NEA 15 Moonshine I Accel-KKR V Roundtable IV American Industrial Partners VI	Waterland VI Index Growth III Accel India IV Kalaari III K2 III Source Code II Bain Asia III
Secondaries **~25% of Secondary Capital Committed**	Project Pinctada (Pearl Diver IV-B) Project Throttle (TRP III) Project Zeal (Serent)	Project Phil (PAI IV and V) Project Piano (Palamon I, II, and IV)
Direct Venture / Growth **~20% of Direct Capital Committed Including Expected Reserves**	Smule, Lifebond, Orbus, Apto	
Co-investments **~25% of Co-Invest Capital Committed**	Tidel (Graham Partners) PetSmart (BC Partners) Sterigenics (Warburg Pincus) Zep (New Mountain) LBM (Kelso)	EpiServer (Accel-KKR) Cembrit (Solix)

Data through September 9, 2015.

Key Terms and Conditions

Adams Street 2015 Global Fund LP*

Target Commitment Period	3 years
Investment Mix	Expected portfolio ranges: 60-75% primaries; 20%-30% secondaries and co-investments; up to 10% direct venture/growth equity
Partnership Fund Management Fees**	<u>Subscription Amount</u> / <u>Average Annual Fee***</u> First $25 million — 69 basis points Over $25 million up to $50 million — 62 Over $50 million up to $100 million — 52 Over $100 million up to $150 million — 34 Amounts Over $150 million — 28 During the first three years of the Fund, fees are based on ***the actual amount of capital*** committed to underlying investments, and fees decline in the later years of the Fund.
Credit for Prior Subscriptions	A credit amount for prior subscriptions (including other Adams Street offerings) may be applied towards the management fee schedule.
Carried Interest	10% on secondary and co-investments; no carried interest on primary investments.
Direct Fund Management Fees	The portion of a participant's subscription that is allocated to the Direct Fund will be assessed an annual fee of 2% and 20% carried interest.

* Adams Street 2015 Global Fund LP solely invests in the Adams Street 2015 US Fund LP, the Adams Street 2015 Non-US Fund LP and the Adams Street 2015 Direct Fund LP.

** The term Partnership Fund refers to the Adams Street US Fund LP and Adams Street 2015 Non-US Fund LP.

*** Average Annual Fee refers to the rate charged on subscription amount, assumes a 15-year life and a commitment pace of 45% year one, 40% year two and 15% in year three. For example, an investor committing $50 million would have an average Annual Fee of 69 bps on the first $25 million and 62 bps on the second $25 million.

Adams Street Global Fund Management Fee Examples

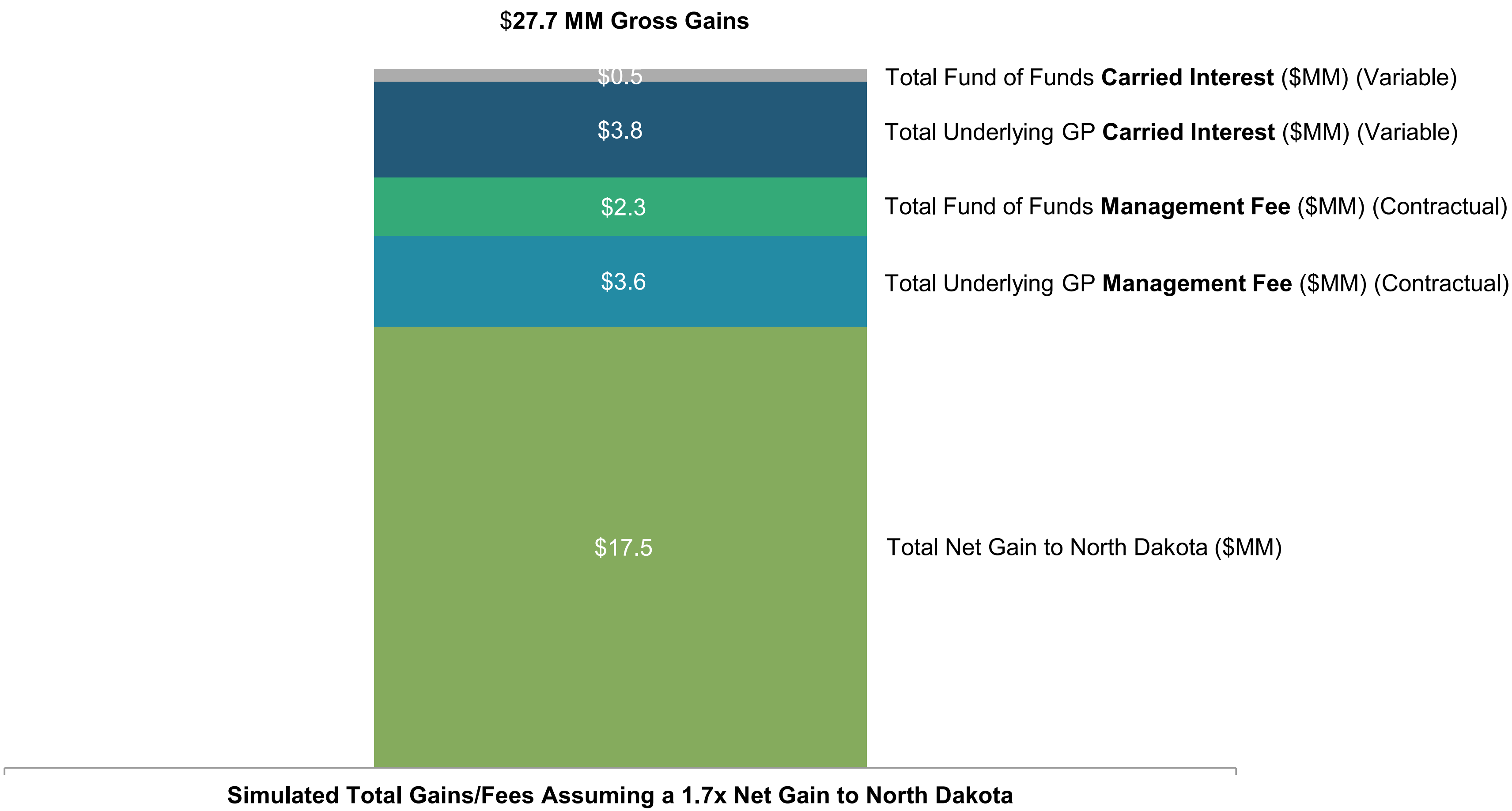
ADAMS STREET PARTNERS

	Annual Subscription Pace		
	$25M	**$35M**	**$100M**
2015 Global Fund	0.76%	0.75%	0.67%
2016 Global Fund	0.71%	0.68%	0.48%
2017 Global Fund	0.68%	0.62%	0.41%
2018 Global Fund	0.66%	0.61%	0.39%
2019 Global Fund	0.66%	0.61%	0.39%
Average annual fees (15 years)	**0.69%**	**0.65%**	**0.47%**
	($125M Total)	**($175M Total)**	**($500M Total)**

Investors receive fee breaks for large, repeat subscriptions

North Dakota State Investment Board Total Fees and Carry Estimates*

$25 million commitment to 2015 Global Fund



* Actual results will differ. This model is for illustrative purposes only.

Why You Should Invest With Us

ADAMS STREET PARTNERS

- Unparalleled reputation, relationships and information

“We only promise what we can deliver, and deliver what we promise.”

- Proven performance across all strategies and market cycles

“Our track record speaks for itself.”

- 100% employee-owned with significant personal capital invested alongside our clients

“We eat our own cooking.”

- Global portfolio construction, investment and research teams build portfolios that meet investors’ objectives

“We use our information and analytics to construct portfolios that maximize returns and minimize risk.”

- Dedicated client and analytics teams that utilize our proprietary database (ASPIRE) to manage portfolio exposures

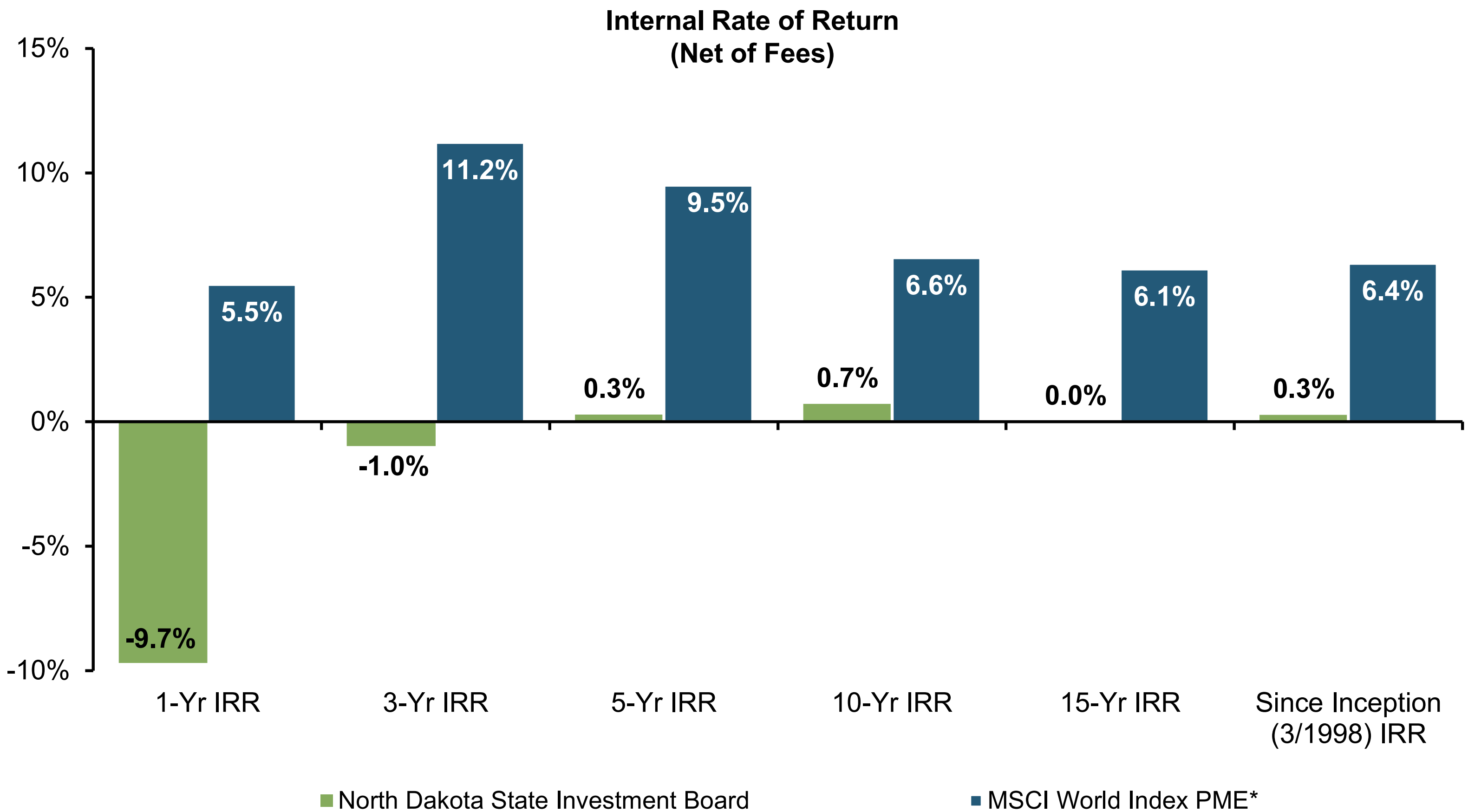
“We train you where you want it, and handle what you don’t.”

Appendix

North Dakota State Investment Board Monitored

Intraperiod returns as compared to benchmark data

Total portfolio as of March 31, 2015



$440 million committed to 18 funds from 1998-2010; 79% drawn; $141 million NAV; 1.0x

* Direct Alpha Methodology

Benchmarking Performance

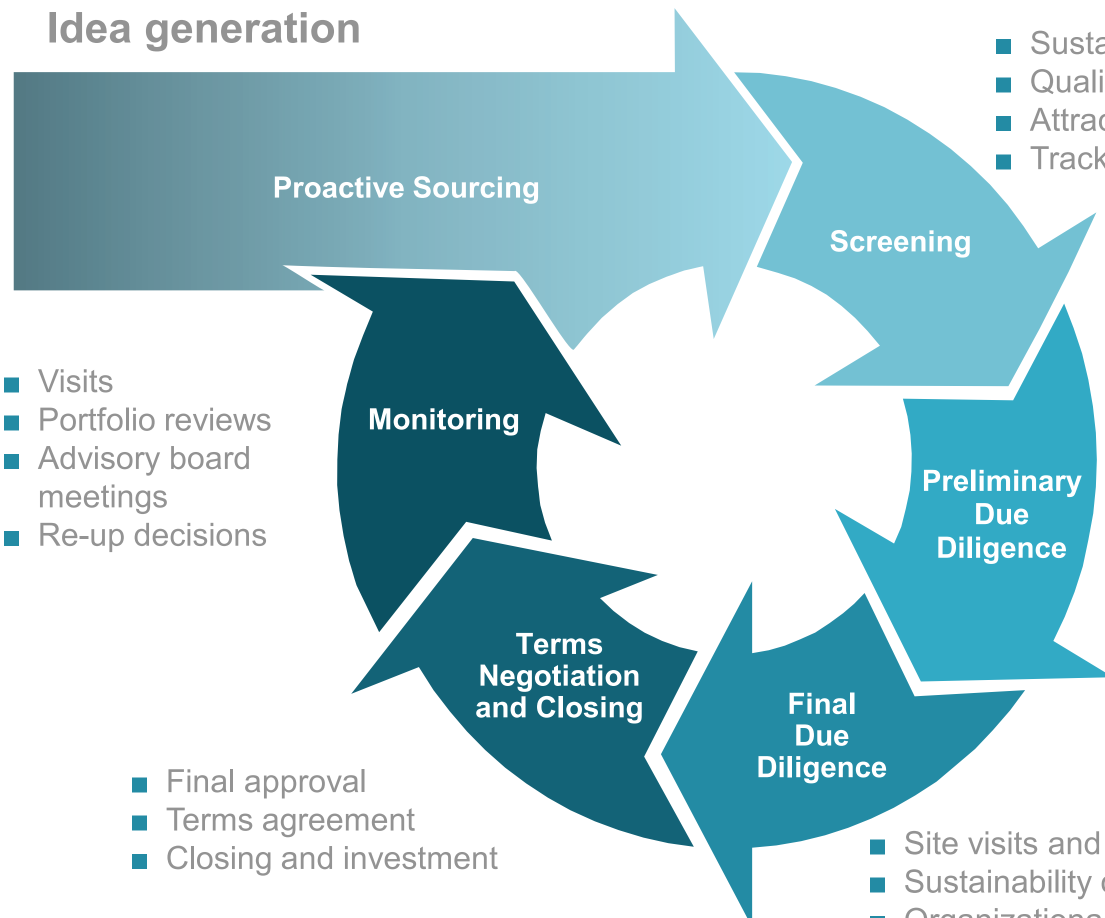
- Essential properties that any investment benchmark should possess:
  - Specified in advance: The benchmark is specified prior to the start of the evaluation period.
  - Appropriate: The benchmark is consistent with the manager's investment style or area of expertise.
  - Measurable: The benchmark's return is readily calculable on a reasonably frequent basis.
  - Unambiguous: The identities and weights of securities are clearly defined.
  - Reflective of current investment opinions: The manager has current knowledge of the securities in the benchmark.
  - Accountable: The manager is aware and accepts accountability for the constituents and performance of the benchmark.
  - Investable: It is possible to simply hold the benchmark.

Private equity benchmarks fail to meet all the essential properties

Benchmarking Performance

- Adams Street Partners uses multiple benchmarks depending on the portfolio
- Absolute measures like: since inception IRR greater than 12% net of all fees
- Relative measures to public equity markets (Public Market Equivalent) like:
  - Since inception IRR in excess of 3-5% of the MSCI World Index PME
  - Since inception IRR in excess of 2% of the FTSE 100 Index PME
  - Since inception IRR in excess of 4% of the Russell 3000 Index PME
- Relative measures to private equity markets like:
  - Burgiss Group quartile ranking by region and subclass
  - Burgiss Group pooled IRR by region and subclass

How We Come to an Investment Decision



Screening:

- Sustainability of opportunity
- Quality of return
- Attractiveness of strategy
- Track record of Team

Preliminary Due Diligence:

- Analysis of performance drivers
- Minimal reliance on GP representations
- Competitive advantages

Final Due Diligence:

- Site visits and reference checks
- Sustainability of performance
- Organizational stability / franchise strength
- Investment memo distributed

Terms Negotiation and Closing:

- Final approval
- Terms agreement
- Closing and investment

Monitoring:

- Visits
- Portfolio reviews
- Advisory board meetings
- Re-up decisions

* Primary Investment Committee.

Adams Street Partners Net Performance

As of March 31, 2015

	Performance in USD			
	Gross IRR	Net IRR	PME*	Net Multiple
Brinson Partnership 1996 Subscription	16.93%	14.22%	6.8% ^	1.69x
Brinson Partnership 1997 Subscription	15.12%	12.18%	3.4% ^	1.62x
Brinson Partnership 1998 Subscription	6.93%	5.07%	3.1% ^	1.35x
Brinson Partnership 1999 Subscription	7.72%	5.84%	4.3% ^	1.40x
Brinson Partnership 2000 Subscription	9.51%	7.43%	5.4% ^	1.49x
Brinson Partnership 2001 Subscription	11.11%	8.87%	6.0%	1.57x
Adams Street Partnership Fund - 2002 Non-U.S. Fund, LP	14.24%	11.78%	8.2% ^	1.69x
Adams Street Partnership Fund - 2002 U.S. Fund, LP	10.86%	8.74%	6.4%	1.60x
Adams Street Partnership Fund - 2003 Non-U.S. Fund, LP	12.52%	9.99%	5.2%	1.55x
Adams Street Partnership Fund - 2003 U.S. Fund, LP	10.13%	8.13%	6.6%	1.54x
Adams Street Partnership Fund - 2004 Non-U.S. Fund, LP	8.21%	6.16%	3.7%	1.36x
Adams Street Partnership Fund - 2004 U.S. Fund, LP	9.10%	7.27%	7.0%	1.47x
Adams Street Partnership Fund - 2005 Non-U.S. Fund, LP	6.59%	4.92%	3.1%	1.29x
Adams Street Partnership Fund - 2005 U.S. Fund, LP	8.78%	7.09%	8.2%	1.44x
Adams Street Partnership Fund - 2006 Non-U.S. Fund, LP	7.08%	5.39%	4.0%	1.29x
Adams Street Partnership Fund - 2006 U.S. Fund, LP	9.16%	7.36%	9.2%	1.40x
Adams Street 2006 Direct Fund, L.P.	10.77%	7.25%	7.6%	1.65x
Adams Street Partnership Fund - 2007 Non-U.S. Fund, LP	8.84%	6.68%	5.5%	1.30x
Adams Street Partnership Fund - 2007 U.S. Fund, LP	14.41%	12.09%	11.6%	1.56x
Adams Street 2007 Direct Fund, L.P.	15.57%	11.11%	9.1%	1.85x
Adams Street Partnership Fund - 2008 Non-U.S. Fund, L.P.	11.72%	8.32%	7.2%	1.25x
Adams Street Partnership Fund - 2008 U.S. Fund, L.P.	19.26%	16.17%	14.5%	1.61x
Adams Street 2008 Direct Fund, L.P.	21.67%	15.62%	13.8%	1.93x
Adams Street Partnership Fund - 2009 Non-U.S. Developed Markets, L.P.	9.97%	4.93%	8.9%	1.10x
Adams Street Partnership Fund - 2009 Non-U.S. Emerging Markets Fund, L.P.	11.61%	8.10%	2.4%	1.19x
Adams Street Partnership Fund - 2009 U.S. Fund, L.P.	19.84%	15.62%	16.3%	1.45x
Adams Street 2009 Direct Fund, L.P.	25.13%	17.43%	17.1%	1.68x
Adams Street Partnership Fund - 2010 Non-U.S. Developed Markets Fund, L.P.	9.68%	4.60%	9.1%	1.10x
Adams Street Partnership Fund - 2010 Non-U.S. Emerging Markets Fund, L.P.	13.77%	10.02%	1.4%	1.18x
Adams Street Partnership Fund - 2010 U.S. Fund, L.P.	21.54%	16.97%	16.1%	1.46x
Adams Street 2010 Direct Fund, L.P.	21.97%	14.25%	16.5%	1.41x
Adams Street 2011 Non-US Developed Markets Fund LP	10.07%	4.86%	9.9%	1.08x
Adams Street 2011 Emerging Markets Fund LP	14.82%	11.00%	1.3%	1.19x
Adams Street 2011 US Fund LP	19.82%	15.22%	17.3%	1.32x
Adams Street 2011 Direct Fund LP	30.25%	19.91%	16.8%	1.44x
Adams Street 2012 Global Fund LP	12.97%	5.18%	11.4%	1.05x

The page entitled "Notes to Performance: Adams Street Partners Net Performance." included on the following page of this presentation, is an important component of this performance data. Past performance is not a guarantee of future results.

Notes to Performance:
Adams Street Partners Net Performance

As of March 31, 2015

Note: Brinson Partnership Subscription gross and net IRR presents representative subscription performance of a subscriber that followed Adams Street Partners' recommended allocation and pays the highest fees. For Adams Street Funds, actual commingled fund performance gross and net IRR are presented. Gross IRRs are net of management fees, carried interest and expenses charged to the underlying private equity funds, in the case of primary and secondary funds, but gross of Adams Street Partners' management fees and carried interest, which reduce returns to investors. Net IRRs are net of Adams Street Partners' management fees, carried interest and expenses as well as net of management fees, carried interest and expenses charged to the underlying private equity funds (in the case of primary and secondary funds). Capital-weighted annualized returns from inception through quarter end. There can be no guarantee that unrealized investments will ultimately be liquidated at the values reflected in this return data. Each Brinson Partnership Subscription includes fund allocations made within a series of pooled investment vehicles. Performance for vintage years later than 2012 is not shown because performance early in a fund's life is not generally meaningful due to fee drag and immature investments. Past performance is not a guarantee of future results.

* Public Market Equivalent (PME) is calculated using the S&P 500 Index for Brinson Partnership Subscription, US Funds and Direct Funds; MSCI EAFE (Europe, Australasia, Far East) for Non-US and Non-US Developed Funds; MSCI Emerging for Emerging Markets Funds; and MSCI World for Global Funds. The PME calculation is based on the Net IRR cash flows which reflects the payments of fees, carried interest and expenses.

^ For some periods, it was not possible to calculate a traditional PME because the pace of distributions would have created a short position in the public index. In these cases, the PME is calculated using the "Direct Alpha" PME methodology (Gredil, Griffiths, Stucke, "Benchmarking Private Equity: The Direct Alpha Method," 2014).

Miguel Gonzalo, CFA

Partner & Head of Investment Strategy, Chicago

EDUCATION:
University of Notre Dame, BA

Northwestern University, MBA

YEARS OF INVESTMENT/ OPERATIONAL EXPERIENCE:
22

- As a Partner and Head of Investment Strategy, Miguel combines our bottom up investment research with top down forward-looking views in order to construct portfolios that meet our clients' objectives. Miguel collaborates with investors to formulate strategies that leverage Adams Street Partners' global capabilities.
- Miguel has worked closely with investors in the management of their portfolios, including the development and ongoing monitoring of their private equity programs since 2000. He is actively involved in the portfolio construction and ongoing monitoring of the various fund of funds programs and separate accounts. In addition, he maintains relationships with investment consultants to ensure continuity with client objectives.
- Prior to joining the Private Equity Group in 2000, Miguel was Head of the Performance Analysis Group in the Asset Allocation/Currency Group of Brinson Partners where he oversaw the design and management of the Firm's performance attribution and analytics systems.
- Miguel is a member of the Adams Street Partners Portfolio Construction Committee, the CFA Society of Chicago and the CFA Institute

ADAMS STREET PARTNERS

EDUCATION:
Cornell University, with distinction, BS

Harvard University, MBA

YEARS OF INVESTMENT/ OPERATIONAL EXPERIENCE:
21

Jeffrey Diehl

Managing Partner & Head of Investments, Chicago

- Jeff is the Managing Partner and Head of Investments at Adams Street. He is responsible for each of Adams Street's investment teams, including their processes and strategies. As a member of our Direct Venture Capital/Growth Equity Team, Jeff invests in venture and growth-oriented companies in the software, IT-enabled business services and consumer internet/media sectors.
- Jeff serves on the Boards of Directors of BoomTown, cbanc Network, Paylocity (NASDAQ: PCTY), Peerless Network, Q2ebanking (NYSE: QTWO), SnagAJob and Sympoz. He is a Board Observer at Dolex and Spiceworks. His past investment include AMWINS (bought by New Mountain), Ancestry.com (NASDAQ: ACOM), CBeyond (NASDAQ: CBEY), Borderfree (NASDAQ: BRDR), Gevity HR (NASDAQ: GVHR), MagicJack (NASDAQ: CALL), MxLogic (bought by McAfee), Stratavia (bought by Hewlett-Packard) and TicketsNow (bought by Ticketmaster).
- Before joining in 2000, Jeff served as a Principal for The Parthenon Group, a Boston-based strategy consulting and principal investing firm with Bain Consulting roots.
- Jeff is the Chair of Adams Street Partner's Portfolio Construction Committee, a member of the firm's Executive Committee, and has served on the firm's Strategic Advisory Committee for the last six years.
- Jeff is a graduate of Cornell University, with distinction, BS, and Harvard University, MBA.

State Investment Board

Private Equity Overview (provided by Callan Associates)

September 21, 2015

Dave Hunter, Executive Director / CIO

Darren Schulz, Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Callan Associates – Private Equity Overview

What is it?

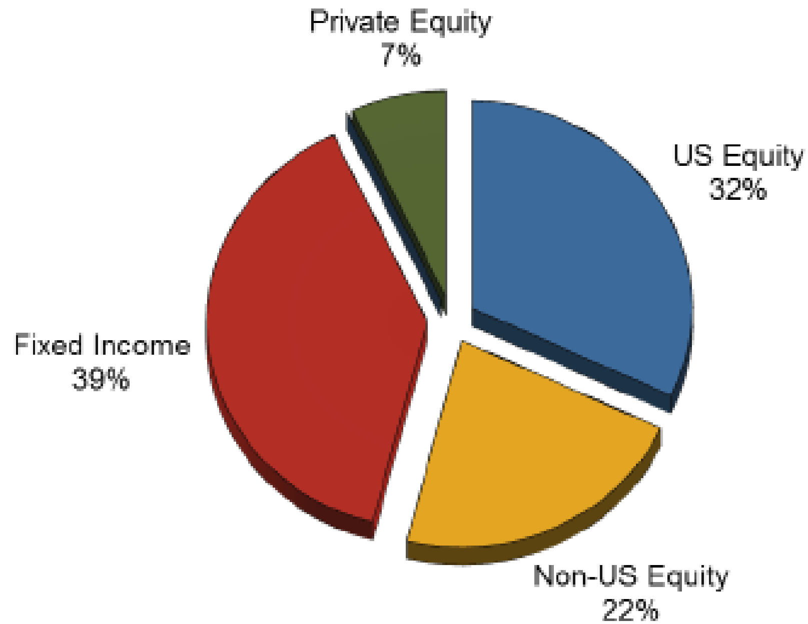
- Private equity is defined as private, unregistered investments in operating companies typically accessed through limited partnership companies.
- Partnership structure:
  - A general partner (GP) who manages the assets and who has unlimited liability for actions of the fund.
    - *The GP collects a fee for managing the fund, which typically takes the form of a management fee plus a percentage of profits.*
  - Limited partners (LPs) whose liabilities are limited to the capital commitments made and who have little participation in the partnership's management.
- Private equity investments are characterized by very long investment horizons.
- Private equity = private corporate finance investments.
- Five key strategies:
  - Venture capital
  - Buyouts
  - Special situations
  - Subordinated debt
  - Distressed debt
- Key benefit sought is high rate of return, other benefits such as diversification are secondary.
- The primary drawbacks are illiquidity and program complexity.
- Usage by institutional investors is becoming very common, especially among larger funds.

Callan Associates – Private Equity

Strategies and Benefits

- Generally invest in one or more of five types of strategies:
  - Venture capital
  - Buyouts
  - Special situations
  - Subordinated debt
  - Distressed debt
- Typically 5%-10% of portfolio.
- Returns above stocks and bonds.
  - Huge variation between best and worst-performing funds.
  - Huge variation between vintage years.
  - Median is typically not good enough to beat S&P 500.
- Moderate diversifier due to valuation based accounting.

Example Asset Allocation with Private Equity



Callan's Capital Market Expectations

2015 Capital Market Expectations: Return and Risk

Summary of Callan's Long-Term Capital Market Projections (2015-2024)

		PROJECTED RETURN		PROJECTED RISK	
Asset Class	Index	1-Year Arithmetic	10-Year Geometric*	Standard Deviation	Projected Yield
Equities					
Broad Domestic Equity	Russell 3000	9.15%	7.60%	19.00%	2.00%
Large Cap	S&P 500	8.90%	7.50%	18.30%	2.20%
Small/Mid Cap	Russell 2500	10.15%	7.85%	22.95%	1.40%
International Equity	MSCI World ex USA	9.25%	7.50%	20.20%	3.00%
Emerging Markets Equity	MSCI Emerging Markets	11.45%	7.90%	27.95%	2.50%
Global ex-US Equity	MSCI ACWI ex USA	9.80%	7.80%	21.45%	2.90%
Fixed Income					
Defensive	Barclays Govt 1-3	2.75%	2.75%	2.25%	2.80%
Domestic Fixed	Barclays Aggregate	3.05%	3.00%	3.75%	4.00%
Long Duration	Barclays Long G/C	4.70%	4.10%	11.40%	5.50%
TIPS	Barclays TIPS	3.10%	3.00%	5.30%	4.00%
High Yield	Barclays High Yield	5.60%	5.05%	11.45%	7.00%
Non-US Fixed	Citi Non-USD World Govt	3.15%	2.75%	9.40%	3.80%
Emerging Market Debt	JMP EMBI Global Diversifiec	5.40%	4.90%	10.65%	6.40%
Other					
Real Estate	Callan Real Estate	7.35%	6.15%	16.50%	5.00%
Infrastructure	S&P Global Infrastructure	8.90%	7.35%	19.00%	3.00%
Private Equity	TR Post Venture Cap	13.55%	8.50%	33.05%	0.00%
Hedge Funds	Callan Hedge FoF	5.40%	5.10%	8.85%	0.00%
Commodities	DJ-UBS Commodity	4.65%	3.05%	18.25%	2.00%
Cash Equivalents	90-Day T-Bill	2.00%	2.00%	0.90%	2.00%
Inflation	CPI-U	2.25%	2.25%	1.50%	

*Geometric returns are derived from arithmetic returns and associated risk (standard deviation).

Private Equity offers the highest Projected Return (and Risk)

Callan's Key Considerations:

1. **Higher Fees and less liquid than public equity;**
2. **Implementation is a key risk and requires a long time horizon and continual investment; and**
3. **Requires greater oversight than most public investments and is more difficult to monitor and value.**

AGENDA ITEM III.E.

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Dave Hunter and Darren Schulz

DATE: September 22, 2015

SUBJECT: **Private Equity Recommendation – Adams Street Partners**

Background:

Following a review of existing and prospective private equity ("PE") managers currently in the marketplace, RIO recommends making a new commitment to the Adams Street Partners ("Adams Street" or "ASP") Global Fund for 2015. Adams Street is our largest PE manager (at $48 million) and has consistently generated the strongest returns (within PE) for our clients over the past 26 years.

	1-Yr.	*3-Yrs.*	*5-Yrs.*	*10-Yrs.*	*Inception*
Net IRR for Adams Street Partners Investment	*8.2%*	*11.1%*	*14.4%*	*14.1%*	*10.9%*

It is important to note that SIB clients within the $4.8 billion Pension Trust currently have a 5% (or $240 million) target allocation to PE versus an actual allocation of approximately $180 million. **In order to reduce this $60 million underweight position, RIO recommends the SIB approve a new commitment to the ASP Global Fund in 2015 of up to $30 million.**

RIO further recommends that Callan should be engaged to conduct a manager search to identify at least one other strategic partner to complement Adams Street and re-establish our clients long-term commitment to this asset class. If the SIB concurs, the Callan search will not only identify one (or two) new strategic partners within private equity, but also confirm the investment pacing schedule over the next five-years. Investment pacing plays an important role in gradually re-building our PE portfolio so as to prevent the potential adverse effects of vintage year concentration risk. The establishment of two (or three) strategic partners in this long-term investment will also help us to minimize future investment fees. Given expected capital distributions on existing PE assets over the next five years, Callan and ASP believes private equity commitments will likely need to range from $50 million to $70 million per year, respectively, over the next five years. Assuming we identify one additional investment firm, future PE commitments would likely be split on a 50/50 basis (e.g. $30 million per year for each firm).

RIO has discussed this proposal with Callan who confirms RIO's recommendation to re-build our clients PE allocation "using Adams Street and one or two other strategic partners". *Gary Robertson, SVP and Manager of Callan's Private Equity Research, further noted that Adams Street "is highly respected and really well liked by Callan as a private equity fund of funds manager" and given high marks for "overall operations, responsive client service teams and a long-standing commitment to enhanced financial reporting systems".*

<u>RIO Due Diligence</u>:

During the past 18 months, RIO has met with over two dozen private equity investment and consulting firms including Adams Street, BlackRock, Capital Group, Carlyle Group, Cogent, CorsAir, Credit Suisse, Crestline, Evercore, Goldman Sachs, Hamilton Lane, HarbourVest, Invest America, JPMorgan, KKR, Matlin Patterson, Pantheon, Partners Group, Pathway, Portfolio Advisors, Public Pension Capital, Quantum Energy Partners, RCP Investors and UBS. During the course of our due diligence, we have been impressed with nearly all investment managers desire to work with us to enhance our overall private equity portfolio including the willingness to offer preferential pricing for a long-term relationship. **RIO notes that ASP has served as the SIB's longest term, strategic partner within PE and provided our clients with a reasonable return premium versus public equity (4% since inception). Over the long-term, ASP expects to generate a 3% to 4% return premium versus public equity (after all fees).**

<u>Rationale</u>:

Overall, our PE returns have underperformed the public and private markets over the past 5 years. As previously noted (during our Private Equity Update), however, our ASP investments have consistently generated a strong rate of return after all fees and expenses including an inception to date net internal rate of return ("Net IRR") of approximately 10.9%. Going forward, RIO and Callan believe that SIB client allocations to PE should be implemented by maintaining strategic partnerships with only a few established partners in order to ensure that we obtain the best ideas from confirmed market leaders at a reasonable price. This approach has effectively already been implemented by the SIB within other major asset classes including JPMorgan and Grosvenor (for infrastructure) and JPMorgan and Invesco (in real estate). This strategic focus will allow RIO personnel to efficiently maintain oversight of our overall PE allocation while opportunistically considering reverse proposals by PE firms to further rationalize our asset allocation to private equity.

<u>Key Terms</u>:

Fund Name:	Adams Street 2015 Global Fund LP
General Partner:	Adams Street Partners
Fund Term:	15 years after final close
Borrowing:	Up to 25%
Commitment Period:	3 years from final close
Return Objective:	Net IRR in excess of 13%
Management Fee:	0.76% for $25 million
Carried Interest:	0% primary (~65%); 10% secondary/co-invest (~25%); 20% direct (~10%)
Preferred Return:	7% for secondary and co-investments
Example:	Fund of Funds (primary, secondary, co-invest) (~ 90%); Direct (~ 10%)

<u>Recommendation</u>:

RIO recommends the SIB approve:

1. **up to a $30 million commitment to the Adams Street 2015 Global Fund; and**
2. **engage Callan to perform a private equity manager search subject to successful contract negotiations.**

Callan has preliminarily quoted a search fee of $57,000 plus expenses.

AGENDA ITEM IV.A.

TO: State Investment Board

FROM: Dave Hunter, Executive Director/CIO

DATE: September 18, 2015

SUBJECT: Board Education – Investment Conferences Attended by the SIB

SIB Governance Policy B-7 encourages the development of a board education plan including investment education. RIO encourages all SIB members to participate in educational opportunities as their respective schedules permit and highly recommends the investment conferences offered by our consultant.

Based on discussion with prior SIB members, the **"Introduction to Investments"** conference offered by Callan (in Chicago on October 27-28, 2015), has been well received by newer board members ($2,350 tuition per participant), while the "**Callan National Conference"** (in San Francisco on January 25-27, 2016) has been well received by all attending SIB members (no tuition fee and includes meals at all events).

The following conferences have been attended by current SIB members over the past two years:

1. Callan National Conference (San Francisco)
2. Callan College – Introduction to Investments (Chicago)
3. Common Fund Forum
4. National Conference on Teacher Retirement - Trustee Workshop (TFFR members)
5. National Conference on Teacher Retirement - Annual Conference (TFFR members)

Recommended Board Education Plan for SIB Members:

The Callan National Conference is highly recommended for all current SIB members although newer SIB members may benefit from attending the Introduction to Investments conference at Callan College prior to attending the National Conference.

Investment Guideline Exceptions Log
For Fiscal Year Ended June 30, 2015

Date Received	Manager	Guideline Exception	Cusip	Description	Manager Recommendation	Action Taken	Maturity Date	Par/Shares	Cost	Fair Value	Acct #
10/17/2011	Clifton Group	Minimum Quality Issue (min BBB - currently Ba2)	75970NAK3	Renaissance Mtge	HOLD until maturity or until opp to liq	concur	8/25/2035	19,468	19,006	19,511	26-37506
10/17/2011	Clifton Group	Minimum Quality Issue (min BBB - currently Ba2)	75970NAK3	Renaissance Mtge	HOLD until maturity or until opp to liq	concur	8/25/2035	19,468	17,607	19,511	26-88235
1/16/2013	Clifton Group	Minimum Quality Issue (min BBB - currently B)	76110HJR1	Residential Accredit Loans, Inc.	HOLD until maturity or until opp to liq	concur	9/25/2018	202,609	210,966	206,044	26-67453
5/7/2014	Capital Group	Security traded on US Exchange	SEDOL: 2208987	C-Trip	Headquartered outside US - Purchase in Int'l portfolio	concur	NA	4,500	254,256	326,790	NDI03
5/8/2014	Capital Group	Security traded on US Exchange	SEDOL: 2208987	C-Trip	Headquartered outside US - Purchase in Int'l portfolio	concur	NA	17,900	1,043,214	1,299,898	NDLG02
5/7/2014	Capital Group	Security traded on US Exchange	SEDOL: B4VLR19	Ensco PLC	Headquartered outside US - Purchase in Int'l portfolio	concur	NA	2,100	113,765	46,767	NDI03
5/7/2014	Capital Group	Security traded on US Exchange	SEDOL: B4VLR19	Ensco PLC	Headquartered outside US - Purchase in Int'l portfolio	concur	NA	6,400	357,330	142,528	NDK02
5/7/2014	Capital Group	Security traded on US Exchange	SEDOL: B4VLR19	Ensco PLC	Headquartered outside US - Purchase in Int'l portfolio	concur	NA	2,100	411,721	169,252	NDLG02
5/7/2014	Capital Group	Security traded on US Exchange	SEDOL: B8W6766	Liberty Global	Headquartered outside US - Purchase in Int'l portfolio	concur	NA	9,746	426,109	526,966	NDI03
5/7/2014	Capital Group	Security traded on US Exchange	SEDOL: B8W6766	Liberty Global	Headquartered outside US - Purchase in Int'l portfolio	concur	NA	21,919	978,274	1,185,160	NDK02
5/7/2014	Capital Group	Security traded on US Exchange	SEDOL: B8W6766	Liberty Global	Headquartered outside US - Purchase in Int'l portfolio	concur	NA	39,800	1,792,108	2,151,986	NDLG02
5/6/2015	Brandywine	Net short Euro position of 27bps		Euro Denominated Bonds	Monitor - Continue to hold	concur	NA	NA	NA	NA	NDK08
5/29/2015	LSV	Private Holding	BWX52N2	Cheung Kong Prop. Holdings Ltd.	Monitor - Continue to hold	concur	NA	13,300	72,317	110,311	NDI02
5/29/2015	LSV	Private Holding	BWX52N2	Cheung Kong Prop. Holdings Ltd.	Monitor - Continue to hold	concur	NA	47,700	259,364	395,626	NDLG01

Annual Certification of Compliance with Investment Guidelines

Manager	6-30-15 Certification Rec'd	Exceptions Noted
Adams Street Partners (All Funds)	8/4/2015	None noted
Axiom	8/25/2015	None noted
Babson Capital	8/31/2015	None noted
Brandywine	9/1/2015	See Exceptions Log*
Callan	7/31/2015	None noted
Capital Guardian	7/21/2015	See Exceptions Log*
Capital International V, VI	8/31/2015	None noted
Clifton Group	7/27/2015	See Exceptions Log*
Corsair III,IV,ND Inv LLC	09/11/201	None noted
Declaration	9/1/2015	None noted
DFA	8/31/2015	None noted
EIG (TCW)	8/5/2015	None noted
Epoch	8/26/2015	None noted
Goldman Sachs 2006 & V	8/11/2015	None noted
Grosvenor	9/10/2015	None noted
Hearthstone II, III	8/3/2015	None noted
INVESCO (Core, II & III)	7/29/2015	None noted
INVESCO Asia	08/14/215	None noted
Invest America (L & C & L & C II)	8/6/2015	None noted
JP Morgan	9/16/2015	None noted
LACM	8/31/2015	None noted
Loomis Sayles	7/22/2015	None noted
LSV	8/28/2015	See Exceptions Log*
Matlin Patterson I, II, III	9/11/2015	None noted
Northern Trust Global Investments	8/28/2015	None noted
PIMCO (UBF & MBS)	7/16/2015	None noted
Prudential	9/2/2015	None noted
Quantum Energy	8/5/2015	None noted
Quantum Resources		No response
Research Affiliates	7/21/2015	None noted
SEI	9/3/2015	None noted
State Street	9/11/2015	None noted
TIR (3 accounts)	7/30/2015	None noted
UBS	8/31/2015	None noted
Vanguard	7/18/2015	None noted
Wellington	7/27/2015	None noted
Wells Capital	8/31/2015	None noted
Western	8/31/2015	None noted

multiple accounts

* Manager reported exceptions that were previously approved by Dave, Darren to be held (see exceptions log)

Financial Audit and Internal Control (SSAE 16) Reports - Fiscal Year 2015

Manager	Audit	Date rec'd	Opinion	Internal Controls	Notes
Adams Street					
Adams Street Direct Co-Investment	12/31/2014	3/4/2015	clean	NA - No Custody	
Non-US 1999 Primary	12/31/2014	4/2/2015	clean	NA - No Custody	
Non-US 2000 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
Non-US 2001 Primary	12/31/2014	4/2/2015	clean	NA - No Custody	
Non-US 2002 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
Non-US 2002 Secondary	12/31/2014	4/28/2015	clean	NA - No Custody	
Non-US 2003 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
Non-US 2004 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
US 1998 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
US 1999 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
US 2000 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
US 2001 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
US 2002 Primary	12/31/2014	4/29/2015	clean	NA - No Custody	
US 2003 Primary	12/31/2014	4/28/2015	clean	NA - No Custody	
Axiom	12/31/2014	9/11/2015	clean	9/30/2014	
BVCF IV	12/31/2014	3/18/2015	clean	NA - No Custody	
2008 Non-US Ptr Fund	12/31/2014	4/29/2015	clean	NA - No Custody	
ASP Direct 2010	12/31/2014	4/29/2015	clean	NA - No Custody	
ASP Non US Developed 2010	12/31/2014	4/28/2015	clean	NA - No Custody	
ASP Non US Emerging 2010	12/31/2014	4/28/2015	clean	NA - No Custody	
ASP US 2010	12/31/2014	4/29/2015	clean	NA - No Custody	
Callan Associates	12/31/2014	5/11/2015	clean	N/A	*BNY Mellon wanted NDA-decided not to pursue
Capital International (CIPEF V)	12/31/2014	4/20/2015	clean	N/A	
Capital International (CIPEF VI)	12/31/2014	4/20/2014	clean	N/A	
Coral Partners Momentum Fund	12/31/2014	2/27/2015	clean	N/A	
Corsair Capital III	12/31/2014	3/31/2015	clean	N/A	
Corsair Capstar (ND Investors LLC)	12/31/2014	3/31/2015	clean	N/A	Part of Corsair III audit
Corsair IV	12/31/2014	3/31/2015	clean	N/A	
Declaration Management (Total Return)	12/31/2014	4/30/2015	clean	6/30/2014	
Dimensional Fund Advisors	10/30/2014	11/21/2014	clean	9/30/2014	
EIG (formerly TCW)	12/31/2014	3/23/2105	clean		Physical sent - not received, requested electronic
Goldman Sachs 2006	12/31/2014	3/4/2015	clean	N/A - annual audit only	Firm level report online
Goldman Sachs V	12/31/2014	3/18/2015	clean	N/A - annual audit only	Firm level report online
Grosvenor Customized Infrastructure	12/31/204	6/30/2015	clean		See Note 1 Below
Hearthstone MSII	12/31/2014	4/1/2015	clean	N/A	
Hearthstone MSIII	12/31/2014	4/1/2015	clean	N/A	
Invesco Asia RE Fund I	12/31/2014	3/2/2015	clean	N/A	
Invesco Core Fund	12/31/2014	2/17/2014	clean	9/30/2014	
Invesco Fund II	12/31/2014	4/7/2015	clean	9/30/2014	
Invesco Fund III	12/31/2014	4/7/2015	clean	9/30/2014	
Invesco U.S. Value-Add Fund IV	12/31/2014	4/6/2015	clean	9/30/2014	
InvestAmerica L&C I	12/31/2014	4/2/2015	clean	N/A	
InvestAmerica L&C II	12/31/2014	5/4/2015	Qualified	N/A	See Note 2 Below
JP Morgan - Income & Growth	12/31/2014	3/23/2015	clean	11/30/2014	Gap Letter: 09/15/2015
JP Morgan - Strategic Prop	09/30/2014	11/29/2014	clean	11/30/2014	Gap Letter: 09/15/2015
JP Morgan - Special Situations	09/30/2014	11/29/2014	clean	11/30/2014	Gap Letter: 09/15/2015
JP Morgan - Alternative Prop. Fund	12/31/2014	6/3/2015	clean	11/30/2014	Gap Letter: 09/15/2015
JP Morgan - Greater China	12/31/2014	3/26/2015	clean	11/30/2014	Gap Letter: 09/15/2015
JP Morgan - Asian Infrastructure	12/31/2014	3/26/2014	clean	11/30/2014	Gap Letter: 09/15/2015
JP Morgan - Greater Europe	12/31/2014	4/24/2015	clean	11/30/2014	Gap Letter: 09/15/2015
JP Morgan - IIF	12/31/2014	4/7/2015	clean	11/30/2014	Gap Letter: 09/15/2015
LA Capital Large Cap Alpha	12/31/2014	4/30/2015	clean	10/31/2014	
Loomis Sayles Full Discretion Fund	10/31/2014	3/31/2015	clean	N/A	Seperately Managed
Matlin Patterson I	12/31/2014	3/31/2015	clean	N/A	
Matlin Patterson II	12/31/2014	3/31/2015	clean	N/A	
Matlin Patterson III	12/31/2014	3/31/2015	clean	N/A	
Northern Trust Custodian	12/31/2014	9/15/2015	clean	9/30/2014	
Northern Trust World Ex US	12/31/2014	9/15/2015	clean	9/30/2014	
Northern Trust STIF	12/31/2014	9/15/2015	clean	9/30/2014	
Northern Trust Insurance Cash	12/31/2014	9/15/2105	clean	9/30/2014	
PIMCO DiSCO II	12/31/2014	4/1/2015	clean	9/30/2014	
PIMCO Bravo II	12/31/2014	4/1/2015	clean	9/30/2014	
Quantum Energy	12/31/2014	5/1/2015	clean	9/30/2013	Most recent is Sept. 2013
Quantum Resources	12/31/2014	4/30/2014	clean	N/A	
SEI	5/31/2014	7/31/2014	clean	7/31/2014	Gap Letter: 07/01/2015
State Street US Treasury	12/31/2014	5/22/2014	clean	3/31/2015	Gap Letter: 06/30/2015

Manager	Audit	Date rec'd	Opinion	Internal Controls	Notes
State Street US Gov't/Credit Bond	12/31/2014	5/22/2014	clean	3/31/2015	Gap Letter: 06/30/2015
TIR Springbank	12/31/2014	4/7/2015	clean	N/A	
TIR Teredo	12/31/2014	4/7/2015	clean	N/A	
TIR Eastern Timberland Opp. LLC	12/31/2014	3/31/2014	clean	N/A	
UBS	6/30/2014	9/30/2014	clean	9/30/2014	
Vanguard	10/31/2014	3/3/2015	clean	N/A: N-SAR file w/ SEC	
Wellington Management	8/31/2014	12/1/2014	clean	10/31/2014	
Western Asset Management TIPS	12/31/2014	3/31/2015	clean	3/31/2015	
Western Asset Management U.S. Core	12/31/2014	3/31/2015	clean	3/31/2015	

All Separately Managed Accounts Northern Trust as Custodian

Statement on Standards for Attestation Engagement (SSAE) No. 16

A compliance audit for assessing the internal control framework on service organizations that provide critical outsourcing activities for other entities.
SSAE 16 is the reporting standard for all service auditors' reports from June 15th 2011, and beyond. SSAE 16 was preceded by SAS 70. A main difference between SSAE 16 and SAS70 is the SSAE 16 requires the management of the service company to provide written assertion to the auditor that their description accurately represents their organizational system.

N/A - SSAE 16 reviews generally apply to service organizations with a large number of transactions, such as custody services. These firms have determined that a SSAE 16 review is not necessary based on the number of transactions and types of investments held. We will continue to monitor them but concur with their determination at this time.

Note 1: Grosvenor

Following the acquisition of the Private Markets business from Credit Suisse at the beginning of 2014, GCM Grosvenor began transitioning the business operations from Credit Suisse to the GCM Grosvenor platform in an orderly and controlled manner. In order to ensure an orderly transition of core systems, key business processes and applicable team members over a prudent time period, GCM Grosvenor engaged Credit Suisse to provide ongoing operational support to the Private Markets business under a Transition Services Agreement ("TSA"). Under the TSA, the Private Markets business remained, utilizing Credit Suisse's systems and technology infrastructure and Credit Suisse performed certain fund administration, treasury, and corporate real estate services until we fully implemented each of these functions into our own environment and control structure. We successfully transitioned off of Credit Suisse's technology platform in the fourth quarter of last year.

Due to the planned transition and continued reliance on Credit Suisse's system and technology platform, no SOC 1 internal controls review was conducted for the period, which is normal and expected in these situations where systems, people and processes are changing. As a result, we will not be issuing a SOC 1 report for calendar year 2014. It is important to note that GCM Grosvenor has been committed to maintaining a strong internal control environment throughout the transition period. Since its acquisition of the Private Markets business, despite the change in operating environment, GCM Grosvenor has ensured that the vast majority of the applicable transaction processing controls that were discussed and tested in the latest SOC 1 report issued for the Private Markets business (while it was part of Credit Suisse) have remained in place. Any limited transaction processing controls that may have been modified were done so with a focus on enhancing the control environment. Though the general IT controls discussed in the latest SOC 1 for the Private Markets business have changed due to the change in the IT environment, it is important to note that the business was transitioned to GCM Grosvenor's IT environment, for which the general IT controls discussed and tested in the Public Markets SOC 1 report remain in place. We would be pleased to provide you a summary of the applicable general IT controls as well a copy of the Public Markets SOC 1 report if you desire.

Now that the transition from Credit Suisse is complete and the Private Markets business is operating entirely on a unified GCM Grosvenor-controlled environment, we are proceeding with a SOC 1 (Type I) internal control review. We are targeting the Type I review to be conducted as of September 30, 2015, which is expected to be issued in the fourth quarter of 2015. A SOC 1 (Type II) report will follow when appropriate.

Note 2: Basis for Qualified Opinion

The investments have been valued on a basis of accounting prescribed by the U.S. Small Business Administration which practices differ from generally accepted accounting principles. The investment valuations of L&C Private Equities II, LP were prepared in accordance with its approved valuation policy established in accordance with Section 310(d)(2) of the Small Business Investment Act of 1958, as amended. Accordingly, the accompanying investment values are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

ADV, Part 1, 2A and 2B

http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx

Manager	Date rec'd	Reviewed	Notes
Adams Street	4/22/2015	Yes	
Axiom	9/1/2015	Yes	
Brandywine	7/21/2015	Yes	
Callan Associates	9/1/2015	Yes	
Capital Group	9/15/2015	Yes	
Capital International	9/1/2015	Yes	
Corsair	4/21/2015	Yes	
Declaration Management (Total Return)	9/2/2015	Yes	
Dimensional Fund Advisors	8/31/2015	Yes	
EIG (formerly TCW)	4/14/2015	Yes	
Goldman Sachs	9/2/2015	Yes	
Grosvenor Customized Infrastructure	9/1/2015	Yes	
Hearthstone	9/1/2015	Yes	
Invesco	9/2/2015	Yes	
JP Morgan	9/17/2015	Yes	
LA Capital Large Cap Alpha	5/6/2015	Yes	
Loomis Sayles Full Discretion Fund	8/31/2015	Yes	
Matlin Patterson	3/31/2015	Yes	
Northern Trust Asset Management	9/2/2015	Yes	
PIMCO	8/31/2015	Yes	
Prudential	9/1/2015	Yes	
Quantum Energy	9/2/2015	Yes	*See Note Below
Quantum Resources			De-registered after filing 2014 annual report
Research Affiliates	3/26/2015	Yes	
SEI	9/2/2015	Yes	
State Street	9/2/2015	Yes	**See Note Below
TIR	9/2/2015	Yes	
UBS	9/2/2015	Yes	***See Notes Below
Vanguard	9/2/2015	Yes	
Wellington Management	9/16/2015	Yes	
Western Asset Management	9/16/2015	Yes	

*Neither the Company, its affiliates nor any of their professionals have been the subject of any legal or disciplinary finding of an investment-related nature that would be material to the business of QEP. QEP and certain of its affiliates and management persons have, however, been named in private civil actions relating to its or their portfolio investment activities. QEP's policy is to vigorously contest all actions.

**In October 2009, the Attorney General of the State of California commenced an action alleging that State Street's pricing of certain foreign exchange transactions for certain California state pension plans was not consistent with the custody contracts for these plans and related disclosures to the plans. We deny the claims set out in the complaint, and are proceeding with our defense of this matter. We provide custody services to and engage in principal foreign exchange trading with government pension plans in other jurisdictions, and attorneys general and other governmental authorities from a number of jurisdictions, as well as U.S. Attorney's offices, the U.S. Department of Labor, and the SEC have requested information or issued subpoenas concerning the pricing of our indirect foreign exchange trading.

In January 2014, State Street entered into a settlement with the Financial Conduct Authority, or FCA, in the UK as a result of our having charged six clients of our U.K. transition management business during 2010 and 2011 amounts in excess of the contractual terms. The SEC and the US Attorney are conducting separate inquiries into this matter. We are responding to subpoenas from the Department of Justice and the SEC for information regarding our solicitation of asset servicing business of public retirement plans.

***On May 20, 2015, the department of justice criminal division terminated a december 19, 2012 non-prosecution agreement (the npa) with UBS AG. as a result, on May 20, 2015, UBS AG entered into a plea agreement with the department of justice criminal division pursuant to which UBS AG agreed to and did plead guilty to a one-count criminal information filed in the district of connecticut charging ubs ag with one count of wire fraud in violation of 18 usc sections 1343 and 1342. as part of the plea agreement, UBS AG agreed to pay a $203 million penalty. The criminal information charges that between approximately 2001 and 2010, UBS AG engaged in scheme to defraud counterparties to interest rate derivatives transactions by manipulating benchmark interest rates, including yen libor. The criminal division terminated the npa based on its determination, in its sole discretion, that certain of its employees committed criminal conduct that violated the npa, including fraudulent and deceptive currency trading and sales practices in conducting certain foreign exchange market transactions with customers and collusion with other participants in certain fx markets.

***On May 20, 2015, the board of governors of the federal reserve system issued an order to cease and desist and order of assessment of a civil monetary penalty issued upon consent (the "federal reserve order") to UBS AG. as part of the federal reserve order, UBS AG agreed to pay a $342 million civil monetary penalty. the federal reserve's order is based on the federal reserve's finding that UBS AG had deficient policies and procedures that prevent UBS AG from detecting and addressing unsafe and unsound conduct by foreign exchange traders and salespeople, including disclosures to traders of other institutions of confidential customer information, agreements with traders of other institutions to coordinate foreign exchange trading in a manner to influence the wm/r and ecb foreign exchange benchmarks fixes and market prices, trading strategies that raised potential conflicts of interest, possible agreements with traders of other institutions regarding bid/offer spreads offered to foreign exchange customers, the provision of information to customers regarding price quotes, and the provision of information to customers about how a customer's foreign exchange order is filled.

Due Diligence Questionnaire

Manager	Name	Date Received
Adams Street Partners (All Funds)	Miguel Gonzalo	8/20/2015
Axiom	Lindsey Chamberlain	8/25/2015
Babson Capital	Chad Strean	8/31/2015
Brandywine	Nedra Hadley	In process - compliance
Callan	Michael Bell	8/31/2015
Capital Guardian	Michael Bowman	8/27/2015
Clifton Group	Kelly Shelquist	8/31/2015
Declaration	Amy McPike	8/31/2015
DFA	Joe Young	8/31/2015
Epoch	Tom Pernice	8/26/2015
JP Morgan	Jim Sakelaris	9/1/2015
LACM	Tom Stevens	8/31/2015
Loomis Sayles	Stephanie Lord	8/31/2015
LSV	James Owens	8/28/2015
Northern Trust Global Investments	Jason Pasquinelli	8/28/2015
PIMCO (UBF & MBS)	Stephanie King	8/31/2015
Prudential (Fixed Income)	Peter Taggert	9/10/2015
Research Affiliates	Jeffrey Wilson	
SEI	Robert Thomas	8/31/2015
State Street	Joe Cadigan	8/31/2015
UBS	Betsy Sanders	8/31/2015
Vanguard	Bruce Mears	8/31/2015
Wellington	Elizabeth O'Hara	08/17/215
Wells Capital	Stephen Scharre	8/31/2015
Western	Susan Signori	8/31/2015

multiple accounts

RETIREMENT AND INVESTMENT OFFICE
FINAL BUDGET STATUS FOR 2013-2015 BIENNIUM

	2013-2015 Biennium Approved Budget			2013-2015 Biennium Actual			2013-2015 Biennium (Over)/Under Budget		
	TFFR	SIB	RIO Total	TFFR	SIB	RIO Total	TFFR	SIB	RIO Total
SALARIES	1,358,453.05	1,413,301.95	2,771,755.00	1,362,676.88	1,134,540.75	2,497,217.63	(4,223.83)	278,761.20	274,537.37
SALARIES-MARKET EQUITY						-	-	-	-
TEMP	4,000.00	4,000.00	8,000.00	-	2,950.00	2,950.00	4,000.00	1,050.00	5,050.00
BENEFITS	569,942.30	422,806.70	992,749.00	524,483.39	346,418.69	870,902.08	45,458.91	76,388.01	121,846.92
SALARIES & BENEFITS	**1,932,395.35**	**1,840,108.65**	**3,772,504.00**	**1,887,160.27**	**1,483,909.44**	**3,371,069.71**	**45,235.08**	**356,199.21**	**401,434.29**
PAID ANNUAL LEAVE	35,143.19	36,397.81	71,541.00	31,541.35	12,362.99	43,904.34	3,601.84	24,034.82	27,636.66
SALARIES, BENEFITS & LEAVE	**1,967,538.54**	**1,876,506.46**	**3,844,045.00**	**1,918,701.62**	**1,496,272.43**	**3,414,974.05**	**48,836.92**	**380,234.03**	**429,070.95**
IT - DATA PROCESSING	150,865.00	22,822.00	173,687.00	136,691.47	20,734.33	157,425.80	14,173.53	2,087.67	16,261.20
IT - COMMUNICATIONS	17,520.00	7,200.00	24,720.00	13,950.83	7,598.00	21,548.83	3,569.17	(398.00)	3,171.17
TRAVEL	78,161.00	51,950.00	130,111.00	40,322.43	44,263.39	84,585.82	37,838.57	7,686.61	45,525.18
SUPPLIES - IT SOFTWARE	7,017.30	3,752.70	10,770.00	5,756.18	3,868.32	9,624.50	1,261.12	(115.62)	1,145.50
POSTAGE	86,478.00	6,660.00	93,138.00	77,346.42	7,729.21	85,075.63	9,131.58	(1,069.21)	8,062.37
IT CONTRACT SERVICES	191,313.05	2,691.95	194,005.00	182,662.09	3,367.01	186,029.10	8,650.96	(675.06)	7,975.90
LEASE/RENT - BLDG./LAND	110,613.84	49,022.16	159,636.00	105,299.74	55,497.08	160,796.82	5,314.10	(6,474.92)	(1,160.82)
PROFESSIONAL DEV.	31,955.00	12,705.00	44,660.00	26,273.86	16,070.05	42,343.91	5,681.14	(3,365.05)	2,316.09
OPERATING FEES & SERV.	21,528.92	10,359.08	31,888.00	26,103.97	15,290.83	41,394.80	(4,575.05)	(4,931.75)	(9,506.80)
REPAIRS	690.00	310.00	1,000.00	138.25	182.00	320.25	551.75	128.00	679.75
PROFESSIONAL SERVICES	18,407.00	5,563.00	23,970.00	14,993.02	5,489.98	20,483.00	3,413.98	73.02	3,487.00
INSURANCE	952.00	427.00	1,379.00	723.17	372.20	1,095.37	228.83	54.80	283.63
OFFICE SUPPLIES	6,040.95	2,864.05	8,905.00	3,861.62	1,102.04	4,963.66	2,179.33	1,762.01	3,941.34
PRINTING	22,888.45	3,086.55	25,975.00	25,257.75	4,409.77	29,667.52	(2,369.30)	(1,323.22)	(3,692.52)
PROF. SUPPLIES	1,690.00	2,310.00	4,000.00	946.48	1,008.70	1,955.18	743.52	1,301.30	2,044.82
MISC. SUPPLIES	3,318.50	1,491.50	4,810.00	1,598.76	1,330.43	2,929.19	1,719.74	161.07	1,880.81
IT EQUIPMENT < $5000	24,360.30	10,359.70	34,720.00	9,392.92	8,266.18	17,659.10	14,967.38	2,093.52	17,060.90
OTHER EQUIPMENT < $5000	-	5,950.00	5,950.00	13,037.69	3,947.83	16,985.52	(13,037.69)	2,002.17	(11,035.52)
TOTAL OPERATING BUDGET	**773,799.31**	**199,524.69**	**973,324.00**	**684,356.65**	**200,527.35**	**884,884.00**	**89,442.66**	**(1,002.66)**	**88,440.00**
TOTAL BEFORE CONTINGENCY	**2,741,337.85**	**2,076,031.15**	**4,817,369.00**	**2,603,058.27**	**1,696,799.78**	**4,299,858.05**	**138,279.58**	**379,231.37**	**517,510.95**
CONTINGENCY	**41,000.00**	**41,000.00**	**82,000.00**	**-**	**61,987.33**	**61,987.33**	**41,000.00**	**(20,987.33)**	**20,012.67**
TOTAL BUDGET	**2,782,337.85**	**2,117,031.15**	**4,899,369.00**	**2,603,058.27**	**1,758,787.11**	**4,361,845.38**	**179,279.58**	**358,244.04**	**537,523.62**

RETIREMENT AND INVESTMENT OFFICE
FINAL APPROVED BUDGET FOR 2015-2017 BIENNIUM

	2013-2015 Biennium Approved Budget			2015-2017 Biennium Approved Budget			Change from 2013-15 Approved Budget					
	TFFR	SIB	RIO Total	TFFR	SIB	RIO Total	TFFR		SIB		RIO Total	
SALARIES	1,358,453.05	1,413,301.95	2,771,755.00	1,569,069.00	1,584,467.00	3,153,536.00	210,615.95	15.5%	171,165.05	12.1%	381,781.00	13.8%
SALARIES-MARKET EQUITY				28,300.00	21,700.00	50,000.00	28,300.00		21,700.00		50,000.00	
TEMP	4,000.00	4,000.00	8,000.00	4,000.00	4,000.00	8,000.00	-	0.0%	-	0.0%	-	0.0%
BENEFITS	569,942.30	422,806.70	992,749.00	642,374.00	486,641.00	1,129,015.00	72,431.70	12.7%	63,834.30	15.1%	136,266.00	13.7%
SALARIES & BENEFITS	**1,932,395.35**	**1,840,108.65**	**3,772,504.00**	**2,243,743.00**	**2,096,808.00**	**4,340,551.00**	**311,347.65**	**16.1%**	**256,699.35**	**14.0%**	**568,047.00**	**15.1%**
PAID ANNUAL LEAVE	35,143.19	36,397.81	71,541.00	-	-	-	(35,143.19)	-49.1%	(36,397.81)	-100.0%	(71,541.00)	-100.0%
SALARIES, BENEFITS & LEAVE	**1,967,538.54**	**1,876,506.46**	**3,844,045.00**	**-**	**-**	**-**	**276,204.46**	**7.2%**	**220,301.54**	**11.7%**	**496,506.00**	**12.9%**
				-								
IT - DATA PROCESSING	150,865.00	22,822.00	173,687.00	149,551.00	26,517.00	176,068.00	(1,314.00)	-0.8%	3,695.00	16.2%	2,381.00	1.4%
IT - COMMUNICATIONS	17,520.00	7,200.00	24,720.00	13,800.00	6,240.00	20,040.00	(3,720.00)	-15.0%	(960.00)	-13.3%	(4,680.00)	-18.9%
TRAVEL	78,161.00	51,950.00	130,111.00	82,223.00	54,950.00	137,173.00	4,062.00	3.1%	3,000.00	5.8%	7,062.00	5.4%
SUPPLIES - IT SOFTWARE	7,017.30	3,752.70	10,770.00	4,136.00	2,389.00	6,525.00	(2,881.30)	-26.8%	(1,363.70)	-36.3%	(4,245.00)	-39.4%
POSTAGE	86,478.00	6,660.00	93,138.00	89,980.00	7,040.00	97,020.00	3,502.00	3.8%	380.00	5.7%	3,882.00	4.2%
IT CONTRACT SERVICES	191,313.05	2,691.95	194,005.00	177,280.00	3,722.00	181,002.00	(14,033.05)	-7.2%	1,030.05	38.3%	(13,003.00)	-6.7%
LEASE/RENT - BLDG./LAND	110,613.84	49,022.16	159,636.00	104,273.00	59,503.00	163,776.00	(6,340.84)	-4.0%	10,480.84	21.4%	4,140.00	2.6%
PROFESSIONAL DEV.	31,955.00	12,705.00	44,660.00	34,497.00	20,963.00	55,460.00	2,542.00	5.7%	8,258.00	65.0%	10,800.00	24.2%
OPERATING FEES & SERV.	21,528.92	10,359.08	31,888.00	20,998.00	12,399.00	33,397.00	(530.92)	-1.7%	2,039.92	19.7%	1,509.00	4.7%
REPAIRS	690.00	310.00	1,000.00	634.00	366.00	1,000.00	(56.00)	-5.6%	56.00	18.1%	-	0.0%
PROFESSIONAL SERVICES	18,407.00	5,563.00	23,970.00	17,847.00	6,623.00	24,470.00	(560.00)	-2.3%	1,060.00	19.1%	500.00	2.1%
INSURANCE	952.00	427.00	1,379.00	928.00	535.00	1,463.00	(24.00)	-1.7%	108.00	25.3%	84.00	6.1%
OFFICE SUPPLIES	6,040.95	2,864.05	8,905.00	4,730.00	2,730.00	7,460.00	(1,310.95)	-14.7%	(134.05)	-4.7%	(1,445.00)	-16.2%
PRINTING	22,888.45	3,086.55	25,975.00	25,896.00	3,774.00	29,670.00	3,007.55	11.6%	687.45	22.3%	3,695.00	14.2%
PROF. SUPPLIES	1,690.00	2,310.00	4,000.00	1,500.00	1,500.00	3,000.00	(190.00)	-4.8%	(810.00)	-35.1%	(1,000.00)	-25.0%
MISC. SUPPLIES	3,318.50	1,491.50	4,810.00	3,083.00	1,777.00	4,860.00	(235.50)	-4.9%	285.50	19.1%	50.00	1.0%
IT EQUIPMENT < $5000	24,360.30	10,359.70	34,720.00	29,105.36	12,184.64	41,290.00	4,745.06	13.7%	1,824.94	17.6%	6,570.00	18.9%
OTHER EQUIPMENT < $5000	-	5,950.00	5,950.00	4,564.80	2,635.20	7,200.00	4,564.80	76.7%	(3,314.80)	-55.7%	1,250.00	21.0%
TOTAL OPERATING BUDGET	**773,799.31**	**199,524.69**	**973,324.00**	**765,026.16**	**225,847.84**	**990,874.00**	**(8,773.15)**	**-0.9%**	**26,323.15**	**13.2%**	**17,550.00**	**1.8%**
TOTAL BEFORE CONTINGENCY	**2,741,337.85**	**2,076,031.15**	**4,817,369.00**	**3,008,769.16**	**2,322,655.84**	**5,331,425.00**	**267,431.31**	**5.6%**	**246,624.69**	**11.9%**	**514,056.00**	**10.7%**
CONTINGENCY	**41,000.00**	**41,000.00**	**82,000.00**	**41,000.00**	**41,000.00**	**82,000.00**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL BUDGET	**2,782,337.85**	**2,117,031.15**	**4,899,369.00**	**3,049,769.16**	**2,363,655.84**	**5,413,425.00**	**267,431.31**	**5.5%**	**246,624.69**	**11.6%**	**514,056.00**	**10.5%**

Board Travel Budget Guidelines: Our budget request includes funding for approximately 20 out of state trips for board members (TFFR and SIB). General rule will be one trip per board member for the biennium plus one additional trip if member of both boards. Additional trips may be approved based on budget availability.

In-State Reimbursment Rates: Lodging rate is 90% of Federal GSA rate for ND ($89 effective October 1) so rate is $80.10 plus tax (some higher exceptions in oil counties). Mileage is linked to federal GSA rate which is currently $0.575 per mile. In-state meal rates: Breakfast: $7.00; Lunch: $10.50; Dinner: $17.50

EXPENDITURE SUMMARY REPORT

FISCAL YEAR ENDED JUNE 30, 2015

	TFFR	SIB	Total RIO Expenses	% of Total
CONTINUING APPROPRIATIONS				
INVESTMENT EXPENDITURES	$ 13,010,173	$ 34,825,650	$ 47,835,823	7.0%
MEMBER CLAIMS				
ANNUITY PAYMENTS	168,349,762	-	158,350,355	
REFUND PAYMENTS	3,889,671	-	3,908,921	
TOTAL MEMBER CLAIMS	172,239,433	-	162,259,276	92.0%
OTHER CONTINUING APPROPRIATIONS	352,901	148,788	501,689	0.2%
TOTAL CONTINUING APPROPRIATIONS	185,602,507	34,974,438	210,596,788	99.2%
APPROPRIATED EXPENDITURES				
SALARIES AND BENEFITS	989,800	879,275	879,275	0.5%
PAID LEAVE	6,702	58	58	0.0%
OPERATING EXPENSES	355,775	129,890	129,890	0.2%
CONTINGENCY	-	-	-	0.0%
SIB EXPENSES ALLOCATED TO TFFR	218,215	(218,215)	-	
TOTAL APPROPRIATED EXPENDITURES	1,570,493	791,008	1,009,224	0.8%
TOTAL EXPENDITURES	$ 187,172,999	$ 35,765,447	$ 211,606,012	

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

RIO Staffing Update

Interim Update as of September 18, 2015

After two rounds of interviews, RIO continues to seek a highly qualified team member to serve as our Data Processing Coordinator. This position has been vacant since May 29, 2015, when the prior team member resigned to pursue other opportunities.

Rich Nagel, as Supervisor of Information Systems, has expanded his considerable duties and responsibilities to fulfill our IT needs while we continue to seek for a qualified candidate.

BOARD LEADERSHIP

INNOVATIVE APPROACHES TO GOVERNANCE

NUMBER 141, SEPT.-OCT. 2015

www.boardleadershipnewsletter.com

The Special Challenges of Association Governance

by Bill Charney

The US Internal Revenue Service (IRS) recognized 92,331 trade and professional associations in 2010, a 3.4 percent increase since 2001.[1] Here, experienced consultant Bill Charney, who has helped a wide variety of associations implement governance improvements—often using the Policy Governance® system—highlights some of the particular challenges they face.

"Governance Is Governance"

Kenneth Dayton, a preeminent philanthropist and former chairman and CEO of Dayton Hudson Corporation (now Target Corporation), gave his now-famous "Governance Is Governance" speech to the 1986 *Independent Sector* leadership forum (published in 1987).[2] Dayton's message to nonprofit leaders confounded the notions, common then and now, that we still refer to as "traditional" board practices.

Conveying his "deeply held conviction" that governance is not management, Dayton stated that chair and CEO roles must be separated, that an all-powerful chair or a weak CEO is a threat to organizational success, and that the governance job is identical in both the nonprofit and for-profit sectors. The only distinction, he noted, is that nonprofit "trustees" also should volunteer in service to, not exercising authority over, the CEO.

These notions added great credence to John Carver's Policy Governance model. For critics grumbling that a singular model cannot attend to an organization's uniqueness, Dayton articulated brilliantly how failing to recognize that "governance is governance" is itself detrimental to success and sustainability.

Is Association Governance Different?

"Associations" are formed when people join together to advance common interests, be they business or social. This article focuses particularly on trade and business associations, in which members may be individuals, organizations, or both. Many of the dynamics addressed are also common in other membership organizations (e.g., clubs, guilds, fraternities/sororities, homeowner associations).

The job of an association board is no different than that of a charity or

(continued on page 2)

ALSO IN THIS ISSUE

EVENTS

September 21, 22, 23, 2015

Advanced Policy Governance Training for Board Members and CEOs

— Toronto, Ontario, Canada

This will be a three-day session with Catherine M. Raso, CMR Governance Consulting.

For more information visit www.CMRaso.com.

September 26–29, 2015

NACD Global Board Leaders' Summit

— Marriott Marquis, Washington, DC, USA

The National Association of Corporate Directors' (NACD) 2015 Global Board Leaders' Summit will convene more than 1,200 of the world's leading directors and industry experts, with a mission to raise the bar for boardroom leadership across the globe.

For more information see https://www.nacdonline.org/conference/index.cfm

September 23, 2015

International Policy Governance Association (IPGA) Consultants' Forum (experienced practitioners also welcome)

— 11:00 a.m.–1:30 p.m. Eastern, via Fuze meeting videoconference

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Association Governance
(continued from front page)

an equity corporation: to define and ensure the achievement of Ends reflecting owners' needs/interests, and to ensure that the organization conducts itself appropriately in producing these outputs.

Different industry sectors often exhibit common patterns or nuances that may foster or impede successful governance. Challenges pronounced in association boardrooms are not exclusive to the sector but occur with sufficient frequency to merit exploration as to cause and effect. These include:

1. The "We are an association, not a business" conundrum.
2. Owner representation and board size.
3. Volunteer engagement on committees.
4. Board chairs/presidents empowered as pseudo-CEOs.
5. Officer candidates "running for election."
6. Tradition valued more than progress.

Challenge 1: The "We Are an Association, Not a Business!" Conundrum

In associations that resist adaptation of management and governance best practices, this refrain is often cited as a reason "not to change." Yet as associations are entities in which people invest certain resources and expect return on that investment, associations *are* businesses.

Resistance to "acting like a business" is primarily typical to long-standing volunteer-driven associations, in which paid employees historically worked in administrative roles at the behest of volunteer leaders with little or no relevant business experience.

Though board members today have a better general understanding of their fiduciary duties, the sentiment behind the refrain remains surprisingly prevalent in associations, with sound business practices often overshadowed by organizational tradition.

Challenge 2: Owner Representation and Board Size

While identification, understanding, and linking with the "ownership" is challenging in many nonprofit sectors, it is less so for most associations. Typically elected by the membership, association boards recognize, at least conceptually, the membership as the primary "ownership" on whose behalf they serve.

Unfortunately, however, board structures and size often obscure this otherwise simple matter. Among nonprofits, the larger the board, the more likely it belongs to an association! *Board Leadership* and other publications have featured numerous articles about board size (most recommending between seven and twelve as the "sweet spot"). In associations, board sizes expand with good intentions that range from securing "representation" for affiliate, chapter, and special interest groups, to offering more leadership opportunities without "pushing out" colleagues via term limits, or even "to ensure we have enough board members to staff committees."

That board members appointed or elected to represent specific membership segments perceive their role as advocating and voting for that segment is understandable, but it contradicts and blurs their fiduciary duty of loyalty to the interests of all members. Instead of the owner-representative hat ("what will best serve our collective, long-term needs?"), constituency-based board members tend to wear that of customers ("what do I, or those just like me, want?").

In *Race for Relevance,*[3] Coerver and Byers compellingly suggest how a five-member governing board can serve an association membership far better than the larger, more cumbersome structures that are prevalent. Their rationale is substantive, ranging from the basic: "Large boards are cumbersome … slow …" to the consequential: "The larger a board gets, the less engaged the individual director tends to be." They note that as boards get large (the teens and beyond), true governing authority typically becomes vested in a group of approximately five people: the executive committee. Thus, they propose the efficiency and authenticity (no charades) of a five-member board.

The "linkage" component of the board's job is to take into account the needs and interests of the ownership. Smaller boards can do so quite effectively, as representation is characterized by the diversity of interests genuinely sought and considered by a board, not how many board members are voting.

Challenge 3: Volunteer Engagement on Committees

Volunteer engagement is vital to vibrant associations, which are venues for members to learn from and support the growth and success of peers. In many instances, boards appropriately expect their association executives to actively engage and recognize member voluntarism.

CEOs with authority over volunteer committees don't find this a problem, but the "governance creep" challenge arises when boards make staff support of committee activities a higher priority than efficiently serving the membership as a whole. Another problem is that association boards often "impose" committee structures mirroring management positions, with oversight/approval authority over key staff functions (e.g., membership, education, human resources/personnel, finance, facilities, government affairs).

When management must take direction and/or seek approvals from subsets of the board, one-voice leadership and accountability for performance are nullified, taking a back seat to "ensuring that x, y, and z were part of the decision."

Education committees are a prime example. As conferences/education are vital programs for most associations, a time-honored tradition for many is to assign members to a committee that will design the program and pick speakers. If the president or board appoints the group, and the educational programs are hugely successful, all is well.

If, however, there are conflicts in planning, or disappointments in outcomes, authority gets muddied.

"Group-think" often emerges, and rather than criteria-based decisions (e.g., past speaker ratings, new programming needs), they become based on "who knows whom?" While accountability for performance evaporates, blame does not! Even when a board explicitly delegates authority over the education program to a committee rather than to the CEO, a weak program bodes poorly for the CEO and his/her job security.

Kenneth Dayton wondered, in *Governance Is Governance:* "Why is it that so many corporate directors grow horns when they become trustees?"... doing things "they would never think of doing as [corporate] directors, interfering with management's role and making decisions or requests that no corporate director would think of making?"

The solution, as Policy Governance boards identify, is simpler governance structures, replacing most "standing committees" with more ad-hoc, short-term efforts convened to do governance rather than management tasks.

To the extent collegiality and networking are held out as reasons for large boards and committee structures (whether board or CEO led), these should be seen as a by-product of, not a higher priority than, optimizing organizational performance.

Challenge 4: Board Chairs/Presidents Empowered as Pseudo-CEOs

For many decades, association presidents were those who, after ascending through a hierarchy of offices, substantially put their own businesses/careers aside for a year, and served as volunteer CEO. Bylaws often delegated "executive authority" to this position. The top-ranking executive employee reported to the president, and the "Executive Vice President" (EVP) title became common, more so in associations than any other sector.

Recognizing that a "president" typically "runs the company," shifting the top volunteer title from "President" to "Board Chair" (or Chief Governance Officer) has been a trend in the past ten to fifteen years, particularly for larger associations, with "EVP" increasingly transitioning to "CEO" or "President/CEO."

A title should reflect the role and authority of its holder. Dayton's message nearly thirty years ago still resonates: "... the (full-time professional staff) executive is the CEO of the institution. It matters not what the actual title is ... these professionals are the CEOs and they should consider themselves that, and should be so viewed by the entire board. A position description should clearly state that fact—and everyone on the board should accept that fact, particularly the chair."

Anytime a board president or chair is empowered to treat the executive as his/her subordinate, the organization is at risk of becoming the fiefdom of one person with inadequate checks and balances.

Challenge 5: Officer Candidates "Running for Election"

When a membership elects both board members *and* candidates "running for office," new challenges arise. Significant disruption can occur when an elected officer arrives with his or her "agenda." In associations, deference to these prerogatives is too often the norm, regardless of whether they reflect current association needs or contradict previously agreed-upon board initiatives.

Many associations have annual "installation" events, at which the new president gets sworn in. It is common for the incoming president to be given the authority to determine the "theme" of that year's (often expensive) installation party. The personal preferences can be extreme, such as one Realtor® association at which the incoming president literally directed the EVP to procure "a tiara and scepter" for her to wear and hold at her installation. Sadly, it was no joke!

The ceremonial value of these traditions can be very engaging and beneficial. Boards might consider, however, if celebrating the profession's achievements and contributions to society would produce greater membership engagement and benefit.

Challenge 6: Tradition Valued More than Progress

Boards should honor their organization's heritage, while facing the challenge that yesterday's solutions may not meet tomorrow's needs. Governance is the act of steering an organization to a desired future. While a rearview mirror is integral to safe driving, it is for good reason that the windshield is much larger!

Just as John Carver's *Boards That Make a Difference*[4] was groundbreaking for governance, Coerver and Byers's books *Road to Relevance*[5] and *Race for Relevance* provide similar wake-up calls and proposed solutions for associations. In the latter, they note six "marketplace realities" that have irrevocably altered the landscape and threatened the relevance of associations:

1. *Time.* Today's leaders struggle with work-life balance and want their volunteer time used more scrupulously. "Old model" associations are time intensive (board and committee meetings, advocacy work, attending conferences, etc.).
2. *Value expectations.* In many professions, joining an association was "the right thing to do." And not joining was a social faux pas. Today, return on investment is expected.
3. *Consolidation.* Many industries are emerging with fewer, larger players, which often have the resources to effectively produce their own training programs, research, advocacy efforts, and so on.
4. *Generational differences.* Today's young professionals don't value "membership" as did previous generations. They aspire for professional knowledge and success, but they "connect differently."
5. *Competition.* The emergence of smaller specialty associations, in-house programming by consolidated corporations, and online resources all compete for

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One Way to Govern: The Complementary Model of Board Governance

by Tom Abbott

This is the second in an occasional Board Leadership *series in which leading proponents of different models and approaches to governance are invited to answer a series of standard questions. The first article in the series, which appeared in Issue 134, was on sociocracy, written by John Buck. This piece about the Complementary Model of Board Governance comes from Tom Abbott, who is the director of AMC NPO Solutions and an Associate Certified Coach as designated by the International Coach Federation.*

Principles: What This Model/Approach Says About:

Why Organizations Exist

THEY EXIST for lobbying (government relations), protection of the public (professional and/or regulatory body), delivery of education courses (e.g., offering accreditation) and charitable work (research, support, and education). Groups can achieve more than individuals.

Why Boards Exist

Boards are the groups to whom the membership grants powers to act on its behalf. They may be called *board of directors*, *board of governors*, or *council*.

What the Relationship between Boards and Their Employees Should Be Based Upon

In the spring of 2001, we delivered our first training seminar on the *Complementary Model of Board Governance*. The name for the model came from an article by Peter F. Drucker in which he described exactly the type of relationship we envisioned in the nonprofit organization (NPO). He wrote, essentially, that nonprofits waste uncounted hours debating who is superior and who is subordinate—the board or the executive officer. The answer is that they must be colleagues. Each has a different part, but together they share the play. Their tasks are complementary. The two have to work as one team of equals.

How Boards, Board Officers, and Their Staff Delegates Can Best Approach Their Jobs

This model is exactly suited to meet the needs of NPOs. As you learn more about the model, it becomes clear that the fundamental proposition underlying the model is quite simple:

The **board** establishes governance policies and monitors the organization's performance. The **chief executive officer** implements the governance policies, manages the organization's resources, and also monitors the organization's performance. It's as simple as that!

Practices: What Are the Key Practices Involved in This Model/Approach?

The Complementary Model of Board Governance is built upon a defined set of ten principles:

1. The board is responsible for both the governance and the management of the NPO.
2. The senior staff person is designated the chief executive officer (CEO) of the organization and is accountable to the board for the management of the organization.
3. The senior elected volunteer is the chair of the board.
4. The board is responsible for determining all governing policies of the organization; the CEO is responsible for determining all administrative policies of the organization.
5. The board defines and approves a code of conduct for the directors and a separate code of conduct for the CEO.
6. Three types of committees or task forces may be used (board statutory committees, policy task forces, CEO working committees).
7. Four monitoring mechanisms are available to the board (the CEO report, statutory committee/task force reports, external reports, financial reports).
8. The board makes an annual written appraisal of the CEO.
9. The governance committee coordinates written appraisals of all volunteer directors of the board.
10. Board training is a priority, budgeted item.

There are also ten operational features that together characterize the way an NPO conducts its business under the Complementary Model:

1. The board sets governing policies; the CEO implements them; both monitor organizational effectiveness.
2. The CEO establishes administrative policies.
3. The board approves the strategic plan.
4. The board approves the annual financial budget.
5. An executive committee's mandate is limited.
6. With fewer committees, board meetings become shorter.
7. There are separate manuals for board members and staff.
8. The chair develops the meeting agenda.

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Events

(continued from front page)

One of the two major opportunities that IPGA provides each year for consultants and experienced practitioners (defined as those who have worked with their board for at least two full annual monitoring cycles) to come together for enriched learning and networking.

Our focus for this September's event will be on:

- Improving our knowledge and skills for coaching our clients.
- The implications of antitrust legislation.
- Designing the purpose and content of future IPGA Consultants' Forums.

Program and Registration now available at http://bit.ly/IPGAConsForum Sept2015

The next face-to-face Consultants' Forum will be held **February 19 and 20, 2016**, in Orlando, Florida.

October 7, 2015

Administrative Support (Board Secretary) Workshop

— Toronto, Ontario, Canada

A one-day session with Catherine M. Raso, CMR Governance Consulting.

For more information visit www.CMRaso.com

October 20, 2015

An Introduction to Policy Governance

— Halifax, Nova Scotia, Canada

A one-day session with Jannice Moore of The Governance Coach for new and prospective board members, executives, and staff who provide administrative board support.

For more information contact marian@governancecoach.com

Thinking of publishing in Board Leadership*? Contact managing editor Caroline Oliver for criteria at coliver@goodtogovern.com*

October 21, 2015

Advanced Policy Governance Application: The Power of Monitoring and Future-Focused Board Agendas

— Halifax, Nova Scotia, Canada

A one-day session with Jannice Moore of The Governance Coach for board members, board chairs, CEOs, and administrative staff who want an in-depth look and advanced application of Policy Governance to help them achieve mastery of Policy Governance, with particular attention to monitoring and future-focused board agendas.

For more information contact marian@governancecoach.com

March 11–12, 2016

An Introductory Training in Policy Governance

— Atlanta, Georgia, USA

No prior knowledge of the Policy Governance model is required. Conducted by Miriam Carver.

For more information see http://www.carvergovernance.com/train.htm

BoardSource

Throughout the year, BoardSource organizes a range of webinars and training events for US nonprofit board leaders.

For more information see http://bit.ly/BdSourceEvents

Holacracy

Holacracy is not a system for the work of boards but does bring structure and discipline to a peer-to-peer workplace. HolacracyOne offers a range of events from free introductory webinars to advanced immersive trainings.

For more information see http://events.holacracy.org/

National Coalition for Dialogue & Deliberation (NCDD)

NCDD also regularly provides useful training events. For more information see http://ncdd.org/events/ncdd2014 ❑

FOOD FOR THOUGHT

"The relevant challenge is whether elements in its conceptual design are unnecessary.

Yet that is rarely, if ever, where criticisms begin. Instead they begin with practices based on those elements—practices that might be inconvenient, unfamiliar, or simply too much trouble.

The long-established mind-set of governance has been one of few rules and unclear accountabilities. It is not surprising that significant enhancement of the role will, to many, feel too rigid for years to come."

"On a Personal Note: Is Policy Governance Rigid?" by John Carver. *Board Leadership*, Volume 2012, Issue 119, January/February 2012. Jossey Bass/Wiley Periodicals Inc., San Francisco.

For Your Bookshelf ...

Reviewed by Catherine M. Raso and Ercole D. Perrone

Catherine M. Raso, a highly experienced Policy Governance consultant who has worked with more than a dozen student association boards, and Ercole D. Perrone, executive director of the Humber Students' Federation with eight years' experience in student government, review A Blueprint for Student Driven Professionally Supported Student Association *by Michael Hughes.*[1]

A Blueprint for Student Driven Professionally Supported Student Association

Prepared by: Michael Hughes

Prepared for: Acadia Students' Union, Cape Breton University Students' Union, Dalhousie Agricultural Students' Association, Saint Mary's University Students' Association, and St. Francis Xavier University Students' Union

Published February 20, 2015

THIS REPORT is an examination of the governance of five university student associations in Nova Scotia, Canada. It identifies current governance challenges and shortcomings for student associations, as well as best practices used to address these challenges. The report also provides detailed recommendations drawn from best practices and input from various stakeholders and experts in the field.

Michael Hughes has studied and put to paper what we have been working on for years: the much needed transformation of student association governance to maintain relevancy. He begins by saying that the governance structure of the student associations that he studied—which applies to all of the student associations with which we have worked—have changed very little since they were first incorporated. Michael sums up the issues nicely as follows:

"Student associations still use a workgroup board despite significant expansion in the size and complexity of the organizations since incorporation, and the addition of many full-time and part-time staff. Changes to association governance have resulted in ad-hoc and temporary change, rather than systemic transformation. Governance problems within student associations are directly related to the preservation of the workgroup board model despite organizational change. ... The governance problems identified by respondents are not the result of poor execution of the workgroup board model, but the workgroup board model itself. Rather than governing the association, student leaders are placed in a position wherein they react to or approve an increasing amount of staff and management work, rather than lead through governance. As a result, students have long since lost ownership control of their organization because the board's time is devoted to approving management work, and not leadership.

Student control of student associations has also eroded because boards do not govern with representative input from the student body. By not targeting consultation efforts and focusing on board representation rather than collecting representative input, boards do not govern with input representative of the ownership meaning that the ownership does not fully control the organization. The consequence of this is that the association's owners, students, have lost control over their organization."

Student associations are legally incorporated as not-for-profit corporations and they provide services to benefit their own students within the university/college community. So while students, as owners of the corporation/association, pay an annual student fee and elect members to govern on their behalf, students are also consumers of the work of the student association. It is the understanding of this distinction in roles that is missing for many student associations, that is, the difference between the roles of students-as-owners and students-as-customers. (In fact, many associations do not understand this important distinction.)

The role of the board is to represent the students-as-owners. But student association boards are so consumed by running the business of the association (providing services) that they don't have the time, or awareness, to truly get ownership input and to represent the interests of the broader student community at the board table.

The traditional (and all-too-common) structure is that students are elected to the board into a particular position, including (1) the president (who has both operational responsibilities as the CEO and governance as the board chair) and (2) vice presidents (who have operational portfolios). The board is then naturally consumed by operations and there is no time left for governance and owner representation. This is further compounded by an elected president/CEO/student whose election platform may differ from that of the elected board members. This becomes a significant issue of role clarity; that is, who is responsible to whom for what? What is the distinction between governance and management?

To add insult to injury, many boards also have elected representatives of various faculties or groups on campus. This representation is a systemic governance defect since it is flawed by tokenism and exclusion.

The author, Michael Hughes, attempts to achieve that role clarity by offering fifty-six recommendations.

We agree with the author's following recommendations:

- That the workgroup board model be changed to a governing board model, so that the board's primary job is to represent the students-as-owners of the corporation/association.
- That constituency representatives be eliminated from boards because representation is inherently flawed.
- That the board size be reduced. This makes sense since the board's membership will change from being

class/faculty representatives and operationally focused, to being owner-representatives and governance-focused, and therefore fewer positions will be needed.

- That the board select a chair from among itself who shall be the spokesperson for the board (although we would call this the board chair, not the president, since the term *president* would be used for the CEO position—see later in this article).
- That board committees that are operational be eliminated so that the board can create its own, primarily ad-hoc, committees when it needs them.
- That student association board meetings be more professionally run, with the chair trained in parliamentary procedure, and that board packages be distributed in advance so that the board can function effectively.
- That boards seek owner input as their primary role.
- That board members (elected students) receive training in their roles as governors, and that boards seek professional governance consulting and guidance (the author refers to Policy Governance trained consultants as being certified, but unfortunately no certification currently exists).
- That student association boards use the Policy Governance system, have good policies in place, and create an annual board calendar.
- That board members receive some compensation for their role as governors, although the amount that he suggests (that the sum total of the salary paid to the board not be lower than the salary of the chief executive) seems unrealistically and unnecessarily high to us.
- That the chief executive be accountable to the full board for the operations of the association.

We do, however, disagree with the following recommendations:

- That the chair of the board is also the spokesperson for the operations. This should be the responsibility of the CEO, not the board chair, unless as requested by the CEO. As the board empowers the chair to interpret its policies for the board's governance process rather than its policies for the CEO, the chair should speak for the board but not the CEO.
- That board members should hold regular office hours. This is problematic because the more time that board members spend in the office, the higher the likelihood that they will get involved in operational activities. Students will rarely approach the directors in their offices with owner issues so it will not be a good use of board member time, and could be dangerous, if ownership linkage is the purpose for this.
- That board members be liaisons for specific campus communities. Unless very carefully handled, this is highly likely to resurrect the issues associated with representatives on the board, that is, that individual board members will be relied upon as the sole source of information from that group.
- That candidates be encouraged to run as slates. There is no direct correlation between running as a slate and good governance. In fact, we would argue quite the contrary, as slates tend to bring a group of like-minded individuals to a board table where constructive debate is required.
- The adoption of a system of voting known as single transferable vote to elect the board. The author correctly depicts the many challenges student associations face in attracting student voters but then proceeds to suggest a more complicated and time-consuming alternative that still cannot be proven to ensure the "best candidates" win more often than in the First Past the Post system.
- That annual general meetings (AGMs) be used only if they "conform to the principles of good ownership linkage." He incorrectly states that "Association elections replace the need for a traditional AGM." AGMs are legally required (for incorporated organizations) so that the membership can approve the winners of the election. AGMs cannot be replaced by elections.
- Our biggest concern, however, is the preservation of student leadership in student government. The author recommends that the chief executive officer *not* be a student, but rather a hired professional. Since one of the purposes (Ends) of a student association is development of student leadership skills (which makes student associations different from all other types of organizations), we would disagree with this recommendation. We believe that student leadership is required at the operational level of the CEO, and that there are different ways to ensure that student leadership is balanced with professional management. At the Humber Students' Federation, for example, the Chief Executive Office is composed of a hired professional (executive director) and an elected student (who is called president), and each have certain, complementary responsibilities and are jointly accountable to the board. This means that they are held accountable as if they were one person so that the unity of delegation remains intact. Catherine Raso has also worked with student associations to ensure that the CEO is a student, either by electing a student to be the President/CEO, or by the board hiring a student (someone who was a full-time student the previous year) to be a full time CEO for one year. All of these scenarios ensure that student leadership, role clarity, and accountability are all being preserved.

Overall, we are pleased that student association governance is getting attention and is being reviewed and reconsidered in many places in Canada. We are also hopeful that this transformation is done with owner accountability, role clarity, and student leadership as the primary goals. ❑

Notes

1. http://studentsns.ca/wp-content/uploads/2015/02/2015-02-20-Independent-Governance-Review-Final1.pdf

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Association Governance

(continued from page 3)

attention, attendance, volunteer time, and dues.

6. *Technology.* Coerver and Byers assert that associations have been painfully slow to embrace technology. Such risk aversion inadvertently disenfranchises those more progressively adapting.

Conclusion

"Five radical changes" are proposed in *Race for Relevance* to meet these challenges. The latter four are:

2. Empower the CEO and enhance staff.
3. Rationalize the member market.
4. Rationalize programs, services, and activities.
5. Bridge the technology gap and build a framework for the future.

From the lens of most sectors, these are sensible business strategies, but why are they "radical?"

The answer lies in context. The biggest challenges for many associations are not external, but lie within the structures that are hurdles to their own competitiveness. Cognizant that sound governance creates an environment in which management can excel, Coerver and Byers emphatically convey that the first step in the sequence of change must be radical change #1: "Overhaul the Governance Model." ❑

Notes

1. http://www.asaecenter.org/files/FileDownloads/PublicPolicy/Associations-Matter-FINAL.pdf

2. http://www.independentsector.org/uploads/Accountability_Documents/governance_is_governance.pdf

3. Harrison Coerver and Mary Byers, *Race for Relevance: 5 Radical Changes for Associations* (Washington, DC: ASAE, 2011).

4. John Carver, *Boards That Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations*, 3rd ed. (San Francisco, CA: Jossey-Bass, 2006).

5. Harrison Coerver and Mary Byers, *Road to Relevance: 5 Strategies for Competitive Associations* (Washington, DC: ASAE, 2013).

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One Way to Govern

(continued from page 4)

9. The secretary is *not* responsible for drafting the minutes.
10. The treasurer is *not* responsible for presenting financial reports to the board of directors.

Applicability: To What Sort of Organizations Does This Model/Approach Apply?

The model applies to any type of NPO whether they be industry, professional, special/common interest, or charity.

Current Adoption: What Is the Current Level of Adoption of This Model/Approach?

Sixty-five percent of respondents in the 2014 Compensation and Operations Report of Association Executives in British Columbia reported adopting the Complementary Model of Board Governance.

Current Research: What Research Currently Exists Regarding the Efficacy of This Model/Approach?

The 2014 Compensation and Operations Report of Association Executives in British Columbia asked respondents the following question: On a scale of 1 to 10, with 1 being not functioning and 10 being extremely functioning, how would you describe your board of directors? Those operating under the Complementary Model had an average and median of 7.7 and 8, respectively, compared with those not operating under the Complementary Model, who had an average and median of 6.7 and 7, respectively.

Implementing the Complementary Model of Board Governance will allow your board and CEO to work together as a team, to benefit from your NPO initiatives, and, at the same time, accomplish the goal of improving the life experience of all your stakeholders.

Finding Out More: What Resources Are Currently Available for Those Who Wish to Find Out More?

To find out more about the Complementary Model of Board Governance please visit www.amcnposolutions.com. ❑

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