



ND STATE INVESTMENT BOARD MEETING

Friday, April 22, 2016, 8:30 a.m.
Peace Garden Room - State Capitol
600 E Boulevard, Bismarck, ND

AGENDA (REVISED)

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (March 18, 2016)

III. INVESTMENTS

- A. Annual Board Planning Cycle and Strategic Investment Plan - Mr. Hunter (enclosed) (15 min) **Board Acceptance**
- * B. International Equity
 - 1. Investment Manager Search Reference Materials - Mr. Hunter (enclosed) (5 min)
 - 2. International Equity Manager Interviews*
 - a. Baillie Gifford - Larysa Bemko, Gerard Callahan and Chris Huckle (enclosed) (45 min)
 - b. William Blair - Ken McAtamney and Wally Fikiri (enclosed) (45 min)

===== Break from 10:20 to 10:30 a.m. =====

- 3. Board Review/Discussion of Finalists - RIO Recommendation (to follow) (15 min) **Board Action**
- C. BND Match Loan CD Program Update - Mr. Hunter (enclosed) (5 min)

IV. GOVERNANCE

- A. Securities Monitoring and Litigation Policy Update - Ms. Murtha and Mr. Hunter (enclosed) (5 min)
- B. New SIB Client Request (Vested Interest) - Mr. Hunter & Ms. Murtha (enclosed) (5 min)
- C. VW Litigation - Ms. Murtha (to follow) (20 min) *Informational*
Executive Session for Attorney Consultation Pursuant to 44-04-19.2 and 44-04-19.1(2) and (5)

V. ADMINISTRATION

- A. Executive Review Committee - Mr. Sandal (15 min)
- B. GFOA - Certificate of Achievement for Excellence in Financial Reporting - Mr. Hunter (enclosed) (5 min)

VI. QUARTERLY MONITORING (enclosed) (10 min) **Board Acceptance**

- A. Budget and Financial Conditions - Ms. Flanagan
- B. Executive Limitations / Staff Relations - Mr. Hunter
- C. Investment Program - Mr. Schulz
- D. Retirement Program - Ms. Kopp
- E. Watch List - Mr. Schulz

VII. OTHER

Next Meetings:

SIB Audit Committee meeting - May 19, 2016, 3:00 pm - State Capitol, Peace Garden Room

SIB meeting - May 27, 2016, 8:30 a.m. - State Capitol, Peace Garden Room

ADJOURNMENT

* Per NDCC 44.04.19.2 subdivision 6, the SIB will sequester all competitors during the finalist presentations.

**NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
MARCH 18, 2016, BOARD MEETING**

MEMBERS PRESENT: Mike Sandal, Vice Chair
Lance Gaebe, Commissioner of Trust Lands
Mike Gessner, TFFR Board
Rob Lech, TFFR Board
Mel Olson, TFFR Board
Kelly Schmidt, State Treasurer
Yvonne Smith, PERS Board
Cindy Ternes, WSI designee
Tom Trenbeath, PERS Board

MEMBERS ABSENT: Drew Wrigley, Lt. Governor, Chair
Adam Hamm, Insurance Commissioner

STAFF PRESENT: Eric Chin, Investment Analyst
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: Asha Bangalore, Northern Trust
Lynn Baranski, BlackRock
Linda Chaffin, Pathway
Leo Chenette, BlackRock
Levi Erdmann, Dept. of Trust Lands
Jeff Engleson, Dept. of Trust Lands
Patti Koulouris, Northern Trust
Jan Murtha, Attorney General's Office
Leo Pham, BlackRock
Jim Reinhardt, Pathway
Gary Robertson, Callan Associates
Wayne Smith, Pathway

CALL TO ORDER:

Mr. Sandal called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, March 18, 2016, at the State Capitol, Peace Garden Room, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE MARCH 18, 2016, MEETING AS DISTRIBUTED.

AYES: COMMISSIONER GAEBE, TREASURER SCHMIDT, MR. OLSON, MS. TERNES, MR. GESSNER, MR. TRENBEATH, MR. LECH, MS. SMITH, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

MINUTES:

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MR. TRENBEATH AND CARRIED ON A VOICE VOTE TO ACCEPT THE FEBRUARY 26, 2016, MINUTES AS DISTRIBUTED.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, MS. TERNES, TREASURER SCHMIDT, MR. LECH, MR. OLSON, MR. TRENBEATH, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

INVESTMENTS:

Private Equity - Mr. Hunter briefed the board on the course of action that took place on the search for an additional firm to complement the SIB's existing partnership with Adams Street Partners. RIO personnel initially identified 12 potential private equity candidates. RIO personnel and Callan Associates selected BlackRock, Pantheon, and Pathway and after on-site visits and additional analysis and due diligence, RIO personnel narrowed the field down to two semi-finalists, Blackrock and Pathway.

The SIB heard presentations from Blackrock and Pathway. The two semi-finalists were sequestered per NDCC 44.04.19.2 subsection 6.

The Board recessed at 10:15 a.m. and reconvened at 10:26 a.m.

Discussion took place on the two semi-finalists. RIO personnel recommended that the SIB engage BlackRock to build and manage a customized Global Core Private Equity Program for the Pension Trust. RIO personnel are basing their recommendation on the fact that Blackrock offers comprehensive access to premier investments across primaries, secondary's, and co-investments, as well as the technical expertise and investment know how necessary to build and manage a successful customized fund of funds program.

IT WAS MOVED BY MR. TRENBEATH AND SECONDED BY MR. LECH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT STAFF RECOMMENDATION AND ALLOCATE \$100 MILLION TO BLACKROCK.

AYES: TREASURER SCHMIDT, MR. GESSNER, MS. TERNES, COMMISSIONER GAEBE, MS. SMITH, MR. LECH, MR. TRENBEATH, MR. OLSON, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

Northern Trust - Ms. Bangalore provided an overview of the global economy.

Ms. Koulouris reviewed the securities lending program. As of August 2015, earnings of \$631,203 have been realized. The SIB has a revenue split agreement of 80/20 with Northern Trust.

Ms. Koulouris also reviewed Northern Trust's securities litigation program. Northern Trust oversees class actions on behalf of the SIB both in the US and internationally.

Investment Policy Statements - Mr. Hunter reviewed Investment Policy Statements (IPS) revised by the City of Bismarck Police Pension Plan, City of Bismarck Employee Pension Plan, Insurance Regulatory Trust Fund, Petroleum Tank Release Compensation Fund, Bonding Fund, and Fire and Tornado Fund. For consistency purposes, staff requested the entities consider adopting the same performance metrics as the other SIB clients. The changes are formative in nature and do not include any asset allocation changes. Mr. Hunter stated the clients were in agreement and have adopted the suggested investment performance objectives.

IT WAS MOVED BY MR. GESSNER AND SECONDED BY MR. OLSON AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE REVISED INVESTMENT POLICY STATEMENTS FOR THE CITY OF BISMARCK POLICE PENSION PLAN, CITY OF BISMARCK EMPLOYEE PENSION PLAN, INSURANCE REGULATORY TRUST FUND, PETROLEUM TANK RELEASE COMPENSATION FUND, BONDING FUND, AND FIRE AND TORNADO FUND.

AYES: MS. SMITH, MR. OLSON, MR. GESSNER, MR. LECH, MR. TRENBEATH, MS. TERNES, COMMISSIONER GAEBE, TREASURER SCHMIDT, AND MR. SANDAL

NAYS: NONE

MOTION CARRIED

ABSENT: COMMISSIONER HAMM, LT. GOVERNOR WRIGLEY

ADMINISTRATION:

Executive Review Committee - Mr. Sandal, Chair of the Executive Review Committee, stated the Executive Review Committee met on March 16, 2016, and reviewed the processes and assessment tool utilized the previous year for the evaluation of the Executive Director/CIO. The Committee felt comfortable with the process and assessment tool and provided the evaluation questions to the SIB as well as survey results by RIO personnel. RIO personnel are given the opportunity to evaluate the Executive Director in December of each year in the areas of leadership, communication, and valuing employees. A second survey completed in January of each year is more broad based and focuses on environment and compensation, etc.

Ms. Miller Bowley will administer the survey to the SIB. If a SIB member needs clarification on a question, Ms. Miller Bowley will address those questions. Mr. Lech encouraged the SIB to provide an explanation if a rating of Exceeds Expectations or Does Not Meet Expectations is given.

The Executive Review Committee's next meeting is scheduled for April 13, 2016. The survey results will be reviewed with the Committee's final report given at the SIB's May 27, 2016, meeting.

BOARD EDUCATION:

The Board continued their review of "A Primer for Investment Trustees." Mr. Hunter reviewed Section 6, Investment Assets.

OTHER:

The next meeting of the SIB is scheduled for April 22, 2016, at 8:30 a.m. in the Peace Garden Room.

The next meeting of the SIB Audit Committee is scheduled for May 19, 2016, at 3:00 p.m. in the Peace Garden Room.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:41 a.m.

Mr. Sandal, Vice Chair
State Investment Board

Bonnie Heit
Assistant to the Board

Annual Board Planning Cycle and Strategic Investment Plan

April 15, 2016

Note: RIO requests the SIB accept a slightly revised “Biennial Agenda” in order to highlight the annual review of our “Ends” policies and “RIO’s Budget Guidelines”.

Dave Hunter, Executive Director / CIO
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Annual Board Planning Cycle – Biennial Agenda

CURRENT VERSION

Annual Board Planning Cycle Biennial Agenda



Fiscal 2015-16	July 2015	August	September	October	November	December	January 2016	February	March	April	May	June
	Gov. Offsite - Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda - Plan Board Education	Annual Investment Performance Review - Establish Work Plan - Add Invest. Education	Annual Review of Gov. Manual (Done) - New Board Member Orientation Complete	Annual Evaluation of RIO vs. Ends policies - Annual Board Evaluation	Investment Director Report on Investment Work Plan	No Meeting Scheduled		Investment Director Report on Investment Work Plan - Exec. Limit. & CIO Review	Review Budget Guidelines for next Biennium		Investment Director Report on Investment Work Plan - Investment Guidelines	No Meeting Scheduled

Fiscal 2016-17	July 2016	August	September	October	November	December	January 2017	February	March	April	May	June
<i>The SIB Meeting Agenda has not been established for Fiscal 2016-17</i>	Gov. Offsite - Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda - Plan Board Education	Annual Investment Performance Review - Establish Work Plan - Add Invest. Education	Annual Review of Gov. Manual - New Board Member Orientation Complete	Annual Evaluation of RIO vs. Ends policies - Annual Board Evaluation	Investment Director Report on Investment Work Plan	No Meeting Planned	- Legislative Update	Investment Director Report on Investment Work Plan - Exec. Limit. & CIO Review	Confirm Budget Guidelines - Legislative Update	- Legislative Update	Investment Director Report on Investment Work Plan	No Meeting Planned

- 1.) SIB Governance Policy B-7 on Governance Process states that "the Board will follow a biennial agenda which (a) completes a re-exploration of Ends policies annually (April) and (b) continually improves its performance through attention to board education and to enriched input and deliberation."
- 2.) "In the first three months of the new cycle, the Board will develop its agenda for the ensuing year. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed."
- 3.) "The Board will identify areas of education and input needed to increase the level of wisdom forethought it can give to subsequent choices. A board education plan will be developed during July and August of each year."



Annual Board Planning Cycle – Biennial Agenda

RIO Recommendation (Board Acceptance Requested)

Annual Board Planning Cycle Biennial Agenda



Fiscal 2015-16	July 2015	August	September	October	November	December	January 2016	February	March	April	May	June
	Gov. Offsite	Annual	Annual	Annual	Investment	No Meeting		Investment	Review	Review "Ends" Policies, Biennial Agenda, Strategic Plan and Budget Guidelines	Investment	No Meeting
	- Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda - Plan Board Education	Investment Performance Review	Review of Gov. Manual (Done)	Evaluation of RIO vs. Ends policies	Director Report on Investment Work Plan	Scheduled		Director Report on Investment Work Plan	Budget Guidelines for next Biennium		Director Report on Investment Work Plan	Scheduled
		- Establish Investment Work Plan	- New Board Member Orientation Complete	- Annual Board Evaluation	Work Plan			- Executive Limitations Review			ED/CIO Review	- Investment Guidelines

Fiscal 2016-17	July 2016	August	September	October	November	December	January 2017	February	March	April	May	June
The SIB Meeting Agenda has not been established for Fiscal 2016-17	Gov. Offsite	Annual	Annual	Annual	Investment	No Meeting		Investment	Confirm Budget Guidelines	Review Biennial Agenda, End Policies, Strategic Investment Plan and Budget Guidelines	Investment	No Meeting
	- Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda - Plan Board Education	Investment Performance Review	Review of Gov. Manual	Evaluation of RIO vs. Ends policies	Director Report on Investment Work Plan	Planned		Director Report on Investment Work Plan	Guidelines		Director Report on Investment Work Plan	Planned
		- Establish Investment Work Plan	- New Board Member Orientation Complete	- Annual Board Evaluation	Work Plan		- Legislative Update	- Executive Limitations Review	- Legislative Update		ED/CIO Review	- Investment Guidelines

- 1.) SIB Governance Policy B-7 on Governance Process states that "the Board will follow a biennial agenda which (a) completes a re-exploration of Ends policies annually (April) (which is also referred to as "RIO's Mission Statement") and (b) continually improves its performance through attention to board education and to enriched input and deliberation."
- 2.) "In the first three months of the new cycle, the Board will develop its agenda for the ensuing year. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed."
- 3.) "The Board will identify areas of education and input needed to increase the level of wisdom forethought it can give to subsequent choices. A board education plan will be developed during July and August of each year."
- 4.) **Budget Guidelines:** RIO will prepare and submit a biennial budget pursuant to OMB guidelines as established by the Governor which will not reduce the level of service provided by RIO. Expenditures for budget items will not exceed the appropriation without approval of the State Investment Board.

Date: April 14, 2016

RIO's Mission Statement

RIO's "Mission" is defined in SIB Governance Policy [D-1](#) on "Ends".

The Retirement and Investment Office serves the SIB and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule. [D-3](#)
- 2) Potential SIB clients have access to information regarding SIB's investment services. [D-4](#)
- 3) TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner. [D-5](#)
- 4) TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement. [D-6](#)
- 5) SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff. [D-7](#)

Mission Accomplishments:

- 1) Every SIB client generated positive excess returns for the 5-years ended 12/31/15 with one exception (PERS Retiree Health) while adhering to approved investment guidelines and noting that management fees have declined from 0.65% to 0.47% in the last two fiscal years.
- 2) RIO implemented a transparency enhancement initiative in late-2015 which enhanced public access to our website by adding new hyperlinks for our governance manual, audit charter and meeting materials (including our quarterly investment performance reviews).
- 3) RIO's internal audit team conducted reviews which provide reasonable assurance that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- 4) TFFR member surveys support management's belief that members have access to information which will allow them to become knowledgeable about retirement issues and processes.
- 5) SIB and TFFR client surveys confirm that the boards and staff provide satisfactory services.

NDRIO 2015-17 Strategic Investment Plan

Fundamental Investment Beliefs

Asset allocation decisions are the primary driver of investment returns, but the prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives. SIB clients generated over \$200 million of incremental income via the prudent use of active investment management over the past five years including approximately \$40 million of excess return in 2015.

Strategic Investment Plan

1. Reaffirm the organizational commitment to our current governance structure including a persistent awareness to the importance of continuing board education.
 2. Enhance transparency and understanding of our core goals and beliefs.
 - a. Remain steadfast in our commitment to the prudent use of active investment management.
 - b. Expand awareness to downside risk management which is essential to achieving our long term investment goals.
 - c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.
 3. Expand RIO's influence and ability to create positive and sustainable change by developing relationships with existing clients, organizations and legislative leaders.
 - a. Enhance community outreach to build upon public awareness and confidence.
 - b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.
 4. Heighten employee engagement by promoting an open and collaborative work environment while encouraging employee participation in staff meetings, offer more opportunities to impact RIO's change initiatives and improve overall compensation levels.
 - a. RIO's ability to continue to deliver strong results is dependent on the combined efforts of our highly valuable team members.
 5. Enhance our existing risk management tools and processes by developing a more robust risk management framework utilizing proven risk management solutions with a focus on portfolio construction and downside risk management (or "stress test" scenarios).
 - a. A robust risk management framework provides a foundation to understand downside risks and our ability to withstand market corrections in varying stress test scenarios.
 6. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.
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Fundamental Investment Beliefs

- ❑ **Asset allocation is the # 1 driver of investment returns.**

- ❑ **The prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives.**
 - **SIB clients generated \$200 million of incremental income via the prudent use of active investment management since 2011.**

 - **SIB clients generated over \$40 million of excess return via the prudent use of active investment management in 2015.**

SIB Governance Policy D-3 on the “Ends” for Investment Services are based on the following:

- 1. Comparison of client fund’s rate of return net of fees and expenses, to that of the client’s policy benchmark over a minimum evaluation period of 5 years.**
- 2. Comparison of the client fund’s risk, measured by standard deviation of net returns, to that of the client’s policy benchmark over a minimum period of 5 years.**
- 3. Comparison of the risk adjusted performance of the client fund, net of fees and expenses, to that of the client’s policy benchmark over a minimum period of 5 years.**

Reaffirm Commitment to Governance & Board Education

- ❑ **Reaffirm organizational commitment to our current governance structure.**
 - Annual board review of SIB governance manual including a second governance day offsite in mid-2016.

- ❑ **Maintain a persistent awareness to the importance of continuing board education.**
 - Emphasize continuing board education at SIB meetings and promote the attendance of educationally focused industry conferences.

Enhance Understanding of Core Goals and Beliefs

- **Enhance transparency and understanding of our core goals and beliefs.**
 - **Remain steadfast in our commitment to the prudent use of active investment management.**
 - **Expand awareness to downside risk management which is essential to achieving our long term investment goals.**
 - **Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.**

Expand Influence and Ability to Create Positive Change

- **Expand RIO's influence and ability to create positive and sustainable change by developing relationships with existing clients, organizations and legislative leaders.**
 - Enhance community outreach to build upon public awareness and confidence.
 - Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.

Heighten Employee Engagement and Impact

- **Heighten employee engagement by promoting an open and collaborative work environment while encouraging employee participation in staff meetings, offer more opportunities to impact RIO's change initiatives and improve overall compensation levels.**
 - **RIO's ability to continue to deliver strong results is dependent on the combined efforts of our highly valuable team members.**



Enhance Existing Risk Management Framework

- ❑ **Enhance our existing risk management tools and processes by developing a more robust risk management framework utilizing proven risk management solutions with a focus on portfolio construction and downside risk management (or “stress test” scenarios).**
 - **A robust risk management framework provides a foundation to understand downside risks and our ability to withstand market corrections in varying stress test scenarios.**

Evaluate and Expand the Efficient Use of Technology

- Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.



State Investment Board – Client Assets Under Management

<u>Fund Name</u>	<u>Market Values as of 12/31/15 ⁽¹⁾</u>	<u>Market Values as of 12/31/14 ⁽¹⁾</u>
Pension Trust Fund		
Public Employees Retirement System (PERS)	2,371,419,312	2,345,979,927
Teachers' Fund for Retirement (TFFR)	2,036,260,471	2,046,439,456
Job Service of North Dakota Pension	93,985,042	96,920,165
City of Bismarck Employees Pension	79,987,495	79,421,743
City of Grand Forks Employees Pension	55,321,141	56,347,332
City of Bismarck Police Pension	33,013,643	34,834,996
Grand Forks Park District	5,770,147	5,893,072
City of Fargo Employees Pension	1,512	9,656
Subtotal Pension Trust Fund	4,675,758,763	4,665,846,347
Insurance Trust Fund		
Legacy Fund		2,900,880,837
Workforce Safety & Insurance (WSI)	1,746,807,452	1,710,647,794
Budget Stabilization Fund	573,743,813	589,598,047
ND Tobacco Prevention and Control Trust Fund	46,438,466	
City of Fargo FargoDome Permanent Fund	38,489,674	40,651,973
PERS Group Insurance Account	38,411,033	42,705,101
State Fire and Tornado Fund	23,169,406	25,065,765
Petroleum Tank Release Compensation Fund	6,931,840	7,152,822
State Risk Management Fund	6,213,232	6,771,080
State Risk Management Workers Comp Fund	5,723,481	6,141,008
ND Association of Counties (NDACo) Fund	3,895,582	3,481,321
State Bonding Fund	3,187,067	3,299,303
ND Board of Medical Examiners	2,156,260	2,131,999
Insurance Regulatory Trust Fund	1,057,824	646,335
Bismarck Deferred Sick Leave Account	615,610	859,648
Cultural Endowment Fund	372,713	373,276
Subtotal Insurance Trust Fund	2,497,213,453	5,340,406,309
Legacy Trust Fund		
Legacy Fund	3,522,475,430	
PERS Retiree Insurance Credit Fund	96,046,927	93,282,939
Total Assets Under SIB Management	10,791,494,573	10,099,535,595

⁽¹⁾ 12/31/15 market values are unaudited and subject to change.

- ▶ SIB Client Assets Under Management grew by approximately 6.9% or \$692 million in the last year.
- ▶ The Pension Trust posted a net return of 0.56%, while the Insurance Trust generated a 1.03% net return in the last year. Investments were responsible for gains of \$26 million for the Pension Trust and gains of \$25 million for the Insurance Trust excluding Legacy Fund assets.
- ▶ Legacy assets increased by 21% (or \$622 million) primarily due to tax collections, although net returns were 0.91% for the year ended December 31, 2015.
- ▶ SIB client assets totaled \$10.8 billion based on unaudited valuations as of December 31, 2015.
- ▶ ND Tobacco Prevention and Control Trust Fund joined the NDSIB platform on September 30, 2015.

Pension Trust – December 2015 Performance Update

	1 Yr Ended 12/31/2015	3 Yrs Ended 12/31/2015	5 Yrs Ended 12/31/2015	Risk 5 Yrs Ended 12/31/2015
PERS (Main Plan)				
Total Fund Return - Net	0.53%	7.49%	6.93%	7.83%
Policy Benchmark Return	0.06%	6.66%	6.51%	7.43%
Excess Return	0.47%	0.83%	0.42%	105.4%
TFFR				
Total Fund Return - Net	0.64%	7.60%	6.90%	8.3%
Policy Benchmark Return	0.15%	6.74%	6.22%	8.0%
Excess Return	0.49%	0.86%	0.69%	105%
BISMARCK EMPLOYEES				
Total Fund Return - Net	0.65%	6.73%	6.91%	6.76%
Policy Benchmark Return	0.17%	5.82%	6.27%	6.40%
Excess Return	0.48%	0.91%	0.64%	105.5%
BISMARCK POLICE				
Total Fund Return - Net	0.39%	6.92%	7.00%	7.34%
Policy Benchmark Return	-0.11%	6.03%	6.41%	7.02%
Excess Return	0.49%	0.89%	0.59%	104.5%
JOB SERVICE				
Total Fund Return - Net	2.00%	6.95%	7.10%	6.02%
Policy Benchmark Return	0.49%	5.43%	5.98%	5.50%
Excess Return	1.52%	1.52%	1.12%	109.5%
GRAND FORKS EMPLOYEE				
Total Fund Return - Net	-0.14%	7.58%	7.30%	7.61%
Policy Benchmark Return	-0.62%	6.84%	6.79%	7.28%
Excess Return	0.48%	0.74%	0.51%	104.5%
GRAND FORKS PARK DISTRICT				
Total Fund Return - Net	0.66%	8.38%	7.55%	8.14%
Policy Benchmark Return	-0.22%	7.51%	7.19%	7.65%
Excess Return	0.88%	0.87%	0.35%	106.3%

Pension Trust:

- Every SIB client within the Pension Trust generated positive **“Excess Return”** for the 1-, 3- and 5-year periods ended December 31, 2015.
- **“Excess Return”** is defined as the actual investment return (after deducting investment fees) over the expected return of the underlying investment policy or benchmark (i.e. a passive index).
- SIB’s use of active management generated over **\$20 million of net incremental income** (after fees) in the last year for PERS & TFFR. This is based on \$4.4 billion of managed assets and **Excess Return of 0.47%** (\$4.4 billion x 0.47% = \$20.7 million).
- These strong returns have been achieved while reducing overall investment risk, as measured by standard deviation, during the past 10 years. Standard deviation measures the amount of variation or dispersion from the average.

Note: Data as of 12/31/2015 is unaudited and subject to change.

Non-Pension – December 2015 Performance Update

	1 Yr Ended 12/31/2015	3 Yrs Ended 12/31/2015	5 Yrs Ended 12/31/2015
WORKFORCE SAFETY & INSURANCE (WSI)			
\$	1,746,807,452		
Total Fund Return - Net	1.05%	5.21%	6.73%
Policy Benchmark Return	0.96%	3.86%	5.15%
Excess Return	0.09%	1.35%	1.58%

	1 Yr Ended 12/31/2015	3 Yrs Ended 12/31/2015	5 Yrs Ended 12/31/2015
LEGACY FUND			
\$	3,522,475,430		
Total Fund Return - Net	0.91%	2.58%	N/A
Policy Benchmark Return	0.44%	1.98%	N/A
Excess Return	0.46%	0.59%	

	1 Yr Ended 12/31/2015	3 Yrs Ended 12/31/2015	5 Yrs Ended 12/31/2015
BUDGET STABILIZATION FUND			
\$	573,743,813		
Total Fund Return - Net	1.24%	1.42%	1.78%
Policy Benchmark Return	0.68%	0.51%	0.43%
Excess Return	0.56%	0.91%	1.34%

Note: The 3 largest clients in the **Non-Pension Trust** are:

- 1.) **WSI - \$1.7 billion;**
- 2.) **Legacy Fund - \$3.5 billion; and**
- 3.) **Budget Stabilization Fund - \$574 million.**

Non-Pension Trust Clients:

- **Every SIB client in the Non-Pension Trusts generated positive “Excess Return” for the 5-years ended December 31, 2015, with one exception for the \$96 million PERS Retiree Health Insurance Credit Fund.**
- **“Excess return” is defined as the actual investment return (after deducting management fees) over the expected investment return of the underlying investment policy benchmark (or passive index).**
- **Based on WSI plan assets of over \$1.5 billion and “Excess Return” of over 1.5% in the last 5-years, SIB’s use of active management generated over \$100 million of incremental income (after fees) for WSI (\$1.5 billion x 1.5% x 5 years = \$112.5 million) in the last 5-years.**
- **These returns were achieved in a risk controlled framework as nearly every client (with a 5-year track record) generated positive “Risk Adjusted Excess Return” for the 5-years ended 12/31/2015.**

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: Data as of 12/31/2015 is unaudited and subject to change.

Investment Work Plan Update – April 15, 2016

Pension Trust:

1. Conduct annual investment performance and policy statement reviews for all Pension Trust clients;
2. Assist TFFR and PERS boards and professionals conduct their asset liability studies this year including any proposed investment policy statement changes and/or asset allocation revisions;
3. Complete board approved equity searches (e.g. U.S. Small Cap, Private and International) while considering the merits of reverse inquiries relating to non-strategic, private strategies and implementing board approved litigation monitoring policies;
4. Continue to review our overall fixed income allocation including our unconstrained bond and mortgage backed securities mandates in light of the long-anticipated raising interest rate environment; and
5. Implement de-risking strategies as approved by the SIB and SIB client boards (e.g. Job Service).

Legacy and Insurance Trusts:

1. Conduct annual investment performance and policy statement reviews (WSI, Legacy & Budget Stabilization have been scheduled);
2. Complete board approved equity searches (e.g. International) while considering the merits of reverse inquiries relating to non-strategic, private strategies and implementing SIB approved litigation monitoring policy; and
3. Assist the SIB and Legacy and Budget Stabilization Advisory Board prepare for potential liquidity needs within the Budget Stabilization Fund or any other related developments.

Overall:

1. Remain steadfast in our commitment to continuing education (e.g. investment conferences and capital market updates) while raising awareness of other governance models (e.g. governance retreat in July of 2016);
2. Enhance transparency and understanding of our core goals and beliefs by easing public website access (by 12/31/15) while promoting the benefits of active management (\$200 million in the last years);
3. Heighten employee engagement by promoting an open and collaborative work environment while improving compensation levels particularly for RIO team members with more than 15-to-25 years of service;
4. Strengthen professional relationships with existing SIB clients, local organizations and legislative leaders;
5. Prudently enhance risk management systems using proven institutional grade risk management tools (i.e. a robust risk management framework provides a foundation to understand downside risks and the ability to withstand market corrections); and
6. Expand the efficient use of technology within RIO to enhance overall effectiveness while becoming fully staffed within our IT team.



COVER MEMO

TO: State Investment Board
FROM: Dave Hunter, Darren Schulz and Eric Chin
DATE: April 15, 2016
SUBJECT: International Equity Strategy - Background

Background:

On November 20, 2015, the SIB approved RIO's recommendation to conduct a search to potentially replace Capital Group's international equity mandate (\$425 million) within the Pension, Insurance and Legacy Trusts noting that Capital Group has served as an SIB investment manager since 1991. This recommendation was based on meaningful investment personnel changes, a desire for increased transparency with regards to individual portfolio manager performance (within this multi-manager approach), and disappointing performance for the 3- and 5-year periods ended December 31, 2015. Although Capital Group has generated over 150 basis points of excess return since inception, the level of excess return has declined to less than 0.10% during the last 5-years and turned negative for the 3- and 10-year periods ended December 31, 2015 (after deducting management fees).

Extensive Due Diligence Supports RIO's Recommendation to Replace Capital Group:

Based on extensive due diligence performed by RIO and Callan, Baillie Gifford and William Blair have been brought forth as candidates to replace Capital Group as highlighted on the following four pages.

Global Equity and International Equity Returns have Met or Exceeded Overall Expectations:

Despite the poor returns of the Capital Group, it is important to note that overall equity returns have outperformed underlying passive benchmarks. For the 1- and 3-year periods ended 12/31/15, the Global Equity portfolio (within the Pension Trust) outperformed its benchmark by 73 bps and 79 bps, respectively, net of fees.

Returns for Periods Ended December 31, 2015

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
Global Equity					
Gross	4.55%	(0.91%)	9.94%	-	-
Net	4.51%	(1.22%)	9.55%	-	-
Wtd Avg Global Equity Benchmark	4.44%	(1.95%)	8.76%	-	-

For the 5- and 10-year periods ended 12/31/15, the International Equity portfolio (within the Pension Trust) exceeded its underlying benchmark by 157 bps and 117 bps, respectively, net of fees, even after including the Capital Group International Equity mandates.

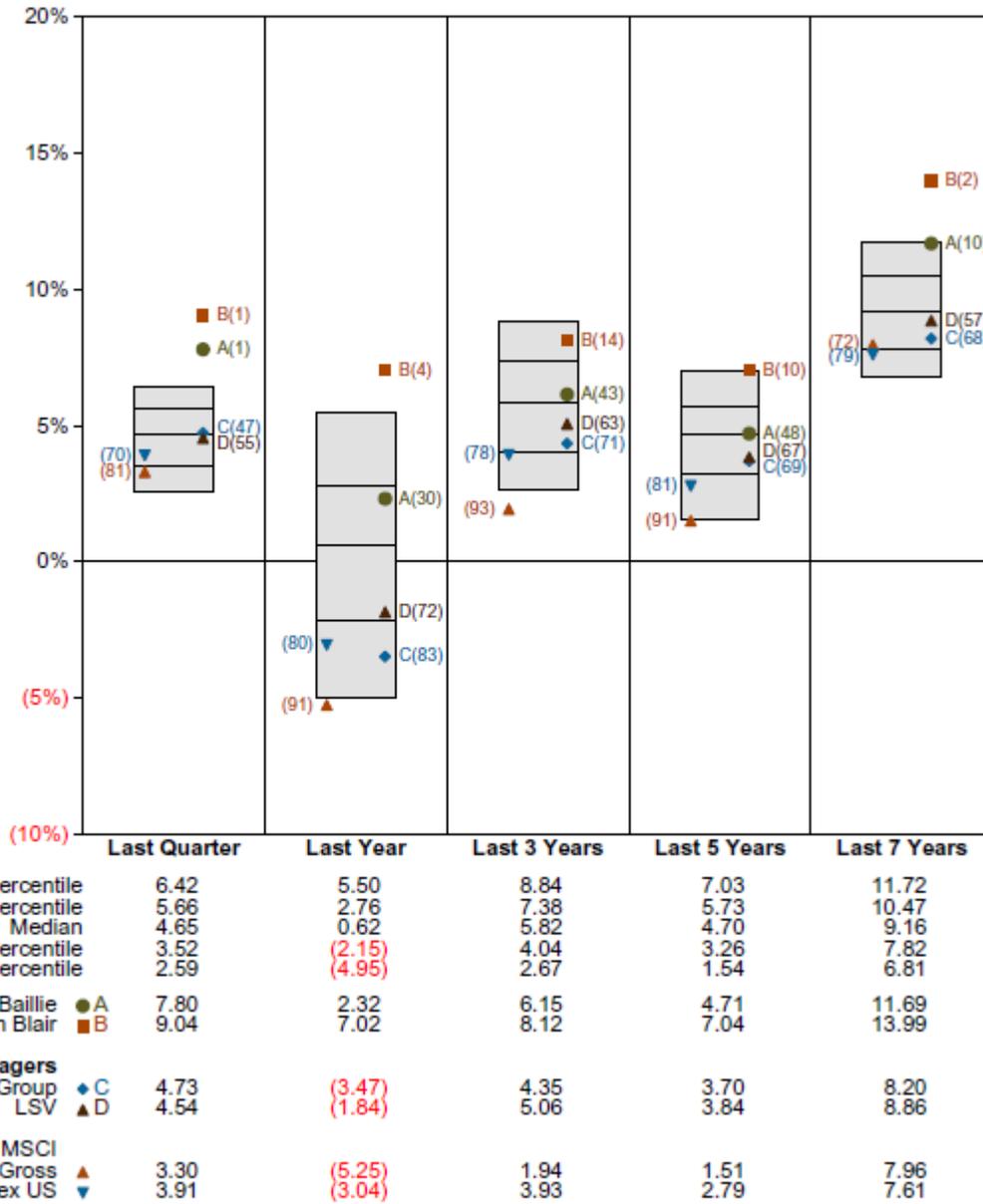
Returns for Periods Ended December 31, 2015

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
International Equity					
Gross	4.62%	(1.24%)	4.63%	3.48%	4.73%
Net	4.57%	(1.43%)	4.31%	3.12%	4.32%
Wtd Avg Int'l Equity Benchmark	3.81%	(3.99%)	2.40%	1.55%	3.15%

**North Dakota State Investment Board
Performance vs CAI Non-U.S. Equity Style
Periods Ended December 31, 2015**

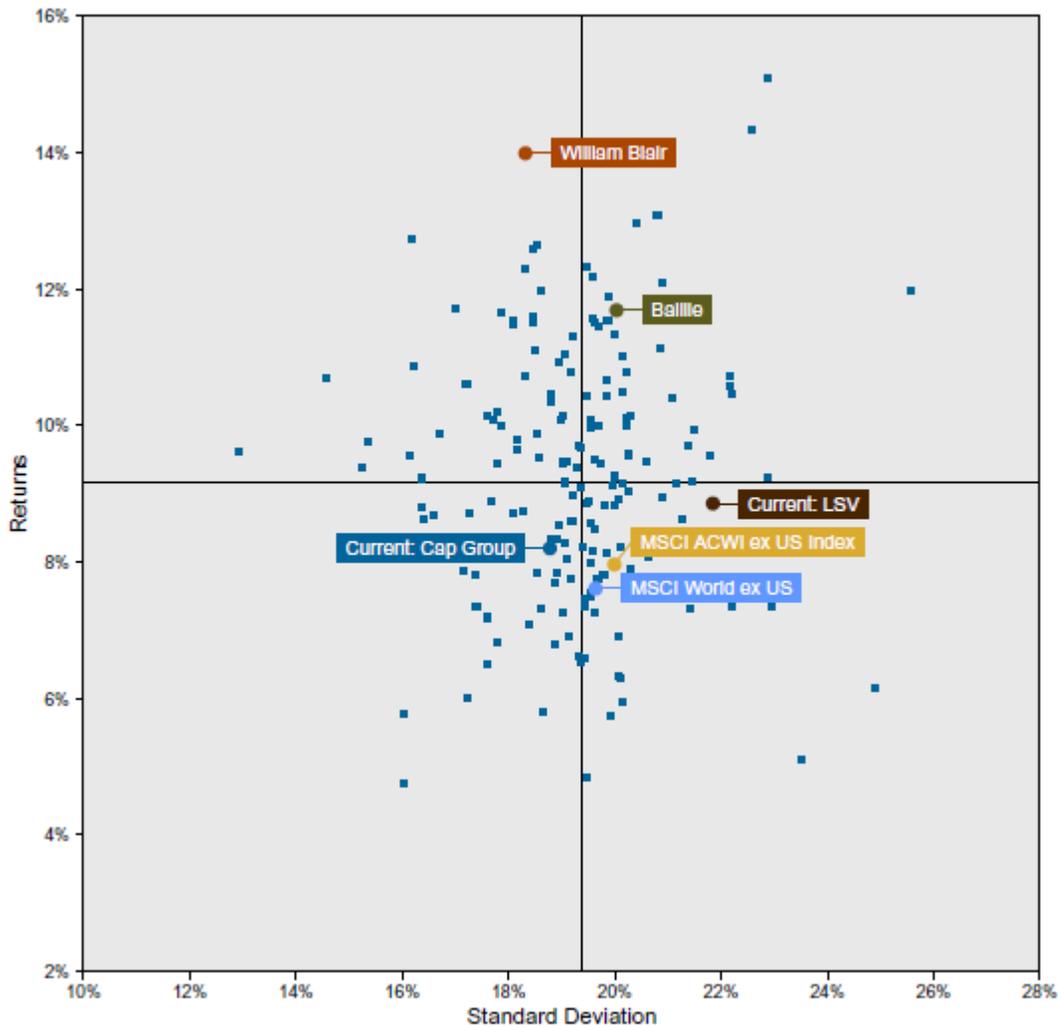
Return Ranking

The chart below illustrates fund rankings over various periods versus the CAI Non-U.S. Equity Style. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the CAI Non-U.S. Equity Style. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.



Note: The above bar chart shows that Baillie Gifford (A) and William Blair (B) have materially outperformed the Capital Group (C) (and the underlying benchmarks) for the 3-, 5- and 7-year periods ended December 31, 2015.

North Dakota State Investment Board
Risk/Reward vs CAI Non-U.S. Equity Style
Seven Years Ended December 31, 2015

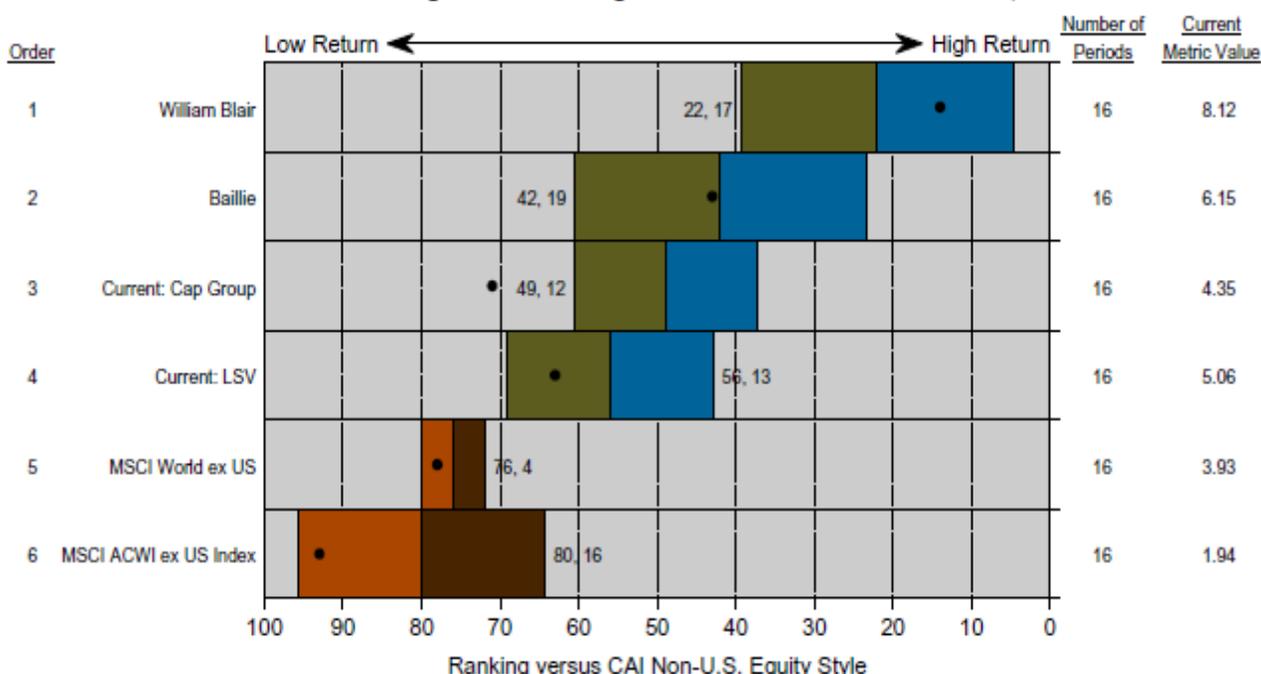


Note: The above Risk (x-axis) and Return (y-axis) chart shows that William Blair and Baillie Gifford have materially outperformed the Capital Group (and the underlying benchmarks) for the 7-year period ended December 31, 2015.

Historical Ranking Analysis

This page compares multiple portfolios to each other by analyzing both the historical average ranking for a given metric versus a relevant peer group, as well as the consistency and range (standard deviation) of that ranking over time. The midpoint of each sideways bar represents the average ranking of a given portfolio over time, and the width of the bar represents the consistency and range of that ranking (+/- 1 standard deviation). The comma-separated numbers show the average and standard deviation respectively, of the portfolios ranking. Each portfolio's current ranking is demarcated by a dot, while the corresponding current value of the metric is displayed on the far right.

Three-Year Rolling Return - Ranking For Four Years Ended December 31, 2015



Note: The “Three-Year Rolling Return” chart above shows that William Blair (8.12) and Baillie Gifford (6.15) have materially outperformed the Capital Group (4.35) (and the underlying benchmarks) for the 7-year period ended December 31, 2015.

Summary:

Callan’s Investment Manager Evaluation materials are summarized in the following attachment and includes the following highlights:

1. Manager Search Process Overview
2. RIO’s Candidate Profile
3. Baillie Gifford Overview
4. William Blair Overview
5. Comparative Manager Performance
6. Callan Definitions and Disclosure Statements

RIO notes that Callan was instrumental in screening hundreds of potential candidates based on our stated Candidate Profile and our existing investment portfolio. Callan’s Manager Search Committee was utilized to thoroughly examine our top ten candidates based on a preliminary quantitative and qualitative screening process. Callan also hosted semi-finalist due diligence meetings in Denver prior to RIO staff conducting onsite interviews on April 13th and 15th.



April 2016

**North Dakota State Investment
Board**

Investment Manager Evaluation
International Equity

Callan

Investment Manager Evaluation

International Equity

April 2016

The following investment manager organizations have submitted information to Callan regarding their investment management capabilities, for which information Callan has not necessarily verified the accuracy or completeness of or updated. The information provided to Callan has been summarized in this report for your consideration. Unless otherwise noted, performance figures reflect a commingled fund or a composite of discretionary accounts. All written comments in this report are based on Callan's standard evaluation procedures which are designed to provide objective comments based upon facts provided to Callan. Statements in this report are made as of the date they are expressed.

This report is for informational purposes only and should not be construed as legal or tax advice on any matter. Any decision you make on the basis of the content is your sole responsibility. You should consult with legal and tax advisers before applying any of this information to your particular situation. Reference to or inclusion in this report of any product, service or entity should not be construed as a recommendation, approval, affiliation or endorsement of such product, service or entity by Callan. Past performance is no guarantee of future results.

Callan

The following investment manager organizations have submitted information to Callan Associates Inc. regarding their investment management capabilities. The information has been summarized in this report for the consideration of the North Dakota State Investment Board.

International Equity

Baillie Gifford Overseas Limited

William Blair & Company



North Dakota State Investment Board
Investment Manager Evaluation

Table of Contents

Search Outline

Baillie Gifford Overseas Limited

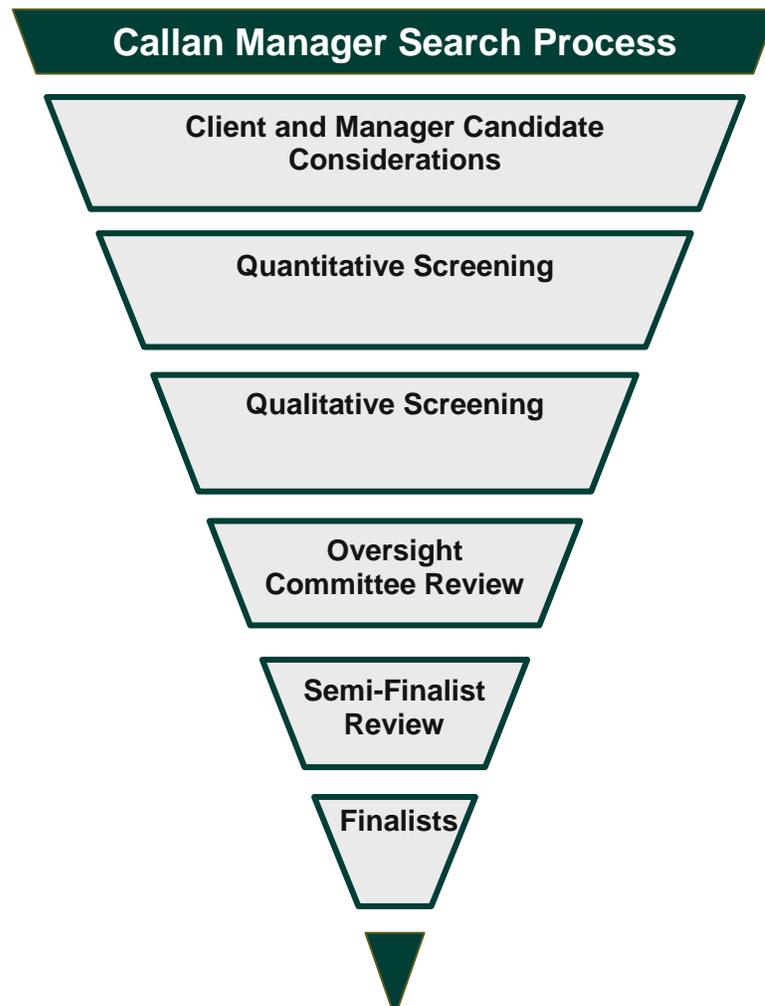
William Blair & Company

Summary Matrix

Comparative Manager Performance

Appendix

Manager Search Process



Manager Search Process Overview

Callan's investment manager searches are underpinned by a disciplined, six-step process:

I. Identify Client and Manager Candidate Considerations

At the onset of each search, Callan meets with the client to review and document any specific characteristics sought in an investment manager. This includes factors such as the manager's strategy and approach, organizational structure, minimum/maximum assets under management, performance criteria relative to an appropriate index and peer group, and risk tolerance. These factors serve as the basis for developing the appropriate quantitative and qualitative screening criteria.

II. Conduct Quantitative Screening

After beginning with the broadest possible universe of candidates, Callan narrows the field using client-specified screening criteria to screen our proprietary database. Screens examine numerous quantitative factors including performance, volatility, correlation with the existing structure, and assets under management. Callan screens performance across multiple time periods, market cycles, and statistical analyses so as to identify consistency of returns and avoid performance bias.

III. Perform Qualitative Screening

Qualitative screening concentrates the field even further. Qualitative screens examine manager type, organizational history, depth and experience of investment personnel, investment process and style, client servicing capability and resource allocation. Callan generates qualitative assessments based on manager research conducted by our dedicated asset class specialists and generalist consultants through regular in-house meetings, conference calls, and on-site manager due diligence.

IV. Oversight Committee Review of Preliminary Recommendations

Callan's Manager Search Committee—an oversight body that is comprised of approximately [17] senior consultants—reviews each search to thoroughly examine candidates and ensure Callan has met the client's specified criteria. Collectively, the Manager Search Committee vets the candidates and identifies semi-finalist candidates to present to the client.

V. Review Semi-finalist Candidates

A manager evaluation document comparing the semi-finalist candidates is prepared for the client. Callan reviews the report with the client to highlight important considerations in conducting the search, compare and contrast the manager candidates, and assist in the identification of finalist candidates.

VI. Interview Finalists

To gain additional insight, finalists are invited to present to the client. The presentations generally include an overview of the manager organization and a specific review of the product being considered. They also provide the opportunity for the client and/or consultant to address any outstanding issues. A winner is typically selected following these presentations.

North Dakota State Investment Board (Pension Trust, Insurance Trust and Legacy Fund)
ACWI ex-US Equity Candidate Profile
December 14, 2015

A. Manager Orientation

The North Dakota State Investment Board's (NDSIB) Pension Trust seeks an investment management firm with expertise and a proven record in managing equity portfolios containing both non-US developed and emerging markets exposures.

B. Manager Type

Only qualified investment counselor organizations registered under the Investment Advisors Act of 1940 will be considered. This includes investment counselors and investment counseling subsidiaries of banks, brokerage houses and insurance companies.

C. Investment Style

NDSIB is seeking an international manager to implement an ACWI ex-US mandate with a core to modestly growth orientation. While the NDSIB's intention is to hire a single manager benchmarked to ACWI ex-US, an investment vehicle structure that included an EM sleeve that could be adjusted for the pension trust would be advantageous – but not required. Historical EM allocations and flexibility of adjusting EM to a maximum limit will be needed for evaluation of candidates.

D. Total Assets Under Management

NDSIB prefers that the firm have a minimum of \$10.0 billion in assets under management at the firm with \$2 billion in the strategy under consideration. NDSIB wants candidates with stable and well-diversified client bases. Highly qualified candidates that do not meet these preferred minimums will be evaluated on a case-by-case basis.

E. Size of Professional Staff

There should be a sufficient number of client service and investment personnel relative to the firm's account load to assure that NDSIB has reasonable access to the firm and that the investment portfolios are well attended.

F. Experience in Managing Funds

It is essential that candidates exhibit organizational stability and have compensation and ownership programs that provide reasonable assurance of their ability to retain key investment professionals. The organization should have been in business for a minimum of five years. Organizations with less than five-year history, however, may be considered in certain circumstances (e.g. spin-off from parent company).

G. Geographic Location

No preference.

H. Investment Vehicles

NDSIB prefers a separate account but is willing to consider institutional mutual funds and commingled trusts.

I. Securities Lending

If the available strategy is only available in a commingled structure, securities lending is permitted but should be prominently noted in the client-ready due diligence package.

J. Flexibility of Individual Portfolio Manager

Some flexibility of investment holdings is permissible among accounts; however, the dispersion of portfolio returns across accounts within the firm should be small. There should be a firm-wide investment process.

K. In-House Research Capability

In-house research capability is preferred although limited and relevant outsourcing is acceptable.

L. Portfolio Risk Level

The candidates should have a risk level that is at least commensurate with the return achieved. Candidates should demonstrate risk-adjusted performance which compares favorably to the appropriate index and style group. Risk will be considered relative to the benchmark as well as in absolute returns.

North Dakota State Investment Board (Pension Trust, Insurance Trust and Legacy Fund)
ACWI ex-US Equity Candidate Profile
December 14, 2015

M. Historical Performance Criteria

Historical performance criteria will be scored based on the following:

- Cumulative 4, 5 and 7 year data relative to the MSCI ACWI ex-US Index and CAI Non-U.S. Equity Style group
- Rolling three-year periods based on quarterly data compared to the MSCI ACWI ex-US Index and CAI Non-U.S. Equity Style group

Performance will be evaluated relative to each criteria; thus, there will be a maximum of 40 points possible (17 rolling three-year periods and 3 other cumulative periods). Candidates will receive one point for each standard passed. The relative score will be considered for candidates with limited performance history. Performance at a prior employer may be utilized on a case by case basis.

N. Client Servicing

The firm should be service-oriented and responsive to individual client needs. Portfolio managers and client service professionals should be capable of clearly articulating their investment process and explaining it through unfavorable markets. The portfolio manager, or well-qualified client service professional, must be available to answer questions and provide support in a timely basis upon request.

O. Qualities Specifically Sought

- Superior long-term out performance relative to peers and the benchmark
- Disciplined investment process
- Positive risk-adjusted returns
- Low turnover of personnel
- Effective communication skills
- For multi-manager strategies, NDSIB requires that candidates be willing to provide information relating to individual portfolio manager performance

P. Qualities to be Avoided

- Firms with current negative publicity
- Organizational instability
- Significant performance attributable to short periods of excess return
- Concentrated client base

Q. Financial Well-Being of Firm

Candidates must be successful in the business of money management. The firm should be professionally managed and have a long-range business plan. Principals should not have recently cashed out. The ideal firm will have strong monetary and/or equity incentives in place for the investment professionals.

Q. Fees

NDSIB seeks a competitive fee schedule that is commensurate with the firm's demonstrated expertise.

R. Client Requests

- Marathon Asset Management LLP d/b/a/ Marathon-London in North America
- Thornburg Investment Management
- Morgan Stanley

#

Baillie Gifford International LLC
Calton Square 1 Greenside Row
Edinburgh, SCOTLAND, GBR EH1 3AN

History

Baillie Gifford & Co. was founded in Edinburgh, Scotland in 1908. It is Scotland's largest independently owned investment management firm and is 100% owned by the current partners, all of whom work full time for the firm. Baillie Gifford Overseas Limited is the vehicle through which the firm manages assets for clients based outside the UK. It is wholly owned by Baillie Gifford & Co., which was established in 1983, and was registered with the SEC in April 1984.

Structure

Founded: 1983
 Parent: Baillie Gifford & Co
 Ownership: Partnership
 Errors and omissions insurance: Yes
 In compliance with SEC and DOL: Yes
 GIPS Compliant: Yes

Contact: William Pacula
 780 3rd Avenue 47th Floor
 New York, NY 10017
 Phone: (212) 319-4637
 Fax: (212) 319-4639
 Email: william.pacula@bailliegifford.com

Key Professionals

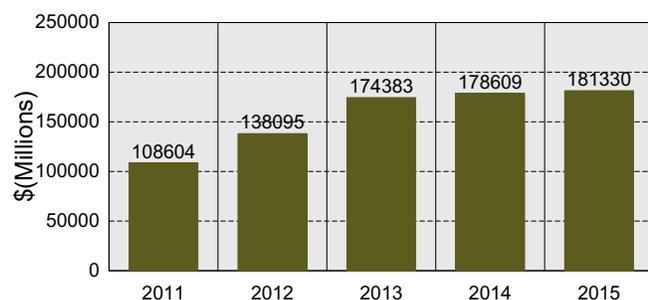
Andrew Telfer - CEO

Joined Investment Firm Experience
 1992 1992

Employee Structure

Administrative	339
Client Services/Marketing	102
Dedicated Fundamental Analyst	31
Executive Management	1
Operations	78
Portfolio Manager	66
System/Information Technology	163
Trader	11
Total	791

Total Asset Growth



Total Asset Structure

Asset Type	\$(mm)	
U.S. Tax-Exempt	40,127	22%
U.S. Taxable	21,637	12%
Non-U.S.	113,002	62%
Mutual Fund	6,564	4%
Total	181,330	100%

U.S. Tax-Exempt Separate/Commingled Assets as of December 31, 2015

Asset Class	\$(mm)		Client Type	\$(mm)	
Intl Equity	40,127	100%	Corporate	10,816	27%
Total	40,127	100%	Endowment/Foundation	1,984	5%
			Public	27,255	68%
			Insurance	72	0%
			Total	40,127	100%

Note(s): Effective April 2014, Partner Mick Brewis retired. Upon Brewis' retirement, Ian Tabberer and Gary Robinson became co-leads of the North American Equity Team. In October 2013, Charles Plowden passed on the role of Chief of Investment Staff to Iain McCombie. Asset growth in 2013 was attributed to the gain of twenty-three accounts for \$9.0 billion.

Baillie Gifford International LLC
ACWI ex US Focus Equities
As of December 31, 2015

Key Professionals	Joined Firm	Investment Experience
Gerard Callahan - PM	1991	1991
Joe Faraday - PM	2002	2002
Iain Campbell - PM	2004	2004
Tom Walsh - PM	2009	2005
Sophie Earnshaw - PM	2010	2010
Moritz Sitte - PM	2010	2010

Investment Professionals

Function	#	5 Years	
		Gained	Lost
Portfolio Manager	6	3	2
Portfolio Decision: Team Management			

Product Highlights:

Investment Style: Intl Growth

Benchmark: MSCI AC World ex US USD

Invest. Strategy: Fundamental Research (100% Bottom Up)

Investment Process:

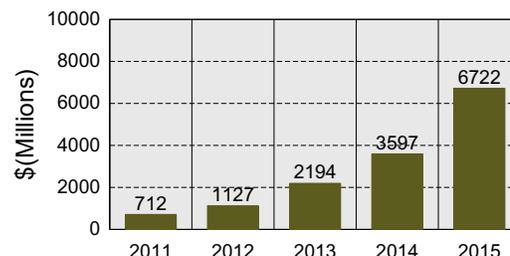
- 10% Country/Regional Allocation
- 10% Industry/Sector Allocation
- 80% Security Selection

Portfolio Characteristics	Year End
Wtd Avg Market Cap (\$M)	40,277
% Large Cap (\$wgt) > \$15 B	51
% Mid Cap (\$wgt) \$3.5 - \$15 B	41
% Small Cap (\$wgt) \$700M - \$3.5 B	7
% Micro Cap (\$wgt) < \$700 M	1
Number of Holdings	80
Annual Percent Turnover	13
Total Emerg. Mkts Exposure	18

Total Asset Structure

Asset Type	\$(mm)	
U.S. Tax-Exempt Sep Acct	5,365	80%
U.S. Taxable	1,013	15%
Mutual Fund	343	5%
Total	6,722	100%

Total Asset Growth



U.S. Tax-Exempt Assets

Vehicle	Largest Acct	# of Accts	\$(mm) Assets	5 Years Net Flows
Separate	1,881	20	5,365	213

Performance Composite

Assets in composite (\$mm): 5,945
 Number of Accts in Composite: 23

2015 Annual Dispersion Range:
 Composite Return: 2.32%
 Highest Return: 3.01%
 Lowest Return: 1.78%

Note(s): Mick Brewis was removed from the Focus portfolio construction group (PCG) in June 2011 but remained with the firm as Head of North American Equities until his retirement in April 2014. Gerard Callahan became Chairman of the Focus PCG in October 2010. PCG member Paul Faulkner left Baillie Gifford on December 1, 2014; he was replaced on the PCG by Moritz Sitte, Tom Walsh, and Sophie Earnshaw. Asset growth in 2012 was attributed to the gain of three accounts for \$161 million and market appreciation. Further increase in 2013 was attributed to the gain of four accounts for \$989 million and market appreciation. Asset gains in 2014 were attributed to the addition of nine accounts for \$1.5 billion. Asset increase in 2015 was attributed to the gain of three accounts for \$748 million and inflows into existing accounts. U.S. exposure on page 7 represents companies domiciled in the United States who derive the majority of their assets, business, or revenues from international markets.

Baillie Gifford International LLC

ACWI ex US Focus Equities

Investment Philosophy:

Baillie Gifford believes that companies with superior and sustainable earnings growth outperform in the long term. As active managers, they believe in being different from the index and in utilizing bottom-up stock selection to exploit inefficiencies. By taking a long term view (3-5 years) and selecting companies with sustainable earnings growth, they believe they can outperform in an environment of increasing short-termism.

Research Process:

Portfolio managers are first and foremost analysts, in that they spend the majority of their time writing research. The firm also has research analysts who do not have any portfolio management responsibilities. Research is primarily organized into regional equity teams, and the International Focus portfolio managers sit within such teams. The portfolio managers will draw on relevant research done within the regional, global and sector research teams. All investment professionals also attend firm-wide meetings each week where they have an opportunity to listen to and question investment ideas from all of the geographic areas. These meetings address developing themes and allow for discussion of specific companies and the merits of the investment case relating to them. Debate is encouraged. The majority of the research carried out is conducted internally. In addition to in-house company meetings, the portfolio managers and analysts carry out regular focused investment trips around the globe. Baillie Gifford uses external sources of information including brokerage contacts, company reports, and industry inputs. The investment teams also have access to information services such as Bloomberg and Reuters.

Country Strategy:

Country positions are a residual of stock selection within the context of a regional research structure considering cross-border analysis.

Security Selection:

There are approximately 3000 stocks in their broad opportunity set which considers stocks with a market cap in excess of US\$0.5bn and a reasonable free float. Research is considered in their 'Four Question Framework'. 1) Growth/Quality: They look for companies with a sustainable, and ideally strengthening, competitive advantage and market share within favorable industries that have the opportunity to demonstrate strong future growth. They think companies with strong balance sheets and good cash generation have the potential to generate superior returns through self-financed growth. 2) Management: They form judgments on management's motivations and incentives, looking for their long term interests to be closely aligned to those of the shareholders. 3) Valuation: Their objective is to invest only in undervalued companies, but they are quite prepared to pay seemingly high short-term valuations when their confidence in longer-term growth is sufficiently high. They look at current valuation, but also likely valuation in five years' time. 4) Discipline: They consider any non-negotiable aspects of the investment case and consideration of any key risks when evaluating stocks.

Portfolio Construction:

Country and region weightings are an outcome of the stock selection process, although they do look at the portfolio in relation to sensible guidelines to ensure it is appropriately diversified. As bottom-up investors, the sector/industry and country weightings of the portfolios are a residual of the process. For diversification purposes, they monitor these weightings through the use of position guidelines relative to the benchmark. These positions are reviewed by the Portfolio Construction Group. They are as follows, relative to MSCI ACWI ex US index: sector +/-10%, countries +/- 10%, stocks +/- 5%. Further, they consider three aspects of risk control within their investment process. The first, and they consider the most important, sources of risk control are the types of businesses they invest in. Second, in order to allow for a sensible degree of portfolio diversification and to control volatility, they apply a range of portfolio construction guidelines based on tracking error and deviation from the benchmark at a stock, sector and country level. Third, they employ an independent Investment Risk Team to oversee and monitor levels of risk being taken within the portfolios to ensure that they are managed with a level of risk consistent with clients' performance expectations.

Currency Strategy:

Currency factors are already incorporated in the stock selection process.

Sell Discipline:

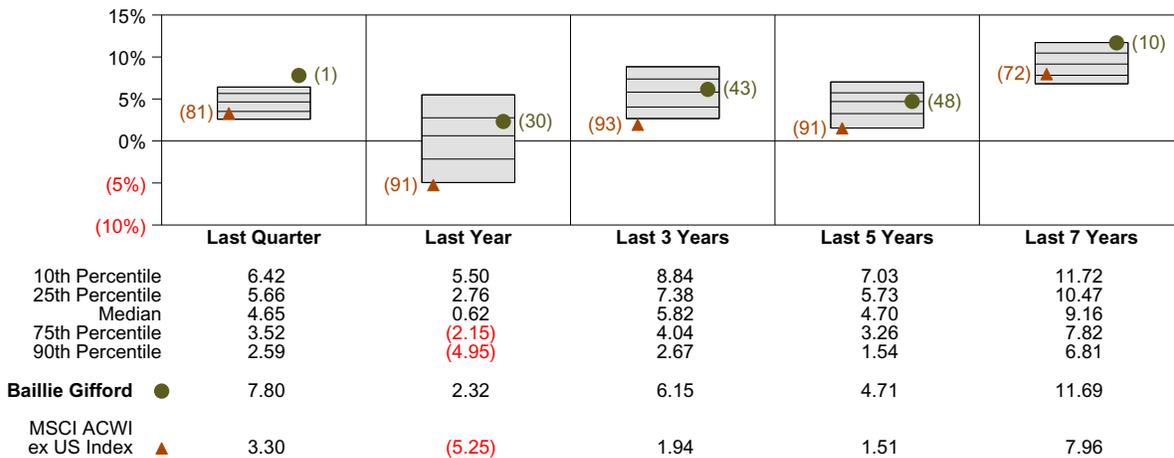
In general, they like to retain holdings in successful businesses and try not to react to short-term news, but there are three broad situations when the team will consider selling a stock: 1) an adverse and long-lasting change in the fundamentals of the business such as a deteriorating competitive advantage; 2) a loss of confidence in management, for instance in the wake of a large misconceived acquisition; or 3) valuation criteria - while they like to retain holdings in successful businesses, excessive valuations can also lead them to reduce.

Baillie Gifford International LLC ACWI ex US Focus Equities Return Analysis Summary

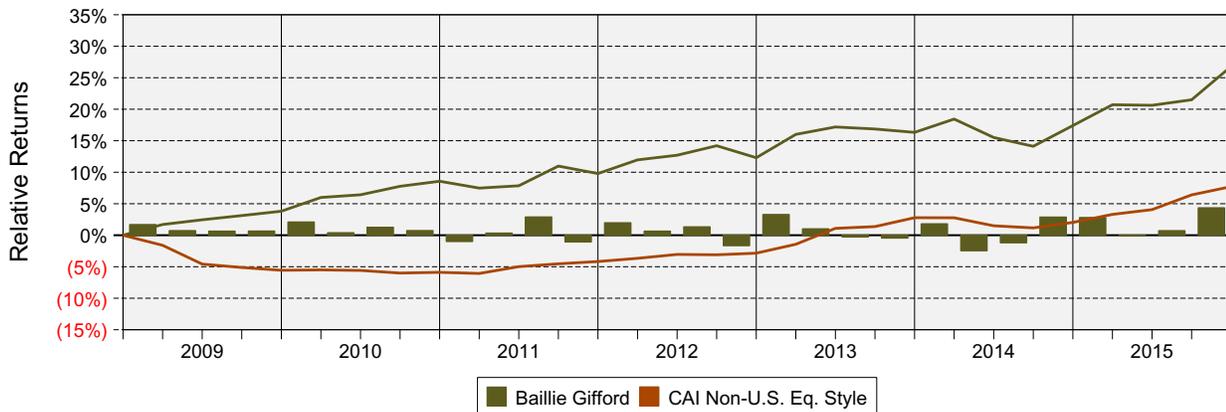
Return Analysis

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

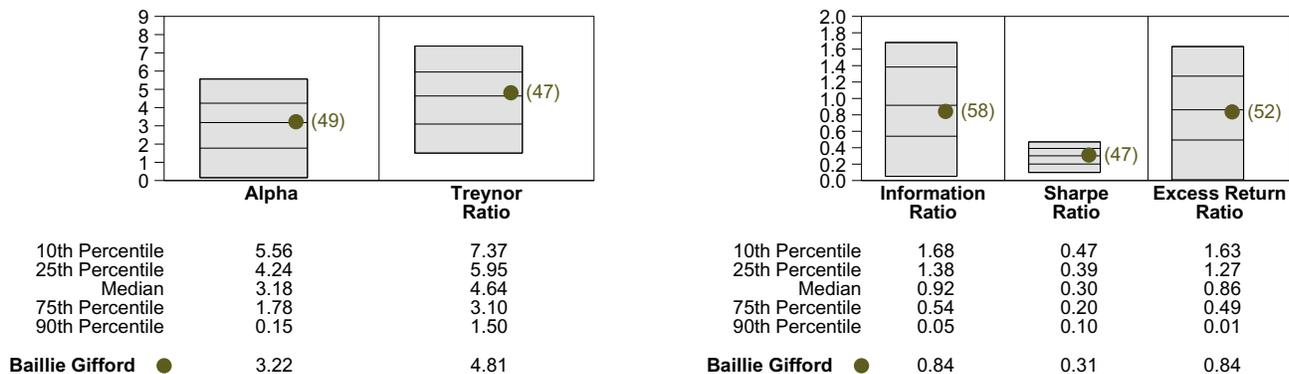
Performance vs CAI Non-U.S. Equity Style (Gross) Periods ended December 31, 2015



Cumulative and Quarterly Relative Return vs MSCI ACWI ex US Index



Risk Adjusted Return Measures vs MSCI ACWI ex US Index Rankings Against CAI Non-U.S. Equity Style (Gross) Five Years Ended December 31, 2015

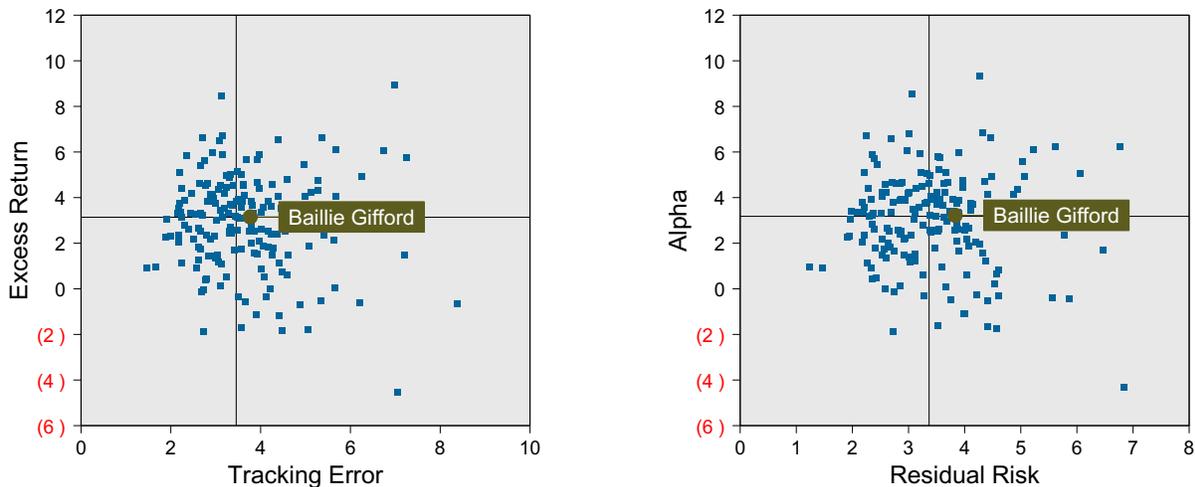


Baillie Gifford International LLC
ACWI ex US Focus Equities
Risk Analysis Summary

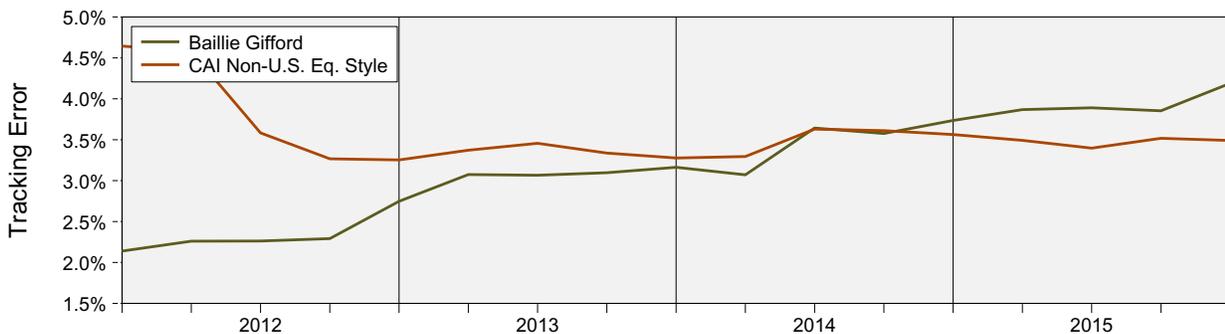
Risk Analysis

The graphs below analyze the risk or variation of a manager's return pattern. The first scatter chart illustrates the relationship, called Excess Return Ratio, between excess return and tracking error relative to the benchmark. The second scatter chart displays the relationship, sometimes called Information Ratio, between alpha (market-risk or "beta" adjusted return) and residual risk (non-market or "unsystematic" risk). The third chart shows tracking error patterns versus the benchmark over time. The last two charts show the ranking of the manager's risk statistics versus the peer group.

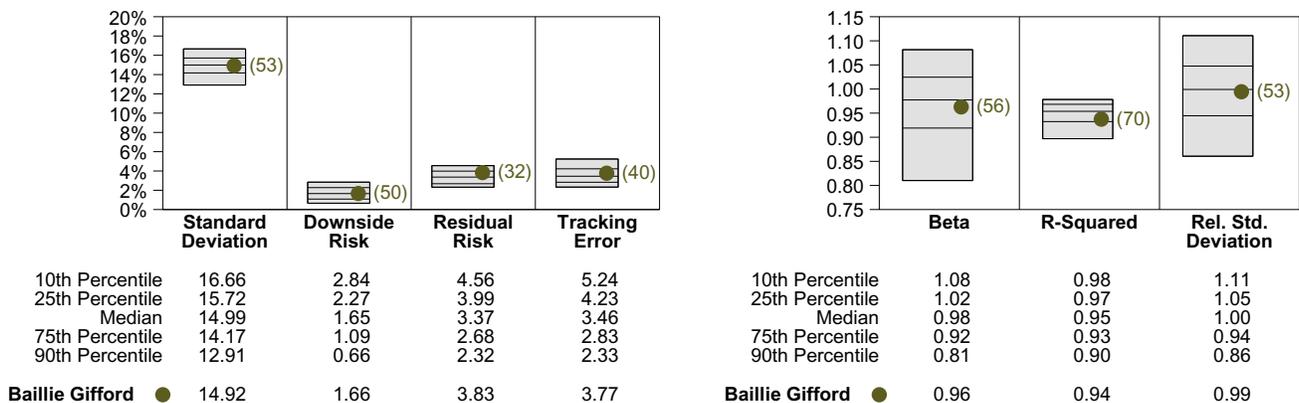
Risk Analysis vs CAI Non-U.S. Equity Style (Gross)
Five Years Ended December 31, 2015



Rolling 12 Quarter Tracking Error vs MSCI AC World ex US USD (Gross)

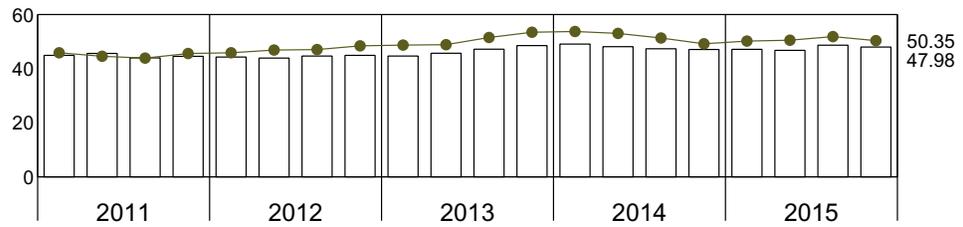


Risk Statistics Rankings vs MSCI AC World ex US USD (Gross)
Rankings Against CAI Non-U.S. Equity Style (Gross)
Five Years Ended December 31, 2015

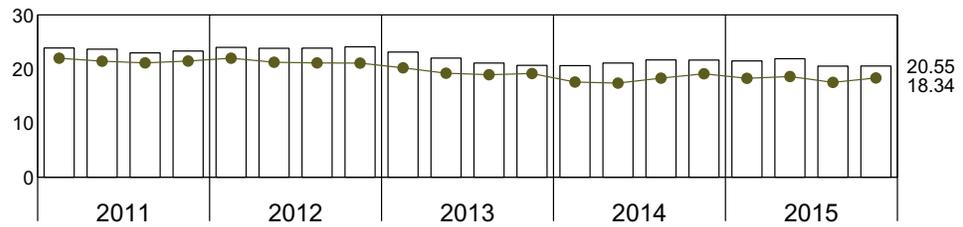


Baillie Gifford International LLC
History of Ending Regional Weights
Period Ended December 31, 2015

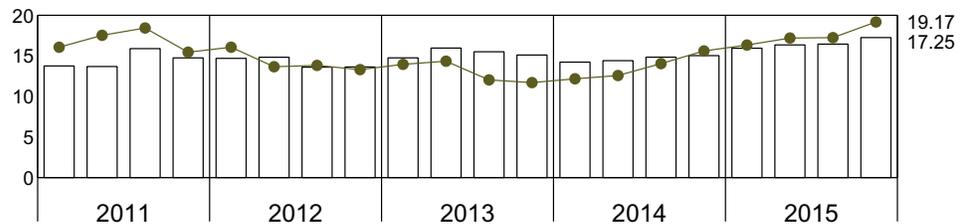
Dev Europe/Mid East



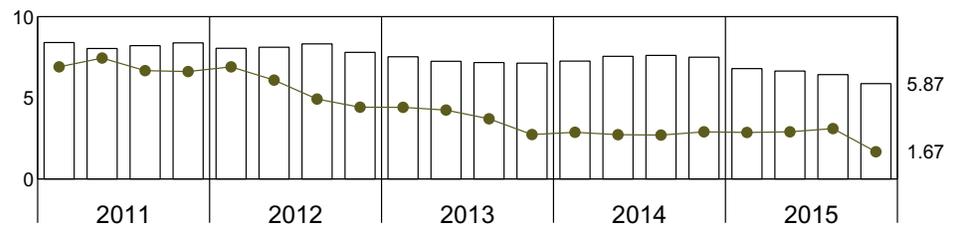
Emerging Markets



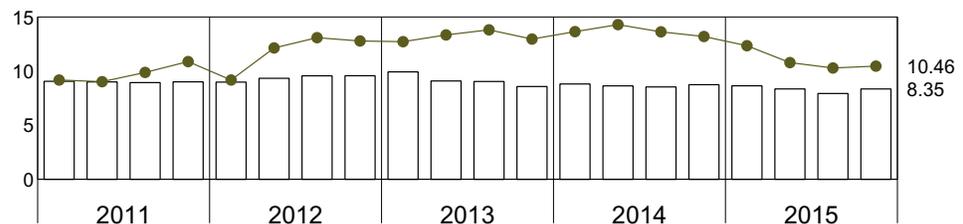
Japan



North America



Pacific Basin



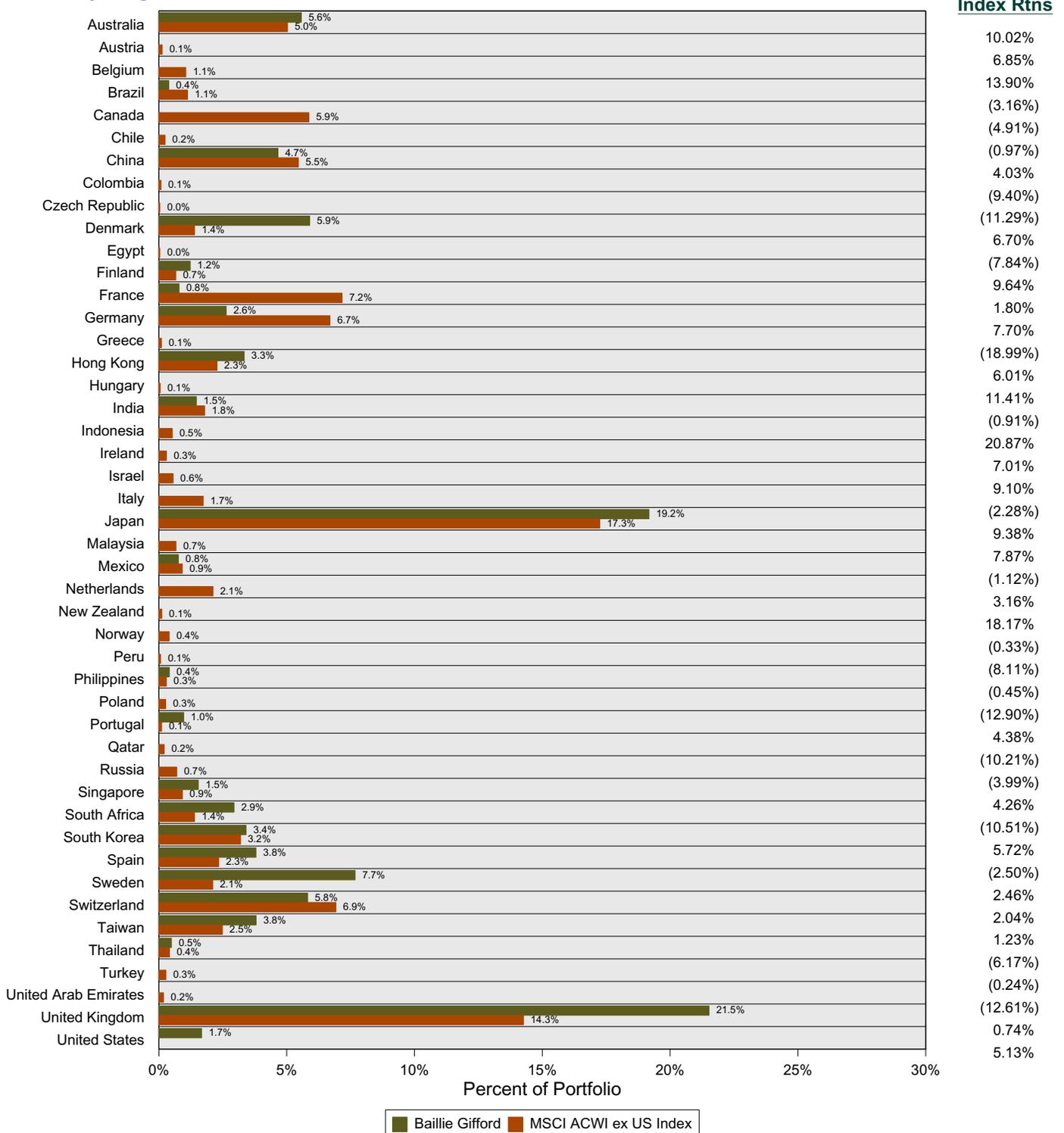
MSCI ACWI ex US Index
 Baillie Gifford

Country Allocation Baillie Gifford VS MSCI AC World ex US USD (Gross)

Country Allocation

The chart below contrasts the portfolio's country allocation with that of the index as of December 31, 2015. This chart is useful because large deviations in country allocation relative to the index are often good predictors of tracking error in the subsequent quarter. To the extent that the portfolio allocation is similar to the index, the portfolio should experience more "index-like" performance. In order to illustrate the performance effect on the portfolio and index of these country allocations, the individual index country returns are also shown.

Country Weights as of December 31, 2015

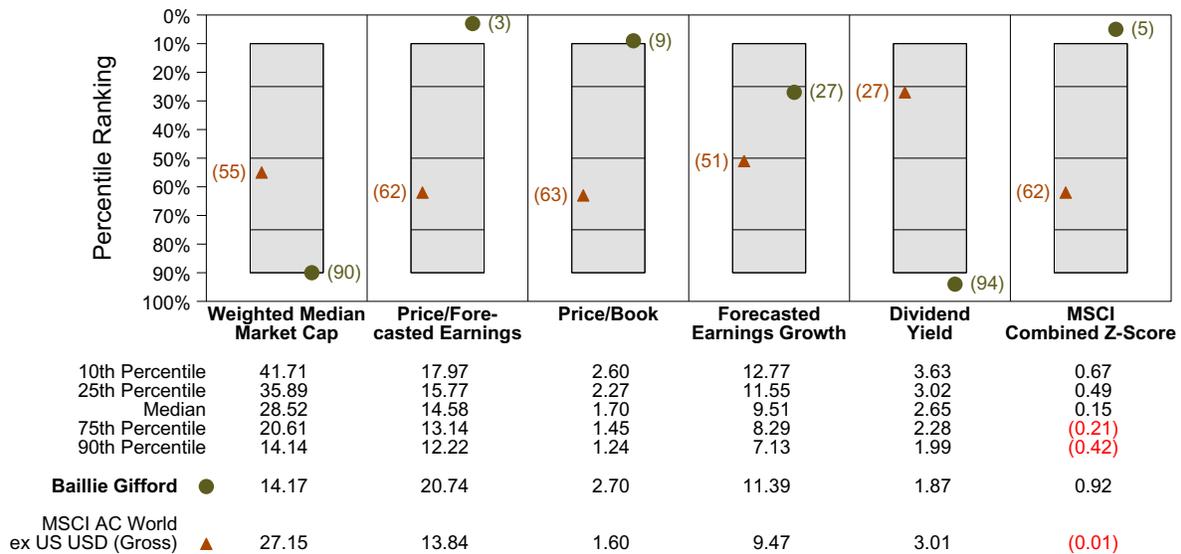


Baillie Gifford International LLC ACWI ex US Focus Equities Equity Characteristics Analysis Summary

Portfolio Characteristics

This graph compares the manager's portfolio characteristics with the range of characteristics for the portfolios which make up the manager's style group. This analysis illustrates whether the manager's current holdings are consistent with other managers employing the same style.

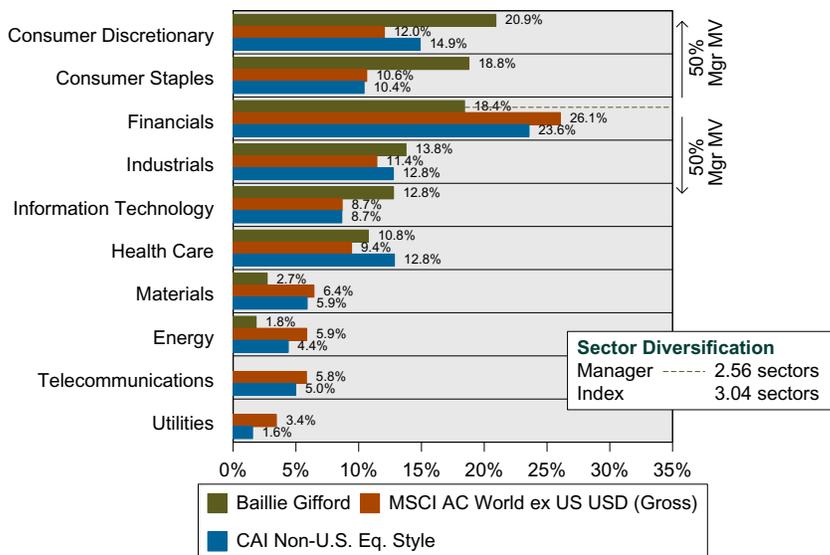
Portfolio Characteristics Percentile Rankings Rankings Against CAI Non-U.S. Equity Style as of December 31, 2015



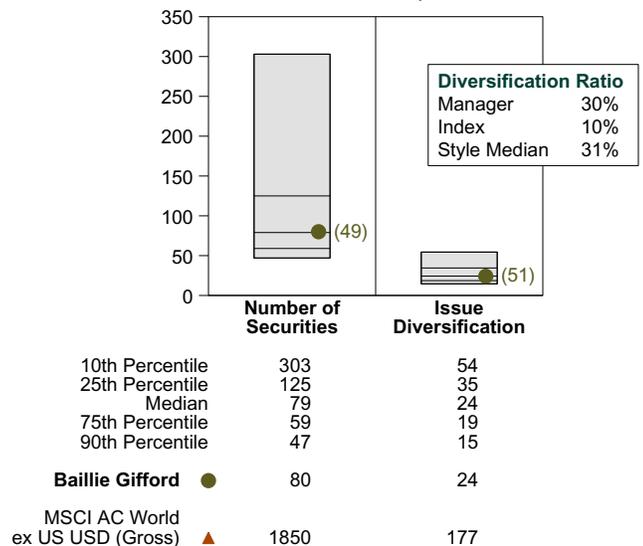
Sector Weights

The graph below contrasts the manager's sector weights with those of the benchmark and median sector weights across the members of the peer group. The magnitude of sector weight differences from the index and the manager's sector diversification are also shown. Diversification by number and concentration of holdings are also compared to the benchmark and peer group. Issue Diversification represents by count, and Diversification Ratio by percent, the number of holdings that account for half of the portfolio's market value.

Sector Allocation December 31, 2015



Diversification December 31, 2015

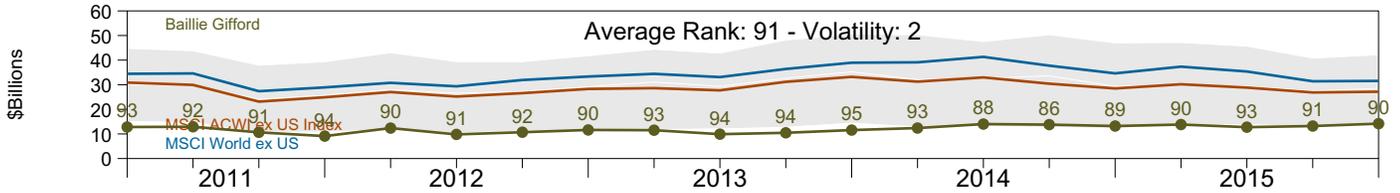


Portfolio Characteristics Analysis

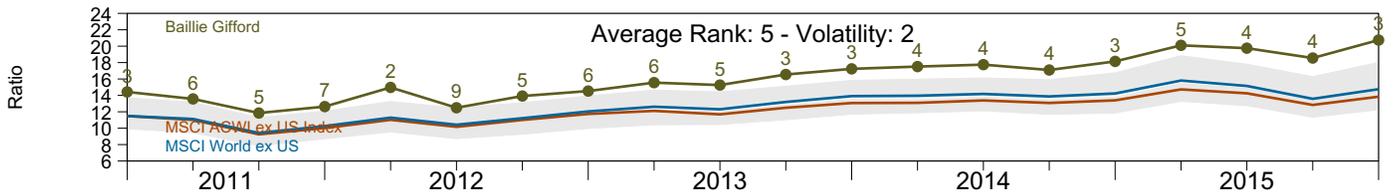
CAI Non-U.S. Eq. Style

The charts below illustrate the behavior of the product over different portfolio characteristics through time. As a backdrop the range (from 10th to 90th percentile) is shown for the CAI Non-U.S. Eq. Style Universe. The ranking of the product in this group is shown above each quarter end dot. The average ranking of the product and, if there are at least 12 data points, the standard deviation of that ranking is also shown on the chart. The MSCI ACWI ex US Index and MSCI World ex US Indices are shown for comparison purposes.

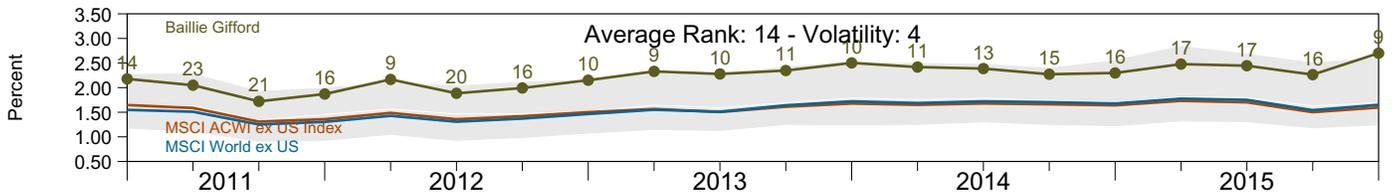
Weighted Median Market Cap



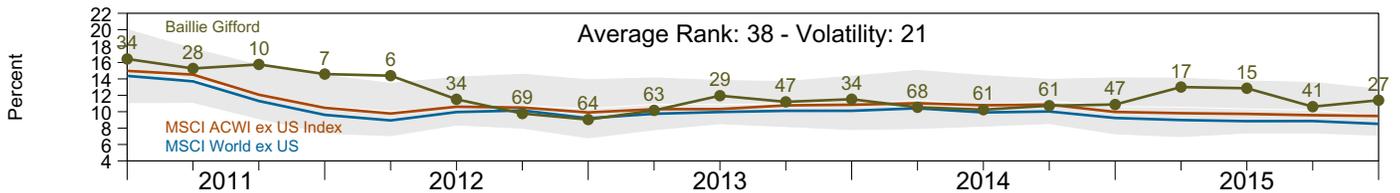
Forecasted P/E



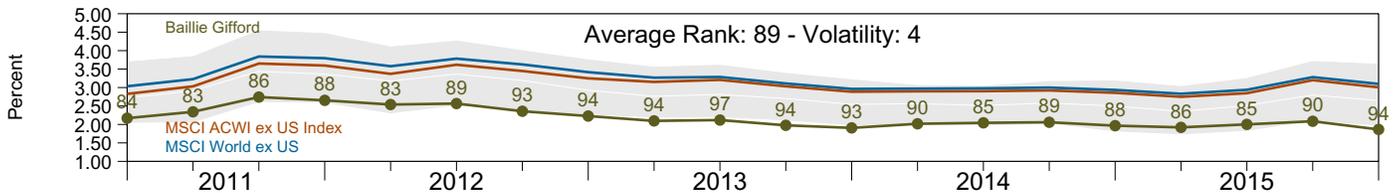
Price/Book Value



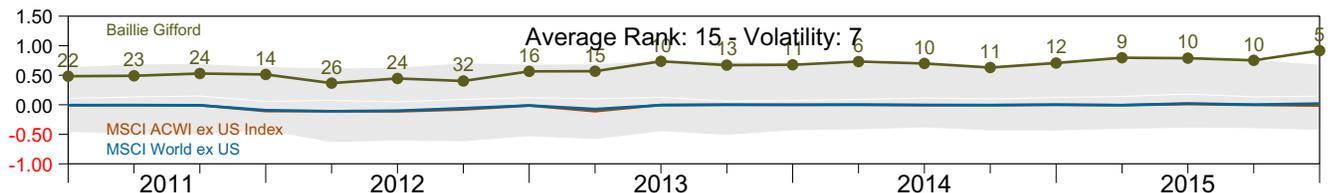
Forecasted Growth in Earnings



Dividend Yield



MSCI Combined Z-Score



Any particular portfolio characteristic observation(s) may be missing due to a failure to pass a minimum "coverage hurdle" intended to ensure quality. This can occur when the portfolio has a significant weight in stocks for which the data vendor(s) cannot supply the particular relevant financial metric.

William Blair & Company
222 West Adams Street
Chicago, IL 60606

History

William Blair & Company was founded in 1935 by William McCormick Blair as a private investment banking firm. The firm was originally developed to provide financing and investment advice for companies located in the Midwest. In 1944, William Blair & Company was converted to a private partnership. Effective January 2, 1996, William Blair & Company converted their business to a limited liability company formed under the laws of the State of Delaware. Their primary office is in Chicago with branch offices in San Francisco, London, Zurich and Liechtenstein. In May 2015 the firm announced an internal restructuring by forming a new entity, William Blair Investment Management LLC (WBIM), for the intended purpose to house William Blair's institutional investment management business, separate from other business lines within William Blair & Company, L.L.C. WBIM would conduct only investment adviser activities, while William Blair & Company would remain registered with the SEC as both a broker-dealer and an investment adviser to support William Blair's other business activities. There will be no change in the firm's management team, institutional investment teams and their strategies, or client facing teams as a result of the reorganization. WBIM would be a wholly owned subsidiary of WBC Holdings, L.P., just as William Blair & Company is today. As of November 2015, this process is largely complete with the majority of clients having moved into the new entity.

Structure

Founded: 1935
 Ownership: Employee Owned
 Errors and omissions insurance: Yes
 In compliance with SEC and DOL: Yes
 GIPS Compliant: Yes

Contact: Wally Fikri
 222 West Adams Street
 Chicago, IL 60606
 Phone: (312) 364-8089
 Fax: (312) 873-3936
 Email: wfikri@williamblair.com

Key Professionals

John Ettelson - President, CEO

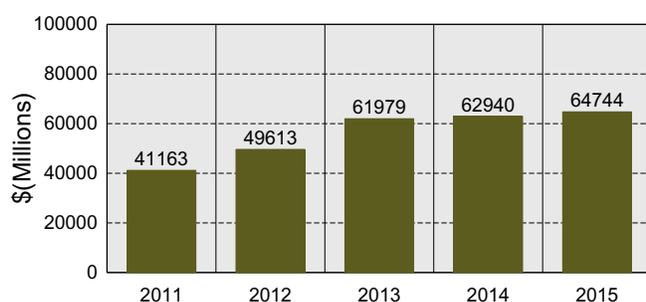
Joined Investment Firm Experience

1984 1984

Employee Structure

Administrative	212
Central Research Analyst	42
Client Services/Marketing	47
Executive Management	7
Portfolio Manager	52
Trader	12
Total	372

Total Asset Growth



Total Asset Structure

Asset Type	\$(mm)	
U.S. Tax-Exempt	30,383	47%
U.S. Taxable	14,392	22%
Non-U.S.	4,855	7%
Mutual Fund	15,114	23%
Total	64,744	100%

U.S. Tax-Exempt Separate/Commingled Assets as of December 31, 2015

Asset Class	\$(mm)		Client Type	\$(mm)	
Domestic Balanced	568	2%	Corporate	7,534	25%
Domestic Broad Equity	10,168	33%	Endowment/Foundation	3,746	12%
Domestic Broad Fixed-Income	459	2%	Multi-Employer	1,707	6%
Intl Equity	18,313	60%	Public	14,184	47%
Other Alternatives	875	3%	High Net Worth	1,272	4%
Total	30,383	100%	Sub-Advised	1,941	6%
			Total	30,383	100%

Note(s): Global Strategist and Portfolio Manager George Greig retired from the firm at the end of 2013. Greig was a named portfolio manager on several strategies including International Growth, International Leaders, and Global Leaders, and he also oversaw the launch of William Blair's International Equity capabilities in 1996. Asset increase in 2012 was attributed to the gain of 49 accounts for \$1.6 billion and market appreciation. Asset growth in 2013 was attributed to the gain of 44 accounts for \$2.5 billion and market appreciation.

William Blair & Company International Leaders As of December 31, 2015

Key Professionals

Kenneth McAtamney - PM
Simon Fennell - PM

Joined Firm	Investment Experience
2005	1988
2011	1992

Investment Professionals

Function	#	5 Years	
		Gained	Lost
Central Research Analyst	2		
Dedicated Fundamental Analyst	12	3	2
Dedicated Quantitative Analyst	3	0	0
Portfolio Manager	2	0	1
Portfolio Decision: Team Management			

Product Highlights:

Investment Style: Intl Growth

Benchmark: MSCI ACWI ex-US IMI Index

Invest. Strategy: Fundamental Research/Risk Control (Bottom Up/Top Down Overlay)

Investment Process:

- 10% Country/Regional Allocation
- 5% Industry/Sector Allocation
- 85% Security Selection

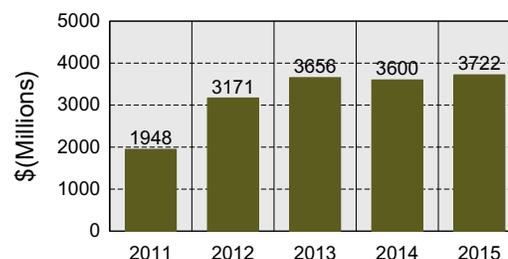
Portfolio Characteristics

	Year End
Wtd Avg Market Cap (\$M)	31,442
% Large Cap (\$wgt) > \$15 B	70
% Mid Cap (\$wgt) \$3.5 - \$15 B	23
% Small Cap (\$wgt) \$700M - \$3.5 B	5
% Micro Cap (\$wgt) < \$700 M	2
Number of Holdings	60
Annual Percent Turnover	33
Total Emerg. Mkts Exposure	17

Total Asset Structure

Asset Type	\$(mm)	
U.S. Tax-Exempt Sep Acct	1,168	31%
U.S. Taxable	2,169	58%
Non-U.S.	270	7%
Mutual Fund	116	3%
Total	3,722	100%

Total Asset Growth



U.S. Tax-Exempt Assets

Vehicle	Largest Acct	# of Accts	\$(mm) Assets	5 Years Net Flows
Separate	389	8	1,168	0

Performance Composite

Assets in composite (\$mm): 3,722
Number of Accts in Composite: 22

2015 Annual Dispersion Range:

Composite Return: 7.02%
Highest Return: 8.80%
Lowest Return: 5.89%

Note(s): Effective January 1, 2016, the firm's international equity platform globalized their research effort, meaning the 17 person analyst team added select U.S. stocks to their Non-U.S. coverage to support the Global Leaders strategy. Portfolio manager George Greig stepped down from the strategy at the end of 2013 leaving Kenneth McAtamney as lead. At that time Simon Fennell joined the team as co-portfolio manager. Asset growth in 2012 was attributed to the addition of seven accounts for \$326 million, fund inflows, and market appreciation.

William Blair & Company International Leaders

Investment Philosophy:

One of the basic investment tenets of William Blair & Company has been its focus on quality growth companies. They believe that investing in quality growth companies will generate above average results with generally less risk than the market. This opportunity exists because they believe the market underestimates the durability and rate of growth in companies that have the following characteristics: strong management with a unique vision, competitive advantages that prolong the duration and size of earnings growth, and conservative financing. Internationally, they believe that this philosophy can be combined with strategic flexibility in managing geographic exposure, capitalization, sector emphasis, and relative growth and valuation at the portfolio level in order to provide an appropriate degree of adaptability to cyclical conditions.

Research Process:

William Blair's international investment process is methodical & focused, largely based upon the team's bottom-up, fundamental research of portfolio companies and potential buy ideas. While the centrally located team consists of generalists, the team uses sector (as well as capitalization) responsibilities as a way to divide up research responsibilities. They begin with an international investable universe of approximately 10,000 companies. Over time, they have developed proprietary quantitative models as a way to help winnow down the research universe to the companies that best fit their quality growth investment criteria. These models screen for the long-term factors that are most important to them (i.e., earnings & revenue growth, consistency of growth, projected future growth, valuation, etc.) which assist them in narrowing the universe to approximately 1,000-1,500 companies internationally across sectors & regions, which are then incorporated into their Research Universe.

Country Strategy:

Due to its focused nature, there are broad regional and sector ranges for the concentrated portfolio with emerging markets representing up to 40% of the portfolio. Allocations to the various capitalization areas are generally a result of bottom-up, fundamental analysis and reflect the growth opportunities within each capitalization range.

Security Selection:

They meet with companies on their Eligibility List: spending 30%-40% of their time to determine whether the fundamental analysis confirms the financial indicators identified by their quantitative models. From the List, they develop a weekly "Research Agenda" which identifies potential buy & sell candidates. They track these trends through their short-intermediate term earnings trend, valuation, & price momentum quantitative models. Each company on the Agenda is assigned to a team member based upon research coverage. Once their analysis is completed, the team member will complete a short research summary on the potential buy idea which is presented to the team during research meetings. After the discussion, the portfolio manager decides if the company makes sense for the strategy.

Portfolio Construction:

Portfolio construction is subject to geographic, sector, capitalization, & individual security ranges. The team has established regional & sector guidelines for controlling risk, which are generally the result of their bottom-up, fundamental research, but may also incorporate macro themes. Generally, the portfolio will hold between 50-70 names. They also control risk through individual position size limitations based upon capitalization with large cap companies generally each limited to 6% of the portfolio. Expected turnover is between 70-100% and will fluctuate based upon market conditions.

Currency Strategy:

In general, they run fully unhedged portfolios, believing that currency is a zero sum game over time. They evaluate currency risk in the context of a company's revenue/cost mismatch and margin impact. They also evaluate currency risk at a country level to evaluate headwinds and broader country-related concerns. When they do hedge, given concerns about significant appreciation of the base currency versus foreign currencies, they hedge only developed market currencies to the base currency. They do not employ cross hedges.

Sell Discipline:

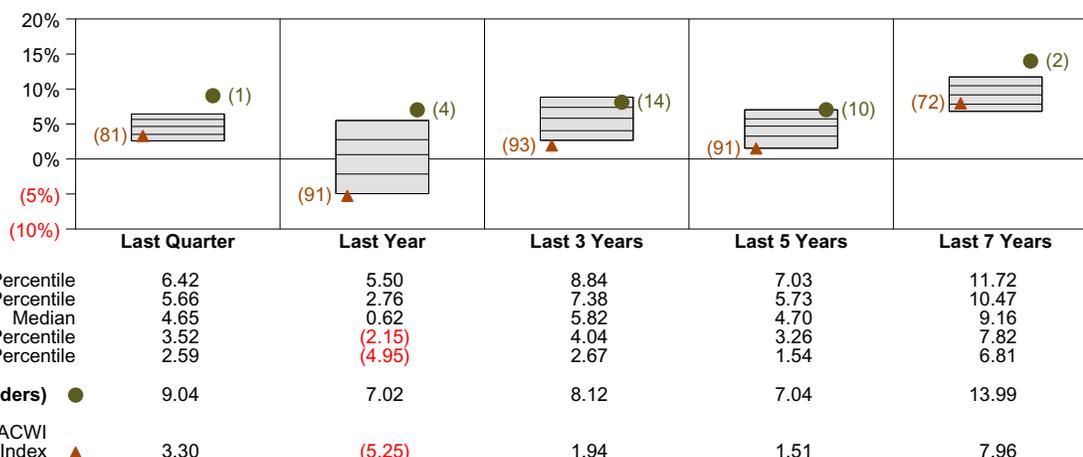
A holding becomes a potential sell candidate if it starts to show deteriorating earnings trends or excessive valuations or deterioration in fundamentals. Other sell triggers include a violation of position size, region, sector, or capitalization constraints. Significant management/strategy changes, excessive acquisitions, or deterioration in short- and long-term growth expectations may also trigger a sale.

William Blair & Company International Leaders Return Analysis Summary

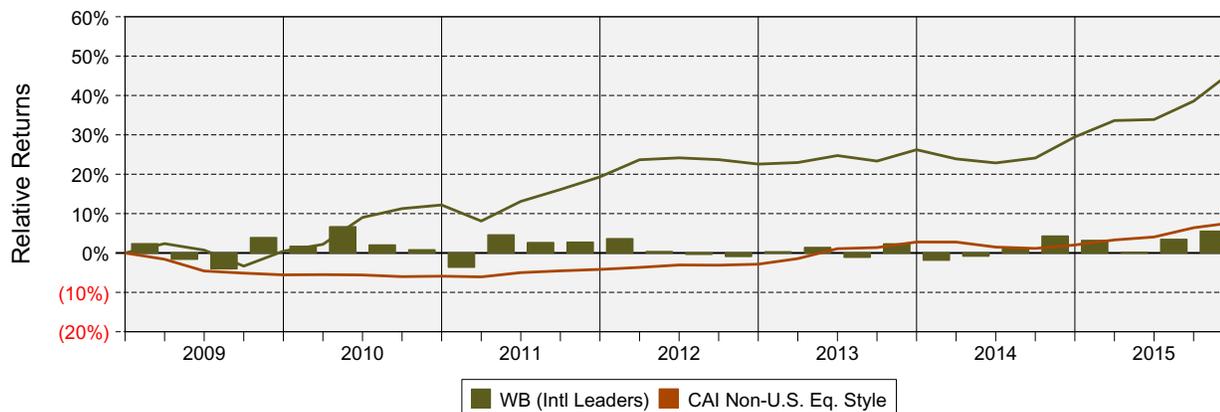
Return Analysis

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

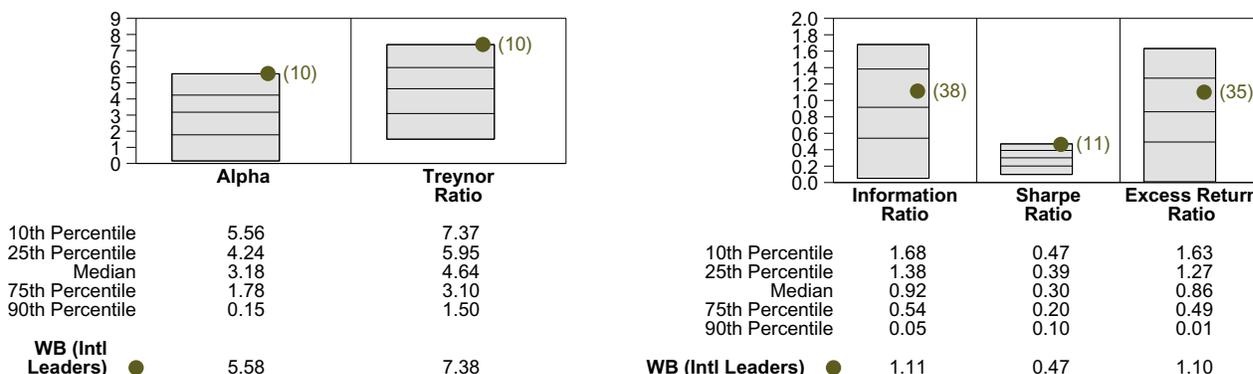
Performance vs CAI Non-U.S. Equity Style (Gross) Periods ended December 31, 2015



Cumulative and Quarterly Relative Return vs MSCI ACWI ex US Index



Risk Adjusted Return Measures vs MSCI ACWI ex US Index Rankings Against CAI Non-U.S. Equity Style (Gross) Five Years Ended December 31, 2015

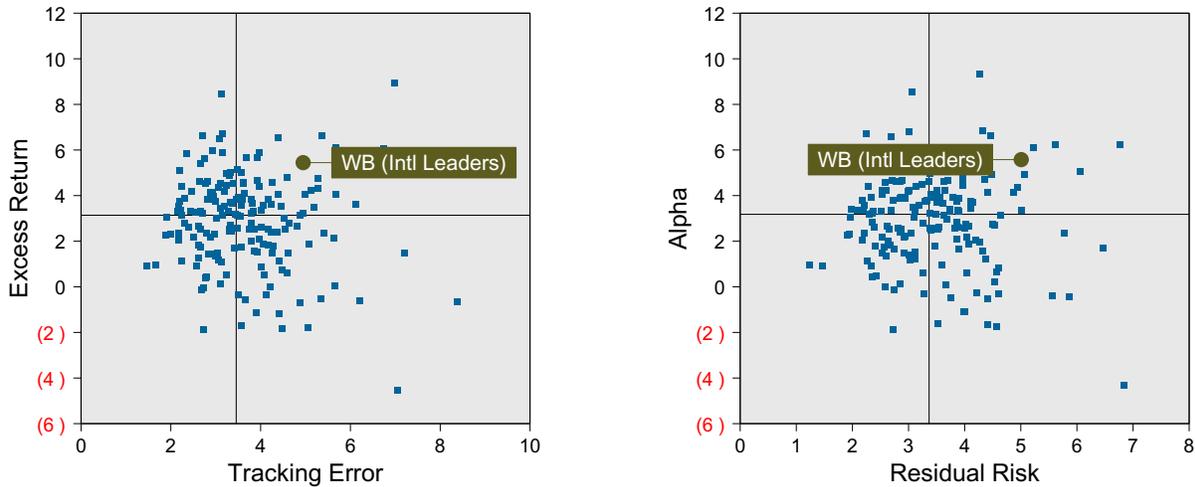


William Blair & Company International Leaders Risk Analysis Summary

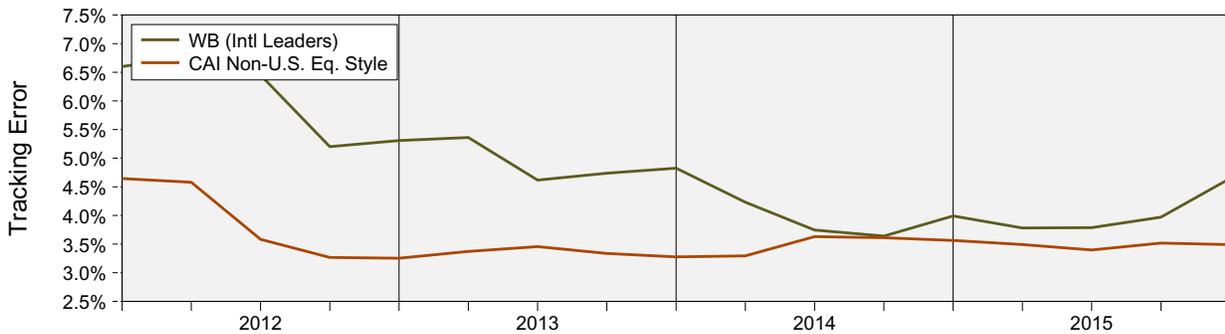
Risk Analysis

The graphs below analyze the risk or variation of a manager's return pattern. The first scatter chart illustrates the relationship, called Excess Return Ratio, between excess return and tracking error relative to the benchmark. The second scatter chart displays the relationship, sometimes called Information Ratio, between alpha (market-risk or "beta" adjusted return) and residual risk (non-market or "unsystematic" risk). The third chart shows tracking error patterns versus the benchmark over time. The last two charts show the ranking of the manager's risk statistics versus the peer group.

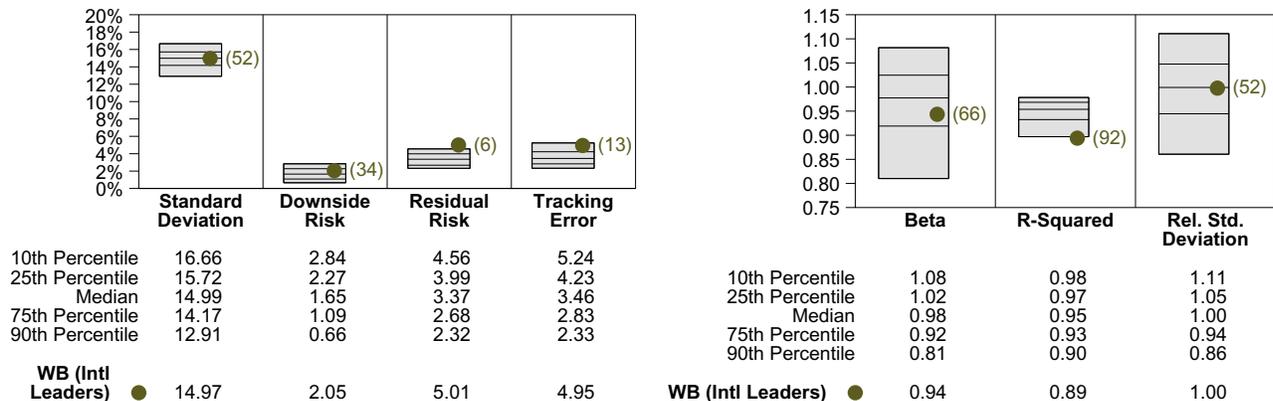
Risk Analysis vs CAI Non-U.S. Equity Style (Gross) Five Years Ended December 31, 2015



Rolling 12 Quarter Tracking Error vs MSCI AC World ex US USD (Gross)

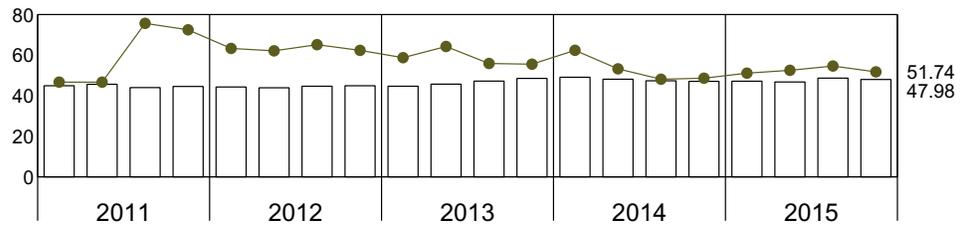


Risk Statistics Rankings vs MSCI AC World ex US USD (Gross) Rankings Against CAI Non-U.S. Equity Style (Gross) Five Years Ended December 31, 2015

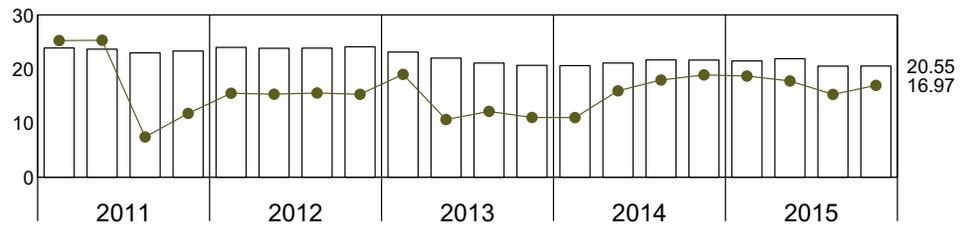


William Blair & Company
History of Ending Regional Weights
Period Ended December 31, 2015

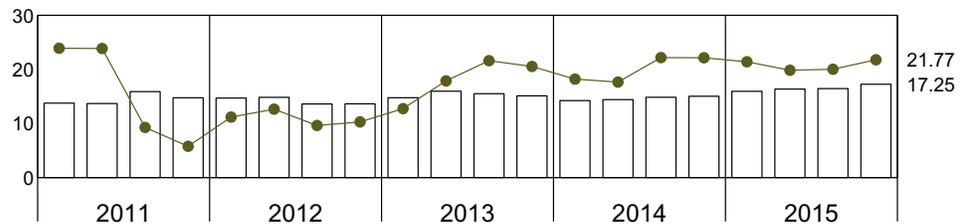
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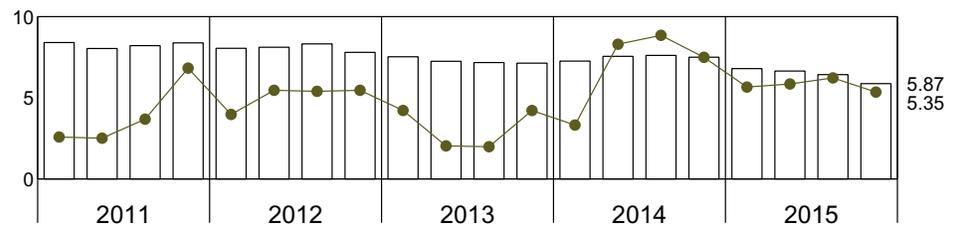
Emerging Markets



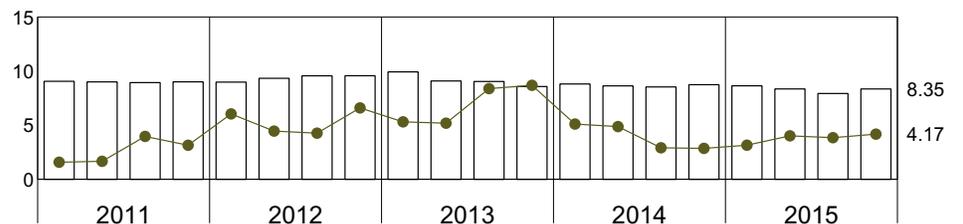
Japan



North America



Pacific Basin



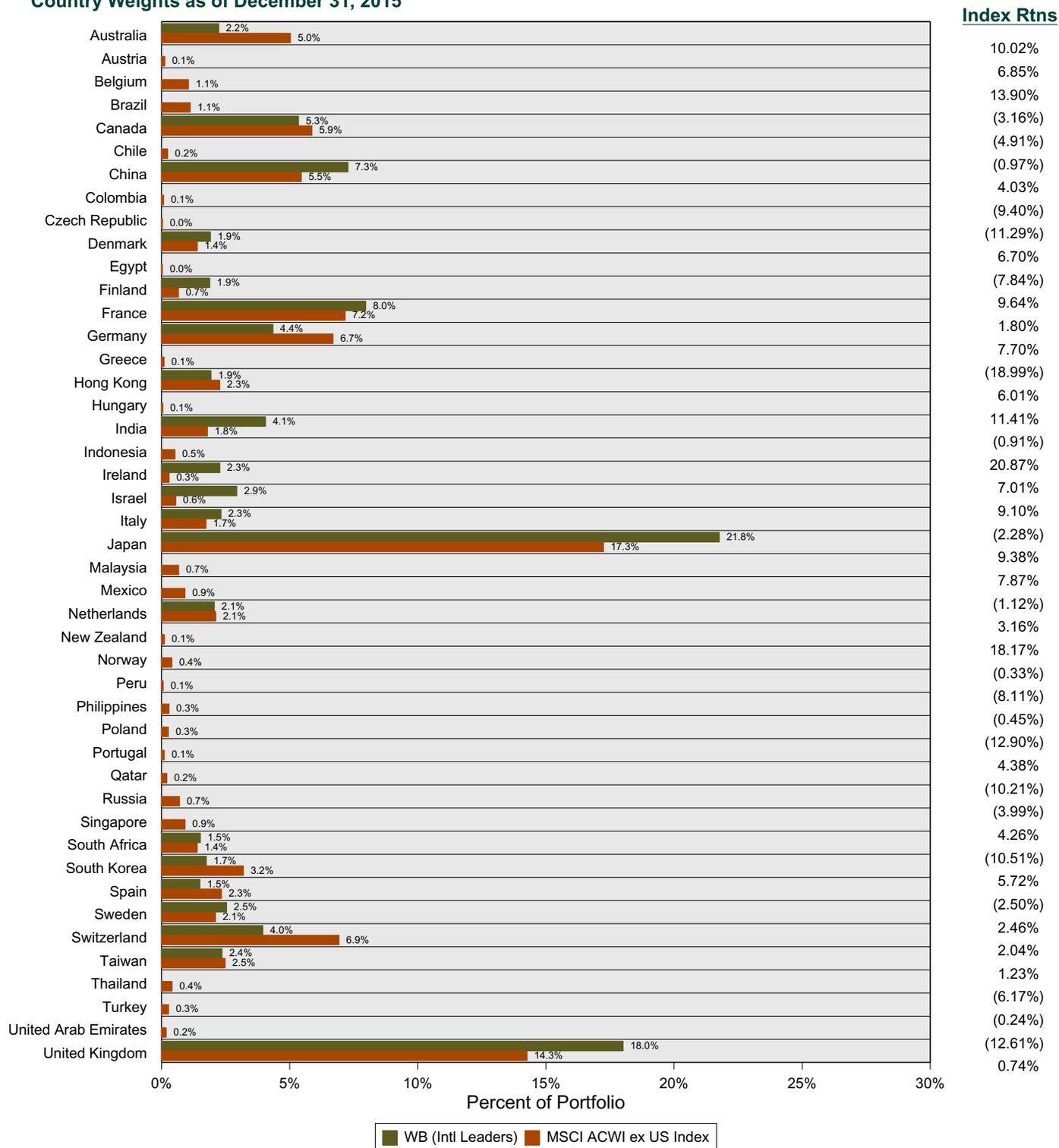
MSCI ACWI ex US Index
 WB (Intl Leaders)

Country Allocation WB (Intl Leaders) VS MSCI AC World ex US USD (Gross)

Country Allocation

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Country Weights as of December 31, 2015

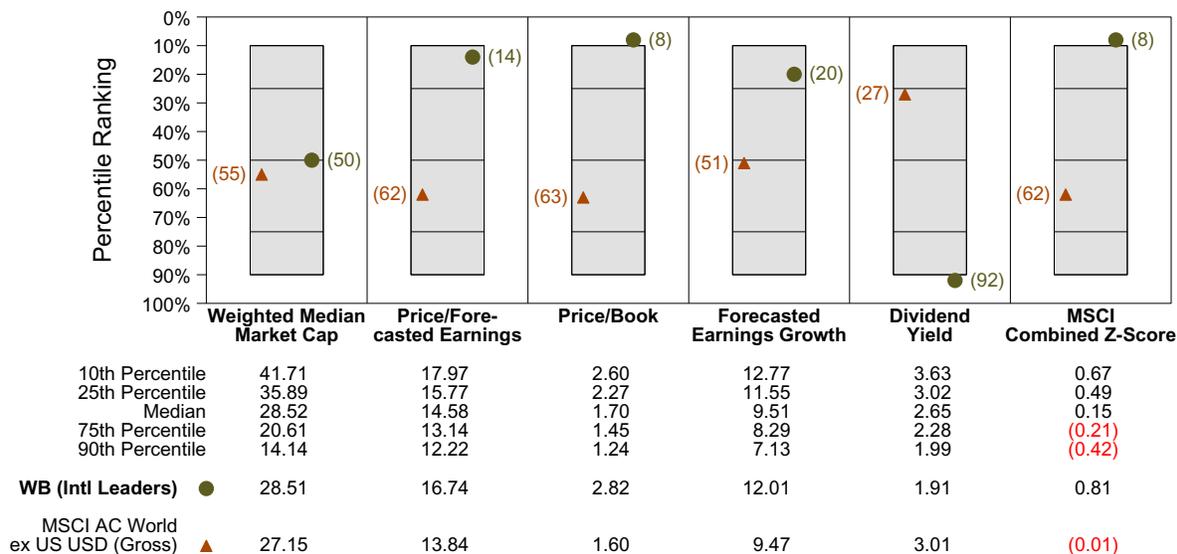


William Blair & Company International Leaders Equity Characteristics Analysis Summary

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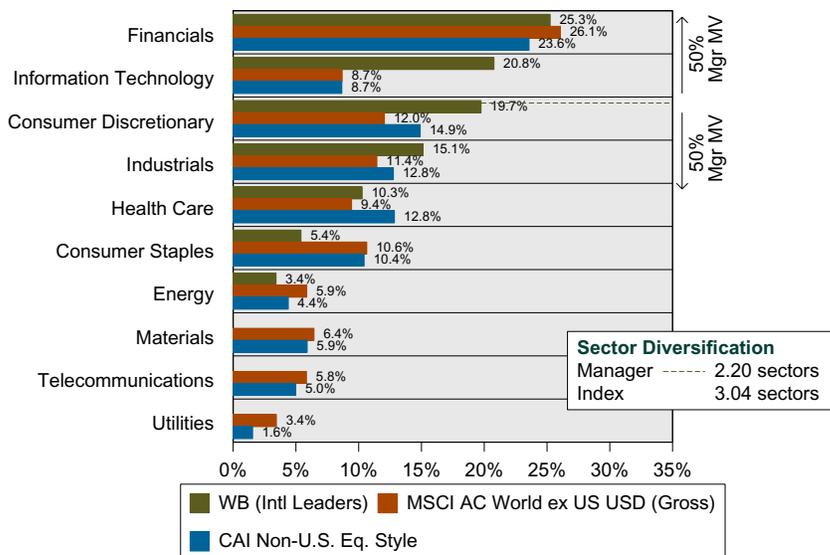
Portfolio Characteristics Percentile Rankings Rankings Against CAI Non-U.S. Equity Style as of December 31, 2015



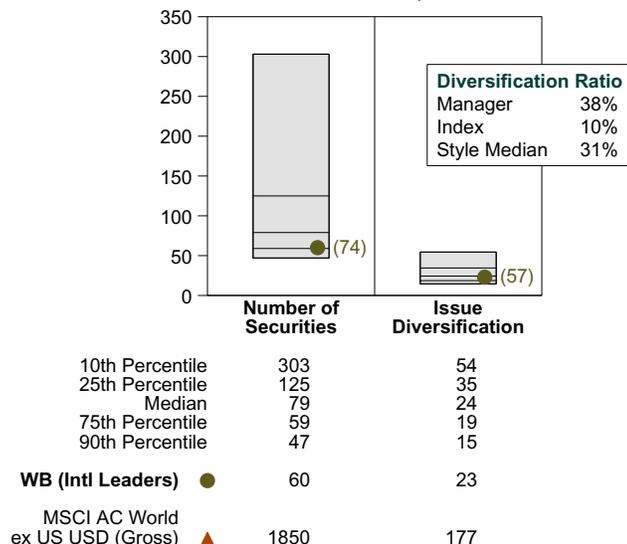
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Sector Allocation December 31, 2015



Diversification December 31, 2015

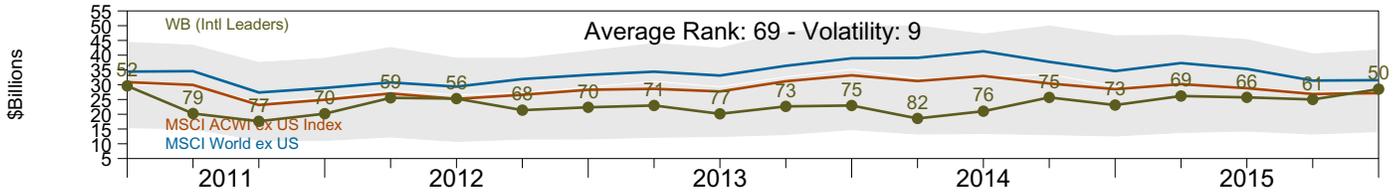


Portfolio Characteristics Analysis

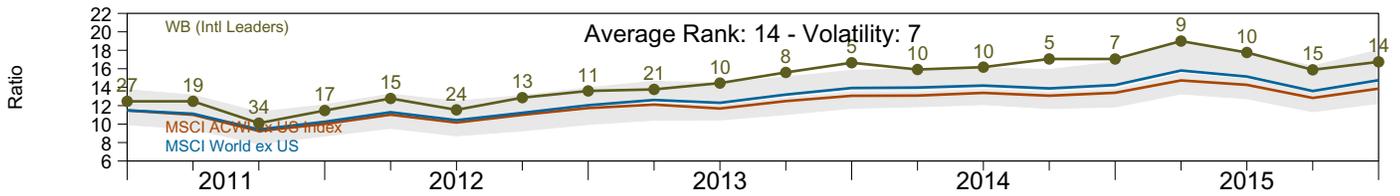
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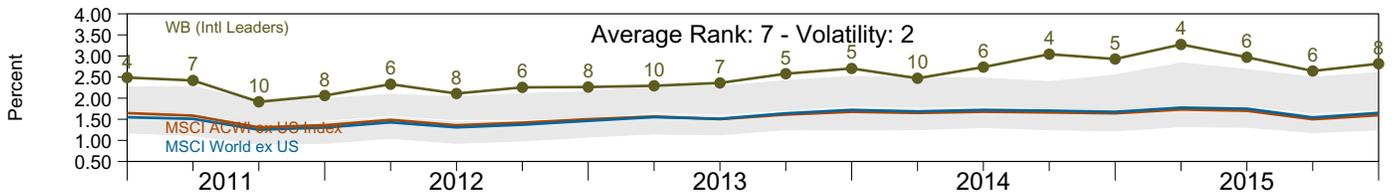
Weighted Median Market Cap



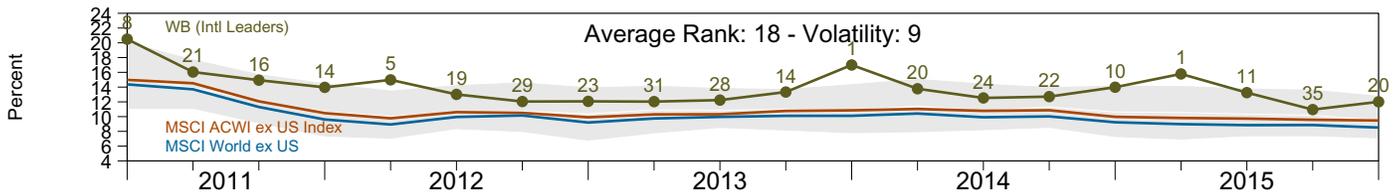
Forecasted P/E



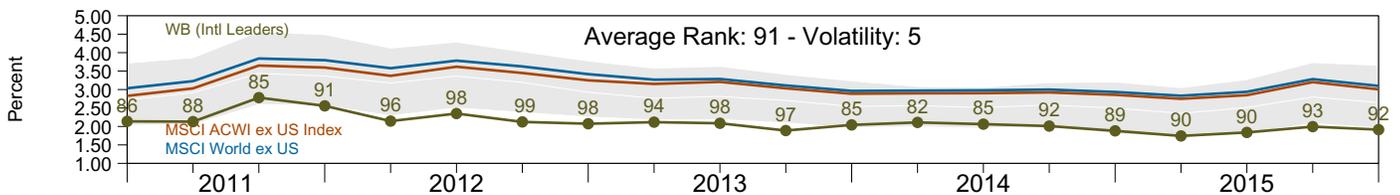
Price/Book Value



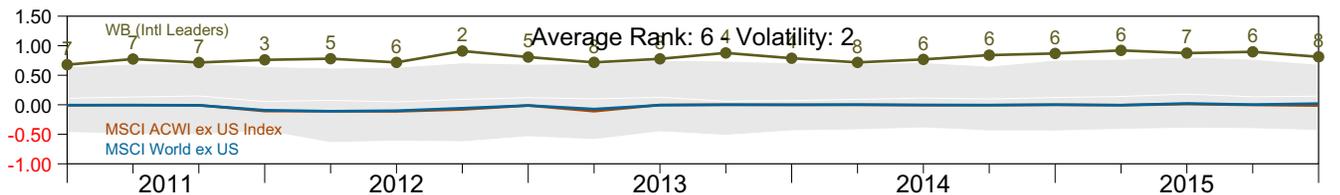
Forecasted Growth in Earnings



Dividend Yield



MSCI Combined Z-Score



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North Dakota State Investment Board
 International Equity
 Summary Matrix as of December 31, 2015

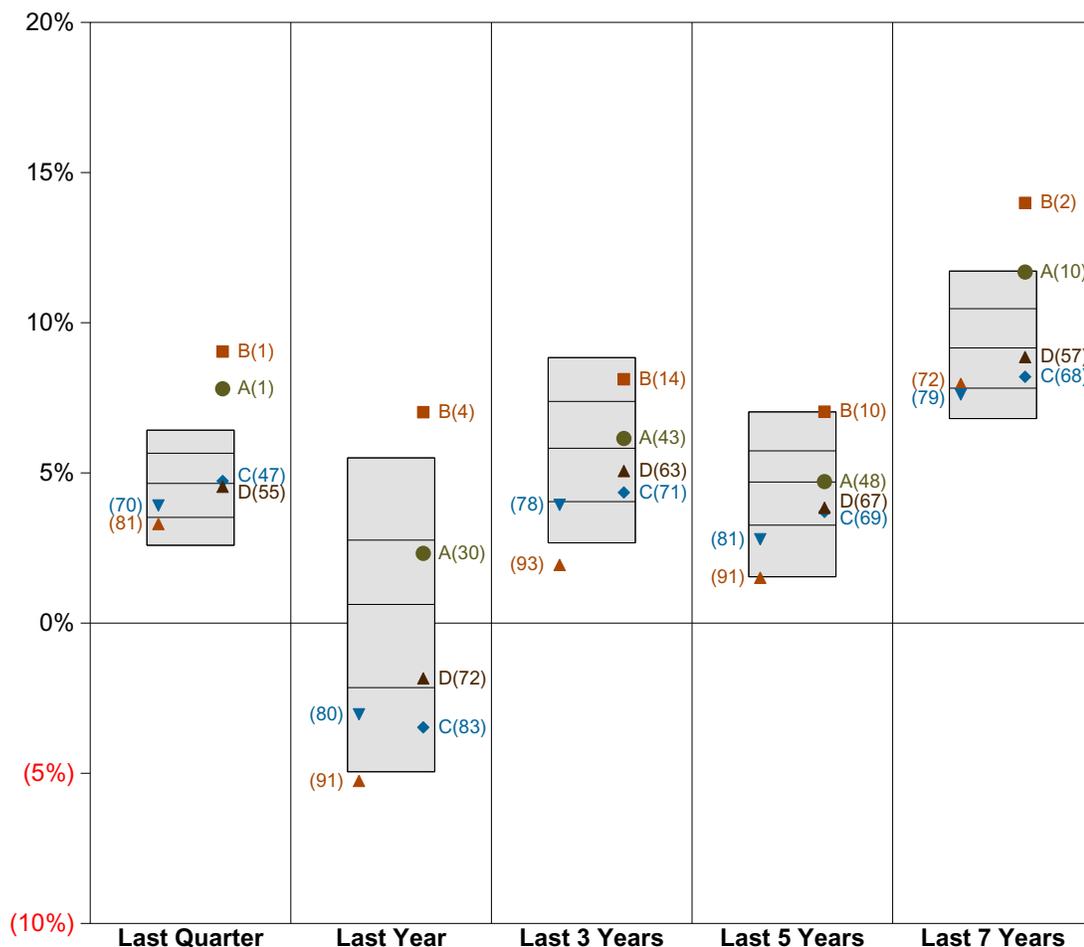
Organization / Product	Proposed Vehicle	¹ Standard Fee on \$450mm	Vehicle AUM (mm)	Product AUM (mm)	Willing to aggregate assets?	EM (%) 5 yr High Low	Willing to limit EM?	Notes
Baillie Gifford Overseas Limited ACWI ex US Focus Equities	Separate Account	0.42%	\$5,365	\$6,722	Yes	18.34% Hi: 21% Lo: 18%	Yes*	*EM can be limited by investing the EAFE Plus Focus strategy managed by this same team. EM limits are available at 10% and 15% maximums in that strategy.
William Blair & Company International Leaders	Separate Account	See note*	\$1,168	\$3,722	Yes	16.97% Hi: 22% Lo: 8%	Yes	
MSCI ACWI ex US Index						20.55% Hi: 22% Lo: 20%		

¹Stated fees represent best estimates by candidate firms as of 04/12/2016 based on general assumptions provided for this opportunity and are subject to further negotiation.

North Dakota State Investment Board Performance vs CAI Non-U.S. Equity Style Periods Ended December 31, 2015

Return Ranking

The chart below illustrates fund rankings over various periods versus the CAI Non-U.S. Equity Style. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the CAI Non-U.S. Equity Style. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.



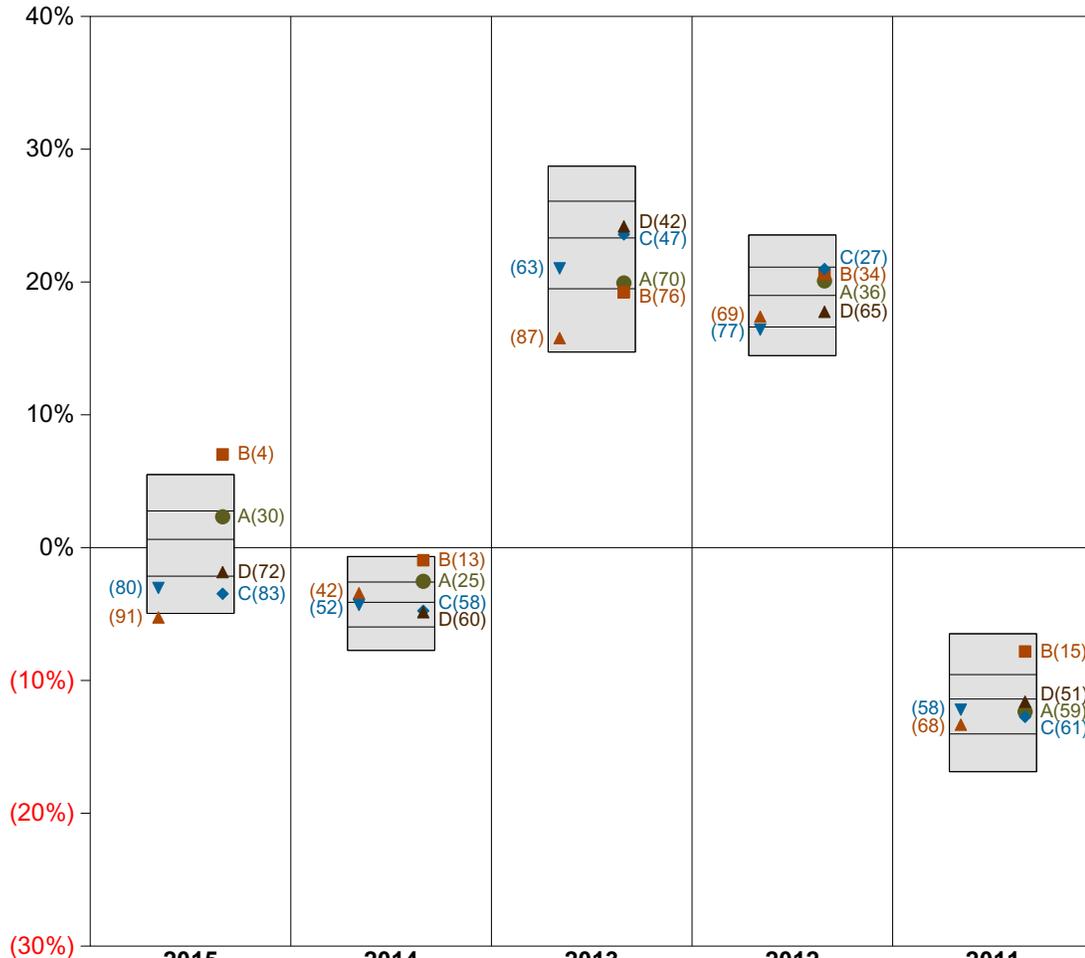
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years
10th Percentile	6.42	5.50	8.84	7.03	11.72
25th Percentile	5.66	2.76	7.38	5.73	10.47
Median	4.65	0.62	5.82	4.70	9.16
75th Percentile	3.52	(2.15)	4.04	3.26	7.82
90th Percentile	2.59	(4.95)	2.67	1.54	6.81
Baillie ● A	7.80	2.32	6.15	4.71	11.69
William Blair ■ B	9.04	7.02	8.12	7.04	13.99
Current Managers					
Cap Group ◆ C	4.73	(3.47)	4.35	3.70	8.20
LSV ▲ D	4.54	(1.84)	5.06	3.84	8.86
MSCI					
ACWixUS Gross ▲	3.30	(5.25)	1.94	1.51	7.96
MSCI World ex US ▼	3.91	(3.04)	3.93	2.79	7.61

Note(s): Performance is shown gross-of-fees.

North Dakota State Investment Board Performance vs CAI Non-U.S. Equity Style Recent Periods

Return Ranking

The chart below illustrates fund rankings over various periods versus the CAI Non-U.S. Equity Style. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the CAI Non-U.S. Equity Style. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.

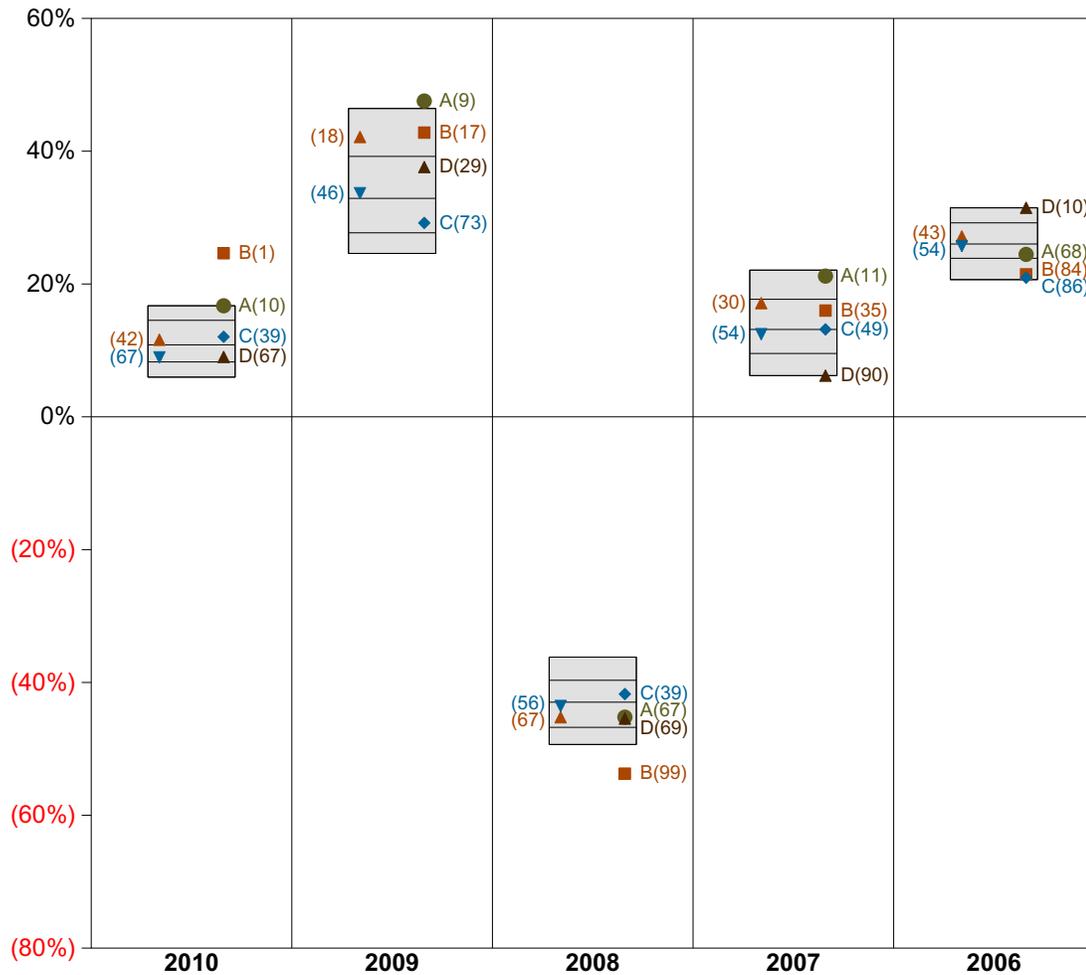


	2015	2014	2013	2012	2011
10th Percentile	5.50	(0.67)	28.72	23.54	(6.48)
25th Percentile	2.76	(2.59)	26.08	21.12	(9.56)
Median	0.62	(4.12)	23.32	18.99	(11.40)
75th Percentile	(2.15)	(5.97)	19.49	16.61	(14.02)
90th Percentile	(4.95)	(7.74)	14.73	14.45	(16.87)
Baillie ● A	2.32	(2.54)	19.93	20.08	(12.35)
William Blair ■ B	7.02	(0.95)	19.23	20.59	(7.82)
Current Managers					
Cap Group ◆ C	(3.47)	(4.76)	23.58	20.98	(12.75)
LSV ▲ D	(1.84)	(4.86)	24.19	17.76	(11.60)
MSCI					
ACWixUS Gross ▲	(5.25)	(3.44)	15.78	17.39	(13.33)
MSCI World ex US ▼	(3.04)	(4.32)	21.02	16.41	(12.21)

North Dakota State Investment Board Performance vs CAI Non-U.S. Equity Style Recent Periods

Return Ranking

The chart below illustrates fund rankings over various periods versus the CAI Non-U.S. Equity Style. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the CAI Non-U.S. Equity Style. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.

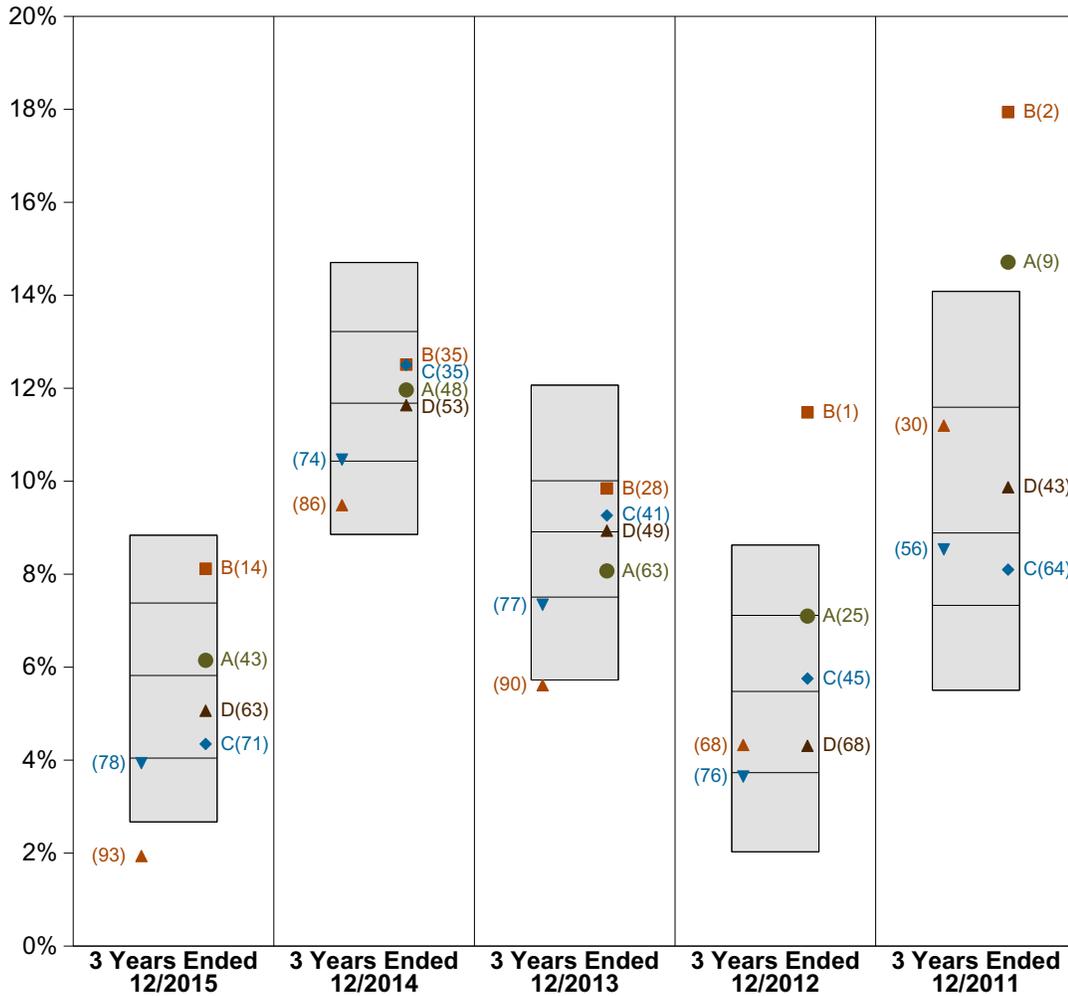


	2010	2009	2008	2007	2006
10th Percentile	16.72	46.43	(36.18)	22.09	31.47
25th Percentile	14.53	39.21	(39.67)	17.70	29.21
Median	10.84	32.89	(42.97)	13.15	26.02
75th Percentile	8.27	27.71	(46.76)	9.54	23.87
90th Percentile	5.97	24.60	(49.34)	6.21	20.66
Baillie ● A	16.72	47.55	(45.23)	21.19	24.46
William Blair ■ B	24.63	42.79	(53.73)	16.00	21.45
Current Managers					
Cap Group ◆ C	12.05	29.20	(41.75)	13.17	20.95
LSV ▲ D	9.02	37.62	(45.44)	6.20	31.49
MSCI					
ACWixUS Gross ▲	11.60	42.14	(45.24)	17.12	27.16
MSCI World ex US ▼	8.95	33.67	(43.56)	12.44	25.71

North Dakota State Investment Board Performance vs CAI Non-U.S. Equity Style Rolling Periods

Return Ranking

The chart below illustrates fund rankings over various periods versus the CAI Non-U.S. Equity Style. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the CAI Non-U.S. Equity Style. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.

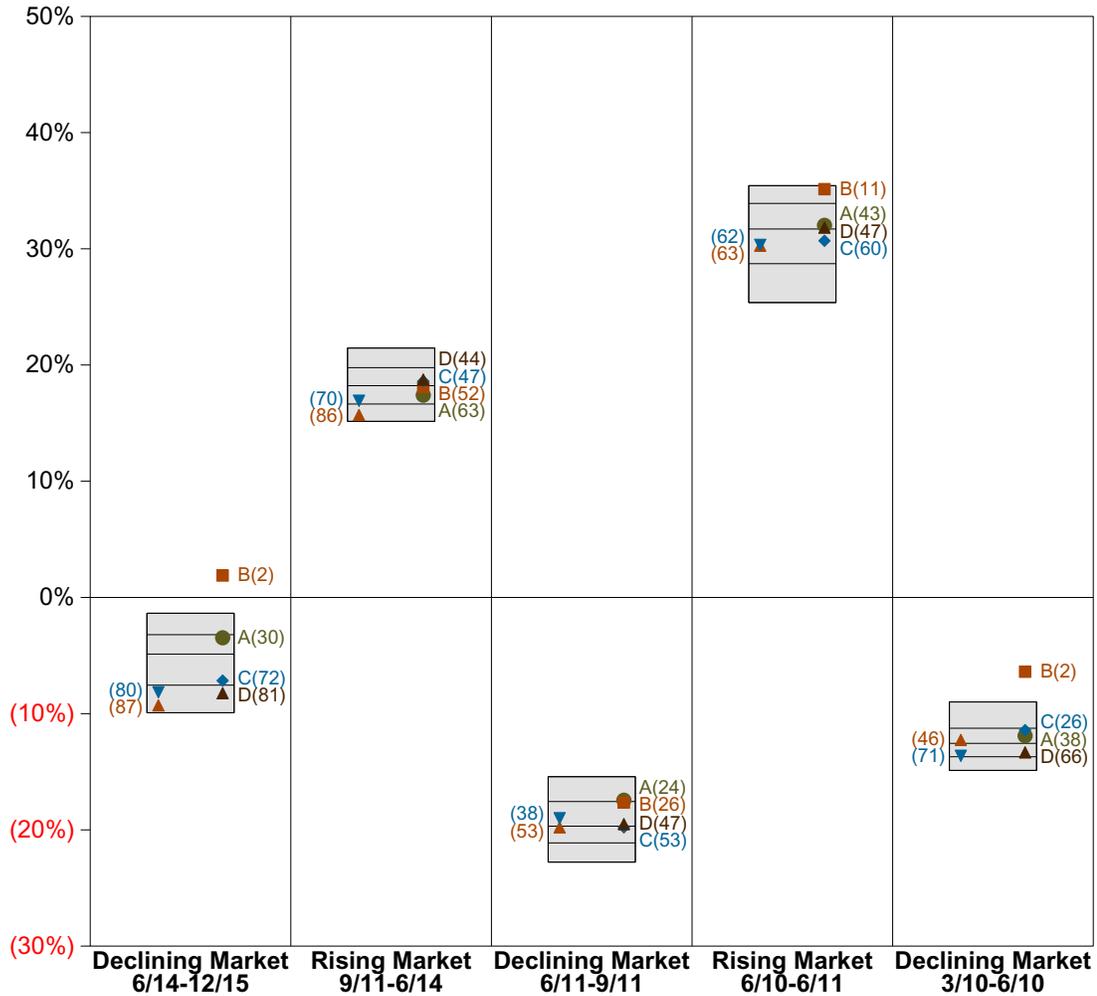


	3 Years Ended 12/2015	3 Years Ended 12/2014	3 Years Ended 12/2013	3 Years Ended 12/2012	3 Years Ended 12/2011
10th Percentile	8.84	14.71	12.07	8.63	14.08
25th Percentile	7.38	13.22	10.01	7.11	11.59
Median	5.82	11.68	8.91	5.48	8.89
75th Percentile	4.04	10.43	7.51	3.73	7.33
90th Percentile	2.67	8.86	5.72	2.03	5.50
Baillie ● A	6.15	11.96	8.07	7.10	14.71
William Blair ■ B	8.12	12.51	9.84	11.48	17.94
Current Managers					
Cap Group ◆ C	4.35	12.50	9.26	5.75	8.10
LSV ▲ D	5.06	11.64	8.94	4.31	9.87
MSCI					
ACWixUS Gross ▲	1.94	9.49	5.61	4.33	11.20
MSCI World ex US ▼	3.93	10.47	7.34	3.65	8.53

North Dakota State Investment Board Performance vs CAI Non-U.S. Equity Style International Stock Market Cycles

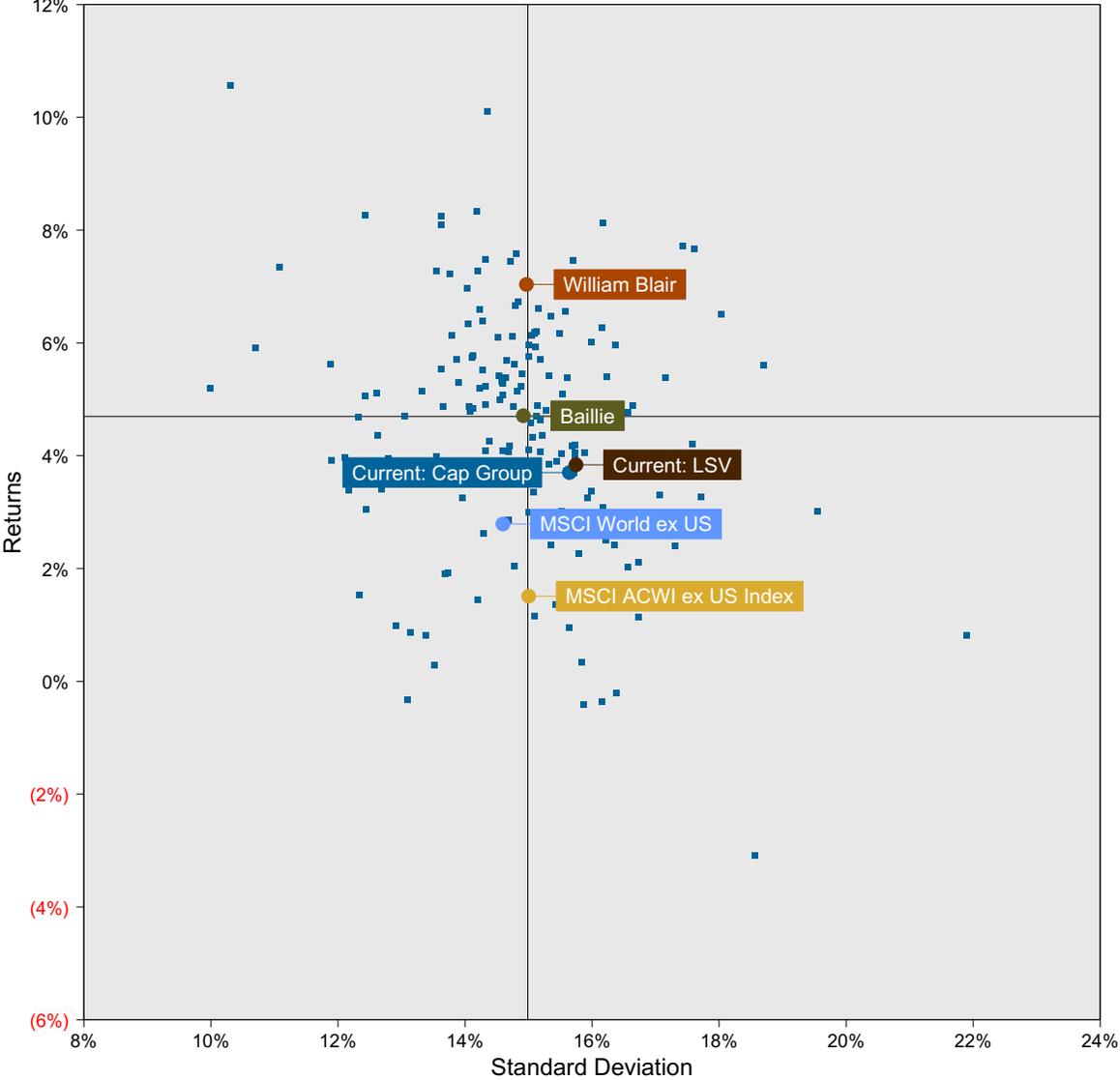
Return Ranking

The chart below illustrates fund rankings over various periods versus the CAI Non-U.S. Equity Style. The bars represent the range of returns from the 10th percentile to the 90th percentile for each period for all funds in the CAI Non-U.S. Equity Style. The numbers to the right of the bar represent the percentile rankings of the funds being analyzed. The table below the chart details the rates of return plotted in the graph above.

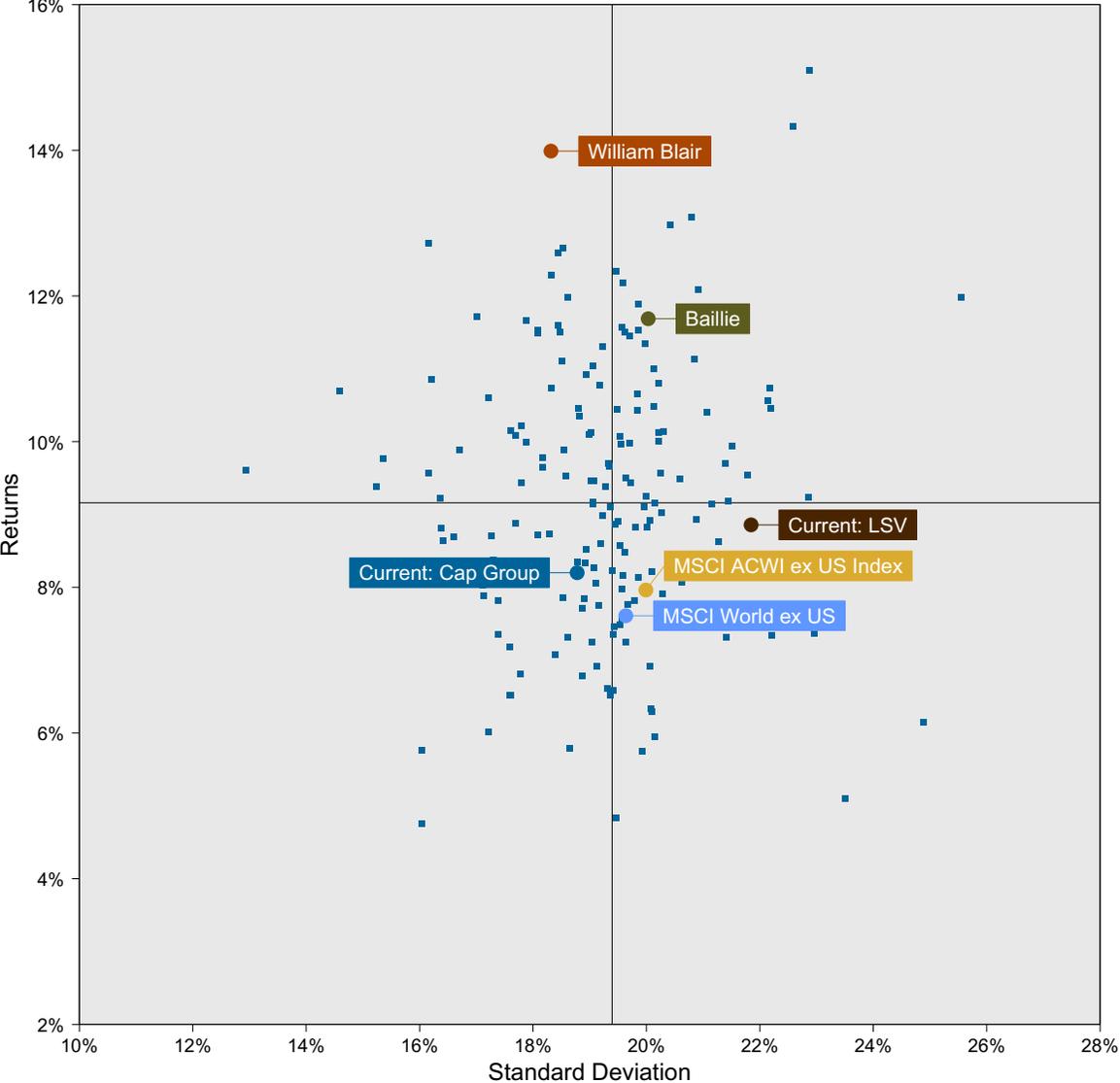


10th Percentile	(1.36)	21.46	(15.42)	35.43	(8.99)
25th Percentile	(3.21)	19.77	(17.56)	33.90	(11.26)
Median	(4.87)	18.22	(19.68)	31.71	(12.56)
75th Percentile	(7.55)	16.64	(21.12)	28.72	(13.71)
90th Percentile	(9.92)	15.15	(22.77)	25.37	(14.88)
Baillie ● A	(3.47)	17.40	(17.45)	32.02	(11.91)
William Blair ■ B	1.89	18.11	(17.64)	35.13	(6.39)
Current Managers					
Cap Group ◆ C	(7.16)	18.60	(19.78)	30.69	(11.42)
LSV ▲ D	(8.24)	18.75	(19.50)	31.83	(13.33)
MSCI					
ACWixUS Gross ▲	(9.29)	15.70	(19.78)	30.27	(12.26)
MSCI World ex US ▼	(8.15)	16.92	(19.01)	30.33	(13.63)

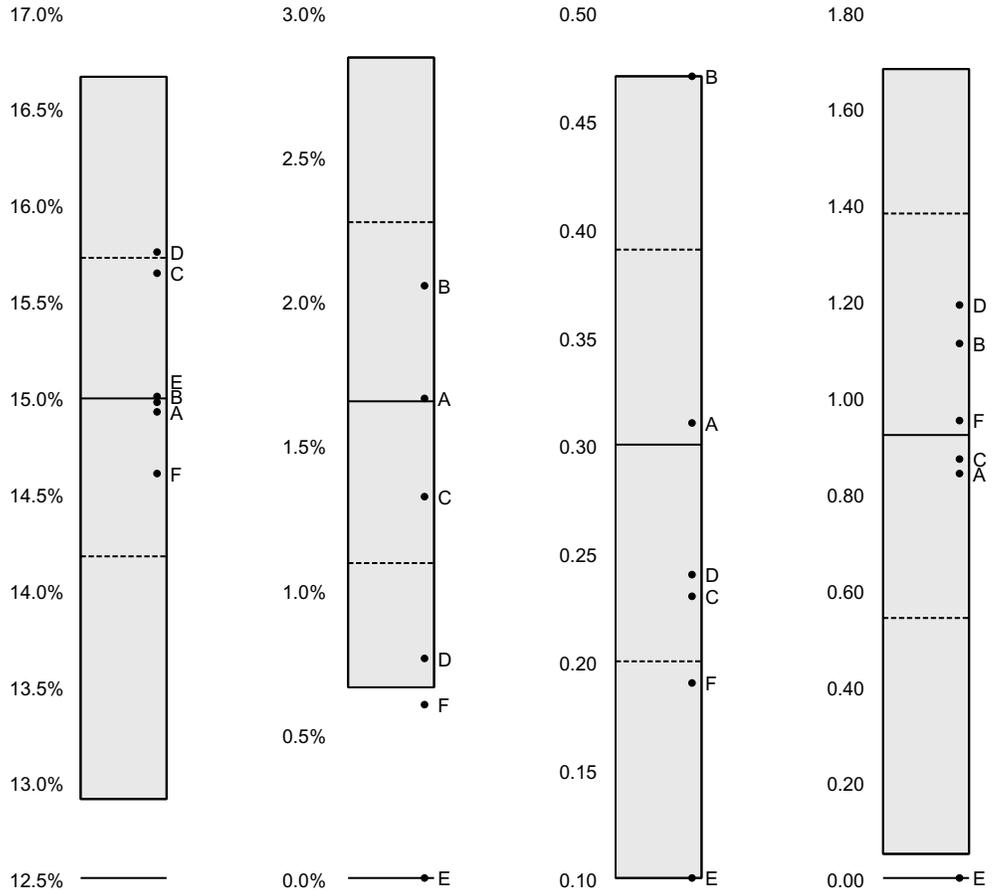
North Dakota State Investment Board
Risk/Reward vs CAI Non-U.S. Equity Style
Five Years Ended December 31, 2015



**North Dakota State Investment Board
Risk/Reward vs CAI Non-U.S. Equity Style
Seven Years Ended December 31, 2015**

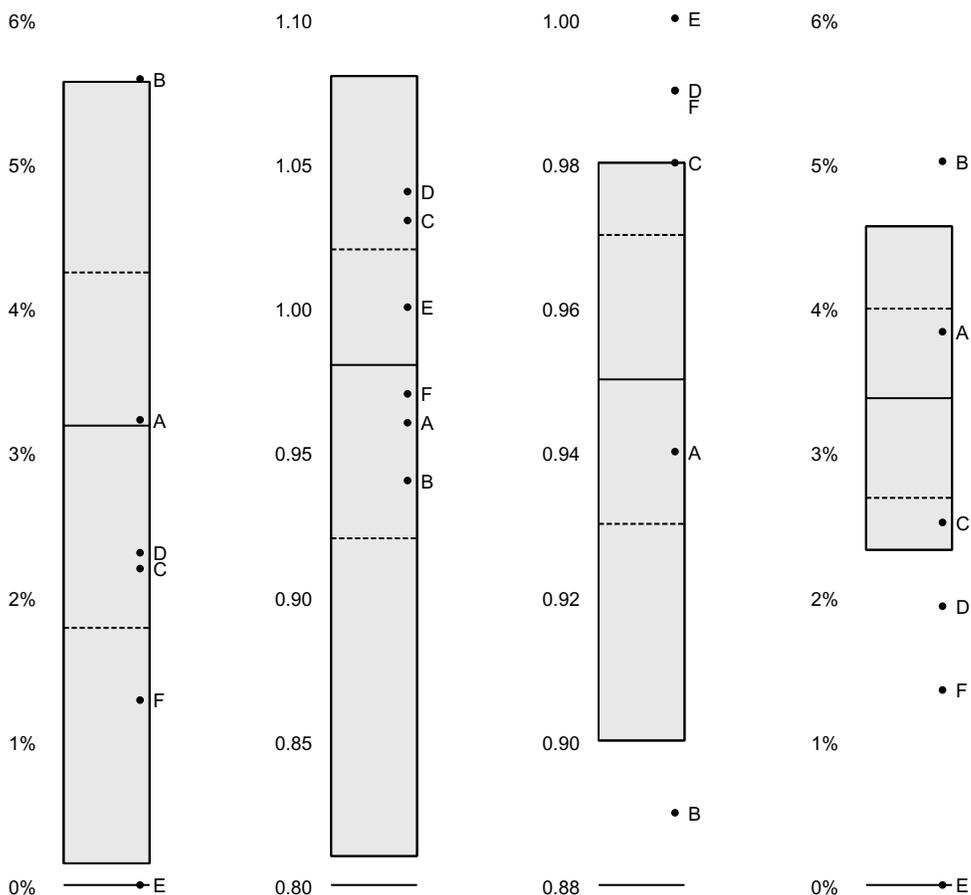


**North Dakota State Investment Board
 Risk Statistics Relative to MSCI ACWI ex US Index (USD Gross Div)
 vs CAI Non-U.S. Equity Style
 Five Years Ended December 31, 2015**



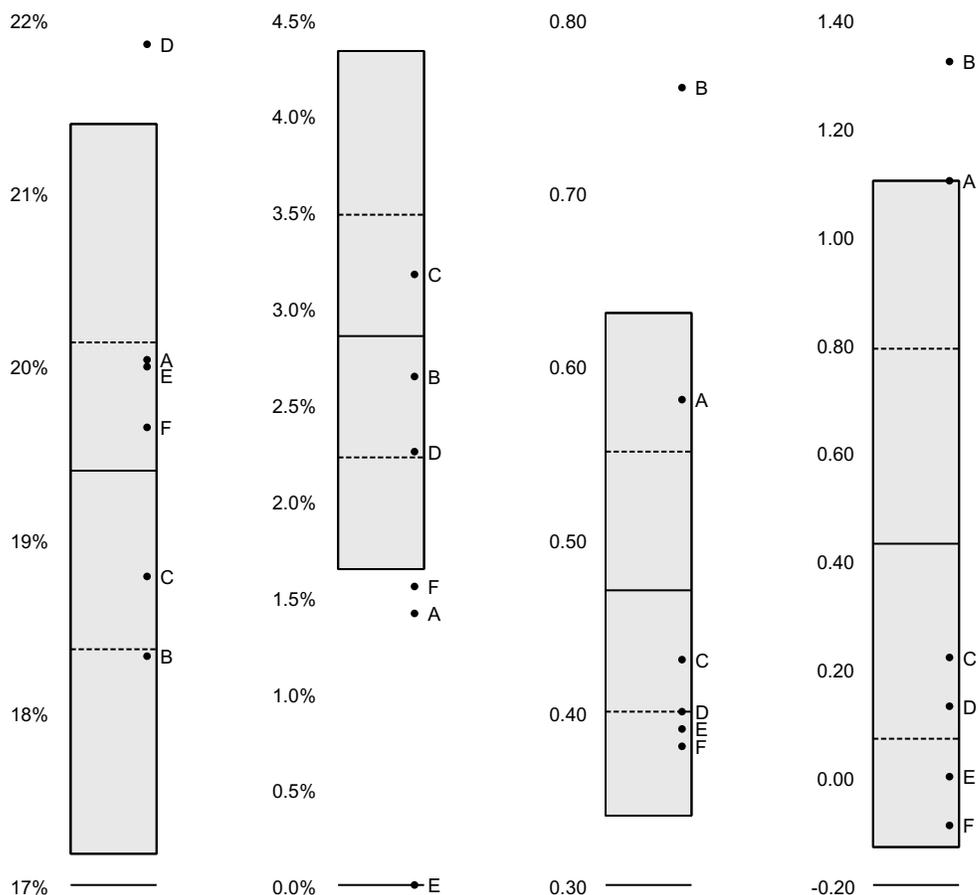
		Standard Deviation	Downside Risk(%)	Sharpe Ratio	Information Ratio
CAI NON-U.S. EQ. STYLE					
		▼	▼	▼	▼
	10th Percentile	16.66	2.84	0.47	1.68
	25th Percentile	15.72	2.27	0.39	1.38
	Median	14.99	1.65	0.30	0.92
	75th Percentile	14.17	1.09	0.20	0.54
	90th Percentile	12.91	0.66	0.10	0.05
	Baillie A	14.92	1.66	0.31	0.84
	William Blair B	14.97	2.05	0.47	1.11
Current Managers					
	Cap Group C	15.64	1.32	0.23	0.87
	LSV D	15.75	0.76	0.24	1.19
Market Indicators					
	MSCI ACWI ex US Index E	15.00	0.00	0.10	0.00
	MSCI World ex US F	14.60	0.60	0.19	0.95

**North Dakota State Investment Board
 Risk Statistics Relative to MSCI ACWI ex US Index (USD Gross Div)
 vs CAI Non-U.S. Equity Style
 Five Years Ended December 31, 2015**



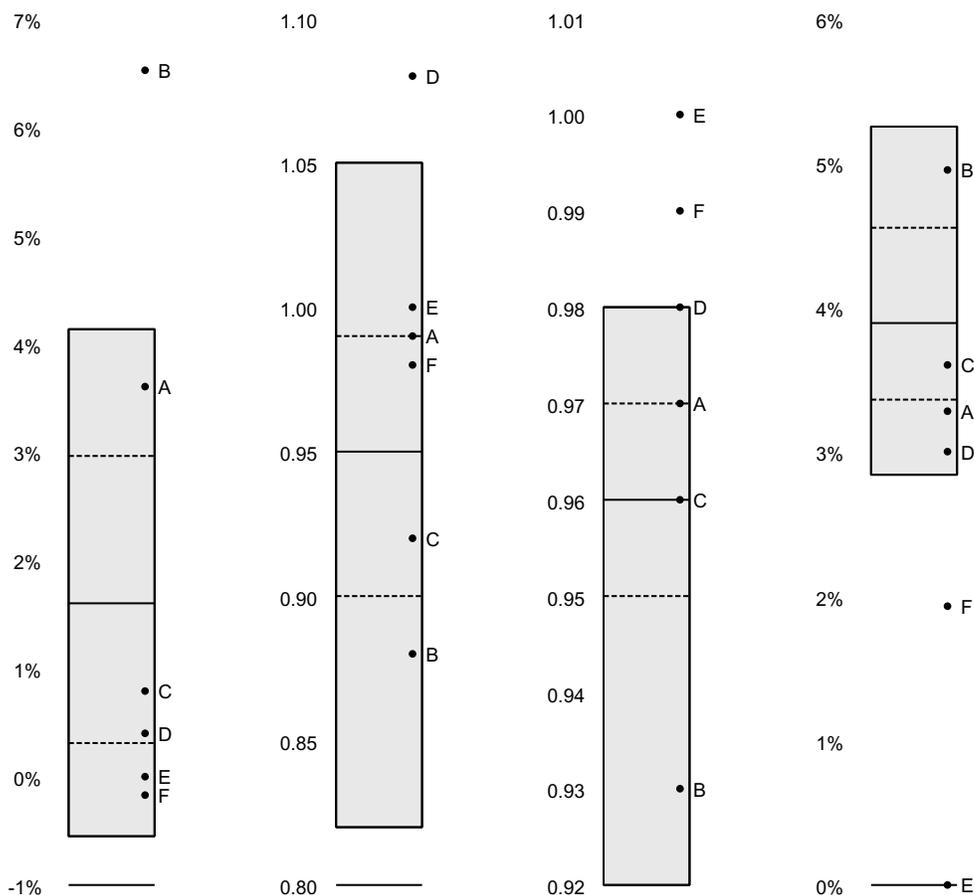
		Alpha(%)	Beta	R-Squared	Residual Risk(%)
CAI NON-U.S. EQ. STYLE					
		▼	▼	▼	▼
	10th Percentile	5.56	1.08	0.98	4.56
	25th Percentile	4.24	1.02	0.97	3.99
	Median	3.18	0.98	0.95	3.37
	75th Percentile	1.78	0.92	0.93	2.68
	90th Percentile	0.15	0.81	0.90	2.32
	Baillie A	3.22	0.96	0.94	3.83
	William Blair B	5.58	0.94	0.89	5.01
Current Managers					
	Cap Group C	2.19	1.03	0.98	2.51
	LSV D	2.30	1.04	0.99	1.93
Market Indicators					
	MSCI ACWI ex US Index E	0.00	1.00	1.00	0.00
	MSCI World ex US F	1.28	0.97	0.99	1.35

**North Dakota State Investment Board
 Risk Statistics Relative to MSCI ACWI ex US Index (USD Gross Div)
 vs CAI Non-U.S. Equity Style
 Seven Years Ended December 31, 2015**



		Standard Deviation	Downside Risk(%)	Sharpe Ratio	Information Ratio
CAI NON-U.S. EQ. STYLE		▼	▼	▼	▼
10th Percentile		21.39	4.33	0.63	1.10
25th Percentile		20.13	3.48	0.55	0.79
Median		19.39	2.85	0.47	0.43
75th Percentile		18.36	2.22	0.40	0.07
90th Percentile		17.18	1.64	0.34	(0.13)
Baillie	A	20.03	1.41	0.58	1.10
William Blair	B	18.32	2.64	0.76	1.32
Current Managers					
Cap Group	C	18.78	3.17	0.43	0.22
LSV	D	21.85	2.25	0.40	0.13
Market Indicators					
MSCI ACWI ex US Index	E	19.99	0.00	0.39	0.00
MSCI World ex US	F	19.64	1.55	0.38	(0.09)

**North Dakota State Investment Board
 Risk Statistics Relative to MSCI ACWI ex US Index (USD Gross Div)
 vs CAI Non-U.S. Equity Style
 Seven Years Ended December 31, 2015**

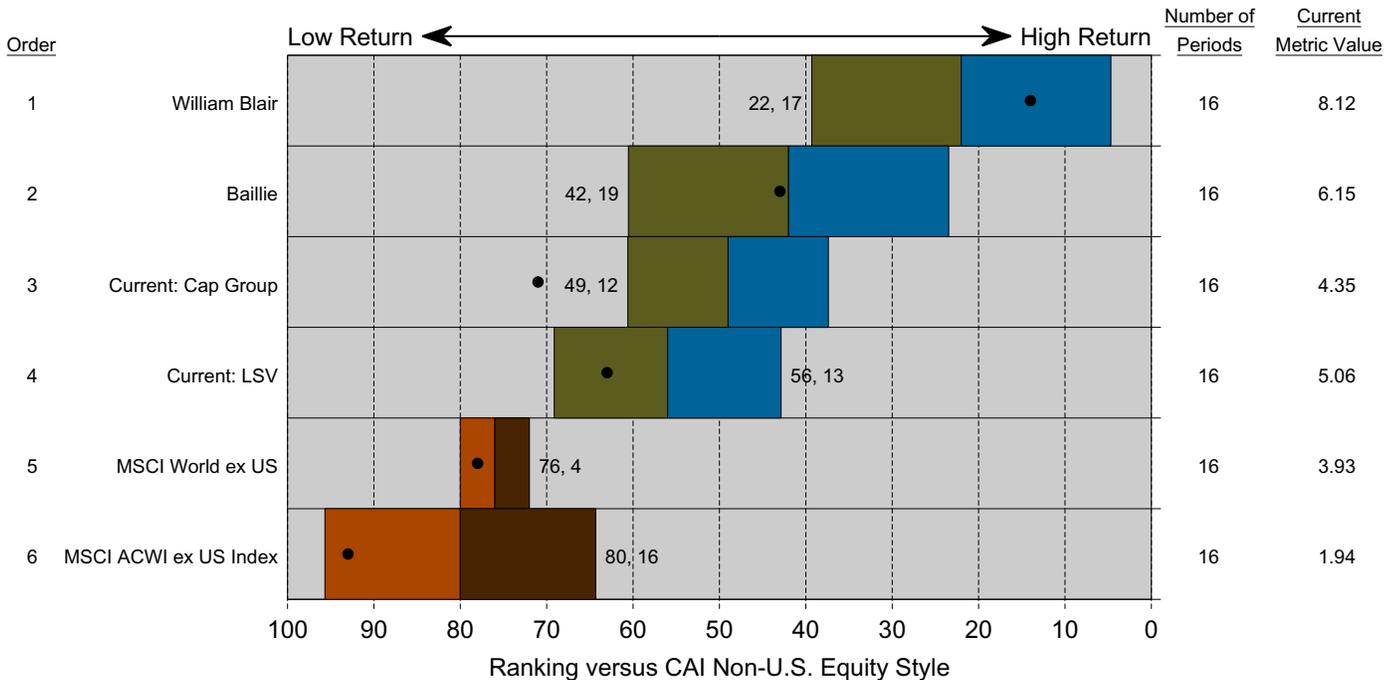


		Alpha(%)	Beta	R-Squared	Residual Risk(%)
CAI NON-U.S. EQ. STYLE					
10th Percentile		4.13	1.05	0.98	5.25
25th Percentile		2.96	0.99	0.97	4.55
Median		1.60	0.95	0.96	3.89
75th Percentile		0.31	0.90	0.95	3.36
90th Percentile		(0.55)	0.82	0.92	2.84
Baillie	A	3.60	0.99	0.97	3.28
William Blair	B	6.52	0.88	0.93	4.95
Current Managers					
Cap Group	C	0.79	0.92	0.96	3.60
LSV	D	0.40	1.08	0.98	3.00
Market Indicators					
MSCI ACWI ex US Index	E	0.00	1.00	1.00	0.00
MSCI World ex US	F	(0.17)	0.98	0.99	1.93

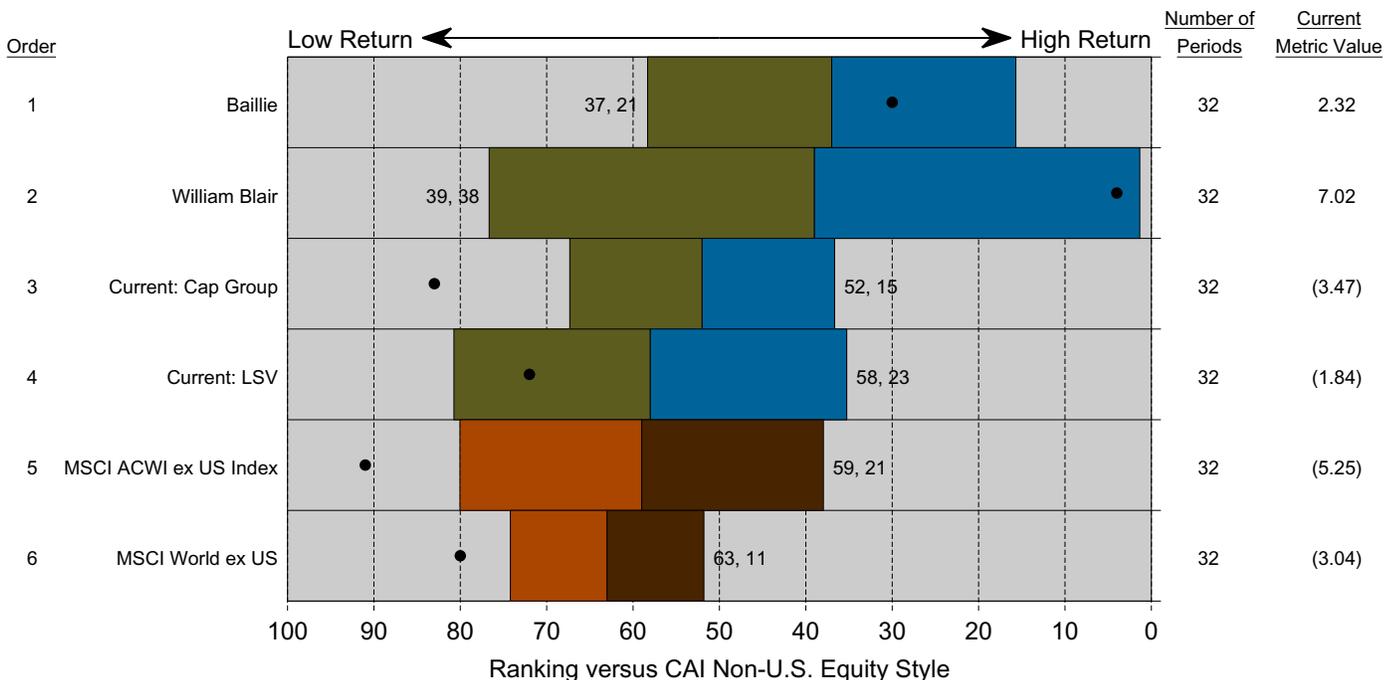
Historical Ranking Analysis

This page compares multiple portfolios to each other by analyzing both the historical average ranking for a given metric versus a relevant peer group, as well as the consistency and range (standard deviation) of that ranking over time. The midpoint of each sideways bar represents the average ranking of a given portfolio over time, and the width of the bar represents the consistency and range of that ranking (+/- 1 standard deviation). The comma-separated numbers show the average and standard deviation respectively, of the portfolios ranking. Each portfolio's current ranking is demarcated by a dot, while the corresponding current value of the metric is displayed on the far right.

Three-Year Rolling Return - Ranking For Four Years Ended December 31, 2015



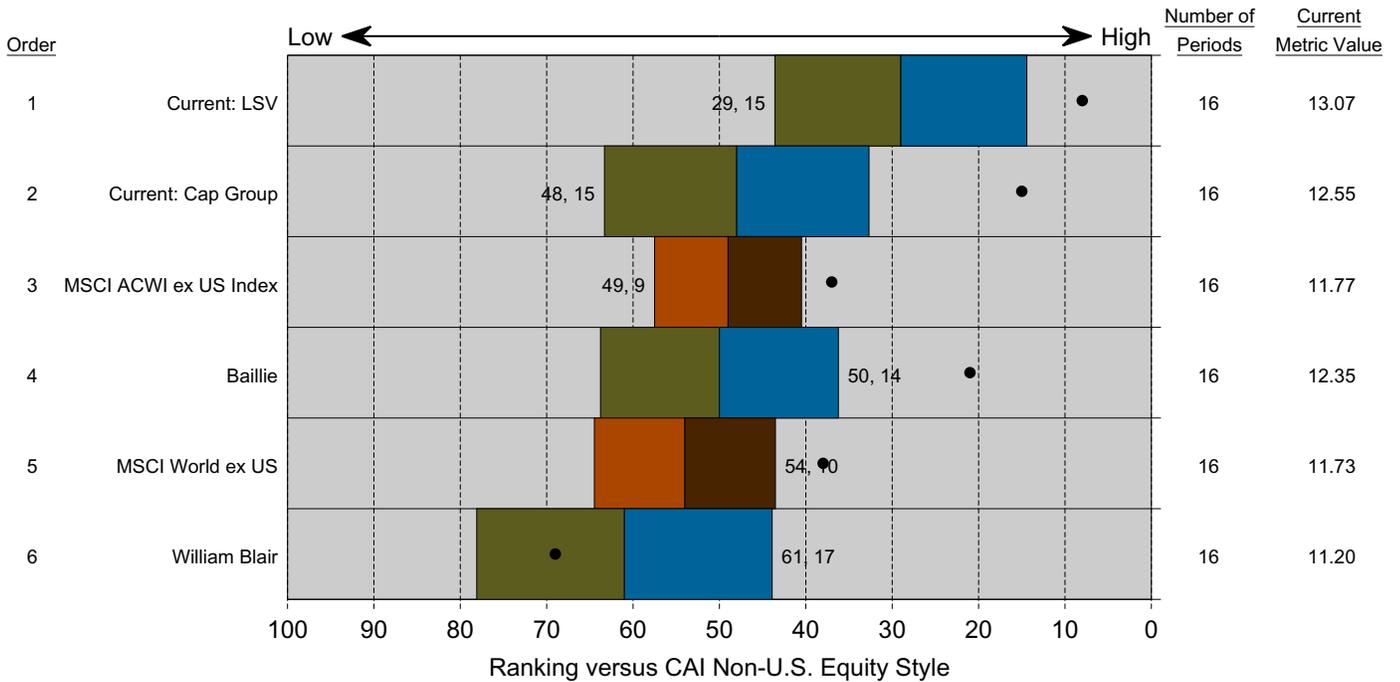
One-Year Rolling Return - Ranking For Eight Years Ended December 31, 2015



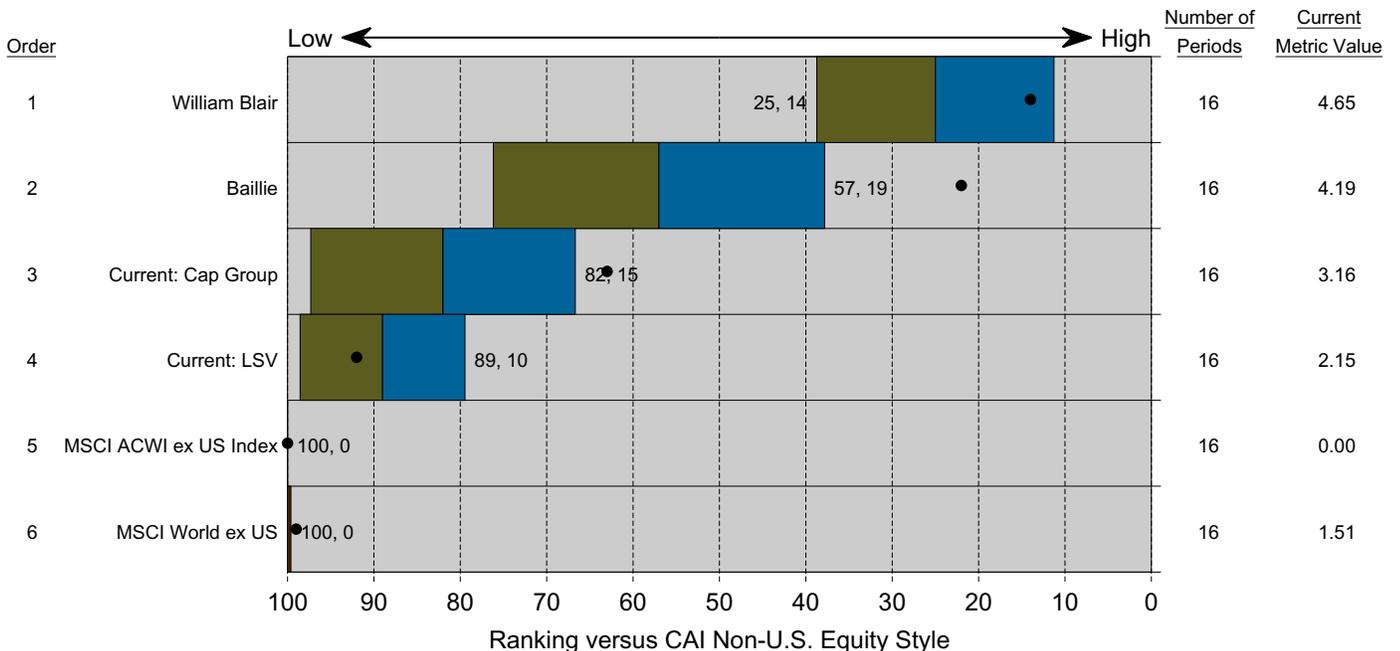
Historical Ranking Analysis

This page compares multiple portfolios to each other by analyzing both the historical average ranking for a given metric versus a relevant peer group, as well as the consistency and range (standard deviation) of that ranking over time. The midpoint of each sideways bar represents the average ranking of a given portfolio over time, and the width of the bar represents the consistency and range of that ranking (+/- 1 standard deviation). The comma-separated numbers show the average and standard deviation respectively, of the portfolios ranking. Each portfolio's current ranking is demarcated by a dot, while the corresponding current value of the metric is displayed on the far right.

Three-Year Rolling Standard Deviation - Ranking For Four Years Ended December 31, 2015



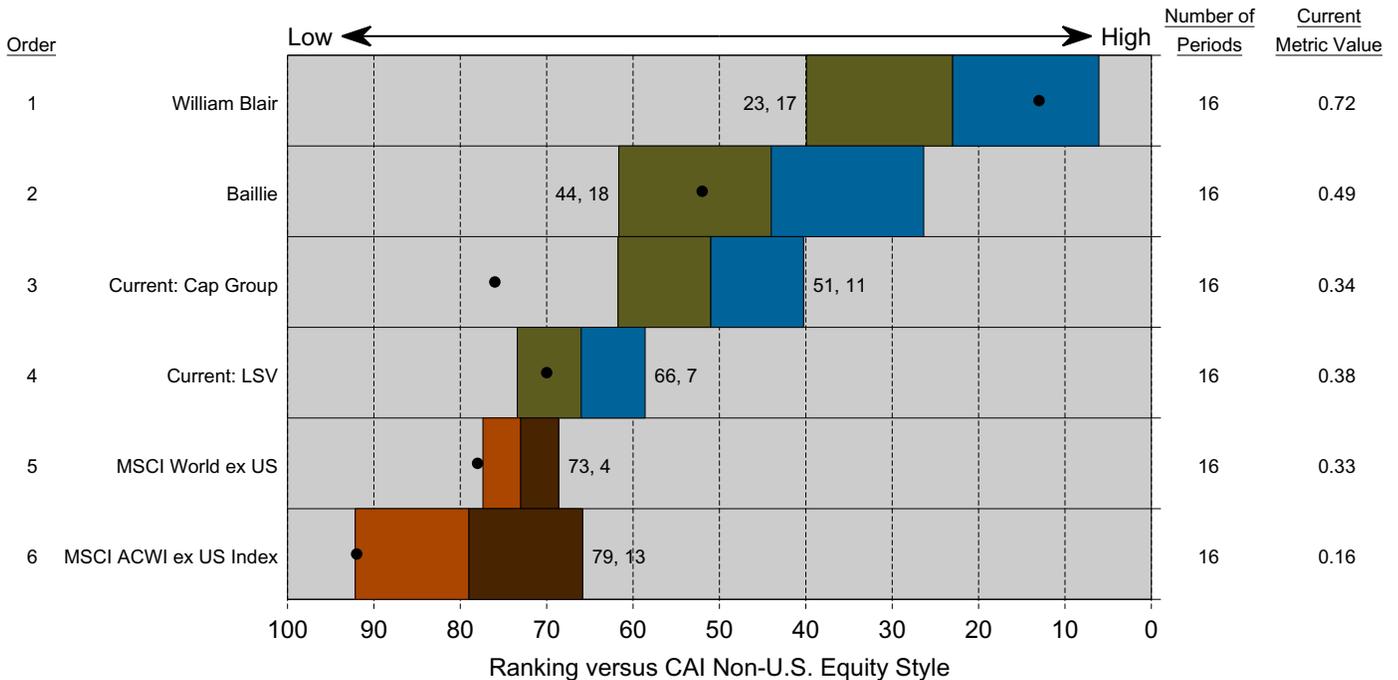
Three-Year Rolling Tracking Error Versus MSCI ACWIxUS Gross Ranking For Four Years Ended December 31, 2015



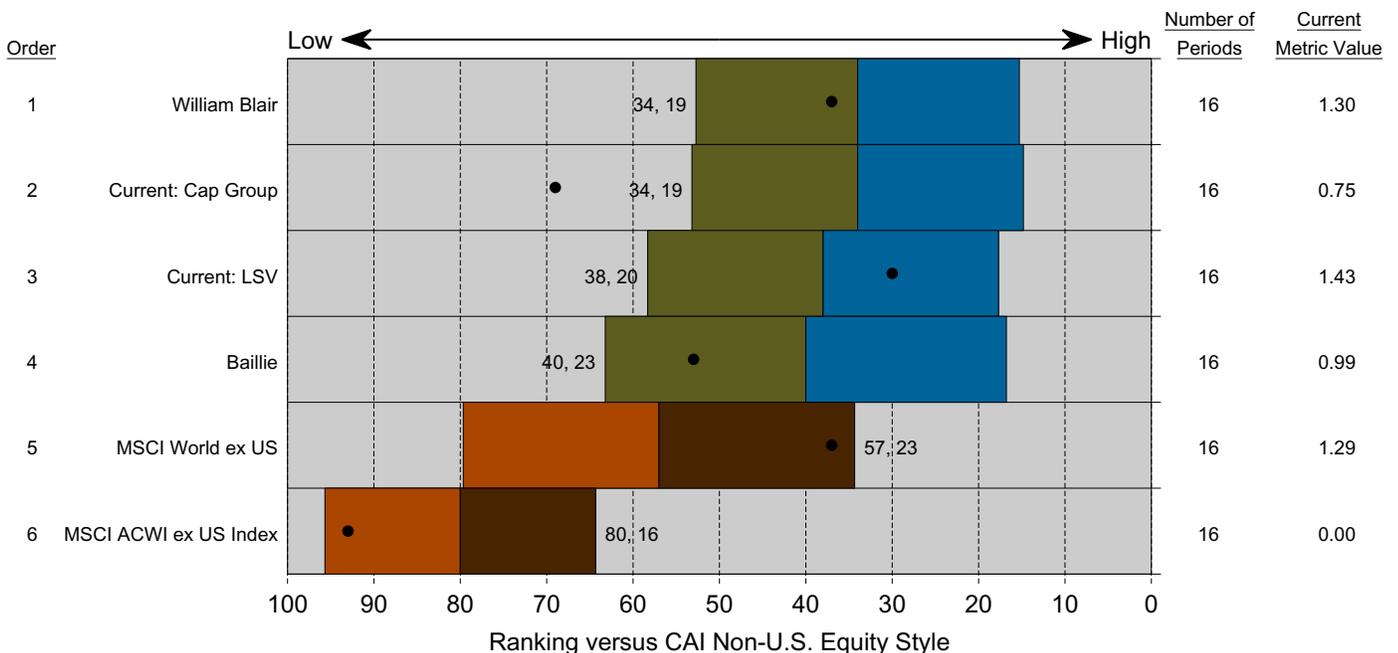
Historical Ranking Analysis

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Three-Year Rolling Sharpe Ratio - Ranking For Four Years Ended December 31, 2015



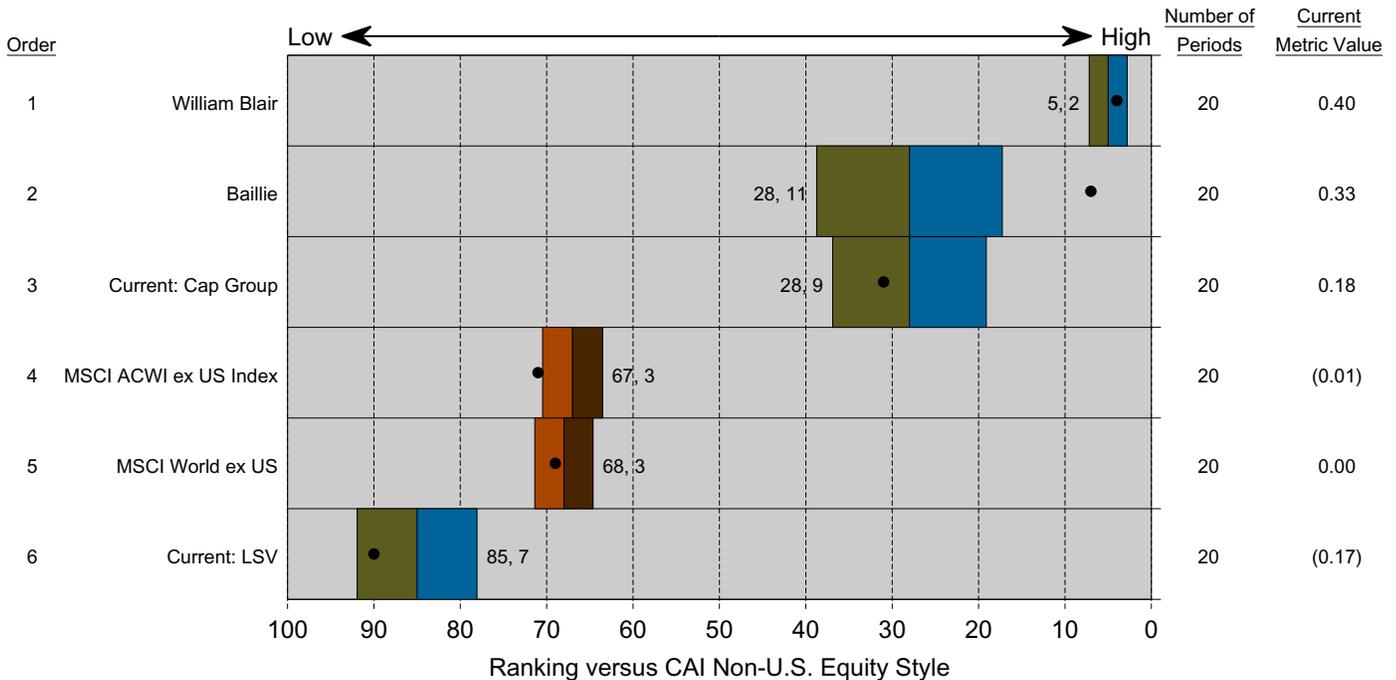
Three-Year Rolling Excess Return Ratio Versus MSCI ACWIxUS Gross Ranking For Four Years Ended December 31, 2015



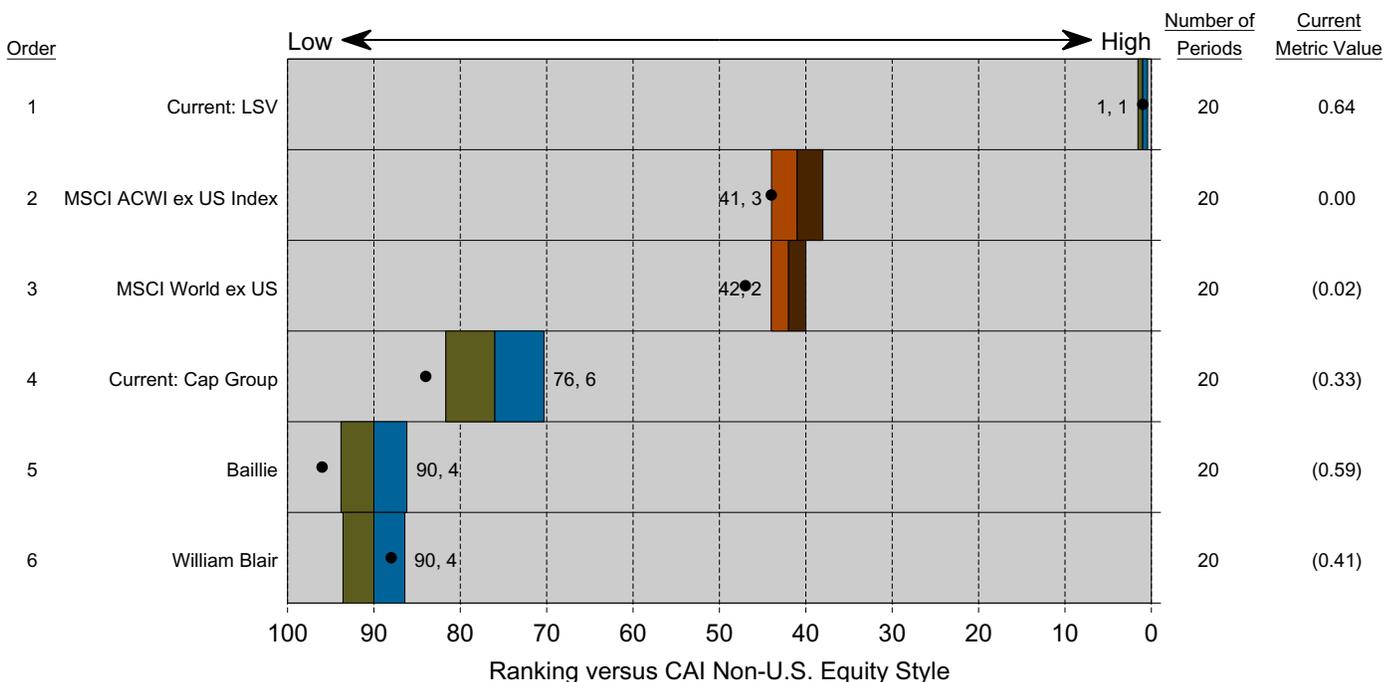
Historical Ranking Analysis

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MSCI Growth Z-Score Ranking For Five Years Ended December 31, 2015



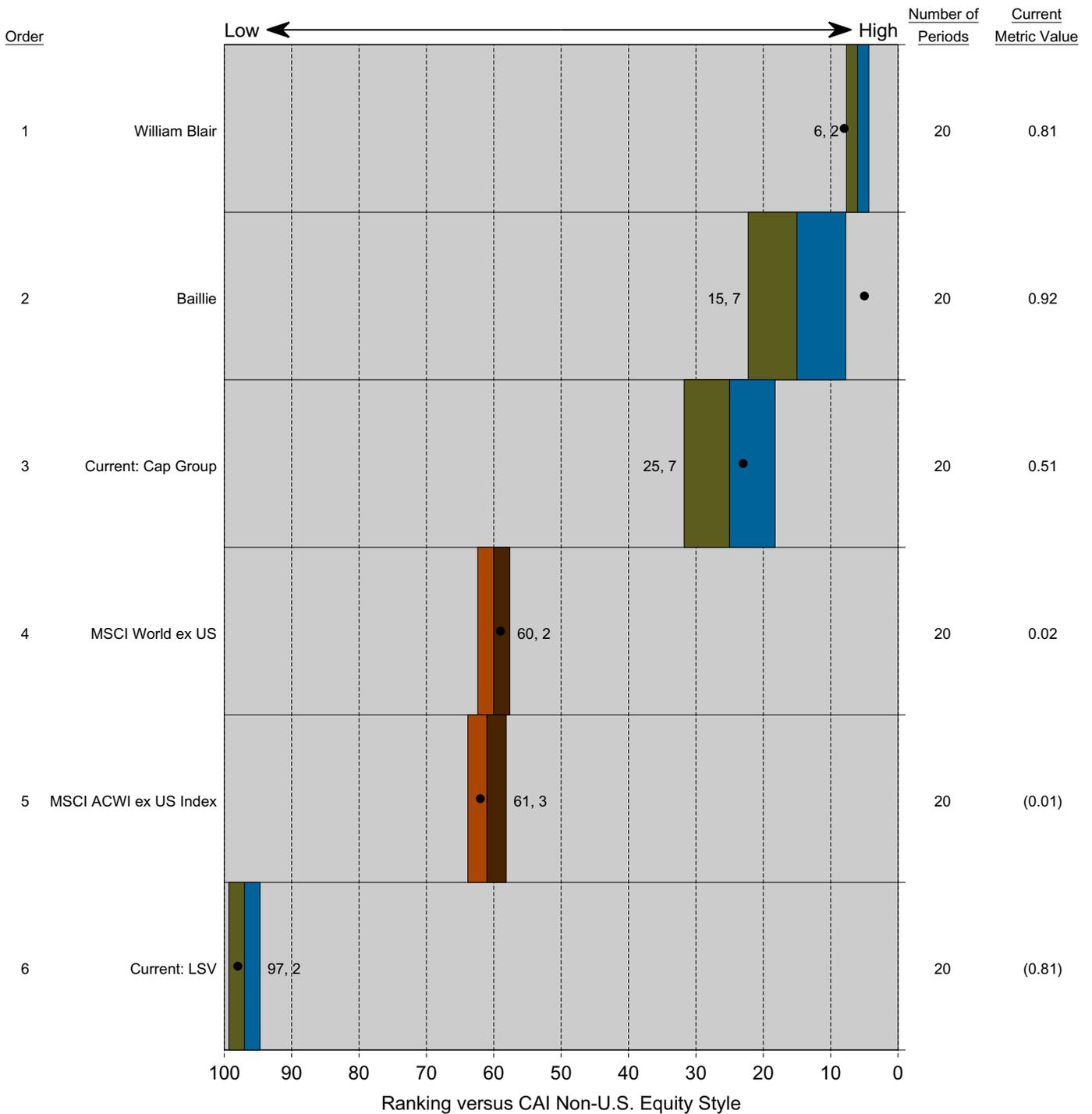
MSCI Value Z-Score Ranking For Five Years Ended December 31, 2015



Historical Ranking Analysis

This page compares multiple portfolios to each other by analyzing both the historical average ranking for a given metric versus a relevant peer group, as well as the consistency and range (standard deviation) of that ranking over time. The midpoint of each sideways bar represents the average ranking of a given portfolio over time, and the width of the bar represents the consistency and range of that ranking (+/- 1 standard deviation). The comma-separated numbers show the average and standard deviation respectively, of the portfolios ranking. Each portfolio's current ranking is demarcated by a dot, while the corresponding current value of the metric is displayed on the far right.

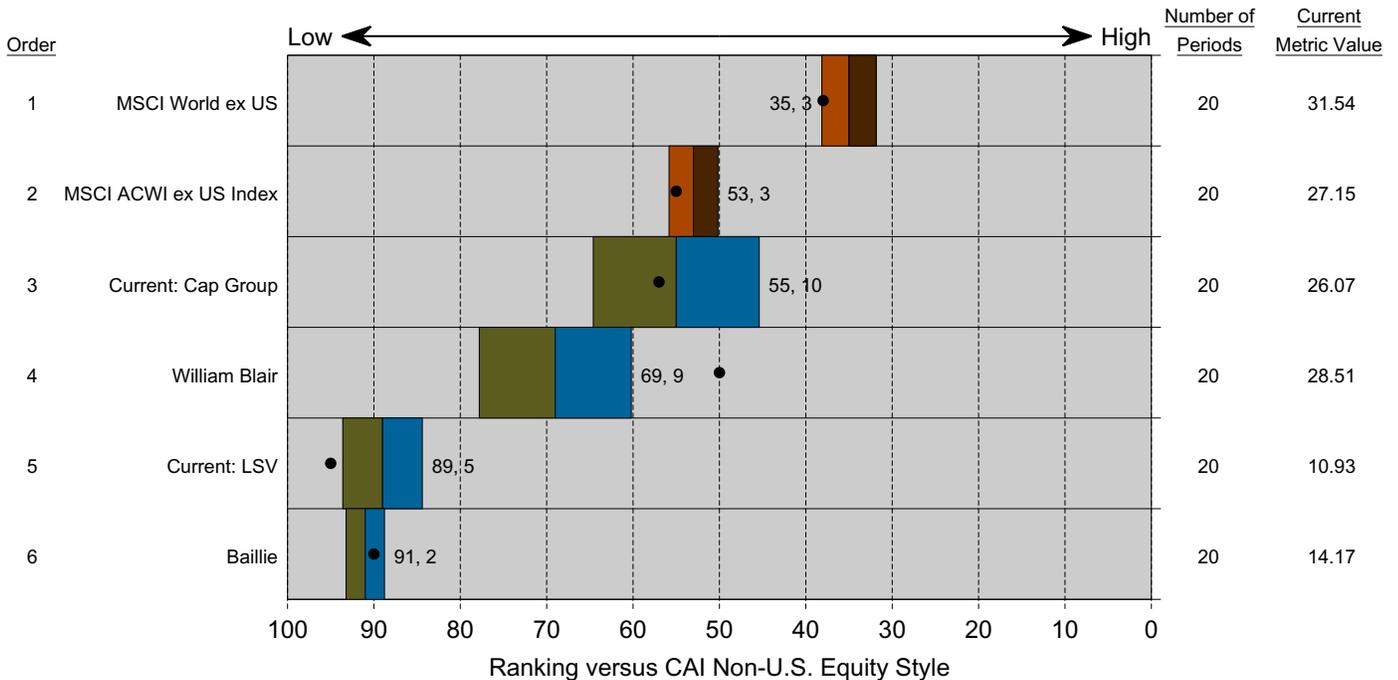
MSCI Combined Z-Score Ranking For Five Years Ended December 31, 2015



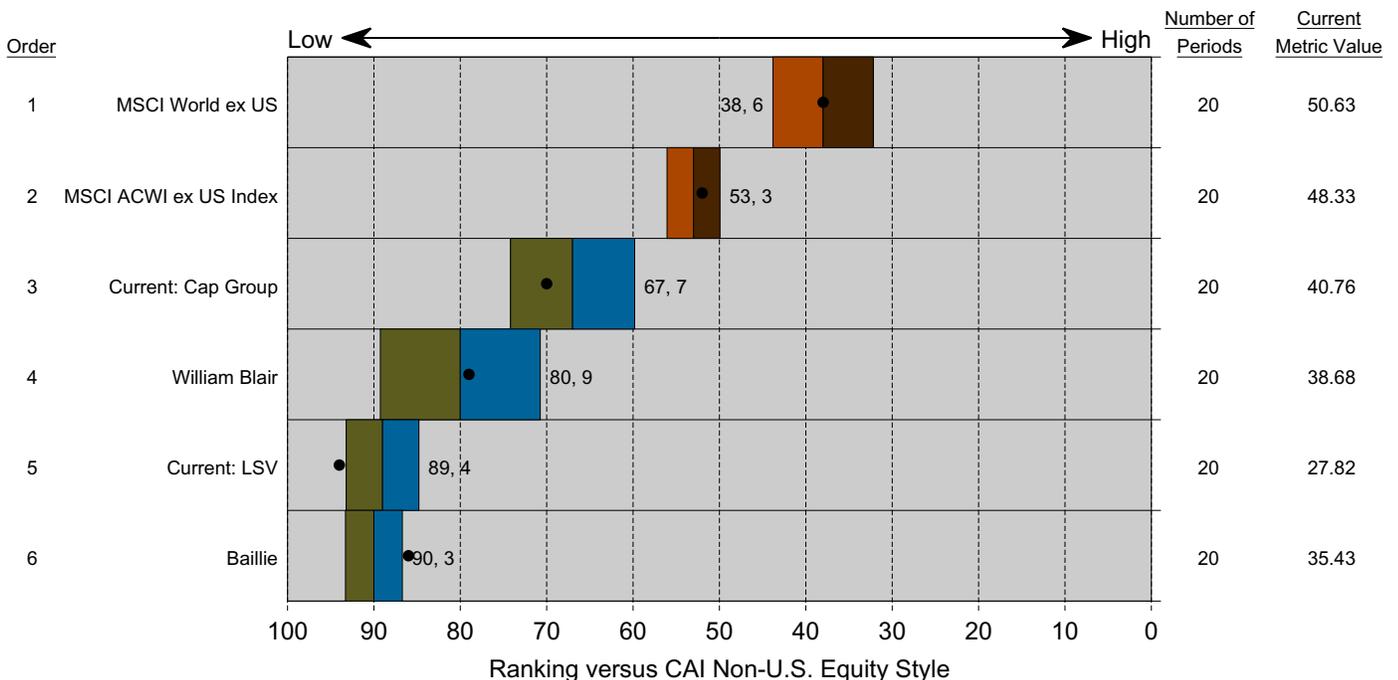
Historical Ranking Analysis

This page compares multiple portfolios to each other by analyzing both the historical average ranking for a given metric versus a relevant peer group, as well as the consistency and range (standard deviation) of that ranking over time. The midpoint of each sideways bar represents the average ranking of a given portfolio over time, and the width of the bar represents the consistency and range of that ranking (+/- 1 standard deviation). The comma-separated numbers show the average and standard deviation respectively, of the portfolios ranking. Each portfolio's current ranking is demarcated by a dot, while the corresponding current value of the metric is displayed on the far right.

Weighted Median Market Cap Ranking For Five Years Ended December 31, 2015



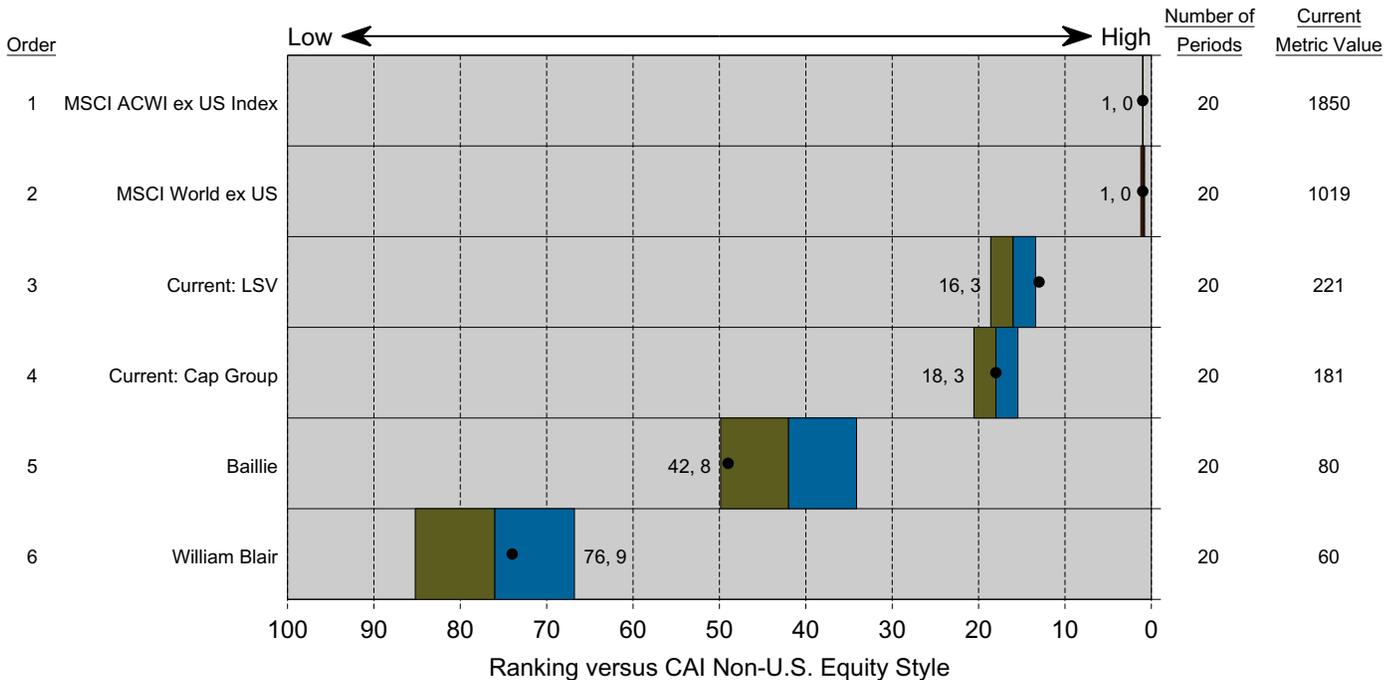
Weighted Average Market Cap Ranking For Five Years Ended December 31, 2015



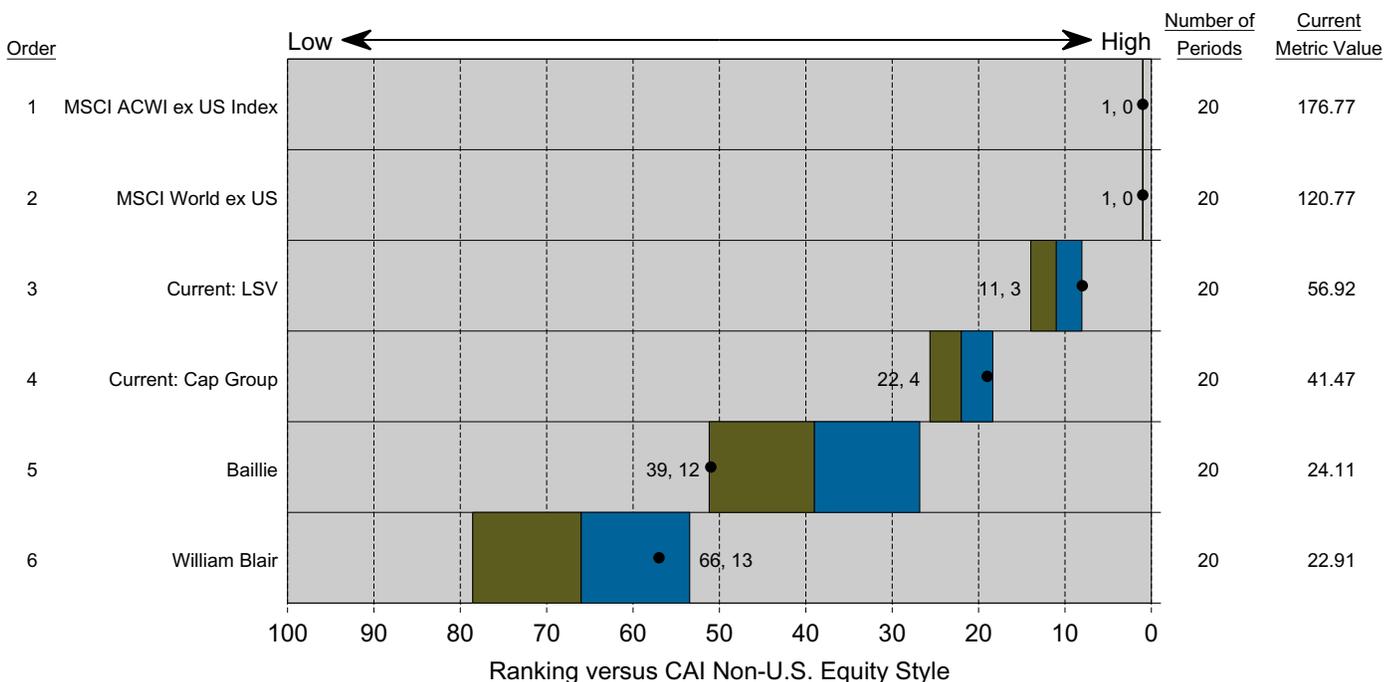
Historical Ranking Analysis

This page compares multiple portfolios to each other by analyzing both the historical average ranking for a given metric versus a relevant peer group, as well as the consistency and range (standard deviation) of that ranking over time. The midpoint of each sideways bar represents the average ranking of a given portfolio over time, and the width of the bar represents the consistency and range of that ranking (+/- 1 standard deviation). The comma-separated numbers show the average and standard deviation respectively, of the portfolios ranking. Each portfolio's current ranking is demarcated by a dot, while the corresponding current value of the metric is displayed on the far right.

Number of Holdings Ranking For Five Years Ended December 31, 2015



Security Diversification Ranking For Five Years Ended December 31, 2015



Comparative Manager Matrix

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. This comparative analysis can evaluate, for each portfolio pair, one portfolio's performance and risk patterns relative to the other portfolio's performance patterns. The excess return correlation matrices illustrate the extent to which various manager's excess returns versus the appropriate index are correlated to each other. Managers whose excess returns are less correlated with each other tend to diversify each other's active risk. This complementary type of manager mix can have a beneficial effect on the resulting active risk/return tradeoff.

Excess Return Correlations for 5 Years Ended December 31, 2015 vs the MSCI ACWI ex US Gross

(20)	Baillie	0.34	0.00	0.15	0.40	0.41	1.00
(20)	William Blair	0.07	0.00	(0.27)	0.19	1.00	0.41
(20)	Current: Cap Group	0.20	0.00	0.30	1.00	0.19	0.40
(20)	Current: LSV	0.57	0.00	1.00	0.30	(0.27)	0.15
(20)	MSCI ACWI ex US Index	0.00	0.00	0.00	0.00	0.00	0.00
(20)	MSCI World ex US	1.00	0.00	0.57	0.20	0.07	0.34
	MSCI World ex US		MSCI ACWI ex US Index	Current: LSV	Current: Cap Group	William Blair	Baillie

Comparative Manager Matrix

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. This comparative analysis can evaluate, for each portfolio pair, one portfolio's performance and risk patterns relative to the other portfolio's performance patterns. The excess return correlation matrices illustrate the extent to which various manager's excess returns versus the appropriate index are correlated to each other. Managers whose excess returns are less correlated with each other tend to diversify each other's active risk. This complementary type of manager mix can have a beneficial effect on the resulting active risk/return tradeoff.

Excess Return Correlations for 7 Years Ended December 31, 2015 vs the MSCI ACWI ex US Gross

(28)	Baillie	0.10	0.00	(0.02)	0.17	0.30	1.00
(28)	William Blair	(0.12)	0.00	(0.48)	0.27	1.00	0.30
(28)	Current: Cap Group	0.47	0.00	0.03	1.00	0.27	0.17
(28)	Current: LSV	0.59	0.00	1.00	0.03	(0.48)	(0.02)
(28)	MSCI ACWI ex US Index	0.00	0.00	0.00	0.00	0.00	0.00
(28)	MSCI World ex US	1.00	0.00	0.59	0.47	(0.12)	0.10
	MSCI World ex US		MSCI ACWI ex US Index	Current: LSV	Current: Cap Group	William Blair	Baillie

Comparative Manager Matrix

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. This comparative analysis can involve various types of performance statistics and holdings-based portfolio analysis over multiple time periods. The number in the middle of each box is the relevant value for a given portfolio, and the smaller number in the lower right corner is the relevant peer group ranking of that value.

Return Based Risk Statistics for 5 Years Ended December 31, 2015 vs the MSCI ACWIxUS Gross and the CAI Non-U.S. Eq. Style PEER GROUP

(20)	Baillie	14.92% (53)	3.77 (40)	1.66% (50)	0.94 (70)	0.31 (47)	0.84 (52)	0.97% (54)
(20)	William Blair	14.97% (52)	4.95 (13)	2.05% (34)	0.89 (92)	0.47 (11)	1.10 (35)	0.95% (88)
(20)	Current: Cap Group	15.64% (28)	2.48 (88)	1.32% (65)	0.98 (13)	0.23 (72)	0.87 (49)	0.99% (14)
(20)	Current: LSV	15.75% (24)	1.98 (97)	0.76% (86)	0.99 (2)	0.24 (68)	1.16 (30)	0.99% (2)
(20)	MSCI ACWI ex US Index	15.00% (49)	0.00 (100)	0.00% (100)	1.00 (1)	0.10 (90)	0.00 (91)	1.00% (1)
(20)	MSCI World ex US	14.60% (63)	1.39 (100)	0.60% (93)	0.99 (1)	0.19 (79)	0.91 (47)	1.00% (1)
		Standard Deviation	Tracking Error	Downside Risk	R-Squared	Sharpe Ratio	Excess Return Ratio	Correlation

Comparative Manager Matrix

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. This comparative analysis can involve various types of performance statistics and holdings-based portfolio analysis over multiple time periods. The number in the middle of each box is the relevant value for a given portfolio, and the smaller number in the lower right corner is the relevant peer group ranking of that value.

Return Based Risk Statistics for 7 Years Ended December 31, 2015 vs the MSCI ACWIxUS Gross and the CAI Non-U.S. Eq. Style PEER GROUP

(28)	Baillie	20.03% (29)	3.23 (86)	1.41% (93)	0.97 (17)	0.58 (19)	1.07 (5)	0.99% (12)
(28)	William Blair	18.32% (75)	5.39 (17)	2.64% (58)	0.93 (88)	0.76 (1)	1.04 (5)	0.97% (84)
(28)	Current: Cap Group	18.78% (68)	3.85 (64)	3.17% (37)	0.96 (42)	0.43 (65)	0.06 (68)	0.98% (42)
(28)	Current: LSV	21.85% (7)	3.38 (81)	2.25% (74)	0.98 (7)	0.40 (75)	0.25 (54)	0.99% (7)
(28)	MSCI ACWI ex US Index	19.99% (30)	0.00 (100)	0.00% (100)	1.00 (1)	0.39 (76)	0.00 (72)	1.00% (1)
(28)	MSCI World ex US	19.64% (38)	1.95 (99)	1.55% (91)	0.99 (2)	0.38 (79)	(0.17) (88)	1.00% (2)
		Standard Deviation	Tracking Error	Downside Risk	R-Squared	Sharpe Ratio	Excess Return Ratio	Correlation

Comparative Manager Matrix

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. This comparative analysis can involve various types of performance statistics and holdings-based portfolio analysis over multiple time periods. The number in the middle of each box is the relevant value for a given portfolio, and the smaller number in the lower right corner is the relevant peer group ranking of that value.

Average Equity Characteristics for 5 Years Ended December 31, 2015 VS THE CAI Non-U.S. Eq. Style Peer Group

(20)	Baillie	2.24 (14)	2.18% (89)	1.38% (26)	0.62 (15)	91 (42)	12.09 (38)	16.03 (5)	16.13 (5)	12.04 (91)	32.04 (90)	29.47 (39)	32.14% (43)
(20)	William Blair	2.53 (7)	2.10% (91)	1.08% (62)	0.80 (6)	59 (76)	13.86 (18)	14.66 (14)	14.67 (14)	23.24 (69)	37.74 (80)	21.58 (66)	36.61% (15)
(20)	Current: Cap Group	1.82 (37)	2.48% (74)	1.04% (68)	0.46 (25)	190 (18)	13.04 (24)	13.37 (31)	13.40 (31)	27.85 (55)	43.49 (67)	38.27 (22)	20.13% (85)
(20)	Current: LSV	1.10 (92)	3.89% (6)	1.31% (33)	(0.77) (97)	207 (16)	7.67 (91)	9.58 (98)	9.58 (98)	13.52 (89)	31.73 (89)	50.78 (11)	24.52% (75)
(20)	MSCI ACWI ex US Index	1.56 (59)	3.12% (30)	1.15% (50)	(0.03) (61)	1836 (1)	10.82 (55)	12.15 (58)	12.18 (58)	28.64 (53)	48.48 (53)	166.06 (1)	9.04% (97)
(20)	MSCI World ex US	1.56 (59)	3.25% (24)	1.29% (30)	(0.02) (60)	1013 (1)	10.10 (68)	12.71 (46)	12.74 (45)	34.10 (35)	52.28 (38)	108.01 (1)	10.67% (96)
		Price/ Book Value	Indicated Dividend Yield	P/E to Growth	MSCI Combined Z-Score	Number of Holdings	Forecasted Growth Earnings	Forecasted P/E (Exc Neg)	Forecasted P/E	Weighted Median Mkt Cap	Weighted Average Mkt Cap	Security Divers- ification	Divers- ification Ratio

Comparative Manager Matrix

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. This comparative analysis can involve various types of performance statistics and holdings-based portfolio analysis over multiple time periods. The number in the middle of each box is the relevant value for a given portfolio.

Average Sector Weights for 5 Years Ended December 31, 2015

(20)	Baillie	19.98%	15.39%	17.55%	17.66%	4.67%	10.69%	5.82%	0.15%	7.83%	0.26%	0.00%	0.00%	0.00%
(20)	William Blair	24.07%	16.29%	16.84%	5.11%	5.15%	8.97%	6.19%	1.58%	15.23%	0.46%	0.00%	0.00%	0.11%
(20)	Current: Cap Group	20.78%	11.69%	13.97%	8.65%	8.97%	8.10%	7.14%	5.48%	13.61%	1.30%	0.31%	0.00%	0.00%
(20)	Current: LSV	27.38%	13.81%	10.89%	7.35%	10.00%	9.68%	8.36%	6.84%	2.83%	2.86%	0.00%	0.00%	0.00%
(20)	MSCI ACWI ex US Index	25.66%	11.20%	10.46%	9.80%	9.85%	7.52%	9.33%	5.77%	6.74%	3.65%	0.00%	0.00%	0.00%
(20)	MSCI World ex US	25.29%	12.42%	11.03%	10.32%	9.66%	9.24%	8.79%	5.19%	4.27%	3.71%	0.07%	0.00%	0.00%
		Financ	Indequ	Concyc	Consta	Rawmat	Health	Energy	Commun	Tech	Pubutl	Misc	Trans	Fund

Comparative Manager Matrix - Pension Holdings Overlap

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. The holding overlap matrices illustrate the degree of individual stock overlap between various portfolios' holdings. The number in parentheses in the lower left corner of each box is the number of stocks that a given portfolio pair hold in common. The number in the upper left corner is the total weight of these overlapping holdings in the y-axis (vertical) portfolio. The number in the lower right corner is the total weight of those same stocks in the x-axis (horizontal) portfolio.

Average Holding Overlap for 5 Years Ended December 31, 2015

(20)	Baillie	64% (57)	11%	73% (64)	9%	1% (1)	1%	57% (42)	8%	7% (5)	2%	2% (1)	4%	2% (2)	1%	1% (1)	0%	25% (19)	17%	7% (4)	11%	12% (8)	16%		
(20)	William Blair	74% (43)	9%	85% (50)	9%	2% (1)	1%	67% (42)	9%	12% (6)	3%	5% (3)	9%	2% (1)	0%	1% (0)	0%	36% (18)	20%	9% (6)	12%		16% (8)	12%	
(5)	Pension: Axiom	3% (2)	1%	82% (67)	6%	0% (0)	0%	3% (2)	1%	8% (5)	2%	1% (0)	2%	0% (0)	0%	3% (4)	1%	17% (7)	4%		12% (6)	9%	11% (4)	7%	
(20)	Pension: Cap Group	79% (134)	31%	83% (148)	26%	3% (2)	3%	66% (114)	27%	14% (19)	7%	5% (5)	14%	4% (6)	2%	1% (0)	0%		4% (7)	17%	20% (18)	36%	17% (19)	25%	
(20)	Pension: DFA EM Small Cap	0% (0)	0%	9% (84)	1%	0% (4)	2%	0% (0)	0%	1% (12)	3%	0% (0)	0%	0% (1)	0%			0% (0)	1% (4)	3%	0% (0)	1%	0% (1)	1%	
(20)	Pension: DFA Int'l Small Cap	5% (22)	1%	5% (23)	1%	2% (18)	13%	9% (37)	1%	6% (35)	5%	0% (0)	1%		0% (1)	0%		2% (6)	4%	0% (0)	0%	0% (1)	2% (2)	2%	
(16)	Pension: EPOCH	27% (10)	3%	28% (10)	3%	1% (0)	1%	24% (9)	4%	17% (5)	3%			1% (0)	0%	0% (0)	0%	14% (5)	5%	2% (0)	1%	9% (3)	5%	4% (1)	2%
(12)	Pension: LSV	28% (88)	20%	34% (108)	17%	1% (2)	2%	25% (76)	17%			3% (5)	17%	5% (35)	6%	3% (12)	1%	7% (19)	14%	2% (5)	8%	3% (6)	12%	2% (5)	7%
(9)	Pension: Northern Trust	88% (890)	88%	88% (890)	69%	0% (6)	5%			17% (76)	25%	4% (9)	24%	1% (37)	9%	0% (0)	0%	27% (114)	66%	1% (2)	3%	9% (42)	67%	8% (42)	57%
(20)	Pension: Wellington Small Cap	4% (5)	0%	4% (5)	0%			5% (6)	0%	2% (2)	1%	1% (0)	1%	13% (18)	2%	2% (4)	0%	3% (2)	3%	0% (0)	0%	1% (1)	2%	1% (1)	1%
(20)	MSCI ACWI ex US Index	77% (1013)	100%			0% (5)	4%	69% (890)	88%	17% (108)	34%	3% (10)	28%	1% (23)	5%	1% (84)	9%	26% (148)	83%	6% (67)	82%	9% (50)	85%	9% (64)	73%
(20)	MSCI World ex US			100% (1013)	77%	0% (5)	4%	88% (890)	88%	20% (88)	28%	3% (10)	27%	1% (22)	5%	0% (0)	0%	31% (134)	79%	1% (2)	3%	9% (43)	74%	11% (57)	64%
				MSCI World ex US		Pension: Wellington Small Cap		Pension: Northern Trust		Pension: LSV		Pension: EPOCH		Pension: DFA Int'l Small Cap		Pension: DFA EM Small Cap		Pension: Cap Group		Pension: Axiom		William Blair		Baillie	

Comparative Manager Matrix - Insurance Holdings Overlap

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. The holding overlap matrices illustrate the degree of individual stock overlap between various portfolios' holdings. The number in parentheses in the lower left corner of each box is the number of stocks that a given portfolio pair hold in common. The number in the upper left corner is the total weight of these overlapping holdings in the y-axis (vertical) portfolio. The number in the lower right corner is the total weight of those same stocks in the x-axis (horizontal) portfolio.

Average Holding Overlap for 5 Years Ended December 31, 2015

(20)	Baillie	64% (57)	11%	73% (64)	9%	5% (4)	4%	5% (3)	3%	4% (5)	1%	25% (19)	17%	12% (8)	16%		
(20)	William Blair	74% (43)	9%	85% (50)	9%	7% (4)	4%	11% (5)	5%	4% (2)	1%	36% (18)	20%		16% (8)	12%	
(20)	Insurance: Cap Group	79% (134)	31%	83% (148)	26%	6% (12)	7%	15% (21)	17%	5% (8)	2%			20% (18)	36%	17% (19)	25%
(20)	Insurance: DFA Small Cap	7% (37)	1%	7% (37)	1%	10% (70)	26%	8% (51)	16%			2% (8)	5%	1% (2)	4%	1% (5)	4%
(20)	Insurance: LSV	72% (111)	25%	73% (113)	19%	4% (10)	5%			16% (51)	8%	17% (21)	15%	5% (5)	11%	3% (3)	5%
(20)	Insurance: Vanguard	13% (48)	1%	18% (63)	1%			5% (10)	4%	26% (70)	10%	7% (12)	6%	4% (4)	7%	4% (4)	5%
(20)	MSCI ACWI ex US Index	77% (1013)	100%			1% (63)	18%	19% (113)	73%	1% (37)	7%	26% (148)	83%	9% (50)	85%	9% (64)	73%
(20)	MSCI World ex US			100% (1013)	77%	1% (48)	13%	25% (111)	72%	1% (37)	7%	31% (134)	79%	9% (43)	74%	11% (57)	64%
		MSCI World ex US		MSCI ACWI ex US Index		Insurance: Vanguard		Insurance: LSV		Insurance: DFA Small Cap		Insurance: Cap Group		William Blair		Baillie	

Comparative Manager Matrix - Legacy Holdings Overlap

This page allows for detailed comparisons of multiple managers against each other, as well as versus market indices and peer groups. The holding overlap matrices illustrate the degree of individual stock overlap between various portfolios' holdings. The number in parentheses in the lower left corner of each box is the number of stocks that a given portfolio pair hold in common. The number in the upper left corner is the total weight of these overlapping holdings in the y-axis (vertical) portfolio. The number in the lower right corner is the total weight of those same stocks in the x-axis (horizontal) portfolio.

Average Holding Overlap for 5 Years Ended December 31, 2015

(20)	Baillie	64% (57)	11%	73% (64)	9%	2% (2)	4%	5% (4)	2%	3% (4)	1%	25% (19)	17%	12% (8)	16%		
(20)	William Blair	74% (43)	9%	85% (50)	9%	4% (2)	4%	11% (7)	4%	2% (1)	0%	36% (18)	20%		16% (8)	12%	
(20)	Legacy: Cap Group	79% (134)	31%	83% (148)	26%	7% (11)	6%	15% (22)	15%	6% (11)	2%			20% (18)	36% (19)	17% (19)	25%
(4)	Legacy: DFA Small Cap	8% (41)	1%	8% (41)	1%	7% (64)	22%	10% (72)	18%			2% (11)	6%	0% (1)	2% (4)	1% (4)	3%
(4)	Legacy: LSV	67% (136)	25%	68% (137)	19%	4% (12)	7%			18% (72)	10%	15% (22)	15%	4% (7)	11% (4)	2% (4)	5%
(4)	Legacy: Vanguard	7% (28)	1%	11% (39)	1%			7% (12)	4%	22% (64)	7%	6% (11)	7%	4% (2)	4% (2)	4% (2)	2%
(20)	MSCI ACWI ex US Index	77% (1013)	100%			1% (39)	11%	19% (137)	68%	1% (41)	8%	26% (148)	83%	9% (50)	85% (64)	9% (64)	73%
(20)	MSCI World ex US			100% (1013)	77%	1% (28)	7%	25% (136)	67%	1% (41)	8%	31% (134)	79%	9% (43)	74% (57)	11% (57)	64%
		MSCI World ex US		MSCI ACWI ex US Index		Legacy: Vanguard		Legacy: LSV		Legacy: DFA Small Cap		Legacy: Cap Group		William Blair		Baillie	



Definitions and Disclosures

Definitions

Alpha measures a portfolio's return in excess of the market return adjusted for risk. It is a measure of the manager's contribution to performance with reference to security selection. A positive alpha indicates that a portfolio was positively rewarded for the residual risk which was taken for that level of market exposure.

Beta measures the sensitivity of rates of portfolio returns to movements in the market index. A portfolio's beta measures the expected change in return per 1% change in the return on the market. If a beta of a portfolio is 1.5, a 1 percent increase in the return on the market will result, on average, in a 1.5 percent increase in the return on the portfolio. The converse would also be true.

Diversification Ratio – The ratio of the number of securities comprising the most concentrated half of the portfolio market value divided by the total number of portfolio securities. This value expresses to what extent a portfolio is equally weighted versus concentrated, given the number of names in the portfolio. This value can range from a high of 50% (equal weighted) to a low of 1% (half of the portfolio in 1% of the names).

Downside Risk stems from the desire to differentiate between "good risk" (upside volatility) and "bad risk" (downside volatility). Whereas standard deviation punishes both upside and downside volatility, downside risk measures only the standard deviation of returns below the target. Returns above the target are assigned a deviation of zero. Both the frequency and magnitude of underperformance affect the amount of downside risk.

Excess Return Ratio is a measure of risk adjusted relative return. This ratio captures the amount of active management performance (value added relative to an index) per unit of active management risk (tracking error against the index.) It is calculated by dividing the manager's annualized cumulative excess return relative to the index by the standard deviation of the individual quarterly excess returns. The Excess Return Ratio can be interpreted as the manager's active risk/reward tradeoff for diverging from the index when the index is mandated to be the "riskless" market position.

Information Ratio measures the manager's market risk-adjusted excess return per unit of residual risk relative to a benchmark. It is computed by dividing alpha by the residual risk over a given time period. Assuming all other factors being equal, managers with lower residual risk achieve higher values in the information ratio. Managers with higher information ratios will add value relative to the benchmark more reliably and consistently.

Market Capitalization (weighted median) – The weighted median market cap is the point at which half of the market value of the portfolio is invested in stocks with a greater market cap, and consequently the other half is invested in stocks with a lower market cap.

Definitions (continued)

MSCI Combined Z Score is the difference between the MSCI Growth Z Score and the MSCI Value Z Score (Growth - Value). A significant positive Combined Z Score implies significant "growthiness" in the stock or portfolio. A Combined Z Score close to 0.00 (positive or negative) implies "core-like" style characteristics, and a significantly negative Combined Z Score implies more "valueyness" in the stock or portfolio.

MSCI Growth Z Score is a holdings-based measure of the "growthiness" of an individual stock or portfolio of stocks based on fundamental financial ratio analysis. The MSCI Growth Z Score is an aggregate score based on the growth score of five separate financial fundamentals: Long Term Forward Earnings Growth, Short Term Forward Earnings Growth, Current Internal Growth (ROE * (1-payout ratio)), Long Term Historical Earnings Growth, and Long Term Historical Sales Growth.

MSCI Value Z Score is a holdings-based measure of the "valueyness" of an individual stock or portfolio of stocks based on fundamental financial ratio analysis. The MSCI Value Z Score is an aggregate score based on the value scores of three separate financial fundamentals: Price/Book, Price/Forward Earnings, and Dividend Yield.

Number of Issues in Top Half of MV measures the number of stocks (largest holdings) making up half of the market value of the portfolio.

R-Squared indicates the extent to which the variability of the portfolio returns is explained by market action. It can also be thought of as measuring the diversification relative to the appropriate benchmark. An r-squared value of .75 indicates that 75% of the fluctuation in a portfolio return is explained by market action. An r-squared of 1.0 indicates that a portfolio's returns are entirely related to the market and it is not influenced by other factors. An r-squared of zero indicates that no relationship exists between the portfolio's return and the market.

Relative Sector Variance – A measure illustrating how significantly a portfolio currently differs from the sector weights of the index. This measure is the sum of the differences (absolute value) between the portfolio and index sector weights across all sectors. The higher the number the more aggressive the deviation from the index sector weights, and vice versa. This relative risk measure can help explain the magnitude of past tracking error and potential future tracking error versus the index.

Relative Standard Deviation is a simple measure of a manager's risk (volatility) relative to a benchmark. It is calculated by dividing the manager's standard deviation of returns by the benchmark's standard deviation of returns. A relative standard deviation of 1.20, for example, means the manager has exhibited 20% more risk than the benchmark over that time period. A ratio of .80 would imply 20% less risk. This ratio is especially useful when analyzing the risk of investment grade fixed-income products where actual historical durations are not available. By using this relative risk measure over rolling time periods one can illustrate the "implied" historical duration patterns of the portfolio versus the benchmark.

Definitions (continued)

Sector Concentration – A measure of current portfolio diversification by economic sector (equity) or market sector (fixed income) to illustrate potential risk from concentrated sector exposures. The measure itself represents how few sectors contain half of the portfolio market value. A low number means the assets are concentrated in a few sectors and potentially highly exposed to the risks of those sectors.

Sharpe Ratio is a commonly used measure of risk-adjusted return. It is calculated by subtracting the "risk-free" return (usually 3 Month Treasury Bill) from the portfolio return and dividing the resulting "excess return" by the portfolio's risk level (standard deviation). The result is a measure of return gained per unit of risk taken.

Standard Deviation is a statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard deviation is used as an estimate of risk since it measures how wide the range of returns typically is. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio risk. If returns are normally distributed (i.e., has a bell shaped curve distribution) then approximately 2/3 of the returns would occur within plus or minus one standard deviation from the sample mean.

Total Portfolio Risk is a measure of the volatility of the quarterly excess returns of an asset. Total risk is composed of two measures of risk: market (non-diversifiable or systematic) risk and residual (diversifiable or unsystematic) risk. The purpose of portfolio diversification is to reduce the residual risk of the portfolio.

Tracking Error is a statistical measure of a portfolio's risk relative to an index. It reflects the standard deviation of a portfolio's individual quarterly or monthly returns from the index's returns. Typically, the lower the Tracking Error, the more "index-like" the portfolio.

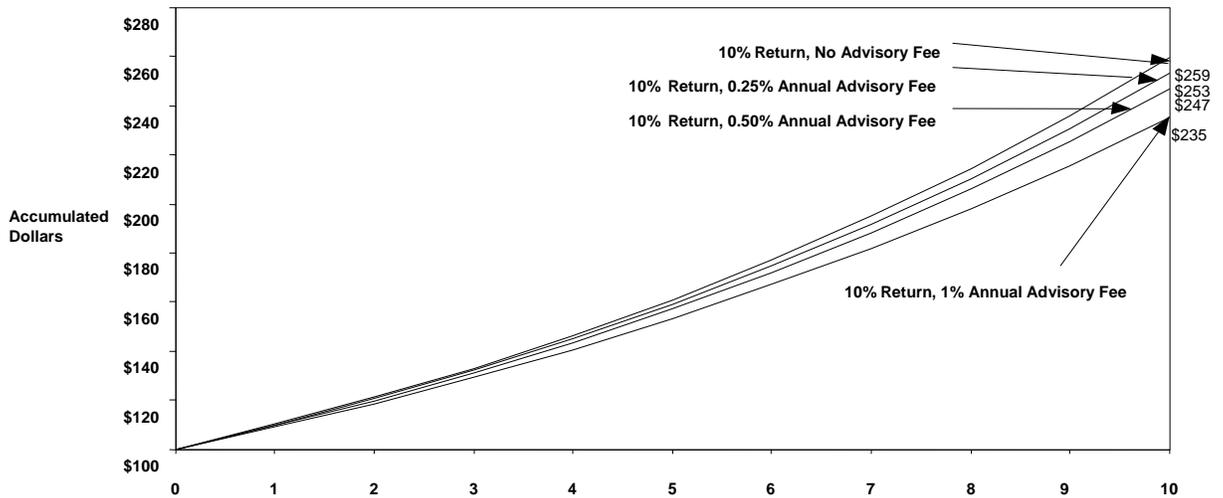
Treynor Ratio represents the portfolio's average excess return over a specified period divided by the beta relative to its benchmark over that same period. This measure reflects the reward over the risk-free rate relative to the systematic risk assumed.

Disclosure Statement

The preceding report has been prepared for the exclusive use of the North Dakota State Investment Board. Unless otherwise noted, performance returns contained in this report do not reflect the deduction of investment advisory fees. The returns in this report will be reduced by the advisory fees and any other expenses incurred in the management of an investment account. The investment advisory fees applicable to the advisors listed in this report are described in Part II of each advisor's form ADV.

The following graphical and tabular example illustrates the cumulative effect of investment advisory fees on a \$100 investment growing at 10% over ten years. Fees are assumed to be paid monthly.

The Cumulative Effect of Advisory Fees



Accumulated Dollars at End of Years

	1	2	3	4	5	6	7	8	9	10
No Fee	110.0	121.0	133.1	146.4	161.1	177.2	194.9	214.4	235.8	259.4
25 Basis Points	109.7	120.4	132.1	145.0	159.1	174.5	191.5	210.1	230.6	253.0
50 Basis Points	109.5	119.8	131.1	143.5	157.1	172.0	188.2	206.0	225.5	246.8
100 Basis Points	108.9	118.6	129.2	140.7	153.3	166.9	181.8	198.0	215.6	234.9

10% Annual Return Compounded Monthly, Annual Fees Paid Monthly.

List of Callan's Investment Manager Clients

Confidential – For Callan Client Use Only

Callan takes its fiduciary and disclosure responsibilities to clients very seriously. We recognize that there are numerous potential conflicts of interest encountered in the investment consulting industry and that it is our responsibility to manage those conflicts effectively and in the best interest of our clients. At Callan, we employ a robust process to identify, manage, monitor and disclose potential conflicts on an on-going basis.

The list below is an important component of our conflicts management and disclosure process. It identifies those investment managers that pay Callan fees for educational, consulting, software, database or reporting products and services. We update the list quarterly because we believe that our fund sponsor clients should know the investment managers that do business with Callan, particularly those investment manager clients that the fund sponsor clients may be using or considering using. Please refer to Callan's ADV Part 2A for a more detailed description of the services and products that Callan makes available to investment manager clients through our Institutional Consulting Group, Independent Adviser Group and Fund Sponsor Consulting Group. Due to the complex corporate and organizational ownership structures of many investment management firms, parent and affiliate firm relationships are not indicated on our list.

Fund sponsor clients may request a copy of the most currently available list at any time. Fund sponsor clients may also request specific information regarding the fees paid to Callan by particular fund manager clients. Per company policy, information requests regarding fees are handled exclusively by Callan's Compliance Department.

Manager Name
13D Management
1607 Capital Partners, LLC
Aberdeen Asset Management PLC
Acadian Asset Management LLC
AEGON USA Investment Management
Affiliated Managers Group, Inc.
AllianceBernstein
Allianz Global Investors
Allianz Life Insurance Company of North America
AlphaOne Investment Services
American Century Investment Management
Amundi Smith Breeden LLC
Analytic Investors
Angelo, Gordon & Co.
Apollo Global Management
AQR Capital Management
Ares Management LLC
Ariel Investments, LLC
Aristotle Capital Management, LLC
Artisan Holdings
Atlanta Capital Management Co., LLC
Aviva Investors Americas
AXA Investment Managers
Babson Capital Management
Baillie Gifford Overseas Limited
Baird Advisors
Bank of America
Baring Asset Management
Baron Capital Management, Inc.
Barrow, Hanley, Mewhinney & Strauss, LLC
BlackRock
BMO Asset Management, Corp.
BNP Paribas Investment Partners
BNY Mellon Asset Management
Boston Partners
Brandes Investment Partners, L.P.
Brandywine Global Investment Management, LLC

Manager Name
Brown Brothers Harriman & Company
Cambiar Investors, LLC
Capital Group
CastleArk Management, LLC
Causeway Capital Management
Charles Schwab Investment Management
Chartwell Investment Partners
ClearBridge Investments, LLC
Cohen & Steers Capital Management, Inc.
Columbia Management Investment Advisers, LLC
Columbus Circle Investors
Corbin Capital Partners, L.P.
Cornerstone Capital Management
Cramer Rosenthal McGlynn, LLC
Crawford Investment Counsel, Inc.
Credit Suisse Asset Management
Crestline Investors, Inc.
DE Shaw Investment Management, LLC
Delaware Investments
DePrince, Race & Zollo, Inc.
Deutsche Asset Management
Diamond Hill Investments
Duff & Phelps Investment Mgmt. Co.
Eagle Asset Management, Inc.
EARNEST Partners, LLC
Eaton Vance Management
Epoch Investment Partners, Inc.
Fayez Sarofim & Company
Federated Investors
Fidelity Institutional Asset Management
Fiera Capital Global Asset Management
First Eagle Investment Management, LLC
First Hawaiian Bank
Fisher Investments
Fort Washington Investment Advisors, Inc.
Franklin Templeton Institutional
Fred Alger Management, Inc.

Manager Name
Fuller & Thaler Asset Management, Inc.
GAM (USA) Inc.
GE Asset Management
GMO
Goldman Sachs Asset Management
Grand-Jean Capital Management
Guggenheim Investments
Guggenheim Real Estate LLC
GW&K Investment Management
Hartford Funds
Hartford Investment Management Co.
Henderson Global Investors
Hotchkis & Wiley Capital Management, LLC
HSBC Global Asset Management
Income Research + Management, Inc.
Insight Investment Management Limited
Institutional Capital LLC
INTECH Investment Management, LLC
Invesco
Investec Asset Management
Janus Capital Management, LLC
Jensen Investment Management
J.P. Morgan Asset Management
KeyCorp
Lazard Asset Management
Legal & General Investment Management America
Lincoln National Corporation
LMCG Investments, LLC
Longview Partners
Loomis, Sayles & Company, L.P.
Lord Abbett & Company
Los Angeles Capital Management
LSV Asset Management
MackKay Shields LLC
Man Investments Inc.
Manulife Asset Management
Martin Currie Inc.
Mellon Capital Management
MFS Investment Management
MidFirst Bank
Mondrian Investment Partners Limited
Montag & Caldwell, LLC
Morgan Stanley Investment Management
Mountain Lake Investment Management LLC
MUFG Union Bank, N.A.
Neuberger Berman
Newton Capital Management
Nicholas Investment Partners
Nikko Asset Management Co., Ltd.
Northern Trust Asset Management
Nuveen Investments, Inc.
OFI Global Asset Management
Old Mutual Asset Management

Manager Name
Opus Capital Management Inc.
Pacific Investment Management Company
Parametric Portfolio Associates
Peregrine Capital Management, Inc.
PGIM
PineBridge Investments
Pinnacle Asset Management L.P.
Pioneer Investments
PNC Capital Advisors, LLC
Polen Capital Management
Principal Global Investors
Private Advisors, LLC
Putnam Investments, LLC
QMA (Quantitative Management Associates)
RBC Global Asset Management
Regions Financial Corporation
RidgeWorth Capital Management, Inc.
Rockefeller & Co., Inc.
Rothschild Asset Management, Inc.
Russell Investments
Santander Global Facilities
Schroder Investment Management North America Inc.
Scout Investments
SEI Investments
Seminole Advisory Services, LLC
Smith, Graham & Co. Investment Advisors, L.P.
Smith Group Asset Management
Standard Life Investments Limited
Standish
State Street Global Advisors
Stone Harbor Investment Partners, L.P.
Systematic Financial Management
T. Rowe Price Associates, Inc.
Taplin, Canida & Habacht
The Boston Company Asset Management, LLC
The Hartford
The London Company
The TCW Group, Inc.
UBS Asset Management
Van Eck Global
Versus Capital Group
Victory Capital Management Inc.
Vontobel Asset Management, Inc.
Voya Investment Management (fka ING)
Waddell & Reed Asset Management Group
WCM Investment Management
WEDGE Capital Management
Wellington Management Company, LLP
Wells Capital Management
Western Asset Management Company
William Blair & Company

Callan

Disclosure

The table below indicates whether one or more of the candidates listed in this report is, itself, a client of Callan as of the date of the most recent quarter end. These clients pay Callan for educational, software, database and/or reporting products and services; refer to our Form ADV 2A for additional information. Given the complex corporate and organizational ownership structures of investment management firms and/or trust/custody or securities lending firms, the parent and affiliate firm relationships are not listed here if they don't separately contract with Callan.

The client list below may include parent companies who allow their affiliates to use some of the services included in their client contract (eg, educational services including published research and attendance at conferences and workshops). Because Callan's investment manager client list changes periodically, the information below may not reflect changes since the most recent quarter end. Fund sponsor clients are welcome to request a complete list of Callan's investment manager clients at any time.

As a matter of policy, Callan follows strict procedures so that investment manager client relationships do not affect the outcome or process by which Callan's searches or evaluations are conducted.

Firm	Is an Investment Manager Client of Callan*	Is Not an Investment Manager Client of Callan*
Baillie Gifford Overseas Limited	X	
William Blair & Company	X	

*Based upon Callan manager clients as of the most recent quarter end.

BAILLIE GIFFORD

North Dakota State Investment Board

April 22, 2016



This presentation is intended solely for the use of the above named recipient and should not be relied upon by any other person.

Important Information and Risk Factors

Baillie Gifford Overseas Limited is wholly owned by Baillie Gifford & Co. Baillie Gifford Overseas Limited provides investment management and advisory services to non-UK clients. Both are authorized and regulated by the Financial Conduct Authority. Baillie Gifford Overseas Limited is registered with the SEC in the United States of America.

Baillie Gifford International LLC is wholly owned by Baillie Gifford Overseas Limited; it was formed in Delaware in 2005. It is the legal entity through which Baillie Gifford Overseas Limited provides client service and marketing functions in America as well as some marketing functions in Canada.

Baillie Gifford & Co claims compliance with the Global Investment Performance Standards (GIPS®). All performance data presented is supplementary to an appropriate compliant composite presentation.

An example of a compliant composite presentation has been included for your reference. A complete list of the Firm's composites and performance results is available on request.

This presentation contains information on investments which does not constitute independent research. Accordingly, it is not subject to the protections afforded to independent research and Baillie Gifford and its staff may have dealt in the investments concerned.

All information is current and sourced from Baillie Gifford & Co unless otherwise stated.

Past Performance

Past performance is not a guide to future performance. Changes in investment strategies, contributions or withdrawals may materially alter the performance, strategy and results of the portfolio.

Material market or economic conditions will have an impact on investment results.

The returns presented in this document are gross of fees unless otherwise stated and reflect the reinvestment of dividends and interest.

All investment strategies have the potential for profit and loss.

Historical performance results for investment indexes and/or categories, generally do not reflect the deduction of transaction costs and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results.

It should not be assumed that recommendations/transactions made in the future will be profitable or will equal performance of the securities mentioned.

Stock Examples

Any stock examples and images used in this presentation are not intended to represent recommendations to buy or sell, neither is it implied that they will prove profitable in the future. It is not known whether they will feature in any future portfolio produced by us.

Any individual examples will represent only a small part of the overall portfolio and are inserted purely to help illustrate our investment style.

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Baillie Gifford

Long-established asset management partnership

- Stability: organic growth since 1908
- Autonomy: owned by 40 full-time partners
- Sole-focus: investment management
- Bottom-up growth investing



Baillie Gifford Clients

	No. of Clients	Assets \$m		No. of Clients	Assets \$m	Inception*
Total Firm Assets	399	181,330	International Focus Assets	51	10,268	
North American Clients' Assets	230	78,065	ACWI ex US Focus Assets	28	6,722	(06/30/02)

Long Standing International Focus Clients

Salvation Army Southern Territory
NiSource
Puerto Rico Teachers' Retirement System
Massachusetts Pension Reserves Investment Management Board

Other International Focus Clients

Arkansas Public Employees Retirement System
San Mateo County Employees' Retirement Association
The PNC Financial Services Group
Hallmark Cards
Harbor Capital Advisors
Mississippi Public Employees' Retirement System

Other Baillie Gifford Clients

New York City Police Pension Fund
State Board Administration of Florida
California State Teachers' Retirement System
Energizer
The Vanguard Group
Boy Scouts of America

The clients identified in the above list were selected based on a variety of factors, including name recognition, industry, geographic region and investment mandate. The selection of clients for the list is not based on performance criteria. It is not known whether the listed clients approve or disapprove of Baillie Gifford or services provided. Client count includes segregated and North American pooled clients. As of December 31, 2015. US dollars.

*Composite inception.

International Focus Strategy Supported by Firm-wide Research

96 investment professionals across 15 teams

Regional Equities

Emerging Markets Equities



— Richard Sneller
22 years' experience
22 years with BG
— 10 Inv. professionals

European Equities



— Tom Coutts
17 years' experience
17 years with BG
— 7 Inv. professionals

Japanese Equities



— Sarah Whitley
36 years' experience
36 years with BG
— 8 Inv. professionals

US Equities



— Tom Slater
16 years' experience
16 years with BG
— 8 Inv. professionals

UK Equities



— Gerard Callahan
25 years' experience
25 years with BG
— 7 Inv. professionals

Global/International Equities

Global Alpha



— Charles Plowden
33 years' experience
33 years with BG
— 5 Inv. professionals

Global Discovery



— Douglas Brodie
15 years' experience
15 years with BG
— 6 Inv. professionals

Global Income Growth



— Dominic Neary
18 years' experience
7 years with BG
— 4 Inv. professionals

Long Term Global Growth



— James Anderson
33 years' experience
33 years with BG
— 7 Inv. professionals

ACWI Alpha



— Angus Franklin
22 years' experience
22 years with BG
— 4 Inv. professionals

EAFE Alpha



— Kavé Sigaroudinia
17 years' experience
17 years with BG
— 6 Inv. professionals

Global Sector Research Specialist

1 Inv. Professional

Fixed Income and Multi Asset

Fixed Income and Multi Asset



— Gerald Smith
29 years' experience
29 years with BG

Credit



— Stephen Rodger
25 years' experience
16 years with BG
— 8 Inv. professionals

Multi Asset



— Patrick Edwardson
23 years' experience
23 years with BG
— 7 Inv. professionals

Rates and Currencies



— Steven Hay
22 years' experience
12 years with BG
— 7 Inv. professionals

Investment Philosophy

Growth

— We believe superior profit growth leads to outperformance in the long run

Active

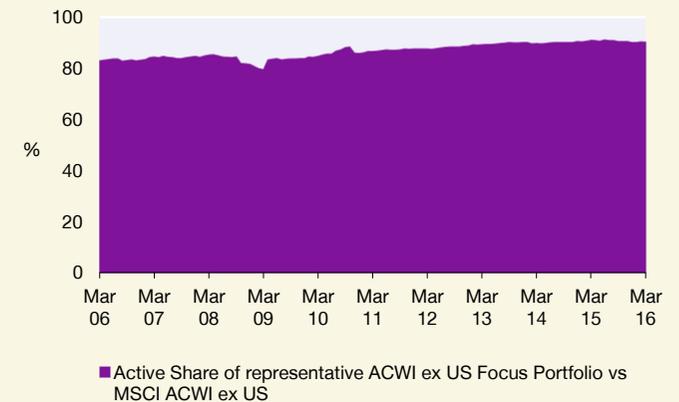
— Bottom-up stock selection enables exploitation of inefficiencies

Long-term perspective

— Share prices reflect fundamentals over the long term

Growth, active, long-term

Active Share† for a Typical International Focus Portfolio



Turnover for a Typical International Focus Portfolio



† Active Share is a measure of how actively managed a portfolio is. If a portfolio has no commonality with the benchmark then 'active share' will be 100%. Active share is calculated by taking 100 minus the 'common money' (the % of the portfolio that overlaps with the index).

Based on a representative ACWI ex US Focus portfolio.

Investment Process

Firmwide Discovery



Portfolio Construction Group Debate and Decision



Gerard Callahan

— 25 yrs' experience
— 25 yrs with Baillie Gifford



Joe Faraday

— 14 yrs' experience
— 14 yrs with Baillie Gifford



Iain Campbell

— 12 yrs' experience
— 12 yrs with Baillie Gifford



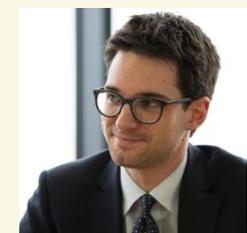
Tom Walsh

— 11 yrs' experience
— 7 yrs with Baillie Gifford



Sophie Earnshaw

— 6 yrs' experience
— 6 yrs with Baillie Gifford

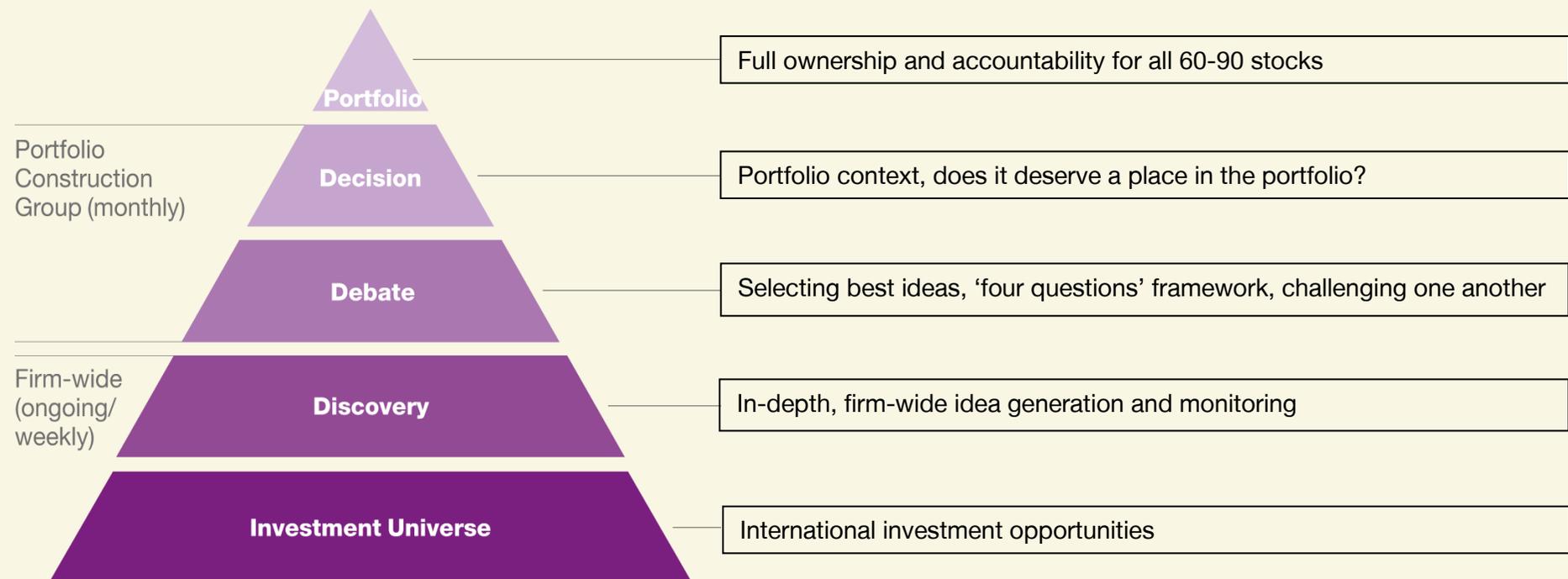


Moritz Sitte

— 6 yrs' experience
— 6 yrs with Baillie Gifford

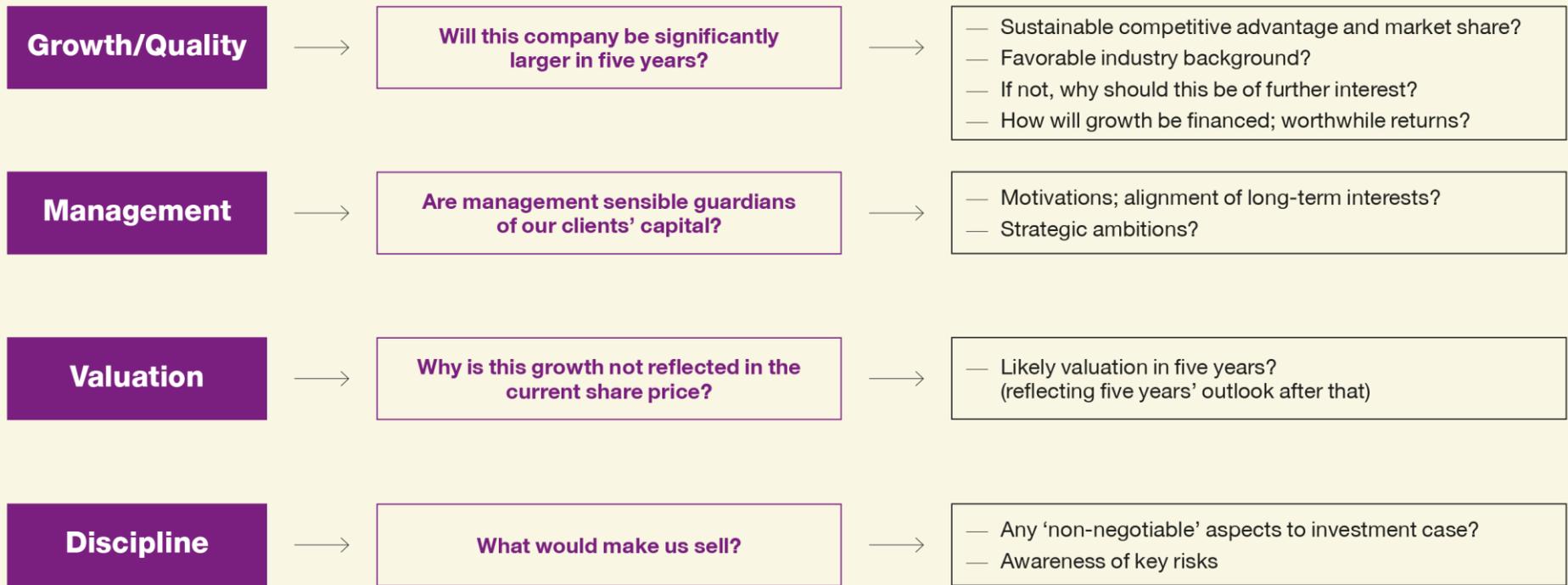
Best ideas from firm-wide research: Portfolio Construction Group ownership and accountability

Portfolio Construction



Investment Criteria

Four Key Questions



Common investment language supported by four question framework

ACWI ex US Focus Portfolio

Market Cap Percentiles (market cap range)	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Total % (Index %)
91-100 (\$127bn-\$231bn)		Unilever Nestlé			Novo Nordisk Roche		TSMC Samsung Electronics Alibaba		13.4 (10.0)
81-90 (\$82bn-\$123bn)	Inditex								1.6 (10.0)
71-80 (\$53bn-\$82bn)	Naspers							BHP Billiton	2.6 (10.0)
61-70 (\$38bn-\$53bn)		Walmex		Itau Unibanco			Baidu.com Hon Hai Precision		4.5 (10.0)
51-60 (\$28bn-\$38bn)	JD.com DENSO Richemont			BOC Hong Kong		Atlas Copco Jardine Strategic			5.6 (10.0)
41-50 (\$20bn-\$28bn)	adidas	Kao		Svenska Handelsbanken United Overseas Bank Investor		Kone Schindler Jardine Matheson	ARM		14.7 (10.0)
31-40 (\$14bn-\$20bn)	Shimano Swatch Group	Carlsberg Asahi Group		MS&AD Insurance		Brambles Legrand SMC			11.4 (10.0)
21-30 (\$9bn-\$14bn)	Mahindra & Mahindra GDR Rakuten Ctrip.com International	Jeronimo Martins Thai Beverage		Samsung Fire & Marine Insurance	Mettler-Toledo Olympus	Capita	Delta Electronics	Novozymes	12.0 (10.0)
11-20 (\$6bn-\$9bn)	Burberry Zalando	Shiseido		Kinnevik Hargreaves Lansdown Japan Exchange Group		Intertek	Rightmove	Johnson Matthey	14.1 (10.0)
0-10 (\$0.7bn-\$6bn)	ASOS Café de Coral	Pigeon Corporation Treasury Wine Estates DIA Clicks Tsingtao Brewery Sugi Holdings Puregold Price Club	Wood Group	Jupiter Fund Management CF Alba	Cochlear Mesoblast Protalix BioTherapeutics	THK SEEK Weir	Auto Trader Kakaku.com Imagination Technologies		20.0 (10.0)

Based on a representative portfolio. New client portfolios may not mirror the representative portfolio exactly. As of March 31, 2016. US dollars. Excludes cash. Index = MSCI ACWI ex US. Source: Factset/ Baillie Gifford & Co.

Our Approach to Risk

Focus on company fundamentals

Sensible portfolio construction guidelines

Oversight by independent Investment Risk team

Typical position guidelines vs international benchmark

Sectors	+/-10%
Countries	+/-10%
Stocks	+/-5%
Indicative no. of stocks	60-90

Comprehensive approach to risk

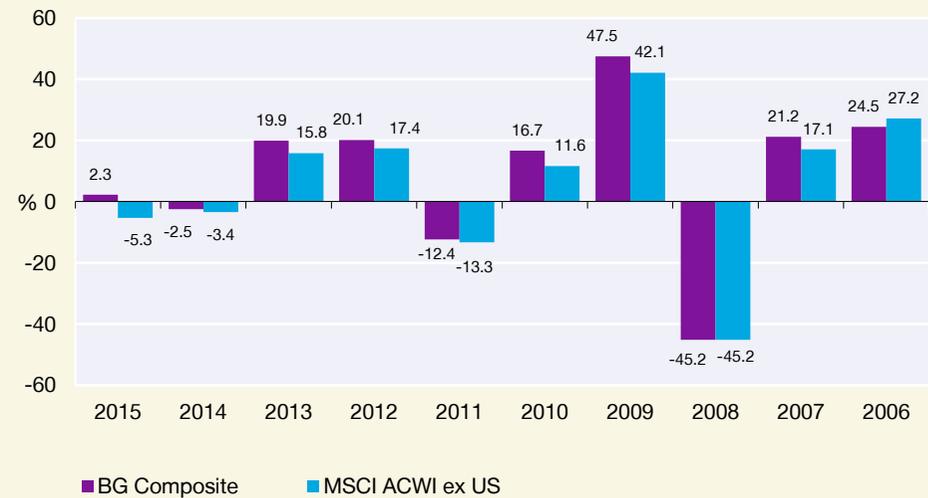
ACWI ex US Focus Performance

Annualized Returns (% p.a.)



Annualized periods ended December 31, 2015.

Calendar Year Returns (%)



Annual periods ended December 31.

US dollar, gross of fees.

The ACWI ex US Focus strategy is more concentrated than the MSCI ACWI ex US index.

The returns presented above are gross of fees and reflect the reinvestment of dividends and interest. The results do not reflect the deduction of investment management fees; the client's return will be reduced by the management fees and other expenses incurred in the management of its account. For example, a \$55 million account, paying a 0.55% annual fee, with a given rate of 10% annualized over a 10-year period would result in a net-of-fee return of 9.45% p.a. This performance reflects the performance of clients of the advisor and other entities within the Baillie Gifford Group. Fees are described in Part II of form ADV which is available on request.

Proven track record – repeatable process

Conclusion

Why Baillie Gifford?

- Stable partnership
- A culture of continuity and teamwork
- Committed to servicing our clients

International Focus

- Bottom-up growth investing
- Active and patient approach
- Proven track record

Firm wide philosophy, repeatable process

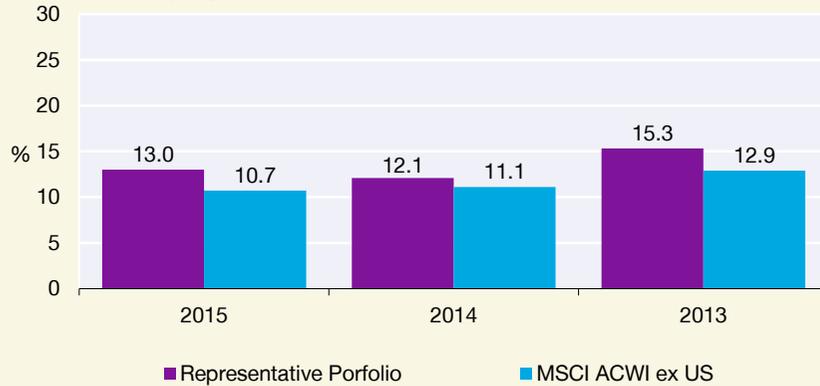
ACWI ex US Focus Portfolio Holdings

Stock	%	Stock	%	Stock	%	Stock	%
Novo Nordisk	2.8	adidas	1.6	Jeronimo Martins	1.2	Wood Group	0.7
Cochlear	2.5	Inditex	1.6	THK	1.1	Jardine Strategic	0.7
Kao	2.5	Mettler-Toledo	1.5	Kakaku.com	1.1	Sugi Holdings	0.7
Shimano	2.3	Olympus	1.5	Alibaba	1.1	BOC Hong Kong	0.6
Kinnevik	2.2	United Overseas Bank	1.5	Intertek	1.1	Imagination Technologies	0.5
TSMC	2.2	Japan Exchange Group	1.5	DIA	1.1	Thai Beverage	0.5
Hargreaves Lansdown	2.2	Shiseido	1.5	Burberry	1.1	Itau Unibanco	0.5
Naspers	2.2	Pigeon	1.5	Brambles	1.0	Delta Electronics	0.5
MS&AD Insurance	2.1	Johnson Matthey	1.4	Zalando	1.0	Ctrip.com International	0.5
Unilever PLC	2.0	Kone	1.3	The Swatch Group	1.0	CF Alba	0.4
ARM	2.0	Asahi Group	1.3	Legrand	0.9	Puregold Price Club	0.4
Baidu.com	2.0	Mahindra & Mahindra	1.3	Jupiter Fund Management	0.9	BHP Billiton	0.4
Rightmove	1.9	Auto Trader	1.3	Cafe de Coral	0.9	Weir	0.3
Svenska Handelsbanken	1.9	Hon Hai Precision	1.3	JD.com	0.9	Mesoblast	0.2
ASOS	1.8	Schindler	1.3	DENSO	0.9	Protalix BioTherapeutics	0.1
Atlas Copco	1.7	SEEK	1.2	Clicks	0.8	Cash	1.5
Carlsberg	1.7	Investor	1.2	Richemont	0.8	Total	100.0
Samsung Fire & Marine Insurance	1.7	Rakuten	1.2	Tsingtao Brewery	0.8		
Nestlé	1.7	Treasury Wine Estates	1.2	SMC	0.8		
Samsung Electronics	1.7	Capita	1.2	Novozymes	0.7		
Roche	1.6	Jardine Matheson	1.2	Walmex	0.7		

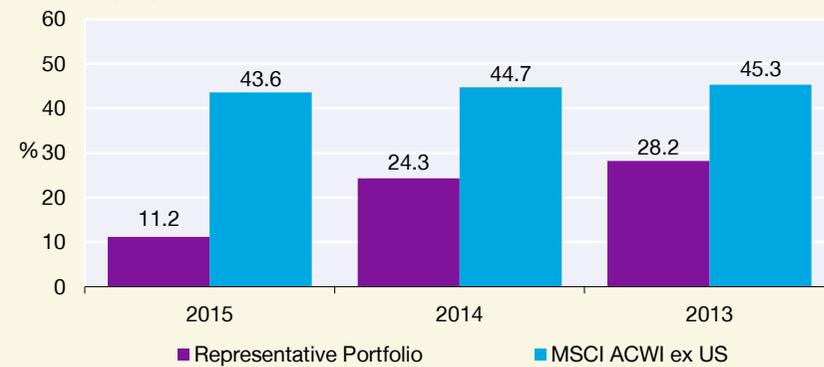
Based on a representative portfolio, new client portfolios may not mirror the representative portfolio exactly. As of March 31, 2016.

The Outcome

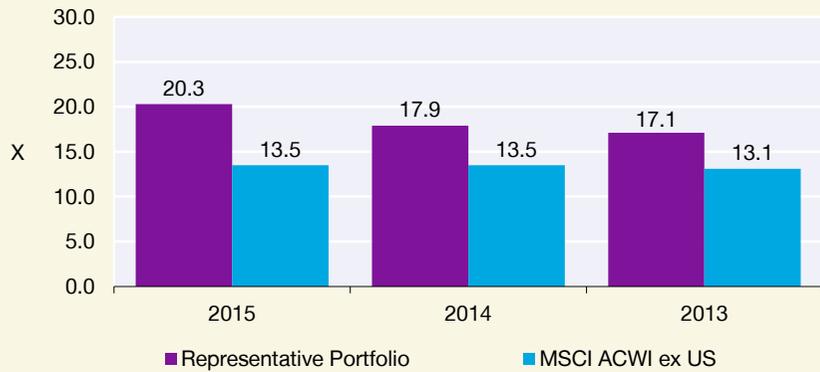
Return on Equity*



Debt/Equity Ratio



Price/Earnings*



Historic Earnings Growth†



Source: UBS, US dollars, December 31. Representative ACWI ex US Focus Portfolio *12 month forward estimate. † Five years historic figures.

International Focus Portfolio Construction Group Biographies



Gerard Callahan

— 25 yrs' experience
— 25 yrs with Baillie Gifford

Gerard graduated BA in Politics, Philosophy and Economics from Oxford University in 1991. He joined Baillie Gifford the same year and became a Partner in 2000. He is an Investment Manager and has been a member of the International Focus Portfolio Construction Group since 2007 and Chairman since 2010.



Joe Faraday

— 14 yrs' experience
— 14 yrs with Baillie Gifford

Joe graduated MEng in Chemical Engineering from the University of Cambridge in 2002 and he joined Baillie Gifford the same year. Joe is a CFA Charterholder and has an MBA. He has been a member of the International Focus Portfolio Construction Group since 2007.



Iain Campbell

— 12 yrs' experience
— 12 yrs with Baillie Gifford

Iain graduated BA in Modern History from Oxford University in 2000. He worked for Goldman Sachs and travelled in Asia, before joining Baillie Gifford in 2004. He is an Investment Manager and has been a member of the International Focus Portfolio Construction Group since 2010.



Tom Walsh

— 11 yrs' experience
— 7 yrs with Baillie Gifford

Tom graduated LLB (Hons) in Law & Economics from the University of Edinburgh in 1999. He worked at Fidelity International, Merrill Lynch and Deloitte & Touche (qualifying as a chartered accountant) before joining Baillie Gifford in 2009. He is a CFA Charterholder. Tom joined the International Focus Portfolio Construction Group in 2014.



Sophie Earnshaw

— 6 yrs' experience
— 6 yrs with Baillie Gifford

Sophie graduated MA in English Literature from the University of Edinburgh in 2008 and an MPhil in Eighteenth Century and Romantic Literature from the University of Cambridge in 2009. She joined Baillie Gifford in 2010 and is an Investment Manager and a CFA Charterholder. Sophie joined the International Focus Portfolio Construction Group in 2014.



Moritz Sitte

— 6 yrs' experience
— 6 yrs with Baillie Gifford

Moritz graduated BSc in Business Administration from the University of Regensburg (Germany) in 2009 and MSc in Finance and Investment from the University of Edinburgh in 2010. He joined Baillie Gifford that year and is an Investment Manager and a CFA Charterholder. Moritz joined the International Focus Portfolio Construction Group in 2014.

Performance Results

Composite	International Non-US Equities - Focus (MSCI AC World Free ex US)
Benchmark	MSCI AC World ex US
Currency	US\$
Period Ended	31 December 2015

For GIPS® purposes, we have defined the Firm as all those actual fee paying accounts within Baillie Gifford & Co and all of its wholly or jointly owned affiliates.

Notes

1. Baillie Gifford claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. Baillie Gifford has been independently verified for the periods 1 January 1994 to 31 December 2014. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS® standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. The International Non-US Equities - Focus (MSCI AC World Free ex US) composite has been examined for the periods 1 January 2003 to 31 December 2014. The verification and performance examination reports are available on request.
2. The composite is defined as: All portfolios managed by the International Focus Portfolio Construction Group, with an International (non-US) equity mandate benchmarked to an MSCI AC World Free ex US index with an objective to equal or outperform the index, taking the appropriate risk to do so.
3. The composite definition was amended on 17 December 2014 to more accurately reflect the composite membership criteria. The wording 'benchmarking to the MSCI All Countries World Free ex US index' was changed to 'benchmarking to an MSCI AC World Free ex US index'.
4. Gross of fees performance returns are presented before management and custodial fees but after all trading expenses. Returns are presented net of withholding taxes on dividends, interest income and capital gains where applicable. The management fee schedule is as follows: 0.60% on the first US\$25m; 0.50% on the next US\$75m; 0.40% on the next US\$300m; 0.30% on the next US\$600m; 0.25% thereafter. This may not necessarily represent the actual fee charged.
5. Additional information regarding policies for valuing portfolios, calculating performance and preparing compliant presentations is available on request.
6. The composite dispersion of annual returns is indicated by the performance of individual accounts representing the highest and lowest returns. Dispersion of returns is calculated for portfolios included in the composite for the full year. Where the composite contains less than five funds at year end no dispersion figure is provided.
7. This composite was created on 11 August 2005. A complete list and description of the firm's composites and performance results is available on request.
8. Currency hedging may have been used in some of the portfolios in the composite. This occurs when it is felt that a currency is significantly over or undervalued, to protect the underlying assets in that currency.

GIPS® is a registered trademark of CFA Institute. CFA Institute has not been involved in the preparation or review of this report.

Annual Performance Results to December 2015

Composite	International Non-US Equities - Focus (MSCI AC World Free ex US)
Benchmark	MSCI AC World ex US
Currency	US\$

Year End	Composite Return Gross of Fees %	Benchmark Return %	No of Funds	Composite Dispersion % (High –Low)	Composite Total Assets at End of Period US\$ m	% of Firm Assets
2015 *	2.3	-5.3	23	1.2	5,945.4	3.4
2014	-2.5	-3.4	18	0.9	3,074.3	1.8
2013	19.9	15.8	12	1.3	1,839.3	1.1
2012	20.1	17.4	9	2.9	1,078.1	0.8
2011	-12.4	-13.3	7	1.0	797.0	0.8
2010	16.7	11.6	5	1.7	832.7	0.8
2009	47.5	42.1	<5	0.0	658.3	0.8
2008	-45.2	-45.2	5	1.0	496.8	0.8
2007	21.2	17.1	5	2.2	915.4	0.9
2006	24.5	27.2	5	1.2	891.8	1.0

* Not independently verified

Risk Results to December 2015

Year End	Composite 3 Yr St Dev (% p.a.)	Benchmark 3 Yr St Dev (% p.a.)	Tracking Error 3 Yr St Dev (% p.a.)
2015	12.8	12.1	3.6
2014	12.8	12.8	3.2
2013	15.2	16.2	2.9
2012	18.7	19.2	2.6
2011	22.3	22.7	2.5
2010	28.3	27.3	3.5
2009	26.2	25.3	3.5

Supplementary Information: Annualised Performance Results to December 2015

	Composite Gross of Fees % p.a.	Benchmark % p.a.
1 Year	2.3	-5.3
3 Years	6.1	1.9
5 Years	4.7	1.5
10 Years	6.0	3.4
Since Inception (30/06/02)	8.4	6.8

These returns are supplemental to the composite presentation and are not verified by an independent third party.

April 15, 2016

David Hunter
NDRIO Executive Director / Chief Investment Officer
North Dakota Retirement & Investment Office
PO Box 7100
Bismarck, ND 58507-7100

Dear Dave:

Thank you for inviting us to Bismarck to present our International Leaders strategy on April 22nd. Joining me for the presentation will be Ken McAtamney. Ken is the lead Portfolio Manager on our International Leaders strategy and a Partner and equity owner of the firm. He has 25 years of industry experience and 11 years at William Blair.

As your board and staff consider multiple managers, we thought it would be helpful to summarize a few of our distinguishing characteristics as they relate to the international mandate for North Dakota State Investment Board:

- **81 years of stability and continuity for our clients** – William McCormick Blair founded our firm in 1935 with a belief that, “When our clients succeed, the firm’s success will follow.” Such values are intact today and the firm remains 100% employee-owned by the 193 active Partners. We feel this is integral to our culture and means stability and continuity for our clients in the years to come.
- **Experienced team with clear accountability** - We have a deep and experienced global team focused on both developed and emerging markets with a consistent philosophy since 1996. Ken is the lead portfolio manager and is supported by a co-PM, 17 fundamental research analysts (organized by sector and capitalization), 9 systematic research professionals, a talented economic analyst, and 10 experienced traders working a 24/7 desk. Our fundamental research analysts average 15 years of industry experience, 9 years at the firm and many are equity owners of the firm.
- **Complement to North Dakota’s int’l structure** – Our International Leaders portfolio demonstrates consistent growth characteristics, with a focus on quality growth companies with sound management teams and strong financial characteristics. These companies tend to do well in strong market environments and generally hold up well versus their peers in down markets. We believe our quality growth approach is an excellent complement to North Dakota’s existing international value manager (e.g. correlation of excess returns with LSV Intl Value is negative -0.29% over 5 years ended 12/31/15).
- **Sound repeatable process across the broad universe** – Given a dynamic marketplace, we consistently work to enhance and refine our investment process and tools. The team has a sound, repeatable process utilizing the best of systematic tools and fundamental analysis to deliver consistent stock selection over time. The focused leaders approach results in a consistently high active share and attractive risk adjusted returns (top information ratio in the eVestment peer group past 5 years ended 12/31/15). The results do not rest on a single person or investment decision; rather, they are driven by a team oriented process and great breadth. Breadth in security selection extends across nearly all sectors and regions.
- **Proven resource to our public and sovereign wealth clients** – We have been fortunate to be entrusted to manage approximately \$15 billion in assets on behalf of public fund and sovereign wealth fund clients including the Alaska Permanent Fund, New Mexico SIC, Washington State Investment Board, Arizona State Retirement System, Oregon State Council, Illinois State Board, Florida State Board, and New York State Teachers to name a few. We work hard to understand and serve the needs of our clients.

Again, we are excited about the presentation on April 22nd and would love to work with North Dakota SIB should we be fortunate enough to be selected. If you have any questions or need additional information in advance, please do not hesitate to contact me at 312-364-8089 or wfikri@williamblair.com.

Kind regards,



Wally Fikri, CFA
Partner

North Dakota State Investment Board

International Leaders

April 22, 2016

Kenneth J. McAtamney, Partner
kmcataamney@williamblair.com
312-364-8691

Wally Fikri, CFA, Partner
wfikri@williamblair.com
312-364-8089

William Blair

Overview

Photos courtesy of Casey Preyss, Ken McAtamney, Stephanie Braming and Alaina Anderson



Why William Blair?

- **Business model aligned with clients interests**
 - 100% active employee-owned firm since 1935
 - Broad based ownership across the 193 Partners
 - Stable team of long-tenured portfolio managers and research analysts
 - Clear accountability and responsibility by investment professionals
- **Disciplined, rigorous, and consistent application of time-tested investment philosophy**
 - Quality Growth since 1996 across the regional, sectoral, and market cap spectrum
 - Deep fundamental research team (17 analysts, averaging 15 years experience)
 - Integrated fundamental and systematic research
- **Complement to North Dakota's existing international structure**
 - Consistent quality growth characteristics (higher return on equity, lower debt, higher long-term growth, better earnings trends at a modest valuation premium)¹
 - Negative correlation of excess returns with LSV International Large Cap Value of -0.29²
- **Performance focus**
 - Record of adding significant value in both developed and emerging markets across sectors
 - Strong risk-adjusted returns (information ratio of 1.32 over 5 years ending 12/31/15)³

“When our clients succeed, the firm’s success will follow”

– William McCormick Blair

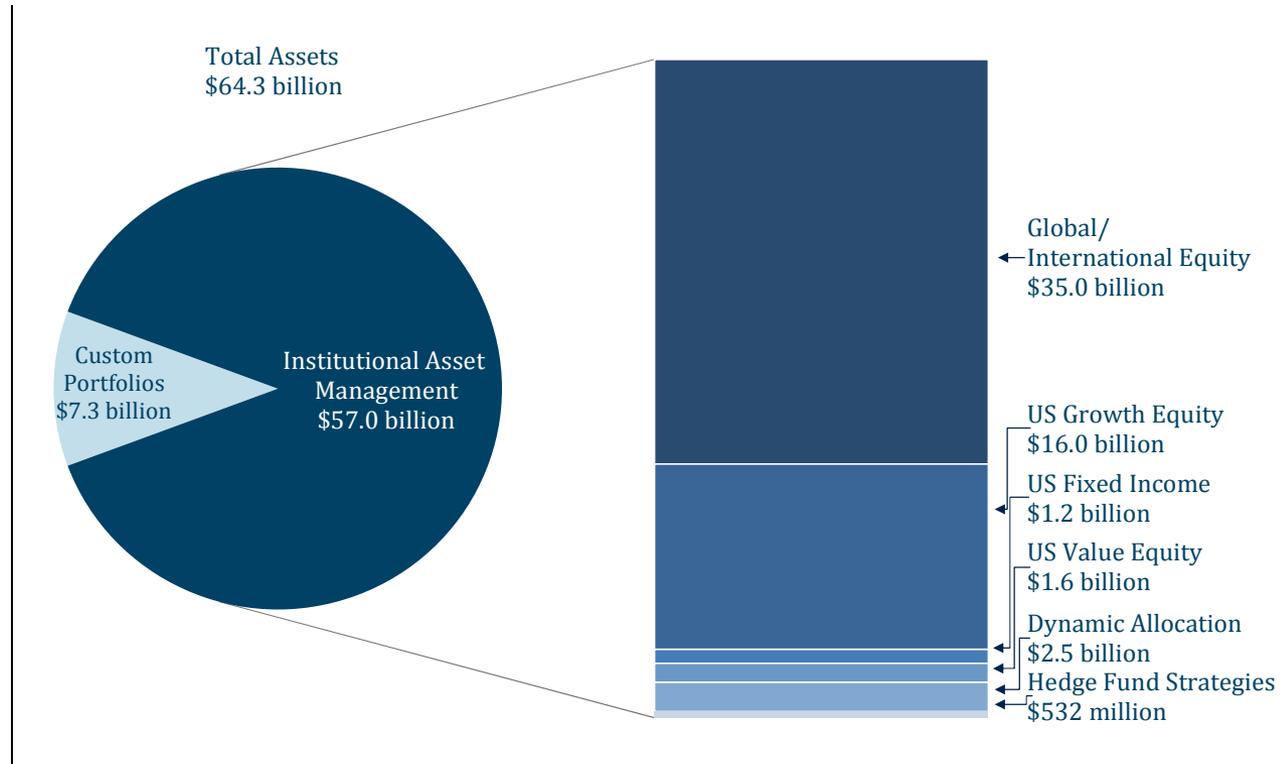
As of 3/31/15.

Source: eVestment Alliance. 1. See slide 13. 2. Calculated based on monthly 5 yr (Jan 2010- Dec 2015) excess returns of LSV Asset Management's International Large Cap Value Equity vs William Blair International Leaders Equity Strategy. 3. See slide 16. Returns are composite and data relative to the MSCI AC World ex-US IMI Index. Please refer to the composite disclosure slide located at the end of this presentation for additional important information.

Overview – Asset Management Capabilities

William Blair has been active in investment management for institutional and individual clients since its founding.

A number of clients who invested with us in our early years remain with us decades later. Our asset base has grown substantially over the past 10 years.



As of March 31, 2016.

As used in this document, "William Blair" refers to William Blair Investment Management, LLC and the Investment Management division of William Blair & Company, L.L.C. unless otherwise noted. For more information about William Blair, please see <http://www.williamblair.com/About-William-Blair.aspx>.

William Blair Leaders Strategies

Leaders Platform:

- **Focused:** selective portfolios of leading companies in terms of products, services and execution
- **High Quality:** our highest conviction ideas emphasize companies with the strongest corporate performance that we believe will be the long-term category winners
- **Systematic:** companies are analyzed systematically – both objectively and subjectively – in a global peer context
- **Uncompromising:** no compromises with regard to either quality of company or share valuation; balancing operational, valuation and concentration risk
- Cohesive, integrated investment process and portfolio construction

	International	Emerging Markets	Global
Focused Leaders	International Leaders \$3.6 billion	Emerging Markets Leaders \$3.8 billion	Global Leaders \$2.5 billion
All Cap	International Growth (Closed 6/12) \$15.3 billion	Emerging Markets Growth (Closed 6/11) \$4.2 billion	
Small Cap	International Small Cap Growth (Closed 3/11) \$2.8 billion	Emerging Markets Small Cap Growth (Closed 10/13) \$1.2 billion	
Targeted Opportunities	International Developed Plus \$1.6 billion		

Assets as of March 31, 2016. International Developed Plus includes ADR strategy assets.

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International Leaders Investment Team

Portfolio Management		Director of Research		Equity Specialists	
Ken McAtamney, Partner BA, Michigan State MBA, Indiana 10 years/William Blair 25 years/industry	Simon Fennell, Partner MA, University of Edinburgh MBA, Cornell University 4 years/William Blair 23 years/industry	Jack Murphy, CFA, Partner BA, Villanova University 10 years/William Blair 19 years/industry	Bob Duwa, CFA, Partner BA, Loras College 5 years/William Blair 26 years/industry	Romina Graiver B.S.c., Masters in Economy of Industry and Services, Pantheon Sorbonne 3 years/William Blair 16 years/industry	Blake Pontius, CFA BA, Michigan State MBA, DePaul 10 years/William Blair 18 years/industry
Fundamental Research Team - Average 8 years at William Blair and 15 years in the industry					
Strategy Research	Sector Research			Systematic Research	
	Consumer	Financials	Healthcare		
Olga Bitel BS, University of Chicago MSc, London School of Economics	Vivian Lin Thurston, CFA BA, Peking University MA and MS, University of Illinois	Joel Gomberg, CFA, Partner BS, University of Illinois MBA, University of Chicago	Thomas Sternberg, CFA BS, Duke University MBA, University of Chicago	Spiro Voulgaris, Partner BA, University of Chicago MBA, University of Chicago Andrew Kominik, CFA BA, Brandeis University MBA, University of Chicago Paul Teeter BS, Cornell University MS, Northwestern University MS, DePaul University Darragh Grogan B.Comm., National University of Ireland, Galway M.S.c., University College Dublin	
	Dan Su, CFA BA, Beijing Foreign Studies University MBA, University of Chicago	D.J. Neiman, CFA, Partner BS, Miami University MBA, University of Michigan	Kwesi Smith, CFA BS, University of Virginia Richard Reznick, Ph.D. BS, University of Illinois Ph.D., Yale University		
	Rita Spitz, CFA, Partner BBA, University of Wisconsin–Madison MBA, University of Chicago	Alaina Anderson, CFA, Partner BS, University of Pennsylvania MBA, University of Chicago			
	Industrials	Information Technology	Resources		
	Andrew Siepker, CFA BS, University of Nebraska Anil Daka, CFA Bachelor of Technology, Metallurgical Engineering, Indian Institute of Technology M.B.A., University of North Carolina Taylor Cope, CFA MA, U. of St. Andrews	William Benton, CFA, CPA, Partner BS, University of Illinois MBA, Dartmouth College Drew Buckley, CFA, CPA BS, University of Colorado	William De Allaume, CFA BS, Montclair State University MBA, University of Chicago		
	Emerging Markets Small Cap Generalist		Global Generalist		
Travis Cope MA, University of St. Andrews		Daniel Hill, CFA BS, Univ. of Nebraska MBA, Kellogg School of Management			
Research Associates (10)					
Implementation/Trading Team¹					
Asia/Pacific	Europe	Americas & Fx	Portfolio and Trade Order Management	International Trade Specialists	
Daniel Iannessa BS, University of Dayton Nathan Fisher, CFA Penn State University Malik Nicholson Southern Maine University	Nicola Hynds Simon Johnstone	Terry O'Bryan, Partner, Head of International Trading BS, University of Vermont	Tim Randick BS, Western Illinois University Monika Budyn BS, University of Illinois Chicago	Kristin Gaffud BS, University of Notre Dame Michael LaDuke BS, Indiana University	

As of February 2016. 1. Traders, excluding Portfolio and Trade Order Management and International Trade Specialists, average 5 years at William Blair and 14 years in the industry.

Philosophy and Process

Photos courtesy of Tommy Sternberg, Casey Preyss, Vivian Thurston and Taylor Cope

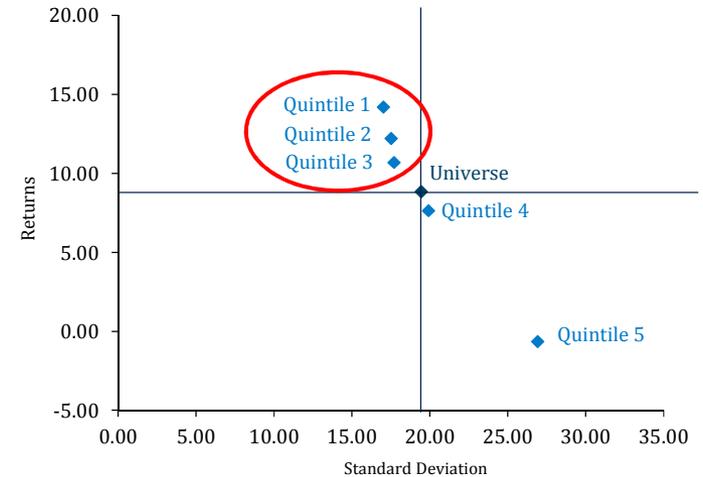


Strong Corporate Performance: The Foundation of Superior Long-Term Investment Returns

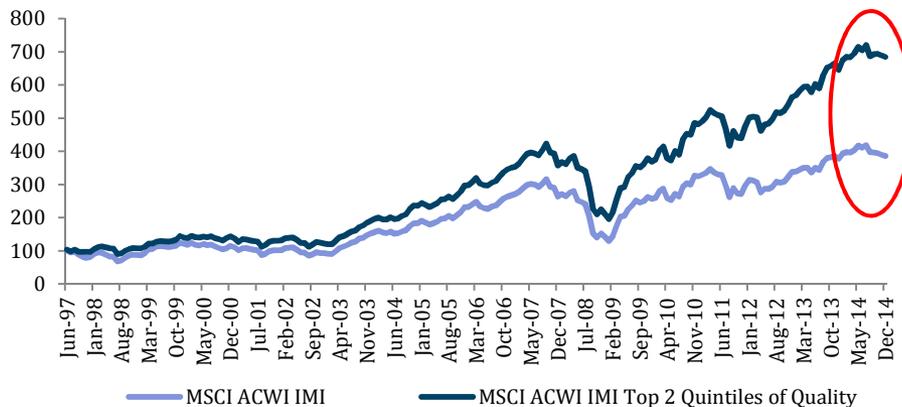
Sustainable corporate performance comes from differentiated intrinsic capabilities:

- Business strategy and execution
- Management of human capital
- Delivering quality, innovation, service, and value to customers
- Stakeholder relationships
- Strong financial performance

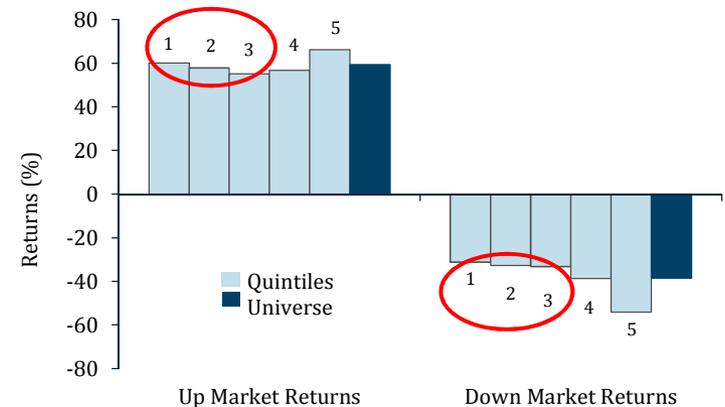
Global Universe by Quality Quintiles



Cumulative Returns of High Quality*



**Global Quality Universe
Up/Down Market Performance**



* Equal Weighted, Monthly Rebalance

July 31, 1997 – December 31, 2014. Data sources: William Blair Global Universe., William Blair Quality Model. Quality is defined as those companies with good balance sheet metrics, efficiency, and higher returns. Up/down market returns based on MSCI ACWI Index, monthly annualized returns. Past performance is not indicative of future returns.

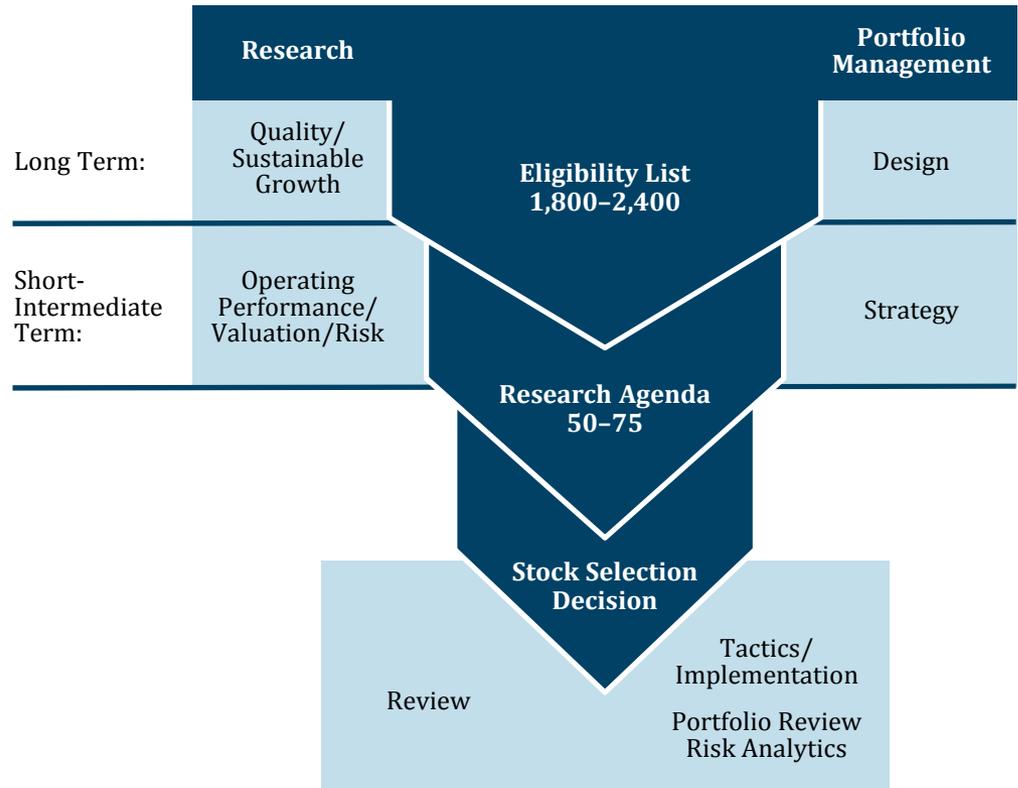
Investment Process: Integrated and Inclusive

Integrated

Each element of the process is directed toward portfolio characteristics and performance objectives

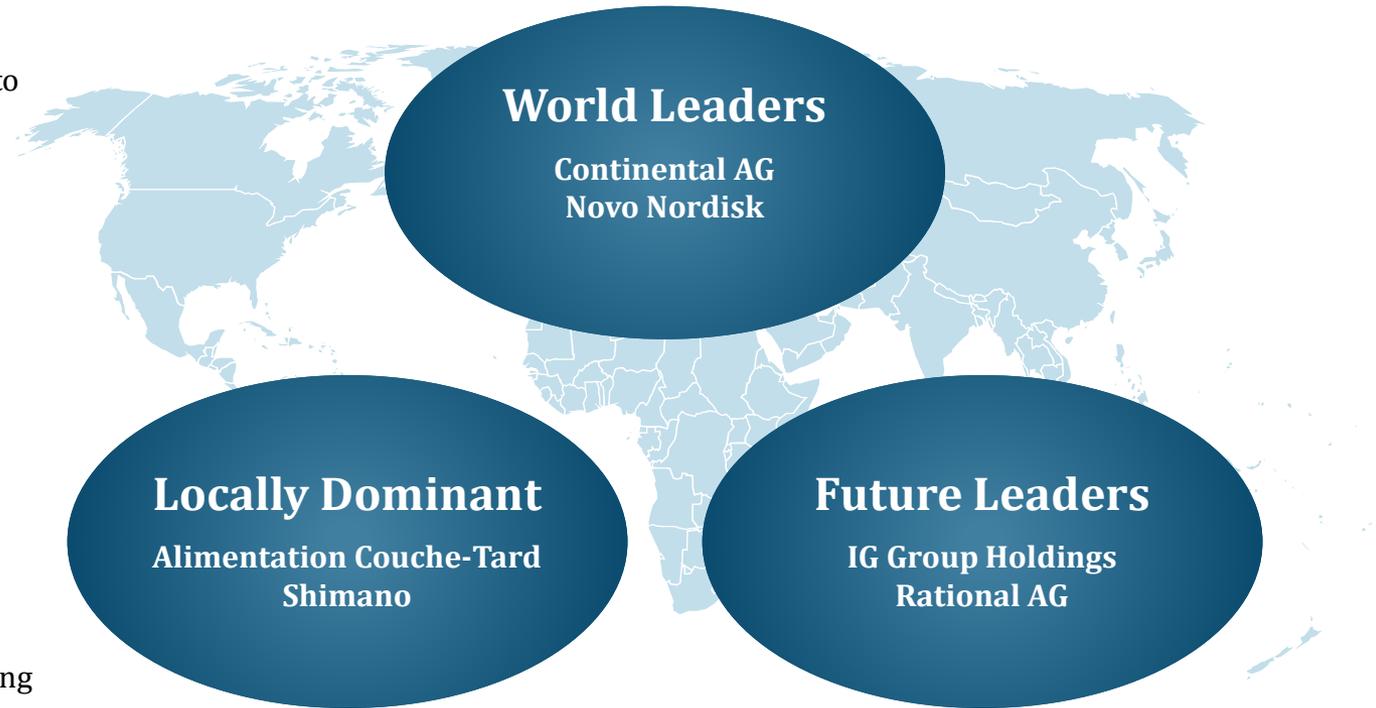
Inclusive

Members of the investment team work in concert toward research conclusions and portfolio decisions



International Leaders Portfolio Construction: Comprehensive & Systematic

- We believe that the optimal framework for evaluating the sustainable growth prospects of companies is to globally assess the market opportunity, competitive landscape and value chain dynamics.
- We believe this approach yields the highest quality companies with strong management teams and durable growth prospects, whether they are multinational companies or are regional or local champions.
- We believe that by evaluating companies within this framework, we can identify the best companies in the world, regardless of size, sector or region.



Individual securities listed are for informational purposes only. Holdings are subject to change at any time. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities listed.

Portfolio Design: International Leaders Structure Guidelines

December 31, 2015

Benchmark:

MSCI ACWI ex-US IMI

Position Size:

Dependent on market cap, float, trading volume, price volatility, and fundamental risk/reward

Number of holdings:

40-70

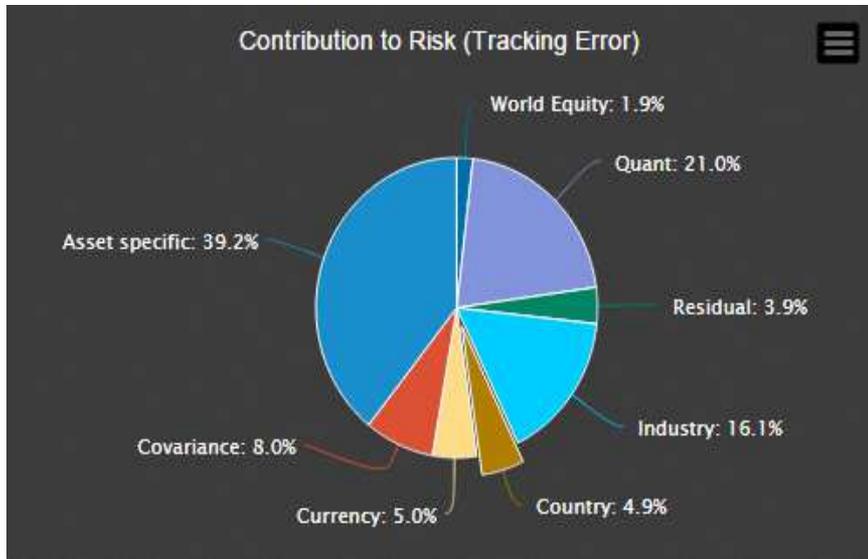
Geographic Exposure	
Region	Range
Pacific ex-Japan	0-20%
Japan	0-30%
Europe + ME ex-U.K.	10-55%
United Kingdom	0-35%
Canada	0-15%
Emerging Asia	0-20%
EMEA	0-10%
Latin America	0-15%
Total Emerging Markets	0-40%

Sector Exposure	
Sector	Range
Discretionary	5-30%
Staples	0-20%
Energy	0-20%
Financials	5-35%
Healthcare	0-20%
Industrials	0-30%
IT	0-25%
Materials	0-20%
Telecom Services	0-10%
Utilities	0-15%

Capitalization	
Market Cap	Range
Large Cap	20-70%
Mid Cap	20-60%
Small Cap	0-30%

Policy ranges subject to change at any time.

Integrated Investment Risk Management



- Incorporates our proprietary factor model definitions to evaluate risk exposures in a manner consistent with our investment process
- The skeleton of our risk system utilizes Barra's co-variance matrix
- Click through capability down to stock level
- Fully integrated into Summit, our proprietary research system
- Helps ensure the risk we are taking in the portfolio is intended and compensated

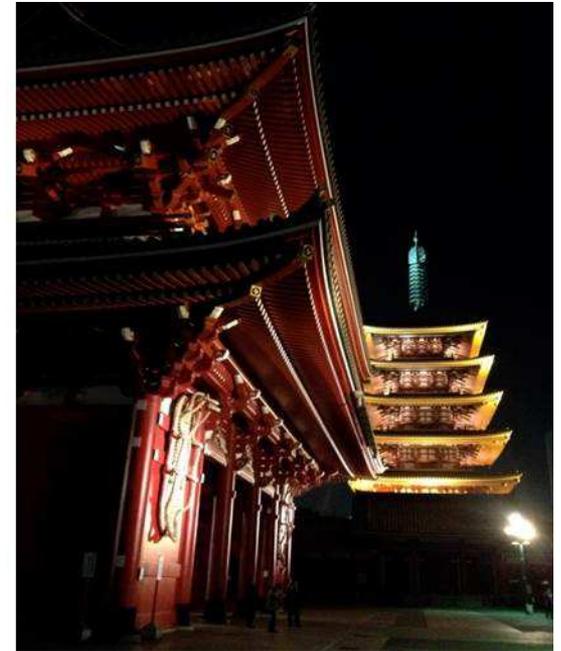
Intellectually rigorous yet user friendly

Portfolio Analytics and Performance

Photos courtesy of Alaina Anderson and D.J. Neiman



Barcelona



Tokyo

Portfolio Characteristics – International Leaders

As of March 31, 2016

	International Leaders	MSCI AC World ex-US IMI Index	Difference
Quality			
WB Quality Model (Percentile)	22	38	
Return on Equity (%)	20.0	12.7	57%
Cash Flow ROIC (%)	16.6	13.0	28%
Debt/Equity (%)	63.5	87.5	-27%
Growth			
WB Growth Model (Percentile)	47	61	
Long-Term Growth (%)*	12.0	9.8	22%
5-Year Historic EPS Growth (%)	17.5	11.3	55%
Reinvestment Rate (%)	13.1	9.1	44%
Earnings Trend			
WB Earnings Trend Model (Percentile)	41	54	
EPS Est Rev Breadth (%)	0.4	-6.0	6.4
Valuation			
WB Valuation Model (Percentile)	58	48	
P/E (next 12 months)	15.7	14.1	11%
P/E (trailing 12 months)	18.5	17.0	9%
Dividend Yield (%)	2.1	3.3	-36%
Other			
WB Composite Model (Percentile)	32	42	
Float-adj. weighted average market cap (\$m)	31,365	32,872	-5%
Number of Holdings	64	6,110	
Active Share	91.7	--	

The data shown above is based on the strategy's representative portfolio. The index is comparable to the strategy in terms of investment approach but contains significantly more securities. Calculated in FactSet, with the exception of market cap, which is calculated in Eagle. The strategy data shown above is taken from a representative account. The index is comparable to the strategy in terms of investment approach but contains significantly more securities. Calculated in FactSet, with the exception of market cap, which is calculated in Eagle. Aggregate scores shown above based on William Blair's quantitative model. For individual and composite ranks, 1 is best and 100 is worst. The MSCI AC World ex-US IMI Index is a free float-adjusted market capitalization index designed to measure global developed and emerging market equity performance, excluding the US. Not intended as investment advice.

*This measure represents the weighted average of forecasted growth in earnings expected to be experienced by stocks within the portfolio over the next 3-5 years. This projected earnings growth should not be considered an indication of future performance. From a portfolio perspective, the portfolio P/E ratio and EPS Growth Rate are weighted averages of the individual holdings' P/E ratios and EPS Growth Rates.

International Leaders

Performance for periods ending March 31, 2016

Performance (%)	1Q 16	1 Yr	Annualized			Since Inception
			3 Yr	5 Yr	10 Yr	(01/31/03)
International Leaders Composite	-1.44	-1.35	6.33	6.79	4.08	9.80
MSCI AC World ex-US IMI Index	-0.23	-8.08	0.76	0.58	2.20	8.37
Relative Performance	-1.21	6.73	5.57	6.20	1.88	1.43

Calendar Year Performance (%)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	1/31/03- 12/31/03
International Leaders Composite	7.02	-0.94	19.21	20.60	-7.81	24.63	42.80	-53.74	15.99	21.46	23.30	21.83	41.97
MSCI AC World ex-US IMI Index	-4.60	-3.89	15.82	17.04	-14.31	12.73	43.60	-45.99	16.13	26.51	17.68	21.93	47.19
Relative Performance	11.62	2.94	3.40	3.56	6.50	11.90	-0.79	-7.75	-0.13	-5.05	5.62	-0.10	-5.22

March 2016 performance is preliminary.

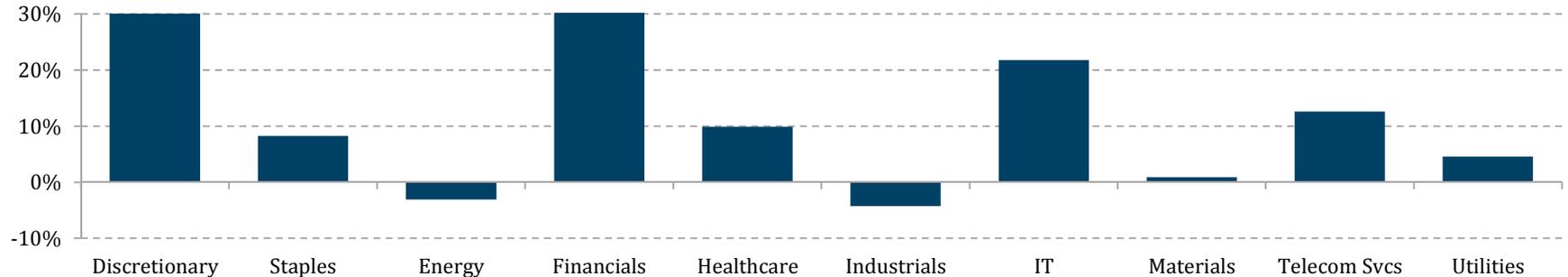
Investment performance assumes reinvestment of dividends and capital gains and is gross of investment management fees and net of transaction costs. Performance results will be reduced by the fees incurred in the management of the account. For example, on an account with a 1% fee, and gross performance of 20% over one year, the annual total return on a net of fee basis will result in performance of 18.85%. A \$1,000,000 initial investment would grow to approximately \$1,440,000 gross of fees, versus \$1,412,532 net of fees, over a two year period, assuming an annual return of 20%. Investment management fees are described in William Blair's Form ADV Part 2A. Past performance is not indicative of future returns. Returns for periods greater than one year are annualized. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. The benchmark that best reflects the composite's investment strategy is the MSCI AC World ex-US Investable Market Index (IMI) Net, which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the U.S. Composite consists of considerably fewer securities.

International Leaders Performance

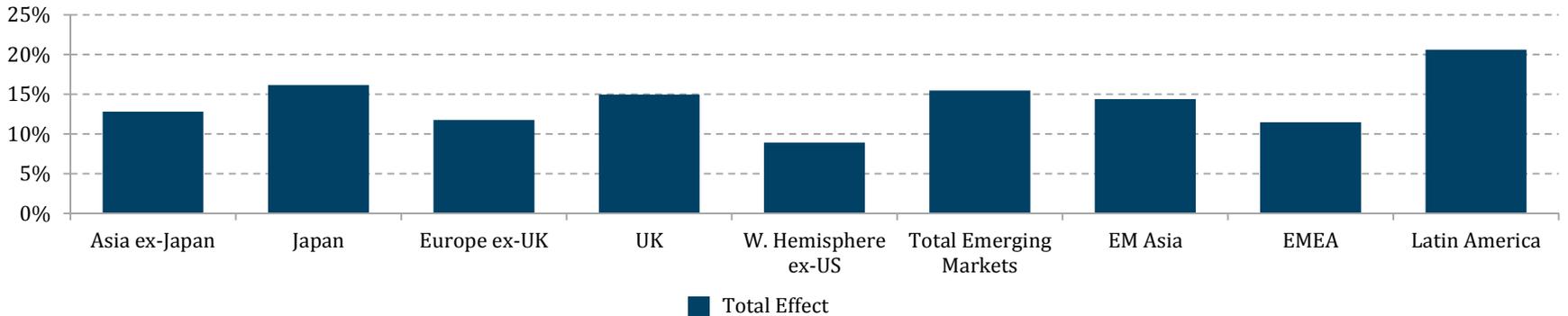
Well diversified historical alpha generation

Cumulative Performance Since Composite Inception

Attribution by Region



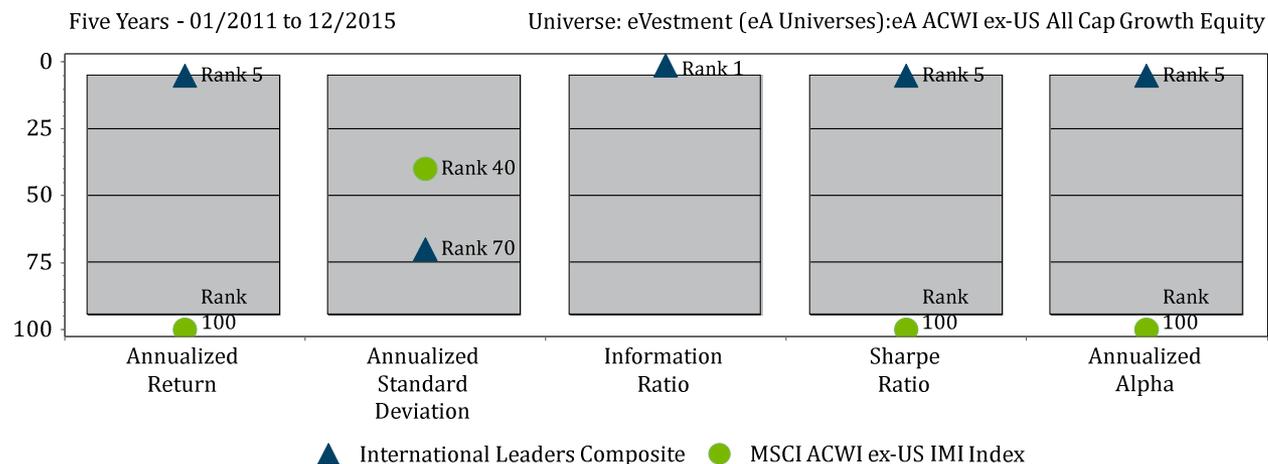
Attribution by Sector



As of March 31, 2016.

Composite inception 1/31/03. Attribution calculated in FactSet based on a representative portfolio. Region and sector weights are subject to change at any time. Sectors based on Global Industry Classification (GICS) sectors. Investment performance assumes reinvestment of dividends and capital gains and is gross of investment management fees and net of transaction costs. Performance results will be reduced by the fees incurred in the management of the account. For example, on an account with a 1% fee, and gross performance of 20% over one year, the annual total return on a net of fee basis will result in performance of 18.85%. A \$1,000,000 initial investment would grow to approximately \$1,440,000 gross of fees, versus \$1,412,532 net of fees, over a two year period, assuming an annual return of 20%. Investment management fees are described in William Blair's Form ADV Part 2A. Past performance is not indicative of future returns. Returns for periods greater than one year are annualized. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. The benchmark that best reflects the composite's investment strategy is the MSCI AC World ex-US Investable Market Index (IMI) Net, which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the US. Composite consists of considerably fewer securities.

International Leaders Performance



	Annualized Return	Annualized Standard Deviation	Information Ratio	Sharpe Ratio	Annualized Alpha
5th Percentile	8.53	16.19	1.31	0.59	7.30
25th Percentile	5.47	15.25	1.05	0.38	4.27
50th Percentile	4.81	14.71	0.86	0.32	3.63
75th Percentile	3.72	14.41	0.65	0.26	2.63
95th Percentile	3.58	13.57	0.35	0.21	2.37
International Leaders	7.04	14.41	1.32	0.48	5.80
MSCI ACWI ex-US IMI Index	1.27	14.76	--	0.08	0.00
Number of Managers	24	24	24	24	24

Percentiles: 5, 25, 50, 75, 95

eA Universe Construction Methodology eA ACWI ex-US All Cap Growth Equity – International Equity products that invest primarily in small, mid and large capitalization stocks with fundamental characteristics showing high earnings growth expectations or in fast-growing economic sectors. The expected benchmarks for this universe would include the MSCI EAFE (ND), MSCI EAFE Growth (ND), or MSCI All Country World ex-US. Managers in this category will typically indicate a “Primary Capitalization Emphasis” equal to All Cap and a “Primary Style Emphasis” equal to Growth. Investment performance assumes reinvestment of dividends and capital gains and is gross of investment management fees and net of transaction costs. Performance results will be reduced by the fees incurred in the management of the account. For example, on an account with a 1% fee, and gross performance of 20% over one year, the annual total return on a net of fee basis will result in performance of 18.85%. A \$1,000,000 initial investment would grow to approximately \$1,440,000 gross of fees, versus \$1,412,532 net of fees, over a two year period, assuming an annual return of 20%. Investment management fees are described in William Blair’s Form ADV Part 2A. Past performance is not indicative of future returns. Returns for periods greater than one year are annualized. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. The benchmark that best reflects the composite’s investment strategy is the MSCI AC World ex-US Investable Market Index (IMI) Net, which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the US. Composite consists of considerably fewer securities.

Positioning and Strategy

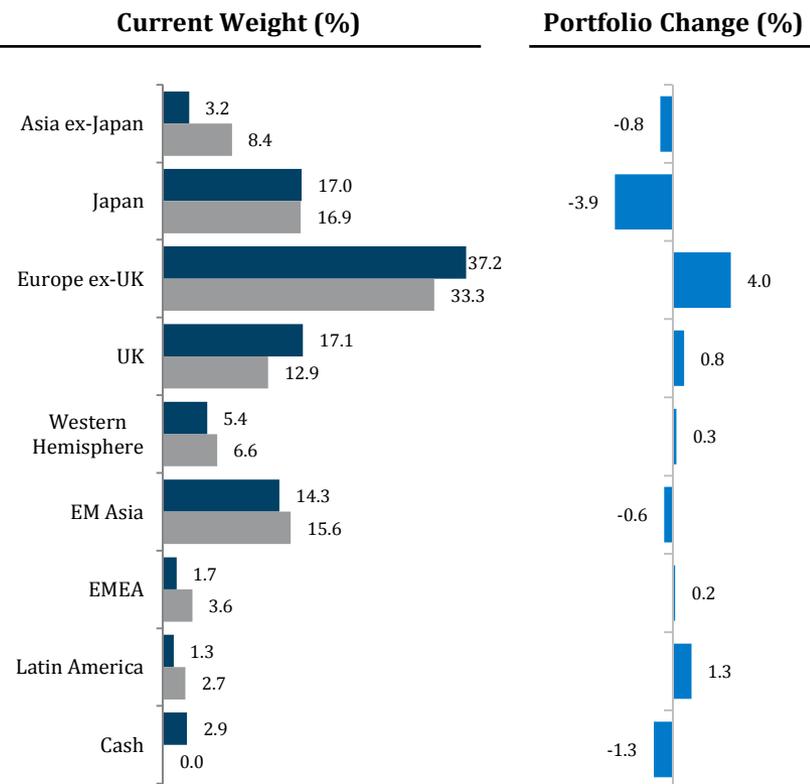
Photos courtesy of Ken McAtamney, Drew Buckley, Joel Gomberg, Andy Flynn and Jack Murphy



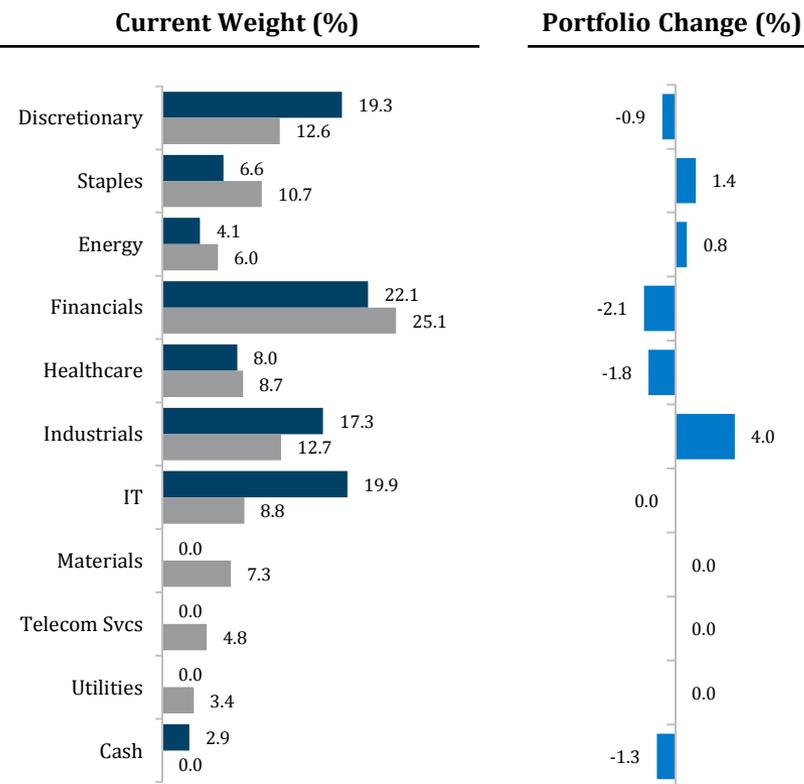
Portfolio Positioning – International Leaders

As of March 31, 2016

Regional Exposure



Sectoral Exposure



■ International Leaders
■ MSCI AC World ex-US IMI Index ■ Difference From Previous Year End

The data shown above is based on the strategy's representative portfolio. Cash incorporates cash equivalents, accruals, and currency forwards when we hold these positions. Region and sector distribution calculated in Eagle based on Global Industry Classification (GICS) Sectors. The MSCI AC World ex-US IMI Index is a free float-adjusted market capitalization index designed to measure global developed and emerging market equity performance, excluding the U.S. Not intended as investment advice.

Holdings: International Leaders – Sector

March 31, 2016

	Country	Portfolio Weight		Country	Portfolio Weight
CONSUMER DISCRETIONARY		19.27	HEALTH CARE		8.03
Compass Group PLC	United Kingdom	2.57	Teva Pharmaceutical-Sp Adr	Israel	2.33
Wpp PLC	United Kingdom	2.25	Actelion Ltd-Reg	Switzerland	2.25
Relx PLC	United Kingdom	2.13	Novo Nordisk A/S-B	Denmark	1.98
Valeo SA	France	1.99	Hoya Corp	Japan	1.48
Continental AG	Germany	1.71	INDUSTRIALS		17.25
Fuji Heavy Industries Ltd	Japan	1.66	Ryanair Holdings Plc-Sp Adr	Ireland	2.20
Shimano Inc	Japan	1.61	Wolseley PLC	United Kingdom	1.90
Jc Decaux SA	France	1.51	Vinci SA	France	1.76
Nitori Holdings Co Ltd	Japan	1.30	Daikin Industries Ltd	Japan	1.68
Bayerische Motoren Werke AG	Germany	1.30	Experian PLC	United Kingdom	1.51
Tata Motors Ltd-Spon Adr	India	1.24	Safran SA	France	1.38
CONSUMER STAPLES		6.55	Makita Corp	Japan	1.35
Reckitt Benckiser Group PLC	United Kingdom	1.86	Kone Oyj-B	Finland	1.33
Alimentation Couche-Tard -B	Canada	1.81	Atlas Copco Ab-A Shs	Sweden	1.19
Kao Corp	Japan	1.58	Bidvest Group Ltd	South Africa	1.16
Walmart De Mexico Sab De Cv	Mexico	1.29	Rational AG	Germany	0.72
ENERGY		4.05	Smc Corp	Japan	0.72
Total SA	France	1.51	Sgs Sa-Reg	Switzerland	0.35
Royal Dutch Shell Plc-A Shs	Netherlands	1.33	INFORMATION TECHNOLOGY		19.86
Suncor Energy Inc	Canada	1.21	Taiwan Semiconductor Manufac	Taiwan	2.65
Total Sa-Scrip	France	0.00	Cap Gemini	France	2.52
FINANCIALS		22.07	Nxp Semiconductors NV	Netherlands	1.93
Hdfc Bank Ltd-Adr	India	2.69	Samsung Electronics Co Ltd	South Korea	1.81
Brookfield Asset Manage-CI A	Canada	2.37	Keyence Corp	Japan	1.49
Partners Group Holding AG	Switzerland	1.96	Tencent Holdings Ltd	China	1.43
Aia Group Ltd	Hong Kong	1.77	Amadeus It Holding Sa-A Shs	Spain	1.42
Orix Corp	Japan	1.74	Netease Inc-Adr	China	1.38
Sampo Oyj-A Shs	Finland	1.71	Hexagon Ab-B Shs	Sweden	1.36
China Overseas Land & Invest	China	1.59	Murata Manufacturing Co Ltd	Japan	1.21
Intesa Sanpaolo	Italy	1.45	Baidu Inc - Spon Adr	China	1.14
Macquarie Group Ltd	Australia	1.42	Arm Holdings PLC	United Kingdom	0.63
Prudential PLC	United Kingdom	1.41	Micro Focus International	United Kingdom	0.58
Ig Group Holdings PLC	United Kingdom	1.16	Lenovo Group Ltd	China	0.32
St James's Place PLC	United Kingdom	1.16	MATERIALS		0.00
Nippon Prologis Reit Inc	Japan	1.16	TELECOMMUNICATION SERVICES		0.00
Discovery Ltd	South Africa	0.49	UTILITIES		0.00
			Cash		2.92
			Total		100.00

The data shown above is based on the strategy's representative portfolio. Individual securities listed in this report are for informational purposes only. Holdings are subject to change at any time. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities listed. When we hold cash positions, the portfolio's cash weighting incorporates cash equivalents, accruals, and currency forwards.

Holdings: International Leaders – Region

March 31, 2016

	Portfolio Weight		Portfolio Weight		Portfolio Weight
Pacific Ex Japan	3.19	Europe+ME Ex UK (Continued)		W Hemisphere	5.40
Australia	1.42	Ireland	2.20	Canada	5.40
Macquarie Group Ltd	1.42	Ryanair Holdings Plc-Sp Adr	2.20	Brookfield Asset Manage-Cl A	2.37
Hong Kong	1.77	Israel	2.33	Alimentation Couche-Tard -B	1.81
Aia Group Ltd	1.77	Teva Pharmaceutical-Sp Adr	2.33	Suncor Energy Inc	1.21
Japan	16.98	Italy	1.45	EM Asia	14.25
Japan	16.98	Intesa Sanpaolo	1.45	China	5.86
Orix Corp	1.74	Netherlands	3.26	China Overseas Land & Invest	1.59
Daikin Industries Ltd	1.68	Nxp Semiconductors NV	1.93	Tencent Holdings Ltd	1.43
Fuji Heavy Industries Ltd	1.66	Royal Dutch Shell Plc-A Shs	1.33	Netease Inc-Adr	1.38
Shimano Inc	1.61	Spain	1.42	Baidu Inc - Spon Adr	1.14
Kao Corp	1.58	Amadeus It Holding Sa-A Shs	1.42	Lenovo Group Ltd	0.32
Keyence Corp	1.49	Sweden	2.55	India	3.93
Hoya Corp	1.48	Hexagon Ab-B Shs	1.36	Hdfc Bank Ltd-Adr	2.69
Makita Corp	1.35	Atlas Copco Ab-A Shs	1.19	Tata Motors Ltd-Spon Adr	1.24
Nitori Holdings Co Ltd	1.30	Switzerland	4.56	South Korea	1.81
Murata Manufacturing Co Ltd	1.21	Actelion Ltd-Reg	2.25	Samsung Electronics Co Ltd	1.81
Nippon Prologis Reit Inc	1.16	Partners Group Holding AG	1.96	Taiwan	2.65
Smc Corp	0.72	Sgs Sa-Reg	0.35	Taiwan Semiconductor Manufac	2.65
Europe+ME Ex UK	37.18	UK	17.14	EMEA	1.65
Denmark	1.98	United Kingdom	17.14	South Africa	1.65
Novo Nordisk A/S-B	1.98	Compass Group PLC	2.57	Bidvest Group Ltd	1.16
Finland	3.04	Wpp PLC	2.25	Discovery Ltd	0.49
Sampo Oyj-A Shs	1.71	Relx PLC	2.13	Latin America	1.29
Kone Oyj-B	1.33	Wolseley PLC	1.90	Mexico	1.29
France	10.67	Reckitt Benckiser Group PLC	1.86	Walmart De Mexico Sab De Cv	1.29
Cap Gemini	2.52	Experian PLC	1.51	Cash	2.92
Valeo SA	1.99	Prudential PLC	1.41	Total	100.00
Vinci SA	1.76	Ilg Group Holdings PLC	1.16		
Jc Decaux SA	1.51	St James's Place PLC	1.16		
Total SA	1.51	Arm Holdings PLC	0.63		
Safran SA	1.38	Micro Focus International	0.58		
Total Sa-Scrip	0.00				
Germany	3.73				
Continental AG	1.71				
Bayerische Motoren Werke AG	1.30				
Rational AG	0.72				

The data shown above is based on the strategy's representative portfolio. Individual securities listed in this report are for informational purposes only. Holdings are subject to change at any time. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities listed. When we hold cash positions, the portfolio's cash weighting incorporates cash equivalents, accruals, and currency forwards.

Appendix

Photos courtesy of Blake Pontius, Raffaella Lutschg and Tongwei Wu



Chicago



London



Shanghai



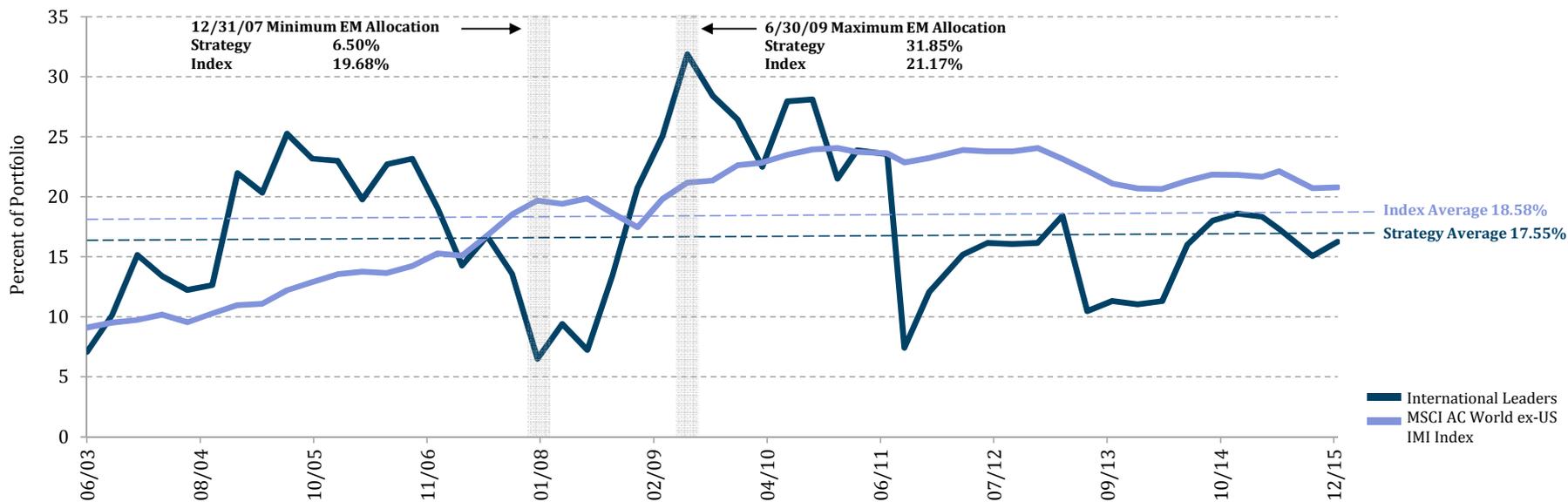
Sydney



Zurich

International Leaders Emerging Markets Allocations and Performance

Historical International Leaders
Emerging Markets Allocation



- Added value from EM security selection¹ for periods ending 12/31/15:
3 years, 270 bps annualized; 5 years, 188 bps annualized.

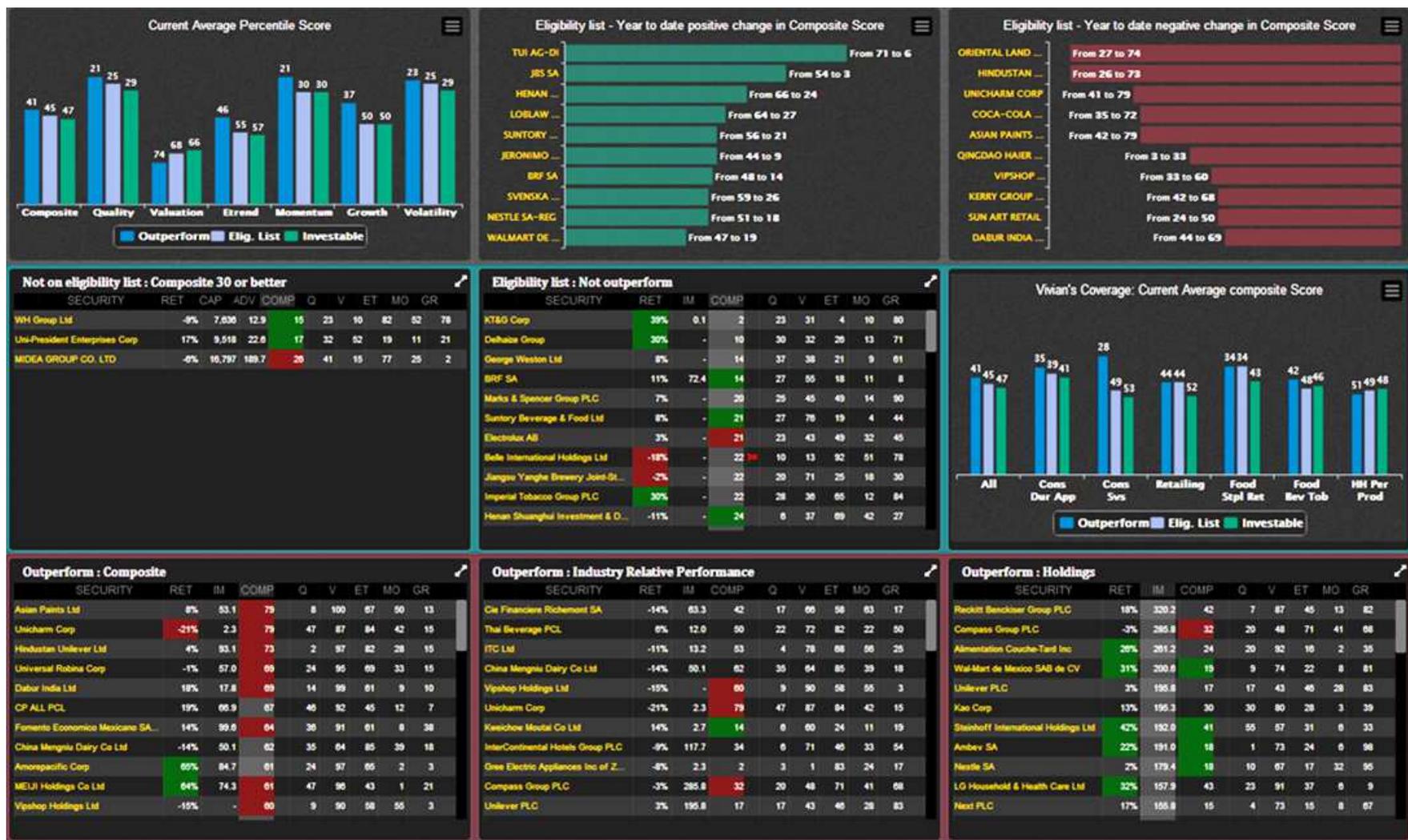
For one-on-one use with North Dakota State Investment Board Only.

Past performance is not indicative of future returns. Returns for periods greater than one year are annualized. ¹Attribution is calculated in Opturo using the strategy's representative portfolio. Attribution by segment is based on estimated returns of equities held within the segments listed. All stocks held during a measurement period, including purchases and sales, are included. Cash is not allocated among segments. Attribution effects are calculated using the Allocation Plus methodology. Calculations are for attribution analysis only and are not intended to represent simulated performance history. The actual returns may be higher or lower. The trade effect has been combined with selection effect.

Investment performance assumes reinvestment of dividends and capital gains and is gross of investment management fees and net of transaction costs. Performance results will be reduced by the fees incurred in the management of the account. For example, on an account with a 1% fee, and gross performance of 20% over one year, the annual total return on a net of fee basis will result in performance of 18.85%. A \$1,000,000 initial investment would grow to approximately \$1,440,000 gross of fees, versus \$1,412,532 net of fees, over a two year period, assuming an annual return of 20%. Investment management fees are described in William Blair's Form ADV Part 2A. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. The benchmark that best reflects the composite's investment strategy is the MSCI AC World ex-US Investable Market Index (IMI) Net, which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the U.S. Composite consists of considerably fewer securities.

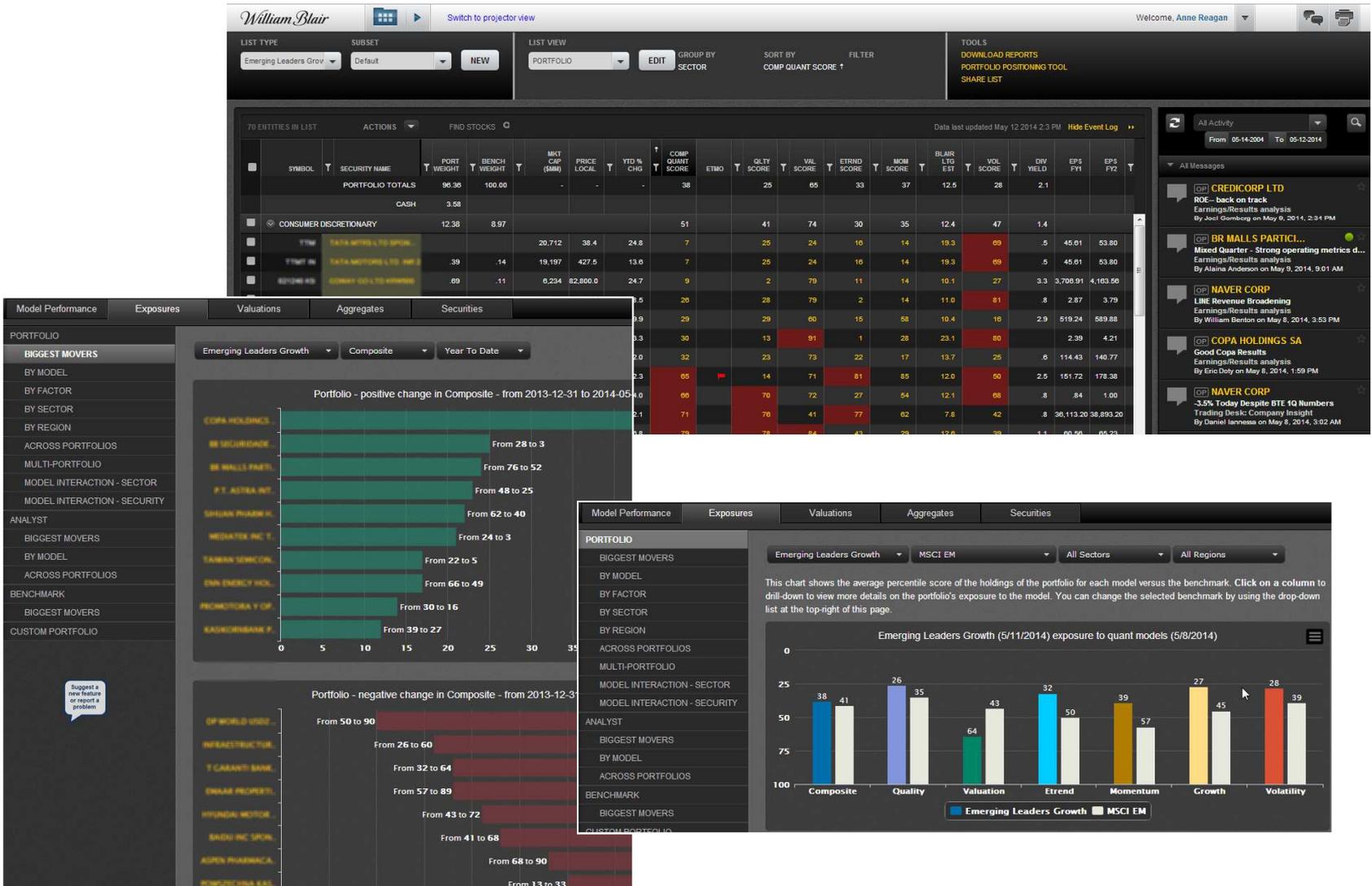
The allocation data shown above is based on the strategy's representative portfolio. The index is comparable to the strategy in terms of investment approach but contains significantly more securities. Cash incorporates cash equivalents, accruals, and currency forwards when we hold these positions. Cash is a residual of the stock selection process. Calculated in Eagle.

Sample Research Analyst Dashboard



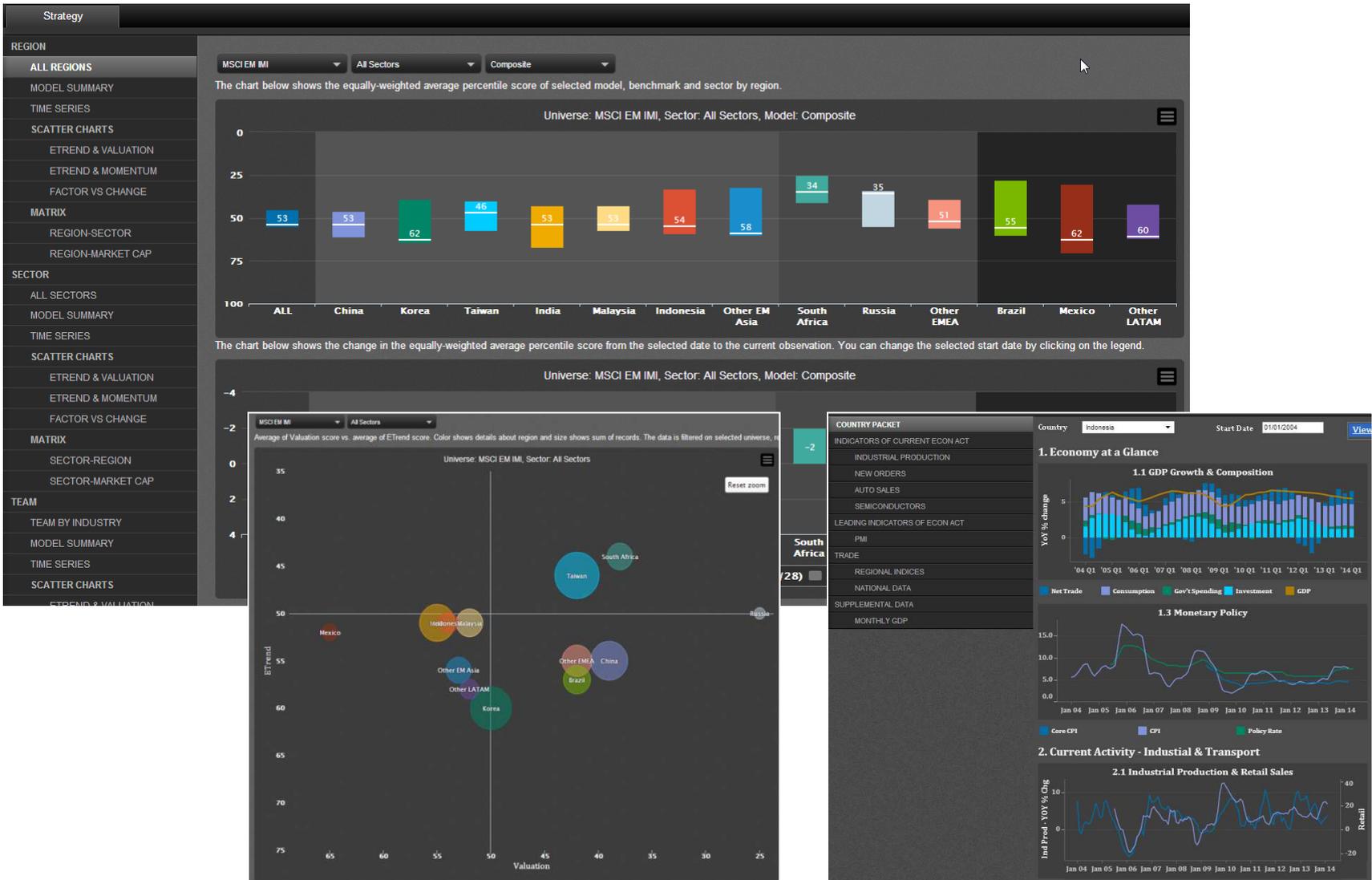
Source: William Blair proprietary research platform, Summit. For illustrative purposes only. Not intended as investment advice or recommendation to buy or sell any security, nor should it be construed as such. Does not represent any William Blair strategy or specific period in time.

Portfolio Analytics



Source: Summit – William Blair Investment Management’s proprietary research management & investment process platform. For informational purposes only. This information does not constitute, and should not be construed as, investment advice or recommendations. As of May 2014.

Strategy and Economic Data



Source: Summit – William Blair Investment Management’s proprietary research management & investment process platform. For informational purposes only. This information does not constitute, and should not be construed as, investment advice or recommendations. As of May 2014.

International Leaders Performance

Performance for periods ending March 31, 2016

Performance (%)	Annualized					Since Inception
	1Q 16	1 Yr	3 Yr	5 Yr	10 Yr	(01/31/03)
International Leaders Composite	-1.44	-1.35	6.33	6.79	4.08	9.80
MSCI AC World ex-US IMI Index	-0.23	-8.08	0.76	0.58	2.20	8.37
MSCI EAFE Index	-3.01	-8.27	2.23	2.29	1.80	7.47

Performance (%)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2003*
International Leaders Composite	7.02	-0.94	19.21	20.60	-7.81	24.63	42.80	-53.74	15.99	21.46	23.30	41.97
MSCI AC World ex-US IMI Index	-4.60	-3.89	15.82	17.04	-14.31	12.73	43.60	-45.99	16.13	26.51	17.68	47.19
MSCI EAFE Index	-0.81	-4.90	22.78	17.32	-12.14	7.75	31.78	-43.38	11.17	26.34	13.54	44.62

March 2016 performance is preliminary.

For one-on-one use with North Dakota State Investment Board Only.

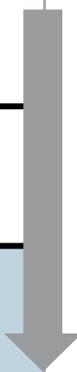
*Composite inception 1/31/03. Calendar year 2003 represents a partial year from 2/1/03 to 12/31/03.

Investment performance assumes reinvestment of dividends and capital gains and is gross of investment management fees and net of transaction costs. Performance results will be reduced by the fees incurred in the management of the account. For example, on an account with a 1% fee, and gross performance of 20% over one year, the annual total return on a net of fee basis will result in performance of 18.85%. A \$1,000,000 initial investment would grow to approximately \$1,440,000 gross of fees, versus \$1,412,532 net of fees, over a two year period, assuming an annual return of 20%. Investment management fees are described in William Blair's Form ADV Part 2A. Past performance is not indicative of future returns. Returns for periods greater than one year are annualized. International investing involves special risk considerations, including currency fluctuations, lower liquidity, economic and political risk. The benchmark that best reflects the composite's investment strategy is the MSCI AC World ex-US Investable Market Index (IMI) Net, which is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the U.S. Composite consists of considerably fewer securities. The MSCI EAFE Index Net is included as a supplemental reference.

International Leaders Portfolio Attributes

December 31, 2015

	Weighted Average Quantitative Scores (Percentile Ranks)					
	WB LT Growth Estimates	Quality	Earnings Trend	Momentum	Valuation	Composite
MSCI AC World ex-US IMI Index ≈ 6,200 companies	7.4%	38.4	51.2	43.1	47.3	40.6
Eligibility List of ≈ 1,400–1,700 companies ≈ 20–30% of the MSCI AC World ex-US IMI Index	7.9%	30.1	49.4	39.5	53.0	37.8
International Leaders portfolio of 40–70 companies ≈ 1% of the MSCI AC World ex-US IMI Index	9.5%	22.1	38.1	32.6	58.1	31.6



Scores shown above based on William Blair's proprietary quantitative model. The composite represents a weighted formula aggregating the individual scores. For individual and composite score ranks, 1 is best and 100 is worst. The MSCI AC World ex-US IMI Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States, making it comparable to the William Blair International Leaders Portfolio in terms of investment approach; however the index contains significantly more securities than the William Blair Portfolio.

North Dakota State Investment Board – Proposed Fee Schedule

Account Size	Annual Investment Management Fee
First \$20 million	0.80%
Next \$30 million	0.60%
Next \$50 million	0.50%
Next \$50 million	0.45%
Next \$50 million	0.40%
Over \$200 million	0.30%

We believe the most cost effective vehicle for NDSIB is a separate account.

The qualified assets can be aggregated with the non-qualified assets for fee billing purposes. Therefore, the pension assets will receive the benefit of aggregating all three plans (total of \$462 million) and based on the above tiered fee schedule the fee for the qualified assets is 39 bps. However, non-qualified assets cannot receive the benefit of qualified assets for fee billing purposes and the fee for the non-qualified (insurance and sovereign wealth fund of \$332 million) assets based on the above tiered fee schedule would be 42.5 bps.

All fees shown are annual, payable quarterly in arrears, based on the appraised total market value of the account(s) including accrued interest and dividends but excluding the current anticipated balance invested with any other William Blair strategy. Fee schedule effective January 2010.

Biographies – Global Equity Team

Portfolio Management:

Stephanie G. Braming, CFA, Partner

Stephanie Braming is a Portfolio Manager for the International Growth and International Small Cap Growth strategies. Joining the firm in 2004 as a Global Equity Specialist, she has been instrumental in portfolio construction, portfolio design and has had a leadership role in the enhancement of the firm's systematic research tools. Stephanie also served as portfolio manager for the Japan strategy from inception in 2013 to close in 2015. Prior to joining the firm, Stephanie was a Principal at Mercer Investment Consulting where she was responsible for the strategic investment direction of her institutional clients. She is a member of the CFA Institute and the CFA Society of Chicago where she served on the Society's Board of Directors. Education: B.A. DePauw University; M.B.A., University of Chicago Booth School of Business.

Simon Fennell, Partner

Simon Fennell is a Portfolio Manager for the International Growth and International Leaders strategies. He joined William Blair in 2011 as a TMT Research Analyst focusing on idea generation and strategy more broadly. Prior to joining William Blair, Simon was a Managing Director in the Equities division at Goldman Sachs in London and Boston, where he was responsible for institutional, equity research coverage for European and International stocks. Previously, Simon was in the Corporate Finance Group at Lehman Brothers in London and Hong Kong, working in the M&A and Debt Capital Markets Groups. Education: M.A., University of Edinburgh; M.B.A., Johnson Graduate School of Management, Cornell University.

Andrew G. Flynn, CFA, Partner

Andy Flynn is a Portfolio Manager for the International Small Cap Growth and Global Leaders strategies. Since joining William Blair in 2005, Andy has served as a U.S. Industrials and Consumer analyst as well as a non-U.S. Consumer, Healthcare and IT analyst. He was also a Portfolio Manager for the Global Small Cap Growth Strategy. Before joining the firm, Andy was a Senior Equity Analyst and Portfolio Manager at Northern Trust, specializing in mid and small capitalization growth companies. Prior to that he worked as a Senior Equity Analyst at Scudder Kemper Investments and began his career at Fidelity Investments as a Research Assistant. Andy is a member of the CFA Institute and the CFA Society of Chicago. Education: B.A., Economics, University of Kansas; M.B.A., Finance emphasis, University of North Carolina at Chapel Hill.

Kenneth J. McAtamney, Partner

Ken McAtamney is a Portfolio Manager for the Global Leaders and International Leaders strategies. He joined William Blair in 2005 and previously served as co-director of research, as well as mid-large cap Industrials and Healthcare analyst. Prior to joining William Blair, Ken was a Vice President for Goldman Sachs and Co., responsible for institutional equity research coverage for both international and domestic equity, and he was a Corporate Banking Officer with NBD Bank. Education: B.A., Michigan State University; M.B.A., Indiana University.

Todd M. McClone, CFA, Partner

Todd McClone is a Portfolio Manager for the Emerging Markets strategies. Prior to joining William Blair in 2000, he was a senior research analyst, specializing in international equity for Strong Capital Management. Previously, he was a Corporate Finance Research Analyst with Piper Jaffray. At Piper Jaffray, he worked with the corporate banking financials team on a variety of transactions including initial public offerings, mergers and acquisitions and subordinated debt offerings as well as issued fairness opinions and conducted private company valuations. Education: B.B.A. and B.A., University of Wisconsin – Madison.

David Merjan, CFA, Partner

David Merjan is a Portfolio Manager for the International Developed Plus and International ADR strategies. Prior to joining William Blair in 1998, David was with Hughes Electronics in Los Angeles in various capacities, including the Corporate Treasury department where he focused on international mergers and acquisitions and managed corporate currency and interest rate portfolios, Dave also managed an international equity fund in the pension management subsidiary of Hughes. David is a member of the CFA Institute. Education: B.A., Dickinson College; M.I.M., American Graduate School of International Management.

Biographies – Global Equity Team

Jack Murphy, CFA, Partner

Jack Murphy is a Portfolio Manager for the International Developed Plus strategy and is the Director of Research for the Global Equity team. Jack was previously a Research Analyst covering mid-large cap non-U.S. Consumer stocks. He joined the firm in 2005 as a Research Analyst within William Blair's sell-side research department focusing on e-commerce and hardline retailers. Previously, Jack worked at Credit Suisse First Boston for nearly six years as an equity research analyst, covering a broad range of retail companies. Before CSFB, he worked as an equity research analyst at Lehman Brothers and as an equity research associate at Salomon Brothers. Prior to sell-side research, he worked as a financial analyst for General Electric Capital, having graduated from GE's Financial Management Program. Education: B.A., Economics, magna cum laude, Villanova University.

Casey K. Preyss, CFA, Partner

Casey Preyss is a Portfolio Manager for the Emerging Markets Growth strategy. Since joining William Blair in 2000, Casey has been a research analyst covering Industrials, IT and Resources and has also served as Portfolio Manager for the China A-Share strategy. Prior to his fundamental research responsibilities Casey was a Quantitative Analyst with the team. Prior to joining the firm, Casey was with Thomas White International, where he was an International Equity Research Sales Associate. Education: B.S.B.A., The Ohio State University; M.B.A., University of Chicago Booth School of Business.

Jeffrey A. Urbina, CFA, Partner

Jeff Urbina is a Portfolio Manager for the International Growth, International Small Cap Growth, and Emerging Markets strategies. He is also a member of the firm's executive committee. Jeff joined William Blair in 1996. Previously, he was a Senior Vice President and Portfolio Manager of the Van Kampen American Capital Navigator Fund, an emerging market equity fund listed on the Luxembourg exchange. While at Van Kampen, he also served as the Director of Research and was a member of the Investment Policy Committee for the firm. Prior to joining Van Kampen in 1991, Jeff spent almost 15 years in the commercial banking business with Citibank where he was a Vice President and Senior Relationship Manager in the bank's real estate group, and with Harris Bank in Chicago where he was an International Banking Officer. He is a member of the CFA Institute and the CFA Society of Chicago. Education: B.A., Northwestern University; M.M., Northwestern University Kellogg Graduate School of Management.

Robert J. Duwa, CFA, Partner

Robert Duwa is an Equity Specialist on the Global Equity team. Bob participates in the team's decision-making meetings, conducts portfolio analysis and is responsible for communicating portfolio structure and outlook to clients, consultants, and prospects. Bob joined William Blair in 2010 as a Senior Client Relationship Manager responsible for institutional clients. Previously, he was a Senior Consultant and Practice Leader with DeMarche Associates, Inc. for 11 years, where he was responsible for the strategic investment direction for institutional clients. At DeMarche, he was also president and founder of Discretionary Management Services, a registered investment advisor providing OCIO services. Prior to DeMarche, Bob worked in institutional investment management for Boatmen's Trust Company. He is a member of the CFA Society of Chicago. Education: B.A. Finance, Loras College.

Romina Graiver

Romina Graiver is an Equity Specialist on the Global Equity team. Romina participates in the team's decision-making meetings, conducts portfolio analysis and is responsible for communicating portfolio structure and outlook to clients, consultants, and prospects. Romina joined William Blair in 2012 as a Senior Client Relationship Manager and Product Specialist. Prior to joining William Blair, Romina worked at BNP Paribas Investment Partners as Deputy-Head of the International Equity Investment team, in charge of product development and investors communication. Prior to that role, she was a Product Specialist for Model-driven Equity Investments and a Marketing Manager. Education: B.Sc. in International Business and M.Sc. in Economics from University of Pantheon-Sorbonne, Paris, France.

Blake S. Pontius, CFA

Blake Pontius is an Equity Specialist on the Global Equity team. Blake participates in the team's decision-making meetings, conducts portfolio analysis and is responsible for communicating portfolio structure and outlook to clients, consultants, and prospects. Previously, he was a Client Relationship Manager responsible for the firm's institutional non-U.S. strategy clients. Prior to joining William Blair in 2005, Blake was with UBS Global Asset Management in consultant relations and a Senior Analyst at Mercer. He is a member of the CFA Institute and the CFA Society of Chicago. Education: B.A., Economics, with honors, Michigan State University; M.B.A., Finance, with distinction, DePaul University.

Biographies – Global Equity Team

Research:

Alaina Anderson, CFA, Partner

Alaina Anderson is a Global Research Analyst covering Real Estate stocks. Prior to joining William Blair in 2006, Alaina was a Senior Analyst in the Investments Department of the MacArthur Foundation. Her responsibilities included providing research support for internally managed portfolios, as well as investment manager due diligence, selection and monitoring for the Foundation's U.S., Non-U.S. and hedge fund portfolios. Prior to her tenure with the MacArthur Foundation, Alaina served as an investor relations consultant with Ashton Partners and a financial advisor with UBS Painewebber. Alaina is a trustee of Lawrence Hall Youth Services and a member of the CFA Society of Chicago. B.S., University of Pennsylvania Wharton School; M.B.A., University of Chicago Booth School of Business.

William W. Benton, CFA, CPA, Partner

William Benton is a Global Research Analyst covering mid-large cap Tech, Media, and Telecom (TMT) stocks. Prior to joining Investment Management in 2007, he was previously a Research Analyst within the Technology sector of William Blair's sell-side research group for 10 years. In this position, William was twice named "Best on the Street" in The Wall Street Journal's annual analyst survey. Prior to joining William Blair in 1997, he worked at SBC Warburg, U.S. Cellular, May Company, and Monsanto. He is a member of the CFA Society of Chicago and holds the CMA and CPA designations. Education: B.S., Finance, University of Illinois Urbana-Champaign; M.B.A., Dartmouth College (Tuck Scholar), Amos Tuck School of Business Administration.

Drew Buckley, CFA, CPA

Drew Buckley is a Global Research Analyst covering small cap Tech, Media, and Telecom (TMT) stocks. He joined William Blair in 2008 as a Global Research Associate, focused on the TMT industries. Prior to joining the firm, Drew spent two years at Ernst & Young LLP in New York, where he served as a Senior Associate in the Investment Management Assurance practice. He is a member of the CFA Society of Chicago and holds the Certified Public Accountant designation. Education: B.S., Business, University of Colorado – Boulder.

Taylor Cope, CFA

Taylor Cope is a Global Research Analyst covering small cap Industrial and Resource stocks. Prior to joining the firm in 2007 as a Research Associate, Taylor was a Research Analyst at Giuliani Capital Advisors in Chicago, where he was responsible for new opportunity generation, deal support and industry intelligence in the Retail, Consumer and Financial sectors globally. He is a member of the CFA Institute and the CFA Society of Chicago. Education: M.A. (Hons), University of St. Andrews, Scotland.

Travis Cope

Travis Cope is an Emerging Markets Small Cap Analyst. Prior to this role, he served as a Research Analyst covering non-U.S. small cap Resource stocks. Travis joined William Blair in 2008 as a Global Research Associate, supporting the Global Energy team. Prior to joining the firm, he was an Analyst at Macquarie Bank in Chicago, where he engaged in Corporate Restructuring advisory. Education: M.A., International Relations and Modern History, University of St. Andrews, Scotland.

Anil Daka, CFA

Anil Daka is a Global Research Analyst covering mid-cap Industrial stocks. Prior to joining the firm in 2011 as an Associate Analyst, Anil was an Equity Analyst at Morningstar Inc., where he was responsible for equity research coverage in the industrials sector globally. He is a member of the CFA Institute and the CFA Society of Chicago. Education: Bachelor of Technology, Metallurgical Engineering, Indian Institute of Technology; M.B.A., University of North Carolina.

William De Allaume, CFA

William De Allaume is a Global Research Analyst covering mid-large cap Resource stocks. Prior to joining William Blair, he was Managing Director and Sector Head at UBS Global Asset Management, where he was responsible for Energy, Materials, Utility and Transport sectors. He also worked in asset consulting at Bankers Trust Company prior to graduate school. He is a member of the CFA Society of Chicago. Education: B.S., Montclair State University; M.B.A., Analytic Finance and M.A., International Relations, University of Chicago.

Biographies – Global Equity Team

Joel Gomberg, CFA, Partner

Joel Gomberg is a Global Research Analyst covering mid-large cap Financial stocks. He joined the firm in 1997 as an equity analyst following the Finance industry, including Commercial Banks, Global Investment Banks, Exchanges, Retail Brokers and Commercial Property Service companies and was group head of the Financials sector. In this role, Joel was included in The Wall Street Journal's annual analyst survey, "Best on the Street" three times. Previously, Joel was an equity analyst at Duff & Phelps and Howe Barnes Investments covering specialty finance and bank stocks. He also worked at Northern Trust Company, primarily in commercial banking and credit policy. Education: B.S., University of Illinois at Urbana-Champaign; M.B.A., University of Chicago Booth School of Business.

Daniel Hill, CFA

Daniel Hill is a Global Generalist Research Analyst providing research support to the Global Equity team. Prior to this role, he served as an International and Global Research Associate, supporting the Global Financial team under the guidance of research analysts. Daniel joined William Blair in 2005 as an Investment Accountant. He is a member of the CFA Institute, the CFA Society of Chicago. Education: B.S., Finance, University of Nebraska; M.B.A., Northwestern University's Kellogg Graduate School of Management.

D.J. Neiman, CFA, Partner

D.J. Neiman is a Global Research Analyst covering small cap Financial stocks. Before transitioning to the Global Equity team, he was an analyst in William Blair's sell-side research group, covering the Financial sector with a focus on the asset management and advisory investment banking industries. Previously, he was a senior accountant with William Blair Funds and a fund analyst at Scudder Kemper Investments. He is a member of the CFA Institute and the CFA Society of Chicago. Education: B.S., Miami University; M.B.A., high distinction, University of Michigan Ross School of Business.

Richard Reznick, Ph.D.

Richard Reznick is a Global Research Analyst covering small cap Healthcare stocks. He joined William Blair in 2010 as a Research Associate in Equity Research focusing primarily on the Biotechnology sector. Previously, Richard worked at Abbott Laboratories where he served as a Product Specialist in the Abbott Diagnostics Division. Education: B.S., Biology, University of Illinois at Urbana-Champaign; Ph.D., Biology, Yale University.

Andrew J. Siepker, CFA

Andrew Siepker is a Global Research Analyst covering large cap Industrial stocks. Andy joined William Blair in 2006 and most recently was a Research Analyst, conducting non-U.S. Consumer stocks. Previously, he worked on William Blair's sell-side as a Research Associate, focusing on e-commerce and hardline retailers. Prior to joining William Blair, he worked as a financial analyst in a finance training program at First Data Corporation. Andrew is a member of the CFA Society of Chicago. Education: B.S. Finance, highest distinction, University of Nebraska.

Kwesi Smith, CFA

Kwesi Smith is a Global Research Analyst covering mid-cap Healthcare stocks. Prior to joining William Blair, Kwesi spent ten years at TimesSquare Capital Management as an equity research analyst. During his tenure, Kwesi supported their research efforts across a variety of sectors including Healthcare, Technology, Media/Cable, Defense, and Consumer before focusing on Healthcare. Prior to his role at TimesSquare, Kwesi worked at MetLife Investments as a Technology, Media/Cable, and Telecom fixed income research analyst and provided credit analysis across a variety of fixed income asset classes including high yield, private placement, leveraged finance, and investment grade public corporates. He is a member of the CFA Institute. Education: B.S., University of Virginia McIntire School of Commerce.

Biographies – Global Equity Team

Rita Spitz, CFA, Partner

Rita Spitz is a Global Research Analyst covering small cap Consumer stocks. Previously, Rita was a Research Analyst covering U.S. large and mid-cap consumer stocks and also served as the Director of Research from 2001-2008. Rita joined William Blair & Company in 1986 and was a Research Analyst for the firm's sell-side covering Advertising and Marketing firms for 13 years. Rita is a member of the CFA Society of Chicago, the CFA Institute and The Economic Club of Chicago. She has served as an advisor to the Financial Accounting Standards Board between 2002 and 2006 as a member of the Financial Accounting Standards Advisory Council and from 2012 to present as a member of the Investment Advisory Committee. Rita also is a trustee of the Music Institute of Chicago and The Joffrey Ballet. Education: B.B.A., Finance and Spanish, University of Wisconsin-Madison; M.B.A, University of Chicago Booth School of Business.

Thomas A. Sternberg, CFA

Tommy Sternberg is a Global Research Analyst covering large cap Healthcare stocks. He joined William Blair in 2004 as a Research Associate in Investment Management focusing primarily on the Healthcare industry. Previously, Tommy spent two years at Oak Brook Bank, where he served as an equity analyst in the Investment Management and Trust Department. He is a member of the CFA Institute and the CFA Society of Chicago. Education: B.S., Economics, Duke University; M.B.A., University of Chicago Booth School of Business.

Dan Su, CFA

Dan Su is a Global Research Analyst covering mid-cap Consumer stocks. She joined William Blair in 2013. Previously, Dan was a Senior Equity Analyst at Morningstar, covering global apparel and internet service companies. Prior to her experience with Morningstar, Dan held various positions in corporate strategy for media and technology companies in China and Singapore. Dan is a member of the CFA Institute and the CFA Society of Chicago. Education: B.A., Beijing Foreign Studies University; M.B.A., University of Chicago Booth School of Business.

Vivian Lin Thurston, CFA

Vivian Lin Thurston is a Global Research Analyst covering large cap Consumer stocks. Prior to joining William Blair, she was Vice President and Consumer Sector Head at Calamos Investments, where she was responsible for international consumer stock selection and research. Prior to that, she was an Executive Director and Senior Investment Analyst at UBS Global Asset Management/Brinson Partners, responsible for stock selection and research for consumer sectors in the U.S. and Emerging Markets. She also held roles at Mesirow Financial, China Agribusiness Development Trust and Investment Corporation, and Vanke previously. She is a member of the CFA Institute and the CFA Society of Chicago. She is also the Founder and President of Chinese Finance Association of America, a 501 (C) non-profit organization. Education: B.A., Sociology, Peking University; M.A., Sociology and M.S., Finance, University of Illinois Urbana-Champaign.

Biographies

Systematic Research:

Spiro Voulgaris, Partner

Spiro Voulgaris is a Senior Quantitative Analyst leading the Systematic Research team. He joined William Blair in 2007. Prior to joining the firm, Spiro was a Senior Quantitative Analyst with Neuberger Berman for five years and subsequently worked alongside the same investment professionals for an additional three years while with Northern Trust. He was also with Lehman Brothers for six years where he was a Strategist and Quantitative Analyst for their global and U.S. Investment Strategy teams in London and New York. Education: B.A., Economics, University of Chicago; M.B.A., with a concentration in Statistics and International Finance, University of Chicago Booth School of Business.

Andrew Kominik, CFA

Andrew Kominik is a Quantitative Portfolio Analyst on the Systematic Research team. He primarily supports equity management teams in the use of internal and external quantitative models to evaluate portfolio risk and performance. Andrew also develops and programs multifactor quantitative models that are used by the fundamental equity analysts and portfolio managers. He joined William Blair in 2003 and previously served as a marketing analyst and portfolio construction analyst. He is a member of the CFA Institute and the CFA Society of Chicago. Education: B.A., History, Brandeis University; M.B.A., with concentrations in Econometrics & Statistics and Finance, University of Chicago Booth School of Business.

Paul Teetor

Paul Teetor is a Quantitative Developer on the Systematic Research team. He develops applications and tools for quantitative analysis and portfolio management. Prior to joining William Blair in 2015, he was a consultant to securities traders, portfolio managers, and risk managers in the Chicago area, developing quantitative software applications. His other experience in the financial services industry included work with market makers, hedge funds, and mortgage portfolio management. He is the author of the "R Cookbook," published by O'Reilly Media, and a member of the American Statistical Association. Education: B.S, Computer Science, Cornell University; M.S., Computer Science, Northwestern University; M.S., Applied Statistics, DePaul University.

Darragh Grogan

Darragh Grogan is a Quantitative Developer on the Systematic Research team. He joined William Blair in 2008 as a software engineer providing support for trading and reconciliation. He is responsible for building and maintaining our proprietary quantitative research platforms. Previously, Darragh worked as a senior software engineer at Accenture and Fidelity. Education: Bachelor of Commerce, National University of Ireland, Galway. Higher Diploma in Applied Science – Software Development and Design, National University of Ireland, Galway. Master of Science – Advanced Software Engineering, University College Dublin.

Strategy Research:

Olga Bitel

Olga Bitel is responsible for economic research across all regions and sectors. She joined the firm in 2009. Prior to joining the firm, Olga was a Senior Economist at the National Institute of Economic and Social Research in London, U.K., where she was responsible for macroeconomic forecasting and thematic research projects for international organizations and government bodies. Education: B.A., University of Chicago; M.Sc. Economics, London School of Economics and Political Science.

Client Service for North Dakota State Investment Board

Robert J. Duwa, CFA, Partner

Robert Duwa is an Equity Specialist on the Global Equity team. Bob participates in the team's decision-making meetings, conducts portfolio analysis and is responsible for communicating portfolio structure and outlook to clients, consultants, and prospects. Bob joined William Blair in 2010 as a Senior Client Relationship Manager responsible for institutional clients. Previously, he was a Senior Consultant and Practice Leader with DeMarche Associates, Inc. for 11 years, where he was responsible for the strategic investment direction for institutional clients. At DeMarche, he was also president and founder of Discretionary Management Services, a registered investment advisor providing OCIO services. Prior to DeMarche, Bob worked in institutional investment management for Boatmen's Trust Company. He is a member of the CFA Society of Chicago. Education: B.A. Finance, Loras College.

Wally Fikri, CFA, CPA, Partner

Wally Fikri is responsible for consultant relations and business development in the Western region of the United States. He joined William Blair in 2004 after nearly 12 years with Brinson Partners (now UBS Global Asset Management). Wally has more than 22 years of experience in the institutional asset-management industry, including extensive work with asset-allocation, equity, fixed-income, and hedge-fund strategies. Wally began his career in the financial services practice at KPMG Peat Marwick in 1991. He is an active member and past board member of the CFA Society of Chicago, a member of the CFA Institute, and a member of the advisory board for Goldie's Place (a charitable organization helping homeless adults become self-sufficient). Education: B.S., accountancy, Northern Illinois University; M.B.A., Northwestern University's Kellogg Graduate School of Management.

Glossary – Terms

Active Share: A measure of the percentage of stock holdings in a manager's portfolio that differ from the benchmark index.

Alpha: A measure of a portfolio's return in excess of the market return, after both have been adjusted for risk. It is a mathematical estimate of the amount of return expected from a portfolio above and beyond the market return at any point in time. For example, an alpha of 1.25 indicates that a stock is projected to rise 1.25% in price in a year over the return of the market, or the return when the market return is zero. When an investment price is low relative to its alpha, it is undervalued, and considered a good selection.

Beta: A quantitative measure of the volatility of the portfolio relative to the overall market, represented by a comparable benchmark. A beta above 1 is more volatile than the overall market, while a beta below 1 is less volatile, and could be expected to rise and fall more slowly than the market.

Developed Markets: Using the Morgan Stanley Capital International (MSCI) geographic definition, this region includes: United Kingdom, Europe (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Spain, Sweden and Switzerland), Japan, Pacific Asia (Australia, Hong Kong, New Zealand, and Singapore) and the Western Hemisphere (Canada and other Americas).

Debt to Total Capital Ratio: This figure is the percentage of each company's invested capital that consists of debt. Companies with a high Debt to Total Capital level may be considered more risky. From a portfolio perspective, the portfolio Debt to Total Capital Ratio is a weighted average of the individual holdings' Debt to Total Capital Ratio.

Emerging Markets: Using MSCI's geographic definition, this region includes: Emerging Markets Asia (China, India, Indonesia, Malaysia, S Korea, Taiwan, and Thailand), Emerging Markets Europe, Mid-East and Africa (Czech Republic, Hungary, Poland, Russia, Turkey, Egypt, Morocco, and S Africa), and Latin America (Argentina, Brazil, Chile, Columbia, Mexico, Peru and Venezuela).

EPS (Earnings Per Share) Growth Rate (Projected): This measure represents the weighted average of forecasted growth in earnings expected to be experienced by the stocks within the portfolio over the next year. From a portfolio perspective, the portfolio EPS Growth Rate is a weighted average of the individual holdings' EPS Growth Rate.

EV/EBITDA (Enterprise Value/Earnings Before Interest, Taxes and Depreciation-Amortization): The EV/EBITDA ratio is useful for global comparisons because it ignores the distorting effects of individual countries' taxation policies. It's used to find attractive takeover candidates. Enterprise value is a better measure than market cap for takeovers because it takes into account the debt which the acquirer will have to assume. Therefore, a company with a low EV/EBITDA ratio can be viewed as a good takeover candidate.

EV/IC: (Enterprise Value/Invested Capital) Ratio: Enterprise Value (EV), which is market capitalization minus cash plus debt divided by Invested Capital (IC), which is the sum of common stock, preferred stock and long-term debt. This number will get you a simple multiple. If it is below 1.0, then it means that the company is selling below book value and theoretically below its liquidation value.

Information Ratio: A measure of risk-adjusted return. The annualized excess return of the portfolio relative to a respective benchmark, divided by the annualized tracking error relative to that same benchmark. The higher the measure, the higher the risk-adjusted return.

PBVn (Price/Book Value) Ratio: The PBV Ratio measures the value of a company's common stock relative to its shareholder's equity. A price-to-book multiple above one means that the price of the company's common stock is higher than its common shareholder's equity. A price-to-book multiple below one means that the price of the company's common stock are less than its break-up value, and the shares may be undervalued.

PCF (Price/CashFlow): Some analysts favor the price/cash flow over the price-earnings (PE) ratio as a measure of a company's value. Cash flow is a measure of a company's financial health. It equals cash receipts minus cash payments over a given period of time.

P/E (Price/Earnings) Ratio: This is the most common measure of how expensive a stock is. Simply, it is the cost an investor in a given stock must pay per dollar of current annual earnings. A high P/E generally indicates that the market is paying more to obtain the stock because it has confidence in the company's ability to increase its earnings. Conversely, a low P/E often indicates that the market has less confidence that the company's earnings will increase rapidly or steadily, and therefore will not pay as much for its stock.

R-squared: A measurement of how closely the portfolio's performance correlates with the performance of its benchmark, such as the MSC AC World Free ex US Index. In other words, it is a measurement of what portion of a portfolio's performance can be explained by the performance of the overall market or index. Ranges from 0 to 1, where 0 indicates no correlation and 1 indicates perfect correlation.

Risk (Standard Deviation): A measure of the portfolio's risk. A higher standard deviation represents a greater dispersion of returns, and thus a greater amount of risk. The annualized standard deviation is calculated using monthly returns.

Sharpe-Ratio: A risk-adjusted measure calculated using standard deviation and excess return (Portfolio return – Risk Free Rate) to determine reward per unit of risk. The higher the Sharpe ratio, the better the portfolio's historic risk-adjusted performance.

Tracking Error: Tracking Error measures the extent to which a portfolio tracks its benchmark. The tracking error of an index portfolio should be lower than that of an active portfolio. The tracking error will always be greater than zero if the portfolio is anything other than a replication of the benchmark.

Trailing 1-Year Turnover: This figure reflects the portfolio's trading activity by calculating the amount of the portfolio's holdings bought or sold over the prior year, expressed as a percentage of the portfolio's average market value. Turnover figures may be related to the amount of trading costs experienced by the portfolio.

Weighted Average Market Capitalization: Market capitalization refers to the total market value of each company's outstanding shares. The Weighted Average Market Capitalization for a portfolio is calculated as the average market capitalization of the stocks within the portfolio, weighted by the amount of each stock owned.

Weighted Median Market Capitalization: This calculation represents the median market capitalization of the stocks in the portfolio, weighted by the amount of each stock owned.

Glossary – Indices

Bank of America Merrill Lynch 1-Year U.S. Treasury Note Index: An unmanaged index comprised of a single U.S. Treasury Bill issued at the beginning of each month and held for a full month. Each month the index is rebalanced and the issue selected is the outstanding U.S. Treasury Note that matures closest to, but not beyond one year from the rebalancing date.

Bank of America Merrill Lynch 3-Month Treasury Bill Index: An unmanaged index tracking 3-month U.S. government securities.

Barclays U.S. Aggregate Bond Index: A broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid ARM pass-throughs), asset-backed securities and commercial mortgage backed securities.

Barclays Intermediate Govt./Credit Bond Index (formerly the Lehman Index): A fixed-rate government and corporate bonds rated investment grade or higher.

Barclay's Multiverse Index: Provides a broad-based measure of the global fixed-income bond market. The index represents the union of the Global Aggregate Index and the Global High-Yield Index and captures investment grade and high yield securities in all eligible currencies. Standalone indices such as the Euro Floating-Rate ABS Index and the Chinese Aggregate Index are excluded. The Multiverse Index family includes a wide range of standard and customized sub-indices by sector, quality, maturity, and country.

Barclays U.S. Intermediate Aggregate Bond Index: A broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid ARM pass-throughs), asset-backed securities and commercial mortgage backed securities with maturities between one and 10 years.

Merrill Lynch 1-Year U.S. Treasury Note Index: Comprised of a single U.S. Treasury Bill issued at the beginning of each month and held for a full month. Each month the index is rebalanced and the issue selected is the outstanding U.S. Treasury Note that matures closest to, but not beyond one year from the rebalancing date.

Merrill Lynch 3-Month Treasury Bill Index: An unmanaged index tracking 3-month U.S. government securities.

MSCI (Morgan Stanley Capital International): MSCI indices are the most widely used benchmarks by global portfolio managers. MSCI offers international investors performance benchmarks for 51 national stock markets as well as regional, sector, industry group, and industry aggregations.

MSCI All Country World ex-US EAFE Index: An unmanaged index that includes developed and emerging markets outside the United States.

MSCI All Country World ex-US Small Cap Index: A free float-adjusted market capitalization index designed to measure global developed and emerging market small capitalization equity performance, excluding the U.S.

MSCI EAFE Index: A free float-adjusted market capitalization index which captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada.

MSCI EAFE IMI Index: A free float-adjusted market capitalization index which captures large, mid and small cap representation across Developed Markets countries around the world, excluding the U.S. and Canada.

MSCI EAFE Growth Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

MSCI All Country World ex-US Index: An unmanaged index that includes developed and emerging markets, excluding the U.S.

MSCI All Country World ex-US IMI Index: A free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the U.S.

MSCI All Country World IMI Index: A free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets.

MSCI All Country World ex-US IMI Growth Index: A free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the U.S. It includes those MSCI All Country World ex-US IMI Index securities with higher price-to-book ratios and higher forecasted growth rates.

MSCI World ex-US Growth Index: A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S., with higher price-to-book ratios and higher forecasted growth rates.

MSCI World ex-US Index: A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S.

MSCI Emerging Markets IMI Index: A free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

MSCI Emerging Markets Small Cap Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of small cap companies in emerging markets.

MSCI Emerging Markets Large Cap Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of large cap companies in emerging markets.

MSCI World ex-US Small Cap Index: An unmanaged index that includes non-US developed markets.

Russell 1000 Index: Measures the performance of the 1000 largest companies in the Russell 3000 Index, which represents approximately 90% of the total market capitalization of the U.S. market.

Russell 1000 Growth Index: Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index: Measures the performance of the large cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Index: Measures the performance of the 2000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

Russell 2000 Growth Index: Measures the performance of those Russell 2000 companies with higher price-to book ratios and higher forecasted growth values.

Russell 2000 Value Index: Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2500 Index: Measures the performance of the 2500 smallest companies in the Russell 3000 Index.

Russell 2500 Growth Index: Measures the performance of those Russell 2500 companies with higher price-to book ratios and higher forecasted growth values.

Russell 2500 Value Index: Measures the performance of those Russell 2500 companies with lower price-to book ratios and lower forecasted growth values.

Russell 3000 Index: Measures the performance of the 3000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Russell 3000 Growth Index: Measures the performance of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Index: Measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 27% of the total market capitalization of the Russell 1000 companies.

Russell Midcap Growth Index: Measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Value Index: Measures the performance of the mid-cap value segment of the U.S. equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.

S&P 500 Index: The Standard & Poor's 500 Index (S&P 500) is an index of 500 stocks chosen for market size, liquidity and industry grouping, among other factors. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. Companies included in the index are selected by the S&P Index Committee, a team of analysts and economists at Standard & Poor's. The S&P 500 is a market value weighted index—each stock's weight is proportionate to its market value.

A direct investment in an unmanaged index is not possible.

Composite Presentation Report

International Leaders

Calendar Year	Composite Gross Return (%)	Composite Net Return (%)	MSCI AC World ex US IMI (net) Return (%)	Composite 3-Yr Std Dev (%)	Benchmark 3-Yr Std Dev (%)	Number of Portfolios	Dispersion (%)	Composite Assets End of Period \$(mm)	Percentage of Total Firm Assets (%)
2006	21.46	20.27	26.51	11.62	10.23	5/Fewer	N/A**	847.22	1.98
2007	15.99	14.86	16.13	12.55	10.65	5/Fewer	N/A**	1,033.44	2.11
2008	-53.74	-54.23	-45.99	25.71	21.13	5/Fewer	N/A**	319.70	1.22
2009	42.80	41.38	43.60	27.81	25.52	5/Fewer	N/A**	337.42	0.92
2010	24.63	23.64	12.73	29.62	27.57	5/Fewer	N/A**	410.20	0.93
2011	-7.81	-8.55	-14.31	21.26	22.79	11	N/A**	1,948.15	4.73
2012	20.60	19.64	17.04	19.53	19.29	21	0.69	3,163.04	6.38
2013	19.21	18.26	15.82	16.20	16.24	23	0.42	3,655.73	5.89
2014	-0.94	-1.73	-3.89	11.94	12.78	21	0.16	3,356.38	5.32
2015	7.02	6.17	-4.60	11.07	11.95	22	0.57	3,723.18	5.75

Disclosures:

William Blair Investment Management claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. William Blair Investment Management has been independently verified for the periods January 1, 1993 through December 31, 2014. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The International Leaders Composite has been examined for the periods presented through December 31, 2014. The verification and performance examination reports are available upon request. For purposes of compliance with GIPS, the Firm is defined as all accounts managed by William Blair Investment Management. William Blair Investment Management includes William Blair Investment Management, LLC and some accounts managed by William Blair & Company, L.L.C. William Blair Investment Management, LLC and William Blair & Company, L.L.C. are investment advisers registered with the United States Securities and Exchange Commission ("SEC"). Registration with the SEC does not imply a certain level of skill or training.

International Leaders invests in companies based in developed and emerging markets outside of the United States. Companies have had and are expected to maintain superior growth, profitability and quality relative to local markets. Portfolios invested in the International Leaders strategy will hold fewer securities in fewer markets than portfolios managed under the International Growth strategy.

The benchmark that best reflects the composite's investment strategy is the MSCI All Country World Ex US Investable Market Index (IMI) Net, which is a free float-adjusted market capitalization index that is designed to measure equity market performance, net of withholding taxes, in the global developed and emerging markets, excluding the US.

Portfolios must have an initial market value greater than or equal to \$1 million to be included in the composite. New accounts are added to the composite at the beginning of the month following the first full calendar month under management. Prior to July 2007, new accounts were added to the composite at the beginning of the quarter following two full calendar months under management. Portfolios will be excluded from their composite the first month immediately following their last complete month of authorized management by the Firm. Beginning May 2013, portfolios are removed from this composite, in the event of a significant cash flow, for the month during which the flow occurs. Portfolios are typically added back into the composite the following month. A portfolio is determined to have a significant cash flow if the accumulated net external flows of cash and/or securities during a month total more than 25% of the beginning of month portfolio market value. Additional information regarding the treatment of significant cash flows is available upon request.

Portfolio and composite returns are calculated daily. Prior to January 2009, portfolio returns were calculated monthly using a time-weighted monthly linked return formula with adjustments for cash flows and composites were calculated monthly by weighting portfolio returns based on beginning of month market value. Valuations and returns are denominated in U.S. Dollars. Accrual accounting is used for dividends. The dividend accruals included in portfolio valuations are net of applicable withholding taxes. Pending withholding tax reclaims are not accrued for in the portfolio valuations. Composite dispersion measures represent the consistency of a firm's composite performance with respect to the individual portfolio returns within a composite. The dispersion of annual returns is measured by the asset-weighted standard deviation of the gross returns in the composite. Dispersion includes only those portfolios that have been included in the composite for the entire year. The three-year annualized standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. This statistic is not presented until there are 36 months of performance available.

Performance results are stated gross and net of max investment advisory fees. The management fee schedule is as follows, effective January 2010:

First \$20,000,000: 0.80%
 Next \$30,000,000: 0.60%
 Next \$50,000,000: 0.50%
 Next \$50,000,000: 0.45%
 Next \$50,000,000: 0.40%
 Over \$200,000,000: 0.30%
 The maximum fee is 0.80%.

The International Leaders Composite was created in March, 2003. From May 2005 through September 2011, the composite was called International Growth Team: Concentrated. Prior to May 2005, the composite was called International Growth Team: Taxable.

A complete list and description of firm composites is available upon request. Additional information regarding policies for valuing portfolios, calculating performance and preparing compliant presentations is also available upon request. Past performance is not indicative of future results.

**Five or fewer portfolios were included in the composite for the entire year.

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Dave Hunter, Darren Schulz and Eric Chin

DATE: April 22, 2016

SUBJECT: International Equity Recommendation:

RIO Recommendation:

Staff recommends that the SIB approve the replacement of the existing Capital Group International Equity strategy within the Pension, Insurance, and Legacy Trusts. Furthermore, following an international equity search in collaboration with Callan Associates, Staff recommends that the Board award the mandate to William Blair Asset Management's International Leaders strategy. With a long history of growth equity investing dating back to the company's formation in 1935, William Blair offers a compelling high conviction, high quality international growth strategy that represents an attractive complement to the three Trust's existing global and international equity mandates. Introducing a true growth-oriented strategy to the existing investment programs provides diversification benefits and should be rewarded when quality growth is in favor. Our favorable view of the strategy is also attributable to a combination of the depth and experience of the portfolio management team, research, risk management, the firm and investment process. The current level of assets under management is reasonable and the firm has a history of closing strategies prior to liquidity and execution becoming problematic. Lastly, the firm offers a very competitive fee schedule for larger mandates.

Background:

As of March 31, 2016, the Capital Group managed approximately \$445 million in its International Equity Strategy for the Pension Trust, Insurance Trust, and Legacy Fund.

Strategy	Pool	Market Value	
Developed International Equity (EAFE)	Pension Trust	\$	122,978,987
International Equity (EAFE Plus)	Insurance Trust	\$	59,673,921
International Equity (EAFE Plus)	Legacy Trust	\$	262,088,905
Total		\$	444,741,813

In May of 2015 the Capital Group announced the planned departures of three senior portfolio managers: Nancy J. Kyle, Lionel M. Sauvage, and David I. Fisher. As a result, in August of 2015 the SIB officially placed the Capital Group International Equity Strategy "CGIES" on the Watchlist. Following the August SIB board meeting, staff spent considerable time and resources attempting to evaluate the impact these departures would have on portfolio strategy and composition. However, despite multiple discussions and meetings, the Capital Group was ultimately unwilling to provide Staff with sufficient information to appropriately evaluate how these changes would affect the portfolio going forward. As a result, in the November SIB board meeting, Staff

recommended that the SIB engage Callan to assist RIO in conducting a search to potentially replace the Capital Group International Equity Strategy (which the board approved).

Process:

Following the board's approval to commence a search for candidate managers to replace the CGIES, Staff collaborated with Callan to construct a candidate pool of approximately 10 managers. Notably, staff directed Callan to identify managers that were benchmarked against the MSCI ACWI Ex US (CGIES is benchmarked against the MSCI EAFE Index), thus expanding the universe of investible companies. By comparison, the MSCI ACWI Ex US consists of 22 developed markets (ex US) and 23 emerging market countries, while the MSCI EAFE Index comprises of 21 developed markets (ex US and Canada). Staff believes that increasing the flexibility and scope of the mandate will generate superior risk adjusted returns over the long term.

Other initial screening criteria included:

- 1) Minimum firm assets under management "AUM" of \$10 billion
- 2) Minimum strategy/product AUM of \$2 billion and a diversified client base.
- 3) A complementary strategy to the SIB's other international equity manager LSV
- 4) A minimum product track record of five years
- 5) Attractive performance metrics against the MSCI ACWI ex US

Callan began by winnowing prospective managers through a number of sophisticated screens. Metrics utilized in this process included comparative performance metrics relative to an index (i.e. Sharpe ratio, information ratio, excess return ratio, tracking error, rolling metrics, and up-market and down-market capture), portfolio characteristics (i.e. growth/value scores), and organizational characteristics (i.e. product/strategy AUM). As a result of Staff's research and diligence, Staff directed Callan to include several managers in this vetting process. These managers were JO Hambro, Marathon Asset Management, Morgan Stanley, and Thornburg Investment Management. This process produced a list of 13 viable investment strategies.

1. American Century Investment Management Non U.S. Growth (MSCI ACWI ex-U.S.)
2. Artisan Partners Non-U.S. Growth
3. Baillie Gifford ACWI ex US Focus Equities
4. Fisher Investments-All Foreign Equity
5. Harding Loevner International Non-U.S. Equity
6. J O Hambro International Select Equity
7. Marathon Asset Management Active ex-U.S. Equity
8. MFS International Growth Equity
9. Thornburg Investment Management International Growth Strategy
10. WCM Investment Management—Focused Growth International
11. Wellington Management International Opportunities
12. Wellington International Quality Growth
13. William Blair International Leaders

Staff and Callan conducted additional scrutiny on the qualitative and quantitative characteristics of the remaining managers and culled the list to four. As with most traditional public equity manager searches, areas of focus included:

- **Organization:** Firm ownership, client make-up (geographic & type), assets under management, and product offerings
- **Team:** Size and experience of the team, staff turnover, organizational culture, and retention methods for key staff
- **Strategy:** Total strategy assets, capacity, investment process/philosophy, trading, and fees
- **Portfolio Characteristics:** Portfolio holdings, style characteristics, concentration, liquidity, and turnover
- **Performance Based Metrics:** Correlation, risk (standalone and benchmark relative), excess returns, upside/downside capture, and consistency of performance

Since most of the managers scored highly on the quantitative screens, noteworthy reasons that managers were removed at this stage of the process included:

1. Organizational instability:
 - a. Key departures at the firm/investment level
 - b. Concerns with firm ownership, or the transition of ownership
2. Short product/strategy track record
3. Outstanding arbitration and or negative press

The remaining four managers were:

1. Baillie Gifford ACWI ex US Focus Equities
2. MFS International Growth Equity
3. Wellington International Quality Growth
4. William Blair International Leaders

Staff proceeded to meet with the Senior Portfolio Managers of each of the remaining four strategies at Callan's Denver office. At these meetings, staff evaluated each manager's parent organization, investment process and strategy, portfolio characteristics (liquidity, turnover, and market cap), and investment team. While all four managers rated highly, the William Blair International Leaders and Baillie Gifford ACWI ex U.S. Focus strategies rose to the top.

Some of the key characteristics that led to this decision included:

1. Ability to generate excess returns over the long term and strong metrics against the MSCI ACWI ex US
2. Attractive risk and reward characteristics: Compelling Sharpe and information ratios
3. A sizeable and capable team of investment professionals that can manage the complexities of their respective strategy
4. Leaders of the portfolio management team are experienced, and have been managing the strategy for a significant period of time

Lastly, Staff conducted onsite visits with its two remaining candidate managers. Staff spent half a day at each manager's office, and met with senior trading professionals, risk managers, and other senior investment professionals. At these meetings, Staff evaluated the manager's trading and technological infrastructure, and the nuances of the of research and investment platform. The onsite visits were highly productive and provided Staff confidence that both managers are highly capable, and qualified to manage an international equity strategy for the SIB.

William Blair International Leaders Strategy Evaluation:

1. Organizational Overview: William Blair was founded in 1935, initially focusing on identifying and investing in small and mid-size growth-oriented companies. The firm is an independent, 100% employee-owned partnership with 193 partners and 126 investment professionals. As of March 31, 2016 the firm manages approximately \$64.3 billion in AUM divided across Global/International Equity (54%), U.S. Growth Equity (25%), Custom Portfolios (11%), Dynamic Allocation (4%), U.S Value Equity (3%), U.S. Fixed Income (2%) and Hedge Fund Strategies (1%). Within the William Blair Focused Leaders strategies, the firm manages International Equity (\$3.6B), Emerging Markets Equity (\$3.8B) and Global Equities (\$2.5B) strategies.

2. William Blair International Leaders Strategy:

a. Overview: The International Leaders Strategy was inceptioned on January 31, 2003. It is currently managed by Ken McAtamney and Simon Fennell, both of whom joined William Blair in 2005 and 2011, respectively. They are supported by a dedicated fundamental research team of 17 analysts, a Director of Research, a Director of Strategy Research, and team of 3 Systematic Research specialists.

b. Philosophy: The International Leaders strategy employs an investment philosophy consistent with the firm's Quality Growth platform established in 1996. Their quality growth philosophy hinges upon the well-founded belief that strong corporate performance across a variety of dimensions drives superior investment returns over the long-term. The team focuses on companies in businesses with consistent and high rates of growth, are highly profitable, have conservative finances, and possess high quality management to enable sustainable growth rates. Stylistically, their quality growth approach can be described as falling between the equity styles of growth at a reasonable price (GARP) and aggressive growth.

c. Strategy: The International Leaders strategy employs a bottom-up, research-intensive, fundamental approach to stock selection. As such, active returns for the strategy have been driven historically by security selection and to a lesser extent industry, country and style factors.

With respect to security selection, all companies must meet strict qualitative criteria prior to consideration as a portfolio candidate. From an investable universe of approximately 10,000 international equity companies, William Blair utilizes proprietary quantitative models to narrow the research universe to an eligibility list of 1,400 to 1,700 companies (20 to 30% of the ACWI ex-U.S. IMI index) that best fit the firm's quality growth criteria. Each company is assigned a composite score based on a number of financial metrics such as revenue and earnings growth, consistency of growth, forecasted growth, and valuation. At this stage, fundamental analysis is performed to verify the financial indicators generated by the quantitative models, from which a "Research Agenda" of 50 to 75 candidate companies are tracked on short-intermediate term factors such as earnings, valuation and price momentum trends. Each company on the Research Agenda is assigned to a team member based on research coverage. Following the production of a research summary and presentation to the team, Lead-PM Ken

McAtamney retains the final decision-making authority to purchase or sell securities within the International Leaders strategy.

International Leaders is an all-capitalization strategy that invests in globally dominant industry leaders and locally dominant small and mid-cap companies. The strategy is benchmarked to the MSCI All Country World Index ex U.S. Investable Market Index (IMI), spanning large, mid and small capitalization companies across 22 developed and 23 emerging market countries with coverage of approximately 99% of the global opportunity set outside the U.S. Allocations across the capitalization spectrum are a function of bottom-up, fundamental analysis and growth potential within the capitalization range. Currently the strategy holds a modest bias to larger capitalization companies as measured by weighted average market cap against the MSCI ACWI ex U.S. IMI index.

Reflecting the high conviction nature of the strategy, the number of holdings ranges between 40 to 70 holdings. As of March 31, 2016 International Leaders is positioned at the upper end of that band at 64 holdings. Position size is a function of market cap, liquidity, price volatility, and fundamental risk/reward. While standard guidelines permit up to a 40% weighting in emerging markets, the strategy has historically maintained a modest structural underweight to emerging markets.

With respect to risk management, William Blair has made significant enhancements to its risk systems over the last seven years. The firm employs a proprietary research system called Summit into which is incorporated a proprietary factor model, which allows the research and risk teams to monitor and assess risk exposures not only at the total portfolio level but also down to the individual stock level. Developed internally as a platform specifically suited to the firm's investment process, the Summit platform is heavily used for research, portfolio management, trading, and risk management.

d. Performance Overview:

Common Period Returns and Risk Statistics (Gross) 7 Years as of 12/31/15

	Baile Gifford	William Blair	Capital Group	MSCI: ACWI ex US
Returns	13.30%	15.20%	10.01%	9.18%
Excess Return (MSCI: ACWI ex US)	4.12%	6.03%	0.83%	0.00%
Excess Return Ratio (MSCI: ACWI ex US)	1.18	1.01	0.2	N/A
Standard Deviation	19.47%	17.81%	17.96%	19.34%
Sharpe Ratio (3 month T-bill)	0.68	0.85	0.55	0.47
Tracking Error (MSCI: ACWI ex US)	3.20%	5.44%	3.77%	0.00%
Information Ratio (MSCI: ACWI ex US)	1.21	1.31	0.44	0
Batting Average (MSCI: ACWI ex US)	75.00%	67.86%	64.29%	N/A
Alpha (MSCI: ACWI ex US)	3.93%	6.63%	1.51%	0.00%
Beta (MSCI: ACWI ex US)	0.99	0.88	0.91	1.00
Up Market Capture	125.08%	127.24%	100.81%	100.00%
Down Market Capture	90.40%	78.43%	95.18%	100.00%

Source: Callan PEP Database

Across a number of key metrics on a standalone basis, William Blair compares favorably to Capital Group and candidate Baillie Gifford relative to the MSCI ACWI ex U.S. benchmark. Key metrics include annualized returns, risk adjusted returns, excess returns, down market capture, and standard deviation. Quantitatively, William Blair has generated favorable absolute returns, excess returns, and alphas while delivering lower down market capture and standard deviation.

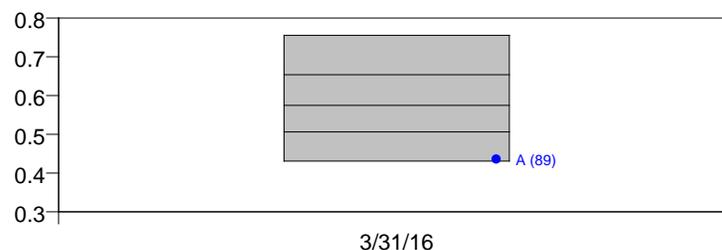
Importantly, the strategy is complementary in relation to other existing global and international equity mandates, particularly LSV, as evidenced by negative excess return correlations over the last 7 years:

**Excess Return Correlations for 7 Years Ended December 31, 2015
vs the MSCI ACWIxUS Gross**

Baillie	0.10	0.00	(0.02)	0.17	0.30	1.00
William Blair	(0.12)	0.00	(0.48)	0.27	1.00	0.30
Current: Cap Group	0.47	0.00	0.03	1.00	0.27	0.17
Current: LSV	0.59	0.00	1.00	0.03	(0.48)	(0.02)
MSCI ACWI ex US Index	0.00	0.00	0.00	0.00	0.00	0.00
MSCI World ex US	1.00	0.00	0.59	0.47	(0.12)	0.10
	MSCI World ex US	MSCI ACWI ex US Index	Current: LSV	Current: Cap Group	William Blair	Baillie

- e. **Capacity and Fees:** With total product assets of approximately \$3.6 billion as of March 31, 2016, the William Blair International Leaders strategy remains open to existing and new investors. Additionally, the product fee schedule is very competitive relative to its international growth equity peer group as illustrated below:

**Effective Annual Fee
for a \$445,000,000 Mandate
for Periods Ended March 31, 2016
Group: CAI Growth+ International Eq Style**



10th Percentile	0.71
25th Percentile	0.60
Median	0.52
75th Percentile	0.46
90th Percentile	0.38

Member Count 35

WBlair: Intl Leaders • A 0.39

William Blair's current fee schedule is: 0.80% on the first \$20 million in assets; 0.60% on the next \$30 million in assets; 0.50% on the next \$50 million; 0.45% on the next \$50 million, 0.40% on the next \$50 million, and 0.30% on amounts in excess of \$200 million. The firm will aggregate Pension, Insurance and Legacy Trust assets when calculating management fees.

Conclusion:

Staff recommends to the Board the replacement of the Capital Group International Equity strategy within the Pension, Insurance and Legacy Trusts. Additionally, Staff recommends that the Board award the mandate to William Blair International Leaders as a result of the following factors:

1. William Blair has a long legacy of growth equity investing and the strategy is managed and supported by a seasoned team of investment professionals. As an independent, employee-owned firm, the firm's incentive structure and performance-oriented culture are aligned with clients.
2. The firm's process employs both qualitative and quantitative fundamental analysis in constructing a high conviction quality growth portfolio of international equity companies across the capitalization spectrum. The firm has invested heavily into a proprietary portfolio management and risk technology architecture to support and guide both research and portfolio management.
3. Strategy assets are reasonable given the number of holdings in the strategy. Historically, the firm is disciplined in closing strategies at prudent asset levels.
4. William Blair's investment process is highly complementary to the existing global and international equity mandates, providing diversification benefits.
5. Management fees were the lowest among the finalist pool.

INFORMATIONAL ONLY

TO: State Investment Board
FROM: Dave Hunter and Darren Schulz
DATE: April 18, 2016
SUBJECT: Bank of North Dakota (BND) Match Loan CD Program Update

Update:

RIO will explore funding alternatives for the BND Match Loan Certificate of Deposit Program (“CD Program”) in the upcoming months noting it currently resides in the Budget Stabilization Fund (“BSF”). This action is prompted by budget concerns which may require a substantial portion of this “rainy day fund” be used to help offset expected budget shortfalls. The CP Program accounts for \$90 million of the \$577 million BSF as of February 29, 2016.

Background:

BND has a strong desire to maintain the CD Program which provides low cost financing to companies seeking to develop new businesses in North Dakota. RIO notes this economic development program has been in place for over 20 years although the funding source has migrated among various funds overseen by the SIB. Given the nature and size of the \$3.5 billion Legacy Fund, RIO will strongly consider the Legacy Fund as an alternative. RIO notes “the retirement funds belonging to TFFR and PERS must be invested exclusively for the benefit of their members”. Given these “exclusive benefit” provisions, RIO does not intend to explore funding alternatives within the Pension Trust.

Budget Stabilization Fund Performance Review – December 31, 2015:

The BND Match Loan CD Program has been the best performing investment within the BSF over the last five years generating a 3.42% return while the Short Term Fixed Income portfolio posted a 1.39% return during this same period. BND’s strong performance is due to most of the CD rates being set at a fixed rate during a period of higher rates. As a result, the BND CD Program locked in rates several years ago when they were above current market rates available today.

Five Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
BND CDs	22%	18%	3.42%	0.96%	0.54%	0.20%	0.73%
Short Term Fixed Income	74%	66%	1.39%	0.47%	0.70%	(0.00%)	0.69%
Cash & Equivalents	4%	17%	0.14%	0.07%	0.00%	0.00%	0.01%
Total			1.87%	= 0.43%	+ 1.24%	+ 0.20%	1.44%

During the past year, the BND CD Program has continued to outperform other Short-Term Fixed Income investments although the level of the outperformance has declined as older CD's bearing higher interest rates have been replaced with CD's bearing lower interest rates given the current rate environment.

One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
BND CDs	16%	16%	2.64%	1.32%	0.22%	(0.00%)	0.22%
Short Term Fixed Income	82%	82%	1.16%	0.57%	0.47%	0.00%	0.47%
Cash & Equivalents	2%	1%	0.01%	0.05%	(0.00%)	0.01%	0.01%
Total			1.37%	= 0.67%	+ 0.69%	+ 0.01%	0.70%

The current interest rate environment poses a substantial risk to the future BND CD Program particularly in the event interest rates were to rise sharply in the near future. RIO notes the BND CD's are backed by the full faith and credit of the State of North Dakota.

AGENDA ITEM IV.A.

TO: State Investment Board

FROM: Janilyn Murtha, Assistant Attorney General and Dave Hunter, ED/CIO

DATE: April 18, 2016

SUBJECT: Securities Monitoring and Litigation Policy (E-14) – Implementation Update

Policy Background:

On November 20, 2015, the SIB approved the recommendation of legal counsel Janilyn Murtha and RIO to formally document the “Securities Monitoring and Litigation Policy” followed by the SIB in recent years. **A copy of this policy as unanimously approved by the SIB immediately follows for reference.**

Recent Securities Monitoring Process Updates:

As highlighted in prior SIB meetings, RIO and the SIB have primarily relied on our custodian, Northern Trust, for monitoring and reporting of securities litigation. At our last SIB meeting, Northern Trust provided a securities litigation monitoring update which included an overview of our current monitoring process while noting that SIB clients have received annual cash proceeds ranging from \$222,000 in 2013 to \$1.37 million in 2008 (including \$679,000 in 2015).

Callan’s Review of Northern Trust’s Securities Litigation Monitoring Program:

Based on custodial reviews of Northern Trust’s overall operations, our investment consultant did not identify any material weaknesses in Northern Trust’s securities litigation monitoring policies or practices. However, there has been an increase in the number of international securities litigation cases in recent years. In order to address this matter and enhance our ability to monitor future international securities litigation cases, RIO is working with our custodian and the Office of the Attorney General to implement our international securities litigation monitoring program.

Next Steps:

Janilyn Murtha from the Office of the Attorney General will provide the SIB with a current update of recent international securities litigation cases later in today’s SIB meeting. RIO has **boldfaced** the most relevant sections of the attached “Securities Monitoring and Litigation Policy” to aid our review and discussion process.

General Purpose

1. The North Dakota State Investment Board (“SIB”) is a fiduciary for assets held in trust for the benefit of SIB clients’ including their beneficiaries and to defray expenses of administration of their respective investment funds.
2. In order to carry out its fiduciary duty to prudently invest and diversify the assets of the various investment funds, the SIB invests considerable assets in global public securities markets.
3. The efficient and effective deployment of plan assets requires that in seeking returns market risks must be prudently assumed and managed. Investing in publicly-traded securities in regulated markets under accounting, disclosure and business practice laws and regulations provides general, but not perfect assurance that the information forming the basis for investments is accurate, conforms with accepted accounting practices, and is not distorted due to misfeasance, malfeasance or nonfeasance, or the timing of information disclosures by persons or entities with the ability to affect market prices of the investment securities.
4. Legal action is sometimes necessary to attempt to recover all or part of losses the fund may incur due to alleged improper action or inaction that results in the impairment of the value of the fund’s security holdings.
5. Most such actions will be prosecuted by the class action bar whether or not the SIB takes an active role as a plaintiff or a passive role as a member of a certified class of plaintiffs. Any ultimate award or settlement from a class action filing will be ratably allocated among legitimate claimants.
6. The SIB will generally only consider pursuing active participation in securities actions when such a role is expected to add value by enhancing the prospect for recovery, increasing the amount of recovery, assuring more efficient and effective prosecution of the case, or identifying and addressing corporate governance issues through litigation.

For purposes of this Policy, “active participation” means seeking status as lead plaintiff, co-lead plaintiff, or filing separate legal action.

Non-Active Recovery and Filing

1. SIB will require as part of its agreement with its custodial bank, that adequate securities class action monitoring is maintained on an ongoing basis, sufficient to assure that most of the actual awards and settlements for such cases are tracked and identified and that proof of claim forms, including supporting documentation, will be properly and timely filed.
2. **To augment and enhance coverage, identification and tracking of class-action cases (potential or actual) SIB may engage one or more legal firms that specialize in monitoring and prosecuting security class-action cases; any such engagement is subject to the special appointment requirements of N.D.C.C. § 54-12-08.** For these purposes only, such firm(s) may be granted ongoing access to security holdings information through the custodian bank.

A monitoring agreement with any law firm for monitoring service access and reporting will not commit SIB to employing said firm in the event that it seeks to represent SIB as an active participant in any securities related litigation. Such representation must be effected by a separate retainer agreement between the SIB and said firm, or another, depending on such factors

as the potential monetary scope, the nature of the case and industry specialty that may be required, the allocation of current or past cases among candidate firms, the likely duration and cost of prosecuting such a case, retainer fees or contingency splits, the venue in which the case is to be filed, and other considerations.

3. The custodial bank will be required to provide the Retirement and Investment Office (“RIO”) with periodic reports that detail class action cases monitored, claims filed, and award or settlement distributions received. RIO will maintain these records and provide an update to the SIB with regards to accounting information on distributions received on claims filed by the custodian bank on our behalf.

Active Participation in Cases

1. **The Executive Director will initiate active participation in securities cases only upon prior review and approval of the SIB.** Before bringing any recommendations to the Board, the Executive Director with significant assistance by legal counsel from the Office of the Attorney General, will assess the merits and prospects for active participation by reference to the criteria and factors outlined in this section.
2. Decision Criteria and Factors
 - a. The decision to participate in an active capacity in security litigation should be based on the totality of the circumstances. Dollar loss amounts are important, but not the sole or overriding factor to consider in making such recommendations by the Executive Director, or determinations by the SIB.
 - b. **Potential losses to SIB clients must be significant in order to warrant participation as a lead plaintiff, co-lead plaintiff, or separate “opt-out” litigant. Generally, in cases where the potential loss does not exceed the greater of 0.1% of trust assets, the SIB will avoid active participation.**
 - c. The *prima facie* merits of the claim for loss, and the factual basis for the action, recognizing that the full discovery process will not commence until the class has been certified by the court in which such case is to be filed.
 - d. The availability of witnesses, and possible support that may be obtained from investment managers, consultants, and the custodial bank through discovery.
 - e. The potential that any defendants or insurers will be able to pay an adequate recovery to the class, without impairing the value of any current security holdings SIB may yet hold in the issuer in the portfolio.
 - f. The ability of the law firm recommending action on the part of SIB to prosecute the case effectively, in the venue where such case is likely to be filed, and the experience of the firm in managing such cases individually or in partnership with other firms.
 - g. Potential long-term benefits from corporate governance changes from pursuing litigation.
 - h. The ability of SIB to serve as a fiduciary on behalf of all class members in the case, especially in relative terms to other institutional investors that may be considering the same case.
 - i. Potential costs that may be incurred. Special consideration must be given to any case that must be filed in a non-U.S. venue under the “Morrison” criteria established by the U. S.

Supreme Court in a 2010 decision, since costs of litigation and potential liabilities of unsuccessful claims may be significant.

- j. Current workload and staffing resources required for the fulfillment of SIB's primary member service functions, and whether participation might displace time and staff resources needed for core business functions.
3. Decision Criteria and Factors for cases filed in a non-U.S. venue: In addition to the Criteria and Factors set forth in Subsection 2, the SIB may consider the following:
 - a. The proposed funding arrangements for the action.
 - b. Evaluate the merits and risks of the case in light of the law of the jurisdiction in which the action would be brought.
 - c. The role or level of participation in the case by the SIB.

Roles in Managing and Monitoring Litigation

1. **The SIB will make the final determination of whether it is in SIB's best interest to pursue active participation in any case and whether to engage any law firm and the terms of such engagement.**
2. Decisions regarding the conduct and implementation of the Board's decision to participate will be the responsibility of the Executive Director, or an approved member of the management staff if he so delegates. When feasible and advisable, the Executive Director shall seek advice and direction from the Board on strategic and legal issues that may arise in prosecuting the action on behalf of the SIB and its clients. The Executive Director shall timely report to the Board on the progress of the litigation.
3. The Executive Director shall be responsible for management of the relationship with any portfolio monitoring law firm or organization for such purpose. Based on the need for additional coverage, the Executive Director will determine whether one or several firms are needed to fulfill the goals of this Policy and may terminate such monitoring agreements as judgment advises.
4. **Any agreement for portfolio monitoring services that includes a fee or subscription cost must first be approved by the SIB before execution by the Executive Director.**

Policy Review

1. The Board shall review this policy at least every three years to ensure that it remains relevant and appropriate.

INFORMATIONAL

To: State Investment Board

From: Dave Hunter, Executive Director / CIO

Date: April 12, 2016

RE: New SIB Client Requests

SIB Client Inquiry:

Dr. Aaron Johnson, Board Member of the Bismarck State College (BSC) Foundation, inquired if the BSC Foundation could become a client of the SIB.

RIO Response:

Upon further review and discussion with/ the Office of the Attorney General, RIO informed Dr. Johnson that the University Systems take the position that the Foundation is a separate private entity and therefore not a governmental unit of the State of North Dakota. As such, North Dakota's legal statute would need to be amended to allow a "Foundation" to utilize the SIB for investment management services. This message was communicated to Dr. Aaron Johnson via voice mail and email on March 22, 2016.

RIO would like to thank Janilyn Murtha from the Office of the Attorney General for her timely and outstanding legal guidance on this important matter.

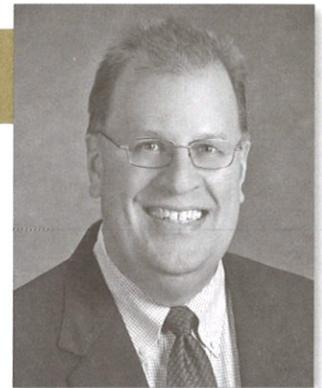
YOUR VESTED INTEREST

North Dakota State Investment Board

March 2016

FROM THE DIRECTOR'S CHAIR

David Hunter
Executive Director/CIO



SIB and RIO Oversee Investment Management for 24 ND Agencies



During the last legislative session I received a number of questions relating to the services offered by the State Investment Board (SIB) and the Retirement and Investment Office (RIO). Nearly everyone I met with understood that RIO provided excellent retirement benefit services to ND public school teachers and administrators through the ND Teachers' Fund for Retirement (TFFR). Most individuals also knew the SIB and RIO provided investment services to TFFR and the ND Public Employees

Retirement System (PERS) pension plans, along with the Legacy Fund and Budget Stabilization Advisory Board. However, most individuals were not aware that the SIB also provided investment management services to twenty other North Dakota agencies. As such, I thought it might be helpful to list the agencies receiving investment management services and to share some highlights about the SIB and RIO.

State Investment Board (SIB)

Lt. Governor Drew Wrigley, *Chair*
Mike Sandal, *PERS Trustee, Vice Chair*
Lance Gaebe, *Land Commissioner*
Mike Gessner, *TFFR Trustee*
Adam Hamm, *State Insurance Commissioner*
Rob Lech, *TFFR Trustee*
Mel Olson, *TFFR Trustee*
Kelly Schmidt, *State Treasurer*
Yvonne Smith, *PERS Trustee*
Cindy Ternes, CPA, *Designee WSI*
Tom Trenbeath, *PERS Trustee*

RIO Administrative Office

David Hunter, *Executive Director/CIO*
Fay Kopp, *Deputy Executive Director/
Chief Retirement Officer*
Darren Schulz, *Deputy CIO*
Shelly Schumacher, *Editor*

ND Retirement and Investment Office

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www.nd.gov/rio

Articles are for general information only and are not intended to provide specific advice or recommendation. Any views, opinions or conclusions expressed herein are those of the author(s) and do not necessarily reflect the position or policy of the SIB or North Dakota Government. Other forms of this newsletter are available upon request.

Pension Trust (\$4.7 billion)

Teachers' Fund for Retirement (TFFR)
Public Employees Retirement System (PERS)
City of Bismarck Employee Pension Plan
City of Grand Forks Employee Pension Plan
City of Bismarck Police Pension Plan
Park District City of Grand Forks Pension Plan
Job Service of North Dakota

Separate Funds (\$3.6 billion)

Legacy Fund
PERS Retiree Health Insurance Fund
ND Tobacco Prevention & Control Trust Fund

Insurance Trust (\$2.5 billion)

Workforce Safety and Insurance (WSI)
Budget Stabilization Fund (BSF)
City of Fargo FargoDome Permanent Trust
PERS Group Insurance Account
State Fire and Tornado Fund
Petroleum Tank Release Compensation Fund
State Risk Management Fund
State Risk Management Workers Comp. Fund
North Dakota Association of Counties Fund
State Bonding Fund
North Dakota Board of Medical Examiners
Insurance Regulatory Trust Fund
Bismarck Deferred Sick Leave Account
Cultural Endowment Fund

As of December 31, 2015, the SIB and RIO administered the external investment management of approximately \$10.8 billion in assets for 24 governmental agencies including TFFR and PERS within the \$4.7 billion Pension Trust, WSI and BSF within the \$2.5 billion Insurance Trust, and the \$3.5 billion Legacy Fund. I firmly believe the SIB and RIO have provided prudent investment management over the years noting that the SIB has

Continued on page 2

been successful in using active management to enhance our client's returns by over \$200 million in the last 5 years (after deducting management fees). This additional income is on top of returns generated if we were only investing in passive benchmarks or index investments.

RIO Investment Mission Statement

RIO exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule.
- 2) Potential clients have access to information regarding the investment services offered by the SIB.
- 3) SIB clients and TFFR benefit recipients receive satisfactory services from the boards and RIO.

RIO Investment Performance Review

In order to determine if SIB clients are receiving investment returns consistent with their written investment policies and market variables, RIO reviews each client's actual and expected investment performance with the SIB each quarter. An outside investment consultant also conducts a quarterly investment performance review to provide further assurance that reported investment results are being achieved, while adhering to approved risk levels and that actual asset allocation levels are consistent with stated targets. After conducting the above review procedures, I am pleased to report that every Pension Trust client generated actual investment results which exceeded their respective performance benchmarks for the 1, 3, and 5 year periods ended December 31, 2015. I am also pleased to report that these above benchmark returns were achieved while adhering to approved risk

levels. As a result, the SIB has been successful in using active management to enhance returns of our Pension Trust clients by over \$90 million in the last 5 years.

Investment Management Fee Savings Initiatives

The SIB and RIO have been successful in reducing investment management fees in recent years. During the last two fiscal years, investment fees have declined from 0.65% to 0.47%. Based on \$10 billion of assets, this translates into \$17 million of annual fee savings.

SIB Client Satisfaction Survey

Client satisfaction surveys conducted by our audit services team confirm that the SIB is meeting the expectations of our clients. The overall client satisfaction survey rating was a 3.7 based on a 4.0 scale (4.0 = Excellent and 3.0 = Above Average). This is the second consecutive year the SIB received a client survey rating well above average.

RIO Website Transparency Enhancements

RIO recently completed a transparency enhancement initiative in order to make it easier for interested parties to gain access to information on our website (including quarterly investment performance reviews). The following documents can be accessed at the RIO website under "SIB Board" and "SIB Audit."

- The SIB Governance Manual www.nd.gov/rio/SIB/Board/GovernanceManual/default.htm
- SIB meeting materials www.nd.gov/rio/SIB/Board/SIB%20Meeting%20Materials/default.htm
- SIB's Audit Charter and SIB Audit Committee meeting materials www.nd.gov/rio/SIB%20Audit/Board/default.htm

RIO staff can be reached at 701-328-9885, 800-952-2970, or via email at djhunter@nd.gov.

Annual Audit Completed

The 2015 financial statements of the North Dakota Retirement and Investment Office received an unqualified audit opinion from the independent audit firm of CliftonLarsonAllen, LLP. There were no exceptions, recommendations, or findings in the report. The final audit report can be viewed from our website, www.nd.gov/rio.

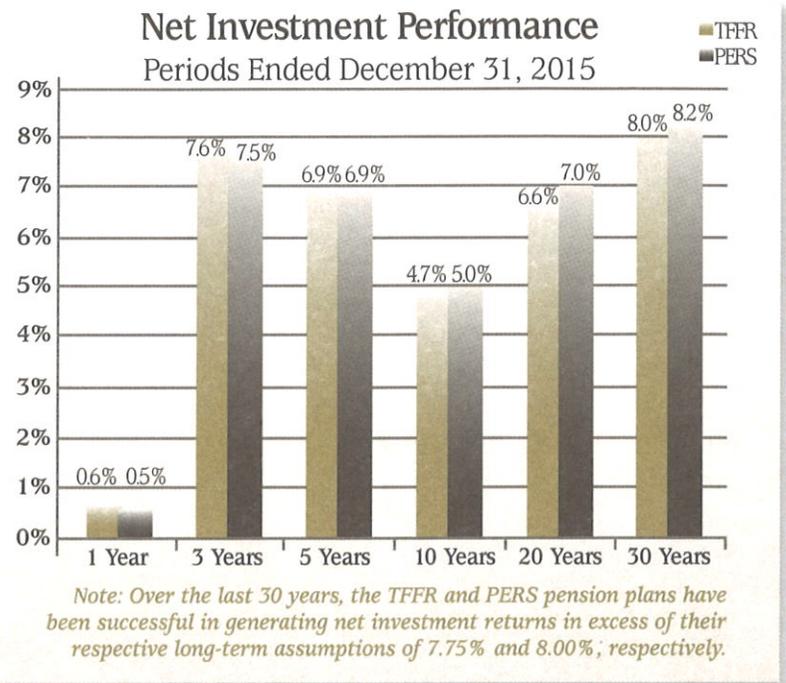
2015 Annual Financial Report Available

The North Dakota Retirement and Investment Office Comprehensive Annual Financial Report (CAFR) has been published and may be viewed from our website, www.nd.gov/rio. This report is a complete review of the financial, investment, and actuarial conditions of the State Investment Board and the Teachers' Fund for Retirement.



PERS and TFFR Investment Performance

PERS and TFFR generated net investment returns just over 0.5% in CY2015 due to weak conditions in the global equity and debt markets which declined by 1% to 3%. U.S. equity and debt benchmarks performed slightly better and ranged from 1.4% for the S&P 500 to 0.5% for the Barclays Aggregate index (which is a widely used market benchmark for fixed income returns). Slowing global growth rates and escalating economic uncertainty were two of the major themes impacting investment results. As example, U.S. Gross Domestic Product (GDP) growth rates have declined from over 3% in prior years (from 1947 until 2015) to less than 2% during the last half of 2015. Global commodity prices fell sharply as a result of growing supply and demand imbalances, particularly in the energy sector, which has contributed to declining investor optimism and increased market volatility. Despite generally improving U.S. labor market conditions and an incredibly accommodating monetary policy,



global GDP growth rates remain below expectations. On a positive note, real estate was the best performing sector posting a 14% return in CY2015.

Asset Allocation Primary Driver of Returns

Successful active management results when the SIB selects a team of investment managers which outperform an underlying benchmark index. For the one-year period ended December 31, 2015, active management improved TFFR and PERS net investment returns by 0.47%. Based on \$4.4 billion of combined investments for TFFR and PERS, this translates into over \$20 million of incremental income for the two retirement plans in the last calendar year.

	TFFR	PERS
Global Equity	58%	57%
Public	52%	52%
Private	6%	5%
Global Fixed Income	23%	22%
Investment Grade	19%	17%
Private	4%	5%
Global Real Assets	18%	20%
Real Estate	10%	10%
Infrastructure / Timber	8%	10%
Cash Equivalents	1%	1%
TOTAL	100%	100%

TFFR and PERS review their investment policy statements on a regular basis. TFFR recently completed this review process and the TFFR board and SIB recently approved the following investment policy statement modifications:

- TFFR's investment return assumption was reduced from 8.0% to 7.75% effective July 1, 2015, based on TFFR's 2015 Actuarial Experience Study completed by Segal Consultants.
- Based on the results of an Asset Allocation Study completed by Callan Associates, TFFR's asset allocation was revised to reflect a 1% increase to global equity, a 1% increase to global fixed income, and a 2% decrease to global real assets.

RIO intends to implement TFFR's revised asset allocation policy during the second quarter of CY2016. PERS intends to conduct its investment policy statement review during this same time frame.



**NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE**
*Teachers' Fund for Retirement
State Investment Board*

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BISMARCK, ND
58501

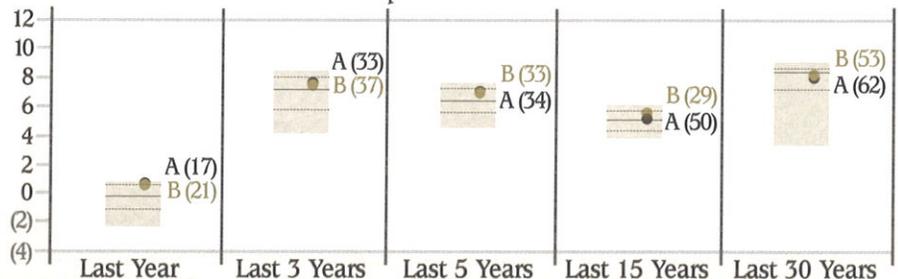
TFFR and PERS Peer Performance

TFFR and PERS net investment returns have outperformed most other U.S. public pension plans over the last 5-years.

TFFR and PERS net returns have generally outperformed other U.S. public pension plans for the 1, 3, and 5 year periods ended December 31, 2015. This peer group comparison is based on Callan's U.S. Public Pension Database for plans which report net investment returns. The bar chart highlights net investment returns of over 100 peers noting that TFFR (A) was ranked in the 34th percentile, while PERS (B) was ranked in the 37th percentile, for the "Last 5 Years." As a result, TFFR and PERS net investment return outperformed 66% and 67% of the other public pension plans during this period. The SIB and RIO have historically placed greater emphasis on 5 year performance metrics as shorter time periods may be overly impacted by one or two quarters of abnormal returns which are not reflective of longer-term strategic return expectations. Please note

that the "Member Count" of only 10 for the "Last 30 Years" makes it less meaningful than the other reporting periods in which the "Member Count" is 70 or more. The chart is based on unaudited valuations which are deemed to be materially accurate. RIO's financial results are audited annually with a June 30 fiscal year end.

Net of Fee Returns for Periods Ended December 31, 2015
Callan Public Fund Sponsor Database



	Last Year	Last 3 Years	Last 5 Years	Last 15 Years	Last 30 Years
10th Percentile	0.8	8.4	7.6	6.2	9.1
25th Percentile	0.5	7.9	7.3	5.8	8.6
Median	(0.3)	7.0	6.4	5.1	8.3
75th Percentile	(1.1)	5.6	5.7	4.4	7.2
90th Percentile	(2.4)	4.1	4.5	3.8	3.4
Member Count	135	123	103	70	10
Total Fund-TFFR •A	0.6	7.6	6.9	5.2	8.0
Total Fund-PERS •B	0.5	7.5	6.9	5.6	8.2

INFORMATIONAL

To: State Investment Board

From: Dave Hunter, Executive Director / CIO

Date: April 15, 2016

RE: **Certificate of Achievement for Excellence in Financial Reporting**

Government Finance Officers Association (“GFOA”) Award:

The North Dakota Retirement and Investment Office received a **Certificate of Achievement for Excellence in Financial Reporting** from the GFOA for its Comprehensive Annual Financial Report (“CAFR”) for the year ended June 30, 2015. This marks the 18th consecutive year that RIO been awarded this honor. RIO’s CAFR was judged by an impartial panel to meet the high standards of the program including demonstrating a constructive “spirit of full disclosure” to clearly communicate its financial story. **“The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.”**

I would like to sincerely thank our entire accounting and financial reporting team for this outstanding achievement including Connie Flanagan, Susan Walcker, Cody Schmidt, Dottie Thorsen, Terra Miller-Bowley, Bonnie Heit, Darlene Roppel, Darren Schulz and Fay Kopp.

BUDGETING / FINANCIAL CONDITION

AS OF MARCH 31, 2016

	2015-2017 BUDGET	ADJUSTED APPROPRIATION	BIENNIUM TO DATE ACTUAL	EXPENDITURES		
				BUDGET AVAILABLE	% BUDGET AVAILABLE	% OF BIENNIUM REMAINING
SALARIES AND BENEFITS	\$ 4,340,551.00	\$ 4,340,551.00	\$ 1,523,666.42	\$ 2,816,884.58	64.90%	62.50%
OPERATING EXPENDITURES	990,874.00	990,874.00	258,052.21	732,821.79	73.96%	62.50%
CONTINGENCY	82,000.00	82,000.00	0.00	82,000.00	100.00%	62.50%
TOTAL	<u>\$ 5,413,425.00</u>	<u>\$ 5,413,425.00</u>	<u>\$ 1,781,718.63</u>	<u>3,631,706.37</u>	<u>67.09%</u>	<u>62.50%</u>

EXPENDITURE REPORT

QUARTER ENDED MARCH 31, 2016

	<u>INVESTMENT</u>	<u>RETIREMENT</u>	<u>QUARTERLY TOTALS</u>	<u>FISCAL YEAR TO - DATE</u>	<u>BIENNIUM TO - DATE</u>
<u>CONTINUING APPROPRIATIONS</u>					
INVESTMENT EXPENDITURES (SEE ATTACHED DETAIL)	\$ 6,579,885.72	\$ 0.00	\$ 6,579,885.72	\$ 24,052,150.79	\$ 24,052,150.79
MEMBER CLAIMS					
1. ANNUITY PAYMENTS	0.00	44,758,963.00	44,758,963.00	134,583,619.14	134,583,619.14
2. REFUND PAYMENTS	0.00	1,538,868.34	1,538,868.34	5,069,315.31	5,069,315.31
TOTAL MEMBER CLAIMS	0.00	46,297,831.34	46,297,831.34	139,652,934.45	139,652,934.45
OTHER CONTINUING APPROPRIATIONS	51,636.28	27,905.62	79,541.90	332,056.18	332,056.18
TOTAL CONTINUING APPROPRIATIONS	6,631,522.00	46,325,736.96	52,957,258.96	164,037,141.42	164,037,141.42
<u>BUDGETED EXPENDITURES</u>					
1. SALARIES & BENEFITS					
SALARIES	192,170.52	191,439.81	383,610.33	1,128,992.33	1,128,992.33
OVERTIME/TEMPORARY	0.00	0.00	0.00	0.00	0.00
TERMINATION SALARY & BENEFITS	0.00	0.00	0.00	0.00	0.00
FRINGE BENEFITS	60,922.06	74,292.23	135,214.29	394,674.09	394,674.09
TOTAL SALARY & BENEFITS	253,092.58	265,732.04	518,824.62	1,523,666.42	1,523,666.42
2. OPERATING EXPENDITURES					
DATA PROCESSING	3,124.76	16,165.92	19,290.68	52,139.59	52,139.59
TELECOMMUNICATIONS - ISD	859.37	1,426.69	2,286.06	6,210.55	6,210.55
TRAVEL	7,871.93	2,170.71	10,042.64	33,036.01	33,036.01
IT - SOFTWARE/SUPPLIES	77.57	159.67	237.24	237.24	237.24
POSTAGE SERVICES	758.09	18,609.04	19,367.13	40,696.27	40,696.27
IT - CONTRACTUAL SERVICES	275.51	538.46	813.97	2,968.13	2,968.13
BUILDING/LAND RENT & LEASES	10,348.32	16,747.08	27,095.40	68,113.50	68,113.50
DUES & PROF. DEVELOPMENT	1,513.50	4,831.50	6,345.00	18,157.00	18,157.00
OPERATING FEES & SERVICES	992.32	3,331.81	4,324.13	11,295.09	11,295.09
REPAIR SERVICE	11.88	0.62	12.50	12.50	12.50
PROFESSIONAL SERVICES	743.37	2,322.63	3,066.00	8,346.00	8,346.00
INSURANCE	183.85	319.85	503.70	630.77	630.77
OFFICE SUPPLIES	113.99	314.81	428.80	1,001.46	1,001.46
PRINTING	674.87	4,872.31	5,547.18	12,836.95	12,836.95
PROFESSIONAL SUPPLIES & MATERIALS	0.00	0.00	0.00	647.34	647.34
MISCELLANEOUS SUPPLIES	16.41	109.86	126.27	403.81	403.81
IT EQUIPMENT UNDER \$5000	0.00	0.00	0.00	1,320.00	1,320.00
OFFICE EQUIPMENT & FURNITURE UNDER \$5000	0.00	0.00	0.00	0.00	0.00
TOTAL OPERATING EXPENDITURES	27,565.74	71,920.96	99,486.70	258,052.21	258,052.21
3. CONTINGENCY	0.00	0.00	0.00	0.00	0.00
TOTAL BUDGETED EXPENDITURES	280,658.32	337,653.00	618,311.32	1,781,718.63	1,781,718.63
TOTAL EXPENDITURES	\$ 6,860,544.04	\$ 46,635,484.34	\$ 53,575,570.28	\$ 165,818,860.05	\$ 165,818,860.05

**INVESTMENT EXPENDITURE DETAIL
FEES PAID DURING THE QUARTER ENDED MARCH 31, 2016**

FOR QUARTER ENDED 9/30/15

PENSION DEVELOPED INTERNATIONAL EQUITY POOL

Northern Trust		21,020.42
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PENSION INVESTMENT GRADE FIXED INCOME POOL

PIMCO		76,226.34
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CUSTODIAN

Northern Trust		278,438.84
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TOTAL FOR QUARTER ENDED 9/30/15		375,685.60
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FOR QUARTER ENDED 12/31/15

PENSION DEVELOPED INTERNATIONAL EQUITY POOL

Capital Guardian	132,456.16	
Northern Trust	19,068.87	
Wellington	193,510.50	
TOTAL PENSION INTERNATIONAL EQUITY		345,035.53

PENSION GLOBAL EQUITY POOL

Epoch	526,226.26	
LSV	103,401.00	
TOTAL PENSION GLOBAL EQUITY		629,627.26

PENSION BELOW INVESTMENT GRADE FIXED

Loomis Sayles		238,798.01
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PENSION INVESTMENT GRADE FIXED INCOME POOL

JP Morgan	64,698.12	
PIMCO	165,736.53	
State Street	6,703.69	
TOTAL PENSION INVESTMENT GRADE FIXED INCOME		237,138.34

PENSION INFRASTRUCTURE POOL

JP Morgan		311,679.56
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PENSION LARGE CAP EQUITY POOL

LA Capital		220,524.67
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PENSION REAL ESTATE

JP Morgan (Special & Strategic)	423,582.04	
Invesco	177,543.77	
TOTAL PENSION REAL ESTATE		601,125.81

PENSION INTERNATIONAL FIXED INCOME

Brandywine	117,380.96	
UBS	82,251.70	
TOTAL PENSION INTERNATIONAL FIXED INCOME		199,632.66

INSURANCE FIXED INCOME POOL

Prudential	65,801.89	
State Street	11,834.18	
Wells	134,162.74	
Western Asset	102,318.87	
TOTAL INSURANCE FIXED INCOME		314,117.68

INSURANCE LARGE CAP EQUITY POOL

LA Capital	52,527.17	
LSV	51,927.00	
TOTAL INSURANCE LARGE CAP		104,454.17

**INVESTMENT EXPENDITURE DETAIL
FEES PAID DURING THE QUARTER ENDED MARCH 31, 2016**

INSURANCE SMALL CAP EQUITY POOL

PIMCO RAE 18,350.98

INSURANCE INT'L EQUITY

Capital Guardian	75,662.80	
LSV	62,237.00	
TOTAL INSURANCE INT'L EQUITY		137,899.80

INSURANCE DIVERSIFIED REAL ASSETS

JP Morgan	162,146.99	
Western Asset	37,190.10	
TOTAL INSURANCE DIVERSIFIED REAL ASSETS		199,337.09

INSURANCE REAL ESTATE

Invesco	49,186.58	
JP Morgan	172,989.67	
TOTAL INSURANCE REAL ESTATE		222,176.25

INSURANCE SHORT TERM FIXED

Babson	101,690.57	
JP Morgan	71,517.87	
TOTAL INSURANCE SHORT TERM FIXED		173,208.44

LEGACY FIXED INCOME

Prudential	93,189.59	
State Street	14,917.66	
Wells	171,236.81	
Western Asset	131,495.49	
TOTAL INSURANCE FIXED INCOME		410,839.55

LEGACY LARGE CAP EQUITY

LA Capital	175,877.13	
LSV	166,959.00	
TOTAL INSURANCE LARGE CAP		342,836.13

LEGACY SMALL CAP EQUITY

PIMCO RAE 73,925.59

LEGACY INT'L EQUITY

Capital Guardian	258,611.64	
LSV	276,426.00	
TOTAL INSURANCE INT'L EQUITY		535,037.64

LEGACY DIVERSIFIED REAL ASSETS

JP Morgan	185,115.30	
Western Asset	86,886.92	
TOTAL INSURANCE DIVERSIFIED REAL ASSETS		272,002.22

LEGACY REAL ESTATE

Invesco	87,495.47	
JP Morgan	242,309.12	
TOTAL INSURANCE REAL ESTATE		329,804.59

PERS RETIREE HEALTH INSURANCE CREDIT FUND

SEI 67,540.31

JOB SERVICE FUND

SEI 5,365.48

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

QUARTERLY MONITORING REPORT

Quarter Ended March 31, 2016

EXECUTIVE LIMITATIONS / STAFF RELATIONS

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

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

The Executive Limitations Audit for the year ended December 31, 2015, was completed by Terra Miller-Bowley, Supervisor of Audit Services, during the past quarter. The audit examined the Executive Director/CIO’s level of compliance with the SIB Governance Manual Executive Limitation policies A-1 through A-11. The RIO Audit Division and SIB Audit Committee is of the opinion that the Executive Director/CIO is in compliance with these policies. The SIB accepted the Executive Limitations Audit Report on February 26, 2016.

The Executive Director/CIO conducted four monthly meetings with the full RIO team during 2016 in order to promote an open and collaborative work environment while enhancing team member communication, awareness and engagement.

RIO is fully staffed as of March 31, 2016.

Quarterly Report on Ends Q3:FY16

Investment Program

Continuing due diligence conducted on the following organizations:

Adams Street	Declaration	Prudential
Axiom	JP Morgan	UBS
Brandywine	LA Capital	Wells Capital
Callan	Loomis Sayles	Western
Capital International	PIMCO	

Initial due diligence conducted on the following organizations:

Abbott	Frontier Market Asset	Pantheon
AllianceBernstein	GLG	Pathway
Apollo	Goldman Sachs	PIMCO
Atlanta Capital	Janus	Portfolio Advisors
Baillie Gifford	MFS	State Street
BlackRock	Morgan Stanley	Wellington
Franklin Templeton	Nuveen	William Blair

As part of a manager search to replace the Callan-Trust Advisory Group U.S. small cap multi-manager mandate within the Pension Trust, Staff, with Board approval, retained Aon Hewitt to assist with the search. Two finalist candidates were identified to advance to the Board for consideration: Atlanta Capital and JP Morgan. Staff recommended and the Board approved the selection of Atlanta Capital at the January 2016 SIB meeting. The transition of the mandate from Callan-TAG to Atlanta Capital was completed on 1 April.

At the February SIB meeting, the Board approved a Staff recommendation to make a new follow-on commitment of up to \$30 million to Adams Street Partners Global Fund 2016. Legal contract review is currently in progress.

Staff completed the transfer of remaining Job Service Pension Plan assets to SEI Investments at the end of the first calendar quarter as part of the implementation of a comprehensive de-risking solution on behalf of the Plan.

Following an asset-liability study conducted by Callan on behalf of the Teachers Fund for Retirement, the Board approved a new policy asset allocation at the February meeting. Implementation of the new policy allocation will occur in the next calendar quarter.

In collaboration with Callan, Staff concluded a private equity search on behalf of the Pension Trust to identify candidates to complement the existing private equity program with Adams Street Partners. Following a comprehensive search, Staff identified two finalist candidates to advance to the Board: BlackRock Private Equity Partners and Pathway Capital Management. At the March SIB meeting, the Board approved the selection of BlackRock Private Equity Partners.

Staff engaged Callan to conduct an international equity manager search to replace Capital Group across the Pension, Insurance and Legacy Trusts. Two finalist candidates will be presenting to the Board at the April SIB meeting.

Staff attended meetings with the following entities: TFFR Board, NDPERS Investment Subcommittee, and the FargoDome Finance Committee.

Staff is continuing its review of third-party total plan risk management software vendors with the goal of implementing an enhanced risk management system utilizing holdings-based analysis across all investment programs overseen by the SIB.

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

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

Quarterly Monitoring Report on TFFR Ends Quarter Ended March 31, 2016

Retirement Program

This report highlights exceptions to normal operating conditions.

- RIO staff worked with Segal and TFFR legal counsel to file the application for an IRS determination letter for TFFR plan.
- GASB 68 information for FY2015 (year 2) was prepared by RIO staff and TFFR's actuary. The audited GASB 68 schedules for FY2015, updated note disclosure template, and sample journal entries were added to the TFFR website in February 2016. All TFFR employers have been notified that this information is available for use when completing their 2016 financial statements.
- Callan Associates completed the 5-year Asset Liability Study for the TFFR plan. Results of the study were reviewed with the TFFR Board in January 2016. The TFFR Board approved a revised asset allocation which will be implemented by the State Investment Board by July 2016.
- TFFR staff completed testing the changes to incorporate new mortality tables and investment return assumption from Actuarial Experience Study into pension administration software. The changes affect benefit option reductions and service purchase calculations. New factors were put into production in March 2016.
- TFFR's update to ND Administrative Code is completed and the updated rules became effective April 1, 2016. The rule changes define certain terms for administrative clarification, update language to maintain compliance with federal IRC requirements (HEART Act), and update recently revised actuarial assumptions.
- As the result of an RFP process, the TFFR Board selected Cavanaugh Macdonald Consulting to complete an actuarial audit of the TFFR plan's current actuary, Segal Company. Cavanaugh Macdonald will conduct a full replication of the 2015 actuarial valuation, and will also review actuarial assumptions, methods, and actuarial practices. The audit report is expected in July 2016.

NDSIB Watch List

PIMCO data as of 03/31/2016

PIMCO MBS (Pen.)		\$165,914,206	
	Returns	Index ²	Excess
1 Year	2.31	2.43	(0.12)
3 Year	2.25	2.70	(0.45)
Inception*	2.33	2.51	(0.18)

*Funded 3/31/2012

PIMCO Unconstrained (Pen.)		\$60,712,217	
	Returns	Index ³	Excess
1 Year	(2.12)	0.40	(2.52)
3 Year	(0.75)	0.30	(1.05)
Inception*	1.38	0.32	1.06

*Funded 3/12/2012

UBS data as of 03/31/2016

UBS Global Bond		\$106,566,651	
	Returns	Index ⁴	Excess
1 Year	6.10	6.69	(0.59)
3 Year	(0.79)	(0.32)	(0.47)
5 Year	(0.01)	0.39	(0.40)
Inception*	6.23	5.94	0.29

*Funded 07/01/1989

Capital Guardian data as of 03/31/2016

Cap Guardian Intl Equity (PEN)		\$123,552,063	
	Returns	Index ¹	Excess
1 Year	(8.27)	(7.99)	0.28
3 Year	2.23	2.75	0.51
5 Year	2.29	3.20	0.90
Inception*	4.94	7.63	2.70

*Funded 03/01/1992

Cap Guardian Intl Equity (LEG)		\$262,835,185	
	Returns	Index ¹	Excess
1 Year	(8.21)	(8.27)	0.06
3 Year			
5 Year			
Inception*			

Note: Performance data for Legacy account is most recent four quarters due to timing

*Funded 02/02/2015

Cap Guardian Intl Equity (INS)		\$60,039,664	
	Returns	Index ¹	Excess
1 Year	(8.01)	(8.27)	0.26
3 Year	2.26	2.23	0.03
5 Year	2.73	2.29	0.43
Inception*	5.39	4.26	1.14

*Funded 04/01/1997

Proposed Addition to Watch List

JP Morgan MBS (Pen.)		\$112,201,018	
	Returns	Index ²	Excess
1 Year	2.21	2.43	(0.22)
Inception*	3.35	3.55	(0.20)

*Funded 09/30/2014

- ¹ MSCI EAFE
- ² Barclays Mortgage Index
- ³ Libor 3-Month
- ⁴ Barclays Global Agg. Ex US

Note: Returns for PIMCO and CALLAN are net of fees, JPM, UBS & CAPITAL GUARDIAN use gross due to data availability

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Darren Schulz

DATE: April 18, 2016

SUBJECT: Watchlist Recommendation: JPM Mortgage Backed Securities
(Pension Trust)

RIO Recommendation:

RIO recommends to the SIB that the JP Morgan Mortgage Backed Securities mandate within the Pension Trust be placed on the Watchlist. This recommendation is in response to recent personnel changes within the firm's mortgage portfolio management team.

Background:

As of March 31, 2016, JP Morgan managed approximately \$112 million in a Mortgage Backed Securities mandate within the Pension Trust U.S. investment grade fixed income sub-asset class. The JP Morgan Columbus, OH-based Mortgage-Backed Securities strategy was funded in October 2014.

The Columbus team employs a bottom-up, value-oriented approach to fixed income portfolio management and seeks to identify and exploit inefficiencies within pools of residential and commercial mortgage backed securities. While a core focus of the strategy is to invest in standard Agency mortgage backed security pools, the team seeks to add incremental value through exposure to out-of-index mortgage backed securities, including Agency pass-throughs (cash flows are directly tied to the cash flows of the underlying mortgages within the pool); collateralized mortgage obligations (CMOs); and other mortgage derivatives, such as interest-only (IOs), principal-only (POs), and inverse floater (IIOs) securities.

At the time of the inception of the SIB mandate, the two primary portfolio managers responsible for the day-to-day management of the SIB's JP Morgan Mortgage Backed Securities mandate were Doug Swanson, Lead Portfolio Manager and Chief Investment Officer of the U.S. Value Driven Fixed Income Team (30 years of firm experience, 30 years of industry experience), and Henry Song, Portfolio Manager within the MBS platform (9 years of firm experience, 9 years of industry experience). Both PMs were critical to the investment philosophy and process of the strategy. In particular, they were key decision makers with respect to mortgage security selection and portfolio construction.

Recent Investment Personnel Changes:

On September 14, Doug Swanson announced that he would be taking a personal leave of absence effective October 1. Barb Miller, head of Mid-Institutional Fixed Income, succeeded

him as head of the Value Driven Fixed Income platform. Additionally, Henry Song and Rick Figuly were announced as co-PMs of the SIB MBS mandate. At the time, given Staff's conviction regarding Henry's ability to maintain the continuity of the process and philosophy of the mandate during Doug's leave of absence, Staff did not believe that the announcement warranted placing the strategy on the Watchlist.

On April 8, however, Staff was informed that Henry Song and Mark Jackson, an investment grade credit PM, were leaving the firm. Their departures were unexpected by senior management. Additionally, Chris Nauseda, a co-PM of the firm's Core Bond Fund, announced his retirement effective July 1. Assigned to co-manage the SIB mandate are Andy Melchiorre, Lead PM (4 years of firm experience, 8 years industry experience), and Justin Rucker (10 years firm experience, 17 years industry experience).

Conclusion:

Staff recommends placing the JP Morgan Mortgage Backed Securities strategy on the Watchlist due to recent personnel changes within the mortgage strategy team. As observed during initial and ongoing due diligence, Doug Swanson and Henry Song were critical to the day-to-day execution of the JP Morgan Columbus mortgage platform and their absence casts uncertainty as to the continuity of the philosophy and process of the strategy. Both individuals were noted for their depth of experience in unearthing relative value opportunities in more complex, less trafficked mortgage securities. Staff will need to assess how this critical skill set has been impacted by the recent personnel changes. Accordingly, Staff will closely monitor the evolution of the strategy and evaluate how these organizational changes affect the SIB mandate.

Memorandum

To: Consultants and Callan Clients
From: Brett Cornwell, CFA
Date: April 14, 2016
Subject: J.P. Morgan's U.S. Value Driven Fixed Income Team & Core Fixed Income Strategy

Introduction

Over the last nine months there have been a series of changes that impact J.P. Morgan's Columbus-based U.S. Value Driven Investment team and Core Bond strategy. Callan is deeply concerned about the changes to the structure and the impact to the team. We believe these changes are significant enough to prompt a careful review for existing clients and may warrant potential replacement.

Events have evolved since Doug Swanson's sudden leave of absence last September for personal reasons and the subsequent announcement that Barb Miller would assume leadership of the U.S. Value Driven Investment team. Further key professional departures and structural changes have followed including the recently announced combination of investment grade credit research teams, Core Bond co-portfolio manager Chris Nasueda's retirement, and the abrupt departures of two additional senior professionals on the team, Mark Jackson and Henry Song.

Callan believes much of the team's success has been driven by its autonomy and boutique culture within the J.P. Morgan organization. Bob Michele, New York-based CIO of Global Fixed Income, Commodity, and Currency (GFICC), has firmly stated his goal is to build a single, global fixed income platform. Callan's fixed income research team believes that J.P. Morgan's stated goal of "globalizing the investment platform" erodes the culture and the unique characteristics that made the Columbus team so successful. Recent events suggest movement toward this global platform is underway and while it is impossible to know the underlying causes for the senior professional departures, it is not unreasonable to suggest that the structural changes that occurred in recent months may have played a role.

Background:

- In August 2015, we were notified of some analyst departures from the U.S. Value Driven research team. Tim Shoening, an analyst who had been with J.P. Morgan for 15 years and was a structured products analyst, left the firm to pursue other opportunities. Two investment grade credit research analysts, Mark Gannon and Tim Bond, both with the firm for eight years, also left the team. Gannon transferred internally to cover municipal bonds (his original background) and Bond left the firm. Though this level of turnover was unusual, at the time we believed the timing was coincidental.

- The following month, September 2015, Doug Swanson, former CIO and architect of the U.S. Value Driven Fixed Income team, abruptly announced he would take a leave of absence until summer 2016 to spend more time with his family. At the time of the announcement, J.P. Morgan indicated he would no longer lead the team upon his return, if he returned, and Barb Miller was appointed to lead the team. At the time of the announcement, Miller was unfamiliar to Callan and we were surprised by J.P. Morgan's selection of someone not directly related to the Institutional Portfolio Management Group. Though Miller worked alongside Swanson for 17 years and led the Mid-Institutional Group, we expected the successor to come from within the Institutional team. Callan conducted an onsite in Columbus in November 2015 to assess the environment and meet with members of the team. After meeting Miller her credentials seemed appropriate for the role, the team members with whom we met generally appeared supportive of Miller, and we concluded there was sufficient depth to absorb Swanson's responsibilities. We noted some concerns about Miller's capacity given the extended responsibilities; Miller alluded to reducing her direct reports by promoting a few individuals to leadership roles. As a result, further changes to the team were potential – we noted Rick Figuly and Henry Song in particular. Callan's onsite was documented in a November 6, 2105 memo which can be found in the Appendix to this memo.
- In early March the firm announced it would combine investment grade credit research – formerly separate efforts in Columbus and New York/London, to support GFICC and Global Liquidity teams. The firm determined this structure eliminated redundancies, provided broader and deeper research coverage while maximizing resources across the firm. As a result, while the way in which companies are covered will not change, communication and the distribution of information would be modified.
- Also in early March we were notified that Chris Nauseda, a senior portfolio manager, will retire on July 1 after 35 years with the firm, transitioning his responsibilities after April 15. While Callan does not believe that Nauseda's retirement is in response to Miller's promotion to lead the team, it is difficult to isolate this event given other departures and the recently announced structural changes.
- In early April two additional senior portfolio managers, Mark Jackson and Henry Song, abruptly resigned from J.P. Morgan's U.S. Value Driven team and have departed the firm. Jackson, a 20-year veteran of the team was considered a senior leader and was a potential candidate to assume the leadership of the team that was ultimately awarded to Miller. Song, a noted rising star by Miller and his peers during our November onsite, had been an 11-year member of the team and his departure is a blow given his mortgage focus and the importance mortgage securities have played within the team's portfolios.

Though we were hopeful that J.P. Morgan would be able to retain key professionals on the Columbus-based U.S. Value Driven Fixed Income team after Swanson announced his leave of absence, we were also skeptical. The departures over the last several months, along with the other organizational changes, indicate neither a stable team, nor one that seems to support the changes being driven by Michele. The series of changes do not inspire confidence in the direction that J.P. Morgan is heading with its platform globalization effort and lead us to question the leadership and organizational stability of the firm.

Appendix

Memo drafted last November after meeting senior members of the U.S. Value Driven Fixed Income team in Columbus follows.

Memorandum

To: Consultants and Clients of Callan
From: Kristin Bradbury, CFA and Brett Cornwell, CFA
Date: November 6, 2015
Subject: J.P. Morgan Columbus On-site Meeting

Brett Cornwell and Kristin Bradbury of Callan Associates held a meeting with J.P. Morgan Asset Management's ("JPM") U.S. Value Driven Fixed Income team ("Columbus Team") based in Columbus, Ohio on November 4, 2015. A number of the portfolio managers from the Core Bond team were present including: Barb Miller, Managing Director ("MD") and CIO of U.S. Value Driven Fixed Income; Rick Figuly, MD; Peter Simons, CFA, Executive Director ("ED"), Henry Song, CFA, ED; and Chris Nauseda, VP. Members of the Investment Grade Credit team also participated in portions of the meeting including: Greg Reed, CFA, MD and Head of Investment Grade Credit; Kent Weber, ED; and George Williams ED. Tom Fisher, MD and Consultant Advisor and Tim Holihen, CFA and Head of Americas Broad Market Client Portfolio Managers also were present.

The purpose of this meeting was to follow-up with senior members of the Columbus Core Fixed Income team to discuss the state of the team since the announcement that Doug Swanson, the former CIO of U.S. Value Driven Fixed Income Team, was taking a leave of absence until at least summer of 2016. At the time of the announcement on September 14, 2015, JPM indicated Swanson was taking personal leave to spend more time with his family. It is difficult to say whether or not Swanson will ultimately return, though JPM has strongly suggested that he will rejoin the team in 2016. Further, JPM indicated Swanson will no longer lead the team upon his return. Specifically, we were concerned about the abruptness of Swanson's departure and the promotion of someone not directly related to the Institutional Portfolio Management Group. It was critical to gain a better understanding of Miller's background and an explanation of why JPM chose her over other senior members of Swanson's Institutional team, as well as to understand how this promotion was received by existing members of the team. Prior to our meeting, Miller was unknown to Callan.

Our high level observations from the meeting are as follows:

- There appears to be sufficient depth on the team to absorb Swanson's investment responsibilities.
- Miller seems well credentialed for her role as CIO of U.S. Value Driven Fixed Income and enthusiastic about assuming leadership of this team. We do not expect any changes to the process or anything investment-related.

- Miller is immediately focused on meeting with clients and consultants as well as managing the transition, ensuring that she is communicating with staff, clients, and consultants.
- The team seems supportive of Miller in this new role, though clearly Swanson will be missed.
- We did not speak to everyone, so there may be dissatisfied people of whom we are not aware. Figuly was the only senior member of the team who showed a hint of disappointment about the decision during our meeting.
- Callan is expecting more changes to the team as Miller plans to narrow her number of direct reports. She plans to achieve this by promoting a few individuals to leadership roles. Depending on the outcome of those promotions, there could be some fallout.
- The Columbus Team is currently going through its "talent review" process, which means bonuses will be paid shortly. Given the timing of the upcoming bonuses, the true effects of Swanson's leave may not be felt until bonuses have been paid.

By way of background and for context, the U.S. Value Driven team is comprised of three distinct teams:

- (1) Institutional Portfolio Management
- (2) Investment Grade Credit Research
- (3) Mid-Institutional Portfolio Management

The Institutional Portfolio ("IP") Management Team and the Investment Grade Research Team historically reported to Swanson, who reported to Robert Michele, CIO and Head of Global Fixed Income, Currency & Commodities ("GFICC"). Michele is based in New York. The Mid-Institutional Portfolio ("MI") Management Team was led by Miller and reported directly to Michele. Today, all three sleeves report to Miller who continues to report to Michele.

The Mid-Institutional team manages portfolios in the same style as the Institutional team, but is focused on smaller mandates, e.g. less than \$100 million. The philosophy and process are the same, though given the size of the mandates, the Mid-Institutional portfolios have a slightly smaller investment universe. For example, Mid-Institutional portfolios do not own 144A securities, and generally exclude the more exotic mortgage derivatives such as interest-only and principal-only mortgage securities, and other esoteric securitized assets. Additionally, they tend to be highly customized. Both teams are supported by the Investment Grade Credit Research group.

Miller was an unknown entity to Callan prior to this meeting. Discussing and understanding a firm's succession plan is a regular part of Callan's due diligence process. JPM does formal succession planning two times each year, which is handled by the Asset Management Business Committee. The succession plan is dynamic and changes over time. After Miller was named as Swanson's successor, Michele indicated to Callan on a September 18, 2015 conference call that for the last couple of years, the

Business committee had identified Miller as the next leader. Given our overall lack of familiarity with Miller, it was a surprise when JPM announced that she was taking over the \$144 billion Columbus Fixed Income team. Consequently, the meeting began with Miller providing us a bit of background on herself and her qualifications and experience.

Miller has been at JPM (and its predecessors) for 23 years and working alongside Swanson for the last 17 years. She took over the Mid-Institutional group in 2007 when it was responsible for \$2.5 billion. Today, Mid-Institutional assets under management are \$12 billion. The Mid-Institutional and Institutional groups were segregated in 2001 when the decision was made to integrate the trading and portfolio management responsibilities. Miller and Swanson sat on many internal JPM committees including the JPM Operating Committee (Miller and Swanson were the only Columbus representatives), Quarterly Macro Strategy Committee (comprised of Miller, Swanson, and Figuly from Columbus), Investment Oversight Committee, and Trading Oversight Committee. She will continue to serve on these committees. Miller will also now head the Monthly Strategy Meeting, which Swanson had previously chaired. It was explained that Miller has been and will continue to be responsible for many of the mundane, managerial items between JPM New York and JPM Columbus.

Given all of the new direct reports (26 versus 8), portfolio responsibilities, and managerial items there is initial concern regarding her capacity, particularly during such a major transition where much of her attention will be focused in areas other than investments. To combat that challenge, Miller has made very clear that she intends to consolidate the number of direct reports to a more manageable number; approximately eight or nine total. Rick Butler, the COO of the Columbus operation, has been, and will continue, taking responsibility for some of the managerial functions as well as delegating to other team members. Additionally, Miller is named portfolio manager on only four funds (the Core Bond Fund and three core bond commingled funds). The rest of Swanson's 11 funds and 70 separate accounts have been assigned to others.

Miller has a very different management style than Swanson. He was described as hands-off, introverted, difficult to communicate with at times, and preferred emails and instant messaging to verbal discussions. It is important to note that while most acknowledged that his style was non-traditional, it was accepted by the individuals with whom we met. He was well-respected and liked among his peers. Miller, on the other hand, prefers verbal communication, meetings, is more hands-on, and seems very extroverted. It is a bit early to tell how the differences will play out; team members noted the differences but commented that while different, both approaches are effective.

Miller is very personable, articulate, and appears thoughtful. She is working hard to manage this transition with sensitivity and to make sure that she is communicating one-on-one with the team members;

especially those she feels may be more uncomfortable with this change. After meeting Miller, we believe she has the experience and credentials necessary to lead the team from both an investment and people management perspective. We have no issues with Miller, but continue to feel that we would have preferred to have at least been familiar with her prior to being promoted to manage the Columbus operation, particularly since, according to Michele, she has been part of the succession plan for at least two years. JPM acknowledges this shortfall and has heard it from many other clients and consultants.

After meeting with Miller, the Callan team met individually with other senior members of the Columbus team including Figuly, Nauseda, Simons, and Song. It is our general impression that these four support Miller's promotion. While a couple of them mentioned that others may have been overlooked, no one indicated a level of dissatisfaction that would lead Callan to believe they were a flight risk. Three of the four mentioned that Figuly and Mark Jackson were the only other people senior enough to assume such a big role. Jackson, whom we did not meet with, has been on the Columbus team nearly 20 years and has 30 years of industry experience. During our meeting, he was identified by Miller and his colleagues as a senior leader of the group. Given Jackson's focus on the long duration business, he was not part of our agenda, which focused primarily on the professionals with the most direct impact on the Core Bond strategy. Going into the meeting, we were most concerned about Figuly. After having an opportunity to talk to him about the leadership change, Figuly expressed that he was a bit surprised about Miller being named as Swanson's successor. He spoke fondly of Swanson and described a very close relationship with him. While Figuly came across as fiercely loyal to JPM and fully supports Miller, he is the only one where we sensed a hint of disappointment at not being tapped to lead the team. That being said, if he is not one of the individuals appointed to lead the team as one of Miller's lieutenants, his loyalty may be tested. It's too early to tell but we do get the sense that he has no issues and is dedicated to delivering performance.

Although all of the professionals we met with are important members of the team, one individual to keep an eye on is Henry Song, who was identified as a rising star within the group by Miller and his peers. Additionally, when we asked Song who he thought the biggest flight risk was, Song admitted that JPM identified him as the biggest risk. This is likely due to Song not having any personal ties to Columbus and he has been there for a relatively short period of time (while 10 years is not short; it is less than most of his colleagues). Though Song is not a senior member of this team, his focus on mortgages is key given the role mortgage securities have historically played in the Columbus team's fixed income portfolios. Additionally, he is a named portfolio manager on the Core Bond Insurance Trust, and mortgage-centric products and separate accounts. Song is a bright and articulate individual who is an asset to the team. While not crippling, his loss would be a blow to the team on the heels of Swanson's departure.

In summary, the abrupt nature of Swanson's departure requires a cautionary approach. Swanson is not only a talented investor but also the architect of the Columbus Fixed Income team. To Swanson's credit, there is sufficient depth and breadth on the team to absorb his investment responsibilities. Although JPM has indicated that Swanson is expected to rejoin the team sometime in 2016, it is difficult to say whether or not that will happen. At this point, we believe it is prudent to evaluate this situation assuming that Swanson is not coming back. If he does return, it will not be as the leader of the team. Thus, it does not change the need to evaluate Miller as the new leader of the U.S. Value Driven Fixed Income team. After meeting Miller and getting to know her a little, it seems evident that she has the skill set to be an effective manager, and the individuals we met with seem to agree. It remains to be seen if she has the investment skill to drive the process forward, but she was successful in the Mid-institutional channel. Though we are comfortable with the current team, given the expected changes to the reporting and leadership lines, it makes sense to remain cautious until this transition has had more time to season. For current clients, we see no reason to terminate. For prospective clients, it is prudent to let the dust settle a bit. Callan will continue to actively monitor the team for any further departures and performance consistency, as well as asset flows.



BOARD LEADERSHIP

INNOVATIVE APPROACHES TO GOVERNANCE

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Managing the Conflicting Duties of Nominee Directors

by David Gibbs

If any of your board members are nominated or elected by others, you will be interested in this article on the resulting potential for conflicts of interest from David Gibbs, Lecturer in Company and Commercial Law at the University of Hertfordshire School of Law in the United Kingdom. He explores the implications from the perspective of boards in the UK corporate sector, but the basic principles and lessons are relevant for all.

A BOARD MEMBER or director is normally appointed via the mechanisms set out in the company's constitution. Their role is to act for the company,¹ which is incapable of acting for itself. Therefore, first and foremost, the directors' duties are owed to the company, which is enshrined in statute under the Companies Act 2006, section 170. A problem arises when directors are nominated for election to a particular board to represent interests other than the interests of the company. This issue could commonly arise in nonprofit companies where a particular organization, such as another company or public interest group, seeks

to nominate an individual to a company's board to protect their interests. The director is then faced with a legal dilemma where the interests of the company differ from those who supported their appointment. This article seeks to address this problem by demonstrating how competing duties can be managed to avoid any possible legal consequences.

A director nominated by those outside of the company, that is, other than by the company or shareholders, bears no difference on their status as a director. The definition of a director is encompassing to capture anyone fulfilling the role by whatever name called (Companies Act 2006, section 250). As such, the statute only refers to "directors" generally. Therefore, a director who is nominated to the board owes the same duties as their fellow directors under the Companies Act 2006, sections 171–177. These duties are owed to the company, but under the law of obligations a director might also owe duties to third parties, such as to those who nominated

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Nominee Directors

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them, either in contract, delict, and/or fiduciary as a matter of fact. Failure to observe those duties to either the company or third party can lead to enforcement against the director if it is shown that a duty or duties were breached.

Those duties that the director owes to the company are cumulative, meaning that the same action by the director could breach several duties. However, this also means that each separate claim against the director must be defended, as excusing one breach would not excuse the others (*Farrington v. Rowe McBride & Partners* [1985] 1 NZLR 83). Therefore, a nominee director faced with competing interests between their two principals must ensure that each duty is complied with to both principals. The common duties that the nominee director is likely to face are whether they exercised independent judgment under section 173 and whether they were in a conflict of interest under section 175. This article shall focus on these two duties, but the above has shown that all duties must be complied with.

The duty to exercise independent judgment could result in significant legal challenges where a nominee director acts for the interests of another principal. This is because, even if both parties are aware of the circumstances of that appointment and accept the position taken, the goodwill of both parties would not excuse a breach of duty if they were to complain. The duty to act with independent judgment includes the need not to fetter their discretion. Thus, a director should not discharge his undertaking to the company based on the instruction of others, such as those who nominated him.

Those duties that the director owes to the company are cumulative, meaning that the same action by the director could breach several duties.

This was set out by Lord Denning in *Boulting v. Association of Cinematograph, Television and Allied Technicians* (1963) 2 QB 606, that no director “can be allowed to enter into an engagement by which he binds himself to disregard those duties or to act inconsistently with them.” He continued that no stipulation is lawful that permits the director to comply with their duties in accordance with the instructions of another or agreeing to subordinate the interests of the company to another. Therefore, liability is “strict” (which in legal terms means that persons can be held legally responsible for the damage and loss caused by its breach without any requirement to prove fault, negligence, or intention) where discretion is fettered.

To avoid liability the director must fall within those circumstances set

out in section 173(2)(a) or (b). Under subsection (a) it is possible to fetter one’s discretion via an agreement duly entered into by the company that restricts the future exercise of discretion by its directors. This is distinguished from the basic premise set out by Lord Denning. The company’s directors can legitimately enter into a binding agreement to act in a particular way if they believe it to be in the interests of the company, thus distinguished from simply allowing another to determine how the director’s duties are carried out. Importantly that agreement remains legally binding even if the circumstances of the company change (*Fulham Football Club Ltd v. Cabra Estates plc* [1994] 1 BCLC 363). Under subsection (b) the duty would not be breached if it is authorized by the company’s constitution. Therefore, a nominee director can protect the interests of those who appointed her, while not breaching her duty to act independently, if the company enters into an agreement that it is in the best interests of the company to act for these other interests or where the fettering of discretion is authorized by the constitution.

As well as acting with independent judgment, the director should not subordinate the company’s interests to that of another. This encapsulates her duty to avoid a conflict of interests, more broadly referred to as a fiduciary duty of loyalty. A director is required to be loyal to the interests of the company, meaning she must put the company’s interests first and must not be loyal to competing interests.

The courts tend to have little sympathy with an individual who places himself in a position of conflict. Liability is strict and the House of Lords has taken a hard line approach, noting that someone who places himself in a position with two irreconcilable duties is doing so as a matter of his own fault (*Hilton v. Barker Booth and Eastwood* [2005] UKHL 8). The purpose of liability being strict is to guard the principal from the fiduciary’s potential for self-interest over the principal’s

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interests by simply demanding that the principal's interests are put first. However, there are three ways in which a director can demonstrate (and the burden of proof falls to the director) that he or she is not liable. The director can prove that (1) the director had undertaken no responsibility to the interest in question; (2) the express or implied terms of the contract permit disloyalty; or (3) the principal authorized disloyalty.

Proving the first issue is straightforward: if the director can demonstrate that they undertook no responsibility for the particular interest to one or both principals then there is no conflict. This can be demonstrated by *Ranson v. Customer Systems plc* (2012) EWCA Civ 841, where an individual was allowed to compete with their principal as they were only responsible for the principal's interests within a certain jurisdiction and not those interests outside of that jurisdiction. Directors do, however, have generally very wide responsibility since the company is incapable of acting without its directors and therefore they are responsible for all interests. What individual directors are responsible for, though, is a matter of fact. The important task for a nominee director then is to determine what their responsibility to both parties is to avoid and foresee any potential conflicts before they manifest.

The second category is known as "contract first" that the duty of loyalty will be dependent on the contractual terms. Therefore, the contract presumes loyalty unless the director can point to express or implied terms that permit disloyalty. These terms would not have to expressly or implicitly state that they allow disloyalty but simply, as a matter of construction and interpretation, demonstrate that the director was free to act with self-interest.

One example of express terms is *Ross River Ltd v. Waveley Commercial Ltd* (2013) EWCA Civ 910. The case concerned a joint venture agreement that stipulated that payments out of the profit would be made to the principal first before the other joint venturer

paid itself except (1) in respect of proper expenses incurred; or (2) with the agreement of Ross River. Those two categories made it expressly clear when the company could prefer its own interests over the principal and a payment was disloyal when it was made on the basis of a reasonable belief that it would not jeopardize the joint venture.

Directors' ability to establish an implied term is limited. Whether a contract term is implied is subject to the criteria set out in *Marks and Spencer plc v. BNP Paribas Securities Services Trust Company (Jersey) Ltd* (2015) UKSC 72. A term will be implied on the basis of "whether the proposed implication spells out what the instrument would reasonably be understood to mean." The proposed implication will only be accepted as an implied term after all the express terms have been determined and implied terms have been determined and it must not contradict and express term.

A common example of an implied term is when an individual acts for multiple principals. In *Kelly v. Cooper* (1993) AC 205 (PC), it was held that "residential [estate] agents must be free to act for several competing principals, otherwise they will be unable to perform their function." As such, even though the express terms did not deal with the issue, the contract was reasonably understood to permit acting for multiple principals otherwise the individual would not be able

to perform the role contracted for. Such a term is inconsistent with the imposition of a duty of loyalty since the agent would be free to prefer the interests of another. However, an implied term that permits acting for multiple principals is limited in application. *The Northampton Regional Livestock Centre Company Ltd v. Cowling* (2014) EWHC 30 (QB) added that an implied term permitting the individual to act for conflicting principals was available only in situations where such multiple undertakings were inherent to the business. Therefore, a nominee director protecting multiple principals' interests would be better placed seeking to draft and rely on express terms that permitted them to act for the interests of another rather than seeking to rely on an implied term that they were permitted to do so since it is unlikely to be inherent to the business that they act for multiple principals.

The third category that permits disloyalty is authorization. A nominee director may act for the interests of those who appointed them by seeking authorization to do so. For authorization to be valid it must be based on full disclosure of material information with evidence to prove it. Authorization must also come from the principal, as the fiduciary cannot unilaterally decide what interests to be loyal to. In company law the statute requires directors to receive authorization from the board. However, authorization

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What Determines the Content of Corporate Governance Codes?

Caroline Oliver interviews Carsten Gerner-Beuerle

Ever wondered how those corporate governance codes, from which so much governance practice is derived, come about? A few months ago, Board Leadership's editor, Caroline Oliver, came across Working Paper Number 5 in the London School of Economics' "Law Society and Economy" Series on "Determinants of Corporate Governance Codes."¹ She tracked down its author, Carsten Gerner-Beuerle, and asked him a few questions. ...

CAROLINE: Can you tell me a bit about your background?

Carsten: I am an Associate Professor of Law at the London School of Economics and Political Science who conducted research on corporate governance, securities regulation, and law and economics and prepared reports on corporate governance and financial regulation for the European Commission and the European Parliament. One strand of my research on corporate law and securities regulation deals with the legal and nonlegal determinants of regulatory reform, the international diffusion of legal innovations, and the interrelationship between the regulatory environment and economic variables. I generally use a comparative and interdisciplinary approach. My current projects include analyzing the European Union (EU) harmonization program in company law and capital markets regulation to facilitate discussions about how regulatory authority should be allocated between the EU and the Member States to promote integrated markets and ensure efficient regulatory outcomes. I am also working on a comprehensive treatise on comparative company law that examines in-depth some of the main legal traditions of the world, compares the regulatory strategies employed, and explains the observed differences in historical perspective.

Caroline: What got you interested in the origins of corporate governance codes?

Carsten: Having worked on corporate governance for some time and teaching at LSE, I saw that corporate governance codes are very influential in creating what is seen as best practice for boards and others involved in corporate governance. It therefore seemed to me important to analyze how such codes are developed and lead to the dissemination of new techniques in regulating corporate governance in a changing political, economic, and legal environment.

Caroline: How did you go about your research?

Carsten: I analyzed 106 corporate governance codes of 23 European countries and tried to classify them according to:

- the extent to which the drafting committee was dominated by representatives of the investment community, issuers' representatives, public regulators, or others. It is important to note that most codes are not legislative initiatives but private initiatives for example, by stock exchanges and industry bodies; and
- the type of legal framework used by the relevant country.

I then looked at the provisions of the codes and analyzed them according to:

- how prescriptive they are, and
- whether they strengthen the position of outside investors

... in relation to a number of issues including:

- independence,
- board and board committee composition, and
- separation of the roles of CEO and chairman of the board.

Caroline: What did you find?

Carsten: Certainly, some codes are more onerous and more prescriptive than others. For example, some specify the number of nonexecutive versus executive directors (senior managers) that should be on the board, whereas other codes use terms such as sufficient nonexecutives, leaving wide room for interpretation by individual boards. Some codes are clear that the roles of chair and CEO should be separated and, for example, specify a "cooling-off period" before a retiring CEO can become a chair. Others are much less prescriptive on such separation. In some codes what represents "independence" is spelled out (for example, the United Kingdom's code gives a list of criteria²). In other codes what is meant by the term is left much vaguer.

I had also thought that it was likely that we would find that the content of codes was heavily influenced by the composition of the committees that produced them. For example, I thought we might find that codes produced by committees with significant representation from investors would be more onerous and prescriptive than the content of codes produced by other groups. In fact, I found no correlation between composition of code-authoring committees and the code content.

However, I did find clear differences between different countries when grouped by legal families. By "legal families" I mean groups of countries that operate in accordance with different legal frameworks such as English Common Law, the Civil and Commercial Codes of France, or the German or Scandinavian systems. I also found differences related to the nature of typical

corporate ownership—concentrated or dispersed, relative proportions of foreign and institutional investors.

Furthermore, I found that regulatory reform in corporate governance is significantly influenced by changes to international benchmark models of good governance.

It is remarkable that, although the probability of one country adopting a particular regulatory mechanism in a corporate governance code increases the more other countries have adopted a similar term, the amount of legal variance between European countries' corporate governance regimes has not significantly diminished. So in spite of much cross-border legal learning, the convergence of corporate governance regimes, defined formally as the lower variance of legal variables over time, has not yet occurred in Europe.

Caroline: How influential are corporate governance codes on practice?

Carsten: My research did not cover this, but certainly the number of codes is increasing around the world. The European Corporate Governance Institute's (ECGI) website³ makes available the full texts of corporate governance codes, principles of corporate governance, and corporate governance reforms both in Europe and elsewhere.

The United States does not have one major recognized corporate governance code, although they do have the New York Stock Exchange listing rules. Generally, the United States operates in a more rules-based manner when it comes to corporate governance and accounting. Codes tend to be more influential in other parts of the world where guidance based on principles is the preferred approach.

There is evidence that the compliance rate with the UK Corporate Governance code is very good when compared with that of other countries. We do know, from an annual survey of compliance by FTSE 350 companies carried out by Grant Thornton,⁴ that, in 2014, 94 percent of companies complied with all but one or two of the Code's 54 provisions, while 61 percent reported full compliance with the

Code—an increase of 4 percent over 2013.

On the other hand, the relationship between high rates of compliance with corporate governance codes and firm performance is still unclear. And that link is never going to be easy to identify given the difficulty of separating out all the other factors that influence performance. However, there is some evidence showing an association between compliance with corporate governance codes and the proper functioning of certain corporate governance mechanisms within firms, such as compliance with disclosure regulation.

The relationship between high rates of compliance with corporate governance codes and firm performance is still unclear.

Caroline: Do you have any opinions or questions about the validity of the determinants of corporate governance codes that you found?

Carsten: It is heartening to find that, holding all other factors constant, group politics—one group trying to create corporate governance norms to advantage their interests over others' interests—is not what seems to be happening.

What does seem to be happening, holding all other factors constant, is that the more countries that have adopted a particular code provision, the more likely that other countries will adopt the same provision when introducing or revising their codes. Therefore, what seems to be important to authoring committees is what are the common perceptions in the wider world beyond themselves about

what good corporate governance is and isn't.

Corporate governance codes therefore seem to be seen as important signals of best practice. Corporations in every country want to send out signals that they are well governed—good places to do business—and having corporate governance codes that measure up to those of other respected jurisdictions is one way of doing this.

One example of this in action is that the whole idea of "independent directors," which was originally proposed by the Cadbury Committee,⁵ which

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FOOD FOR THOUGHT

"The culture of blame is a major barrier to the openness required if sentinel events are to be reported, lessons learned and safety improved. The system of clinical negligence is part of this culture of blame. It should be abolished. It should be replaced by effective systems for identifying, analysing, learning from and preventing errors and other sentinel events." □

The Report of the Public Inquiry into children's heart surgery at the Bristol Royal Infirmary 1984–1995: Learning From Bristol (Cm 5207). The Stationery Office. July 2001. http://webarchive.nationalarchives.gov.uk/+/www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_4005620

NEWS

World Economic Forum's Global Risks Report 2016

This fascinating report ranks risks by likelihood and impact under the headings Economic, Environmental, Geopolitical, Societal, and Technological. This year's report identifies the "Disempowered Citizen" as one of the globe's three primary risks. You can see the relevant section on pages 39–49 at http://www3.weforum.org/docs/GRR/WEF_GRR16.pdf

The Elephant in the Boardroom

The Global Risks Report was prepared for the World Economic Forum's annual meeting in Davos, Switzerland, this year. Governance commentator and consultant Lucy P. Marcus was there and copresented a session on boardroom ethics and corporate governance. Reflecting on the experience, she notes:

It is easy for companies to see far-off risks that they cannot control. It is a lot harder, but a lot more important, for them to acknowledge the risks stemming from how they operate. And it is harder still to persuade those business leaders who do comprehend such risks to talk about them on a public stage. That reluctance to speak openly about how to restructure corporate governance in a way that improves stewardship places all of us at risk.

You can find more of her reflections and a video of the session at <http://www.project-syndicate.org/commentary/corporate-governance-open-discussions-needed-by-lucy-p-marcus-2016-02>

Are Boards Doing the Wrong Job with the Wrong Tools?

This is the question asked by Ralph Ward in the February 2016 issue of *Boardroom Insider*. Pointing to a recent series of articles in the US edition of *The Wall Street Journal* examining structural and membership concerns with American corporate boards, Ward wonders if some of the underlying premises are still valid. He points out that "a century ago, Henry Ford faced the choice of either trying to find thousands of skilled mechanics to hand-build his popular Model T's—or reinventing how they were assembled to do a better job with less time and effort." He speculates that this "mass production" approach to board work is only just beginning and suggests that new technology, reporting, and oversight tools could allow fewer directors, serving more boards, to offer better governance. <http://boardroominsider.com/>

National Board Chair Study

The Alliance for Nonprofit Management's Governance Affinity Group will shortly be publishing the results of a study based on a survey of 635 nonprofit board chairs from across the United States. This study sought to answer two questions: How do board chairs prepare for their leadership roles on the board; and what do board chairs perceive their leadership roles to be in relationship to the board, the community, and the CEO? You can see an infographic of the results now at <https://allianceonline.org/alliance-publishes-one-largest-national-studies-board-chairs>. □

WHEN WE SAY ...

BOARD LEADERSHIP's mission is "to discover, explain, and discuss innovative approaches to board governance with the goal of helping organizations achieve effective, meaningful, and successful leadership to fulfill their missions."

Board Leadership aims to fulfill this mission by engaging its readers in a lively and illuminating inquiry into how board governance can be made more effective. This inquiry is based on three key assumptions:

- Boards exist to lead organizations; not merely monitor them.
- Effective board governance is not about either systems, structures, processes, theories, practices, culture, or behaviors—it is about all of them.
- Significant improvements are likely to come only through challenging the status quo and trying out new ideas in theory and in practice.

Uniquely among regular publications on board governance, *Board Leadership* primarily focuses on the job of board leadership as a whole, rather than on individual elements of practice within the overall job.

Over time, *Board Leadership* will provide a repository of different approaches to governance created through its regular "One Way to Govern" feature.

Here's what a few of the key terms we use mean to us:

- **Innovative:** Creating significant positive change.
- **Approaches to:** principles, theories, ideas, methodologies, and practices.
- **Board governance:** The job of governing whole organizations. □

Events

(continued from front page)

APRIL 25–26, 2016

Behind the Scenes: Policy Governance for Administrators

— *Calgary, Alberta, Canada*

For executive assistants, board secretaries, board assistants, and other administrative staff who wish to successfully enhance their board's activities.

For more information, contact marian@governancecoach.com

MAY 11–13, 2016

Annual Private Company Governance Summit

— *Washington, DC, USA*

Session topics include:

- The Board's Role in a Crisis
- Dealing with Conflicts of Interest on Private Company Boards
- How to Interview Director Candidates
- Cybersecurity and the Private Board
- Preparing for the Board Meeting
- Private Company Capitalization, Liquidity, and Shareholder Return

For more information, see <http://www.privatecompanydirector.com/PCGS16>

JUNE 16, 2016

IPGA Pre-Conference Sessions

— *Toronto, Ontario, Canada*

- Introduction to Policy Governance
- Transforming School Boards
- A Special Advanced Preconference Workshop with Miriam

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

Carver designed for those who have attended the Carver Policy Governance Academy

For more information, go to <http://www.policygovernanceassociation.org/events-and-conferences/2016-annual-conference.html>

JUNE 16–18, 2016

International Policy Governance Association (IPGA) 2016 Annual Conference: It's All About Ethics!

— *Toronto, Ontario, Canada*

Discussion and networking around:

- Establishing core values
- Using Policy Governance to make values count
- Making difficult choices
- Conflicts of interest
- Balancing control and empowerment

For more information, go to <http://www.policygovernanceassociation.org/events-and-conferences/2016-annual-conference.html>

JUNE 16–18, 2016

International Young Governance Professionals' 2016 Summit

— *Toronto, Ontario, Canada*

The International Young Governance Professionals (IYGP) is an independent, global community of young leaders dedicated to cultivating fresh perspectives in corporate and nonprofit governance.

For more information about this year's summit, go to <http://iygp-summit.com/>

JUNE 27–29, 2016

International Corporate Governance Network Annual Conference

— *San Francisco, California, USA*

For more information, see <https://www.icgn.org/events/annual-conference-san-francisco-2016>

SEPTEMBER 17–20, 2016

National Association of Corporate Directors (NACD) 2016 Global Board Leaders' Summit

— *Washington, DC, USA*

For more information, see <https://www.nacdonline.org/Conference/content.cfm?ItemNumber=4755>

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>

INTERNATIONAL ASSOCIATION OF FACILITATORS (IAF)

IAF holds regular events and has a YouTube channel with content that is being expanded all the time. See <https://www.iaf-world.org/site/events/conference> and <https://www.youtube.com/user/iafworld> □

Nominee Directors

(continued from page 3)

may still be demonstrated even if the specific requirements are not met. This was set out in *Sharma v. Sharma* (2013) EWCA Civ 1287: while silence normally does not amount to authorization, where it was unconscionable for the principal to remain silent, this would amount to authorization.

Therefore, a nominee director should err on the side of caution in conflicts and seek actual authorization to insulate themselves from liability, but failure to seek this may not remove the possibility of authorization being established if, as a matter of fact, they can show the principal remained silent about the conflict and it was unconscionable for them to have done so.

Whilst it is often said that resignation may also be a solution to a conflict, this is a bit of red herring. The duty of loyalty will continue to operate even after resignation (Companies Act

2006, section 175) if it is additionally shown that the interest was discovered before resignation and the resignation was prompted or influenced by that interest. Therefore, a nominee director who resigns one position to pursue an opportunity for the other would still be conflicted.

As a result, the position as a nominee director can be a difficult legal stance to take, but problems rarely transpire where the principals involved are aware of and demonstrably accepting of the position. A nominee director who is in the position of potential accountability to more than one principal may not wish to rely on goodwill, especially if the relationships may not remain cordial. Given the wide responsibility of directors the best option for them when concerned about a conflict or fettering of discretion would be to seek authorization from the overall principal. While the other mechanisms of avoiding liability also offer protection, they are more complex

and narrower in their application than authorization that simply requires the director to show that the principal acquiesced to the disloyalty. □

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Note

1. The issue of the extent to which the corporate board acting for the interests of a company equates to acting in the best interest of its shareholders is a matter for widespread debate. *Board Leadership* has covered this debate in previous articles, such as "Is For-Profit Ownership Changing or Not?" by Caroline Oliver, *Board Leadership* Issue number 124, November–December 2012.

Governance Codes

(continued from page 5)

created the very first national corporate governance code in 1992, now appears in nearly all codes. Another example is that one often finds code provisions that seem to have been copied from another code almost word for word.

It is as if everyone is measuring themselves against an internationally emerging standard—code authors think they need to do the same as everybody else in order not to be seen as substandard. It is a different question whether the drafting committee believes what they are calling for improves performance or is well aligned with the domestic legal and/or economic environment, but they seem to feel obliged to meet what is seen as a common standard.

This could be used to say that good corporate governance is more a matter of "groupthink" than anything else, but I will leave that for readers of *Board Leadership* and others to discuss. □

Notes

1. C. Gerner-Beuerle, "Determinants of Corporate Governance Codes," LSE Legal Studies Working Paper No. 5/2014. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2346673.

2. *The UK Corporate Governance Code*. Financial Reporting Council, London, September 2014. <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf>.

3. Index of codes. European Corporate Governance Institute. http://www.ecgi.org/codes/all_codes.php

4. G. Thornton, "Plotting a new course to improved governance" *Corporate Governance Review* 2014 http://www.grant-thornton.co.uk/Global/Publication_pdf/Corporate-Governance-Review-2014.pdf.

5. *The Financial Aspects of Corporate Governance (Cadbury Report)*. (London: Professional Publishing Ltd., 1992).

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