

YOUR VESTED INTEREST

North Dakota State Investment Board

October 2013

FROM THE DIRECTOR'S CHAIR

Market Commentary

Source: Callan Associates Inc.

The North Dakota State Investment Board (SIB) has employed Callan Associates, Inc. as its investment consultant for over 20 years. We asked for their perspective on the fiscal year 2013 capital markets and appreciate their response.

Economic Overview

The first quarter of fiscal year 2013 commenced with the breaking of the LIBOR fixing scandal and culminated with the Federal Reserve announcing open-ended bond purchases, nicknamed "QE3." Soon attention was turned



*Darren Schulz
Interim Chief Investment Officer*

to the looming "fiscal cliff," tax increases coupled with a reduction in government spending. While the "cliff" was averted, no long-term solutions to the U.S. debt problem were found. The beginning of calendar year 2013 brought news of more turmoil abroad. The mid-February announcement that banks in Cyprus were insolvent and would need a bailout set off investor concerns around the world. The situation was well contained

and within a couple of months the equity markets continued their upward march. In late May the Federal Reserve announced that a "tapering" of bond purchases (quantitative easing) might begin as soon as July. The taper comment sent equity markets tumbling and bond yields rose to levels not seen in more than a year.

There were some encouraging signs of economic growth during fiscal year 2013. After starting at 8.2%, U.S. unemployment steadily declined to 7.6%. Although many feared high inflation due to quantitative easing, the Consumer Price Index – All Urban Consumers (a standard measure of U.S. inflation) remained benign throughout the year, never topping 2.2%.

The domestic economy grew a modest 1.4% in fiscal year 2013 while Europe suffered through a mild recession. The developed world's major central banks all continued their respective quantitative easing programs in efforts to spur their economies.

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State Investment Board (SIB)

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

RIO Administrative Office

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

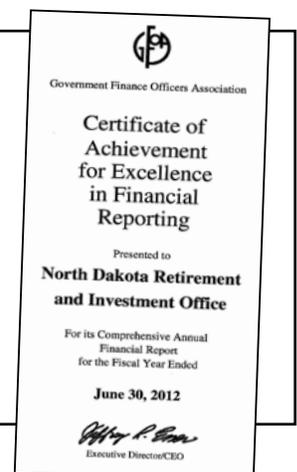
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Achievement Award Received

The ND Retirement and Investment Office (RIO) is pleased to announce that for the 15th consecutive year its Comprehensive Annual Financial Report (CAFR) was recognized for achieving the highest standards in state and local government accounting and financial reporting. The Government Finance Officers Association (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to NDRIO for its 2012 CAFR.



Target Asset Allocation

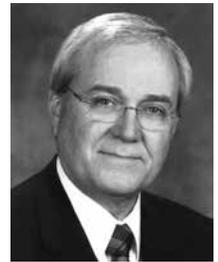
	TFFR	PERS
Global Equity	57%	57%
Domestic Equity	31%	31%
Large Cap Domestic Equity	24%	24%
Small Cap Domestic Equity	7%	7%
International Equity	21%	21%
Developed Int'l Equity	17%	16%
Emerging Markets Equity	4%	5%
Private Equity	5%	5%
Global Fixed Income (FI)	22%	22%
Domestic Fixed Income	17%	17%
Investment Grade FI	12%	12%
Below Investment Grade FI	5%	5%
Developed International FI	5%	5%
Global Real Assets	20%	20%
Global Real Estate	10%	10%
Timber	5%	5%
Infrastructure	5%	5%
Cash Equivalents	1%	1%

Special Thanks to Erdmann and Toso

Many thanks to Levi Erdmann and Bob Toso for their years of dedicated service on the State Investment Board. Mr. Erdmann represented PERS on the Board and Mr. Toso represented TFFR.



Levi Erdmann



Bob Toso

New SIB Board Members

The State Investment Board (SIB) would like to welcome Rob Lech, TFFR Trustee, and Tom Trenbeath, PERS Trustee, to the Board. Mr. Lech is the Superintendent of Jamestown Public Schools and Mr. Trenbeath is the Attorney General Appointee to the PERS Board.



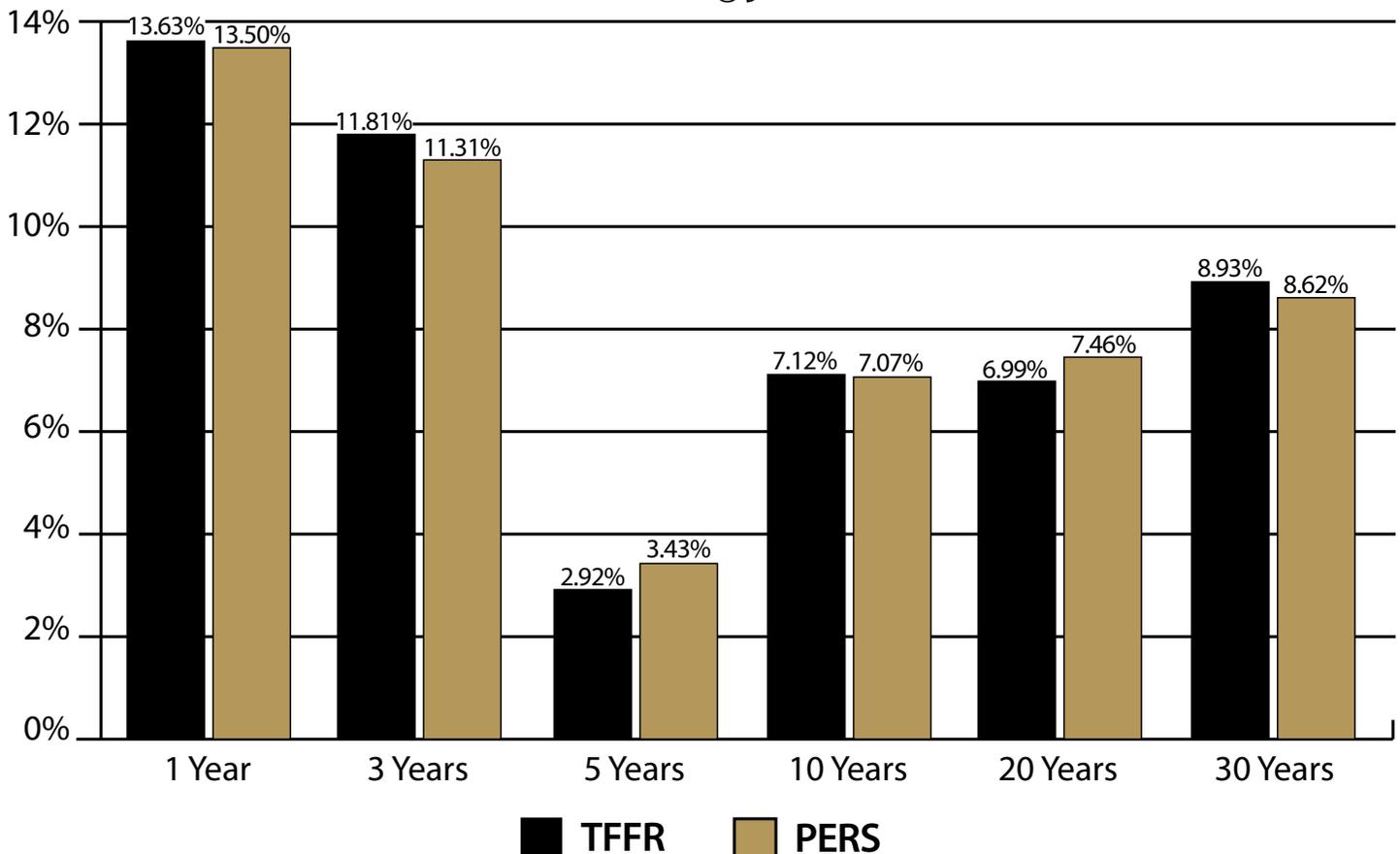
Rob Lech



Tom Trenbeath

Net Investment Performance

For Periods Ending June 30, 2013



Market Commentary

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So far, the Bank of Japan may have been the most successful as Japan's GDP growth for the first two quarters of calendar-year 2013 was 3.8% and 2.6%. China is in the midst of a long-term decline in GDP growth as it tries to shift from an export-based economy to a consumption-driven economy. China's growth rate this year is still expected to be a very robust 7.5%.

Domestic Equity

The fiscal year ended June 30, 2013 brought strong returns across the broad domestic equity market.

The S&P 1500 Index, a broad market indicator for the U.S. stock market, finished the fiscal year with a return of 20.94%. Small cap stocks performed better than large cap stocks. The S&P 600, a gauge of small cap stock performance, outperformed its large cap peer (the S&P 500 Index), 25.18% to 20.60%. Value stocks held up better than growth stocks. The Russell 3000 Value Index advanced 25.28% versus a gain of 17.56% for the Russell 3000 Growth Index.

International Equity

Developed International equity markets, as represented by the MSCI EAFE Index returned 18.62%, significantly better than the -13.83% loss in the 2012 fiscal year. Emerging market returns trailed developed market returns as the MSCI Emerging Markets Index gained only 3.23%.

Domestic Fixed-Income

The U.S. investment-grade bond market, as measured by the Barclays Capital Aggregate Bond Index, had a 0.69% return. With fears of a recession fading and Federal Reserve's intention to "taper" quantitative easing, investors fled the bond markets into higher returning equity markets. Treasury yields rose across the curve. When compared to fiscal year 2012, yield spreads for

non-government bonds tightened during fiscal year 2013, resulting in positive Total Returns.

Rising interest rates during fiscal 2013 caused the Barclays Capital Government Index to decline -1.51%. While negative, this return was above the -8.18% loss of the Barclays Capital Government Long Index. The Barclays Capital Credit Index rose 0.84% as company balance sheets continued to improve. High yield investors saw strong returns as the Barclays Capital High Yield Index returned 9.49%.

International Fixed-Income

The international fixed income markets struggled in fiscal year 2013. The Citi Non-U.S. World Government Un-hedged Index fell -5.72%.

However, there were pockets of positive movement. The Citi Euro Government Bond Index rose 9.44% as European Union leaders continued their efforts to contain the debt crisis through many measures. Investors are now somewhat hopeful that these steps, coupled with positive economic growth will solve the underlying economic problems that plague Europe.

The U.S. Dollar appreciated relative to most foreign currencies during the fiscal year, hurting U.S. investors' return from holding foreign bonds. In U.S. Dollar-denominated returns, the Citi Non-U.S. World Government Bond Index declined -5.72%. In contrast, the local currency return for the Citi Non-U.S. World Government Bond Index was 2.86%. Emerging Market countries experienced flat returns for fiscal year 2013; the JP Morgan Emerging Markets Bond Plus Index was up 0.07%.

Real Estate

Fiscal 2013 was a very good year for real estate investors. The NCREIF Property Index, a measure of the private real estate market, rose 10.72%. Capitalization rates and

returns were positive across all property sectors. The FTSE NAREIT Equity Index, a measure of the public securities real estate market, gained 9.42%.

Private Equity

The private equity market was healthy in fiscal year 2013 as institutional investors placed capital into new programs. According to "Buyouts" newsletter, 1,592 transactions closed in the amount of \$183 billion. This is an increase in the total number of transactions from fiscal year 2012 (437) and in dollar volume (\$143 billion).

Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous.

Timber

The timber sector has seen continued growth in market size. As of the fiscal year-end, the total market size of the NCREIF Timberland Property Index reached almost \$25 billion representing approximately 14.3 million acres. The index returned 9.36% for the twelve months ending June 30, 2013. The Pacific Northwest was the best performing region gaining 14.62%. The South is currently the largest region, representing \$15 billion and 9.8 million acres of land.

Infrastructure

As of June 30, 2013 there were 142 private infrastructure funds raising capital worldwide, 71 of which have held a first close. As such, momentum in the current fundraising market is clearly stronger than at the same point in 2012. However, fund managers still face plenty of competition as they are still marketing to a small and highly selective investor pool. At the deal level, energy related investments represent the largest portion of trades and Europe remains the dominate region for deal flow.



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

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SIB Officers Elected

The State Investment Board (SIB) recently held its annual election of officers. The SIB chose the following members to hold 2013-2014 leadership positions:



*Lt. Governor Drew Wrigley
~ Chairman*



*Mike Sandal
~ Vice Chairman*



*Clarence Corneil
- Parliamentarian*