YOUR VESTED INTEREST

North Dakota State Investment Board

March 2014

SIB Hires Executive Director/CIO

After a nation-wide search the State Investment Board (SIB) hired David Hunter as Executive Director and Chief Investment Officer (CIO) for the Retirement and Investment Office (RIO). With nearly 30 years of professional investment banking, management, and accounting experience with three of the world's largest financial services firms, Mr. Hunter is well qualified to serve the state, the SIB, and its constituents.

Mr. Hunter is a native of Lemont, IL, and received his Bachelor of Science degree from Northern Illinois University (Cum Laude), and his MBA in Finance from the University of Chicago. He passed the Certified Public Accounting exam in the state of Illinois in 1985. Mr. Hunter has broad expertise in fixed income and equity markets, financial due diligence, risk management, portfolio construction, asset allocation, and manager selection.

David Hunter
Executive Director/CIO

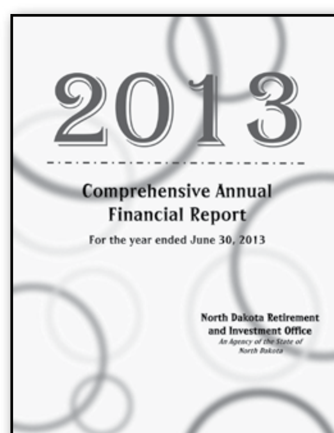
Dave moved to Bismarck in December, while his wife Laura and his son Malcolm will join him in June. Please join us in welcoming Dave and his family to North Dakota.

Annual Audit Completed

The 2013 financial statements of the North Dakota Retirement and Investment Office received an unmodified 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 at www.nd.gov/rio.

2013 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 at 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.



From the Director's Chair

David Hunter, Executive Director/CIO

First, I would like to thank the State Investment Board (SIB) and Retirement and Investment Office (RIO) staff for granting me the privilege to serve as the Executive Director and Chief Investment Officer. I feel very fortunate to have been allowed to join this great team and am excited about our dynamic growth prospects here in North Dakota.

Second, I understand the important role played by the SIB and RIO in safeguarding plan assets to strengthen the long-term financial security of our pension participants, while minimizing the financial burden on the state and our constituents. Together, our goal is simple: meet or exceed the 8% investment return objective over the long term by prudently implementing asset allocation guidelines approved by the North Dakota Public Employees Retirement System (PERS) and the North Dakota Teachers' Fund for Retirement (TFFR) boards while adhering to liquidity requirements and acceptable levels of risk.

Third, I am pleased to report that both PERS and TFFR have exceeded their 8% return objective (by a significant margin) during the last 1, 3, and 5 year periods ended December 31, 2013. More importantly, both retirement plans have exceeded this expected 8% return target over the past 30 years. The following describes our more recent investment performance, while comparing our historical performance and investment risk levels versus other public pension plans.

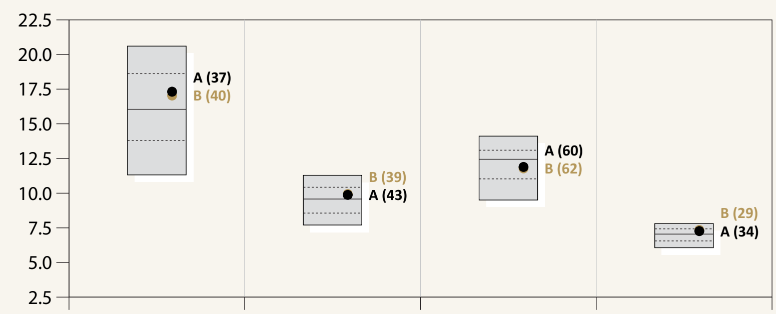
Investment Returns

Investment returns for TFFR and PERS were strong in 2013 and approximated 17% for the calendar year. ***(See chart 1.)*** This performance was largely attributable to the robust U.S. and global equity markets which posted returns in excess of 30% and 20%, respectively. In contrast, most of the fixed income markets were negative in 2013 due to rising interest rates as evidenced by long-term U.S. government securities declining over 10%. I always find it interesting that many folks view investments in U.S. government securities as "safe." Unfortunately, the market value of fixed rate debt declines when interest rates rise, even if backed by the full faith and credit of the U.S. government. Although there is a low level of credit risk associated with U.S. government securities, there is a great deal of interest rate risk inherent in most long-term, fixed income investments. As a result, fixed income investors can experience significant losses during periods of rising rates, particularly if the fixed rate of return is locked in for long periods. This is what took place in 2013 as the rate on a 10-year U.S. Treasury bond increased from 1.76% to 3.03%. We are working to reduce the interest rate risk inherent in our portfolios by investing in debt securities which are less sensitive to rising interest rates, such as floating rate bonds, convertible securities, and short term fixed rate notes.

TFFR and PERS both returned approximately 10% and 12% during the last 3 and 5 year periods ended December 31, 2013, respectively. ***(See chart 1.)*** These strong returns were largely driven by robust U.S. and global equity markets. U.S. equity returns ranged from 16% to 18% during the last 3 to 5 years, while global equity returns ranged from 10% to 15%. In contrast to 2013 (in which most bond returns were negative), most of the fixed income markets generated positive returns over the last 3 to 5 years ranging from 2% for intermediate term (3 to 4 years) U.S. government notes, up to 19% for high yield bonds. We have increased our exposure to shorter-term fixed income securities during the last 5 years in order to mitigate

Chart 1

Gross Returns for Periods Ended December 31, 2013 Callan Public Fund Sponsor Database



	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	20.6	11.3	14.1	7.8
25th Percentile	18.6	10.4	13.1	7.4
Median	16.1	9.6	12.5	7.1
75th Percentile	13.8	8.6	11.0	6.6
90th Percentile	11.3	7.7	9.5	6.1
Member Count	236	223	215	183
Total Fund TFFR Gross ● A	**17.3**	**9.9**	**11.9**	**7.3**
Total Fund PERS Gross ● B	**17.0**	**9.9**	**11.8**	**7.4**

Key Point: *Calendar year investment returns for TFFR and PERS exceeded the 8% expected rate of return assumption in the last 1, 3, and 5 year periods, while generating a 17% return in calendar year 2013.*

the impact of rising interest rates, while maintaining a well diversified asset allocation to equities, bonds, and real assets. This diversified approach has served our clients well over the long-term by not placing too many of our eggs (investments) into any one basket (asset class). This approach should serve to dampen the peaks and valleys of our investment returns over the long-term.

Over the last 30 years, the TFFR and PERS plans have been successful in generating annual returns of approximately 9%. ***(See chart 3 on page 4.)*** This serves to support our long-term 8% expected return assumption. Although all pension plans have experienced significant volatility in returns over the past 30 years, PERS and TFFR have been successful in reducing investment risk and volatility in recent years.

Investment Risk

Risk, as measured by standard deviation, has declined by approximately two-thirds (or 67%) during the last 5 years for both TFFR and PERS. A lower standard deviation is generally preferred when comparing risk profiles. Standard deviation is important as a measure of the volatility of the rate of return on an investment. An investment with a lower standard deviation has less volatility than an investment with a higher standard deviation.

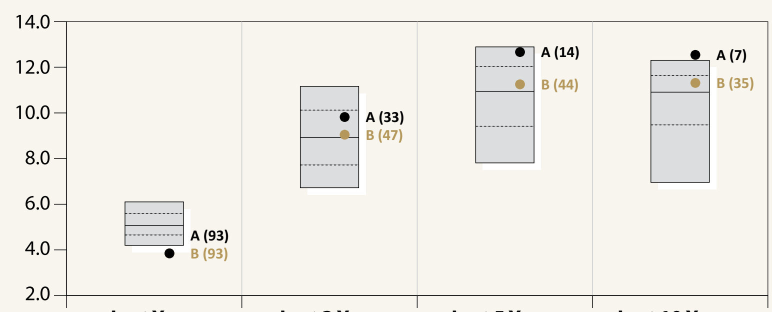
During the last 5 years, the standard deviation for TFFR and PERS declined from approximately 12% to less than 4%. ***(See chart 2.)*** There are many factors responsible for this significant decline including an overall reduction in equity market volatility during the past 5 years. The asset allocation framework recently adopted by TFFR and PERS was a major factor as it contributed to a refreshed risk based approach incorporating recent market events and return expectations. Due to these policy changes, which resulted in TFFR and PERS adopting similar asset allocations, the divergence between the TFFR and PERS standard deviation levels has diminished and was nearly identical in the last year at 3.9%. ***(See chart 4 on page 4.)*** This significant level of risk reduction in our portfolio is important particularly when compared to other public pension plans in the U.S.

Peer Performance

TFFR and PERS generated investment returns in the top half of all public pension plans in the Callan Associates Public Fund Sponsor Database for the last 1, 3, and 10 year periods ended December 31, 2013. During the last year, TFFR posted a 17.3% return which ranked in the top 37%, while PERS posted a 17% return which ranked in the top 40%. ***(See chart 1)***. I am pleased to report this strong peer performance and would like to emphasize that these returns were generated during a period in which both the TFFR and PERS funds exhibited lower standard deviation than most other public U.S. pension plans. TFFR and PERS ranked in the "best 10%" for standard deviation at approximately 3.9% versus a median level of 5.1%. The funds' ability to generate investment returns in the top 40%, while also experiencing the lowest 10% of standard deviation, is reassuring from an investment volatility perspective.

Chart 2

Standard Deviation Rankings for Periods Ended December 31, 2013 Callan Public Fund Sponsor Database



	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	6.1	11.2	12.9	12.3
25th Percentile	5.6	10.1	12.0	11.6
Median	5.1	8.9	11.1	10.9
75th Percentile	4.7	7.7	9.4	9.5
90th Percentile	4.2	6.7	7.8	7.0
Member Count	236	223	215	183
Total Fund TFFR Gross ● A	**3.9**	**9.8**	**12.7**	**12.5**
Total Fund PERS Gross ● B	**3.9**	**9.1**	**11.3**	**11.3**

Key Point: *Investment risk, as measured by standard deviation, has declined with the TFFR and PERS portfolios during the last five years. A lower standard deviation is generally preferred when comparing risk profiles. As evidence, the TFFR standard deviation declined from 12.7% to 3.9% in the last five years.*

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

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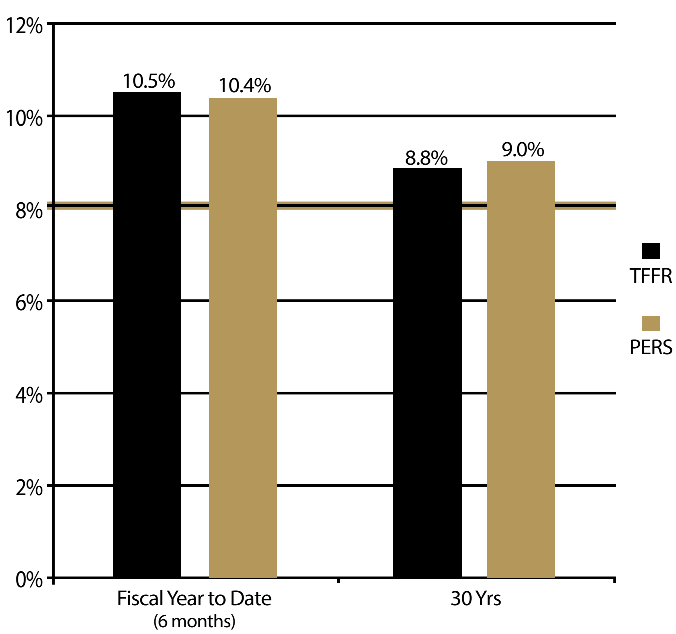
BISMARCK, ND 58507-7100

PRESORTED
STANDARD
U.S. POSTAGE
PAID
PERMIT NO. 325
BISMARCK, ND
58501

Chart 3

Net Investment Performance

For Periods Ended December 31, 2013



Note: Actual returns have exceeded the 8% objective for the six months ended December 31, 2013, as well as over the last 30 year period.

Chart 4

PERS & TFFR Target Asset Allocations

Global Equity	**57%**	
- U.S.		31%
- International		21%
- Private		5%
Global Fixed Income	**22%**	
- U.S.		17%
- International		5%
Global Real Assets	**20%**	
- Global Real Estate		10%
- Timber		5%
- Infrastructure		5%
Cash	**1%**	

Note: PERS & TFFR asset allocations have been aligned at the major asset class level (i.e. global equity, fixed income, and real assets) in the last year.