

# YOUR VESTED INTEREST

North Dakota State Investment Board

May 2015



## Attainment of Long-Term Return Objectives for PERS and TFFR

The Retirement and Investment Office is pleased to report that PERS and TFFR continue to attain their long term investment objectives noting that net returns have exceeded 8% for the 3, 5, and 30 year periods ended March 31, 2015. Over the last 30 years, the TFFR and PERS plans have been successful in generating net investment returns of 8.6% and 8.9%, respectively.

### PERS and TFFR Investment Performance

Despite challenging economic conditions in the international equity and debt markets, the PERS and TFFR investments were able to generate a 6.5% net return for the one-year period ended March 31, 2015. Improving economic conditions in the U.S. were responsible for favorable results in real estate (up 16%), U.S. equities (up 12%), global equities (up 7%), U.S. fixed income (up 6%), timber (up 5%), and infrastructure (up

4%). The strong U.S. dollar and weakening international currency and capital markets were largely responsible for international equity and debt strategies declining by 1% and 4%, respectively.

### Asset Allocation and Active Management

Successful active management results when the State Investment Board selects a team of investment managers which outperform an underlying benchmark index. For the one-year period ended March 31, 2015, active management improved TFFR and PERS net investment returns by over 1.2%. Based on over \$4.4 billion of combined investments for TFFR and PERS, this translates into over \$52 million of incremental income for the two retirement plans in the last year (e.g. \$4.4 billion times 1.2% = \$52 million).

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## Olson Replaces Corneil

The State Investment Board (SIB) wishes to thank Mr. Clarence Corneil for his years of dedicated service on the State Investment Board. The SIB would also like to welcome Mel Olson to the SIB. Mr. Olson represents TFFR on the State Investment Board.



*Clarence Corneil*



*Mel Olson*

# FROM THE DIRECTOR'S CHAIR



David Hunter  
Executive Director/CIO

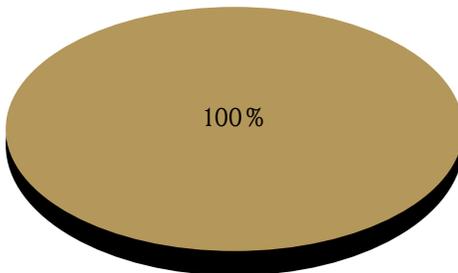
## Legacy Fund Investment Performance

The Legacy Fund was created in 2010 when the voters of North Dakota approved a constitutional amendment to transfer 30% of oil and gas production and oil extraction taxes produced after June 30, 2011, to the Legacy Fund. The State Investment Board (SIB) is responsible for investment of the principal of the Legacy Fund. Currently, the principal and earnings of the Legacy Fund may not be spent until after June 30, 2017.

The Legacy Fund was initially 100% invested in short-term fixed income investments and the allocation was transitioned into 50% equity, 35% fixed income, and 15% real assets between August of 2013 and January of 2015. As of March 31, 2015, the Legacy Fund investments were approximately \$3.2 billion and have more than tripled during the past two years (from a market value of approximately \$940 million as of March 31, 2013).

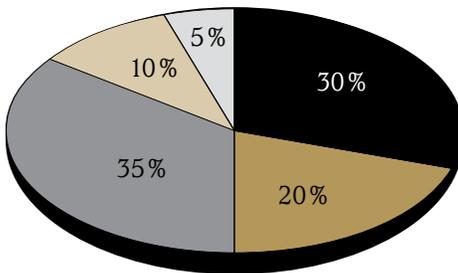
(up 12%), and international equity (down 2%). Active management increased returns by over 0.3% (or approximately \$10 million) during the past year noting that the Legacy Fund was not fully invested in the new asset allocation until the first quarter of 2015. The long-term expected rate of return for the Legacy Fund was set at 6.4% based on the new asset allocation which was approved by the State Investment Board and Legacy Fund Advisory Board in mid-2013.

Former Legacy Fund Policy Allocation 8/1/13



Short Term Fixed Income

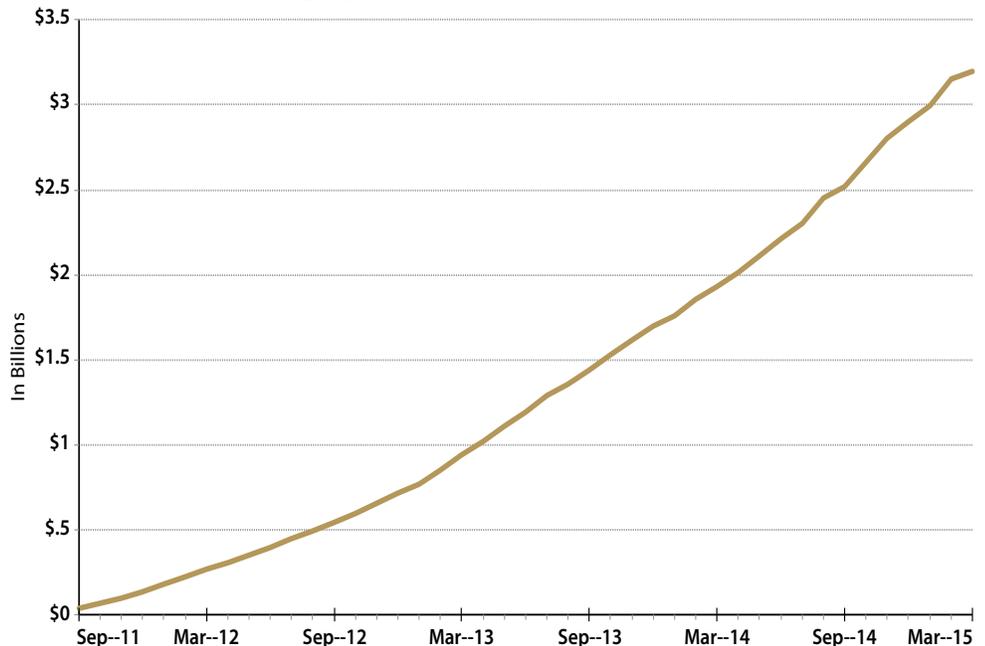
New Legacy Fund Policy Allocation



Broad U.S. Equity  
 Broad International Equity  
 Fixed Income  
 Diversified Real Assets  
 Core Real Estate

The Legacy Fund generated a net investment return of 5.7% for the 1-year period ended March 31, 2015, with asset allocation decisions accounting for over 85% of the overall results. The primary return drivers by asset class included fixed income (up 4%), U.S. equities (up 11%), real estate

Legacy Fund Total Market Value



# Attainment of Long-Term Return Objectives for PERS and TFFR

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For the nine months ended March 31, 2015, TFFR and PERS generated net investment returns of 2.7% and 2.8%, respectively. In the past, asset allocation decisions have been responsible for over 90% of TFFR and PERS investment returns noting that both plans maintain a 57% target allocation to equities, 22% to fixed income, 20% to real assets (including real estate, infrastructure and timber), and 1% to cash. During the past nine months, however, asset allocation generated about 70% of the TFFR and PERS net returns while active management enhanced results by approximately 30%.

## PERS & TFFR Target Asset Allocations

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

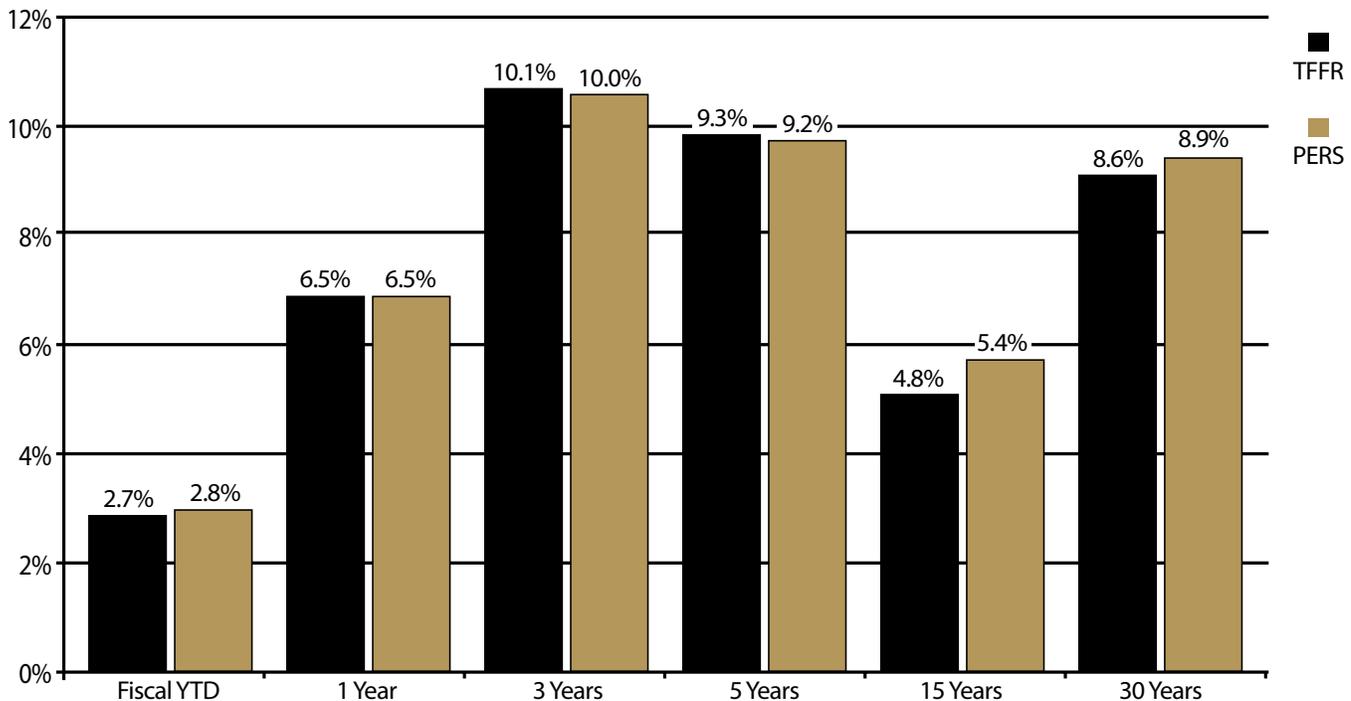
\* PERS & TFFR asset allocations have been aligned at the major asset class level. However PERS has a 1% higher allocation to emerging markets within international equity.

## Annual Audit Completed

The 2014 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](http://www.nd.gov/rio).

## Net Investment Performance

Periods Ended March 31, 2015





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

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## 2014 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](http://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.

