

NDTFFR Investment Update

NDCEL Summer Conference

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Executive Director – Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

SIB Investment Program

Asset Liability Analysis

- Individual board/client contracts with consultant to conduct asset liability study.
- With input from CIO, various optimal portfolios are developed by consultant , and considered by board.

Investment Policy Statement

- With input from CIO and RIO staff, investment policy statement is developed.
- Preferred target allocation is integrated into investment policy statement.

Board Approval and Acceptance

- Individual board/client approves investment policy statement.
- Investment policy statement is presented to SIB for acceptance and implementation.

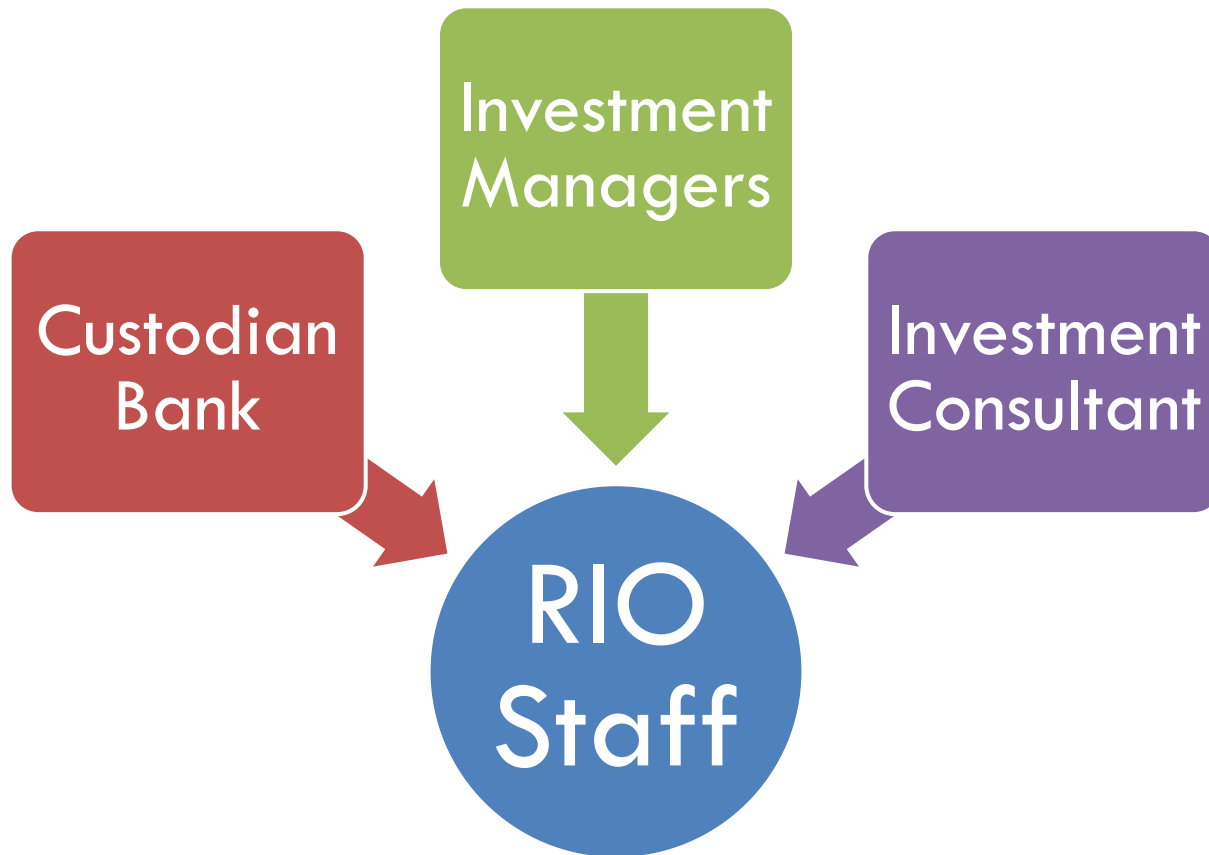
SIB Implementation

- CIO provides research and recommendations to SIB regarding investment strategies and managers to best maximize returns for stated levels of risk based on investment policies.
- SIB makes investment hiring decisions.

RIO administration

- RIO administers investment strategy approved by SIB.
- RIO is “manager of managers” and is liaison between SIB and custodian bank, investment managers, and investment consultant.

RIO - Manager of Managers



RIO Administration

Executive Director - Chief Investment Officer and
RIO staff (4.65 FTEs)

Administer overall
investment
strategy.

Maximize
risk/return
opportunities within
each asset class.

Liaison between SIB
and Managers,
Consultant, and
Custodian.

Monitor individual
funds' investment
guidelines and
asset allocations.

Maintain separate
accounting for
individual funds.

Custodian Bank

The Northern Trust Company

- Safe-keep assets
- Settle trades
- Record-keeper

Investment Managers

38 Investment Managers

- ❑ Implement specific mandates or “investment strategies.”
- ❑ Multiple investment strategies within 10 asset classes.
- ❑ Make buy/sell decisions based on investment guidelines.
- ❑ Report to RIO staff on regular basis.
- ❑ Provide SIB education.

Investment Consultant

Callan Associates

- Performance measurement
- Manager searches
- Provide education
- Special projects

Prudent Investor Rule

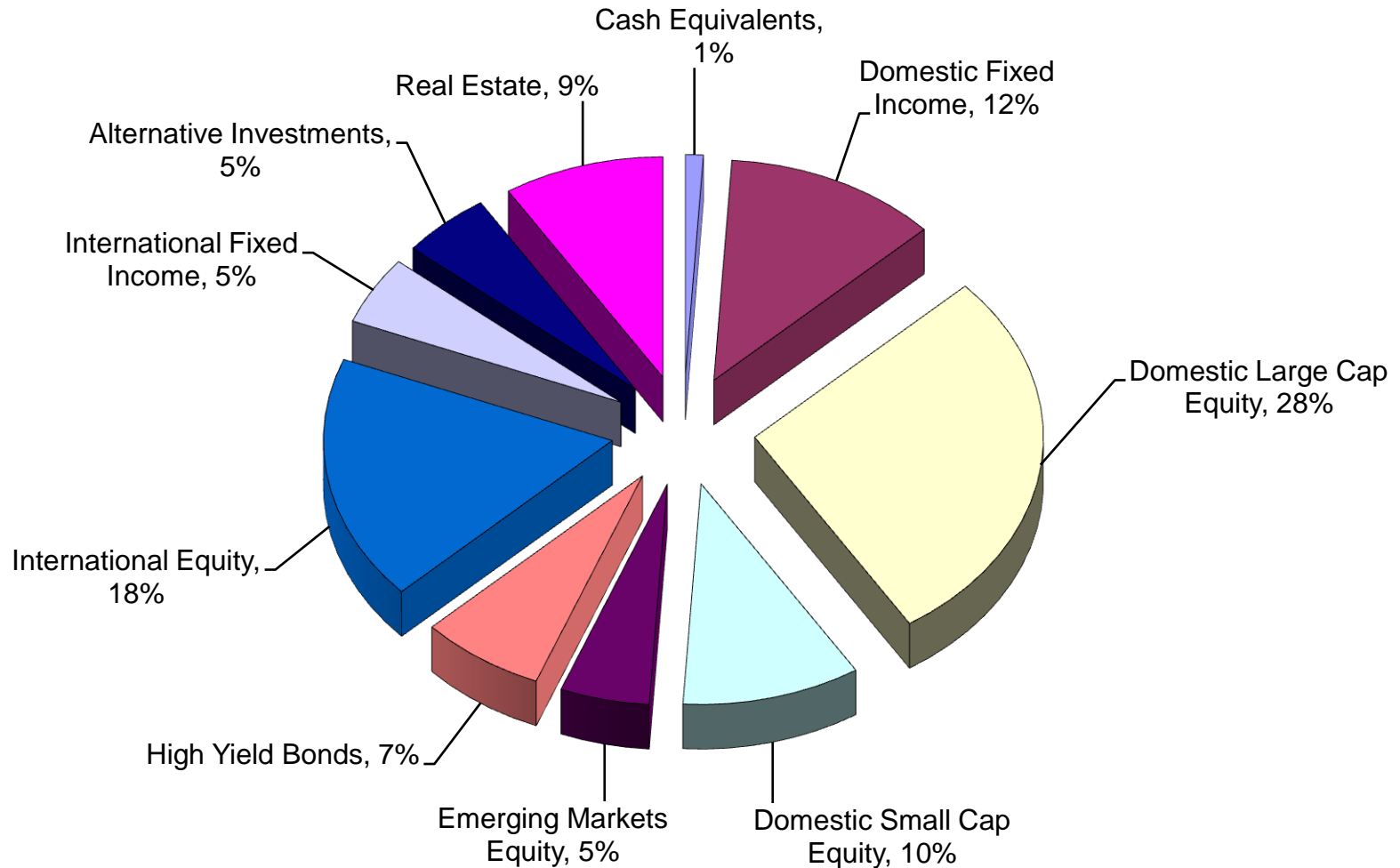
- Prudent Investor Rule (NDCC 21-10-07):
 - ▣ In making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

- Exclusive benefit rule:
 - ▣ The retirement funds belonging to TFFR must be invested exclusively for the benefit of the members and in accordance with the respective funds' investment goals and objectives.

TFFR Asset Allocation

- TFFR Board determines asset allocation and investment guidelines.
 - ▣ Asset-Liability Study is conducted every 5 years to consider appropriate asset mix for funding pension liabilities of TFFR. Current study is nearing completion.
- TFFR investment program is implemented by State Investment Board (SIB) in a professionally managed portfolio.
- TFFR investments are well diversified in a strategic asset allocation mix that helps to moderate the effects that one particular investment or one particular company may have on investment performance.

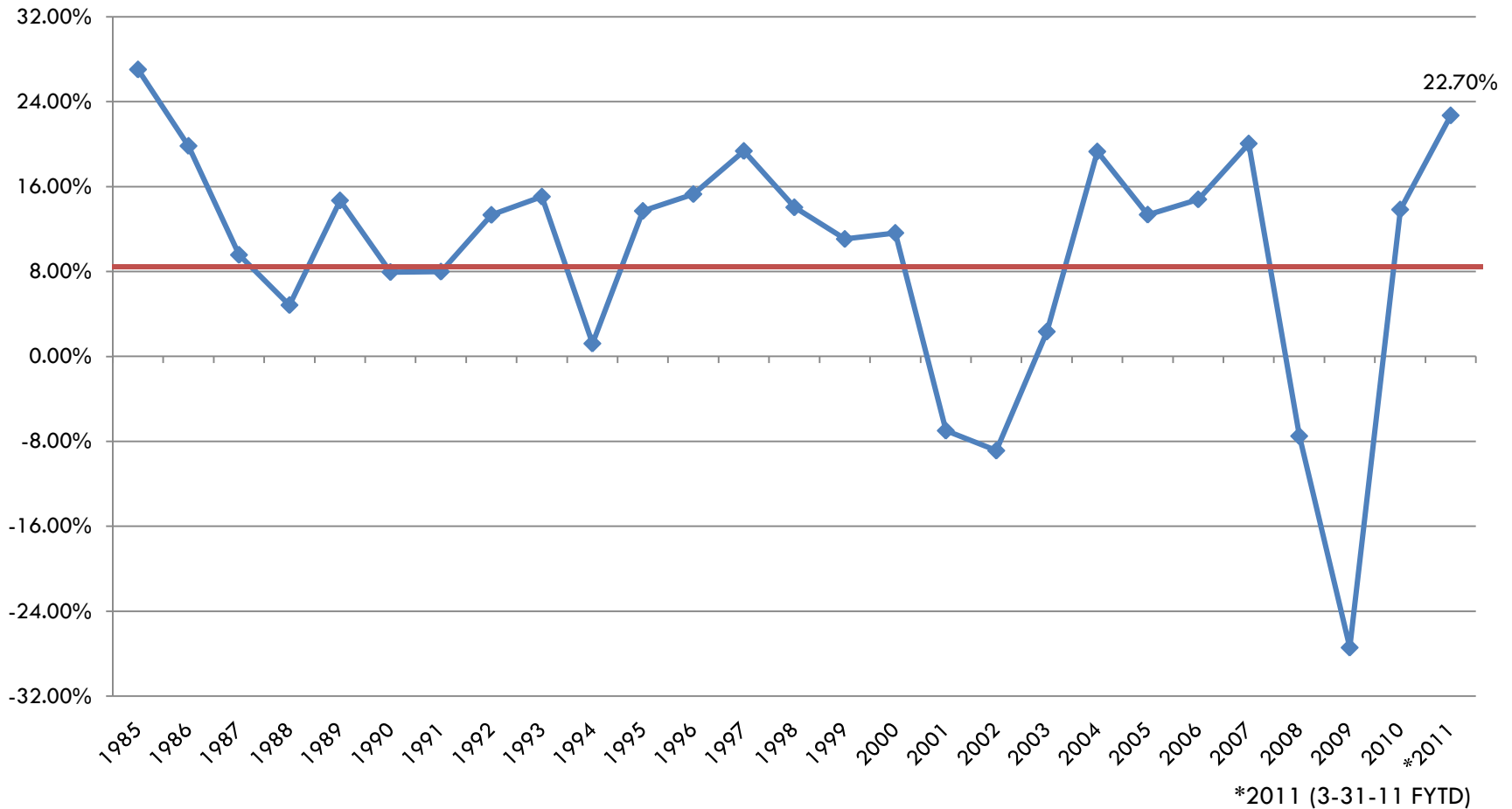
TFFR Asset Allocation



SIB Risk Controls

- Diversifying the Portfolio
- Hiring Professional Money Managers
- Establishing Investment Guidelines and Policies

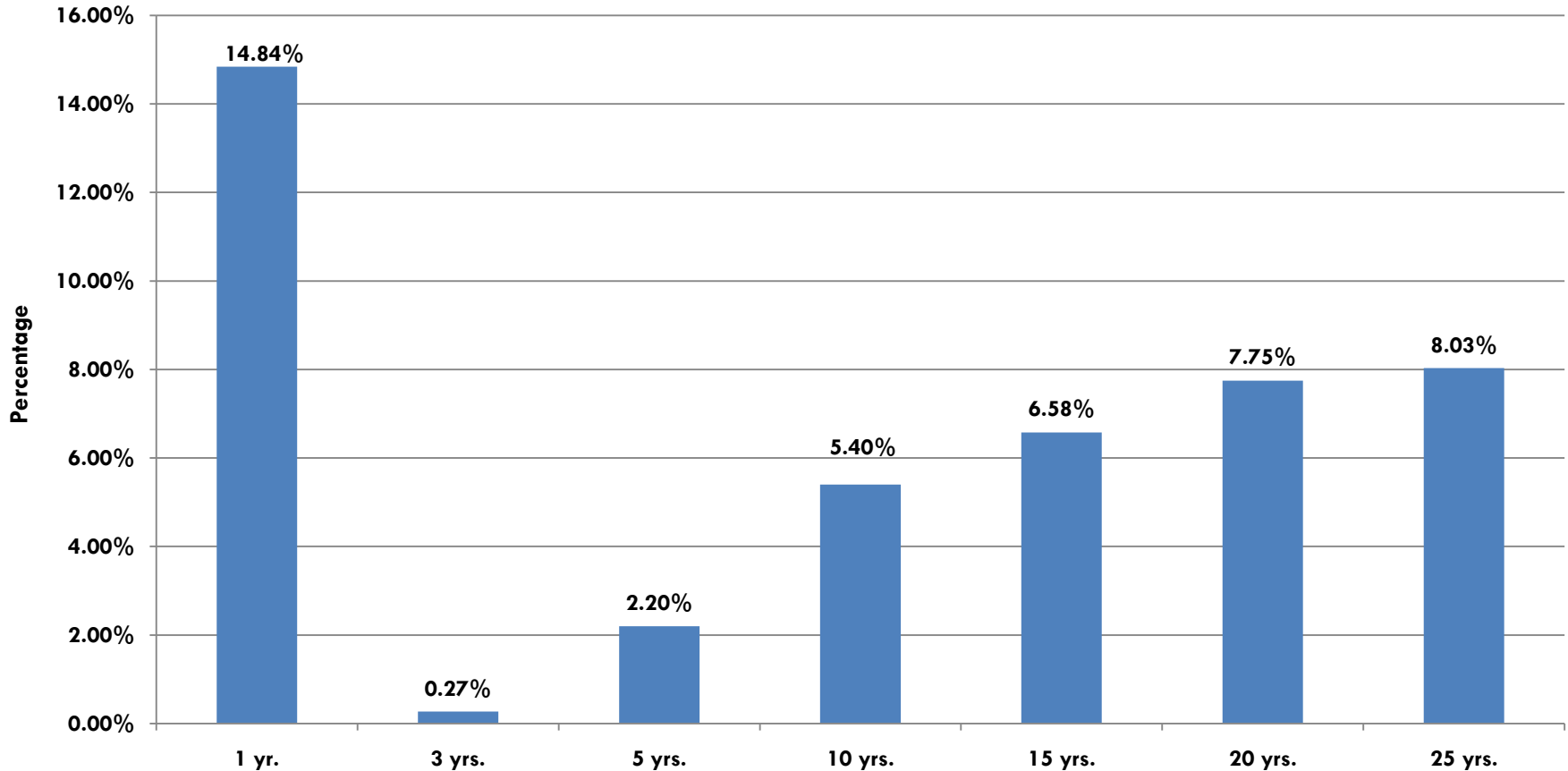
TFFR Investment Performance – Annual 1985-2011 FYTD



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

TFFR Net Investment Performance

Period Ended 3-31-11



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

8% Investment Assumption

- Current investment return assumption is 8%.
 - ▣ Reflects historical rates of return
 - ▣ Current and projected rates of inflation
 - ▣ Projected returns for individual asset classes
- Actual net TFFR returns have achieved 8% over past 25 years.
- 8% is median investment return assumption used by public pension plans.

Market Value of TFFR Assets

