

INVESTMENT SECTION





ND Retirement and Investment Office

State Investment Board
Teachers' Fund for Retirement

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
Fax 701-328-9897
www.nd.gov/rio

November 16, 2016

Members of the
North Dakota State Investment Board
North Dakota Teachers' Fund for Retirement Board

Dear Board Members:

This report is a summary of the investment portfolios managed by the State Investment Board (SIB) and market environment for the fiscal year ended June 30, 2016.

Introduction

For the fiscal year ended June 30, 2016, the \$4.7 billion North Dakota pension investment pool portfolio experienced a total return of 0.31% net of fees. The insurance investment pool, valued at \$2.5 billion on June 30, 2016, returned 3.12% (net), during the same time frame. The \$3.8 billion Legacy Fund returned 1.06%, net of fees, for the fiscal year. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon fair values and are subject to independent verification.

The pension and insurance investment pools are pooled investment funds. The pension pool was created in 1989 in an effort to realize cost savings through pooling of pension assets. The insurance pool was created in 1993 for similar reasons. A list of the participants and their ownership in each pool is provided in this section of the report. The pooled funds' strategies are a proportional reflection of the investment objectives of each of the participating funds. The returns experienced by the individual funds were consistent with their respective investment policies and related asset allocations. The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. The first transfer was received in September 2011. Transfers into the Legacy Fund totaled \$434.9 million during the current fiscal year. Investment program details for the participating plans, including investment objectives and a listing of their external investment managers are presented in the Investment Section.

The investment program's cost as measured by expense ratio is 52 basis points for the pension pool, 35 basis points for the insurance pool, and 37 basis points for the Legacy Fund and includes investment office administrative expenses, consultant fees, money manager fees and master custodian fees. Allocation of monthly income and expenses to the participants in the pools is based on a time-weighted beginning balance. A "time factor" and "time-weighted amount" are calculated for each plan based on individual plan-related activities. The time-weighted amounts are added up for all plan-related activities to compose the time-weighted beginning balance used to allocate the activity of the pool. Five-year annualized risk for the period ended June 30, 2016, as measured by standard deviation has been 7.90% for the pension pool and 3.18% for the insurance pool. Risk exposure for each participating fund is also limited in accordance with the guidelines presented in the Investment Section.

Economic Overview as of June 30, 2016

Several macro-economic events drove capital market volatility in the second half of 2015. Among these were fears of Greece exiting the European Union (E.U.) and the subsequent run on their banks, a slowing Chinese economy and their devaluation of the yuan, and oil prices that slid 34%. Adding to global market volatility was the uncertainty surrounding U.S. interest rates that culminated in the U.S. Federal Reserve moving off its zero interest rate policy to a target range of 0.25%-0.50% at its December 2015 meeting.

Calendar year 2016 started off with a slide in oil and equity prices that lasted until mid-February when both oil and stock prices stabilized, then reversed course, climbing throughout the rest of the fiscal year. During the second quarter, employers added an average of 175,000 jobs pushing the unemployment rate to end June at 4.9% versus 5.3% a year earlier. Despite this strong data, the U.S. Federal Reserve chose not to raise rates at their June 2016 meeting citing weak business capital investment and the surprisingly low May jobs creation figures. Headline and core CPI ended the fiscal year rising 1.0% and 2.3% year-over-year, respectively.

U.S. GDP growth was modestly positive over the 2016 fiscal year. Based on the most recent estimates, quarterly annualized GDP growth for the second quarter 2016 was 1.1%. Mirroring the slow growth rate in the U.S., euro zone GDP rose 1.6% during the same time period.

In international markets, the European Central Bank announced a new stimulus package in December that had muted effects. As the calendar year turned from 2015 to 2016, concerns about global growth were building. Japan continued its quantitative easing program by reducing its 10-year benchmark interest rate to -0.1% in an attempt to stimulate growth and support its capital markets. During this period, Japan and Germany became the second and third countries respectively to issue negative yielding 10-year debt. Despite these events, markets rallied in March and April. This momentum however stalled in late May when concerns regarding mediocre global growth figures and the U.K. referendum to leave the E.U. appeared to be gaining support. On June 23rd, the U.K. voted unexpectedly to exit the E.U., leading to a sharp global equity market selloff erasing two trillion dollars in a single day with the British Pound hitting a 31-year low. The U.S. dollar and yen rallied. Global equity markets digested the event in short order and recovered swiftly, reducing fears of a broad systemic event.

Domestic Equity Overview

The fiscal year ended June 30, 2016 brought positive yet muted returns across most of the domestic equity market. The S&P 1500 Index, a broad market indicator for the U.S. stock market, finished the fiscal year up 3.64%. Large cap stocks performed better than small cap stocks during the time period. The S&P 500, a gauge of large cap stock performance, outperformed its small cap peers by a wide margin. The S&P 500 rose 3.99% while the S&P 600 returned -0.03%. During this period value stocks outperformed growth stocks with the Russell 3000 Value Index advancing 2.42% versus a gain of 1.88% for the Russell 3000 Growth Index.

International Equity Overview

Developed International equity market returns, as represented by the MSCI EAFE Index, fell during fiscal year 2016. The index returned -10.16%, lagging its -4.22% performance in the prior fiscal year 2015. Growth fared better than Value in the international developed equity space. For the trailing twelve-months ended June 30, 2016, the MSCI EAFE Growth Index lost only 4.80% while the MSCI EAFE Value Index plummeted 15.43%. Emerging market equity returns trailed developed market returns for the fiscal year despite the rally in emerging market equities during the second quarter of the calendar year. The MSCI Emerging Markets Index dipped 12.05% over the trailing 12-months ended June 30, 2016. Overall, it was a lackluster year for international stock markets.

Private Equity

The private equity market decelerated in fiscal year 2016, but was still strong as institutional investors placed significant capital into new programs. According to the Dow Jones Private Equity Analyst service, 677 new partnerships were formed raising \$269 billion in commitments during the past 12 months. Compared to fiscal year 2015, this is a decrease in both the total number of new partnerships formed (741) and dollars invested (\$291 billion). Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous.

Domestic Fixed Income Overview

The U.S. bond market, as measured by the Barclays Aggregate Bond Index, jumped 6.00% in fiscal year 2016. The yield curve shifted downward and flattened throughout the period, rewarding holders of longer duration bonds. The Barclays Government Index rose 6.04% over the 12-month period. Given the environment, the Barclays Government Long Index returned a generous 18.98%. The Barclays Credit Index rose 7.55% for the same time period as spreads compressed versus Treasuries. High yield bonds, despite a rally in the first six months of 2016, returned only 1.62% over the trailing 12-months (Barclays Corporate High Yield Index).

International Fixed Income Overview

International fixed income markets performed well in fiscal year 2016. The Barclays Global Aggregate ex-US Bond Index rose 11.24%. Sovereign yields in Europe remained low for the fiscal year, even falling into negative territory in some areas, leading the Citi Euro Government Bond Index to a gain of 8.59%. The U.S. dollar went through periods of weakening and strengthening relative to the euro, yen, and pound during the last 12 months, which had mixed effects on dollar denominated returns versus local currency returns. Emerging market countries gained some long awaited footing during fiscal year 2016; the JP Morgan Emerging Markets Bond Index Plus surged 13.22% over the 12 month period.

Real Estate Overview

The NCREIF Property Index, a measure of the direct private real estate market, gained 10.64% during the 2016 fiscal year. The index was positive in each of the four quarters, extending its winning streak to 26 straight quarters. The FTSE NAREIT Equity Index, a measure of the public securities real estate market, skyrocketed 24.04%.

Timber

The timber sector has maintained its market size over the course of the last twelve months. As of June 30, 2016 the total size of the NCREIF Timberland Property Index was \$24.2 billion, representing approximately 13.4 million acres of land. The index was up year over year, returning 3.49% for the twelve months ending June 30, 2016, consisting of a 0.86% appreciation return and a 2.50% income return. The Northwest was the best performing region by gaining 6.02% for the year ended June 30, 2016. The South remains the largest region, representing \$17.3 billion in market value and 9.7 million acres of land.

Infrastructure

Approximately 4.56% of the North Dakota State Investment Board’s pension assets, 3.78% of the insurance trust, and 2.36% of the legacy fund are invested in infrastructure investments. These types of strategies are spread among four strategies: the JP Morgan Asian Infrastructure fund; the JP Morgan Infrastructure Fund; the Grosvenor Infrastructure Fund; and the Grosvenor Infrastructure II Fund.

By definition, infrastructure assets are essential to the economic health and productivity of civilized society. They include the basic facilities, services, and installations needed for the functioning of a community, such as transit and communications systems; both potable and sewage water lines; and electricity access. They also include such public entities as schools, post offices, and incarceration facilities. Most of these facilities have traditionally been owned and regulated by municipalities and states. The private sector’s participation has been limited, to varying degrees, to the areas of design, construction, and operation. Budget and fiscal pressures limit the ability of public authorities to maintain existing infrastructure, much less to build the new facilities required by a growing population. In response to these problems, many municipalities and states have sold or are contemplating the sale of their infrastructure assets to private investors.

Over the one-year period ended June 30, 2016, the SIB’s infrastructure investment program provided net returns of 2.88% for the Pension Trust, 4.94% for the Insurance Trust, and 4.33% for the Legacy Fund.

Summary

Amid a backdrop of modest economic growth, low central bank-controlled interest rates, and unpredictable political events, investment performance in absolute terms for the pension and insurance pools and Legacy Fund was muted in fiscal year 2016. With respect to relative performance, the insurance pool and Legacy Fund outperformed their respective policy benchmarks, while the pension pool slightly underperformed. Performance was favorably impacted by exposure to private real estate, whereas international and global equities detracted from total fund performance.

While absolute returns in fiscal year 2016 were unexceptional, performance over longer periods has been better. Over the past five years ending June 30, 2016, the pension and insurance pools returned 6.35% and 4.83%, respectively; over the past seven years, which most closely approximates the most recent market cycle, the pension and insurance pools returned a healthy 9.56% and 6.77%, respectively.

Going forward, the State Investment Board and staff will continue to monitor and align client investment portfolios entrusted to them in a sound fiduciary manner based on their respective investment objectives and constraints. At the same time, investment initiatives will be undertaken to further optimize the investment portfolios of all investment clients in the future.

Sincerely,



DARREN SCHULZ, CFA
Deputy Chief Investment Officer



DAVID HUNTER
Executive Director/Chief Investment Officer

INVESTMENT PERFORMANCE SUMMARY JUNE 30, 2016

	Fair Value	% Of Pool	Rates of Return (net of fees)									
			For Fiscal Year Ended 6/30					Annualized				
			2016	2015	2014	2013	2012	3 Years	5 Years	10 Years	20 Years	30 Years
PENSION POOL PARTICIPANTS												
Teachers' Fund for Retirement	\$2,082,183,642	44.1%	0.28%	3.52%	16.53%	13.57%	-1.12%	6.55%	6.32%	4.45%	6.48%	7.73%
Public Employees Retirement System	2,459,388,082	52.1%	0.28%	3.53%	16.38%	13.44%	-0.12%	6.51%	6.48%	4.81%	6.88%	7.89%
Bismarck City Employee Pension Fund	\$82,441,001	1.7%	0.82%	3.69%	14.56%	12.41%	1.57%	6.20%	6.46%	5.16%	6.86%	*
Bismarck City Police Pension Fund	\$33,983,600	0.7%	0.32%	3.56%	15.27%	13.03%	1.31%	6.19%	6.52%	5.02%	6.71%	*
City of Grand Forks Pension Fund	\$57,975,760	1.2%	0.11%	3.53%	16.33%	14.01%	1.09%	6.43%	6.80%	*	*	*
Grand Forks Park District Pension Fund	\$5,720,242	0.1%	0.36%	4.22%	16.44%	14.43%	0.86%	6.80%	7.05%	*	*	*
Subtotal Pension Pool Participants	4,721,692,327	100.0%										
INSURANCE POOL PARTICIPANTS												
Workforce Safety & Insurance Fund	1,832,104,207	72.1%	3.58%	3.27%	11.71%	8.31%	6.17%	6.11%	6.56%	5.66%	6.78%	*
State Fire and Tornado Fund	24,091,201	0.9%	2.67%	3.16%	12.78%	10.59%	4.93%	6.10%	6.75%	5.87%	6.43%	*
State Bonding Fund	3,296,369	0.1%	3.48%	1.25%	4.06%	2.96%	5.31%	2.92%	3.40%	2.07%	4.60%	*
Petroleum Tank Release Fund	7,149,510	0.3%	3.17%	1.13%	3.68%	2.47%	4.84%	2.65%	3.05%	1.82%	4.47%	*
Insurance Regulatory Trust Fund	1,085,835	0.0%	1.46%	2.04%	9.88%	8.49%	2.82%	4.39%	4.88%	4.63%	5.67%	*
State Risk Management Fund	6,534,802	0.3%	4.46%	4.08%	12.29%	10.19%	7.63%	6.88%	7.68%	6.59%	*	*
State Risk Management Workers Comp	5,516,174	0.2%	4.21%	4.57%	13.68%	11.61%	7.40%	7.40%	8.23%	6.74%	*	*
Cultural Endowment Fund	386,447	0.0%	2.18%	5.22%	16.94%	15.58%	4.65%	7.93%	8.75%	6.33%	*	*
Budget Stabilization Fund	575,918,389	22.7%	1.82%	1.86%	1.94%	1.87%	2.03%	1.88%	1.91%	2.11%	*	*
ND Assoc. of Counties (NDACo) Fund	4,048,866	0.2%	2.76%	2.77%	11.61%	9.46%	1.69%	5.63%	5.58%	4.73%	*	*
City of Bismarck Deferred Sick Leave	642,264	0.0%	3.26%	2.95%	12.32%	9.83%	5.69%	6.09%	6.75%	6.08%	*	*
PERS Group Insurance	37,715,360	1.5%	1.49%	0.01%	0.00%	0.11%	0.24%	0.52%	0.41%	1.25%	*	*
State Board of Medicine	2,208,666	0.1%	1.63%	2.70%	*	*	*	*	*	*	*	*
City of Fargo FargoDome Permanent Fund	38,782,720	1.5%	1.19%	3.38%	16.34%	13.46%	3.14%	6.76%	7.33%	5.97%	*	*
Subtotal Insurance Pool Participants	2,539,480,810	100.0%										
INDIVIDUAL INVESTMENT ACCOUNTS												
Legacy Fund	3,809,485,184		1.06%	3.31%	6.64%	1.15%	*	3.65%	*	*	*	*
Retiree Health Insurance Credit Fund	101,623,223		0.72%	3.06%	16.53%	14.80%	2.62%	6.55%	6.95%	5.13%	6.40%	*
Job Service of North Dakota Pension Fund	96,588,333		5.45%	3.30%	13.54%	11.71%	3.09%	7.34%	7.33%	6.00%	7.57%	*
Tobacco Prevention and Control Trust Fund	54,366,539		*	*	*	*	*	*	*	*	*	*
TOTAL	\$11,323,236,416											
<u>BENCHMARKS</u>												
S&P 500			3.99%	7.42%	24.61%	20.60%	5.45%	11.65%	12.10%	7.42%	7.87%	9.82%
Barclays Aggregate			6.00%	1.86%	4.37%	-0.69%	7.47%	4.06%	3.76%	5.13%	5.67%	6.62%
90 Day T-Bills			0.19%	0.02%	0.05%	0.11%	0.06%	0.09%	0.09%	1.04%	2.41%	3.52%
Callan Public Plan Sponsors Database (Median-Gross of Fees)			0.54%	3.19%	16.31%	11.98%	1.20%	6.39%	6.42%	5.65%	7.06%	8.19%

* These funds do not have the specified years of history under SIB management.

Note: Asset allocation largely drives investment performance. Each fund has a unique allocation that takes into consideration return objectives, risk tolerance, liquidity constraints, and unique circumstances. Such considerations must be taken into account when comparing results.

Columns may not foot due to rounding.

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
FOR PERIODS ENDED JUNE 30, 2016
PENSION INVESTMENT POOL**

	Style	Date Initiated	Fair Value	Annualized Rates of Return Net of Fees		
				1 Year	3 Years	5 Years
GLOBAL EQUITY:						
Epoch Investment Partners, Inc.	Core	01/2012	\$ 338,524,029	-6.53%	5.78%	*
LSV Asset Management	Core Value	03/2013	428,600,397	-7.85%	5.84%	*
TOTAL GLOBAL EQUITY			767,124,426	-7.27%	5.71%	*
MSCI World Index				-2.78%	6.95%	*
DOMESTIC LARGE CAP EQUITY:						
Parametric Clifton	Enhanced S&P 500	06/2011	172,381,903	4.60%	11.88%	12.38%
Los Angeles Capital Management	Structured Growth	08/2003	308,454,840	4.95%	14.03%	13.39%
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	191,342,879	5.92%	12.48%	12.92%
Northern Trust Asset Management	Enhanced S&P 500	08/2000	143,612,732	1.76%	10.70%	12.19%
TOTAL DOMESTIC LARGE CAP EQUITY			815,792,354	4.55%	12.63%	12.69%
Russell 1000 Index				2.93%	11.48%	12.09%
DOMESTIC SMALL CAP EQUITY:						
Atlanta Capital	High Quality	04/2016	113,269,259	*	*	*
Parametric Clifton	Enhanced Russell 2000	11/2009	133,904,288	-5.84%	7.84%	9.12%
TOTAL DOMESTIC SMALL CAP EQUITY			247,173,548	-7.04%	6.88%	8.95%
Russell 2000 Index				-6.73%	7.09%	8.35%
DEVELOPED INTERNATIONAL EQUITY:						
William Blair Investment Management	Growth-oriented	06/2016	122,123,346	*	*	*
Dimensional Fund Advisors	Small Cap Value	11/2007	71,922,590	-9.28%	6.01%	4.04%
Northern Trust Asset Management	Core	12/2013	255,177,849	-9.54%	*	*
Wellington Trust Company, NA	Small Cap Growth	03/2002	81,532,906	1.06%	8.90%	8.17%
TOTAL DEVELOPED INTERNATIONAL EQUITY			530,756,692	-7.94%	3.88%	2.79%
MSCIEAFE (unhedged) Index				-10.16%	2.06%	1.68%
EMERGING MARKETS EQUITY:						
Axiom International Investors	Core	07/2014	132,327,251	-10.32%	*	*
Dimensional Fund Advisors	Small Cap	10/2005	46,108,652	-5.64%	2.43%	-0.55%
TOTAL EMERGING MARKETS EQUITY			178,435,903	-9.25%	0.33%	-1.09%
MSCI Emerging Markets Index				-12.05%	-1.56%	-3.78%
PRIVATE EQUITY:						
Adams St. Partners (1998 Fund)	Diversified Private Equity	01/1998	125,801	4.14%	1.77%	0.95%
Adams St. Partners (1999 Fund)	Diversified Private Equity	01/1999	337,984	12.03%	2.61%	2.21%
Adams St. Partners (2000 Fund)	Diversified Private Equity	10/1999	938,044	-1.75%	-1.74%	1.43%
Adams St. Partners (2001 Fund)	Diversified Private Equity	12/2000	1,516,486	-10.10%	2.31%	4.78%
Adams St. Partners (2002 Fund)	Diversified Private Equity	03/2002	738,435	9.43%	1.65%	4.69%
Adams St. Partners (2003 Fund)	Diversified Private Equity	04/2003	358,630	-2.55%	13.28%	7.77%
Adams St. Partners (1999 Non-U.S. Fund)	Diversified Private Equity	01/1999	401,159	13.44%	1.29%	5.77%
Adams St. Partners (2000 Non-U.S. Fund)	Diversified Private Equity	01/2000	709,712	-7.68%	-2.64%	-2.51%
Adams St. Partners (2001 Non-U.S. Fund)	Diversified Private Equity	02/2001	169,925	23.36%	24.09%	12.41%
Adams St. Partners (2002 Non-U.S. Fund)	Diversified Private Equity	05/2002	1,028,252	29.09%	8.10%	5.92%
Adams St. Partners (2003 Non-U.S. Fund)	Diversified Private Equity	04/2003	565,080	18.08%	11.09%	9.99%
Adams St. Partners (2004 Non-U.S. Fund)	Diversified Private Equity	04/2004	402,925	-8.27%	5.80%	3.35%
Adams St. Partners (2008 Non-U.S. Fund)	Diversified Private Equity	01/2008	7,468,204	11.84%	12.71%	9.22%
Adams St. Partners (2010 Direct Fund)	Direct Private Equity	04/2010	1,351,602	7.48%	15.27%	13.88%
Adams St. Partners (2010 Non-U.S. Developed)	Diversified Private Equity	04/2010	2,630,679	9.63%	6.70%	7.21%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
FOR PERIODS ENDED JUNE 30, 2016
PENSION INVESTMENT POOL (CONTINUED)**

	Style	Date Initiated	Fair Value	Annualized Rates of Return Net of Fees		
				1 Year	3 Years	5 Years
PRIVATE EQUITY (continued):						
Adams St. Partners (2010 Partnership Fund)	Diversified Private Equity	04/2010	5,513,205	6.18%	13.70%	12.03%
Adams St. Partners (2010 Emerging Mkts Fund)	Diversified Private Equity	01/2011	1,290,610	10.50%	11.83%	0.77%
Adams St. Partners (2015 Global Fund)	Diversified Private Equity	10/2015	1,512,943	*	*	*
Adams St. Partners (B.V.C.F. IV)	Diversified Private Equity	05/1999	3,764,686	-1.65%	18.20%	29.22%
Adams St. Partners (Direct Co-Investment)	Direct Private Equity	09/2006	5,574,253	8.04%	15.92%	12.50%
Capital International (Fund V)	EM Private Equity	08/2007	7,819,086	-25.52%	-10.61%	-9.07%
Capital International (Fund VI)	EM Private Equity	12/2011	17,880,644	1.06%	-9.32%	*
EIG (formerly Trust Company of the West)	Mezz Debt - Energy	07/2007	4,666,317	-67.59%	-38.29%	-24.04%
Corsair Capital (Fund III)	Pvt Eq - Financial Svcs	02/2006	13,394,710	34.22%	7.06%	1.35%
Corsair Capital (ND Investors)	Pvt Eq - Financial Svcs	03/2008	11,921,782	6.41%	-0.10%	2.53%
Corsair Capital (Fund IV)	Pvt Eq - Financial Svcs	05/2010	17,104,833	-2.38%	13.58%	6.00%
Invest America (Lewis and Clark Fund)	Direct Venture Capital	02/2002	1,329,909	-51.19%	-35.55%	-19.67%
Invest America (L&C Fund II)	Direct Venture Capital	06/2009	9,613,134	1.88%	-6.77%	-5.56%
Matlin Patterson Global Opportunities Fund II	Distressed Debt	10/2004	1,625,923	7.27%	3.19%	-27.34%
Matlin Patterson Global Opportunities Fund III	Distressed Debt	06/2007	26,972,129	-5.66%	-1.30%	22.01%
Quantum Energy Partners	Pvt Equity - Energy	01/2007	6,127,000	-22.63%	-6.45%	4.85%
Quantum Resources	Pvt Equity - Energy	10/2006	51,635	280.20%	92.82%	107.53%
TOTAL PRIVATE EQUITY			159,339,951	-7.20%	-2.97%	0.45%
INVESTMENT GRADE FIXED INCOME:						
Declaration Management & Research	Securitized	04/2012	86,560,533	2.60%	4.30%	*
J. P. Morgan Investment Mgmt. Inc.	Mortgage Backed	09/2014	113,899,252	4.32%	*	*
PIMCO	Distressed Sr. Debt	10/2012	91,713,399	4.39%	6.84%	*
PIMCO	Mortgage Backed	03/2012	183,187,243	4.24%	3.42%	*
PIMCO	Unconstrained	03/2012	61,676,161	-0.95%	0.45%	*
State Street Global Advisors	Passive BC Long Treasury	06/2013	67,041,520	19.23%	10.40%	*
TOTAL INVESTMENT GRADE FIXED INCOME			604,078,108	4.99%	4.68%	5.01%
Barclays Aggregate Index				6.00%	4.06%	3.76%
BELOW INVESTMENT GRADE FIXED INCOME:						
Goldman Sachs	Mezzanine Debt-2006	04/2006	1,100,000	3.00%	17.57%	8.95%
Goldman Sachs	Mezzanine Debt-Fund V	11/2007	2,586,000	-5.12%	6.11%	8.41%
Loomis Sayles	High Yield Bonds	04/2004	185,839,941	-0.75%	4.10%	5.33%
PIMCO	Res. & Comm. Debt	10/2013	47,082,300	7.02%	*	*
TOTAL BELOW INVESTMENT GRADE FIXED INCOME			236,608,241	0.33%	5.00%	6.32%
Barclays High Yield Corp 2% Issuer Cap				1.65%	4.20%	5.84%
DEVELOPED INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	110,367,673	11.07%	1.20%	-0.28%
Brandywine Asset Management	Core-Plus Non-U.S.	05/2003	147,543,865	4.72%	2.26%	4.19%
TOTAL DEVELOPED INTERNATIONAL FIXED INCOME			257,911,538	7.49%	1.64%	1.98%
BC Global Aggregate ex-US Index				11.24%	1.85%	0.35%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
FOR PERIODS ENDED JUNE 30, 2016
PENSION INVESTMENT POOL (CONTINUED)**

	Style	Date Initiated	Fair Value	Annualized Rates of Return Net of Fees		
				1 Year	3 Years	5 Years
GLOBAL REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	08/1997	223,431,979	10.59%	12.32%	11.66%
INVESCO Realty Advisors	Core Plus LP (Fund II)	11/2007	8,294,747	6.65%	9.06%	15.56%
INVESCO Realty Advisors	Core Plus LP (Fund III)	05/2012	28,060,334	14.25%	17.06%	*
INVESCO Realty Advisors	Core Plus LP (Fund IV)	04/2015	19,341,946	4.66%	*	*
INVESCO Realty Advisors	Asian LP	11/2008	1,712,797	121.40%	43.66%	23.12%
INVESCO Realty Advisors	Asian LP (Fund III)	11/2015	8,440,457	*	*	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	186,433,014	10.95%	12.87%	12.89%
J. P. Morgan Investment Mgmt. Inc.	Alternative Commingled	01/2006	312,204	2.80%	-10.60%	0.69%
J. P. Morgan Investment Mgmt. Inc.	European LP	09/2009	10,021,867	24.44%	35.37%	-20.00%
J. P. Morgan Investment Mgmt. Inc.	Asian LP	01/2008	11,459,032	16.24%	31.24%	15.64%
TOTAL GLOBAL REAL ESTATE			497,508,378	11.26%	14.18%	12.83%
NCREIF Total Index				10.64%	11.61%	11.51%
TIMBER:						
Timberland Investment Resources - Teredo	Timberland	06/2001	33,820,778	9.29%	10.42%	6.70%
Timberland Investment Resources - Springbank	Timberland	09/2004	119,528,373	2.97%	0.38%	-1.38%
TOTAL TIMBER			153,349,151	4.34%	3.63%	*
NCREIF Timber Index				3.39%	7.73%	6.70%
INFRASTRUCTURE:						
Grosvenor CIS Fund I	Infrastructure	12/2011	41,367,135	8.42%	8.86%	*
Grosvenor CIS Fund II	Infrastructure	03/2015	3,848,734	6.10%	*	*
J.P. Morgan Investment Management, Inc.	Asian Infrastructure	07/2008	28,039,002	-9.66%	-3.00%	1.61%
J.P. Morgan Investment Management, Inc.	Infrastructure	05/2007	142,195,646	3.93%	4.26%	5.06%
TOTAL INFRASTRUCTURE			215,450,517	2.88%	4.09%	*
CPI-W				0.64%	0.76%	1.12%
CASH EQUIVALENTS:						
Northern Trust Asset Management	STIF	07/1994	58,163,522	0.29%	0.13%	0.12%
TOTAL CASH EQUIVALENTS			58,163,522	0.29%	0.13%	0.12%
90 Day T-Bills				0.19%	0.09%	0.09%
TOTAL PENSION INVESTMENT POOL			<u>\$ 4,721,692,327</u>	0.31%	6.51%	6.35%
Policy Target				0.63%	5.92%	5.99%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
FOR PERIODS ENDED JUNE 30, 2016
INSURANCE INVESTMENT POOL**

	Style	Date Initiated	Fair Value	Annualized Rates of Return Net of Fees		
				1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Parametric Clifton	Enhanced S&P 500	11/2008	\$ 48,117,929	5.22%	11.99%	12.34%
Los Angeles Capital Management	Structured Growth	08/2003	72,676,243	5.24%	14.07%	13.57%
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	48,689,001	5.82%	12.48%	12.91%
LSV Asset Management	Structured Value	06/1998	69,867,061	-3.30%	9.77%	11.59%
TOTAL DOMESTIC LARGE CAP EQUITY			239,350,234	2.72%	12.05%	12.63%
Russell 1000 Index				2.93%	11.48%	12.09%
DOMESTIC SMALL CAP EQUITY:						
Parametric Clifton	Enhanced Russell 2000	11/2008	46,373,875	-5.98%	8.04%	9.21%
PIMCO (RAE)	Core	07/2007	33,211,056	-4.14%	7.81%	9.41%
TOTAL DOMESTIC SMALL CAP EQUITY			79,584,932	-5.27%	8.09%	9.42%
Russell 2000 Index				-6.73%	7.09%	8.35%
INTERNATIONAL EQUITY:						
William Blair Investment Management	Growth-oriented	06/2016	59,281,225	*	*	*
Dimensional Fund Advisors	Small Cap Value	11/2007	16,873,372	-9.28%	6.01%	4.04%
LSV Asset Management	Core	11/2004	69,353,781	-11.55%	2.58%	2.00%
The Vanguard Group	Small Cap Growth	06/2003	17,368,355	-7.27%	6.48%	3.81%
TOTAL INTERNATIONAL EQUITY			162,876,732	-10.74%	2.94%	2.38%
MSCIEAFE (unhedged) Index				-10.16%	2.06%	1.68%
DOMESTIC FIXED INCOME:						
Declaration Management & Research	Securitized	12/2013	80,036,247	2.60%	*	*
PIMCO	Distressed Sr. Debt	10/2012	42,123,842	4.39%	6.85%	*
PIMCO	Res. & Comm. Debt	10/2013	24,054,230	7.02%	*	*
Prudential	Core-Plus	08/2006	110,445,989	6.83%	5.08%	5.29%
State Street Global Advisors	Passive BC Gov't/Credit	06/2013	143,350,649	6.68%	4.17%	*
Wells Capital	Baa Average Bonds	04/2002	312,412,734	6.99%	5.79%	6.01%
Western Asset Management Co.	Core Bonds	07/1990	309,027,254	6.64%	5.07%	5.15%
TOTAL DOMESTIC FIXED INCOME			1,021,450,945	6.29%	5.36%	6.07%
Barclays Aggregate Index				6.00%	4.06%	3.76%
DIVERSIFIED REAL ASSETS:						
Grosvenor CIS Fund I	Infrastructure	12/2011	20,683,558	8.42%	8.86%	*
J. P. Morgan Investment Mgmt. Inc.	Infrastructure	11/2008	75,325,819	3.99%	3.87%	4.81%
Timberland Investment Resources	Timberland	10/2008	59,638,348	-0.25%	4.60%	4.22%
Western Asset Management Co.	Global TIPS	05/2004	113,103,475	2.58%	3.02%	2.00%
TOTAL INFLATION PROTECTED ASSETS			268,751,200	2.75%	3.84%	3.29%
Weighted Benchmark ⁽¹⁾				2.08%	3.65%	2.81%
REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	10/2012	61,898,343	10.58%	12.28%	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	11/2005	69,386,283	9.03%	11.03%	14.34%
TOTAL REAL ESTATE			131,284,626	9.75%	11.51%	13.93%
NCREIF Total Index				10.64%	11.61%	11.51%
CASHEQUIVALENTS:						
Northern Trust Asset Management	STIF	07/2013	34,212,693	0.12%	0.05%	*
TOTAL CASHEQUIVALENTS			34,212,693	0.12%	0.05%	0.13%
90 Day T-Bills				0.19%	0.09%	0.09%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
FOR PERIODS ENDED JUNE 30, 2016
INSURANCE INVESTMENT POOL (CONTINUED)**

	Style	Date Initiated	Fair Value	Annualized Rates of Return Net of Fees		
				1 Year	3 Years	5 Years
SHORT-TERM FIXED INCOME						
Babscon Capital Management	Short Term Bonds	09/2011	243,416,019	1.73%	2.14%	*
J.P. Morgan Investment Mgmt. Inc.	Short Term Bonds	09/2011	276,949,793	1.67%	1.33%	*
TOTAL SHORT-TERM FIXED INCOME			520,365,812	1.68%	1.73%	1.32%
Barclays Government 1-3 Year				1.31%	1.00%	0.84%
TOTAL INSURANCE INVESTMENT POOL			<u>\$ 2,457,877,174</u>	3.12%	4.57%	4.83%
Policy Target				2.96%	4.03%	3.81%
NON-POOLED INVESTMENTS:						
Bank of North Dakota Match Loan CD's Held by Budget Stabilization Fund	Certificates of Deposit	various	81,603,636	2.61%	2.70%	3.23%

LEGACY FUND

	Style	Date Initiated	Fair Value	Annualized Rates of Return Net of Fees		
				1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Parametric Clifton	Enhanced S&P 500	08/2013	\$ 166,373,425	4.70%	*	*
Los Angeles Capital Management	Structured Growth	08/2013	250,748,316	4.73%	*	*
Los Angeles Capital Management	Enhanced Russell 1000	08/2013	167,753,056	5.67%	*	*
LSV Asset Management	Structured Value	08/2013	243,422,248	-3.17%	*	*
TOTAL DOMESTIC LARGE CAP EQUITY			828,297,045	2.52%	*	*
Russell 1000 Index				2.93%		
DOMESTIC SMALL CAP EQUITY:						
Parametric Clifton	Enhanced Russell 2000	08/2013	167,472,857	-5.76%	*	*
PIMCO (RAE)	Core	08/2013	141,289,827	-3.98%	*	*
TOTAL DOMESTIC SMALL CAP EQUITY			308,762,684	-4.99%	*	*
Russell 2000 Index				-6.73%		
INTERNATIONAL EQUITY:						
William Blair Investment Management	Core	08/2013	259,549,312	*	*	*
Dimensional Fund Advisors	Small Cap Value	08/2013	70,871,353	-9.28%	*	*
LSV Asset Management	Core	08/2013	302,553,644	-11.30%	*	*
The Vanguard Group	Small Cap Growth	08/2013	70,319,535	-7.27%	*	*
TOTAL INTERNATIONAL EQUITY			703,293,843	-10.73%	*	*
MSCI EAFE (unhedged) Index				-10.16%		
DOMESTIC FIXED INCOME:						
Declaration Management & Research	Securitized	12/2013	103,118,967	2.59%	*	*
PIMCO	Distressed Sr. Debt	12/2013	40,326,829	4.39%	*	*
PIMCO	Res. & Comm. Debt	12/2013	23,028,070	7.02%	*	*
Prudential	Core-Plus	12/2013	145,580,832	7.24%	*	*
State Street Global Advisors	Passive BC Gov't/Credit	12/2013	188,285,306	6.68%	*	*
Wells Capital	Baa Average Bonds	12/2013	419,644,961	6.97%	*	*
Western Asset Management Co.	Core Bonds	12/2013	420,879,632	6.56%	*	*
TOTAL DOMESTIC FIXED INCOME			1,340,864,596	6.40%	*	*
Barclays Aggregate Index				6.00%		

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
FOR PERIODS ENDED JUNE 30, 2016
LEGACY FUND (CONTINUED)**

	Style	Date Initiated	Fair Value	Annualized Rates of Return Net of Fees		
				1 Year	3 Years	5 Years
DIVERSIFIED REAL ASSETS:						
Grosvenor CIS Fund II	Infrastructure	03/2015	9,624,354	6.11%	*	*
J. P. Morgan Investment Mgmt. Inc.	Infrastructure	03/2015	80,265,971	3.97%	*	*
Western Asset Management Co.	Global TIPS	02/2014	<u>284,527,064</u>	2.58%	*	*
TOTAL DIVERSIFIED REAL ASSETS			<u>374,417,389</u>	3.14%	*	*
Weighted Benchmark ⁽¹⁾				2.00%		
REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	08/2013	117,458,354	10.59%	*	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	08/2013	<u>127,188,898</u>	9.03%	*	*
TOTAL REAL ESTATE			<u>244,647,252</u>	9.79%	*	*
NCREIF Total Index				10.64%		
CASH EQUIVALENTS:						
Northern Trust Asset Management	STIF	07/2013	<u>9,202,375</u>	0.12%	0.05%	0.11%
TOTAL CASH EQUIVALENTS			<u>9,202,375</u>	0.12%	0.05%	0.11%
90 Day T-Bills				0.19%	0.09%	0.09%
TOTAL LEGACY FUND			<u>\$ 3,809,485,184</u>	1.06%	3.65%	2.78%
Policy Target				1.01%	3.06%	2.05%

OTHER INDIVIDUAL INVESTMENT ACCOUNTS

	Style	Date Initiated	Fair Value	Annualized Rates of Return Net of Fees		
				1 Year	3 Years	5 Years
NDPERS RETIREE HEALTH INSURANCE CREDIT FUND						
SEI	Balanced Account	07/2009	\$ 101,623,223	0.72%	6.55%	6.94%
Policy Target				1.60%	6.97%	7.11%
JOB SERVICE ND PENSION FUND						
SEI	Balanced Account	12/2015	<u>96,588,333</u>	*	*	*
TOTAL JOB SERVICE ND PENSION FUND			<u>\$ 96,588,333</u>	5.45%	7.34%	7.33%
Policy Target				2.20%	5.48%	5.70%
TOBACCO PREVENTION AND CONTROL TRUST FUND						
State Street Global Advisors	S&P 500 ex Tobacco	10/2015	\$ 5,446,369	*	*	*
State Street Global Advisors	Short Term Bonds	10/2015	40,816,115	*	*	*
Northern Trust Asset Management	STIF	10/2015	<u>8,104,054</u>	*	*	*
TOTAL TOBACCO PREVENTION AND CONTROL TRUST FUND			<u>\$ 54,366,539</u>	*	*	*
Policy Target						

* This manager/category has less than the indicated years under management due to addition of asset class or replacement of investment managers during this time period.

(1) Weighted benchmark is based on pro-rata share of Barclays Global Inflation-linked, CPI and NCREIF Timberland indices.

The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent review.

Returns are shown after the effect of investment management fees (net of fees).

Columns may not foot due to rounding.

**LARGEST HOLDINGS (By Fair Value)
AT JUNE 30, 2016**

PENSION INVESTMENT POOL

Shares	Stocks	Fair Value
455,277	Microsoft Corporation	\$ 23,296,524
143,776	Johnson & Johnson	17,440,029
118,826	United Health Group Incorporated	16,778,231
23,816	Alphabet Incorporated	16,483,054
221,389	Visa Incorporated	16,420,422
126,219	Home Depot Incorporated	16,116,904
231,656	Comcast Corporation	15,101,655
353,260	Oracle Corporation	14,458,932
257,742	Verizon Communications	14,392,313
2,350,170	AIA Group LTD	14,041,129
Par	Bonds	Fair Value
22,085,711	GNMAII Pool #MA3106 4.0% Due 09-20-2045	\$ 23,617,730
17,500,000	FNMA Single Family Mortgage 3.5% 30 Years August	18,443,355
15,659,408	FHLMC Gold G60583 4% 03-01-2046	16,770,286
14,500,000	FNMA Single Family Mortgage 2.5% 15 Years August	14,978,892
12,700,000	US Treasury Notes Dated 07-31-2014 1.625% Due 07-31-2019	13,042,798
115,000	IShares 1-3 Year Credit Bond ETF	12,200,350
11,600,000	FNMA Single Family Mortgage 3% 30 Years August	12,016,417
10,919,551	FNMA 3.5% MBS Due 01-02-2046	11,531,919
139,087	Vanguard Scottsdale Fund-Short-Term Corp Bond Index Fund ETF	11,243,793
9,000,000	FNMA Single Family Mortgage 4% 30 Years August	9,640,989

INSURANCE INVESTMENT POOL

Shares	Stocks	Fair Value
37,858	Johnson & Johnson	\$ 4,592,175
72,983	Pfizer Incorporated	2,569,731
27,367	Exxon Mobil Corporation	2,565,383
16,670	International Business Machines Corporation	2,530,173
45,190	Verizon Mobile Corporation	2,523,410
42,263	Merck & Company	2,434,771
56,279	AT&T Incorporated	2,431,816
22,909	Apple Incorporated	2,190,100
43,429	Coca Cola Company	1,968,637
38,385	Microsoft Corporation	1,964,160
Par	Bonds	Fair Value
15,900,000	US Treasury Notes 0.875% Due 07-15-2018	\$ 15,985,717
11,550,000	US Treasury Notes 1.75% Due 10-31-2018	11,844,167
10,505,000	US Treasury Notes Dated 11-30-2015 2% Due 11-30-2022	10,994,554
8,430,000	US Treasury N/B 3.0% 11-15-2045	9,693,185
7,990,000	US Treasury Bonds 2.875% Due 05-15-2043	8,984,691
8,120,000	US Treasury Notes Dated 05-31-2014 1.5% Due 05-31-2019	8,303,333
7,290,000	US Treasury Notes Dated 04-30-2013 0.625% Due 04-30-2018	7,294,841
7,250,000	US Treasury Notes Dated 12-31-2012 0.75% Due 12-31-2017	7,268,973
7,015,000	US Treasury Notes 1.5% Due 01-31-2019	7,161,599
7,090,000	US Treasury Notes Dated 06-30-2016 1.375% Due 06-30-2023	7,126,556

**LARGEST HOLDINGS (By Fair Value)
AT JUNE 30, 2016**

LEGACY FUND

Shares	Stocks	Fair Value
135,735	Johnson & Johnson	\$ 16,464,656
165,023	Verizon Mobile Corporation	9,214,884
60,024	International Business Machines Corporation	9,110,443
187,676	Total Eur2.5	9,044,672
246,465	Pfizer Incorporated	8,678,033
150,455	Merck & Company	8,667,713
194,080	AT&T Incorporated	8,386,197
85,172	Exxon Mobil Corporation	7,984,023
79,110	Apple Incorporated	7,562,916
113,051	HDFC Bank LTD ADR	7,500,934
Par	Bonds	Fair Value
11,835,000	US Treasury N/B 3.0% Due 11-15-2045	\$ 13,608,404
10,020,000	US Treasury Notes 1.75% Due 03-31-2022	10,353,085
9,640,000	US Treasury Notes Dated 06-30-2016 1.375% Due 06-30-2023	9,689,704
8,300,000	US Treasury Notes Dated 11-30-2015 2% Due 11-30-2022	8,686,797
8,100,000	US Treasury Notes 1.5% Due 12-31-2018	8,267,063
7,120,000	US Treasury Bonds 2.875% Due 08-15-2045	7,994,984
6,950,000	US Treasury Notes 2.375% Due 08-15-2024	7,481,022
6,500,000	US Treasury Bonds 3% Due 05-15-2045	7,471,191
7,020,000	US Treasury Notes Dated 06-30-2015 1.625% Due 06-30-2020	7,219,080
6,410,000	US Treasury Bonds 2.875% Due 05-15-2043	7,207,994

The individual investment accounts for PERS Retiree Health Credit Fund, Job Service Pension Fund and Tobacco Prevention and Control Fund are invested in various commingled/mutual funds, and therefore have no individual stock or bond holdings.

A complete list of all holdings is available upon request.

**SCHEDULE OF INVESTMENT FEES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
INVESTMENT POOLS**

	Pension Investment Pool			Insurance Investment Pool		
	Assets under management	Fees	Basis points	Assets under management	Fees	Basis points
	(Average)			(Average)		
Investment manager fees:						
Global equity managers	\$ 735,296,530	\$ 2,825,300	38			
Domestic large cap equity managers	802,901,450	2,018,510	25	\$ 227,252,992	\$ 635,908	28
Domestic small cap equity managers	259,013,086	1,294,507	50	78,130,373	333,043	43
Developed international equity managers	523,098,301	2,128,027	41	158,495,026	705,877	45
Emerging markets equity managers	159,338,471	1,299,861	82			
Private equity managers	168,704,581	3,039,607	180			
Investment grade fixed income managers	607,474,467	2,339,857	39	982,352,582	2,897,760	29
Diversified real asset managers				264,931,775	1,516,224	57
Below investment grade fixed income managers	244,155,350	2,545,616	104			
Developed international fixed income managers	235,346,204	834,568	35			
Real estate managers	489,721,328	4,674,992	95	126,075,620	904,163	72
Timber managers	159,448,864	(2,087,264)	(131)			
Infrastructure managers	215,260,131	2,269,359	105			
Cash & equivalents managers	55,672,252	60,064	11	81,375,281	92,129	11
Short term fixed income managers				506,589,402	707,773	14
Balanced account managers ⁽¹⁾	93,923,061	227,664	24			
Total investment manager fees	\$ 4,749,354,077	23,470,668	49	\$ 2,425,203,050	7,792,877	32
Custodian fees		452,758	1		209,187	1
Investment consultant fees		368,858	1		112,347	0
SIB Service Fees		32,644	0		12,069	0
Total investment expenses *		\$ 24,324,928	51		\$ 8,126,480	34

Reconciliation of Investment Expenses to Financial Statements

Investment expenses as reflected in the financial statements	\$ 13,697,167	\$ 5,427,128
Plus investment management fees included in investment income (booked as net income)		
Domestic large cap equity managers	796,670	132,193
Domestic small cap equity managers	474,648	-
Developed international equity managers	482,027	170,572
Emerging markets equity managers	1,299,861	
Investment Grade domestic fixed income managers	1,695,110	1,617,482
Diversified real assets managers	-	686,976
Below investment grade domestic fixed income managers	1,561,553	
Timber managers	(2,087,264)	
Infrastructure managers	1,002,271	
Real estate managers	2,245,161	-
Private equity managers	3,021,956	
Cash & equivalents managers	-	92,129
Short term fixed income managers	-	-
Balanced account managers	135,768	
Investment expenses per schedule	\$ 24,324,928	\$ 8,126,480

* Individual investment funds' total basis points vary depending upon their asset allocation.

(1) This amount represents the fees paid by the Job Service Pension Fund after they were removed from the Pension Investment Pool in December 2015. Their pro rata share of fees are included in the pooled asset class amounts prior to that time.

Columns may not foot due to rounding.

**SCHEDULE OF INVESTMENT FEES
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
INDIVIDUAL INVESTMENT ACCOUNTS**

	Legacy Fund			PERS Retiree Health Credit Fund			Tobacco Prevention and Control Fund		
	Assets under management		Basis points	Assets under management		Basis points	Assets under management		Basis points
	(Average)	Fees		(Average)	Fees		(Average)	Fees	
Investment manager fees:									
Domestic large cap equity managers	\$ 778,006,246	\$ 2,095,229	27				\$ 4,891,412	\$ 1,290	3
Domestic small cap equity managers	279,004,042	1,204,775	43						
Developed international equity managers	686,819,896	2,752,321	40						
Investment grade fixed income managers	1,261,572,841	3,376,076	27						
Diversified real asset managers	355,643,550	1,485,125	42						
Real estate managers	208,482,344	1,347,554	65						
Cash & equivalents managers	14,048,537	20,951	15						
Short term fixed income managers							36,613,379	11,361	3
Balanced account managers				97,183,768	415,083	43			
Total investment manager fees	<u>\$ 3,583,577,457</u>	<u>12,282,031</u>	<u>34</u>	<u>\$ 97,183,768</u>	<u>415,083</u>	<u>43</u>	<u>\$ 41,504,791</u>	<u>\$ 12,651</u>	<u>3</u>
Custodian fees		355,571	1		8,207	1		3,477	1
Investment consultant fees		198,884	1		-	0		-	0
SIB Service Fees					11,298	1		4,200	1
Total investment expenses		<u>\$ 12,836,486</u>	<u>36</u>		<u>\$ 434,588</u>	<u>45</u>		<u>\$ 20,328</u>	<u>5</u>

Reconciliation of Investment Expenses to Financial Statements

Investment expenses as reflected in the financial statements	\$ 9,728,057		\$ 292,820	\$ 20,328
Plus investment management fees included in investment income (booked as net income)				
Domestic large cap equity managers	297,488			
Domestic small cap equity managers	-			
Developed international equity managers	685,889			
Investment Grade domestic fixed income managers	1,697,954			
Diversified real assets managers	406,147			
Real estate managers	-			
Cash & equivalents managers	20,951			
Balanced account managers	-		141,768	-
Investment expenses per schedule	<u>\$ 12,836,486</u>		<u>\$ 434,588</u>	<u>\$ 20,328</u>

Columns may not foot due to rounding.

**SCHEDULE OF COMMISSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Brokers	Number of shares traded	Total commissions	Commissions per share
Merrill Lynch	69,056,766	\$ 46,120	\$0.001
Citibank	47,200,649	196,731	0.004
Larrain Vial	28,361,100	132	0.000
Morgan Stanley	20,891,954	69,446	0.003
UBS	15,992,126	52,664	0.003
Credit Suisse	13,870,644	53,163	0.004
Citigroup	11,328,390	50,489	0.004
Jeffries and Company	10,598,504	130,119	0.012
State Street	7,496,494	70,847	0.009
The Northern Trust Company	6,109,146	26,671	0.004
Other 112 Brokers *	82,317,395	789,976	0.010
Total commissions	313,223,168	\$ 1,486,357	\$0.005

* A complete listing of investment brokers utilized is available upon request.

Note: This schedule includes only brokerage costs for agency trades of common and preferred stock.

TEACHERS’ FUND FOR RETIREMENT

❖ Teachers' Fund for Retirement Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Teachers’ Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five active and retired members of the fund appointed by the Governor of North Dakota and two elected officials - the State Treasurer and the State Superintendent of Public Instruction.

The plan is a multi-employer defined benefit public pension plan that provides retirement, disability, and death benefits in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of service X 2.0% X Final Average Salary. Adjustments to the basic formula are made depending on the retirement option selected.

Funding is provided by monthly employee and employer contributions scheduled to increase as follows:

	<u>7/1/2011</u>	<u>7/1/2012</u>	<u>7/1/2014</u>
Employee	7.75%	9.75%	11.75%
Employer	8.75%	10.75%	12.75%

Employee and employer contributions will be reduced to 7.75% each when TFFR reaches 100% funded level on an actuarial value basis.

The TFFR Board has an actuarial valuation performed annually and an Experience Study and Asset Liability Study performed every five years. The actuarial assumed rate of return on assets was reduced to 7.75% from 8.0% as of July 1, 2015. Key plan and financial statistics are recorded in the most recent valuation report on file at the North Dakota Retirement and Investment office (RIO).

Fund Goals

The Plan benefits are financed through both statutory employer and employee contributions and the investment earnings on assets held in the Fund. The TFFR Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan’s funding status to protect and sustain current and future benefits.

- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan’s funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State/School District’s financial performance. These goals affect the Fund’s investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places a greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important state/local projects.

Responsibilities and Discretion of the State Investment Board (SIB)

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. Under this rule, 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. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB’s role in determining

investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund’s assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants. However, funding the pension promise in an economical manner is critical to the State/School Districts’ ability to continue to provide pension benefits to plan participants. Thus, the Board actively seeks to lower the cost of funding the Plan’s pension obligations by taking on risk for which it expects to be compensated over the long term. The Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the Board believes that such an approach, prudently implemented, best serves the long-run interests of the State/School District and, therefore, of plan participants.

Investment Objectives

The Board’s investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund’s policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The Fund’s rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The Fund’s risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

Benefit payments are projected to occur over a long period of time. This allows TFFR to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the Fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the Board approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target %	Rebalancing Range %
Global Equity	58	46-65
Public Equity	52	44-60
U.S.	29	23-35
Global ex-U.S.	23	18-28
Private Equity	6	4-8
Global Fixed Income	23	16-30
Investment Grade	19	14-24
Non-investment Grade	4	2-6
Global Real Assets	18	12-24
Global Real Estate	10	5-15
Other	8	0-12
Infrastructure		0-10
Timber		0-7
Commodities		0-5
Inflation Linked Bonds		0-10
Other Inflation Sensitive		0-5
Global Alternatives		0-10
Cash	1	0-2

While the Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Board does not intend to engage in tactical asset allocation. Allocations to Global Alternatives will result in pro-rata reduction in the policy targets.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.

- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, social investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

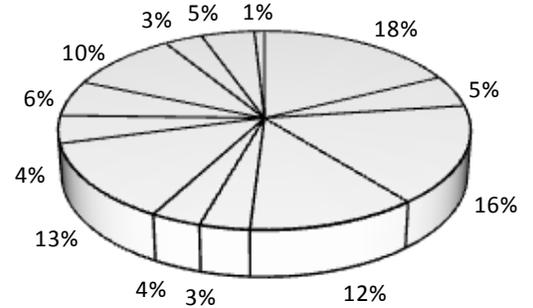
Performance reports will be provided to the TFFR Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

1. A list of the advisory services managing investments for the Board.
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each fund's investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the board's control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

❖ **Teachers' Fund for Retirement**
Actual Asset Allocation – June 30, 2016

Asset Allocation	Fair Value	Percent of Total	One Year Return (net)
Domestic Large Cap Equity	\$ 370,687,779	18%	4.52%
Domestic Small Cap Equity	107,433,775	5%	-7.04%
Global Equity	335,714,674	16%	-7.27%
Developed International Equity	247,919,084	12%	-7.92%
Emerging Markets Equity	73,257,874	3%	-9.25%
Private Equity	73,374,381	4%	-7.20%
Investment Grade Fixed Income	268,380,866	13%	5.01%
Below Investment Grade Fixed Income	93,325,722	4%	0.29%
International Fixed Income	121,536,613	6%	7.50%
Global Real Estate	204,184,309	10%	11.34%
Timber	70,258,495	3%	4.34%
Infrastructure	97,587,776	5%	2.89%
Cash Equivalents	18,522,293	1%	0.29%
Total Fund	\$ <u>2,082,183,642</u>		0.28%
Policy Benchmark			0.62%

Columns may not foot due to rounding.



PUBLIC EMPLOYEES RETIREMENT SYSTEM

❖ Public Employees Retirement System Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Public Employees Retirement System (NDPERS) and the Highway Patrol Retirement System (HPRS) are pension benefit plans established to provide retirement income to state employees and employees of participating political subdivisions. The plans are administered by a seven member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General and the seventh member is the State Health Officer or their designee.

The NDPERS plan is a multi-employer hybrid benefit public pension plan that provides retirement benefits, disability retirement benefits, and survivor benefits, in accordance with Chapter 54-52 of the North Dakota Century Code (NDCC). Monthly retirement benefits for the Main, National Guard and Law Enforcement Plans are based on the formula: number of Years of Service times 2.0% times the final average salary. For the NDPERS Judges Plan the retirement formula is: for the first ten years of service of the formula is final average salary times 3.5%, for the second ten years of service the formula is final average salary times 2.80% and for all remaining years of service the formula is final average salary times 1.25%.

The Highway Patrol plan is a single employer plan that provides retirement benefits, disability benefits, and survivor benefits in accordance with Chapter 39-03.1 of the North Dakota Century Code. Monthly retirement benefits are based on the formula: first 25 years of credit service times 3.25% and all remaining years of service times 1.75%.

Funding for the NDPERS plan is provided by monthly employee contributions and employer contributions with the amount varying based upon which NDPERS plan the member participates in. For the Main NDPERS plan the employee contribution is 7% and the employer contribution is 7.12%, for the Judges Plan the employee contribution is 8% and employer contribution is 17.52%, for the National Guard Plan the employee contribution is 4.5% and employer contribution is 7%, for the Law Enforcement Plan with prior service the employee contribution is 5.5% and the employer contribution is 9.81% and for the Law Enforcement Plan without prior service the employee contribution rate is 5.5% and the employer rate is 7.93%.

Funding for the Highway Patrol plan is provided by a monthly employee contribution of 13.3% and an employer contribution of 19.7%.

Each year the Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for all plans is 8%.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The SIB is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund 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. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments pursuant to NDCC 21-10-02.1(1)(d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurements, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal #1: Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2: To obtain an investment return in excess of that needed to allow for increases in a retiree's annuity to maintain the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the State's financial performance. To enable the State to continue offering secure pension benefits to plan participants, the Board believes that the Fund should pursue the following secondary goals:

1. Stabilize the employee and employer contributions needed to fund the Plan over the long term.
2. Avoid both substantial volatility in contributions and sizable fluctuations in the funding status of the Plan.

These two secondary goals affect the Fund's investment strategies and often represent conflicting goals. That is, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places greater emphasis on the strategy of stabilizing the employee and employer contribution needed to fund the plan over the long term as it assists our participating employers by having a predictable contribution for budgeting.

Investment Performance Objective

The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The Fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The Fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Asset Class	Policy Target %	Rebalancing Range %
Global Equity	57	46-65
Domestic Equity	31	26-36
International Equity	21	16-26
Developed	16	
Emerging	5	
Private Equity	5	4-8
Global Fixed Income	22	16-28
Domestic Fixed	17	13-21
Investment Grade	12	10-18
Non-investment Grade	5	3-7
International Fixed	5	3-7
Developed	5	3-7
Emerging		0-3
Global Real Assets	20	12-28
Global Real Estate	10	5-15
Other	10	0-15
Infrastructure	5	0-10
Timber	5	0-7
Commodities		
Inflation Linked Bonds		
Other Inflation Sensitive		
Global Alternatives		0-10
Cash	1	0-2

The Board does not endorse tactical asset allocation, therefore, it is anticipated the portfolio be managed as close to the policy target as is prudent and practicable. Any allocation to Global Alternatives shall not increase the expected volatility of the portfolio as measured in Section #5, and all other targets will be adjusted pro-rata.

PERS requires that in implementing this asset allocation that the State Investment Board seek to maximize return within the scope of these policies while limiting investment costs.

Restrictions

- A. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
- C. No transaction may be made which threatens the tax exempt status of the Fund.
- D. No unhedged short sales or speculative margin purchases may be made.

- E. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- F. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

- G. Publicly Traded REITs may not be used in the Real Estate asset allocation.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation

Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards.

An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

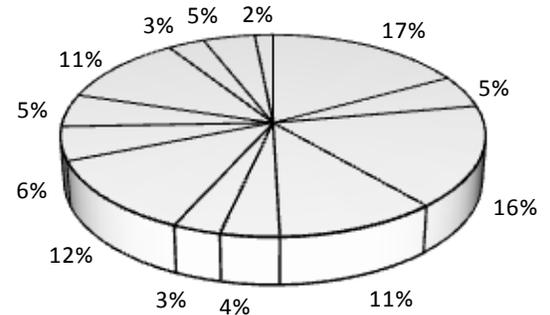
- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB;

- Compliance with these investment goals, objectives and policies;
- A general market overview and market expectations;
- A review of fund progress and its asset allocation strategy;
- A report on investment fees and the SIB’s effort relating to Section 6. To measure investment cost PERS requires as part of the annual review information from CEM or other acceptable source showing the value added versus the cost.
- Changes/additions to benchmarks utilized to monitor the funds.

In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives and policies.

❖ **Public Employees Retirement Fund**
Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 419,489,560	17%	4.52%
Domestic Small Cap Equity	127,402,416	5%	-7.04%
Global Equity	402,558,063	16%	-7.27%
Developed International Equity	269,125,527	11%	-7.92%
Emerging Markets Equity	98,171,098	4%	-9.26%
Private Equity	79,938,460	3%	-7.20%
Investment Grade Fixed Income	300,029,062	12%	5.01%
Below Investment Grade Fixed Income	133,278,258	6%	0.28%
International Fixed Income	128,765,303	5%	7.50%
Global Real Estate	275,561,014	11%	11.34%
Timber	77,459,623	3%	4.34%
Infrastructure	108,994,361	5%	2.89%
Cash Equivalents	38,615,338	2%	0.29%
Total Fund	\$ 2,459,388,082		0.28%
Policy Benchmark			0.56%



Columns may not foot due to rounding.

BISMARCK CITY EMPLOYEE PENSION PLAN

❖ Bismarck City Employee Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Bismarck, North Dakota City Employee Pension Plan (BCEPP) is the pension benefit plan (Fund) established for the city of Bismarck public employees. The Fund is administered by the Bismarck City Employee Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-07 of the city of Bismarck Code of Ordinance (1986 revised). The Fund is administered in accordance with IRS and Treasury Regulations. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

Fund Goals

The plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The BCEPP Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The BCEPP Board acknowledges the material impact that funding the pension plan has on the City's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The BCEPP Board places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important projects.

Responsibilities and Discretion of the State Investment Board (SIB)

The BCEPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCEPP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The

SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, 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. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The BCEPP Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants.

However, funding the pension promise in an economical manner is critical to the City's ability to continue to provide pension benefits to plan participants. Thus, the BCEPP Board actively seeks to lower the cost of funding the plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The BCEPP Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status

may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the BCEPP Board believes that such an approach, prudently implemented, best serves the long-run interests of the City and, therefore, of plan participants.

Investment Objectives

The BCEPP Board’s investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund’s policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The Fund’s rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The fund’s risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

Benefit payments are projected to occur over a long period of time. This allows the BCEPP Board to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the BCEPP Board in determining an acceptable volatility target for the fund and an optimal asset allocation mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the BCEPP Board approves the appropriate policy mix for the Fund.

Asset Class	Policy Target %
Global Equity	46
Domestic Equity	25
Large Cap	15
Small Cap	10
International Equity	17
Developed	12
Emerging	5
Private Equity	4
Global Fixed Income	34
Domestic Fixed	30

Investment Grade	24
Non-investment Grade	6
International Fixed	4
Developed	4
Emerging	
Global Real Assets	20
Global Real Estate	10
Other	10
Infrastructure	5
Timber	5

While the BCEPP Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the BCEPP Board does not intend to engage in tactical asset allocation. Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCEPP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

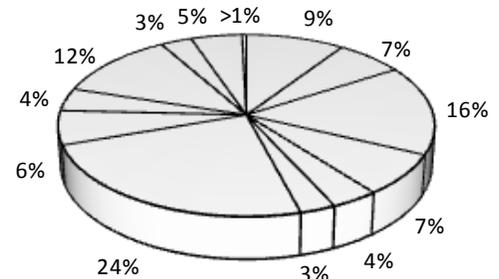
Performance reports will be provided to the BCEPP periodically, but not less than quarterly. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

- A list of advisory services managing investments for the SIB.
- A list of investments at market value, compared to previous reporting period, of each account managed by each advisory service.
- Earnings, percentage earned, and change in market value of each account's investments.
- Comparison of the performance of each account managed by each advisory service to other accounts under the SIB's control and to generally accepted market indicators.
- All material legal or legislative proceedings affecting the SIB.
- Compliance with this investment policy.

**❖Bismarck City Employee Pension Plan
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 7,794,511	9%	4.55%
Domestic Small Cap Equity	5,387,002	7%	-7.04%
Global Equity	13,174,692	16%	-7.27%
Developed International Equity	6,127,250	7%	-7.94%
Emerging Markets Equity	3,026,086	4%	-9.25%
Private Equity	2,279,416	3%	-7.20%
Investment Grade Fixed Income	19,681,890	24%	4.99%
Below Investment Grade Fixed Income	4,996,355	6%	0.33%
International Fixed Income	3,342,600	4%	7.48%
Global Real Estate	9,782,289	12%	11.26%
Timber	2,475,138	3%	4.34%
Infrastructure	4,037,255	5%	2.88%
Cash Equivalents	336,518	>1%	0.29%
Total Fund	\$ <u>82,441,001</u>		0.82%
Policy Benchmark			1.38%

Columns may not foot due to rounding.



BISMARCK CITY POLICE PENSION PLAN

❖ Bismarck City Police Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Bismarck, North Dakota City Police Pension Plan (BCPPP) is the pension benefit plan (Fund) established for the city of Bismarck police. The Fund is administered by the Bismarck City Police Pension Plan Board of Trustees. The Fund is a defined benefit pension plan maintained to provide retirement benefits, and/or death benefits as may be the case, to the participants in accordance with Chapter 9-08 of the city of Bismarck Code of Ordinance (1986 revised). The Fund is administered in accordance with IRS and Treasury Regulations. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

Fund Goals

The plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The BCPBP Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan's funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan's funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The BCPBP Board acknowledges the material impact that funding the pension plan has on the City's financial performance. These goals affect the Fund's investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The BCPBP Board places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important projects.

Responsibilities and Discretion of the State Investment Board (SIB)

The BCPBP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCPBP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and

investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, 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. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The BCPBP Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants.

However, funding the pension promise in an economical manner is critical to the City's ability to continue to provide pension benefits to plan participants. Thus, the BCPBP Board actively seeks to lower the cost of funding the plan's pension obligations by taking on risk for which it expects to be compensated over the long term. The BCPBP Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the BCPBP Board

believes that such an approach, prudently implemented, best serves the long-run interests of the City and, therefore, of plan participants.

Investment Objectives

The BCPPP Board’s investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund’s policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The Fund’s rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The fund’s risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

Benefit payments are projected to occur over a long period of time. This allows the BCPPP Board to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the BCPPP Board in determining an acceptable volatility target for the fund and an optimal asset allocation mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the BCEPP Board approves the appropriate policy mix for the Fund.

Asset Class	Policy Target %
Global Equity	51
Domestic Equity	27
Large Cap	16
Small Cap	11
International Equity	19
Developed	13
Emerging	6
Private Equity	5
Global Fixed Income	29
Domestic Fixed	25
Investment Grade	19
Non-investment Grade	6

International Fixed	4
Developed	4
Emerging	
Global Real Assets	20
Global Real Estate	10
Other	10
Infrastructure	5
Timber	5

While the BCEPP Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the BCEPP Board does not intend to engage in tactical asset allocation. Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.

- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCPFP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

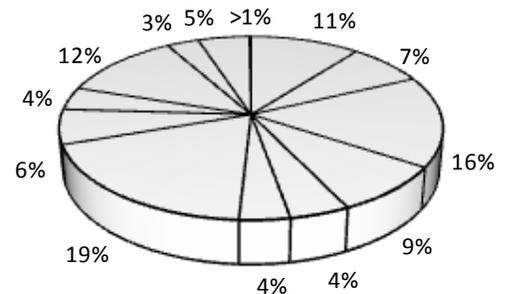
Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the BCEPP periodically, but not less than quarterly. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

- A list of advisory services managing investments for the SIB.
- A list of investments at market value, compared to previous reporting period, of each account managed by each advisory service.
- Earnings, percentage earned, and change in market value of each account's investments.
- Comparison of the performance of each account managed by each advisory service to other accounts under the SIB's control and to generally accepted market indicators.
- All material legal or legislative proceedings affecting the SIB.
- Compliance with this investment policy.

❖ **Bismarck City Police Pension Plan**
Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 3,605,871	11%	4.55%
Domestic Small Cap Equity	2,529,359	7%	-7.04%
Global Equity	5,453,793	16%	-7.27%
Developed International Equity	2,932,761	9%	-7.94%
Emerging Markets Equity	1,504,080	4%	-9.25%
Private Equity	1,266,437	4%	-7.20%
Investment Grade Fixed Income	6,427,355	19%	4.99%
Below Investment Grade Fixed Income	2,085,995	6%	0.33%
International Fixed Income	1,364,238	4%	7.48%
Global Real Estate	4,011,394	12%	11.26%
Timber	1,052,156	3%	4.34%
Infrastructure	1,693,036	5%	2.88%
Cash Equivalents	57,126	>1%	0.29%
Total Fund	\$ <u>33,983,600</u>		0.32%
Policy Benchmark			0.77%



Columns may not foot due to rounding.

CITY OF GRAND FORKS PENSION PLAN

❖ City of Grand Forks Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The City of Grand Forks Pension Fund (the “Fund”) is operated by the Grand Forks City Council pursuant to the authority granted in the Grand Forks City Code Chapter 7.

The City of Grand Forks, North Dakota Pension Plan (the “Plan”) is a cost-sharing multiple employer public employee pension plan. All classified employees who earned at least one hour of service prior to January 1, 1996 are eligible to participate in the Plan. Some participants have elected to cease benefit accruals under the Plan as of June 30, 2008 and to participate in the North Dakota Public Employees Retirement System.

Benefit provisions are established by the City Council. The employers contribute such amounts as necessary to provide the promised benefits. The contribution amounts are determined by the annual valuation report and approved by the City Council.

Fund Goals

The plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The City Council recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan’s funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan’s funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The City Council acknowledges the material impact that funding the pension plan has on the City’s financial performance. These goals affect the Fund’s investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The City Council places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important projects.

Responsibilities and Discretion of the State Investment Board (SIB)

The City Council has entered into a contract with the SIB for

investment services as allowed under NDCC 21-10-06. The City Council is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, 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. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB’s role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund’s assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The City Council is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants. However, funding the pension promise in an economical manner is critical to the City Council’s ability to continue to provide pension benefits to plan participants. Thus, the City Council actively seeks to lower the cost of funding the plan’s pension obligations by taking on risk for which it expects to be compensated over the long term. The City Council understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the City Council believes that such an approach, prudently implemented, best serves the long-run interests of the City

and, therefore, of plan participants.

Investment Goals

The investment goals of the Fund have been established by the City Council based upon their strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

Goal: Accumulate sufficient wealth through a diversified portfolio of investments which will enable the Fund to pay all current and future retirement benefits and expense obligations of the Fund.

Investment Objectives

The City Council’s investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund’s policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The fund’s rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The fund’s risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

Benefit payments are projected to occur over a long period of time. This allows the City Council to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the City Council in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the City Council approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target %
Global Equity	60
Domestic Equity	40
Large	30
Small	10
International Equity	15
Developed	10
Emerging	5

Private Equity	5
Global Fixed Income	24
Domestic Fixed	19
Investment Grade	14
Non-investment Grade	5
International Fixed	5
Developed	5
Global Real Assets	15
Global Real Estate	5
Infrastructure	5
Timber	5
Cash	1

While the City Council recognizes fluctuations in market values will lead to short-term deviations from policy targets, the City Council does not intend to engage in tactical asset allocation. Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction may be made which threatens the tax exempt status of the Fund.
- d. No unhedged short sales or speculative margin purchases may be made.

Social Investing is defined as “The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries.”

- e. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar time horizon and similar risk.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

- f. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the Plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the City Council’s policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund’s investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for

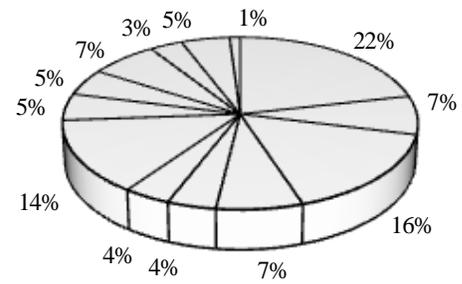
achieving those objectives.

Performance reports will be provided to the City Council periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

1. A list of the advisory services managing investments for the SIB.
2. A list of investments at market value, compared to previous reporting period, of each account managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each account’s investments.
4. Comparison of the performance of each account managed by each advisory service to other accounts under the SIB’s control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

❖ **City of Grand Forks Pension Plan
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 12,493,575	22%	4.55%
Domestic Small Cap Equity	4,202,015	7%	-7.04%
Global Equity	9,291,970	16%	-7.27%
Developed International Equity	4,143,306	7%	-7.94%
Emerging Markets Equity	2,343,657	4%	-9.25%
Private Equity	2,265,631	4%	-7.20%
Investment Grade Fixed Income	8,076,434	14%	4.99%
Below Investment Grade Fixed Income	2,921,912	5%	0.33%
International Fixed Income	2,902,784	5%	7.48%
Global Real Estate	3,969,372	7%	11.26%
Timber	1,917,231	3%	4.34%
Infrastructure	2,832,446	5%	2.88%
Cash Equivalents	615,427	1%	0.29%
Total Fund	<u>\$ 57,975,760</u>		0.11%
Policy Benchmark			0.56%



Columns may not foot due to rounding.

PARK DISTRICT OF THE CITY OF GRAND FORKS PENSION PLAN

❖ Park District of the City of Grand Forks Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Park District of the City of Grand Forks, North Dakota Pension Plan (the “Plan”) is a cost-sharing public employee pension plan operated by The Park District of the City of Grand Forks, North Dakota (the “District”) which serves as the Plan Administrator (“Administrator”) and Plan Sponsor (“Sponsor”). All employees are required to participate in the Plan. Some participants have elected to cease benefit accruals under the Plan as of January 1, 2010 and to participate in the North Dakota Public Employees Retirement System (“NDPERS”) pension plan. All future hires after December 31, 2009, will be required to participate in the NDPERS plan. The investment assets of the Plan are held within the Plan Fund (“Fund”).

Benefit provisions are established by the Park Board (“Board”) of the Sponsor. The employers contribute such amounts as necessary to provide the promised benefits. The contribution amounts are determined by the annual actuarial valuation report and approved by the Board.

Fund Goals

The plan benefits are financed through both employer and employee contributions and the investment earnings on assets held in the Fund. The Board recognizes that a sound investment program is essential to meet the pension obligations.

As a result, the Fund goals are to:

- Improve the Plan’s funding status to protect and sustain current and future benefits.
- Minimize the employee and employer contributions needed to fund the Plan over the long term.
- Avoid substantial volatility in required contribution rates and fluctuations in the Plan’s funding status.
- Accumulate a funding surplus to provide increases in retiree annuity payments to preserve the purchasing power of their retirement benefit.

The Board acknowledges the material impact that funding the pension plan has on the District’s financial performance. These goals affect the Fund’s investment strategies and often represent conflicting goals. For example, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment program. The Board places greater emphasis on the strategy of improving the funding status and reducing the contributions that must be made to the Fund, as it is most consistent with the long-term goal of conserving money to apply to other important projects.

Responsibilities and Discretion of the State Investment Board (SIB)

The Board has entered into a contract with the SIB for

investment services as allowed under NDCC 21-10-06. The Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, 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. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB’s role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund’s assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to finance the pension benefits promised to plan participants. However, funding the pension promise in an economical manner is critical to the Board’s ability to continue to provide pension benefits to plan participants. Thus, the Board actively seeks to lower the cost of funding the plan’s pension obligations by taking on risk for which it expects to be compensated over the long term. The Board understands that a prudent investment approach to risk taking can result in periods of under-performance for the Fund in which the funding status may decline. These periods, in turn, can lead to higher required contribution rates. Nevertheless, the Board believes that such an approach, prudently implemented, best serves the long-run interests of

the District and, therefore, of plan participants.

Investment Objectives

The Board’s investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund’s policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The fund’s rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The fund’s risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

Benefit payments are projected to occur over a long period of time. This allows the Board to adopt a long-term investment horizon and asset allocation policy for the management of fund assets. Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This asset-liability analysis considers both sides of the plan balance sheet, utilizing both quantitative and qualitative inputs, in order to estimate the potential impact of various asset class mixes on key measures of total plan risk, including the resulting estimated impact of funded status and contribution rates. After consideration of all the inputs and a discussion of its own collective risk tolerance, the Board approves the appropriate policy asset mix for the Fund.

Asset Class	Policy Target %
Global Equity	65
Domestic Equity	45
Large	40
Small	5
International Equity	15
Developed	12
Emerging	3
Private Equity	5
Global Fixed Income	25
Domestic Fixed	25
Investment Grade	25
Global Real Assets	10
Infrastructure	5
Timber	5

While the Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Board does not intend to engage in tactical asset allocation. Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction may be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases may be made.
- e. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar time horizon and similar risk.

For the purpose of this document, social investing is defined as the consideration of socially responsible criteria in the investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return of the Fund.

- f. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the Plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the City Council’s policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee

error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

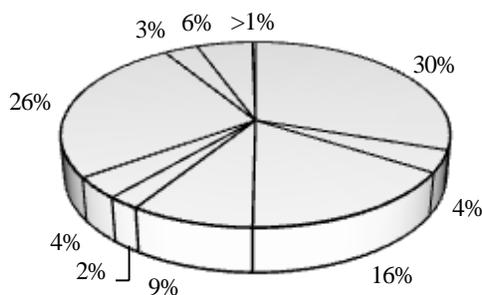
Investment management of the Fund will be evaluated against the Fund’s investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

1. A list of the advisory services managing investments for the SIB.
2. A list of investments at market value, compared to previous reporting period, of each account managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each account’s investments.
4. Comparison of the performance of each account managed by each advisory service to other accounts under the SIB’s control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

**❖ Park District of the City of Grand Forks Pension Fund
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 1,721,058	30%	4.55%
Domestic Small Cap Equity	218,981	4%	-7.04%
Global Equity	931,233	16%	-7.27%
Developed International Equity	508,764	9%	-7.94%
Emerging Markets Equity	133,107	2%	-9.25%
Private Equity	215,625	4%	-7.20%
Investment Grade Fixed Income	1,482,502	26%	4.99%
Timber	186,507	3%	4.34%
Infrastructure	305,643	6%	2.88%
Cash Equivalents	16,821	>1%	0.29%
Total Fund	<u>\$ 5,720,242</u>		0.36%
Policy Benchmark			0.51%



Columns may not foot due to rounding.

WORKFORCE SAFETY & INSURANCE FUND

❖ Workforce Safety & Insurance Fund Investment Objectives and Policy Guidelines

Introduction

North Dakota Workforce Safety & Insurance (WSI) is an exclusive state workers' compensation fund (Fund), which exists for the mutual benefit of North Dakota employers and employees. The assets of the Fund are utilized to pay benefits to injured workers or their survivors.

Section 65-04-01 of the North Dakota Century Code requires WSI to establish premium rates for funding sufficiently high to provide for:

1. The payment of the expenses of administration of the organization,
2. The payment of compensation according to the provisions and schedules contained in this title, and
3. The maintenance by the Fund of adequate reserves and surplus to the end that it may be kept at all times in an entirely solvent condition.

Responsibilities of the North Dakota State Investment Board (SIB)

The governing body of WSI is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. WSI fulfills this responsibility through its Board of Directors, under the oversight and approval of the Governor. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment goal of WSI is to supplement premiums, through various investments, to accomplish its statutory obligations.

The following investment objectives are established as of the date adopted and are in keeping with the fiduciary requirements as set forth in federal and state law and as expected by the members. WSI expects to receive results from the SIB that are consistent with the policies included herein. These objectives and guidelines will provide a basis for evaluating the effectiveness of the investment program over time. It is clearly understood these objectives and standards are to be viewed over the long term and have been established after full consideration of all factors set out in the Statement of Investment Policy.

The operating and liquidity needs of WSI are generally to be met by the cash equivalents allocation.

Funds in excess of those required for operating and liquidity needs will be invested in domestic equity, international equity, real estate and fixed income securities. The objective of these assets is to obtain the maximum total return on investments consistent with safety of principal on funds in excess of those required for operating and liquidity needs.

Standards of Investment Performance

The Fund's investment objectives and characteristics give rise to an asset allocation that is considered to have greater than a 50% probability of achieving the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund's rate of return, over the long term, should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

- c. Over 10 year and longer time periods the Fund’s returns, net of fees and expenses, should match or exceed the expected rate of return assumption of the policy benchmark. The expected risk of the Fund, as measured by standard deviation, should not exceed the policy benchmark.

Policy and Guidelines

The asset allocation policy developed herein is based on an evaluation of WSI’s ability and willingness to assume investment risk in light of WSI’s financial goals and objectives. In recognition of these goals and objectives, coupled with a liability-sensitive asset allocation study conducted by Callan Associates in April of 2014, the following asset allocation is deemed appropriate for WSI. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by WSI.

<u>Asset Class</u>	<u>Target Allocation</u>
Large Cap Equity	12%
Small Cap Equity	4%
International Equity	9%
Domestic Fixed Income	53%
Diversified Real Assets	15%
Real Estate	6%
Cash Equivalents	1%

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated

that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

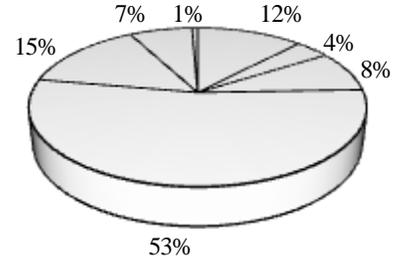
Evaluation and Review

Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

❖ **Workforce Safety & Insurance Fund**
Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 221,627,402	12%	2.72%
Domestic Small Cap Equity	71,992,591	4%	-5.29%
International Equity	154,029,804	8%	-10.74%
Fixed Income	976,544,224	53%	6.35%
Diversified Real Assets	264,886,005	15%	2.80%
Real Estate	131,218,750	7%	9.75%
Cash Equivalents	<u>11,805,431</u>	1%	0.12%
Total Fund	\$ <u>1,832,104,207</u>		3.58%
Policy Benchmark			3.42%



Columns may not foot due to rounding.

STATE FIRE AND TORNADO FUND

❖ State Fire and Tornado Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The State Fire and Tornado Fund (the Fund) was established in 1919 to insure the various state industries and political subdivisions against direct physical loss to public buildings, fixtures, and permanent contents due to the perils named in 26.1-22-02 of the North Dakota Century Code (NDCC). All state buildings and universities must be covered by the Fund. School districts and counties may participate at their option. Funding is primarily provided by annual premiums charged to policy holders in accordance with NDCC 26.1-22.

Effective August 1993, the state's boiler inspection program was placed under the direction of the Insurance Department. The costs of this program are appropriated from the Fund. Fees collected for boiler inspections and licensing will be the primary source of funding for the program. The 1995 Legislature added anhydrous ammonia storage facilities to the Fund's inspection responsibilities.

A minimum balance of \$12.0 million must be maintained at all times. If reserves drop below this statutory minimum, additional premiums, as specified under NDCC 26.1-22, would be assessed. This situation must be avoided.

The Fund retains liability for the first \$1 million on each and every loss. Any loss over this amount, up to a maximum of \$100 million, is covered by reinsurance through a commercial reinsurance carrier. Reinsurance coverage is bid by the Insurance Department at least once every two years.

Claims paid from the Fund are highly unpredictable. Weather damage accounts for the majority of claims. Fires generally result in the most extensive damage. Generally, there is a two week lead time to prepare for a claim payment. Large claim payments have a longer lead time and are spread out in multiple payments whenever possible.

Operating expenses are paid from the Fund as incurred. These include Fund administration, boiler inspection program, anhydrous ammonia storage facility inspections, State Fire Marshall's Office, and North Dakota Firefighter's Association.

Fund Mission

The primary mission of the Fund is to maintain an adequate balance in the Fund to avoid the necessity of assessing additional premiums to policy holders.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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 probably safety of capital as well as probably income.

Management responsibility for the investment program not assigned to the SIB in NDCC Chapter 21-10 is hereby delegated to the SIB, which must establish written policies for the operation of the investment program consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB shall notify the Fund within 30 days of any substantial or notable changes in money managers, performance measurement services, and consultants, including hiring or terminating a money manager, performance measurement service, or consultant.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs.

Investment Objectives

The Fund’s investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund’s policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB:

- a. The Fund’s rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- b. The Fund’s risk, as measured by the standard deviation of net returns, should not exceed 115 percent of the policy benchmark over a minimum evaluation period of five years.
- c. The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

After consideration of all the inputs and discussion of its own risk tolerance, the Fund has chosen the following asset allocation:

Large Cap Domestic Equity	18.75%
Small Cap Domestic Equity	6.25%
International Equity	10.00%
Fixed Income	55.00%
Cash Equivalents	10.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction may be made that would threaten the tax-exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund’s policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions, and compliance with the investment policy.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

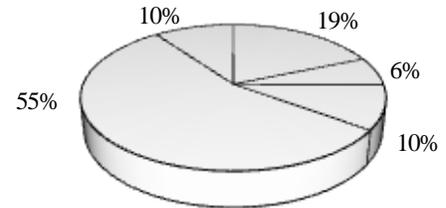
Performance reports will be provided to the Insurance Department periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

1. A list of advisory services managing investments for the Board.
2. A list of investments at market value, compared to the previous reporting period, of each fund managed by each advisory service.

3. Earnings, percentage earned, and change in market value of each fund’s investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the Board’s control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

❖ State Fire and Tornado Fund
Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 4,526,911	19%	2.72%
Domestic Small Cap Equity	1,511,651	6%	-5.27%
International Equity	2,367,014	10%	-10.74%
Fixed Income	13,272,000	55%	6.29%
Cash Equivalents	2,413,625	10%	0.12%
Total Fund	<u>\$ 24,091,201</u>		2.67%
Policy Benchmark			2.58%



Columns may not foot due to rounding.

STATE BONDING FUND

❖ State Bonding Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The State Bonding Fund (the Fund) was established for bonding public employees and public officials in accordance with Chapter 26.1-21 of the North Dakota Century Code (NDCC). Annual collections to the Fund are in the form of fees and restitution. However, the primary funding source for the Fund is investment return.

A minimum balance of \$2.0 million must be maintained at all times. If reserves drop below this statutory minimum, premiums will be assessed against all bond holders in accordance with NDCC 26.1-21-09. Such premiums will continue to be charged until the Fund balance reaches \$3.0 million. This situation must be avoided.

Claims paid from the Fund are on an as-needed basis and are highly unpredictable. A judgment against the guilty party is required prior to the Fund making a claim payment. Generally, there is a 60-90 day lead time to prepare for a claim payment. Appropriations from the Fund are exclusively for administrative costs.

Fund Mission

The primary mission of the Fund is to maintain an adequate balance in the Fund to avoid the necessity of assessing premiums to policy holders.

Responsibilities and Discretion of the State

Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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 probably safety of capital as well as probably income.

Management responsibility for the investment program not assigned to the SIB in NDCC Chapter 21-10 is hereby delegated to the SIB, which must establish written policies for the operation of the investment program consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may

establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB shall notify the Fund within 30 days of any substantial or notable changes in money managers, performance measurement services, and consultants, including hiring or terminating a money manager, performance measurement service, or consultant.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs.

Investment Objectives

The Fund's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB:

- a. The Fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- b. The Fund's risk, as measured by the standard deviation of net returns, should not exceed 115 percent of the policy benchmark over a minimum evaluation period of five years.
- c. The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

After consideration of all the inputs and discussion of its own risk tolerance, the Fund has chosen the following asset allocation:

Fixed Income	55.00%
Cash Equivalents	45.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction may be made that would threaten the tax-exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

- (4) The safeguards and diversity that a prudent investor would adhere to are present. Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions, and compliance with the investment policy.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

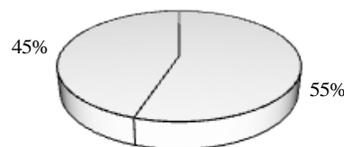
Performance reports will be provided to the Insurance Department periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

- 1. A list of advisory services managing investments for the Board.
- 2. A list of investments at market value, compared to the previous reporting period, of each fund managed by each advisory service.
- 3. Earnings, percentage earned, and change in market value of each fund’s investments.
- 4. Comparison of the performance of each fund managed by each advisory service to other funds under the Board’s control and to generally accepted market indicators.
- 5. All material legal or legislative proceedings affecting the SIB.
- 6. Compliance with this investment policy statement.

❖ **State Bonding Fund**

Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Fixed Income	\$ 1,813,989	55%	6.29%
Cash Equivalents	1,482,380	45%	0.12%
Total Fund	\$ <u>3,296,369</u>		3.48%
Policy Benchmark			3.35%



Columns may not foot due to rounding.

PETROLEUM TANK RELEASE COMPENSATION FUND

❖ Petroleum Tank Release Compensation Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Petroleum Tank Release Compensation Fund (the Fund) was established in 1989 in response to the Environmental Protection Agency's (EPA) requirement that all underground storage tank owners have proof of financial responsibility. Operation of the Fund is in accordance with ND23-37. The Fund's "sunset clause" date of June 30, 2011, has been extended and the time horizon for this Fund is uncertain at this time.

Funding is provided by annual premiums collected for above ground and underground petroleum storage tanks. Registration of tanks with the Fund is mandatory, although certain types of tanks are excluded.

A statutory minimum balance of \$6.0 million must be maintained in the Fund. Also, a minimum balance of \$2.0 million is required by EPA. In the event reserves drop below this minimum, EPA would evaluate the Fund's ability to pay claims and would in all likelihood disapprove the Fund as a financial responsibility mechanism for North Dakota petroleum tank owners.

If a petroleum release occurs or petroleum contamination is discovered, an eligible tank owner is reimbursed 90% of necessary and reasonable costs between \$5,000 and \$155,000 for cleanup of contamination or third-party liability. The Fund reimburses 100% of costs between \$155,000 and \$1,000,000.

Fund Mission

The primary mission of the Fund is to maintain the statutory minimum balance in the fund.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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 probably safety of capital as well as probably income.

Management responsibility for the investment program not assigned to the SIB in NDCC Chapter 21-10 is hereby delegated to the SIB, which must establish written policies for the operation of the investment program consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB shall notify the Fund within 30 days of any substantial or notable changes in money managers, performance measurement services, and consultants, including hiring and terminating a money manager, performance measurement service, or consultant.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs.

Investment Objectives

The Fund's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB:

- a. The Fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- b. The Fund's risk, as measured by the standard deviation of net returns, should not exceed 115 percent of the policy benchmark over a minimum evaluation period of five years.

- c. The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

After consideration of all the inputs and discussion of its own risk tolerance, the Fund has chosen the following asset allocation:

Fixed Income	50.00%
Cash Equivalents	50.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction may be made that would threaten the tax-exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund’s policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions, and compliance with the investment policy.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the Insurance Department periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

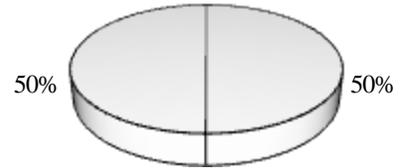
- 1. A list of advisory services managing investments for the Board.
- 2. A list of investments at market value, compared to the previous reporting period, of each fund managed by each advisory service.
- 3. Earnings, percentage earned, and change in market value of each fund’s investments.

4. Comparison of the performance of each fund managed by each advisory service to other funds under the Board’s control and to generally accepted market indicators.

5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

**❖Petroleum Tank Release Compensation Fund
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Fixed Income	\$ 3,577,509	50%	6.29%
Cash Equivalents	3,572,001	50%	0.12%
Total Fund	<u>\$ 7,149,510</u>		3.17%
Policy Benchmark			3.06%



Columns may not foot due to rounding.

INSURANCE REGULATORY TRUST FUND

❖ Insurance Regulatory Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Insurance Regulatory Trust Fund (the Fund) was established for use by the Insurance Department to defray the expenses incurred in discharging its duties as described in NDCC 26.1.

Funding is provided primarily through the collection of fees and fines as specified in NDCC 26.1-01-07.1. Fees and other collections as well as earnings from investments are funding sources.

There is no statutory minimum balance for this Fund. However, the Insurance Department relies entirely on the Fund to meet all operating expenses. Therefore, sufficient liquidity and risk control must be maintained at all times to ensure the solvency of the Insurance Department.

In accordance with NDCC 26.1-01-07.1, any cash balance in the Fund after all current biennium expenditures are met must be carried forward for the succeeding biennium. However, when the balance at the end of the biennium exceeds \$1.0 million, any excess will be transferred to the general fund in the state treasury. Such transfers are generally made at the end of September or during the first two weeks of October. Operating expenses are paid from the Fund as incurred.

Fund Mission

The primary mission of the Fund is to maintain an adequate balance in the Fund to avoid the necessity of assessing premiums to policy holders.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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 probably safety of capital as well as probably income.

Management responsibility for the investment program not assigned to the SIB in NDCC Chapter 21-10 is hereby delegated to the SIB, which must establish written policies for the operation of the investment program consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB shall notify the Fund within 30 days of any substantial or notable changes in money managers, performance measurement services, and consultants, including hiring or terminating money managers, performance measurement services, or consultants

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs.

Investment Objectives

The Fund's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB:

- a. The Fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- b. The Fund's risk, as measured by the standard deviation of net returns, should not exceed 115 percent of the policy benchmark over a minimum evaluation period of five years.
- c. The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

After consideration of all the inputs and discussion of its own risk tolerance, the Fund has chosen the following asset allocation:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
International Equity	10%
Fixed Income	35%
Cash Equivalents	35%

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction may be made that would threaten the tax-exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.

- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund’s policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions, and compliance with the investment policy.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

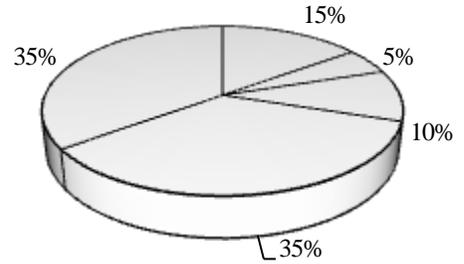
Performance reports will be provided to the Insurance Department periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including but not limited to:

- 1. A list of advisory services managing investments for the Board.
- 2. A list of investments at market value, compared to the previous reporting period, of each fund managed by each advisory service.
- 3. Earnings, percentage earned, and change in market value of each fund’s investments.
- 4. Comparison of the performance of each fund managed by each advisory service to other funds under the Board’s control and to generally accepted market indicators.
- 5. All material legal or legislative proceedings affecting the SIB.
- 6. Compliance with this investment policy statement.

❖ **Insurance Regulatory Trust Fund**
Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 163,131	15%	2.72%
Domestic Small Cap Equity	54,888	5%	-5.27%
International Equity	106,770	10%	-10.74%
Fixed Income	380,762	35%	6.29%
Cash Equivalents	<u>380,283</u>	35%	0.12%
Total Fund	\$ <u><u>1,085,835</u></u>		1.46%
Policy Benchmark			1.40%

Columns may not foot due to rounding.



STATE RISK MANAGEMENT FUND

❖ State Risk Management Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

To address the State's loss of sovereign immunity, the 1995 North Dakota Legislature created a new chapter of the North Dakota Century Code (NDCC), 32-12.2. That Chapter established the Risk Management Fund (the Fund) to administer claims against the State and state employees for personal injury, death, or property damage caused by the State or a state employee acting within the scope of the employee's employment. The Fund is directed by the Office of Management and Budget (OMB).

Each entity of the State is required to participate in the Fund. Contributions to the Fund are determined by the Director of OMB based on an actuarial review of the financial status of the Fund. This results in a fluctuation of contributions made to the Fund from one biennium to another.

The amount of money damages the Fund may pay is limited for state court actions to a total of \$250,000 per person and \$1,000,000 per occurrence. These liability caps may not be recognized in Federal Court actions or in actions filed in other states. The Fund's excess carrier provides coverage up to \$10,000,000 for those exposures not covered by the Tort Claims Act.

Significant claims paid from the Fund are usually somewhat predictable and take a period of time to resolve. A person bringing a claim or lawsuit against the State or a state employee must give notice to the OMB Director within 180 days after the alleged injury is discovered or reasonably should have been discovered. If the claim is one for death, the notice must be provided within one year after the alleged injury resulting in the death.

The Risk Management Division's operating expenses including loss control activities are paid from the Fund as incurred.

Responsibilities of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.34% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 6.59%.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the OMB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	22.5%
Small Cap Domestic Equity	7.5%
Fixed Income	65.0%
Cash Equivalents	5.0%

Rebalancing of the Fund to this allocation will be done in accordance with the SIB’s rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect

other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

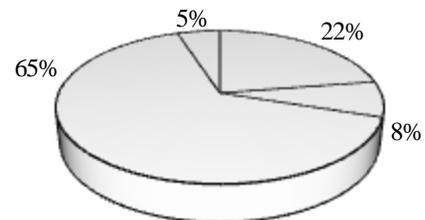
Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

❖ State Risk Management Fund

Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 1,470,772	22%	2.72%
Domestic Small Cap Equity	491,133	8%	-5.27%
Fixed Income	4,246,485	65%	6.29%
Cash Equivalents	326,412	5%	0.12%
Total Fund	<u>\$ 6,534,802</u>		4.46%
Policy Benchmark			4.26%

Columns may not foot due to rounding.



STATE RISK MANAGEMENT WORKERS COMPENSATION FUND

❖ State Risk Management Workers Comp Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The 2001 North Dakota Legislature established a single workers' compensation account for state entities, N.D.C.C. § 65-04-03.1. N.D.C.C. § 65-04-03.1(2) directs that workers' compensation premiums from state entities must be deposited in the Risk Management Workers Compensation Fund (Fund) and the State Investment Board is directed to invest the Fund in accordance with chapter 21-10.

The Risk Management Division of the Office of Management and Budget is responsible for administering the Fund to include promulgating rules, collecting and dispersing funds, and establishing an internal workers' compensation return-to-work program. Each entity of the State is required to participate in the program unless exempted by the director of the Office of Management and Budget. Contributions to the Fund are determined by Workforce Safety & Insurance (WSI) based on an actuarial review of combined payroll, premium, and loss history of agencies to determine experience rates, assessments, and premiums.

The Risk Management Workers Compensation Program charges the entity the first \$250 (\$0 if a designated medical provider is used for treatment) of each accepted claim and pays disability and medical benefits of up to \$100,000 dollars per claim. Dollar amounts for claims in excess of \$100,000 are paid for by WSI. In turn the Program pays WSI approximately \$1.7 million per year in premiums.

Responsibilities of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed to provide stability for insurance reserves. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of surplus. Capital growth will be sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.64% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 7.57%.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the OMB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	27.75%
Small Cap Domestic Equity	9.25%
Fixed Income	60.00%
Cash Equivalents	3.00%

Rebalancing of the Fund to this allocation will be done in accordance with the SIB’s rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board’s master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public

fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

Evaluation and Review

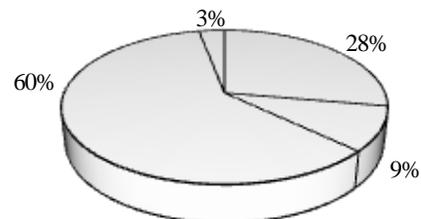
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**❖ State Risk Management WC Fund
Actual Asset Allocation – June 30, 2016**

Asset Allocation	Fair Value	Percent of Total	One Year Return (net)
Domestic Large Cap Equity	\$ 1,530,959	28%	2.72%
Domestic Small Cap Equity	511,276	9%	-5.27%
Fixed Income	3,308,261	60%	6.29%
Cash Equivalents	165,679	3%	0.12%
Total Fund	\$ 5,516,174		4.21%
Policy Benchmark			4.01%

Columns may not foot due to rounding.



NORTH DAKOTA CULTURAL ENDOWMENT FUND

❖ND Cultural Endowment Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The North Dakota Cultural Endowment Fund (Fund) was created by the State Legislature in 1979 and is governed by NDCC 54-54-08.2.

The Fund was established “to improve the intrinsic quality of the lives of the state’s citizens now and in the future through programs approved by the council on the arts.” Such programs must:

1. Increase cultural awareness by the state’s citizens through programs in arts, crafts, theater, ethnic and folk arts, literature, journalism, public media, historic preservation and interpretation, visual arts, and architecture.
2. Make the items named in #1 above more available to the state’s citizens.
3. Encourage the development of talent in the areas named in #1 above within the state.
4. Preserve and increase understanding of North Dakota’s heritage and future.

The goals of the Fund are:

- To create a vehicle through which the North Dakota Council on the Arts can secure private and public funds to enhance existing programs;
- And to provide a stable funding source for the Council.

Sources of funding for the Fund are private donations and periodic General Fund appropriations. The current principal balance that must be maintained in the Fund is \$150,000. Disbursements from the Fund will amount to approximately \$5,000 per year for fellowship grants.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund’s assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB’s role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also the low risk tolerance and shorter-term liquidity needs. Operating and statutory considerations shape the Funds policies and priorities as outlined below:

Objective #1: Investment income is needed to provide balance in investment return sources. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge. Capital growth will be sought through investment in equities.

Objective #3: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations. Cash equivalent investments will be used to achieve this objective.

Objective #4: The risk of violating the mandated minimum balance requirement of \$150,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

The Fund’s investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 33.75% S&P 500 domestic stock index, 11.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 37% Barclays Capital Aggregate domestic bond index, 5% NCREIF Total real estate index, and 3% 90-day Treasury bills.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 7.26% rate of return based on Callan Associates’ 2005 market projections. Expected risk for the period, measured by standard deviation, is 10.44%.

Policy and Guidelines

The asset allocation of the Cultural Endowment Fund is established by the North Dakota Council on the Arts, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equities	33.75%
Small Cap Domestic Equities	11.25%
International Equities	10.00%
Domestic Fixed Income	37.00%
Real Estate	5.00%
Cash Equivalents	3.00%

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board’s master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public

pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

Evaluation and Review

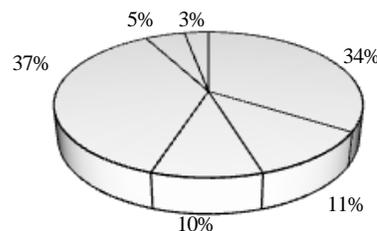
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

❖ **ND Cultural Endowment Fund**

Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 130,534	34%	2.72%
Domestic Small Cap Equity	44,244	11%	-5.27%
International Equity	37,950	10%	-10.74%
Fixed Income	143,097	37%	6.29%
Real Estate	18,990	5%	9.75%
Cash Equivalents	11,632	3%	0.12%
Total Fund	<u>\$ 386,447</u>		2.18%
Policy Benchmark			2.13%



Columns may not foot due to rounding.

NORTH DAKOTA BUDGET STABILIZATION FUND

❖ND Budget Stabilization Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Budget Stabilization Fund (Fund) is a special fund created in 1987 under Chapter 54-27.2 of the North Dakota Century Code used to deposit general fund moneys in excess of appropriations. Notwithstanding the provisions of sections 54-27.2-01 and 54-27.2-02, \$124,936,548 was required to be transferred by the state treasurer to the budget stabilization fund from the general fund on July 1, 2009, along with \$61,414,562 on July 1, 2011 and \$181,060,584 on July 1, 2013. The statutory cap for the 2015-17 biennium is \$572,485,454. The state investment board shall supervise investment of the budget stabilization fund in accordance with chapter 21-10.

Any interest or other budget stabilization fund earnings must be deposited in the fund. Any amounts provided by law for deposit in the fund and any interest or earnings of the fund which would bring the balance in the fund to an amount greater than five percent of the current biennial state general fund budget, as finally approved by the most recently adjourned special or regular session of the legislative assembly, may not be deposited or retained in the fund but must be deposited instead in the state general fund.

If the director of the office of management and budget projects that general fund revenues for the biennium will be at least two and one-half percent less than estimated by the most recently adjourned special or regular session of the legislative assembly, and if the governor orders a transfer, the state treasurer shall transfer the appropriate funds from the budget stabilization fund to the state general fund to offset the decrease in general fund revenues. The amount transferred from the budget stabilization fund upon order of the governor may not exceed the difference between an amount two and one-half percent below the general fund revenue projections for the biennium and the general fund revenue projections for the biennium by the director of the office of management and budget.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and

performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory. In accordance with this Investment Policy Statement, the Fund's assets may be invested directly or through collective investment vehicles.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives of the Fund reflect the relatively unknown life-span and the moderate risk tolerance of the Fund. Operating and statutory considerations shape the Fund's policies and priorities as outlined below:

Objective: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Standards of Investment Performance

The Fund's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB:

- a. The Fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- b. The risk-adjusted performance of the Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the Legacy and Budget Stabilization Advisory Board. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Short-term Fixed Income and BND CDs	Minimum of 90%
Bank Loans w/floating yield	Maximum of 5%
Absolute Return Strategies	Maximum of 5%

Bank of North Dakota Match Loan Certificates of Deposit Program (BND CD) limit of 35%.

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board’s master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

Evaluation and Review

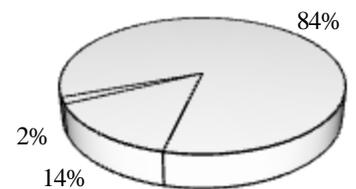
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

❖ **ND Budget Stabilization Fund**

Actual Asset Allocation – June 30, 2016

Asset Allocation	Fair Value	Percent of Total	One Year Return (net)
Short-term Fixed Income	\$ 485,318,239	84%	1.70%
BND Match Loan CDs	81,603,636	14%	2.61%
Cash Equivalents	8,996,514	2%	0.12%
Total Fund	\$ 575,918,389		1.82%
Policy Benchmark			1.50%



Columns may not foot due to rounding.

NORTH DAKOTA ASSOCIATION OF COUNTIES

❖ND Association of Counties (NDACo) Fund Investment Objectives and Policy Guidelines

Introduction

The North Dakota Association of Counties (NDACo) (Fund) was established to aid in the administration of county government by providing a medium for exchange of information, ideas, and experience of county officials; promote training; facilitate cooperation with all levels of government; and be a legislative advocate for counties. NDACo and the benefits provided there under are funded by dues from member counties and special programs and projects of NDACo.

Responsibilities and Discretion of the State Investment Board (SIB)

NDACo has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of NDACo to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the Fund participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

Fund in excess of those required for operating and claims payment needs will be invested to obtain the maximum total return on investments consistent with safety of principal on Fund in excess of those required for operating and claims payment needs. The investment fund(s) may be comprised of fixed income securities and equity securities. Individual investments may be either actively or passively managed.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation is established by the North Dakota Association of Counties with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements.

In recognition of these factors, the following allocation is deemed appropriate for the Fund.

Domestic Large Cap Equity	15%
Domestic Small Cap Equity	5%
International Equity	10%
Domestic Fixed Income	57%
Cash Equivalents	13%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- d. No Fund shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund’s policy favors

investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

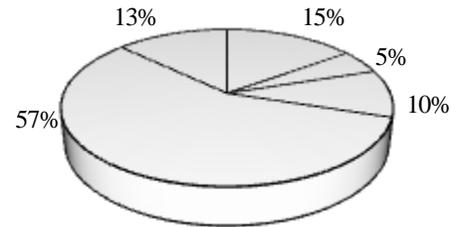
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**❖ ND Association of Counties (NDACo) Fund
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 608,868	15%	2.72%
Domestic Small Cap Equity	203,312	5%	-5.27%
International Equity	397,775	10%	-10.74%
Fixed Income	2,312,369	57%	6.29%
Cash Equivalents	526,543	13%	0.12%
Total Fund	<u>\$ 4,048,866</u>		2.76%
Policy Benchmark			2.67%

Columns may not foot due to rounding.



CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT

❖ City of Bismarck Deferred Sick Leave Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The City of Bismarck Deferred Sick Leave Account (the Fund) represents money set aside to cover the City’s unfunded liability of employees’ accrued sick leave. People who terminate employment with the City shall be compensated for unused sick leave from this Fund. In time, it is expected that the Fund will become depleted.

Responsibilities and Discretion of the State Investment Board (SIB)

The City of Bismarck (Client) has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of the Client to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund’s assets may be pooled with other funds. In pooling funds, the SIB may establish appropriate asset class pools designed to provide specific quality and diversification guidelines, restrictions, and performance objectives consistent with the goals of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB’s role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund’s policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Standards of Investment Performance

The Fund’s investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 65% Barclays Capital Aggregate domestic bond index, and 5% 90-day Treasury Bills.
- b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.
- c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.00% rate of return based on Callan Associates’ 2005 market projections. Expected risk for the period, measured by standard deviation, is 6.50%.

Policy and Guidelines

The asset allocation of the Fund is established by the City of Bismarck. Asset allocation is based upon the appraisal of projected liquidity requirements and sick leave payment demand, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the Fund:

Large Cap Domestic Equity	15%
Small Cap Domestic Equity	5%
International Equity	10%
Fixed Income	65%
Cash Equivalents	5%

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

Evaluation and Review

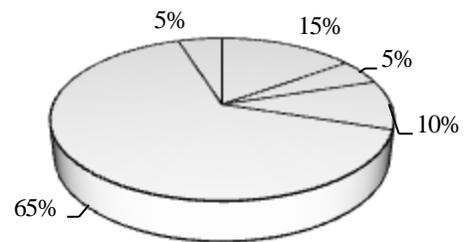
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**❖ City of Bismarck Deferred Sick Leave
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 96,567	15%	2.72%
Domestic Small Cap Equity	32,554	5%	-5.27%
International Equity	63,126	10%	-10.74%
Fixed Income	418,318	65%	6.29%
Cash Equivalents	31,698	5%	0.12%
Total Fund	\$ 642,264		3.26%
Policy Benchmark			3.13%

Columns may not foot due to rounding.



NDPERS GROUP INSURANCE ACCOUNT

❖NDPERS Group Insurance Account Investment Objectives and Policy Guidelines

Introduction

The ND Public Employees Retirement System (PERS) Group Insurance Account (the Fund) was established to hold insurance premiums collected from employers until paid to the insurance carrier.

Responsibilities and Discretion of the State Investment Board (SIB)

PERS has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of PERS to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

Premiums are collected throughout the month at PERS and will be forwarded to the Fund investment account on the 1st and 15th of each month. The premiums transferred into the investment account will be transferred back to PERS on approximately the 22nd of each month so they may be remitted to the insurance carrier. The investment objective of the Fund is to maximize the return on the deposits within the short-term time-frame involved.

Standards of Investment Performance

The Fund's investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by PERS, with input from the SIB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years. In recognition of this factor, the following allocation is deemed appropriate for the Fund:

Short Term Fixed Income	95% (not to exceed \$36m)
Cash Equivalents	5%

This cash will be held in an enhanced money market account at the Fund's custodian.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as "The investment or commitment of public fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

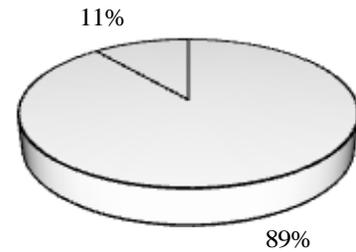
Evaluation and Review

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

**❖NDPERS Group Insurance Account
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Short Term Fixed Income	33,613,922	89%	*
Cash Equivalents	4,101,438	11%	0.12%
Total Fund	<u>\$37,715,360</u>		1.49%
Policy Benchmark			1.56%



CITY OF FARGO FARGODOME PERMANENT FUND

❖ City of Fargo FargoDome Permanent Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The City of Fargo has set aside excess sales tax collections intended for the administration of the FargoDome in the FargoDome Permanent Fund (Fund). This fund is intended to provide financial resources necessary for the ongoing upkeep of this large City owned facility over a long term time horizon.

Responsibilities of the State Investment Board (SIB)

The City of Fargo (Client) has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of the Client to establish policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

At the discretion of the SIB, the Fund’s assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB’s role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring, maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Investment Objectives

The investment objectives are to obtain a reasonable rate of return on the Fund while maintaining sufficient liquidity to meet known or anticipated financial obligations. Operating considerations shape the Fund’s policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income and equity assets.

Objective #2: Growth of capital is needed to provide an inflationary hedge and add to the growth of the Fund. Capital growth is sought through investment in equities and/or equity substitutes.

Standards of Investment Performance

The Fund’s investment objectives and liquidity constraints give rise to an asset allocation that is considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

- a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Fund is established by the City of Fargo Finance Committee, with input from RIO staff. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely to be achieved by the various asset classes over the next five years.

In recognition of these factors, the following allocation is deemed appropriate for the fund:

Large Cap Domestic Equity	23%
Small Cap Domestic Equity	12%
International Equity	15%
Fixed Income	39%
Inflation Protected Assets	10%
Cash Equivalents	1%

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy.

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the State Investment Board’s master custodian or such other custodians as are acceptable to the State Investment Board.
- d. No funds shall be borrowed.
- e. No unhedged short sales or speculative margin purchases shall be made.

- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

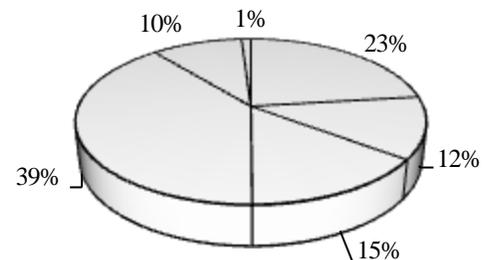
Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

Money managers will be evaluated by the SIB quarterly. In-state meetings will be held with the money managers at least annually.

❖ **City of Fargo FargoDome Permanent Fund
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 8,951,555	23%	2.72%
Domestic Small Cap Equity	4,677,681	12%	-5.27%
International Equity	5,722,835	15%	-10.74%
Fixed Income	15,168,547	39%	6.29%
Diversified Real Assets	3,865,195	10%	-1.16%
Cash Equivalents	396,906	1%	0.12%
Total Fund	<u>\$ 38,782,720</u>		1.19%
Policy Benchmark			1.03%

Columns may not foot due to rounding.



ND STATE BOARD OF MEDICINE FUND

❖ND State Board of Medicine Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota State Board of Medicine (the Board) was established in 1890 to protect the citizens of the state by regulating the practice of medicine. The Board licenses physicians, physician assistants, genetic counselors and fluoroscopy technicians and disciplines them if they violate the state's medical practice act. The North Dakota State Board of Medicine is governed by NDCC Chapter 43-17.

The North Dakota State Board of Medicine Fund (the Fund) is an unrestricted operating reserve set aside to provide a margin of safety and stability in the Board's operating activities, and provide flexibility to pursue capital projects as needed.

Fund Goals

The investment objectives of the Fund reflect a low risk tolerance and short-term liquidity needs. Operating considerations shape the Fund's policies and priorities as outlined below:

Objective #1: Investment income is needed as a funding source. This will be achieved through a diversified portfolio of high quality fixed income, equities and real estate.

Objective #2: Growth of capital is needed to preserve the real purchasing power of Fund assets. Capital growth is sought through investment in equities and/or equity substitutes.

Objective #3: Sufficient liquidity will be maintained to meet known or anticipated financial obligations. Cash equivalent investments shall be used to achieve this objective.

Responsibilities and Discretion of the State Investment Board (SIB)

The Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, 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. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The Board's risk tolerance with respect to the management of the Fund's asset is low. The Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to maintain principal value over time.

Investment Objectives

The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

1. The fund's rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
2. The fund's risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
3. The risk-adjusted performance of the fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

Policy Asset Mix

Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset allocation analysis designed to assist the Board in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This analysis estimates the potential impact of various asset class mixes on key measures of total Fund risk.

After consideration of all the inputs and a discussion concerning risk tolerance, the Board approves the appropriate policy asset mix for the Fund.

Large Cap Domestic Equity	11%
Small Cap Domestic Equity	3%
International Equity	7%
Fixed Income	12%
Real Estate	2%
Short-term Fixed Income	65%

While the Board recognizes fluctuations in market values will lead to short-term deviations from policy targets, the Board does not intend to engage in tactical asset allocation. Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund’s assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the*

purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board’s policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for investment manager selection and monitoring. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

Investment management of the Fund will be evaluated against the Fund’s investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

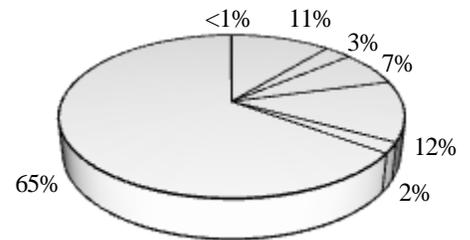
Performance reports will be provided to the BCEPP Board periodically, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material

matters and changes pertaining to the investment of the Fund, including, but not limited to:

1. A list of the advisory services managing investments for the SIB.
2. A list of investments at market value, compared to previous reporting period, of each account managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each account’s investments.
4. Comparison of the performance of each account managed by each advisory service to other accounts under the SIB’s control and to generally accepted market indicators.
5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

❖ **ND State Board of Medicine Fund**
Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 243,536	11%	2.72%
Domestic Small Cap Equity	65,603	3%	-5.27%
International Equity	151,460	7%	-10.74%
Fixed Income	265,383	12%	6.29%
Real Estate	46,886	2%	9.75%
Short-Term Fixed Income	1,433,650	65%	0.02%
Cash Equivalents	2,149	<1%	0.12%
Total Fund	<u>\$ 2,208,666</u>		1.63%
Policy Benchmark			1.32%



Columns may not foot due to rounding.

NORTH DAKOTA LEGACY FUND

❖ND Legacy Fund

Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Legacy Fund was created in 2010 when the voters of North Dakota approved a constitutional amendment-now Article X, Section 26, of the Constitution of North Dakota-to provide that 30 percent of oil and gas gross production and oil extraction taxes on oil and gas produced after June 30, 2011, be transferred to the Legacy Fund. The principal and earnings of the Legacy Fund may not be spent until after June 30, 2017, and any expenditure of principal after that date requires a vote of at least two-thirds of the members elected to each house of the Legislative Assembly. Not more than 15 percent of the principal of the Legacy Fund may be spent during a biennium. The Legislative Assembly may transfer funds from any source to the Legacy Fund and such transfers become part of the principal of the Fund. The State Investment Board (SIB) is responsible for investment of the principal of the Legacy Fund. Interest earnings accruing after June 30, 2017, are transferred to the general fund at the end of each biennium. Section 21-10-11 provides that the goal of investment for the Legacy Fund is principal preservation while maximizing total return.

Fund Mission

The Legacy Fund (Fund) was created, in part, due to the recognition that state revenue from the oil and gas industry will be derived over a finite timeframe. The Legacy Fund defers the recognition of 30 percent of this revenue for the benefit of future generations. The primary mission of the Legacy Fund is to preserve the real, inflation-adjusted purchasing power of the monies deposited into the Fund while maximizing total return.

Responsibilities and Discretion of the State Investment Board (SIB)

The Legacy and Budget Stabilization Fund Advisory Board (Board) is charged by law under NDCC 21-10-11 with the responsibility of recommending policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. 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.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers, which are also required to employ investment strategies consistent with the investment policy. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory not advisory.

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and the objectives of the funds participating in the pool.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, retaining, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB shall notify the Board within 30 days of any substantial or notable changes in money managers; performance measurement services; and consultants, including hiring or terminating a money manager, performance measurement service, or a consultant.

The SIB, after consultation with the Board, will implement necessary changes to this policy in an efficient and prudent manner.

Risk Tolerance

The Board's risk tolerance with respect to the primary aspect of the Fund's mission is low. The Board is unwilling to undertake investment strategies that might jeopardize the ability of the Fund to maintain principal value over time. The Board recognizes that the plan will evolve as the Legacy Fund matures and economic conditions and opportunities change.

Investment Objectives

The Board's investment objectives are expressed in terms of reward and risk expectations relative to investable, passive benchmarks. The Legacy Fund's policy benchmark is comprised of policy mix weights of appropriate asset class benchmarks as set by the SIB.

- a. The Legacy Fund’s rate of return, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.
- b. The Legacy Fund’s risk, measured by the standard deviation of net returns, should not exceed 115% of the policy benchmark over a minimum evaluation period of five years.
- c. The risk-adjusted performance of the Legacy Fund, net of fees and expenses, should at least match that of the policy benchmark over a minimum evaluation period of five years.

purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

Policy Asset Mix

After consideration of all the inputs and a discussion of its own collective risk tolerance, the Board approves the appropriate policy asset mix for the Legacy Fund as of April 2, 2013:

Asset Class	Policy Target Percentage
Broad US Equity	30%
Broad International Equity	20%
Fixed Income	35%
Core Real Estate	5%
Diversified Real Assets	10%

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Rebalancing of the Fund to this target will be done in accordance with the SIB’s rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Legacy Fund’s assets will be invested, it is understood that:

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Fund's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction may be made that would threaten the tax-exempt status of the Legacy Fund.
- d. All assets will be held in custody by the SIB’s master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions, and compliance with the investment policy.

Evaluation and Review

Investment management of the Legacy Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Emphasis will be placed on 5-year and 10-year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy statement for achieving those objectives.

For the purpose of this document, Social Investing is defined as *"The investment or commitment of public pension fund money for the*

Performance reports will be provided to the Board periodically, but not less than quarterly. Such reports will include asset returns and allocation data. Additionally, not less than annually, reports will include information regarding all significant and/or material matters and changes pertaining to the investment of the Legacy Fund, including:

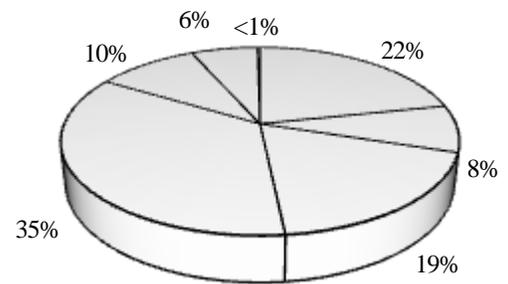
- Changes in asset class portfolio structures, tactical approaches, and market values.
- Loss of principal, if any.
- Management costs associated with various types of investments.
- All material legal or legislative proceedings affecting the SIB.

- Compliance with this investment policy statement.
- An evaluation of the national economic climate.
- A forecast of the expected economic opportunities and dangers.
- Management of risk by the SIB.

In addition to the quarterly evaluation and review process, the SIB shall notify the Board within 30 days of any substantial or notable deviation from the normal management of the Legacy Fund, including any anomalies, notable losses, gains, or liquidation of assets affecting the fund.

❖ **ND Legacy Fund**
Actual Asset Allocation – June 30, 2016

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 828,297,045	22%	2.52%
Domestic Small Cap Equity	308,762,684	8%	-4.99%
International Equity	703,293,843	19%	-10.73%
Fixed Income	1,340,864,596	35%	6.40%
Diversified Real Assets	374,417,389	10%	3.14%
Real Estate	244,647,252	6%	9.79%
Cash Equivalents	9,202,375	<1%	0.13%
Total Fund	\$ <u>3,809,485,184</u>		1.06%
Policy Benchmark			1.01%



Columns may not foot due to rounding.

RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA

❖ Job Service ND

Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The Retirement Plan for the Employees of Job Service North Dakota (Plan) is a defined benefit retirement plan for the eligible employees hired before October 1, 1980. There have been no new entrants to the plan since October 1, 1980. The plan provides retirement benefits, disability benefits and survivor benefits consistent with the written Plan document. Until October 1, 1993, annuities were purchased from the Travelers for retirees, since that date retiree benefits are paid from Plan assets. Annual cost of living adjustments for all Plan pensioners including annuitants with the Travelers are paid from Plan assets. The NDPERS Board (the Board) is the Plan Administrator and administers the Plan in accord with Chapter 52-11 of the North Dakota Century Code.

Job Service North Dakota as the employer contributes 4% of the active participant's salary as a contribution 'on behalf of the employee' and the active participants pay 3% of their salary into Plan assets.

Each year the Plan has an actuarial valuation performed. The current actuarial assumed rate of return on assets is 7%.

Responsibilities and Discretion of the State Investment Board

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-01, and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund 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. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.

3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1)(d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment objectives of the Plan have been established by the Plan's Administrator upon consideration of its strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: To maintain a level of surplus sufficient to eliminate the need for future contributions;

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index (CPI), by 3.0 percentage points per year (based on current actuarial assumptions of 7% return and 2-3% inflation), over a complete market cycle; and

Objective #3: As a secondary objective, to maximize the Plan's surplus to increase future benefit payments.

Investment Performance Objective

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a. The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio by more than 15%.
- c. Over 5-year and longer periods the fund should match or exceed the expected rate of return

projected in the most recent asset/liability study without exceeding the expected risk for the period as measured by standard deviation by more than 15%.

Asset Allocation

The NDPERS Board as plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. The current asset allocation is based upon the asset/liability study completed by SEI Consultants in December 2014. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes.

In recognition of the Plan's objectives, projected financial status, and capital market expectations, the following asset allocation options were deemed appropriate for the Fund:

Domestic Equity	24%
Global Equity	16%
US High Yield Bonds	3%
Emerging Markets Debt	3%
Core Fixed Income	19%
Limited Duration Fixed Income	19%
Diversified Short Term Fixed Income	10%
Short Term Corporate Fixed Inc	6%

Rebalancing of the Fund to this target allocation will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

Social investing is defined as *“The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries.”*

- d. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a

similar time horizon and similar risk.

Economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

- e. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the Plan with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Plan to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity,

custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation

Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.

An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

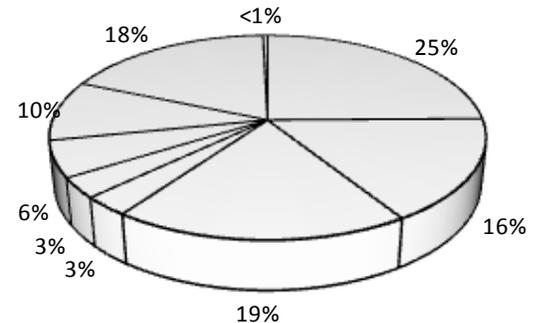
- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB.
- Compliance with these investment goals, objectives and policies.
- A general market overview and market expectations.
- A review of fund progress and its asset allocation strategy.

In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives, and policies.

❖ Job Service ND

Actual Asset Allocation – June 30, 2016

Asset Allocation	Fair Value	Percent of Total	One Year Return (net)
Domestic Equity	\$ 23,942,085	25%	9.39%
Global Equity	15,695,311	16%	*
Core Fixed Income	18,171,485	19%	*
High Yield Bonds	2,959,404	3%	*
Emerging Markets Debt	3,085,168	3%	*
Short Term Corporate Fixed Income	5,509,726	6%	*
Diversified Short Term Fixed Income	9,248,038	10%	*
Limited Duration Fixed Income	17,585,107	18%	*
Cash Equivalents	392,009	<1%	0.29%
Total Fund	\$ 96,588,333		5.45%
Policy Benchmark			2.20%



Columns may not foot due to rounding.

RETIREE HEALTH INSURANCE CREDIT FUND

❖ Retiree Health Insurance Credit Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Constraints

The North Dakota Public Employees Retirement System (NDPERS) Retiree Health Insurance Credit Fund was established in 1989 to provide for prefunding of premiums for medical coverage to state employees and employees of participating political subdivisions in accordance with Chapter 54-52.1 of the North Dakota Century Code. The plan is administered by a seven member Board of Trustees (the Board). The Chair is appointed by the governor, three members are elected by the active members of the plans, one member is elected by the retired members, one is appointed by the Attorney General and the seventh member is the State Health Officer or their designee.

The NDPERS plan is a defined benefit program that provides for a partial payment of a retiree's medical insurance premium based on the number of years of service.

Funding for the NDPERS plan is provided by a monthly employer contribution of one percent of payroll. On a monthly basis, benefit payments are netted out against contributions and the balance forwarded to the trust's custodian for investment.

Each year the NDPERS Board has an actuarial valuation performed. The current actuarial assumed rate of return on assets for the plan is 8.0%.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Board is charged by NDCC chapters 54-52, 21-10-02 and 39-03.1 to establish policies for the investment goals and asset allocation of the Fund. The State Investment Board (SIB) is charged with implementing the asset allocation as promptly and prudently as possible in accordance with Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

Fund 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. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their

members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

The SIB may delegate investment responsibility of the Fund or any portion of the Fund to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

The SIB may at its discretion, pool the assets of the Fund with another fund or funds having similar investment objectives and time horizons in order to maximize returns and minimize costs. In pooling fund assets the SIB will establish asset class pools it deems necessary to achieve the specific quality, diversification, restrictions, and performance objectives subject to the prudent investor rule and the objectives of the funds participating in the pools.

The SIB is responsible for establishing the selection criteria, determining the performance measures, and retaining all fund money managers. SIB is also responsible for the selection and retention of any investment consultants that may be employed in the investment of the Fund assets.

Delegation of Authority

Management responsibility for NDPERS funds not assigned to the North Dakota State Investment Board (SIB) in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the NDPERS funds, consistent with this investment policy.

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).
2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:
 - a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
 - b. The use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.
 - c. All assets must be held in custody by the SIB's master custodian or such other custodians as are selected by the SIB.

3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

All participants in the investment process must seek to act responsibly as custodians of the public trust.

Investment Goals

The investment goals of the Fund have been established by the NDPERS Board based upon consideration of the Board's strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

- Goal #1 Accumulate sufficient wealth through a diversified portfolio of investments which will enable the State of North Dakota to pay all current and future retirement benefits and expense obligations of the Fund.
- Goal #2 To obtain an investment return in excess of that needed to allow for increases in a retiree's credit to maintain the purchasing power of their benefit.

Investment Performance Objective

The NDPERS Board will seek to make investments that generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement in federal and state law.

It is in the best interest of NDPERS and its beneficiaries that performance objectives be established for the total Fund. It is clearly understood these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Statement of Investment Goals, Objectives and Policies.

- a. The Fund's rate of return, over the long term, should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.
- b. The annual standard deviation of total returns for the Fund should not materially exceed that of the policy portfolio.
- c. Over 5-year and longer periods the Fund should match or exceed the expected rate of return projected in the most recent asset/liability study without exceeding the

expected risk for the period as measured by standard deviation.

Asset Allocation

In recognition of the plan's performance objectives, benefit projections, and capital market expectations, the NDPERS Board has established the following asset allocation:

Date of Last Asset Allocation Study: NDPERS Board Approved February 2009 – SEI Corporation

Domestic Large Cap	37%
Domestic Small Cap	9%
International Equities	14%
Core Plus Fixed Income	40%
Expected Return	8.4%
Standard Deviation of Returns	11.7%

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

PERS requires that in implementing this asset allocation that the State Investment Board seek to maximize return within the scope of these policies while limiting investment costs.

Restrictions

- A. No transaction may be made which threatens the tax exempt status of the Fund.

Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

- B. Social investing is prohibited unless it meets the Exclusive Benefit Rule and it can be substantiated that the investment must provide an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

Economically targeted investing is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

- C. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

The Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.

- (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

The SIB must have a system of internal controls to prevent losses of public funds arising from fraud or employee error. The controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation

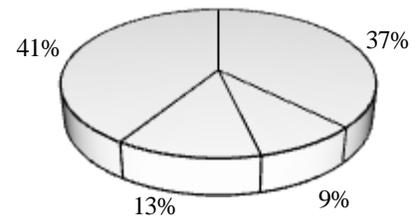
Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.

An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB;
- Compliance with these investment goals, objectives and policies;
- A general market overview and market expectations;
- A review of fund progress and its asset allocation strategy;
- A report on investment fees and the SIB's effort relating to Section 6. To measure investment cost PERS requires as part of the annual review information from CEM or other acceptable source showing the value added versus the cost.

**❖ Retiree Health Insurance Credit Fund
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 37,923,758	37%	2.49%
Domestic Small Cap Equity	9,186,964	9%	-5.67%
International Equity	12,792,493	13%	-11.04%
Core Plus Fixed Income	41,720,008	41%	4.90%
Total Fund	<u>\$ 101,623,223</u>		0.72%
Policy Benchmark			1.60%



Columns may not foot due to rounding.

TOBACCO PREVENTION AND CONTROL FUND

❖ Tobacco Prevention and Control Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Constraints

The North Dakota Tobacco Prevention and Control fund (fund) was established in 1999 for the purpose of creating and implementing a comprehensive statewide tobacco prevention and control plan (comprehensive plan). NDCC 54-27-25(2). The comprehensive plan is administered by the Executive Committee and is to be consistent with the centers for disease control best practices for comprehensive tobacco prevention and control programs. NDCC 23-42-01. The Executive Committee has the power and duty to provide direction to the state investment board for investment of the fund. NDCC 23-42-04(1).

Fund Goals

The fund consists of the tobacco settlement dollars obtained by the state under section IX(c)(2) of the agreement adopted by the east central judicial district court in its judgment entered December 28, 1998 [Civil No. 98-3778] in State of North Dakota, ex rel. Heidi Heitkamp v. Philip Morris, Inc. Interest earned on the fund must be credited to the fund. NDCC 54-27-25(2). The fund Executive Committee recognizes that a sound investment program is essential to meet the goals of the comprehensive plan. As a result, the fund goal is to protect and sustain the fund in order to implement the comprehensive plan.

Responsibilities and Discretion of the State Investment Board (SIB)

The Executive Committee has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The Executive Committee is charged by law under NDCC 23-42-04 with the responsibility of providing direction to the state investment board for investment of the fund. The SIB is charged with implementing these policies and investing the assets of the fund in the manner provided in NDCC 21-10-07, the prudent investor rule. Under this rule, 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. The fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

Management responsibility for the investment program not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, who

must establish written policies for the operation of the investment program, consistent with this investment policy.

The SIB may delegate investment responsibility to professional money managers. Where a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

The SIB is responsible for establishing criteria, procedures, and making decisions with respect to hiring, keeping, and terminating money managers. SIB investment responsibility also includes selecting performance measurement services, consultants, report formats, and frequency of meetings with managers.

The SIB will implement changes to this policy as promptly as is prudent.

Risk Tolerance

The Executive Committee is unwilling to undertake investment strategies that might jeopardize the ability of the fund to finance the comprehensive plan.

The Executive Committee actively seeks to sustain the fund by taking on risk for which it expects to be compensated over the long term. The Executive Committee understands that a prudent investment approach to risk taking can result in periods of under-performance for the fund in which the funding status may decline. The Executive Committee believes that such an approach, prudently implemented, best serves the long-run interests of the State.

Policy Asset Mix

Asset allocation policy is critical because it defines the basic risk and return characteristics of the investment portfolio. Asset allocation targets are established using an asset-liability analysis designed to assist the Executive Committee in determining an acceptable volatility target for the fund and an optimal asset allocation policy mix. This analysis estimates the potential impact of various asset class mixes on key measures of total fund risk.

After consideration of all the inputs and a discussion of its own collective risk tolerance, the Executive Committee approves the appropriate policy asset mix for the fund.

<u>Asset Class</u>	<u>Policy Target</u>	<u>Rebalancing Range</u>
Global Equity	10%	5-20%
Global Fixed Income	75%	60-90%
Cash	15%	10-20%

While the Executive Committee recognizes fluctuations in market values will lead to short-term deviations from

policy targets, the Executive Committee does not intend to engage in tactical asset allocation. Rebalancing of the fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually.

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the fund's assets will be invested, it is understood that:

- a. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
- b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.
- c. No transaction shall be made which threatens the tax exempt status of the fund.
- d. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
- e. No unhedged short sales or speculative margin purchases shall be made.
- f. Because the statutory purpose of the Executive Committee is to reinforce best practices related to comprehensive tobacco prevention and control programs, and to invest in or profit from the manufacturer and sale of tobacco products would contradict that purpose, the assets shall only be invested in securities issued by tobacco-free firms, defined as those which generate revenues of no greater than 0% from tobacco products. In the event of an inadvertent de minimis investment in a firm with any exposure to tobacco products, the inadvertent investment will be immediately divested upon discovery. For investment purposes "tobacco product" means tobacco or any product containing, made from, or derived from tobacco, in whole or in part, that is intended for human consumption, whether chewed, smoked, absorbed, dissolved, inhaled, snorted, sniffed, consumed, or ingested by any other means, including cigarettes, cigars, electronic smoking devices, pipe tobacco, chewing tobacco, snuff, snus, liquid, or other kinds and forms of tobacco. "Tobacco product" includes any product or device that contains nicotine, in any form, that is derived from tobacco. Any product that contains nicotine shall be presumed to contain nicotine derived from tobacco unless the nicotine is confirmed to be derived from a different source.
- g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted

geographic area, group of people, or sector of the economy.

Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

- (1) The cost does not exceed the fair market value at the time of investment.
- (2) The investment provides the fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
- (3) Sufficient liquidity is maintained in the fund to permit distributions in accordance with the terms of the plan.
- (4) The safeguards and diversity that a prudent investor would adhere to are present.

Where investment characteristics, including yield, risk, and liquidity are equivalent, the Executive Committee's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for broker relationships. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions and compliance with the investment policy.

Evaluation and Review

Investment management of the fund will be evaluated against the fund's investment objectives. Emphasis will be placed on five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the appropriateness of the Investment Policy Statement for achieving those objectives.

Performance reports will be provided to the Executive Committee quarterly and investment performance presentations will be provided to the Executive Committee upon request, but not less than annually. Such reports will include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the fund, including, but not limited to:

1. A list of the advisory services managing investments for the Executive Committee.

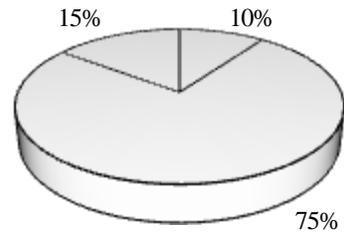
2. A list of investments at market value, compared to previous reporting period, of each fund managed by each advisory service.
3. Earnings, percentage earned, and change in market value of each fund’s investments.
4. Comparison of the performance of each fund managed by each advisory service to other funds under the

Executive Committee’s control and to generally accepted market indicators.

5. All material legal or legislative proceedings affecting the SIB.
6. Compliance with this investment policy statement.

**❖ Tobacco Prevention and Control Fund
Actual Asset Allocation – June 30, 2016**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 5,446,369	10%	*
Short-Term Fixed Income	40,816,115	75%	*
Cash Equivalents	<u>8,104,054</u>	15%	*
Total Fund	<u>\$ 54,366,539</u>		*
Policy Benchmark			*



Columns may not foot due to rounding.

This page intentionally blank.