NDPERS BOARD MEETING
Agenda

Bismarck Location:
ND Association of Counties
1661 Capitol Way
Fargo Location:
BCBS, 4510 13th Ave S

October 23, 2014 **Time: 8:30 AM**

I. MINUTES
- A. September 12, 2014
- B. September 19, 2014
- C. October 13, 2014

II. RETIREMENT
- A. Investment Update – David Hunter, RIO (Information)
- B. Investment Policies – Sparb and David Hunter (Board Action)
- C. Exchange Traded Funds – Bryan (Board Action)
- D. Actuarial Valuations – Segal
- E. Actuarial Audit – Sparb (Board Action)
- F. Job Service COLA – Kathy (Board Action)
- G. Judges Retirement Plan – Sparb (Board Action) *Executive Session

III. GROUP INSURANCE
- A. RHIC Portability Request for Proposal – Kathy (Board Action)
- B. Affordable Care Act Update – Rebecca (Information)
- C. State Employees Compensation Commission – Sparb (Information)
- D. Health Bid Update – Deloitte (Information) **Executive Session

IV. MISCELLANEOUS
- A. Legislation Update – Sparb (Information)

*Executive Session pursuant to NDCC §44-04-19.2(1), 44-04-19.2(2) and 54-52-26 to discuss confidential records or confidential member information. No motion needed to go into Executive Session.

**Executive Session pursuant to NDCC §44-04-19.1(9) and §44-04-19.2 to discuss negotiating strategy or provide negotiating instructions to its attorney or other negotiator.

Any individual requiring an auxiliary aid or service must contact the NDPERS ADA Coordinator at 328-3900, at least 5 business days before the scheduled meeting.

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sparb

DATE: October 23, 2014

SUBJECT: Investment Update

The *Statement of Investment Objectives and Policies*, adopted by the Board, states the following:

> *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 an investment consultant showing the value added versus the cost.*

David Hunter will be at the next meeting to provide the annual report to the PERS Board. Attached is a copy of the presentation.

Annual PERS Investment Report

SIB Update

October 23, 2014

Dave Hunter

Executive Director/Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Executive Summary for periods ended June 30, 2014

Investment Performance – PERS generated a net return of 16.4% for the year ended June 30, 2014, which exceeded the policy benchmark by approximately 0.7% due to impressive gains within our real estate, infrastructure and domestic fixed income strategies. Asset allocation was the primary driver of overall returns including a 57% allocation to global equities which increased by over 20%. PERS returns have consistently ranked in the second quartile of the Callan Public Fund Sponsor Database over the last 1-, 3-, 5- and 10-year periods. (See page 8 for details.)

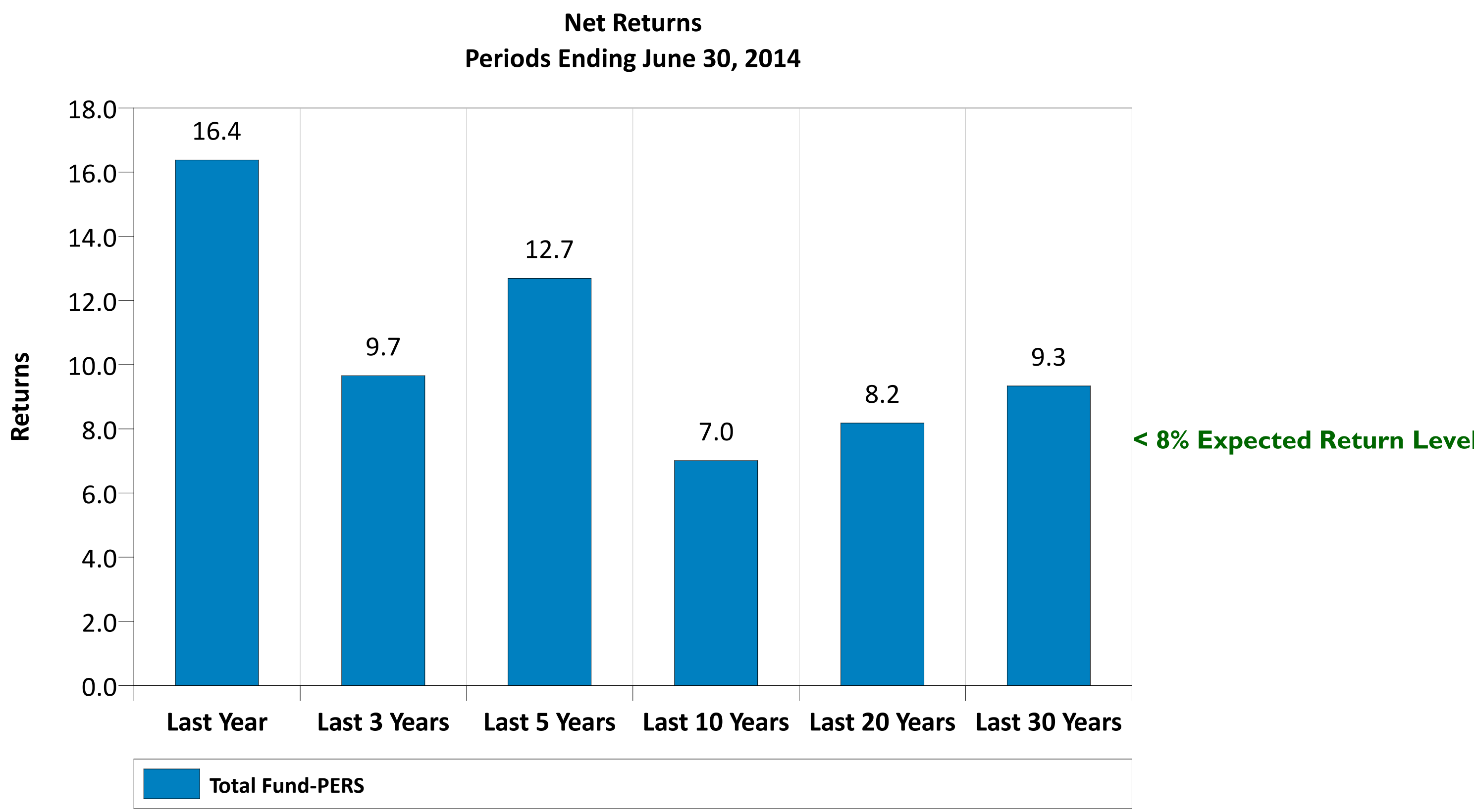
Risk Update – During the "Last 5 Years", PERS risk (as measured by actual standard deviation of the PERS portfolio divided by the policy benchmark) has steadily declined from over 120% to approximately 105% on a rolling 3- and 5-years basis. (See page 18 for details.)

Client Level Reporting – RIO has worked with Callan to develop enhanced performance reporting for SIB's five largest clients including PERS. As a result of these enhancements, net investment returns have been restated to reflect the recognition of intra-month cash flows during the last four years.

				Periods Ended 6/30/13				
	FY2013	FY2012	FY2011	3 Years	5 Years	10 Years	20 Years	30 Years
PERS - Revised	13.44%	-0.12%	21.27%	11.18%	3.35%	7.03%	7.45%	8.61%
PERS - Original	13.50%	0.06%	21.43%	11.31%	3.43%	7.07%	7.46%	8.62%
Change	-0.06%	-0.18%	-0.16%	-0.13%	-0.08%	-0.04%	-0.01%	-0.01%

Fee Update – Investment management fees as a % of average assets under management declined by 15% during the past year due to lower performance fees (75%) and structural fee savings (25%). (See page 20 for details.)

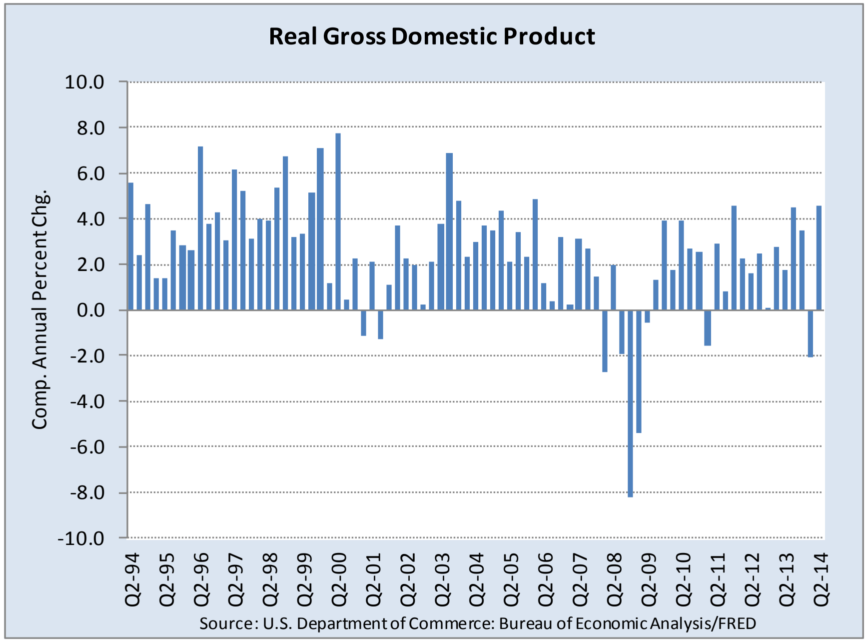
PERS's net investment returns have exceeded the key 8% actuarial rate of return assumption during the last 1-, 3-, 5-, 20- and 30-year periods.

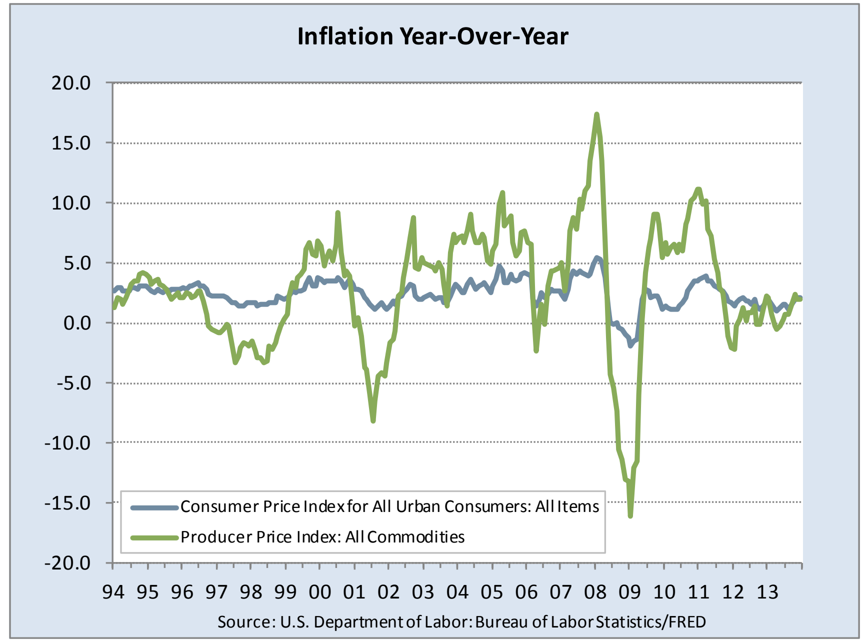


PERS generated net returns of 12.7% over the last five years and 9.3% during the last 30 years.

Note: Investment returns are deemed to be materially accurate, but are unaudited and subject to change.

U.S. Economy
Quarter Ending June 30, 2014





- The Federal Reserve scaled Quantitative Easing ("QE") down to $35B/month in June from $55B/month in April and the QE program is slated to end in October unless there is a surprise in the economy.
- 2nd quarter GDP was up 4.6%, a dramatic improvement from -2.1% in the first quarter.
- June headline and core CPI increased over the trailing year by 2.1% and 1.9%, respectively.
- The unemployment rate declined from 6.7% at the end of the last quarter to 6.1%.
- Labor market shows strength with the addition of 298,000 jobs in June, well above consensus.

Source: Callan.

Asset Class Performance
Periods Ending June 30, 2014

- Emerging markets ranked 1st for the last quarter, up 6.7%
- S&P 500 gained 5.2% for the quarter and 24.6% for the trailing year
- Barclays Aggregate rose 2.0% for the quarter and 4.4% for the trailing year
- International equities lagged domestic equities over every time period shown

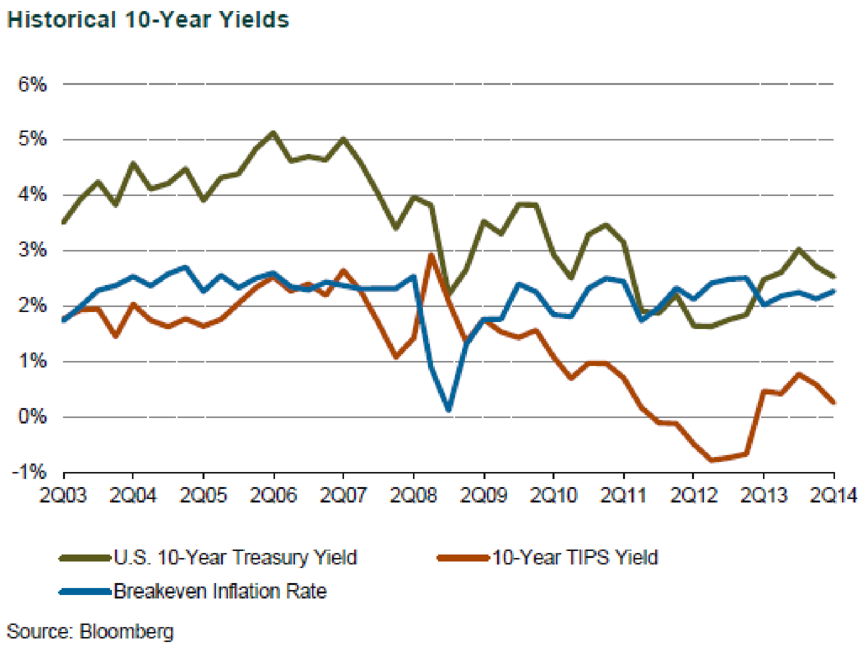
As of 10/15/14	FYTD	YTD
S&P 500	-4.74%	2.40%
Russell 2000	-10.09%	-6.90%
EAFE	-12.53%	-7.75%
EM	-6.17%	0.15%
BC Agg	2.15%	6.08%

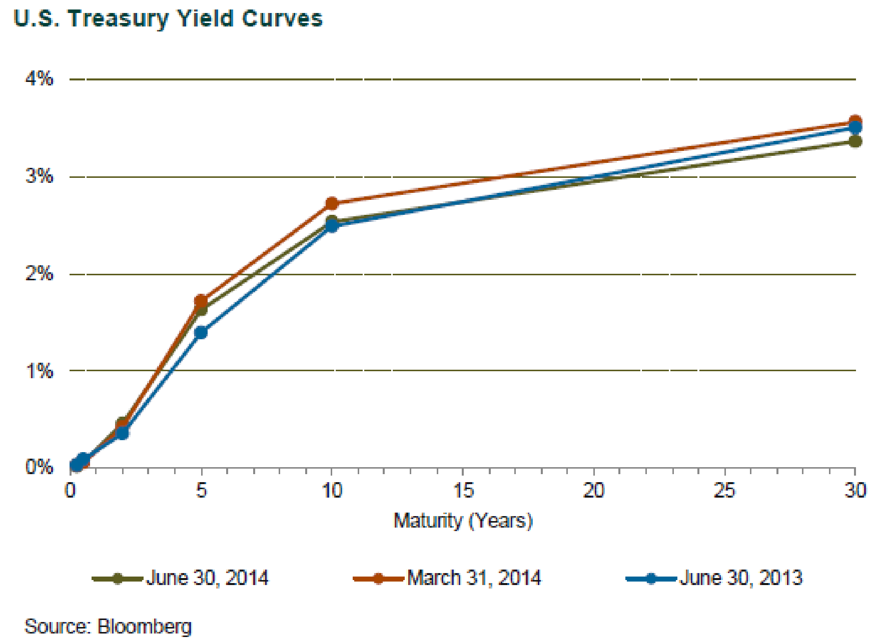
Periodic Table of Investment Returns
for Periods Ended June 30, 2014

Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
MSCI:Emer Markets 6.7%	S&P:600 Small Cap 25.5%	S&P:600 Small Cap 16.8%	S&P:600 Small Cap 22.0%	MSCI:Emer Markets 12.3%
S&P:500 5.2%	S&P:500 24.6%	S&P:500 16.6%	S&P:500 18.8%	S&P:600 Small Cap 9.9%
MSCI:EAFE US$ 4.1%	MSCI:EAFE US$ 23.6%	MSCI:EAFE US$ 8.1%	MSCI:EAFE US$ 11.8%	S&P:500 7.8%
S&P:600 Small Cap 2.1%	MSCI:Emer Markets 14.7%	Barclays:Aggregate Index 3.7%	MSCI:Emer Markets 9.6%	MSCI:EAFE US$ 6.9%
Barclays:Aggregate Index 2.0%	Barclays:Aggregate Index 4.4%	3 Month T-Bill 0.1%	Barclays:Aggregate Index 4.9%	Barclays:Aggregate Index 4.9%
3 Month T-Bill 0.0%	3 Month T-Bill 0.1%	MSCI:Emer Markets (0.1%)	3 Month T-Bill 0.1%	3 Month T-Bill 1.6%

Source: Callan.

Yield Curve Changes
Periods Ending June 30, 2014



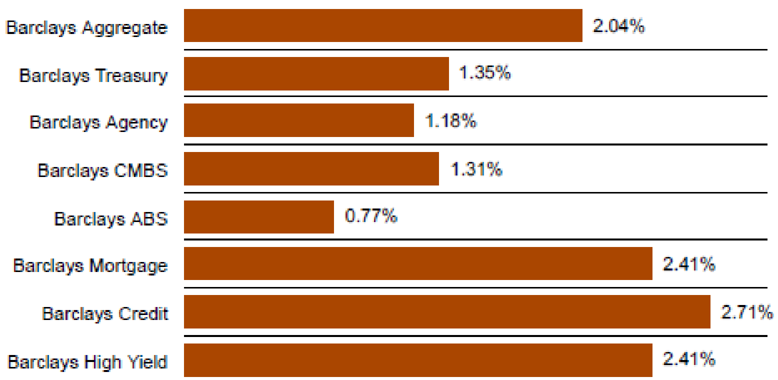


- A flattening of the yield curve helped long-term Treasury returns.
- Ten-year Treasury yields declined 19 basis points from last quarter ending at 2.53%.
- TIPS returned 3.8% in the quarter, exceeding the Barclays Aggregate return of 2.0%

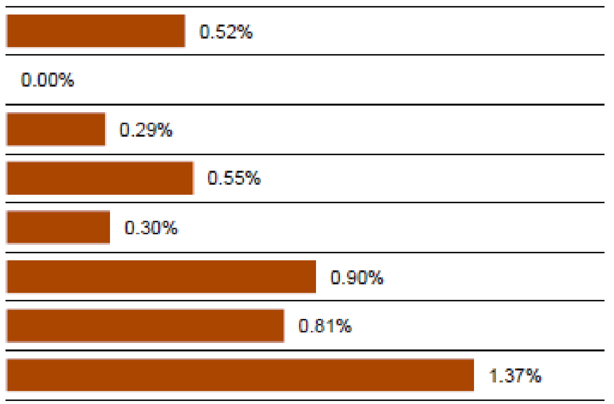
Source: Callan

Total Rates of Return by Bond Sector
Quarter Ending June 30, 2014

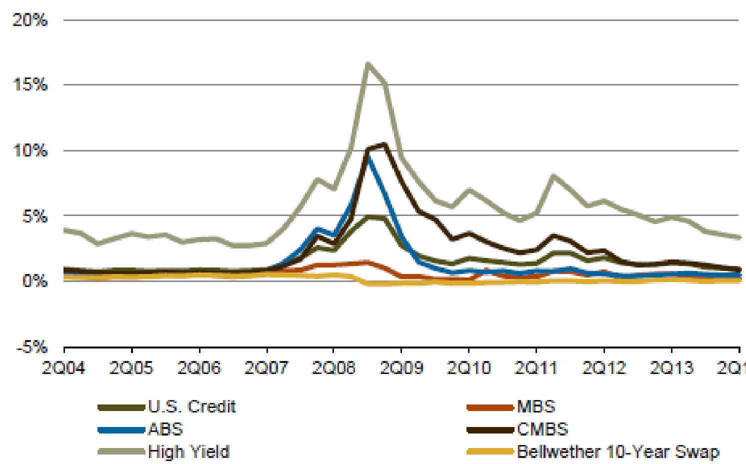
Absolute Returns



Excess Return versus Like-Duration Treasuries

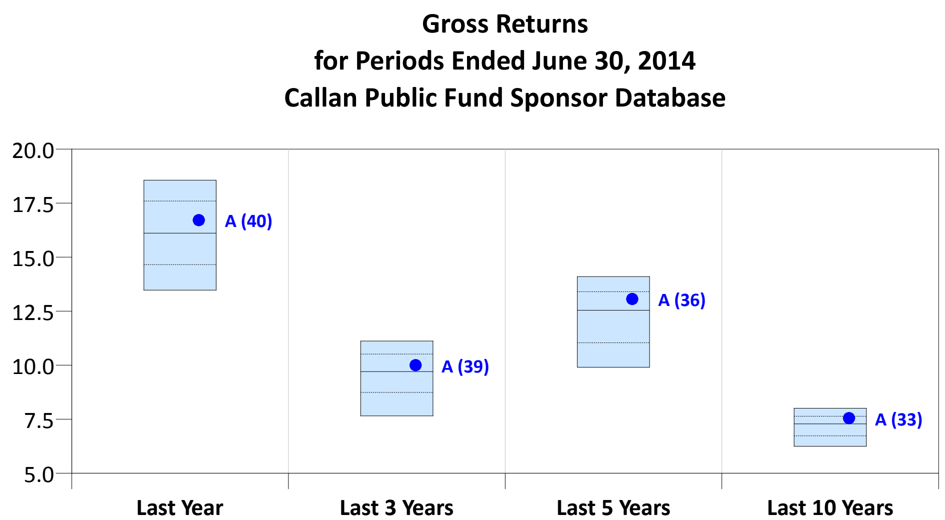


Effective Yield Over Treasuries



Source: Callan, Barclays

Public Fund Peer Comparison
As of 6/30/14



	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	18.6	11.1	14.1	8.0
25th Percentile	17.6	10.5	13.4	7.6
Median	16.1	9.7	12.5	7.3
75th Percentile	14.7	8.7	11.0	6.7
90th Percentile	13.5	7.7	9.9	6.2
Member Count	222	213	200	174
Total Fund-PERS Gross ● A	**16.7**	**10.0**	**13.1**	**7.6**

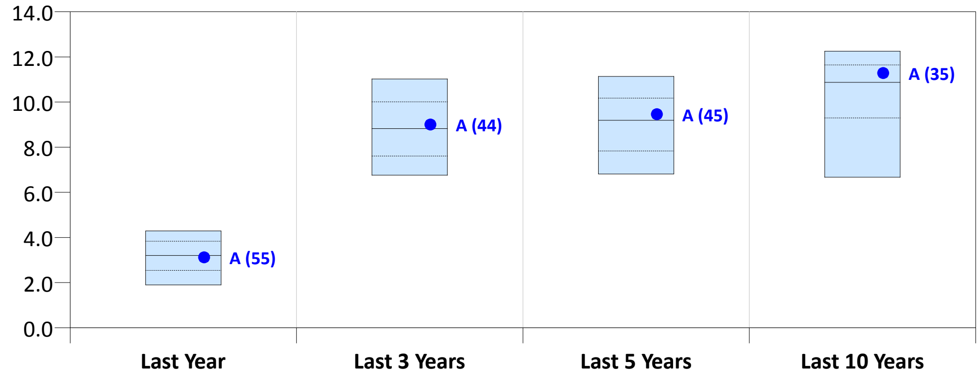
Callan Returns: The PERS Fund generated 2nd quartile returns for the 1-, 3-, 5- and 10-year periods ended June 30, 2014 when compared to public fund peers (unadjusted basis).

Note: TFFR Fund and peer performance are based on Callan's calculation of gross returns. *Source: Callan*

Public Fund Peer Comparison
As of 6/30/14

Standard deviation is used to measure investment (or portfolio) volatility whereas a lower standard deviation is generally preferred over a higher standard deviation.

Standard Deviation
for Periods Ended June 30, 2014
Group: CAI Public Fund Sponsor Database



	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	4.3	11.0	11.1	12.3
25th Percentile	3.8	10.0	10.2	11.6
Median	3.2	8.8	9.2	10.9
75th Percentile	2.5	7.6	7.8	9.3
90th Percentile	1.9	6.8	6.8	6.7
Member Count	222	213	200	174
Total Fund-PERS ● A	**3.1**	**9.0**	**9.5**	**11.3**

Standard Deviation of Callan Returns: The PERS Fund generated 3rd quartile standard deviation for the 1-year period and 2nd quartile standard deviation for the 3-, 5- and 10-year period ended June 30, 2014 when compared to public fund peers (unadjusted basis).

Note: PERS Fund and peer performance are based on Callan's calculation of gross returns. *Source: Callan*

PERS Asset Allocation
As of 6/30/14

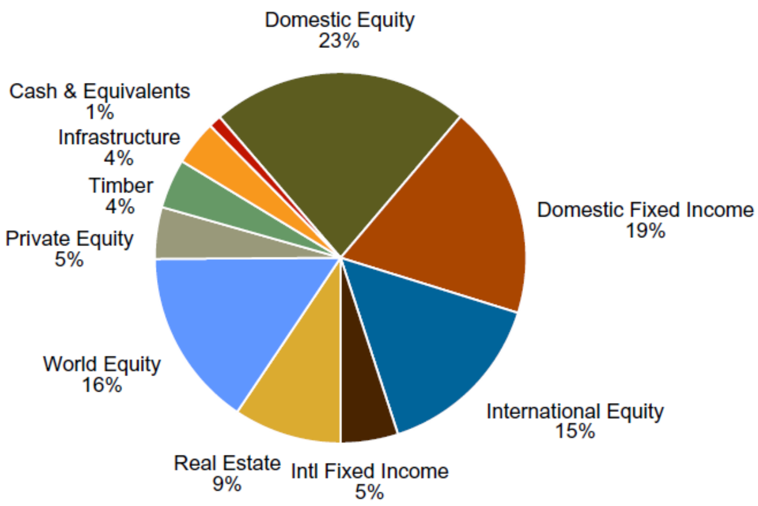
	Market Value	Allocation Actual	Allocation Policy	∆
TOTAL FUND	2,332,744,038	100.0%	100.0%	0.0%
GLOBAL EQUITIES	1,347,860,618	57.8%	57.0%	0.8%
GLOBAL FIXED INCOME	549,555,031	23.6%	22.0%	1.6%
GLOBAL REAL ASSETS	408,626,167	17.5%	20.0%	-2.5%
Total Cash Equivalents	26,702,223	1.1%	1.0%	0.1%

NOTE: Monthly market values are preliminary and subject to change.

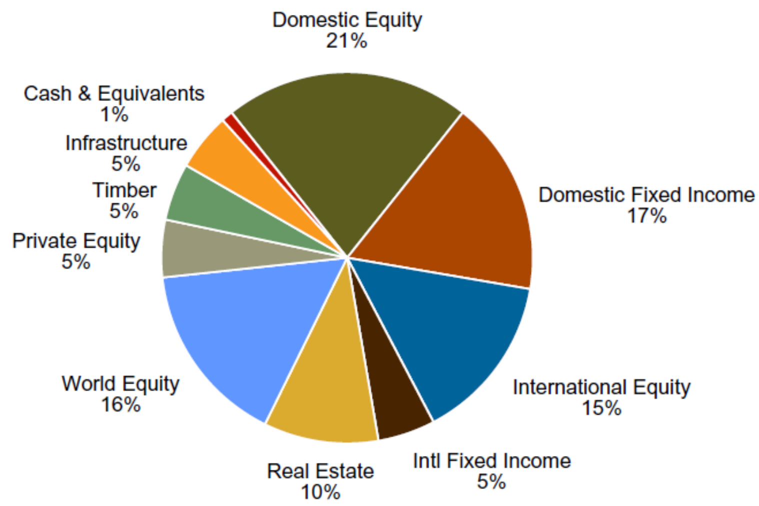
- Based on the broad asset allocation framework adopted in 2011, the PERS Total Fund was slightly **overweight to Global Equities (0.8%) and Global Fixed Income (1.6%)** and **underweight to Global Real Assets (-2.5%)** as compared to its target asset allocation on June 30, 2014.

PERS Actual vs. Target Asset Allocation
As of 6/30/14

Actual Asset Allocation



Target Asset Allocation

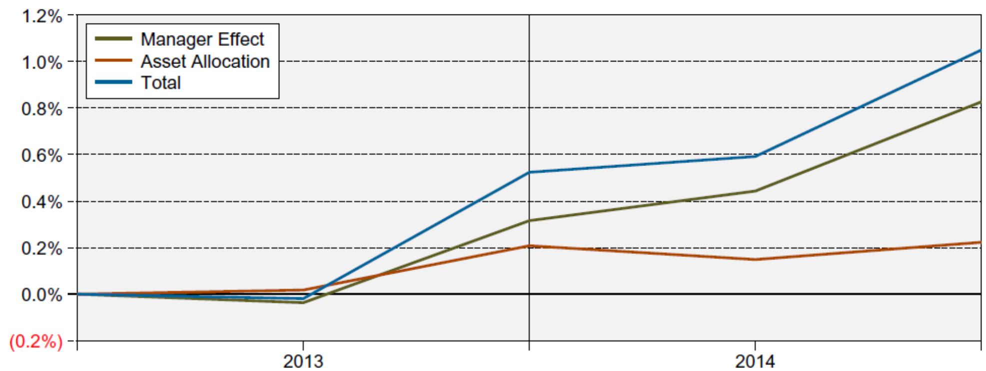


Asset Class	$000s Actual	Weight Actual	Target	Percent Difference	$000s Difference
Domestic Equity	525,048	22.5%	21.4%	1.1%	25,841
Domestic Fixed Income	433,382	18.6%	17.0%	1.6%	36,815
International Equity	355,002	15.2%	14.6%	0.6%	14,421
Intl Fixed Income	116,173	5.0%	5.0%	0.0%	(464)
Real Estate	219,449	9.4%	10.0%	(0.6%)	(13,825)
World Equity	361,746	15.5%	16.0%	(0.5%)	(11,494)
Private Equity	106,068	4.5%	5.0%	(0.5%)	(10,570)
Timber	99,343	4.3%	5.0%	(0.7%)	(17,294)
Infrastructure	89,834	3.9%	5.0%	(1.1%)	(26,804)
Cash & Equivalents	26,701	1.1%	1.0%	0.1%	3,374
Total	2,332,746	100.0%	100.0%		

Unaudited amounts subject to change

PERS Total Fund Attribution
One Year Ended June 30, 2014

Cumulative Relative Attribution Effects



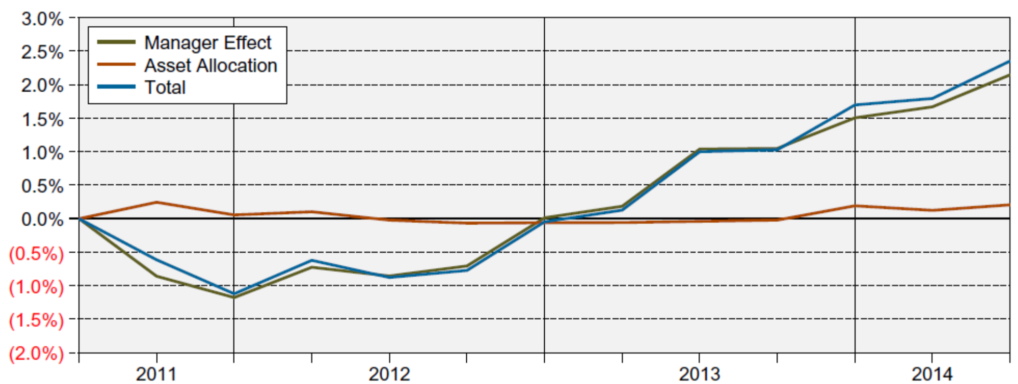
One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	23%	21%	25.13%	25.02%	0.03%	0.10%	0.13%
Domestic Fixed Income	17%	17%	7.88%	6.49%	0.26%	(0.05%)	0.21%
Real Estate	9%	10%	16.77%	11.21%	0.52%	0.01%	0.53%
Timber	5%	5%	2.62%	9.92%	(0.36%)	0.01%	(0.36%)
Infrastructure	4%	5%	9.50%	2.04%	0.31%	0.16%	0.47%
International Equity	15%	15%	23.07%	21.36%	0.24%	(0.01%)	0.23%
International Fixed Incom	5%	5%	8.58%	9.42%	(0.04%)	0.00%	(0.03%)
Private Equity	5%	5%	4.07%	4.07%	0.00%	0.00%	0.00%
World Equity	17%	16%	23.25%	24.05%	(0.13%)	0.03%	(0.10%)
Cash & Equivalents	1%	1%	0.04%	0.05%	(0.00%)	(0.03%)	(0.03%)
Total			**16.72% =**	**15.67% +**	**0.83% +**	**0.22%**	**1.05%**

- **One Year Manager Selection** within Real Estate, Infrastructure, International Equity and Domestic Fixed Income was a positive contributor to relative performance, while Timber and World Equity were detractors.
  Unaudited amounts subject to change

Source: Callan, gross returns

PERS Total Fund Attribution
Three Years Ended June 30, 2014



Three Year Annualized Relative Attribution Effects

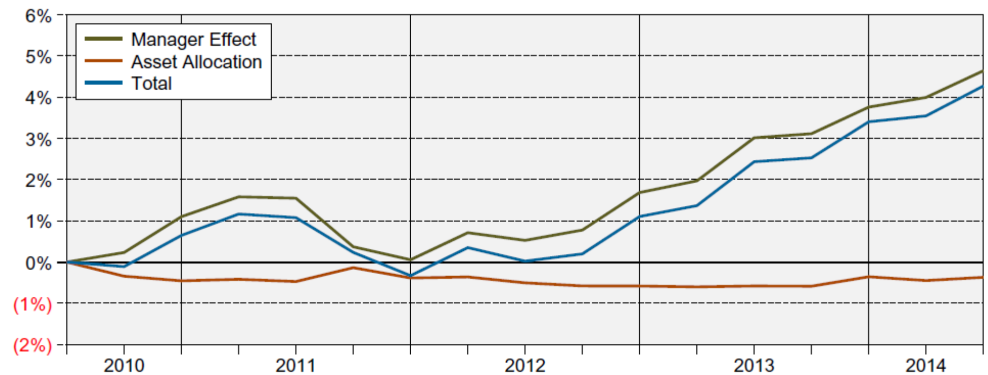
Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	27%	26%	16.77%	16.39%	0.03%	0.22%	0.25%
Domestic Fixed Income	18%	18%	7.27%	5.81%	0.13%	0.02%	0.15%
Real Estate	9%	10%	13.56%	11.32%	0.21%	0.06%	0.27%
Timber	5%	5%	-	-	(0.41%)	(0.06%)	(0.47%)
Infrastructure	3%	5%	-	-	0.24%	0.16%	0.39%
International Equity	16%	17%	7.62%	5.95%	0.25%	(0.08%)	0.17%
International Fixed Incom	5%	5%	4.63%	1.75%	0.16%	(0.02%)	0.14%
Private Equity	5%	5%	5.23%	5.23%	0.00%	(0.13%)	(0.13%)
World Equity	10%	10%	-	-	(0.01%)	(0.08%)	(0.09%)
Cash & Equivalents	1%	1%	0.06%	0.07%	(0.00%)	(0.03%)	(0.03%)
Total			**10.00% =**	**9.35% +**	**0.59% +**	**0.06%**	**0.65%**

- **Three Year Manager Selection** within International Equity, Infrastructure, Fixed Income and Real Estate was a positive contributor to relative performance, while Timber was a detractor. *Unaudited amounts subject to change*

Source: Callan, gross returns *Note: Timber, Infrastructure and World Equity did not have distinct Target Returns in prior years.*

PERS Total Fund Attribution
Four Years Ended June 30, 2014

Cumulative Relative Attribution Effects



Four Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	30%	29%	20.38%	20.20%	(0.03%)	0.15%	0.12%
Domestic Fixed Income	21%	21%	7.48%	5.82%	0.27%	(0.07%)	0.20%
Real Estate	8%	8%	16.27%	12.65%	0.26%	0.04%	0.31%
Timber	4%	3%	-	-	(0.31%)	(0.05%)	(0.36%)
Infrastructure	3%	3%	-	-	0.18%	0.12%	0.30%
Interntional Equity	16%	16%	12.73%	10.48%	0.33%	(0.07%)	0.26%
International Fixed Incom	5%	5%	7.31%	5.01%	0.13%	(0.02%)	0.11%
Private Equity	5%	5%	7.60%	7.60%	0.00%	(0.09%)	(0.09%)
World Equity	7%	7%	-	-	(0.01%)	(0.06%)	(0.07%)
Cash & Equivalents	1%	1%	0.09%	0.10%	(0.00%)	(0.03%)	(0.03%)
Total			**12.81% =**	**12.06% +**	**0.82% +**	**(0.07%)**	**0.75%**

- **Four Year Manager Selection** within International Equity, Fixed Income, Infrastructure and Real Estate was a positive contributor to relative performance, while Timber was a detractor. *Unaudited amounts subject to change*

Source: Callan, gross returns *Note: Timber, Infrastructure and World Equity did not have distinct Target Returns in prior years.*

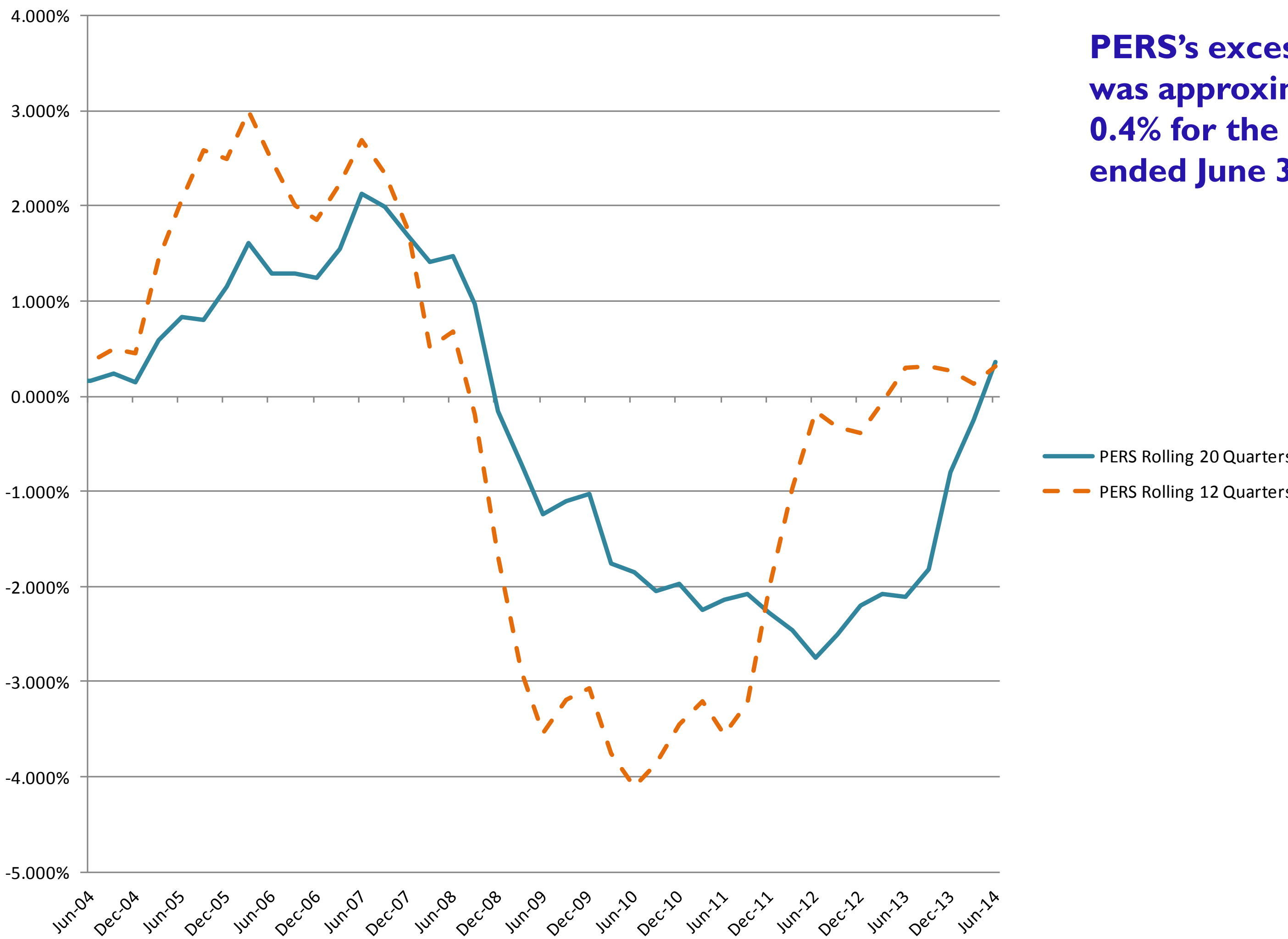
Historical Market Returns - Asset Class

		Periods Ended June 30, 2014			
Asset Class	**Represented by**	**1 Year**	**3 Year**	**5 Years**	**10 Years**
Large Cap US Stocks	Russell 1000	25.35%	16.63%	19.25%	8.19%
Small Cap US Stocks	Russell 2000	23.64%	14.57%	20.21%	8.70%
Non-US Stocks (Developed)	MSCI EAFE	23.57%	8.10%	11.77%	6.93%
Non-US Stocks (Emerging)	MSCI Emerging Mkts	14.68%	-0.06%	9.58%	12.30%
US Bonds	BC Aggregate	4.37%	3.66%	4.85%	4.93%
High Yield Bonds	BC High Yield Credit	11.73%	9.48%	13.98%	9.05%
Non-US Sovereign Debt	Citi World Gov't Bond ex US	8.88%	1.03%	3.59%	4.90%
Inflation Protected	BC Global Inflation Linked	10.42%	4.44%	6.03%	5.81%
Real Estate	NCREIF Property	11.21%	11.32%	9.67%	8.63%
Timber	NCREIF Timberland	9.92%	6.73%	3.33%	8.35%
Cash	3 Month T-Bill	0.05%	0.07%	0.11%	1.63%

PERS Total Fund (Callan Actual Gross)		16.72%	10.00%	13.06%	7.55%
PERS Total Fund (Net)		16.38%	9.66%	12.70%	7.01%
PERS Total Fund Policy		15.67%	9.35%	12.33%	7.48%
Job Service Total Fund (Net)		13.55%	9.36%	11.58%	7.28%
Job Service Total Fund Policy		13.02%	8.31%	10.60%	6.69%
Retiree Health Total Fund (Net)		16.52%	11.13%	14.30%	6.68%
Retiree Health Total Fund Policy		16.33%	10.24%	12.72%	6.93%
PERS Group Insurance (Net)		0.05%	0.19%	0.25%	1.79%
PERS Group Insurance Policy		0.05%	0.07%	0.11%	1.63%

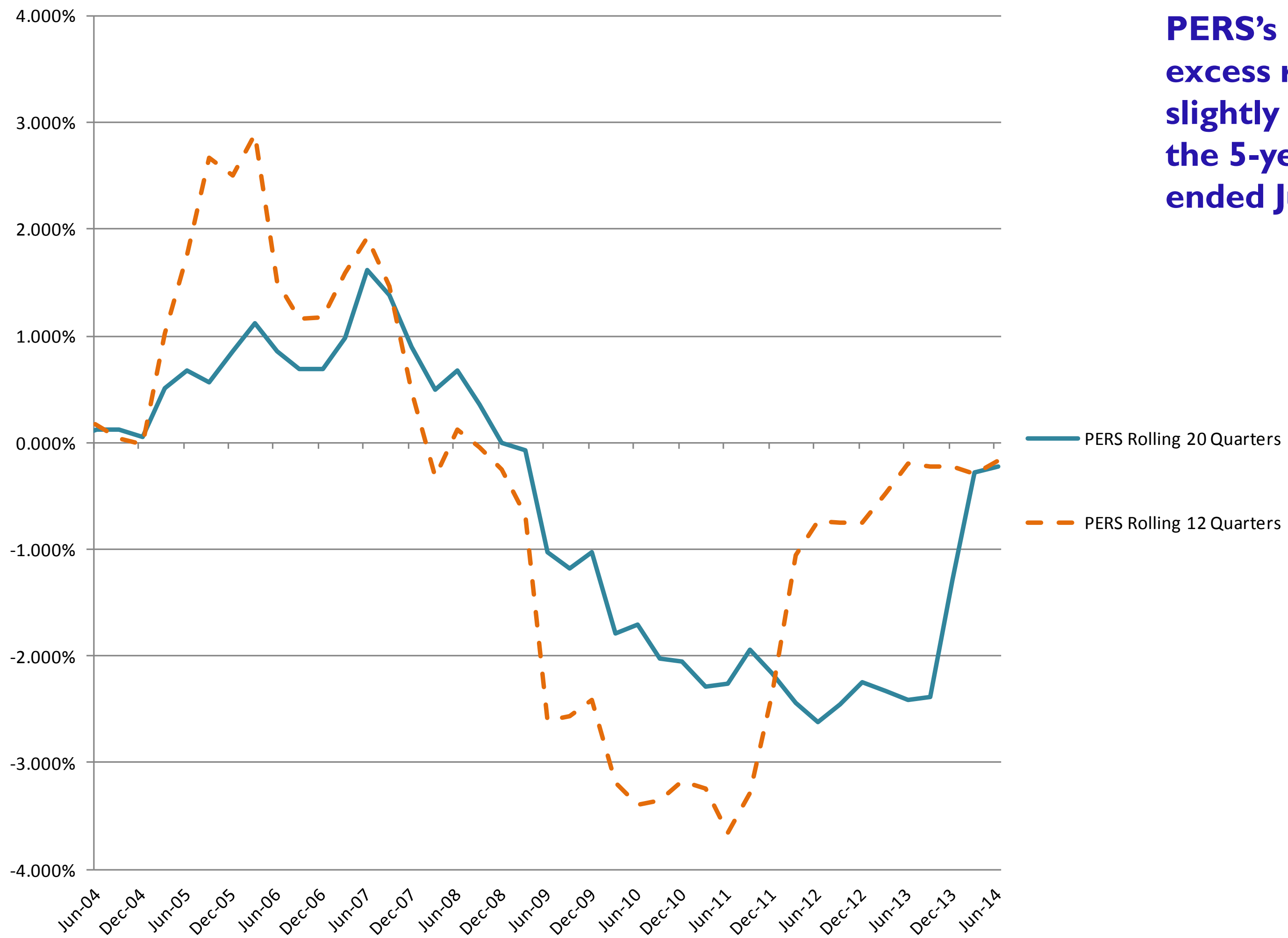
Source: Callan

Excess Return Relative to Policy Benchmark
10 Years Ended 6/30/2014



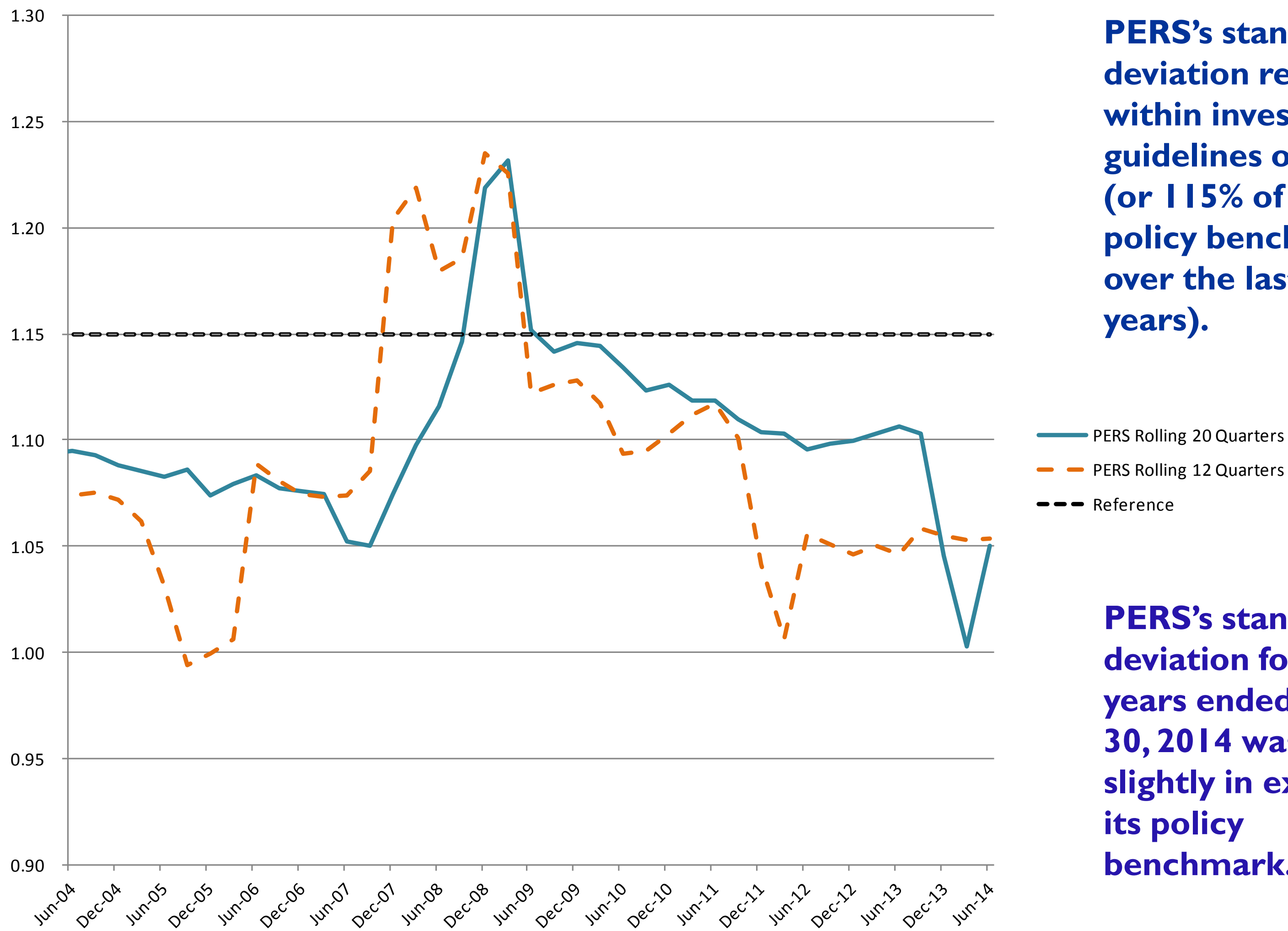
PERS's excess return was approximately 0.4% for the 5-years ended June 30, 2014.

Risk Adjusted Excess Return
10 Years Ended 3/30/2014



PERS's risk adjusted excess return is slightly negative for the 5-year period ended June 30, 2014.

Relative Standard Deviation Relative to Policy Benchmark
10 Years Ended 6/30/2014



PERS's standard deviation remains within investment guidelines of 1.15 (or 115% of the policy benchmark over the last 5 years).

PERS's standard deviation for the 5-years ended June 30, 2014 was 9.5%, slightly in excess of its policy benchmark.

Active management generated $15.8 million of excess return in fiscal 2014

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs End. 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)					
$ 2,332,744,038				**115% Limit**	
Total Fund Return - Net	**16.38%**	**9.66%**	**12.70%**	9.5%	**-0.23%**
Policy Benchmark Return	15.67%	9.35%	12.33%	9.0%	
Attribution Analysis				**105%**	
Asset Allocation	0.15%	-0.06%		Actual Risk /	
Manager Selection	0.56%	0.37%		Policy Risk	
Total Relative Return	**0.71%**	**0.31%**	**0.37%**		

- **Active management was largely responsible for creating $15.8 million of incremental income for PERS in the fiscal year ended June 30, 2014.**
- **This is based on $2.22 billion of average PERS assets under management and 0.71% of actual net investment return in excess of the policy benchmark.**
- **This translates into a return of $2 for every $1 paid for investment management fees during the past fiscal year.**

Risk: Investment performance has been achieved while adhering to prescribed risk management guidelines which limit portfolio risk (as measured by standard deviation) to 115% of policy, as the actual level of **105%** is within the approved limit.

PERS: Investment Manager Fees by Asset Class

ND Public Employees Retirement System
Schedule of Investment Expenses

	FY 2014				FY 2013			
	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees	Average Market Value	Fees in $	Fees in %	Contribution to Total Fees
Investment managers' fees:								
Global equity managers	365,981,245	2,955,213	0.81%	0.13%	217,968,250	1,547,875	0.71%	0.08%
Domestic large cap equity managers	384,861,486	1,147,029	0.30%	0.05%	370,889,384	728,603	0.20%	0.04%
Domestic small cap equity managers	120,164,086	634,024	0.53%	0.03%	112,632,847	727,665	0.65%	0.04%
Developed international equity managers	256,155,282	870,056	0.34%	0.04%	239,724,479	956,631	0.40%	0.05%
Emerging markets equity managers	76,989,246	345,776	0.45%	0.02%	74,001,347	511,527	0.69%	0.03%
Investment grade domestic fixed income managers	275,056,490	1,693,310	0.62%	0.08%	236,797,254	3,086,432	1.30%	0.16%
Below investment grade fixed income managers	112,518,187	829,449	0.74%	0.04%	92,929,915	1,785,211	1.92%	0.09%
Developed international fixed income managers	107,270,172	379,087	0.35%	0.02%	98,547,090	354,027	0.36%	0.02%
Real estate managers	207,258,155	2,089,297	1.01%	0.09%	189,031,136	2,036,459	1.08%	0.11%
Timber managers	98,298,540	376,571	0.38%	0.02%	100,781,985	389,485	0.39%	0.02%
Infrastructure managers	84,925,843	756,442	0.89%	0.03%	72,367,259	1,032,097	1.43%	0.05%
Private equity managers	104,032,964	2,652,948	2.55%	0.12%	104,506,668	1,996,034	1.91%	0.10%
Cash & equivalents managers	25,974,562	35,935	0.14%	0.00%	19,981,961	31,361	0.16%	0.00%
Total investment managers' fees	**2,219,486,259**	**14,765,138**	**0.67%**		**1,930,159,576**	**15,183,406**	**0.79%**	
Custodian fees		322,750	0.01%	0.01%		279,055	0.01%	0.01%
Investment consultant fees		191,403	0.01%	0.01%		208,647	0.01%	0.01%
Total investment expenses		**15,279,291**	**0.69%**			**15,671,109**	**0.81%**	
Total Performance Fees Paid (excludes private equity)		**3,268,117**	**0.15%**			**4,571,896**	**0.24%**	
			0.54%				**0.58%**	
Actual Investment Performance (Net of Fees)			**16.38%**				**13.50%**	
Policy Benchmark			**15.67%**				**11.84%**	
Outperformance			**0.71%**				**1.66%**	

- **PERS investment fees declined to 69 bps from 81 bps due to a sharp decline in performance fees (9 bps) while benefitting from recent asset growth and structural fee savings (3-4 bps).**

Note: All amounts are deemed to be materially accurate, but are unaudited and subject to change.

A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.

Job Service, Retiree Health and Group Insurance - June 30, 2014

The Job Service, Retiree Health and Group Insurance returns are reported for the 1-, 3- and 5-year periods ended June 30, 2014. In order to determine relative performance, actual returns (net of fees) are compared to the policy benchmark for each relevant period. Risk metrics (standard deviation and risk adjusted excess return) are also reported for each SIB client, if applicable, for the 5-year period ended June 30, 2014.

The Job Service and Retiree Health plans generated positive Excess Returns for the 1-, 3- and 5-year periods ended June 30, 2014. The top three drivers of excess returns were Global Real Estate, Infrastructure and Domestic Fixed Income for Job Service during the last year, while Timber was the largest detractor. Fixed income mandates which focused on opportunistic credit and value driven strategies were predominantly responsible for the above benchmark returns for PERS insurance trust clients. The PERS Group Insurance fund ($37.4 million) generated a negative excess return of 0.04% during the past year, but generated a positive excess return for the 3- and 5-year periods ended June 30, 2014. **Risk Adjusted Excess Returns were positive for all three SIB clients** for the 1-, 3- and 5-years ended June 30, 2014.

Actual asset allocations are within Target ranges and guidelines for all SIB clients as confirmed by Callan Associates as of June 30, 2014.

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs End. 6/30/2014	Risk Adj. Excess Return 6/30/2014
JOB SERVICE PENSION PLAN (2014)					
$ 97,825,769					
Total Fund Return - Net	**13.54%**	**9.36%**	**11.58%**	7.4%	**0.05%**
Policy Benchmark Return	13.02%	8.31%	10.60%	6.8%	
Attribution Analysis				**109%**	
Asset Allocation	-0.02%	-0.14%		Actual Risk /	
Manager Selection	0.53%	1.19%		Policy Risk	
Total Relative Return	**0.52%**	**1.04%**	**0.98%**		

	1 Yr Ended 6/30/2014	3 Yrs Ended 6/30/2014	5 Yrs Ended 6/30/2014	Risk (Std.Dev.) 5 Yrs Ended 6/30/2014	Risk Adj Excess Return 5 Yrs Ended 6/30/2014
PERS RETIREE HEALTH (2014)					
$ 90,360,366				**115% Limit**	
Total Fund Return - Net	**16.53%**	**11.13%**	**14.30%**	11.04%	**0.82%**
Policy Benchmark Return	16.33%	10.24%	12.72%	10.45%	
Attribution Analysis				106%	
Asset Allocation					
Manager Selection					
Total Relative Return	**0.20%**	**0.89%**	**1.58%**		
PERS GROUP INSURANCE (2014)					
$ 37,425,567					
Total Fund Return - Net	**0.01%**	**0.18%**	**0.24%**	0.06%	**0.07%**
Policy Benchmark Return	0.06%	0.07%	0.11%	0.03%	
Attribution Analysis					
Asset Allocation					
Manager Selection					
Total Relative Return	**-0.04%**	**0.11%**	**0.14%**		

Exchange Traded Funds – Market Update by Callan Associates

- **According to Callan's 2014 Defined Contribution ("DC") Trends Survey, only 3.7% of DC plans offered ETFs in 2013, up from 2.3% in 2012.** When it comes to DC plans, especially large plans, ETF usage tends to be low.
- **DC participants may have exposure to ETFs through several indirect approaches, noting that many plans offer ETFs via a self-directed brokerage account (or window).** However, use of self-directed brokerage accounts is limited. As one example, 25% of Vanguard participants were offered the brokerage option in 2012, yet only 1% of participants used the feature. (Sheyna Steiner, "Rise of 401(k) plans with a brokerage window," Bankrate.com)
- Many DC record keepers historically have not accommodated the operational complexities of ETFs on their platforms—such as trading of fractional shares and t+3 settlement—making them inaccessible as standalone investment options. Recently, providers such as Schwab have rolled out DC platforms that are tailored to standalone ETF offerings. Still, many **ETF platforms tend to appeal to smaller DC plans, which do not have the economies of scale to access low-cost institutional vehicles such as collective trusts and managed accounts.**
- Another means of access is via a target date fund (TDF); in a recent Callan survey of TDF managers, 26.4% reported incorporating ETFs into their glide path. Target date and target risk fund providers use ETFs in their glide path to access specific asset classes, such as emerging markets, REITs, and commodities. Another model is the fund-of-ETFs, whereby a fund advisor creates a mutual fund composed of underlying ETFs. Additionally, ETF providers such as BlackRock have introduced target date fund series that are made up entirely of their proprietary ETFs.

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sparb and David Hunter

DATE: October 15, 2014

SUBJECT: Investment Policies

Attached for your review and approval are proposed updates to our investment policies. Mr. Hunter will review them with you.

These have been reviewed by the Investment Committee and they would recommend your approval.

Board Action Requested

Approve the attached changes to our investment policies

North Dakota Public Employees Retirement Systems ("ND PERS") Board Meeting

North Dakota Retirement & Investment Office
October 23, 2014 Meeting

INVESTMENT POLICY STATEMENTS

David Hunter - Executive Director / CIO
Darren Schulz, CFA - Deputy Chief Investment Officer

Agenda

1. **Investment Policy Statements**
    a. ND PERS Main Plan
    b. ND PERS Job Service
    c. ND PERS Group Insurance Account
    d. ND PERS Retiree Health Insurance Credit Fund

ND PERS Appendix for *Asset Class Definitions* (Revised August 2014)

Executive Summary: The proposed changes are highlighted in yellow with red text and are largely technical corrections and/or conforming changes so as to include Callan as an acceptable fee study provider and limit the level of standard deviation variance to 15% of the policy benchmark.

STATEMENT OF INVESTMENT GOALS, OBJECTIVES AND POLICIES FOR THE NORTH DAKOTA PUBLIC EMPLOYEES RETIREMENT SYSTEM

Changes are highlighted in yellow and RED.

1. 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 upon 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 4% and the employer contribution is 4.12%, for the Judges Plan the employee contribution is 5% and employer contribution is 14.52%, for the National Guard Plan the employee contribution is 4% and employer contribution is 6.5%, for the Law Enforcement Plan with prior service the employee contribution is 4% and the employer contribution is 8.31% and for the Law Enforcement Plan without prior service the employee contribution rate is 4% and the employer rate is 6.43%.

Funding for the Highway Patrol plan is provided by a monthly employee contribution of 10.3% and an employer contribution of 16.7%

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

2. 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 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.

3. 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.

4. 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.

5. 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.

6. 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 Strategies		
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 while minimizing re-balancing costs. 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.

7. 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 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.

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 Board’s policy favors investments which will have a positive impact on the economy of North Dakota.

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.

8. 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.

9. 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 Callan, 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.

______________________________	______________________________
J. Sparb Collins Executive Director North Dakota Public Employees Retirement System	David Hunter Executive Director North Dakota Retirement and Investment Office
Date: ______________________________	Date: ______________________________

Reviewed with NDPERS Investment Subcommittee 5-14-2014
Adopted by the NDPERS Board 11-17-2011
Accepted by the NDSIB 1-27-2012

INVESTMENT POLICY STATEMENT

Changes are highlighted in yellow and RED.

1. 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 8.0% ~~7.5%.~~

2. 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 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.

3. 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.

4. 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 7.5% return and 5% inflation), over a complete market cycle; and

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

5. 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 materially exceed that of the policy portfolio by more than 15%.
c) Over 5-year ~~10-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%.

6. 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 February 2009. 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 Large Cap Equity --25%
Domestic Small Cap Equity --6%
International Equity --9%
Domestic Fixed Income --47%
International Fixed Income --5%
High Yield Bonds –8%

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

7. 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 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.

8. 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.

9. 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.

J. Sparb Collins Plan Administrator and Trustee Retirement Plan for Employees of Job Service North Dakota	David Hunter Executive Director North Dakota Retirement and Investment Office
Date:______________________	Date:______________________

Reviewed by NDPERS Investment Subcommittee 5-14-2014

NDPERS GROUP INSURANCE ACCOUNT
INVESTMENT OBJECTIVES AND POLICY GUIDELINES

Changes are highlighted in yellow and RED.

1. FUND CHARACTERISTICS AND CONSTRAINTS.

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

2. 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 Funds. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Funds 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, 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.

3. 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.

4. 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 Fund annual standard deviation of total returns should not materially exceed that of the policy portfolio.
c. ~~Over 10 year and longer time periods the Fund should match or exceed the expected 3.25% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 0.80%.~~

5. 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 these factors, the following allocation is deemed appropriate for the fund:

Cash Equivalents	100%

This cash will be held in an enhanced money market account at the Fund's custodian ~~Bank of North Dakota~~.

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 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.

6. 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.

Approved by:

NDPERS	STATE INVESTMENT BOARD
______________________	______________________
J. Sparb Collins	**David Hunter**
Executive Director, NDPERS	**Executive Director/CIO, RIO**
Date:	**Date:**

Reviewed with NDPERS Investment Subcommittee 8-13-2014

NDPERS RETIREE HEALTH INSURANCE CREDIT FUND

STATEMENT OF INVESTMENT GOALS, OBJECTIVES AND POLICIES

Changes are highlighted in yellow and RED.

1. PLAN CHARACTERISTICS AND FUND 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%.

2. 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.

3. 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.

4. 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.

5. 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 materially exceed that of the policy portfolio.

c. Over 5-year ~~10-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%.

6. 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 Equities - Large Cap	37%
Domestic Equities – 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.

7. 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.

8. 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.

9. 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 Callan, CEM or other acceptable source showing the value added versus the cost.

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.

J. Sparb Collins	David Hunter
Executive Director	Executive Director
North Dakota Public Employees Retirement System	North Dakota Retirement and Investment Office
Date: ______________________________	Date: ______________________________

Reviewed with NDPERS Investment Subcommittee 8-13-2014

Overview of Asset Class Definitions (New)

There are three major asset classes:

1. **Equity**
2. **Debt**
3. **Real Assets** (or Other)

Alternative Investments are often cited as the fourth major asset class, but can frequently be re-classified into one of the other three categories with some exceptions (i.e. total return strategies using debt and equity).

Equity investments represent an ownership claim on the residual assets of a company after paying off debt.

Equities should be segregated into two major sectors, Public and Private, given major differences in liquidity:

1. Public equities are generally highly liquid and *valued on a daily basis* in the financial markets. Examples include common stock (Apple, Coca-Cola or McDonalds), options and futures.
2. Private equities are generally less liquid and often *valued on a less frequent basis* (monthly or quarterly). Major private equity firms include Apollo, Bain, Blackstone, Carlyle, KKR and TPG.

Public equity markets are often sub-classified by geographic region (U.S., International or Global), market capitalization (Large, Medium or Small), investment style (core, growth or value) and level of economic development (developed or emerging markets). The top U.S. and global equity benchmarks are discussed below.

Five major U.S. equity benchmarks include the **S&P 500, Russell 1000, 2000 and 3000,** and **Dow Jones Industrial Average ("Dow")**. The **S&P 500** is based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The **Russell 1000** represents the highest-ranking 1,000 stocks in the Russell 3000 Index, and represents about 90% of the total market capitalization of that index. The Russell 1000 has a weighted average market capitalization of over $100 billion with a median of approximately $8 billion. The **Russell 2000 Index** is a small-cap index and represents the bottom 2,000 stocks in the Russell 3000 Index. The Russell 2000 has a weighted average market capitalization of less than $2 billion with a median of less than $1 billion. The Russell 2000 is the most common benchmark for funds that identify themselves as "small-cap", while the **S&P 500** index is used primarily for large capitalization stocks. The **Dow** is a price-weighted measure of 30 U.S. blue-chip companies. **The Dow** covers all industries with the exception of transportation and utilities, which are covered by the Dow Jones Transportation Average and Dow Jones Utility Average. While stock selection is not governed by quantitative rules, a stock typically is added to The Dow only if the company has an excellent reputation, demonstrates sustained growth and is of interest to a large number of investors. Maintaining adequate sector representation within the indices is also a consideration in the selection process.

The **MSCI All Country World Index** (or "ACWI") measures the equity market performance of developed and emerging markets and consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market countries are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market countries are listed below. The **MSCI EAFE Index (Europe, Australasia, Far East)** measures the equity market performance of the developed market countries, excluding the US & Canada. The **MSCI Emerging Markets Index** measures equity market performance of emerging markets and consists of the following 23 countries: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates. On June 2, 2014, Greece was moved to the Emerging Markets from the Developed Markets, while Qatar and United Arab Emirates were added to the Emerging Markets.

Public equity has historically provided **high investment returns with high volatility and high liquidity when compared to Bonds or Real Assets**. Currently, many investment consultants believe that Private Equity will provide an even higher investment return than Public Equity, albeit with higher volatility and less liquidity.

Debt represents a legal obligation between a borrower and a lender for a stated period of time and rate.

Debt or "Bonds" are classified as fixed or floating depending upon whether the interest rate is derived using a fixed rate (i.e. 5%) or a floating rate (i.e. Prime + 1.00%). Duration risk within fixed income is a major driver of investment risk and return particularly for longer term securities, including U.S. Treasury bonds.

Debt is often sub-classified into investment grade (rated BBB- or better) or non-investment grade (rated less than BBB- or non-rated) or by geographic region (U.S., International, Developed Markets or Emerging Markets). Debt can be issued by governments, agencies or companies and represent general obligations of the issuer or be backed by a specified pool of assets (i.e. mortgage backed securities). Bonds serve to diversify a portfolio by offering **lower volatility** than equities along with a **lower expected return and generally high liquidity**.

Real Assets represent an ownership interest in physical assets such as real estate, infrastructure (airports, toll roads), timberland and commodities (gold, oil, wheat). Real assets are expected to provide inflation hedging characteristics in periods of unanticipated inflation and diversify a portfolio consisting of debt and equity.

Alternative Investments can include precious metals, art, antiques, and financial assets such as derivatives, commodities, private equity, distressed debt and hedge funds. Real estate and forestry are also often termed alternative. Alternatives are sometimes used as a tool to reduce overall investment risk through diversification and may offer lower correlation with traditional financial investments such as stocks and bonds, although it may be difficult to determine the current market value of the asset, may be illiquid, purchase and sales costs may be high, and there may be limited historical risk and return data, all of which makes analysis complex.

Callan's 2014 Capital Markets Expectations for Return and Risk by major asset class and sector are summarized below and helpful when comparing the projected benefits and risks of each investment class.

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
MSCI EAFE 7.78%	S&P 500 Growth 38.13%	S&P 500 Growth 23.97%	S&P 500 Growth 36.52%	S&P 500 Growth 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	Barclays Agg 10.26%	MSCI Emerging Markets 56.28%	MSCI Emerging Markets 25.95%	MSCI Emerging Markets 34.54%	MSCI Emerging Markets 32.59%	MSCI Emerging Markets 39.78%	Barclays Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	Barclays Agg 7.84%	MSCI Emerging Markets 18.63%	Russell 2000 Growth 43.30%
S&P 500 Growth 3.13%	S&P 500 37.58%	S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	Russell 2000 Growth 43.09%	Barclays Agg 11.63%	Barclays Agg 8.43%	Barclays Corp High Yield -1.41%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Barclays Corp High Yield -26.16%	Barclays Corp High Yield 58.21%	Russell 2000 26.85%	Barclays Corp High Yield 4.98%	Russell 2000 Value 18.05%	Russell 2000 38.82%
S&P 500 1.32%	S&P 500 Value 36.99%	S&P 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P 500 Growth 28.24%	S&P 500 Value 6.08%	Barclays Corp High Yield 5.28%	MSCI Emerging Markets -6.00%	Russell 2000 47.25%	MSCI EAFE 20.25%	S&P 500 Value 5.82%	Russell 2000 Value 23.48%	S&P 500 Growth 9.13%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 Value 24.50%	S&P 500 Growth 4.65%	S&P 500 Value 17.68%	Russell 2000 Value 34.52%
S&P 500 Value -0.64%	Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P 500 Value 29.98%	S&P 500 Value 14.69%	MSCI EAFE 26.96%	Russell 2000 -3.02%	Russell 2000 2.49%	Russell 2000 Value -11.43%	Russell 2000 Value 46.03%	Russell 2000 18.33%	S&P 500 4.91%	S&P 500 Value 20.81%	Russell 2000 Growth 7.05%	Russell 2000 -33.79%	MSCI EAFE 31.78%	MSCI Emerging Markets 19.20%	S&P 500 2.11%	MSCI EAFE 17.32%	S&P 500 Growth 32.75%
Barclays Corp High Yield -1.03%	Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	Barclays Agg 8.70%	Russell 2000 21.26%	Barclays Corp High Yield -5.86%	MSCI Emerging Markets -2.37%	MSCI EAFE -15.94%	MSCI EAFE 38.59%	S&P 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 18.37%	Barclays Agg 6.97%	S&P 500 Growth -34.92%	S&P 500 Growth 31.57%	Barclays Corp High Yield 15.12%	S&P 500 Value -0.48%	Russell 2000 16.35%	S&P 500 32.39%
Russell 2000 Value -1.54%	Russell 2000 Value 25.75%	Barclays Corp High Yield 11.35%	Russell 2000 Growth 12.95%	Barclays Corp High Yield 1.87%	S&P 500 21.04%	S&P 500 -9.11%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	S&P 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 4.55%	S&P 500 15.79%	S&P 500 5.49%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 Value 15.10%	Russell 2000 Growth -2.91%	S&P 500 16.00%	S&P 500 Value 31.99%
Russell 2000 -1.82%	Barclays Corp High Yield 19.18%	Russell 2000 Growth 11.26%	Barclays Corp High Yield 12.76%	Russell 2000 Growth 1.23%	S&P 500 Value 12.73%	MSCI EAFE -14.17%	S&P 500 Value -11.71%	S&P 500 Value -20.85%	Barclays Corp High Yield 28.97%	Barclays Corp High Yield 11.13%	Russell 2000 Growth 4.15%	Russell 2000 Growth 13.35%	S&P 500 Value 1.99%	Russell 2000 Growth -38.54%	S&P 500 26.47%	S&P 500 15.06%	Russell 2000 -4.18%	Barclays Corp High Yield 15.81%	MSCI EAFE 22.78%
Russell 2000 Growth -2.43%	Barclays Agg 18.46%	MSCI EAFE 6.05%	Barclays Agg 9.64%	Russell 2000 -2.55%	Barclays Corp High Yield 2.39%	S&P 500 Growth -22.08%	S&P 500 -11.89%	S&P 500 -22.10%	S&P 500 28.68%	S&P 500 10.88%	S&P 500 Growth 4.00%	Barclays Corp High Yield 11.85%	Barclays Corp High Yield 1.87%	S&P 500 Value -39.22%	S&P 500 Value 21.17%	S&P 500 Growth 15.05%	Russell 2000 Value -5.50%	S&P 500 Growth 14.61%	Barclays Corp High Yield 7.44%
Barclays Agg -2.92%	MSCI EAFE 11.21%	MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Barclays Agg -0.82%	Russell 2000 Growth -22.43%	S&P 500 Growth -12.73%	S&P 500 Growth -23.59%	S&P 500 Growth 25.66%	S&P 500 Growth 6.13%	Barclays Corp High Yield 2.74%	S&P 500 Growth 11.01%	Russell 2000 -1.57%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%	MSCI EAFE -12.14%	Russell 2000 Growth 14.59%	Barclays Agg -2.02%
MSCI Emerging Markets -7.32%	MSCI Emerging Markets -5.21%	Barclays Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	Barclays Agg 4.10%	Barclays Agg 4.34%	Barclays Agg 2.43%	Barclays Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	Barclays Agg 5.93%	Barclays Agg 6.54%	MSCI Emerging Markets -18.17%	Barclays Agg 4.21%	MSCI Emerging Markets -2.27%

The Callan Periodic Table of Investment Returns 1994–2013

Callan's Periodic Table of Investment Returns depicts annual returns for 10 asset classes, ranked from best to worst performance for each calendar year. The asset classes are color-coded to enable easy tracking over time. We describe the well-known, industry-standard market indices that we use as proxies for each asset class in the text below.

Barclays Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index) includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.

Barclays High Yield Bond Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

MSCI EAFE is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.

MSCI Emerging Markets is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.

Russell 2000 measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX, and NASDAQ.

Russell 2000 Value and **Russell 2000 Growth** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-earnings ratios than those in the Growth Index. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.

S&P 500 measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX, and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.

S&P 500 Growth and **S&P 500 Value** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.

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Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are uniquely backed by proprietary research, exclusive data, ongoing education and decision support. Today, Callan advises on more than $1.8 trillion in total assets, which makes us among the largest independently owned investment consulting firms in the U.S. We use a client-focused consulting model to serve public and private pension plan sponsors, endowments, foundations, operating funds, smaller investment consulting firms, investment managers, and financial intermediaries. For more information, please visit www.callan.com.

Corporate Headquarters
San Francisco 800.227.3288

Regional Consulting Offices
Atlanta 800.522.9782
Chicago 800.999.3536
Denver 855.864.3377
Summit 800.274.5878

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Asset Class Definitions **(previously distributed to PERS Investment Subcommittee)**

Global Equity

Definition
Investment represents an ownership claim on the residual assets of a company after the discharge of all senior claims such as secured and unsecured debt.

Public Equity
Public equity is traded on a national exchange. Includes common stock, preferred stock, convertible to stock, options, warrants, futures and other derivatives on equities or composites of equities, exchange-traded funds and equity-linked notes, units and partnership shares representing ownership interests in an underlying equity investment.

Private Equity
Private equity represents equity or equity linked securities in operating companies that are not publicly traded on a stock exchange.

Types of investment strategies
- *Leveraged buyout (LBO*) – Acquisition of a company with the use of financial leverage
- *Growth capital* – Investment in mature companies looking for capital to expand, restructure, enter new markets
- *Venture capital* – Investment in typically less mature companies, for launch, early development, or expansion
- *Mezzanine* – Subordinated debt/preferred equity used to reduce amount of equity capital required to finance LBOs
- *Distressed* – Equity securities of financially stressed companies
- *Secondaries* – Investment in existing private equity assets

Types of structures
- *Direct investment* – Direct purchase of equity securities of a private company
- *Co-investments* – Investments in equity securities of a private company alongside
- the manager of a direct fund
- *Direct fund* – Pool of capital formed to make direct investments
- *Fund-of-funds* – Pool of capital formed to make investments in direct funds

Strategic Role
- High long-term real returns
- Hedge against active (pre-retirement) liabilities
- Private equity enhances total portfolio return as a tradeoff for illiquidity

Characteristics

Public Developed Markets

- Relatively high returns (long-term) as compared to fixed income and real assets
- Relatively high volatility (standard deviation of returns) as compared to fixed income and real assets
- Relatively high liquidity
- Diversification
- Historically, public developed equities exhibit high correlation with private equity and high yield bonds, moderate correlation with investment grade corporate bonds and real assets, and negative correlation with sovereign debt.
- Currency adds to volatility but can be hedged, which mutes the diversification benefits

Public Emerging Markets

- Higher expected returns due to economic growth potential
- Liquidity risk is significant, particularly in frontier markets
- High volatility, particularly in frontier markets
- Historically, public emerging equities exhibit high correlation with high yield bonds, moderate correlation with investment grade corporate bonds and real assets, and negative correlation with sovereign debt.
- FX markets not sufficiently developed to hedge currency risk
- Limited access to markets
- Market information less abundant than for developed markets
- Counterparty risk and settlement delays pronounced in frontier markets

Private Equity

- Illiquid, long-term time horizon (7-12 year closed-end partnerships)
- Quality of the managers selected is the key determinant of success
- High volatility of returns compensated by higher expected returns
- Historically, public emerging equities exhibit high correlation with high yield bonds, moderate correlation with investment grade corporate bonds and real assets, and negative correlation with sovereign debt.
- Encompasses three stages: fundraising, portfolio construction and investment, exit and return realization

Risks

Public Equity

- *Absolute risk* – Possible magnitude of price decline
- *Liability hedging risk* – Risk that assets will not increase when liabilities increase
- *Regulatory risk* – Changes may adversely affect markets

- *Tax risk* – Changes may adversely affect markets
- *Liquidity risk* – Difficulty trading securities under adverse market conditions
- *Firm specific risk* – Unique risks associated with a specific firm
- *Tracking risk* – Magnitude of performance deterioration from a benchmark
- *Time horizon* – Horizon too short to weather cycles
- *Benchmark risk* – Benchmark not appropriate proxy
- *Market risks* – Price decline
- *Currency risk* – Unanticipated changes in exchange rate between two currencies
- *Counterparty risk* – Counterparty does not live up to its contractual obligations

Private Equity

- *Liquidity risk* – Absence of liquidity and appropriate exits could significantly increase time horizon
- *Firm specific risk* – Unique risks associated with a specific firm
- *Leverage risk* – Historical excess use of leverage and current inability to secure financing may adversely affect LBOs
- *Manager selection risk* – Selecting managers that fail to deliver top performance results
- *Diversification risk* – Inability to properly diversify the portfolio by vintage year, industry groups, geography
- *Tax risk* – Changes may adversely affect markets
- *Regulatory risk* – Changes may adversely affect markets
- *Strategy risk* – Continuing applicability of investment strategy in context of capital flows
- *Market risks* – Price decline

Global Fixed Income

Definition

Investment represents a legal obligation between a borrower and the lender with a maturity in excess of one year. Evidence of indebtedness and securities that evidence an ownership interest in debt obligations that are issued, insured, guaranteed by, or based on the credit of the following: companies, governmental entities or agencies, banks and insurance companies. Includes agency and non-agency mortgage-backed securities, collateralized mortgage obligations, commercial mortgage-backed securities, asset-backed securities, private placements, and options, futures or other derivatives on fixed income securities or components of fixed income.

Strategic Role

- Diversification within a multi-asset class, total return portfolio
- Hedge against a long duration accrued liability
- Current income
- Non-U.S. provides hedge against unanticipated domestic inflation and diversification to U.S. assets

Characteristics

- Medium volatility asset class
- Relatively high liquidity
- Broadly diversified by market sector, quality, and maturity
- Historically, developed sovereign debt exhibits low to negative correlation with real assets and negative correlation with equities; investment grade corporate bonds exhibit moderate correlation with equities and low correlation with real assets; high yield exhibits high correlation with equities and moderate correlation with real assets.
- A large currency component exists within international fixed income returns
- Developed markets are extremely liquid. Many issues of less developed markets are also relatively liquid.

Risks

- *Duration risk* – Price volatility from a change in overall interest rates
- *Convexity risk* – Negative convexity is the risk of price declines being greater than the price increase due to interest rates moving equally up versus down
- *Default or credit risk* – The uncertainty surrounding the borrower's ability to repay its obligations
- *Structure risk* – Risk that arises from the options implicit in bonds (like call ability and sinking funds) or the rules that govern cash flow differ from expectations
- *Sector risk* – Risk of holding sectors that are in different proportions than the benchmark
- *Liquidity risk* – Cost of trading in a security which is reflected in the bid-ask spread or the cost of selling due to cash flow needs
- *Reinvestment risk* – The uncertainty surrounding future yield opportunities to invest funds which come available due to call, maturities, or coupon payments
- *Benchmark risk* – Risk of the benchmark being inappropriate
- *Yield curve risk* – Price changes induced by changes in the slope of the yield curve
- *Currency risk* – The risk of currency movements vs. the dollar for each market. Currency may contribute greatly to return and lower correlation.

Global Real Assets

Definition

Investment represents an ownership interest in real return assets that provide inflation hedging characteristics in periods of unanticipated inflation. Includes inflation-linked securities, private or public real estate equity or equity-linked investments, private or public real estate debt, infrastructure, timber, real asset mezzanine debt or equity, non-fixed assets and other opportunistic investments in real assets.

Strategic Role

- Reduces risk of composite multi-asset portfolios through diversification
- Relatively low correlations to traditional asset classes
- Can serve as a possible inflation hedge during periods of high inflation
- Provides an attractive return relative to fixed income asset class in periods of low to moderate inflation
- Infrastructure provides inflation protection as he revenues of the underlying assets are typically linked to CPI
- Potential for high returns in niche opportunities

Characteristics

Real Estate

- *Risk* – Volatility of private real estate falls between publicly-traded debt and publicly-traded equities
- *Returns* – Nominal returns are expected to fall between equities and fixed income
- *Correlation* – Expected to exhibit low to no correlation with government and investment grade corporate bonds, and moderate correlation with high yield and equities.
- *Illiquidity* – Transactions require a significantly longer period to execute than other asset classes
- *Inefficient Market* – Information affecting real estate asset valuation and market trading is not rapidly, accurately, or efficiently reflected or interpreted in its pricing

Infrastructure

- *Long life assets* – Capital intensive assets with 25 to 99 year concessions, match for liability duration
- *Inflation protection* – Revenues typically linked to CPI
- *Monopoly or quasi monopoly* – High barriers to entry due to scale and capital cost
- *Steady and predictable cash flow* – Produce strong and predictable yields
- *Low correlation* – Provides portfolio diversification, low beta; expected to exhibit low to no correlation with fixed income and equities
- *Inelastic demand* – Predictable demand with little volatility, less susceptibility to economic downturns
- *Limited commodity risk* – Not subject to commodity pricing
- *Insensitive to changes in technology* – Low risk of redundancy or technology obsolescence
- Investments are usually illiquid and involve a long (10 to 20 year) holding period

Timberland

- *Return* – Low correlation with other asset classes, returns stem from four distinct sources: biological growth, timber prices, land values and management strategy
- *Income* – Driven almost entirely by the sale of harvested mature trees
- *Correlation* – Expected to exhibit low to no correlation with government and investment grade corporate bonds, and moderate correlation with high yield and equities.
- *Appreciation* – Driven by increased volume and value on timber and appreciation of underlying land
- Categorized by type of land (e.g. plantation, natural forest), type of tree (e.g., hardwood, softwood), country and region

Commodities

- *Real assets* – Raw materials that are the physical inputs of production, relatively homogenous in nature, lending itself to be traded via contracts with standardized terms
- *Inflation protection* – Storable commodities (such as energy) directly related to the intensity of economic activity exhibit positive correlation with unexpected inflation
- *Insurance risk premium* – Commodity futures prices tend to be priced at a discount to spot prices in order to induce speculators to bear volatile commodity price risk that inventory holders and producers wish to lay off

- *Positive event risk* – Surprises that occur in the commodities markets tend to be those that unexpectedly reduce the supply of the commodity to the market, resulting in price spikes
- *Negatively correlated with financial assets* – Unlike stocks and bonds, commodities are not as directly impacted by changes in discount rates as they are by the current supply and demand of the underlying commodity, thus they should be expected to have little or even negative correlation with capital assets.

Risks

Real Estate

- *Property type risks* – Negative changes in demand/supply conditions by property type (e.g., office, industrial, retail, lodging, mixed-use, multi-family)
- *Location risks* – Local market condition relative to the adverse changes surrounding a property, or in discovery of hazardous underlying conditions, such as toxic waste
- *Tenant credit risks* – Failure by a tenant to pay what is contractually owed
- *Physical/functional obsolescence* – Negative influences on buildings due to technological changes, outdated layout and design features, and physical depreciation
- *Interest rate risk* – Higher rates can negatively impact both sales strategies and leveraged properties at refinancing
- *Reinvestment risk* – In a declining rental rate market, cash flow received may not be reinvested at the same level
- *Business cycle risk* – As economies slow down, there may be less demand for space
- *Inflationary risk* – Rent levels may not always keep up with rising operating expense levels
- *Illiquidity* – Inability to effectively liquidate a property into cash
- *Natural disaster risk* – Weather, floods, earthquake
- Regulatory concerns are critical, especially in emerging markets
- Capital and managerial intensive

Infrastructure

- *Leverage* – Deals with leverage between 40% and 80% can transform low risk assets into risky investments. Changes in the credit environment alter refinancing risk.
- *Market inefficiencies* – Competitive auctions lead to overpaying. There is a limited history and track record in the U.S. infrastructure space.
- *Political and headline risk* – Public acceptance and understanding of infrastructure needs to expand. In addition, the political landscape in every state and municipality differs.
- *Regulatory risk* – Regulated assets are subject to government changes
- *Construction and development* – Project overruns and delays should be shared with construction partners. Volume/demand risk for new developments can vary.
- *Labor issues* – Greenfield projects could generate new jobs while the privatization of brownfield assets could eliminate skilled labor members
- *Asset control* – Stipulations via concession agreements limit some management control (pricing, growth, decision approvals, etc.). Asset control needs to be appropriately priced.
- *Firm specific risk* – Unique risks are associated with specific firm

Timberland

- *Liquidity risk* – Liquidity is thin, marketplace characterized by few buyers and sellers, transactions are complicated and can take many months to execute
- *Valuation risk* – Annual appraisal process can lead to disparities between carrying value and realized sales prices during downturns
- *Physical risk* – Subject to losses from natural and human-caused events such as fire, insect and vermin infestations, disease, inclement weather, and theft
- *Political and regulatory risk* – Environmental regulations can restrain or prohibit timberland management activities
- *Leverage* – Can amplify volatility and potentially lead to an inability to refinance properties or lead to a distressed sale, requires a minimum level of generated income
- *Location risks* – Real estate dispositions may also be impacted by weakness in local residential real estate markets

Commodities

- *Price risk – C*ommodities with difficult or non-existent storage situations (heating oil, live cattle, live hogs, copper) coupled with a long-lead time between the production decision and the actual production of the commodity can lead to very volatile spot prices
- *Negative futures roll* – When the future contract's price is at a premium to the spot price, the cost to roll contracts forward is negative: an investor continuously locks in losses from the futures contracts converging to a lower spot price
- *Regulatory risk* – Concerns about the role played by investors in commodity markets could lead to new regulations impacting available investment opportunities, ultimately affecting investors' "license to invest".
- *Leverage* – A commodity futures program that is not fully collateralized (for every desired $1 in commodity futures exposure, an investor sets aside $1 in cash) can amplify volatility and potentially lead to greater losses
- *Implementation* – Because futures contracts are levered, cash management for the collateral is an important consideration due to the value

<u>Global Alternatives</u>

Definition

Investment has a distinct return/risk factor profile as compared to other specified broad asset class groupings. Examples: Low market exposure/absolute return strategies such as market neutral, and other niche strategies with low asset class beta such as insurance-linked investments, volatility, intellectual property, healthcare royalty, shipping, litigation finance and fine art.

Strategic Role

- More robust diversification achieved through the introduction of non-traditional return drivers/risk factors
- Low or negative correlations to other asset classes
- Return profile less dependent on economic growth and interest rates
- Potential for attractive risk-adjusted returns

Characteristics

- *Returns* – Exhibits lower correlations to broader equity and credit markets in periods of market distress
- *Illiquidity* – Transactions may require a longer period to execute than other asset classes
- *Inefficient Market* – Information affecting asset valuation and market trading may not be accurately or efficiently reflected or interpreted in its pricing

Risks

- *Market risk* – Cost of carry on being long volatility
- *Natural disaster risk* – Weather, floods, earthquake affect natural catastrophe-based insurance-linked products
- *Due diligence* – Complicated to evaluate and monitor
- *Illiquidity* – Transactions may require a longer period to execute than other asset classes
- *Implementation* – Complexity of implementation may be an impediment

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Bryan Reinhardt

DATE: October 10, 2014

SUBJECT: Adding Exchange Traded Funds in the Mutual Fund Window for DC Plans

The NDPERS Investment Subcommittee would like the full NDPERS Board to consider adding Exchange Traded Funds (ETF's) to the Mutual Fund Window for the Defined Contribution 401(a) plan and DC 457 Companion plan.

ETF's are securities that often track an index, commodity, or a basket of assets much like an index mutual fund. The difference is an ETF trades like a stock on an exchange and experiences price changes throughout the day as they are bought and sold. ETF's often have an expense ratio that is lower than those of a similar mutual fund.

TIAA-CREF could add ETF's to the brokerage window with little effort and no additional cost. ETF's would have a $19.95 trading fee, similar to a stock trade (Note that stock trades are not an option in the NDPERS plans, only mutual funds). There are over 1,650 ETF's. If TIAA-CREF opened the NDPERS window to ETF's, they would have to include all ETF's and could not limit the options.

A couple of NDPERS members have requested ETF's be made available in the DC plans. The NDPERS Investment Subcommittee studied ETF's and favors adding them to increase access to more low cost investment options.

The following page lists some of the most popular ETF's traded by TIAA-CREF.

Board Action Requested

Approve adding ETF's as an investment option in the Mutual Fund Window for the DC 401(a) and DC 457 Companion plans.

Top Traded ETF's (out of 1650+)	
Symbol	**Name**
SPY	SPDR S&P 500
EEM	iShares MSCI Emerging Markets ETF
XLF	Financial Select Sector SPDR
IWM	iShares Russell 2000 ETF
GDX	Market Vectors TR Gold Miners
EWJ	iShares MSCI Japan ETF
QQQ	QQQ
VXX	S&P 500 VIX Short-Term Futures ETN
FXI	iShares China Large-Cap ETF
VWO	Emerging Markets ETF
EFA	iShares MSCI EAFE ETF
EWZ	iShares MSCI Brazil Capped ETF
TZA	Daily Small Cap Bear 3X Shares
XLE	Energy Select Sector SPDR
XLU	Utilities Select Sector SPDR
XIV	Daily Inverse VIX Short-Term ETN
XLP	Consumer Staples Select Sector SPDR
XLI	Industrial Select Sector SPDR
SDS	UltraShort S&P500
IYR	iShares U.S. Real Estate ETF
UNG	United States Natural Gas Fund LP
TNA	Daily Small Cap Bull 3X Shares
TLT	20+ Year Treasury Bond ETF
SLV	Silver Trust
GLD	SPDR Gold Trust
DIA	Dow Jones Industrial Average ETF
XLK	Technology Select Sector SPDR
SSO	Ultra S&P500
XLV	Health Care Select Sector SPDR
DXJ	Japan Hedged Equity Fund
EWT	iShares MSCI Taiwan ETF
XLY	Consumer Discretionary Select Sector SPDR
NUGT	Daily Gold Miners Bull 3x Shares
USO	United States Oil Fund
XOP	SPDR S&P Oil & Gas Explor & Product
DGAZ	3x Inverse Natural Gas ETN
XLB	Materials Select Sector SPDR
IVV	Core S&P 500 ETF
FAZ	Daily Financial Bear 3X Shares
ITB	iShares U.S. Home Construction ETF
TVIX	Daily 2x VIX Short-Term ETN
IAU	COMEX Gold Trust
OIH	Market Vectors Oil Services ETF
JNK	SPDR Barclays Capital High Yield Bond ETF
EPI	India Earnings Fund
VGK	FTSE Europe ETF
FAS	Daily Financial Bull 3X Shares
RSX	Market Vectors Russia ETF
HYG	iShares iBoxx $ High Yield Corporate Bond ETF
TBT	UltraShort Barclays 20+ Year Treasury
XHB	SPDR Homebuilders ETF
EZU	iShares MSCI EMU ETF
XRT	SPDR S&P Retail ETF
VEA	Europe Pacific
VTI	Total Stock Market ETF
EWW	iShares MSCI Mexico Capped ETF
SH	Short S&P500
VNQ	REIT ETF
DUST	Daily Gold Miners Bear 3x Shares
QLD	Ultra QQQ
EWY	iShares MSCI South Korea Capped ETF
AMLP	Alerian MLP ETF
EWH	iShares MSCI Hong Kong ETF
EDC	Daily Emerging Markets Bull 3X Shares
EWG	iShares MSCI Germany ETF
XME	SPDR S&P Metals & Mining ETF
UVXY	Ultra VIX Short-Term Futures ETF
KRE	SPDR S&P Regional Banking ETF
EWU	iShares MSCI United Kingdom ETF
BKLN	Senior Loan Portfolio
TQQQ	UltraPro QQQ
UGAZ	3x Long Natural Gas ETN
MDY	SPDR MidCap Trust Series I
UPRO	UltraPro S&P 500
DBC	DB Commodity Index Tracking Fund
FEZ	SPDR Euro STOXX 50 ETF
BND	Total Bond Market ETF
SPXL	Daily S&P 500 Bull 3x Shares
PFF	iShares U.S. Preferred Stock ETF
LQD	iShares iBoxx $ Investment Grade Corporate Bond ETF
SHY	1-3 Year Treasury Bond ETF
EWM	iShares MSCI Malaysia ETF
IWF	iShares Russell 1000 Growth ETF
GDXJ	Market Vectors Junior Gold Miners ETF
EWA	MSCI Australia ETF
SPXU	UltraPro Short S&P500
SCO	UltraShort DJ-UBS Crude Oil
SPXS	Daily S&P 500 Bear 3x Shares
AGG	Core Total U.S. Bond Market ETF
IWD	iShares Russell 1000 Value ETF
EWS	iShares MSCI Singapore ETF
UCO	Ultra DJ-UBS Crude Oil
VOO	S&P 500 ETF
ACWI	MSCI All Country World Index Fund
IJH	Core S&P Mid-Cap ETF
EWI	iShares MSCI Italy Capped ETF
SVXY	Short VIX Short-Term Futures ETF
RWM	Short Russell2000

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Memorandum

TO: PERS Board

FROM: Sparb

DATE: October 15, 2014

SUBJECT: 2014 Actuarial Valuations

Brad Ramirez from the Segal Company will be at the next Board meeting to review the results of the 2014 actuarial valuations. He will be reviewing the attached PowerPoint presentation highlighting the valuations.

This information is going to be presented to the Legislative Employee Benefits Committee.

Also, the actuarial valuations will be emailed to you for your review.

North Dakota Public Employees Retirement System

DISCUSSION OF VALUATION RESULTS AND PROJECTIONS

Actuarial Valuation as of July 1, 2014

October 23, 2014

Presented by:

Brad Ramirez, FSA, MAAA, EA, FCA
Tammy Dixon, FSA, MAAA, EA

#5331915

Segal Consulting

THE SEGAL GROUP
Founded in 1939

Discussion Topics

- Summary of Valuation Highlights
- Membership and Demographics
- Valuation Results and Projections

Actuarial Methods

- **Asset Valuation Method** (actuarial value of assets)
  - PERS uses a five-year smoothing method
  - Investment returns above or below the expected return are recognized over five years
- **Cost Method** (Allocation of liability between past service and future service)
  - PERS uses the entry age normal cost method (as do most retirement systems)
  - Retiree Health Insurance Credit Fund uses the projected unit credit cost method
- **Amortization Method**
  - 20-year "open" period to pay off unfunded actuarial accrued liability
  - Based on level percentage of payroll
  - An open amortization period will yield contributions that reduce the unfunded actuarial accrued liability, but will not pay it off

Economic Assumptions

Interest Rate

- 8%

Salary Increase Rates

- Based on service
- Ranges from 8.25% for new members to 4.86% for members with 5 or more years of service (5.0% for all years for Judges)

Payroll Growth

- 4.5% (4.0% for Judges)

Summary of Valuation Highlights – PERS and HPRS

- Market value of assets returned 16.2% for year ending 6/30/14 (Segal estimate)
  - Gradual recognition of deferred gains resulted in 12.2% return on actuarial assets
  - Unrecognized investment gains represent about 16.9% of market assets
- Net impact on funded ratio on AVA was an increase from 62.0% as of 7/1/2013 to 64.5% as of 7/1/2014 using actuarial value of assets
- Market value of combined assets for PERS and HPRS was $2.347 billion vs. $2.015 billion last year
- Actuarial value of combined assets for PERS and HPRS was $1.950 billion vs. $1.732 billion last year
- Actuarial value of assets is 83.1% of market value of assets

Summary of Valuation Highlights

Statutory Contributions	Member Rate	Employer Rate
Main System Full-Time Employees	7.00%	7.12%
Main System Part-Time Employees	14.12	N/A
Judges	8.00	17.52
Highway Patrol	13.30	19.70
National Guard	4.50	7.00
Law Enforcement without Prior Main System Service	5.50	N/A
Law Enforcement with Prior Main System Service	5.50[1]	N/A

Board Set Rates	Member Rate	Employer Rate
Law Enforcement without Prior Main System Service	N/A	7.93%
Law Enforcement with Prior Main System Service	N/A	9.81[2]

[1] 6.00% for BCI
[2] 10.31% for BCI

Summary of Valuation Highlights

EMPLOYER CONTRIBUTION AS A PERCENT OF PAYROLL

	Recommended		
	2014 – 2015	2013 – 2014	Statutory Rate
Main	11.06%	12.14%	7.12%
Judges	14.80%	16.66%	17.52%
National Guard	8.14%	9.07%	7.00%
Law Enforcement with Prior Service	9.52%	11.18%	9.81%[1]
Law Enforcement without Prior Service	7.42%	8.11%	7.93%
Highway Patrol	21.70%	25.11%	19.70%
Retiree Health	0.64%	0.77%	1.14%
Job Service	0.00%	0.00%	0.00%

[1] 10.31% for BCI

Summary of Valuation Highlights

FUNDED RATIO USING ACTUARIAL VALUE OF ASSETS

	July 1, 2014	July 1, 2013
Main	64.1%	61.6%
Judges	90.9%	86.7%
National Guard	87.8%	78.2%
Law Enforcement with Prior Service	64.4%	60.5%
Law Enforcement without Prior Service	80.9%	68.6%
PERS	**64.5%**	**62.0%**
Highway Patrol	72.3%	68.2%
Retiree Health	66.8%	57.8%
Job Service	119.4%	114.9%

Membership
Main System

	2014	2013	Change
Actives			
• Number	21,814	21,201	2.9%
• Payroll	$946.2 million	$865.9 million	9.3%
• Average Age	46.7 years	47.1 years	-0.4 years
• Average Service	10.1 years	10.4 years	-0.3 years
Retirees and Beneficiaries[1]			
• Number	9,199	8,637	6.5%
• Total Monthly Benefits	$9.4 million	$8.5 million	10.6%
• Average Monthly Benefit	$1,024	$985	4.0%

1 Does not include 24 suspended retirees as of 2014 and 21 as of 2013.

Membership
Judges

	2014	2013	Change
Actives			
• Number	50	49	2.0%
• Payroll	$7.0 million	$6.6 million	5.5%
• Average Age	58.7 years	58.6 years	0.1 years
• Average Service	16.8 years	18.3 years	-1.5 years
Retirees and Beneficiaries			
• Number	38	36	5.6%
• Total Monthly Benefits	$143,410	$127,563	12.4%
• Average Monthly Benefit	$3,774	$3,543	6.5%

Membership
National Guard

	2014	2013	Change
Actives			
• Number	27	39	-30.8%
• Payroll	$1.2 million	$1.7 million	-29.1%
• Average Age	37.6 years	36.5 years	1.1 years
• Average Service	6.6 years	5.5 years	1.1 years
Retirees and Beneficiaries			
• Number	10	10	0%
• Total Monthly Benefits	$9,727	$9,727	0%
• Average Monthly Benefit	$973	$973	0%

Membership

Law Enforcement with Prior Main System Service

	2014	2013	Change
Actives			
• Number	288	229	25.8%
• Payroll	$15.5 million	$11.7 million	32.7%
• Average Age	38.3 years	38.5 years	-0.2 years
• Average Service	7.0 years	7.3 years	-0.3 years
Retirees and Beneficiaries			
• Number	52	46	13.0%
• Total Monthly Benefits	$82,075	$79,915	2.7%
• Average Monthly Benefit	$1,578	$1,737	-9.2%

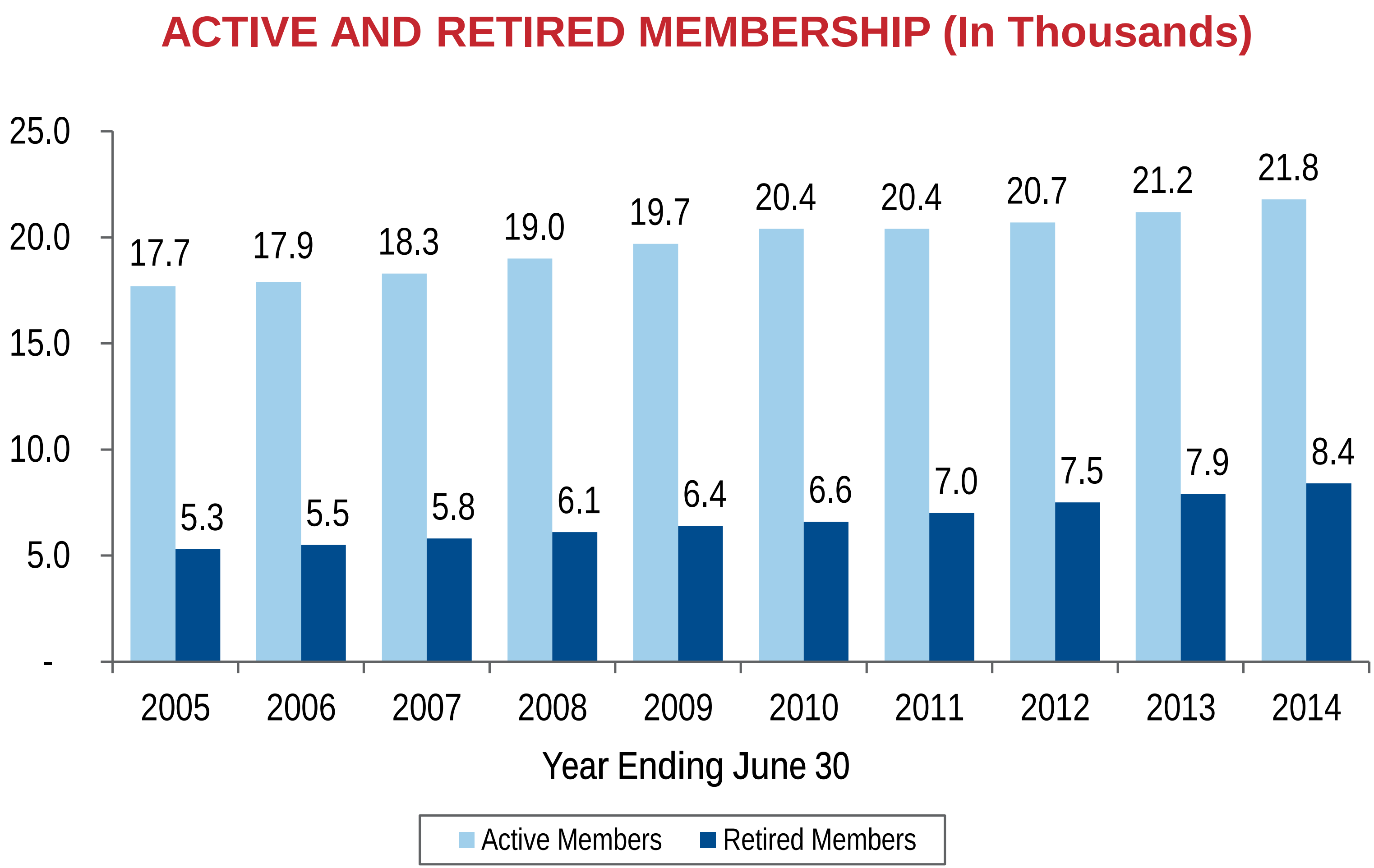
Membership
Law Enforcement without Prior Main System Service

	2014	2013	Change
Actives			
• Number	83	70	18.6%
• Payroll	$3.6 million	$2.6 million	40.6%
• Average Age	38.2 years	37.5 years	0.7 years
• Average Service	3.6 years	3.3 years	0.3 years
Retirees and Beneficiaries			
• Number	1	1	0%
• Total Monthly Benefits	$816	$816	0%
• Average Monthly Benefit	$816	$816	0%

Membership
PERS

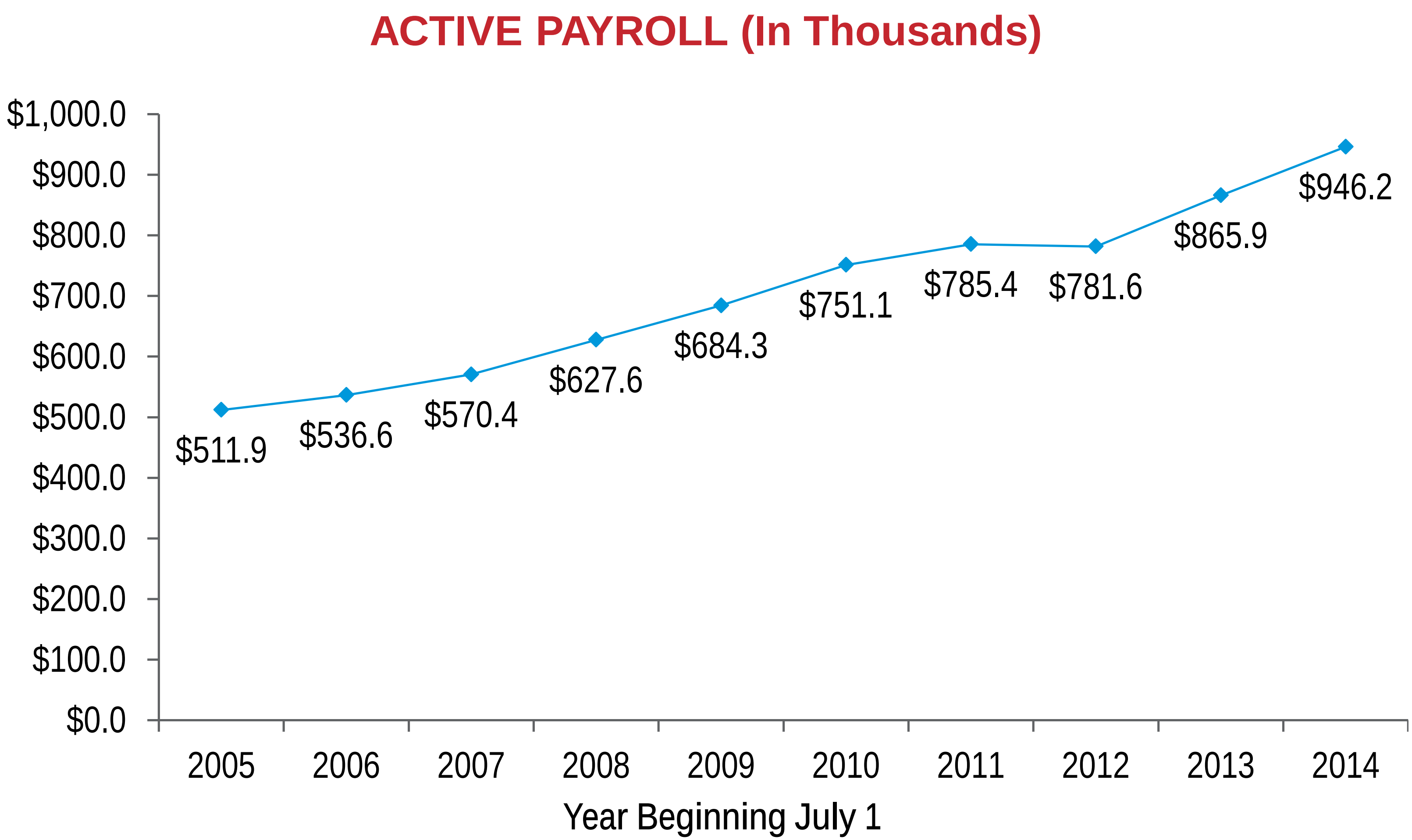
	2014	2013	Change
Actives			
• Number	22,262	21,588	3.1%
• Payroll	$973.6 million	$888.5 million	9.6%
• Average Age	46.6 years	47.0 years	-0.4 years
• Average Service	10.0 years	10.4 years	-0.4 years
Retirees and Beneficiaries			
• Number	9.300	8,730	6.5%
• Total Monthly Benefits	$9.7 million	$8.7 million	11.5%
• Average Monthly Benefit	$1,038	$999	3.9%

Main System



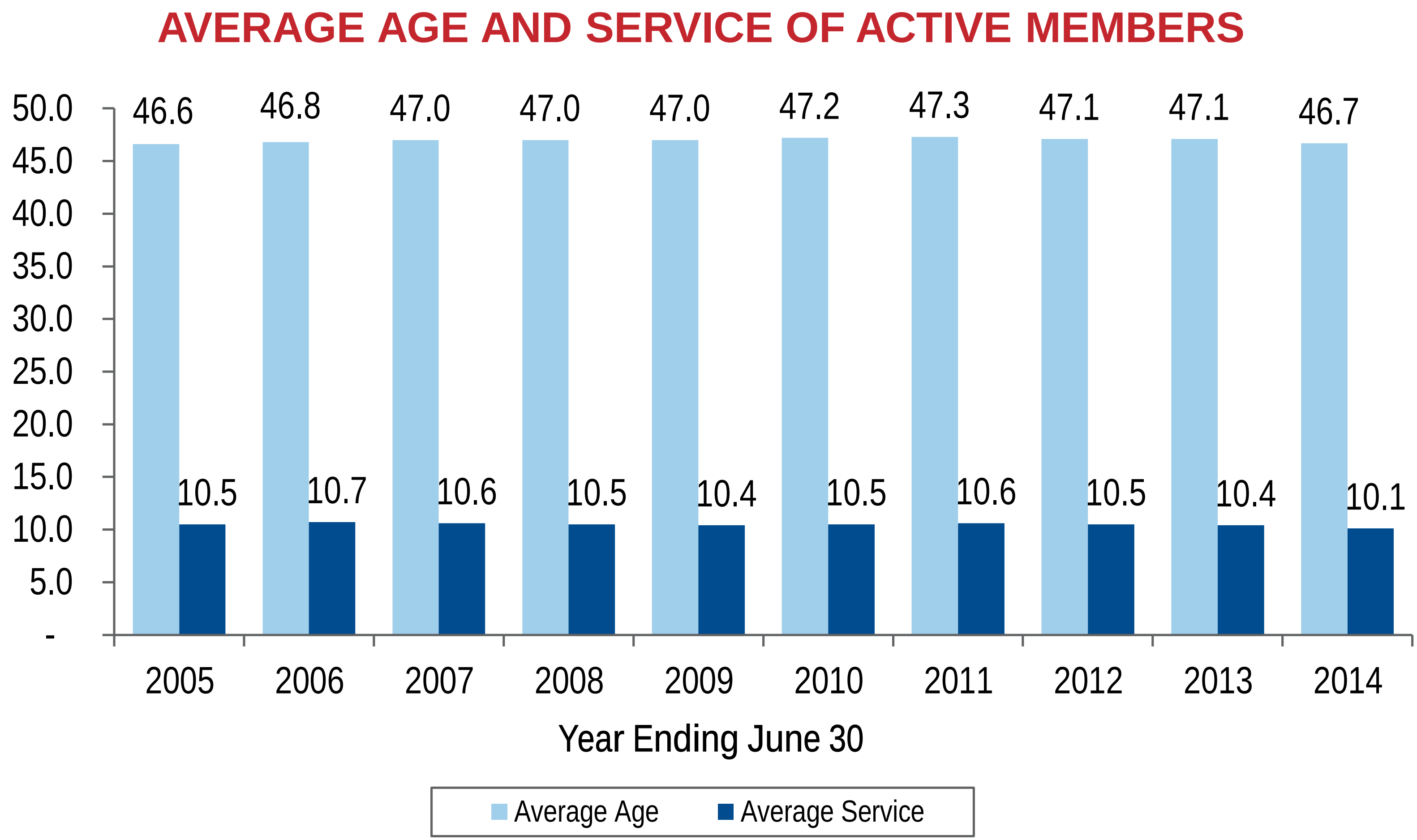
Active Population increased 2.9% from 21,201 to 21,814.
Retired Members, excluding beneficiaries, increased 7.1% from 7,853 to 8,409.

Main System



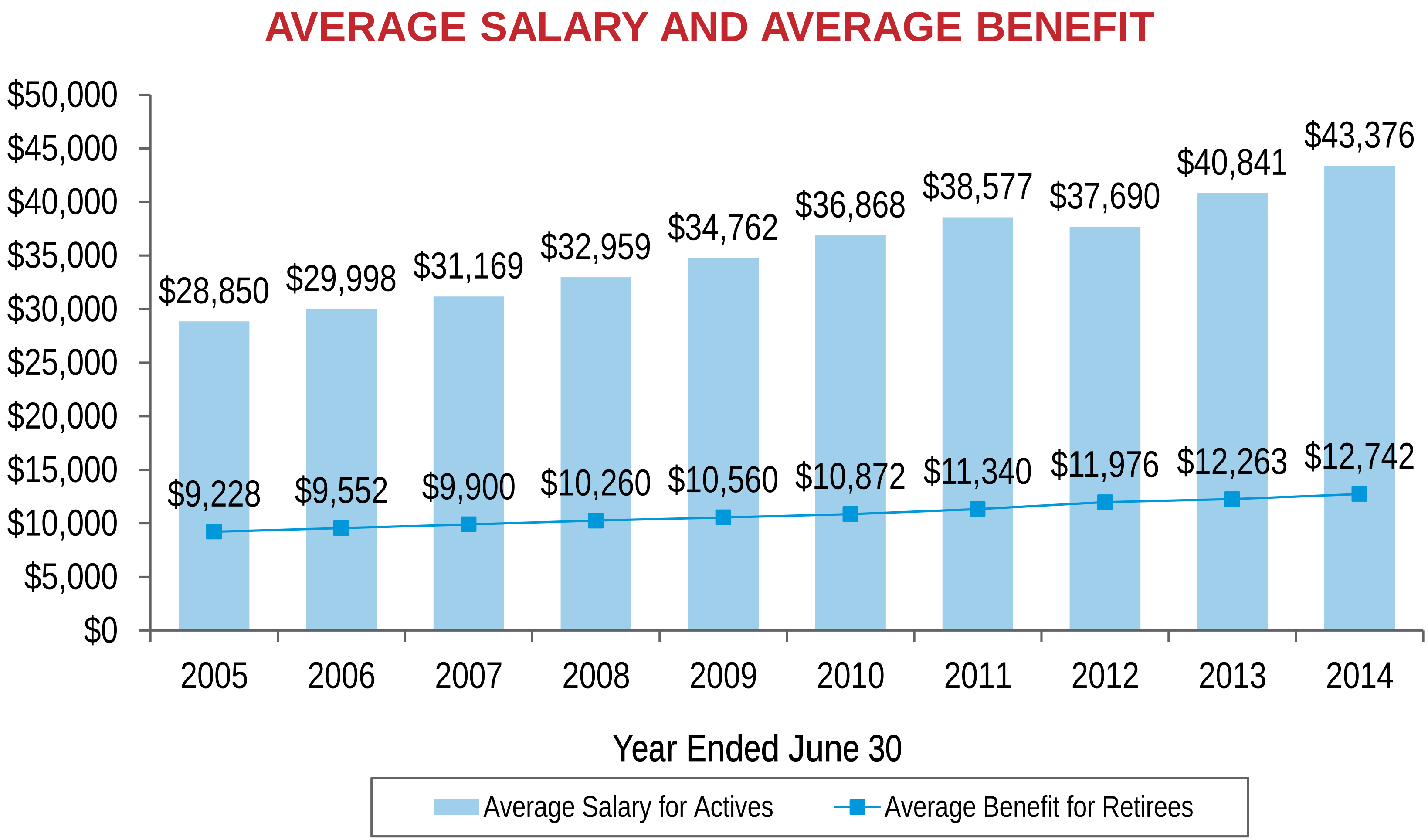
Total compensation projected for the upcoming year increased 9.3% from $865.9 million to $946.2 million.

Main System



The average service has decreased slightly as new participants with lower service replace retiring and refunded participants. For 2014, the relationship between the average age and service implies an entry age of 36.6 years (46.7 – 10.1).

Main System



Average Salary for Actives increased 6.2% from $40,841 to $43,376. Average Benefits for Retired Members, excluding beneficiaries, increased 3.9% from $12,263 to $12,742.

Assets
PERS and HPRS

- The market value of assets increased from $2.015 billion as of June 30, 2013 to $2.347 billion as of June 30, 2014
  - Segal determined the investment return was 16.2%, net of investment expenses
- The actuarial value of assets—which smooth's investment gains and losses over five years—increased from $1.732 billion as of June 30, 2013 to $1.950 billion as of June 30, 2014
  - Investment return of 12.2%, net of investment expenses
  - Actuarial value is 83.1% of market value
  - There is a total of $396.9 million of deferred investment gains that will be recognized in future years
- The average annual return on market assets over the past 10 years is 7.1%
- The average annual return on actuarial assets over the past 10 years is 5.8%

Market Value of Assets

PERS and HPRS – Historical Returns

Year Ending June 30	Market Value	Actuarial Value
2005	14.17%	4.36%
2006	12.04	7.79
2007	19.63	15.84
2008	(5.21)	8.51
2009	(24.05)	1.72
2010	13.25	1.48
2011	21.09	3.31
2012	(0.20)	(0.15)
2013	13.41	3.93
2014	16.15	12.20

Market Value of Assets ($ in billions)

PERS and HPRS

	Fiscal Year Ending June 30, 2014
Beginning of Year	$2.015
Contributions:	
• Employer	0.063
• Member	0.061
• Service Purchases	0.008
• **Total**	**0.132**
Benefits, Expenses and Refunds	(0.126)
Investment Income (net)	0.326
End of Year	**$2.347**
Rate of Return	16.15%

Actuarial Value of Assets ($ in billions)
PERS and HPRS

1.	Market Value of Assets as of June 30, 2013	$2.015
2.	Contributions, Interest, Dividends, Benefits and Expenses	0.039
3.	Preliminary Market Value as of June 30, 2014	2.054
4.	Actual Market Value as of June 30, 2014	$2.347
5.	Excess/(Shortfall) Return for Year Ended June 30, 2014	0.293

Excess/(Shortfall) Returns:

Year	Initial Amount	Deferral %	Unrecognized Amount
2014	$0.293	80%	$0.235
2013	0.201	60%	0.120
2012	(0.040)	40%	(0.016)
2011	0.289	20%	0.058
2010	0.153	0%	0.000
6. Total			**$0.397**

7.	Actuarial Value of Assets as of June 30, 2014:	#4 - #6 =	$1.950
8.	Actuarial Value of Assets as a % of Market Value of Assets		83.1%

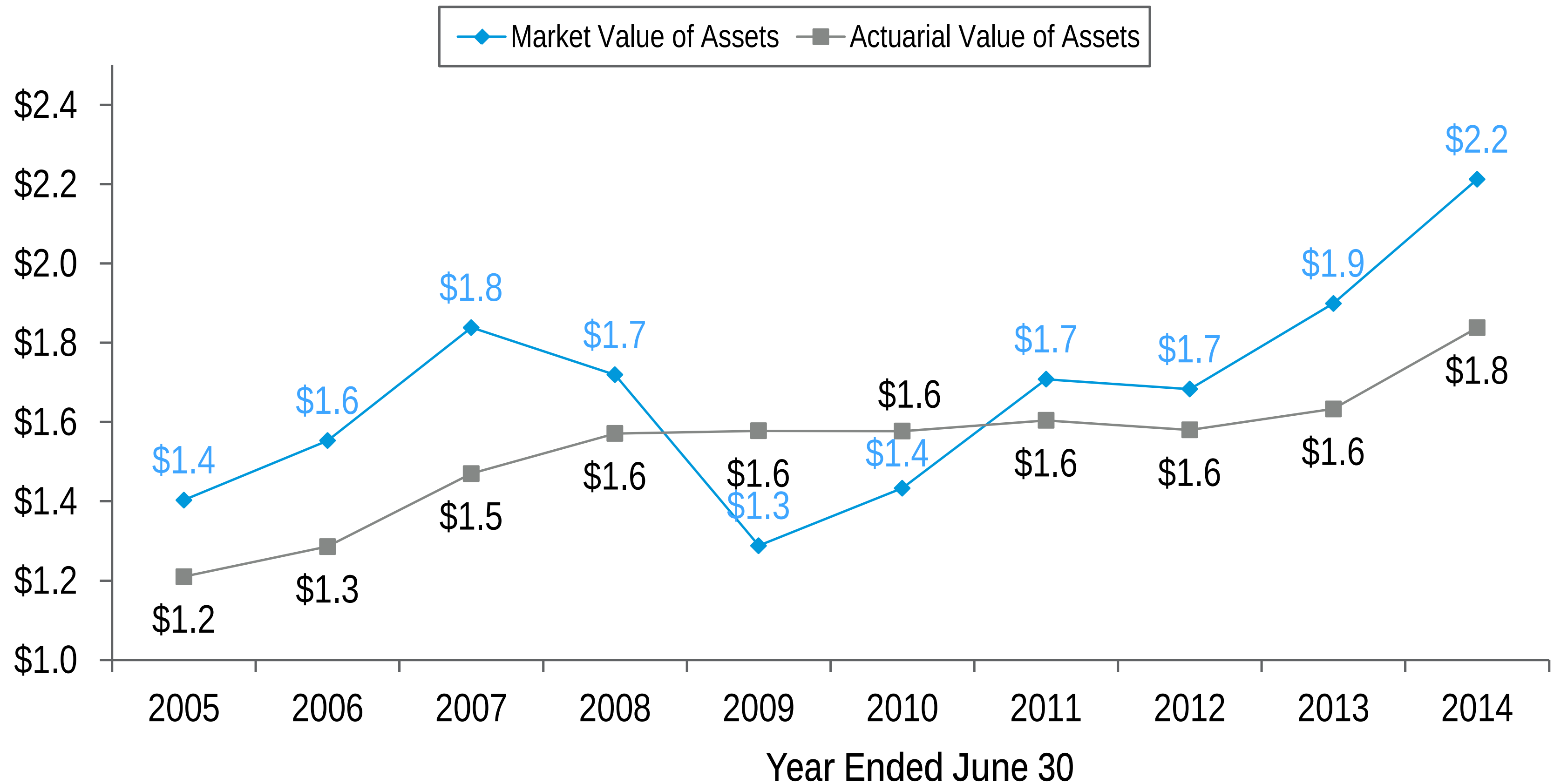
Market Value of Assets ($ in millions)
PERS

FISCAL YEAR ENDING JUNE 30, 2014

				Law Enforcement	
	Main	Judges	National Guard	With Prior Service	Without Prior Service
Beginning of Year	$1,899.5	$36.5	$2.7	$17.8	$1.2
Contributions	124.5	1.9	0.2	2.0	0.9
Benefits, Refunds and Expenses	(119.1)	(1.6)	(0.2)	(1.1)	(0.1)
Investment Income (net)	307.0	6.0	0.4	3.0	0.2
End of Year	$2,211.9	$42.8	$3.1	$21.7	$2.2
Rate of Return	16.14%	16.27%	16.31%	16.20%	14.15%

Main System

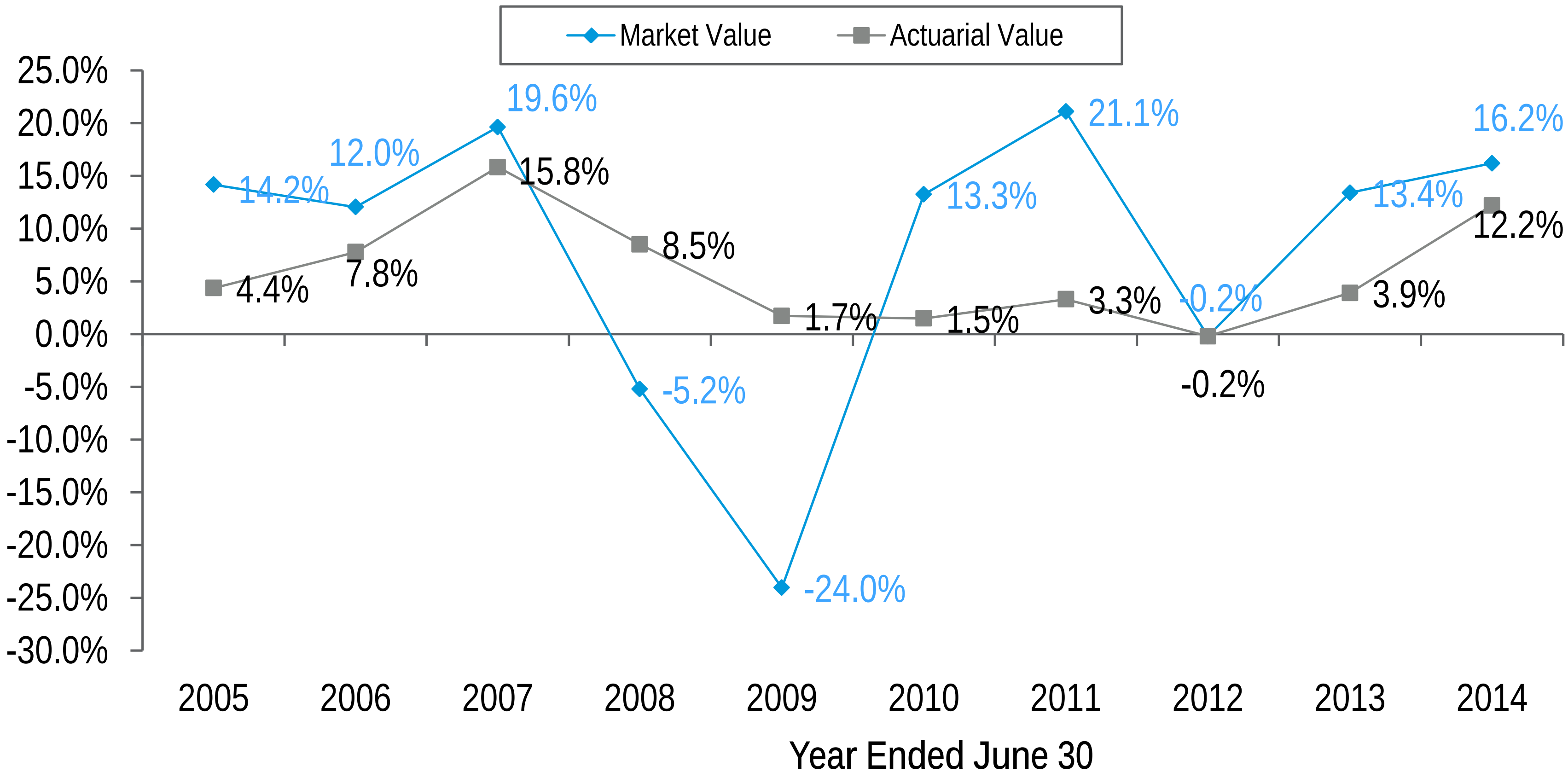
MARKET AND ACTUARIAL VALUE OF ASSETS ($ In Billions)



In the year ended June 30, 2014, the Plan experienced a market value gain of $154.8 million and an actuarial value investment gain of $68.7 Million.

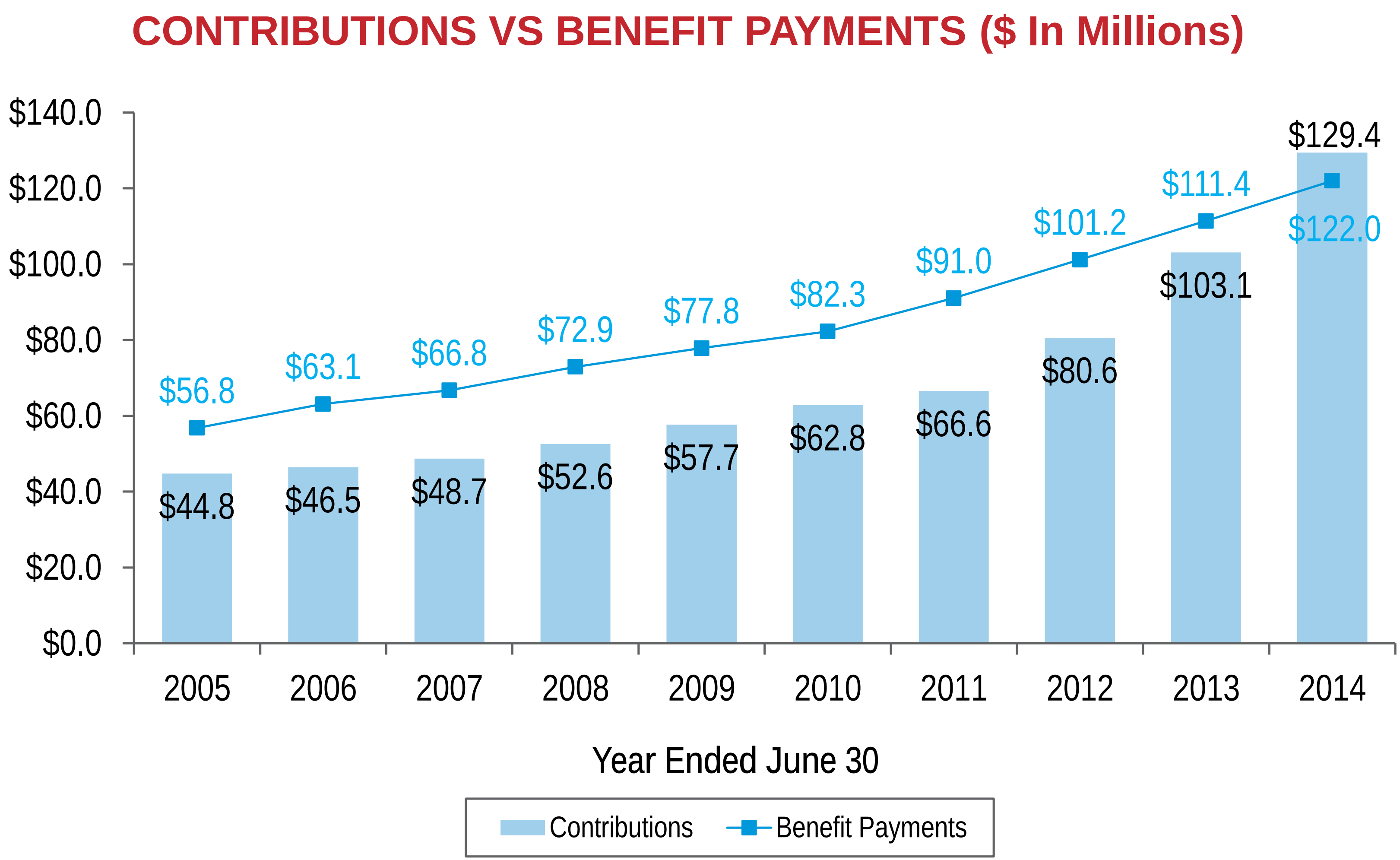
PERS and HPRS

MARKET AND ACTUARIAL RATES OF RETURN



For 2014, the market value return was 16.2% and the actuarial value return was 12.2%. The assumed rate of return shown for all years was 8.0%. The average annual return over the past 10 years is 7.1% on market assets and 5.8% on actuarial assets.

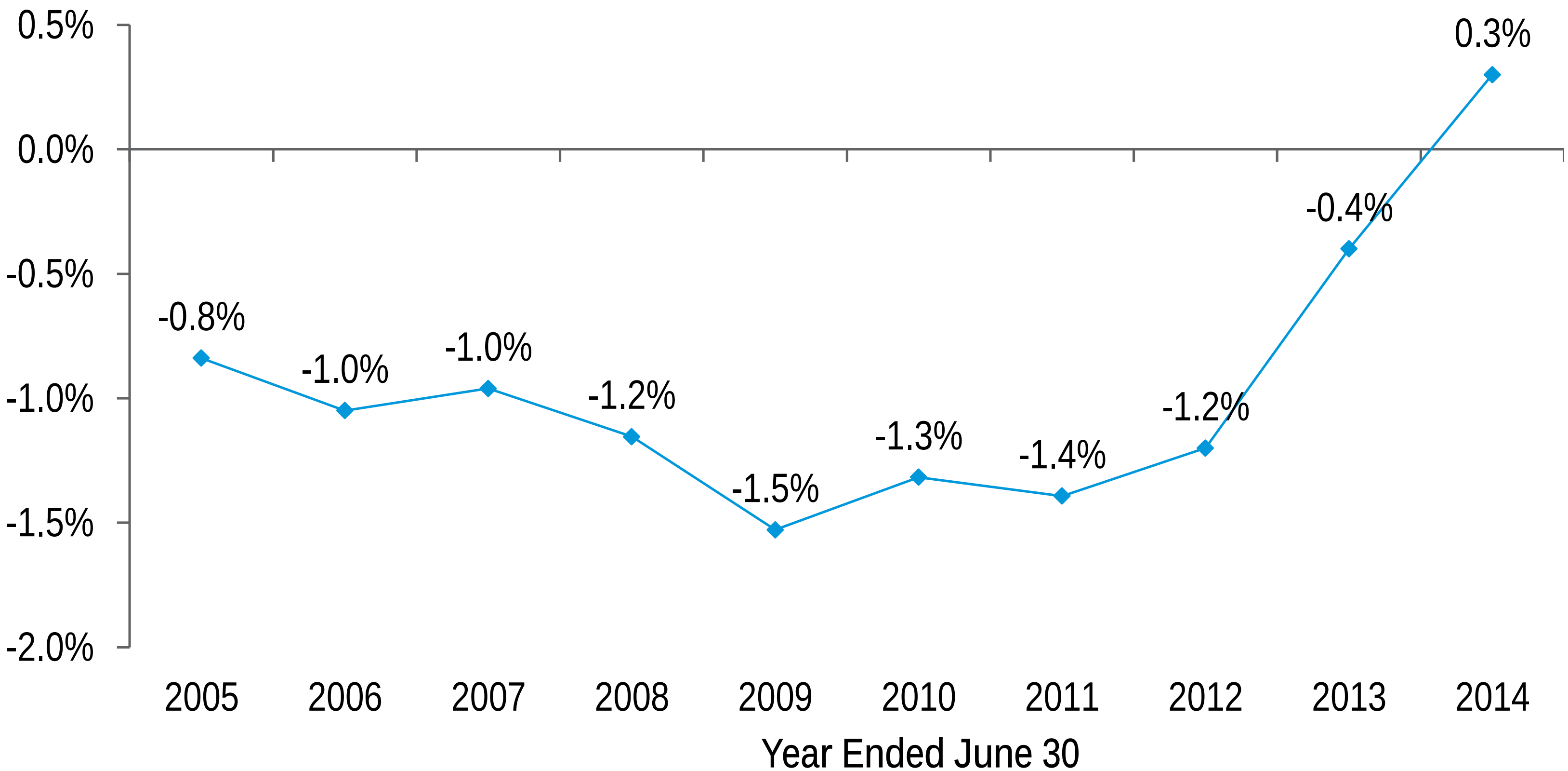
PERS



Benefit Payments have generally exceeded Contributions. However for 2014, benefit payments totaled $122.0 million and contributions were $129.4 million.

PERS

EXTERNAL CASH FLOW AS OF PERCENT OF MARKET VALUE



The net cash flow each year is very small, allowing the market value of assets to continue to grow.

July 1, 2014 Valuation Results ($ in millions)
PERS

				Law Enforcement		
	Main	**Judges**	**National Guard**	**With Prior Service**	**Without Prior Service**	**Total**
Actuarial Accrued Liability (AAL):						
• Active Members	$1,643	$21	$1	$16	$2	$1,683
• Inactive Members	177	<2	<1	1	<1	18
• Retirees and Beneficiaries	1,047	16	1	11	<1	1,075
Total AAL	**$2,867**	**$39**	**$3**	**$28**	**$2**	**$2,939**
Prior year Total AAL	***2,651***	***36***	***3***	***25***	***1***	***2,717***
Actuarial Assets	1,838	$35	$3	$18	$2	$1,896
Prior year Actuarial Assets	*1,633*	*31*	*2*	*15*	*1*	*1,683*
Unfunded Accrued Liability (UAAL)	$1,029	$4	<$1	$10	<$1	$1,043
Prior Year UAAL	*1,018*	*5*	*<1*	*10*	*<$1*	*1,034*
Funded Ratio	64.1%	90.9%	87.8%	64.4%	80.9%	64.5%
Prior Year Funded Ratio	*61.6%*	*86.7%*	*78.2%*	*60.5%*	*68.6%*	*62.0%*

July 1, 2014 Actuarially Recommended Contribution

PERS (Shown as a % of Payroll)

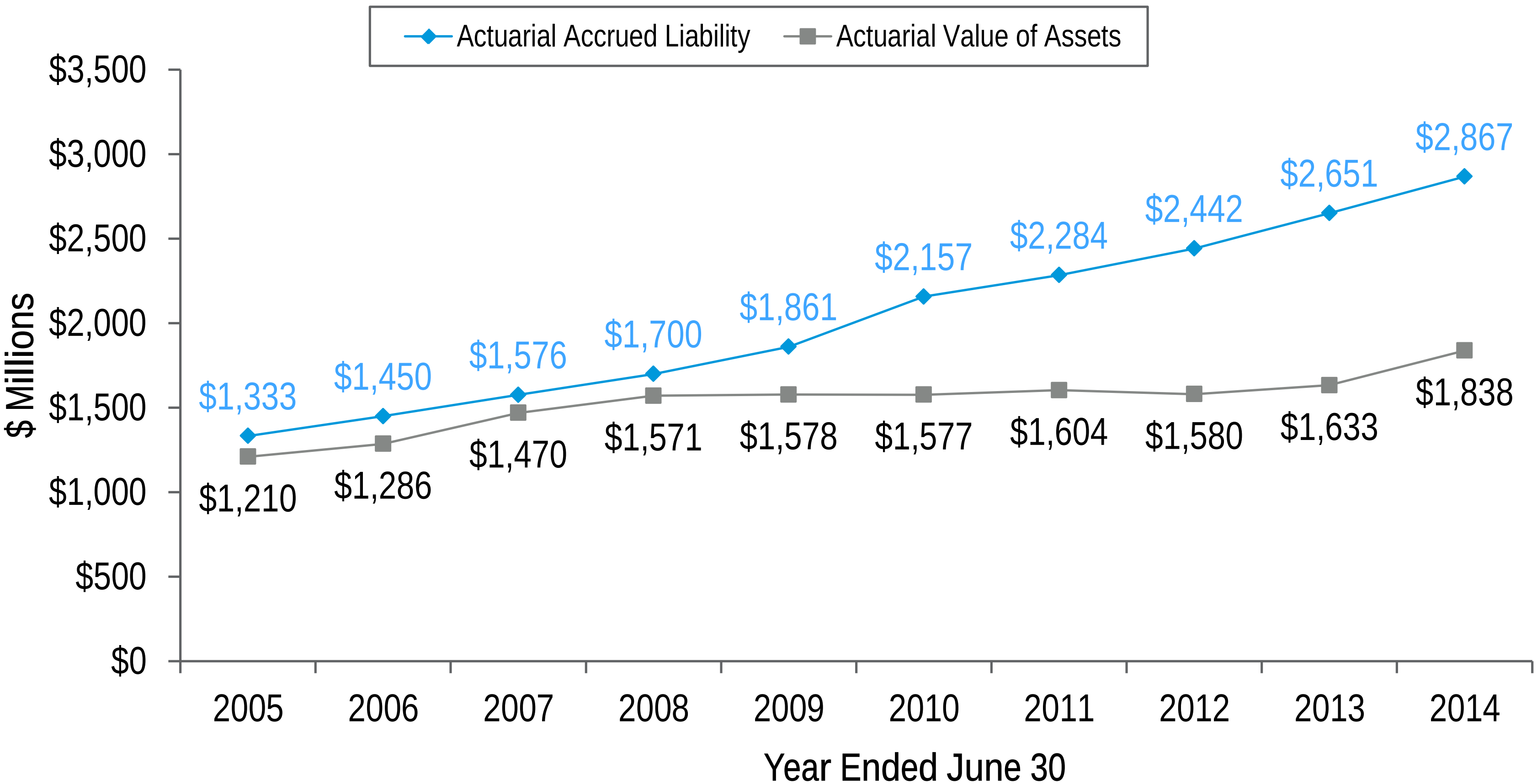
				Law Enforcement	
	Main	Judges	National Guard	With Prior Service	Without Prior Service
Normal Cost Rate	10.36%	19.00%	10.30%	10.62%	11.88%
Member Rate	7.00%	8.00%	4.50%	5.59%*	5.50%
Employer Normal Cost Rate	**3.36%**	**11.00%**	**5.80%**	**5.03%**	**6.38%**
Prior Year Employer Normal Cost Rate	***3.81%***	***11.25%***	***6.24%***	***5.19%***	***6.58%***
20 Year Amortization of UAAL	7.70%	3.80%	2.34%	4.50%	1.04%
Prior Year Amortization of UAAL	*8.33%*	*5.41%*	*2.83%*	*5.99%*	*1.53%*
Actuarially Recommended Contribution	11.06%	14.80%	8.14%	9.52%	7.42%
Prior Year Actuarially Recommended Contribution	*12.14%*	*16.66%*	*9.07%*	*11.18%*	*8.11%*
Employer Rate	7.12%	17.52%	7.00%	9.90%**	7.93%
Contribution Sufficiency/(Deficiency)	(3.94%)	2.72%	(1.14%)	0.38%	0.51%
Prior Year Contribution Sufficiency/Deficiency	*(4.52%)*	*1.36%*	*(1.82%)*	*(1.07%)*	*0.07%*
Contribution Sufficiency/(Deficiency) on Market Value	(1.18%)	10.25%	1.93%	2.02%	1.23%
Prior Year Contribution Sufficiency/Deficiency) on Market Value	*(2.37%)*	*7.00%*	*(0.26%)*	*0.42%*	*0.51%*

* 6% for BCI, 5.50% for others

** 10.31% for BCI, 9.81% for others

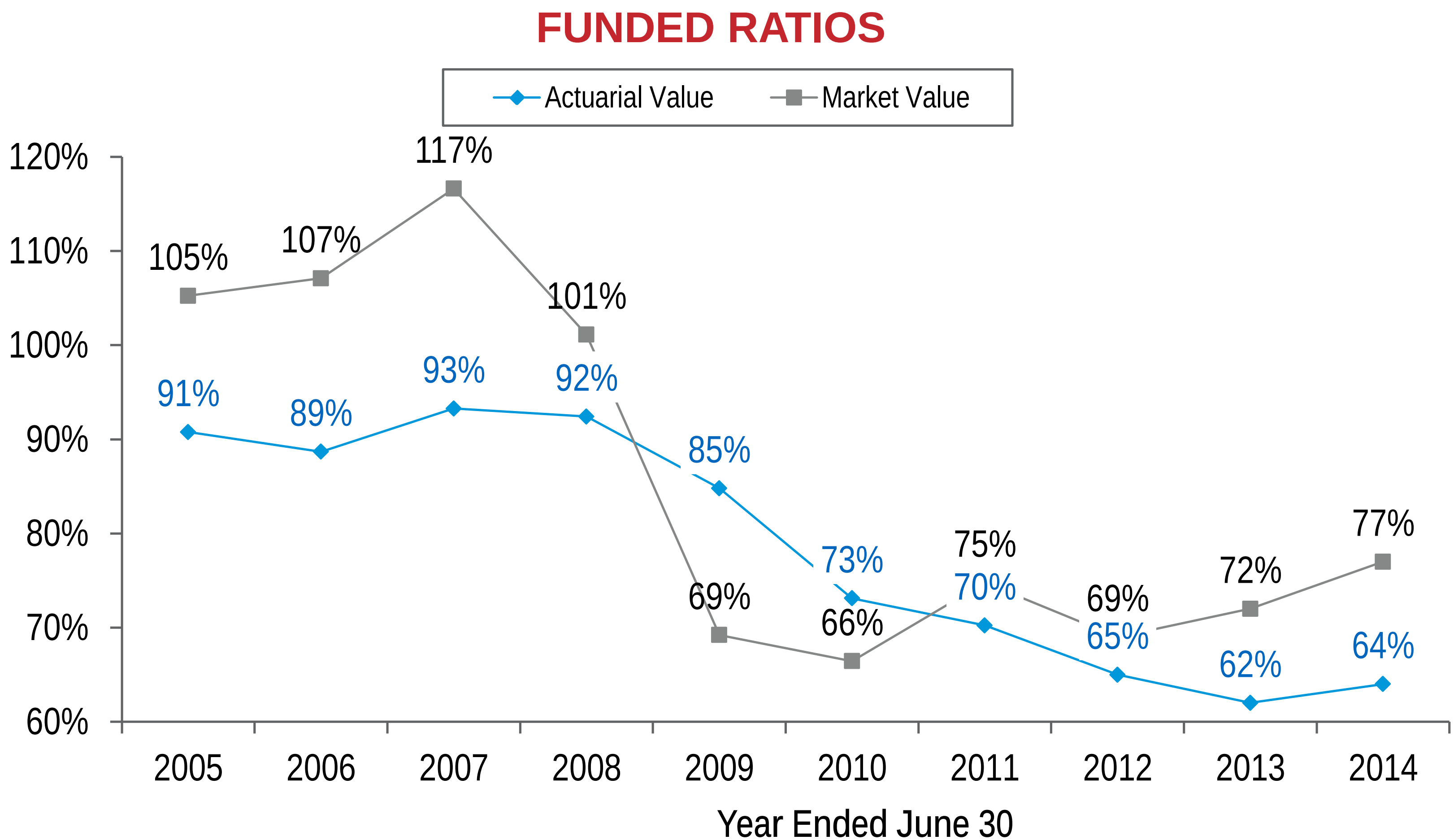
Main System

ACTUARIAL VALUE OF ASSETS AND ACTUARIAL ACCRUED LIABILITY



The Unfunded Actuarial Accrued Liability is the portion of the bar that is above the bar represented by the line. The UAL is $1.029 billion as of July 1, 2014.

Main System



Due to the investment gain in 2014, the ratio based on both actuarial value and market value of assets has increased.

Membership
Highway Patrol

	2014	2013	Change
Actives			
• Number	156	149	4.7%
• Payroll	$10.1 million	$9.3 million	8.6%
• Average Age	37.3	37.3 years	0.0 years
• Average Service	11.2	10.8 years	0.4 years
Retirees and Beneficiaries			
• Number	117	116	0.9%
• Total Annual Benefits	$3.8 million	$3.7 million	2.7%
• Average Monthly Benefit	$2,723	$2,694	1.1%

Assets
Highway Patrol

- The market value of assets increased from $57.0 million as of June 30, 2013 to $65.7 million as of June 30, 2014
  - Segal determined the investment return was 16.3%, net of investment expenses
- The actuarial value of assets—which smooth's investment gains and losses over five years—increased from $49.0 million as of June 30, 2013 to $54.6 million as of June 30, 2014
  - Investment return of 12.6%, net of investment expenses
  - Actuarial value is 83.1% of market
  - There is a total of $11.1 million of deferred investment gains that will be recognized in future years
- The average annual return on market assets for PERS and HPRS over the past 10 years is 7.1%
- The average annual return on actuarial assets for PERS and HPRS over the past 10 years is 5.8%

Valuation Results ($ in millions)

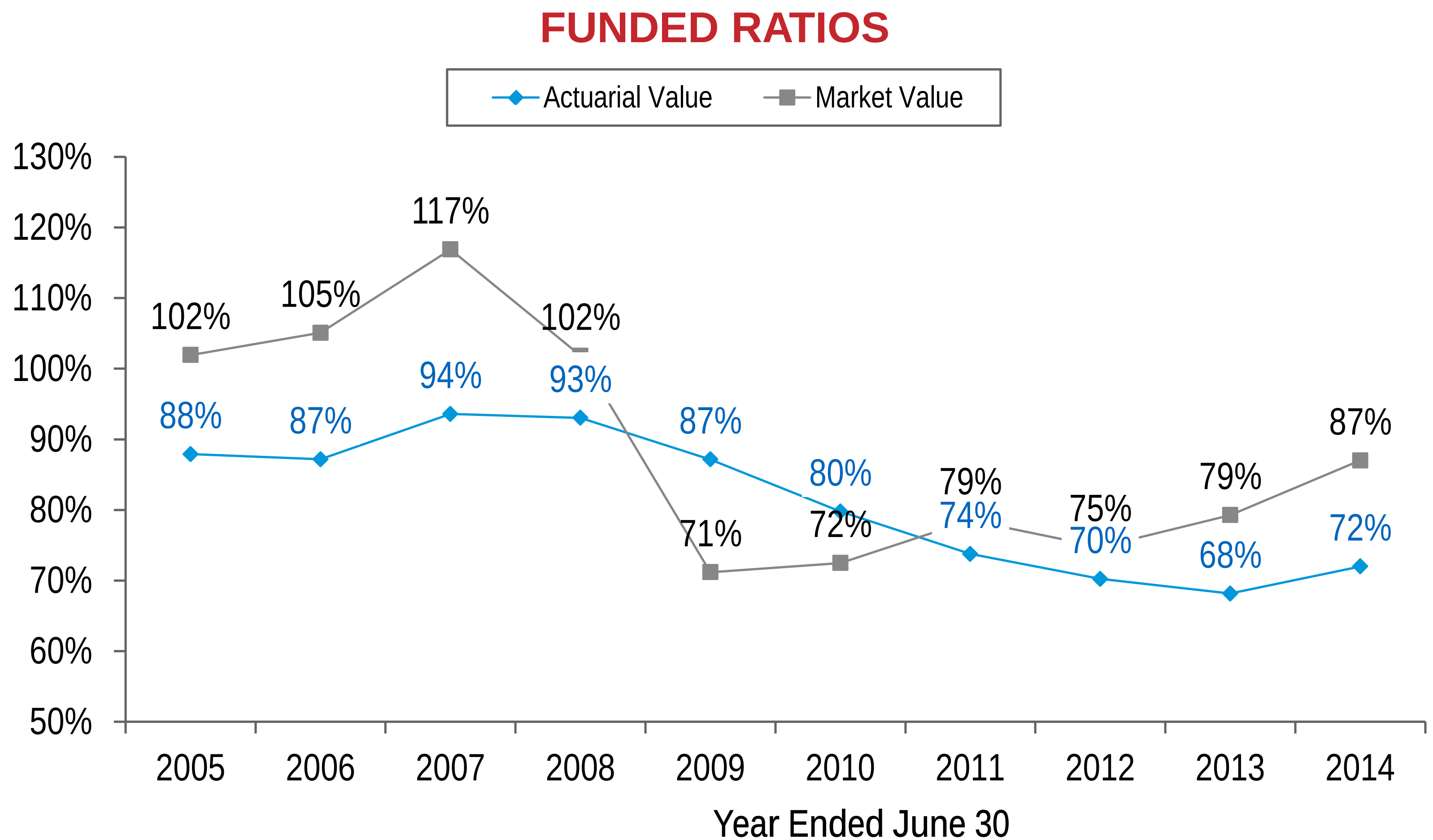
Highway Patrol

	July 1, 2014	July 1, 2013
Actuarial Accrued Liability:		
• Active Members	$33.551	$31.412
• Inactive Members	3.577	2.500
• Retirees and Beneficiaries	38.336	37.980
Total	$75.464	**$71.892**
Actuarial Assets	54.563	49.039
Unfunded Accrued Liability	$20.901	$22,853
Funded Ratio	72.3%	68.2%

Actuarially Recommended Contribution
Highway Patrol

	July 1, 2014	July 1, 2013
Normal Cost Rate	20.44%	20.66%
Member Rate	13.30%	12.80%
Employer Normal Cost Rate	**7.14%**	**7.86%**
Amortization of UAAL	14.56%	17.25%
Actuarially Recommended Contribution	**21.70%**	**25.11%**
Employer Rate	19.70%	18.70% –19.70%
Contribution Sufficiency/(Deficiency)	(2.00%)	**(4.91%)**
Contribution Sufficiency/(Deficiency) on Market Value	5.64%	1.06%

Highway Patrolmen's Retirement System



Due to the investment gain in 2014, the ratio based on both actuarial value and market value of assets has increased.

Membership
Job Service

	2014	2013	Change
Actives			
• Number	13	15	-13.3%
• Projected payroll	$0.8 million	$0.8 million	0.0%
• Average Age	60.4 years	59.3 years	1.1 years
• Average Service	37.6 years	36.5 years	1.1 years
Retirees and Beneficiaries			
Non-Travelers			
• Number	140	137	2.2%
• Total Monthly Benefits	$330,262	$313,664	5.3%
• Average Monthly Benefit	$2,359	$2,290	3.0%
Travelers			
• Number	73	76	-3.9%
• Total Monthly Benefits	$55,227	$53,983	2.3%
• Average Monthly Benefit	$757	$710	6.6%

Assets
Job Service

- The market value of assets increased from $90.4 million as of June 30, 2013 to $97.7 million as of June 30, 2014
  - Segal determined the investment return was 13.5%, net of investment expenses
- The actuarial value of assets—which smooth's investment gains and losses over five years—increased from $76.3 million as of June 30, 2013 to $78.2 million as of June 30, 2014
  - Investment return of 8.7%, net of investment expenses
  - Actuarial value is 80.0% of market value
  - There is a total of $19.5 million of deferred investment gains that will be recognized in future years

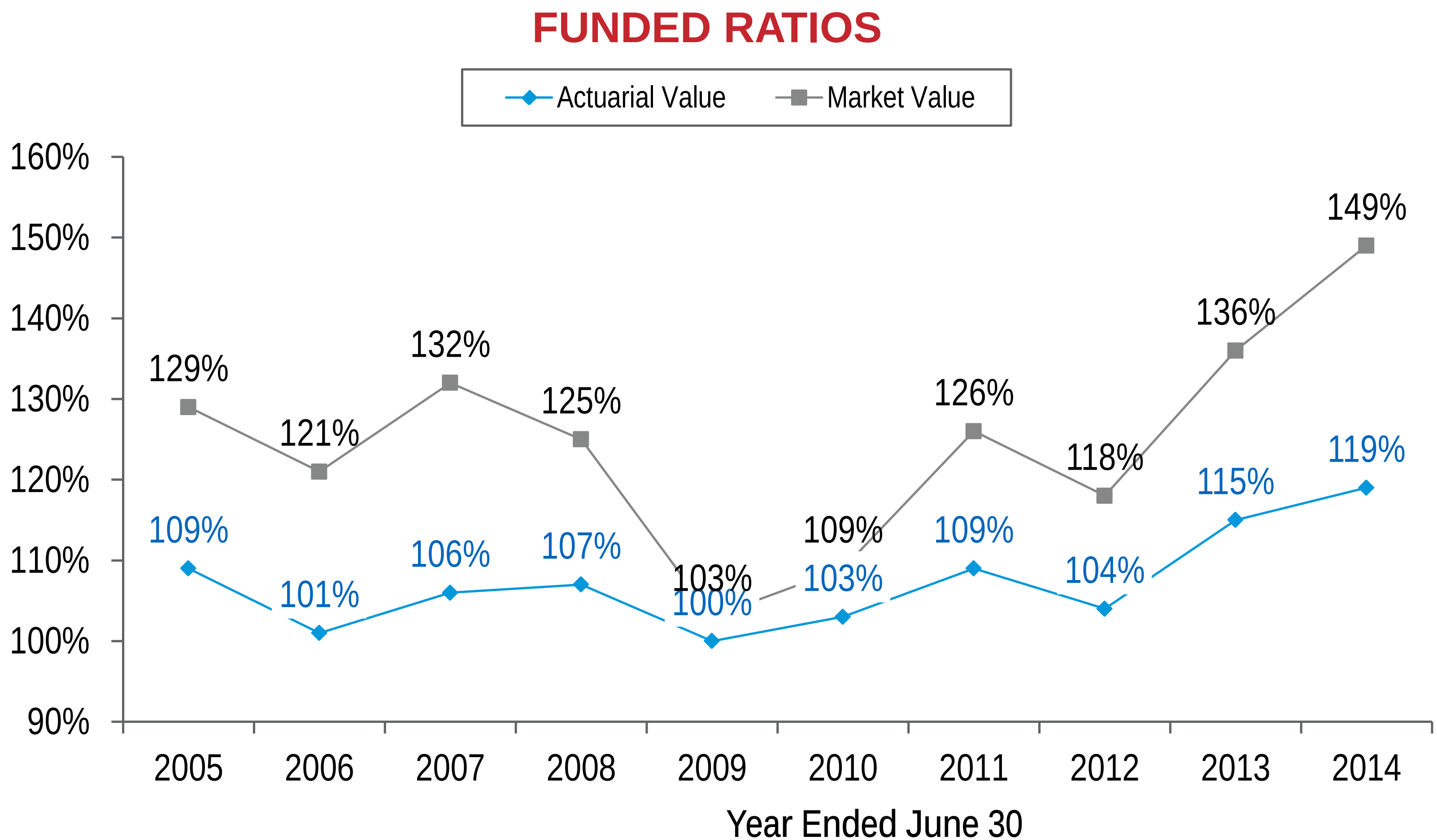
Valuation Results ($ in millions)

Job Service

	July 1, 2014	July 1, 2013
Present Value of Benefits:		
• Active Members	$7.629	$7.858
• Inactive Members	0.011	1.915
• Retirees and Beneficiaries	57.839	56.672
Total	**$65.479**	**$66.445**
Actuarial Assets	78.157	76.325
Unfunded/(Overfunded) Accrued Liability	$(12.678)	$(9.880)
Funded Ratio*	119.4%	114.9%

*No contributions are scheduled as long as the funded ratio exceeds 100%.

Job Service Employees Retirement Plan



Based on PVB.

Membership
Retiree Health Insurance Credit Fund

	2014	2013	Change
Actives			
• Number	22,642	21,955	3.1%
• Payroll	$1,001.2 million	$914.4 million	9.5%
• Average Age	46.6 years	46.9 years	-0.3 years
• Average Service	10.1 years	10.3 years	-0.2 years
Retirees and Beneficiaries			
• Number	4,829	4,635	4.2%
• Total Monthly Benefits	$0.6 million	$0.6 million	0.0%
• Average Monthly Benefit	$119	$119	0.0%

Assets
Retiree Health Insurance Credit Fund

- The market value of assets increased from $75.6 million as of June 30, 2013 to $92.0 million as of June 30, 2014
  - Segal determined the investment return was 15.9%, net of investment expenses
- The actuarial value of assets—which smooth's investment gains and losses over five years—increased from $66.0 million as of June 30, 2013 to $77.9 million as of June 30, 2014
  - Investment return of 11.6%, net of investment expenses
  - Actuarial value is 84.7% of market
  - There is a total of $14.1millions of deferred investment gains that will be recognized in future years

Valuation Results ($ in millions)

Retiree Health Insurance Credit Fund

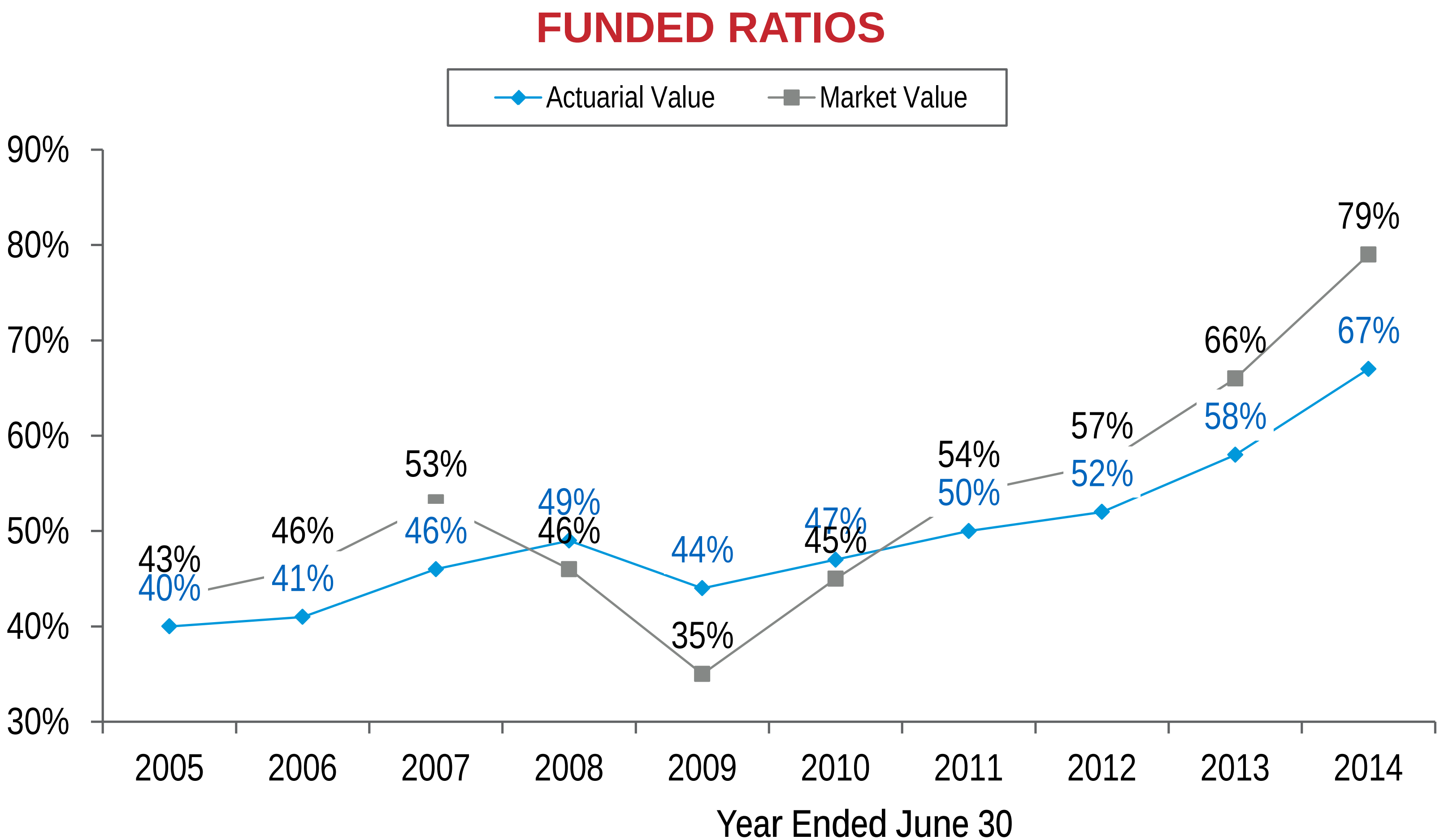
	July 1, 2014	July 1, 2013
Actuarial Accrued Liability:		
• Active Members	$57.317	$57.098
• Retirees and Beneficiaries	59.316	56.955
Total	**$116.633**	**$114.053**
Actuarial Assets	77.925	65.972
Unfunded Accrued Liability	$38.708	$48.081
Funded Ratio	66.8%	57.8%

Actuarially Recommended Contribution

Retiree Health Insurance Credit Fund

	July 1, 2014	July 1, 2013
Normal Cost Rate	0.32%	0.35%
Amortization of UAAL	0.32%	0.42%
Actuarially Recommended Contribution	**0.64%**	**0.77%**
Employer Rate	1.14%	1.14%
Contribution Sufficiency/(Deficiency)	**0.50%**	**0.37%**
Contribution Sufficiency/(Deficiency) on Market Value	0.61%	0.46%

Retiree Health Insurance Credit Fund



Due to the investment gain in 2014, the ratio based on both actuarial value and market value of assets has increased.

Valuation Results
Comments

- Potential risks to the system:
  - Investment Risk
  - Longevity Risk
  - Other Risks
- Board should consider projections, studies, etc., to help quantify these risks, and make changes to the system, if appropriate (Actuarial Standards Board Risk ASOP)
- The asset valuation and amortization methods should be reviewed to make sure that they are in line with the Board's funding objectives
- Contributions are being made in accordance with the funding policy but the Plans remain unfunded. A change in the policy could accelerate an improvement of the funded ratios.

Projections

Projections of estimated funded ratios for 30 years:

- Investment return scenarios ranging from -16% to +16% for 2014/2015, and 8% thereafter
- Investment returns of level 7% and 9% (for all years)
- 10% of new entrants will elect DC Plan participation
- Benefit payments for the Main System are projected to grow annually by 8% for 10 years, then 6% for 10 years, then 4%. Benefit payment for other groups are also projected to grow each year.

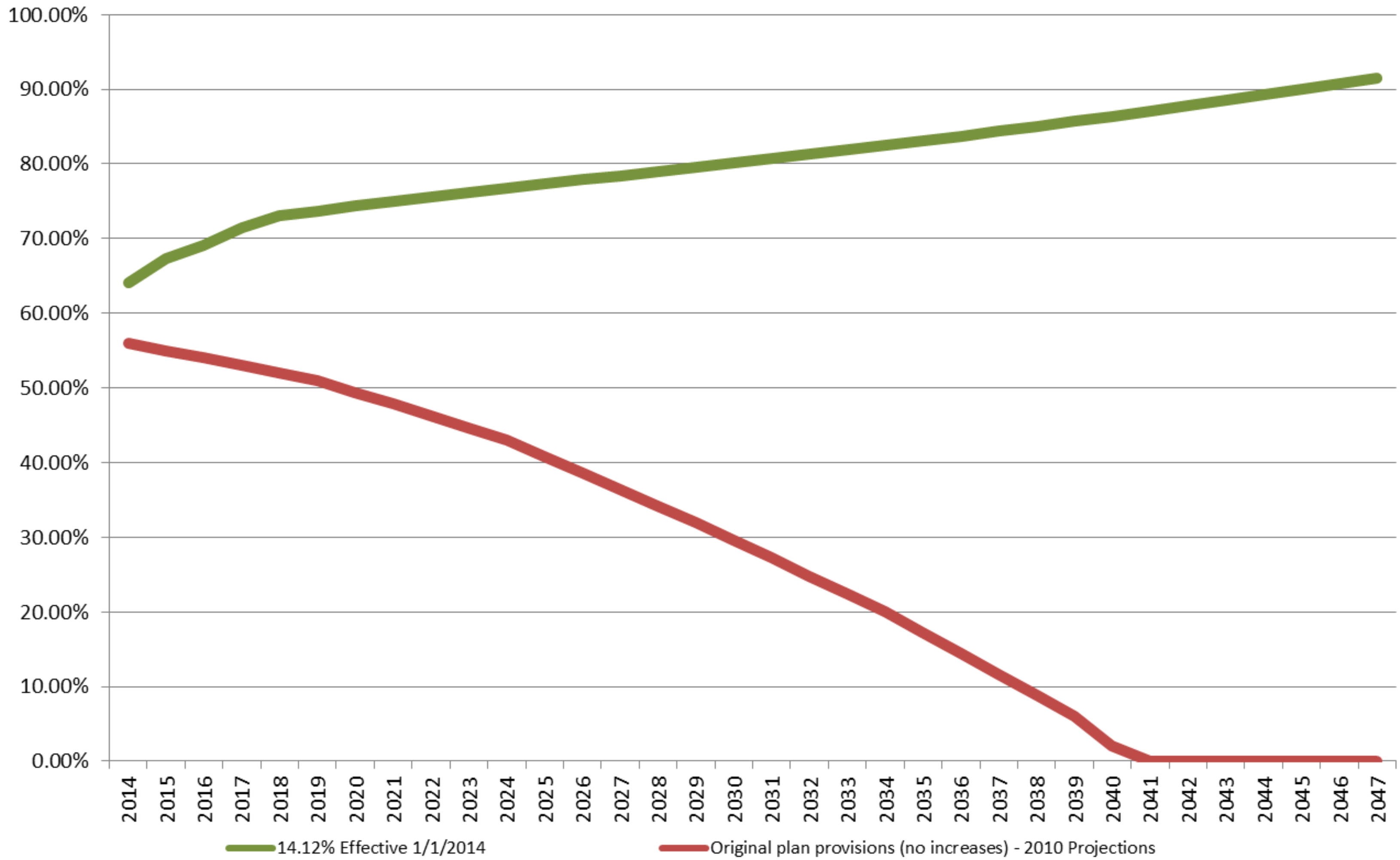
Target Funded Ratios:

- Investment return scenarios ranging from -16% to +16% for 2014/2015
- Assume Fund earns indicated return thereafter

Projections, by their nature, are not a guarantee of future results. The modeling projections are intended to serve as illustrations of future financial outcomes that are based on the information available to us at the time the modeling is undertaken and completed, and the agreed-upon assumptions and methodologies described herein. Emerging results may differ significantly if the actual experience proves to be different from these assumptions or if alternative methodologies are used. Actual experience may differ due to such variables as demographic experience, the economy, stock market performance and the regulatory environment.

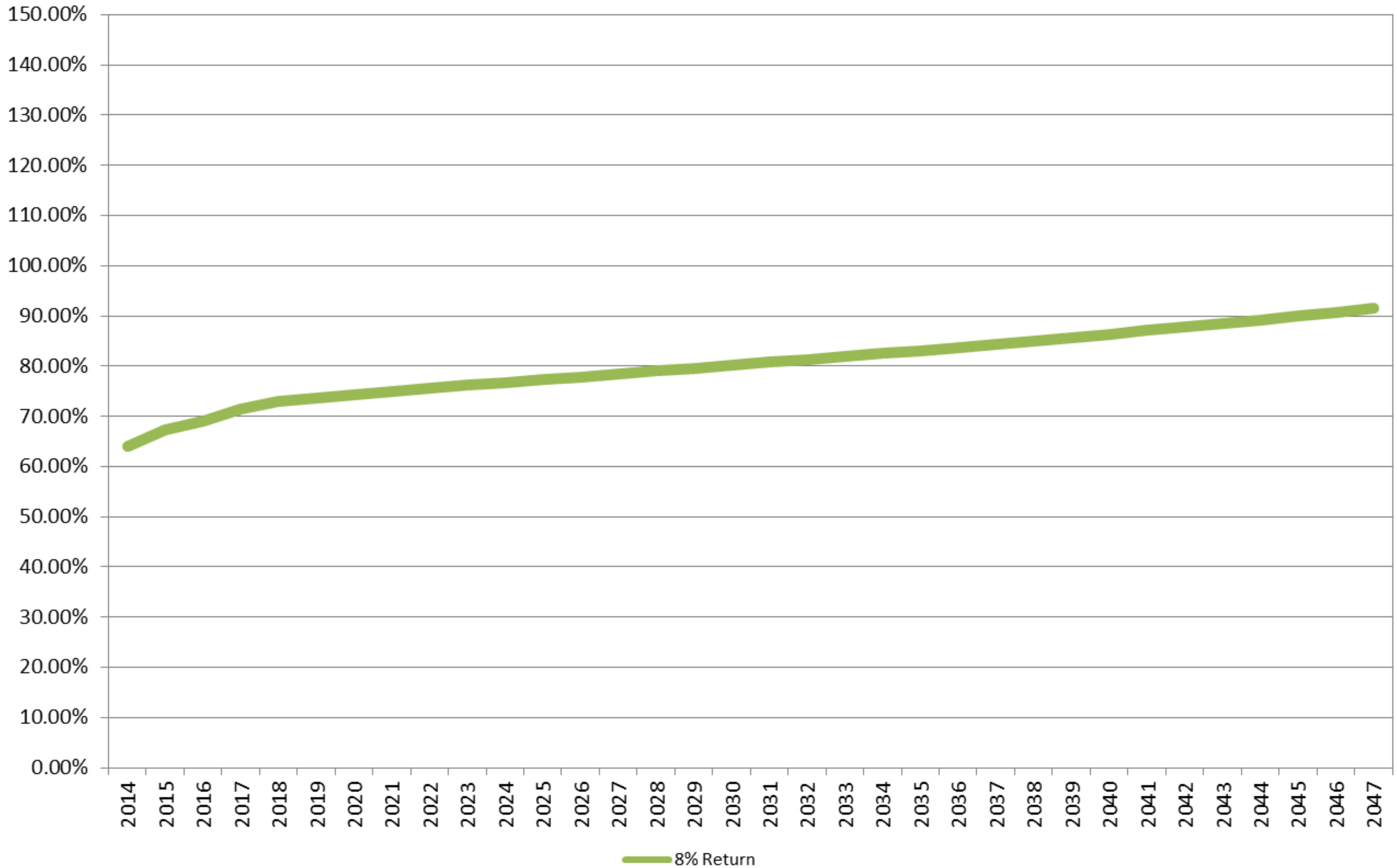
Projected Funded Ratios (AVA Basis)

Main System—Current Plan vs. Original Plan (2010 Projection)

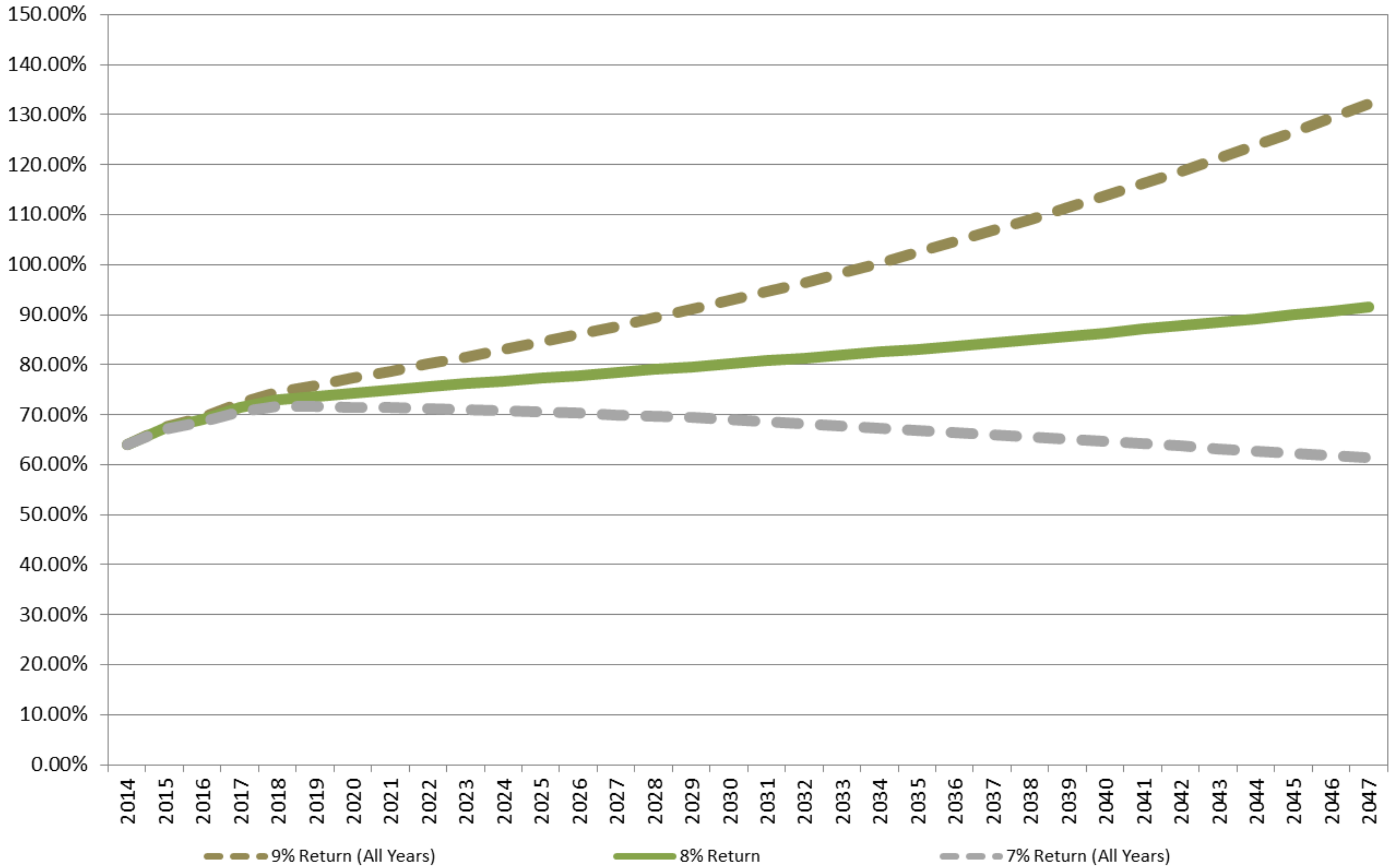


Projected Funded Ratios (AVA Basis)

Main System

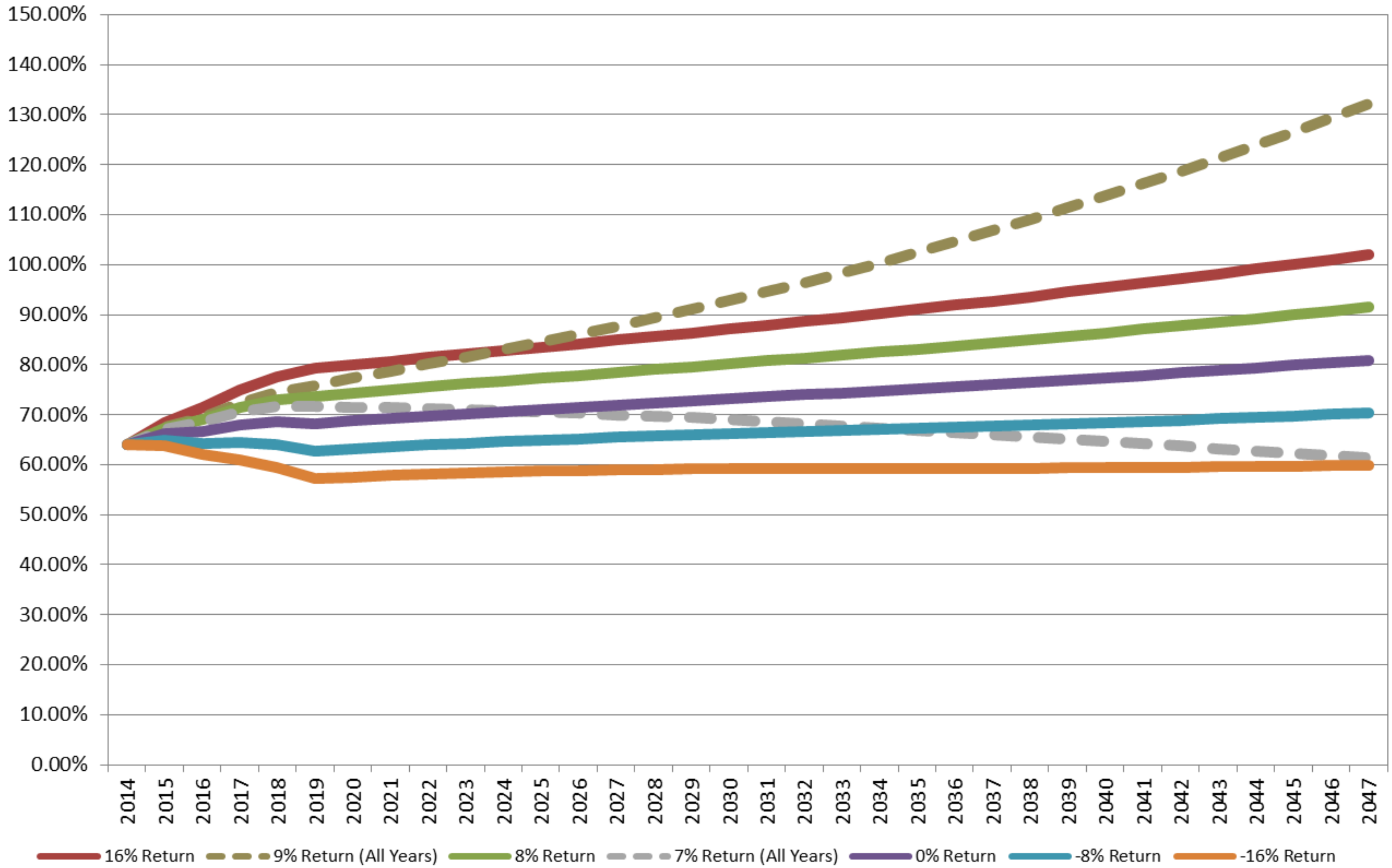


Projected Funded Ratios (AVA Basis)
Main System



Projected Funded Ratios (AVA Basis)

Main System

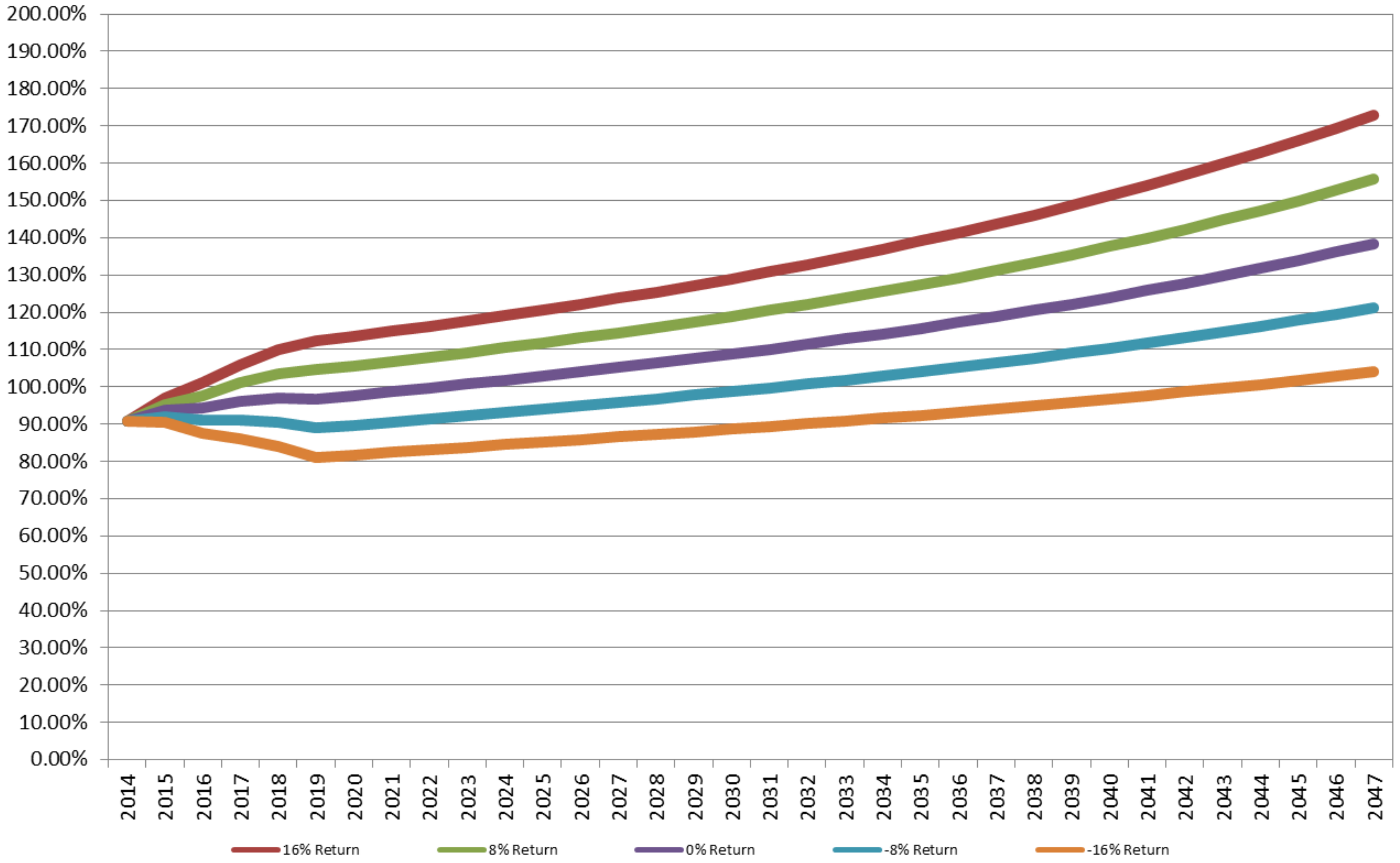


Target Funded Ratios
Main System

RATE OF RETURN REQUIRED FOR ALL YEARS BEGINNING ON AND AFTER 2015/2016 TO ACHIEVE TARGET IN 2034

	Assumed 2014/2015 Return				
Target Funded Ratio	**16.0%**	**8.0%**	**0.0%**	**-8.0%**	**-16.0%**
70%	6.7%	7.1%	7.7%	8.2%	8.9%
80%	7.4%	7.8%	8.4%	8.9%	9.6%
90%	8.0%	8.5%	9.0%	9.6%	10.2%
100%	8.6%	9.1%	9.6%	10.1%	10.8%

Projected Funded Ratios (AVA Basis)
Judges



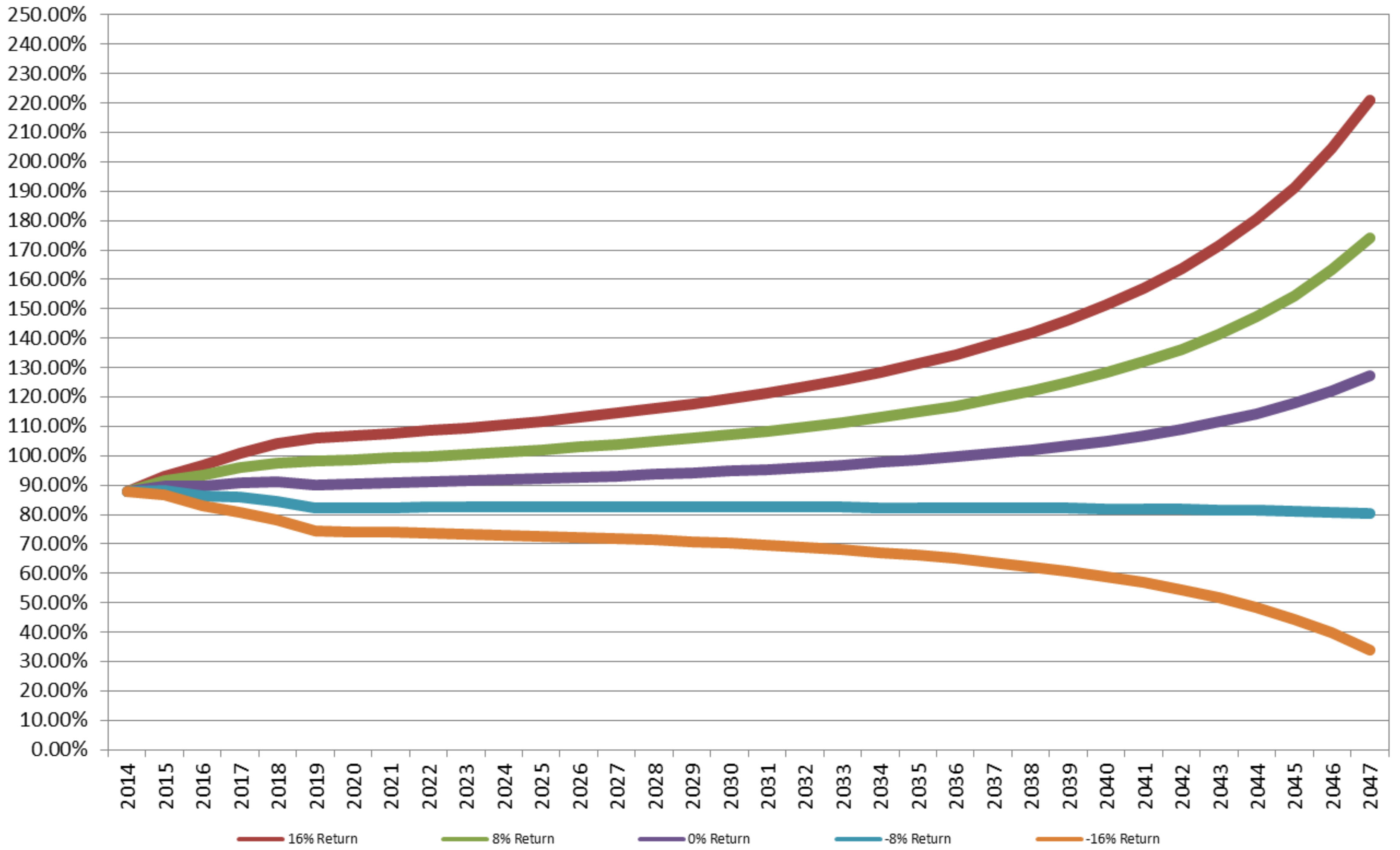
Target Funded Ratios
Judges

RATE OF RETURN REQUIRED FOR ALL YEARS BEGINNING ON AND AFTER 2015/2016 TO ACHIEVE TARGET IN 2034

	Assumed 2014/2015 Return				
Target Funded Ratio	**16.0%**	**8.0%**	**0.0%**	**-8.0%**	**-16.0%**
70%	4.5%	4.9%	5.5%	6.0%	6.6%
80%	5.1%	5.6%	6.1%	6.7%	7.3%
90%	5.7%	6.2%	6.7%	7.3%	7.9%
100%	6.3%	6.8%	7.3%	7.9%	8.5%

Projected Funded Ratios (AVA Basis)

National Guard

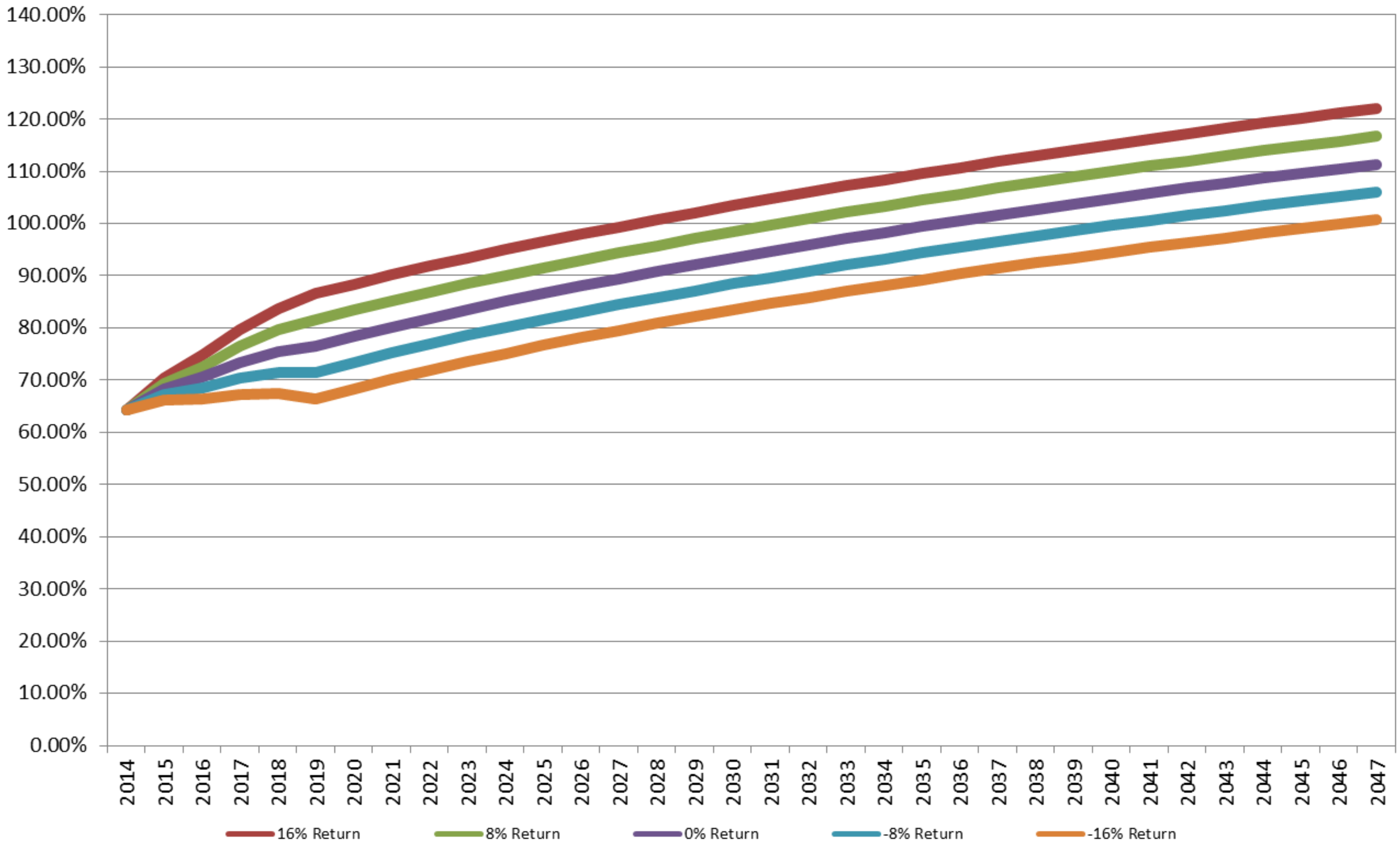


Target Funded Ratios
National Guard

RATE OF RETURN REQUIRED FOR ALL YEARS BEGINNING ON AND AFTER 2015/2016 TO ACHIEVE TARGET IN 2034

	Assumed 2014/2015 Return				
Target Funded Ratio	**16.0%**	**8.0%**	**0.0%**	**-8.0%**	**-16.0%**
70%	5.6%	6.1%	6.7%	7.4%	8.2%
80%	6.1%	6.6%	7.2%	7.9%	8.6%
90%	6.5%	7.1%	7.7%	8.4%	9.1%
100%	6.9%	7.5%	8.1%	8.8%	9.5%

Projected Funded Ratios (AVA Basis)
Law Enforcement with Prior Main System Service

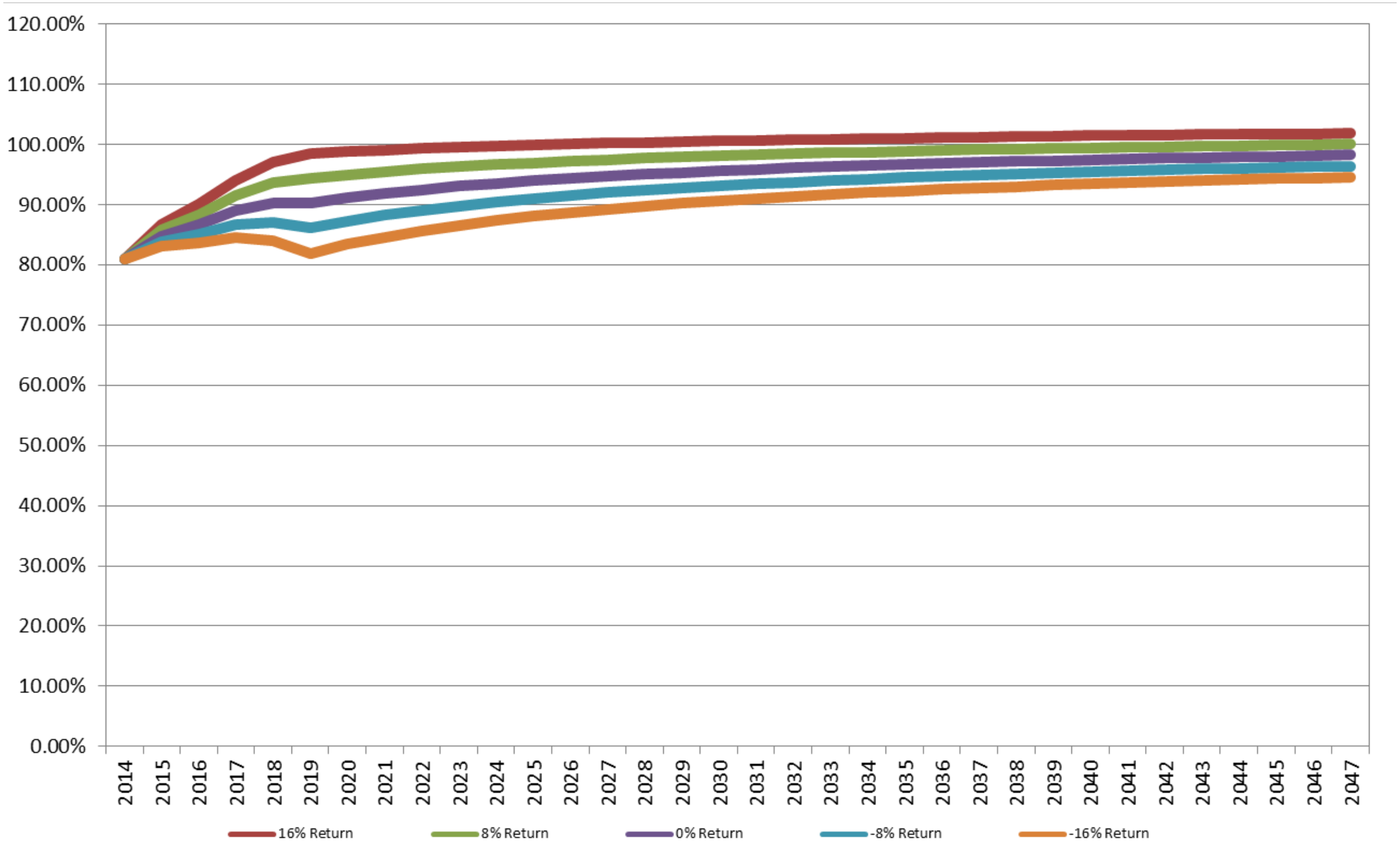


Target Funded Ratios
Law Enforcement with Prior Main System Service

RATE OF RETURN REQUIRED FOR ALL YEARS BEGINNING ON AND AFTER 2015/2016 TO ACHIEVE TARGET IN 2034

	Assumed 2014/2015 Return				
Target Funded Ratio	**16.0%**	**8.0%**	**0.0%**	**-8.0%**	**-16.0%**
70%	4.8%	5.1%	5.5%	5.9%	6.3%
80%	5.8%	6.1%	6.5%	6.9%	7.3%
90%	6.6%	7.0%	7.4%	7.7%	8.2%
100%	7.4%	7.8%	8.1%	8.5%	9.0%

Projected Funded Ratios (AVA Basis)
Law Enforcement without Prior Main System Service



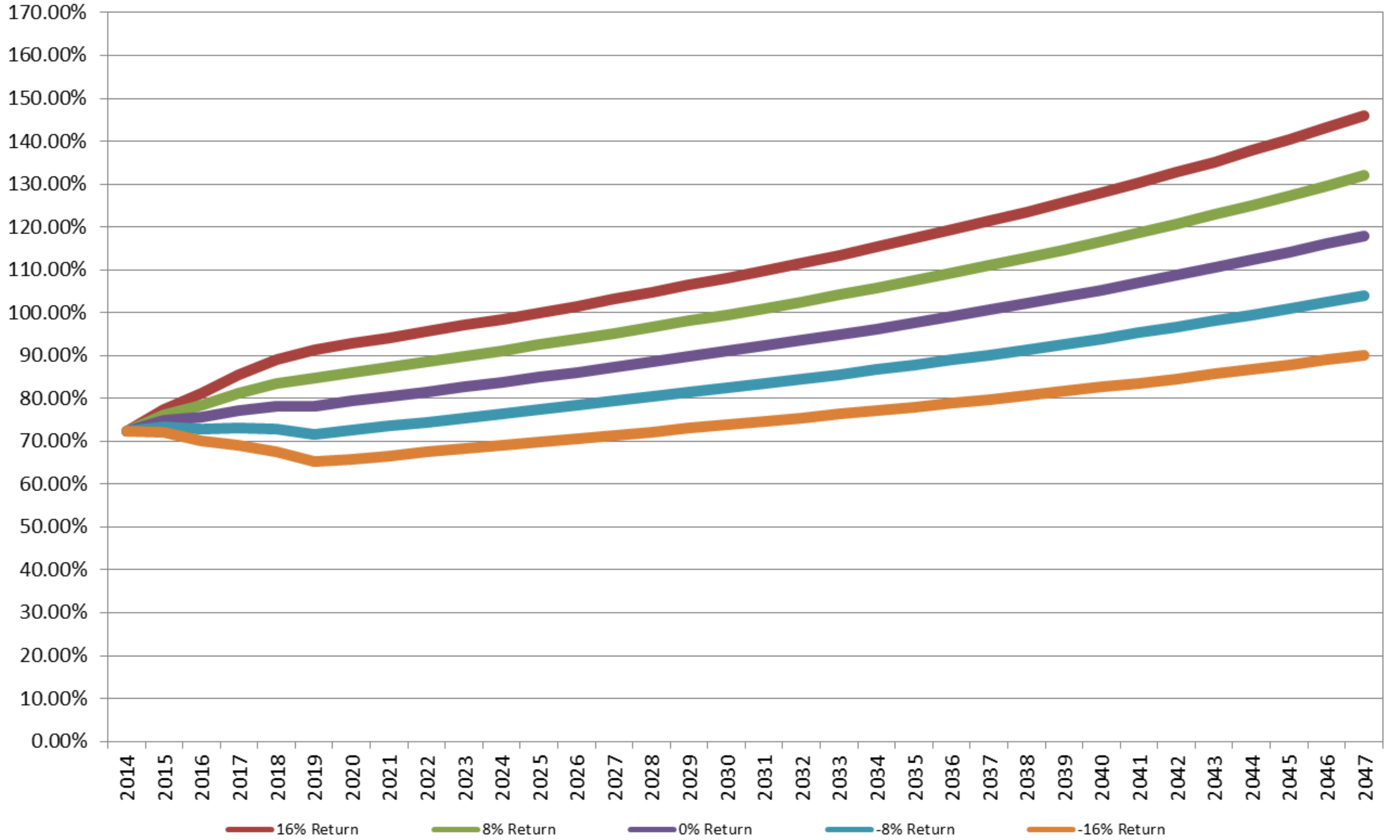
Target Funded Ratios
Law Enforcement without Prior Main System Service

RATE OF RETURN REQUIRED FOR ALL YEARS BEGINNING ON AND AFTER 2015/2016 TO ACHIEVE TARGET IN 2034

	Assumed 2014/2015 Return				
Target Funded Ratio	**16.0%**	**8.0%**	**0.0%**	**-8.0%**	**-16.0%**
70%	4.5%	4.7%	4.8%	5.0%	5.3%
80%	5.8%	6.0%	6.2%	6.4%	6.6%
90%	6.9%	7.1%	7.3%	7.6%	7.8%
100%	7.9%	8.1%	8.3%	8.6%	8.8%

Projected Funded Ratios (AVA Basis)

Highway Patrol



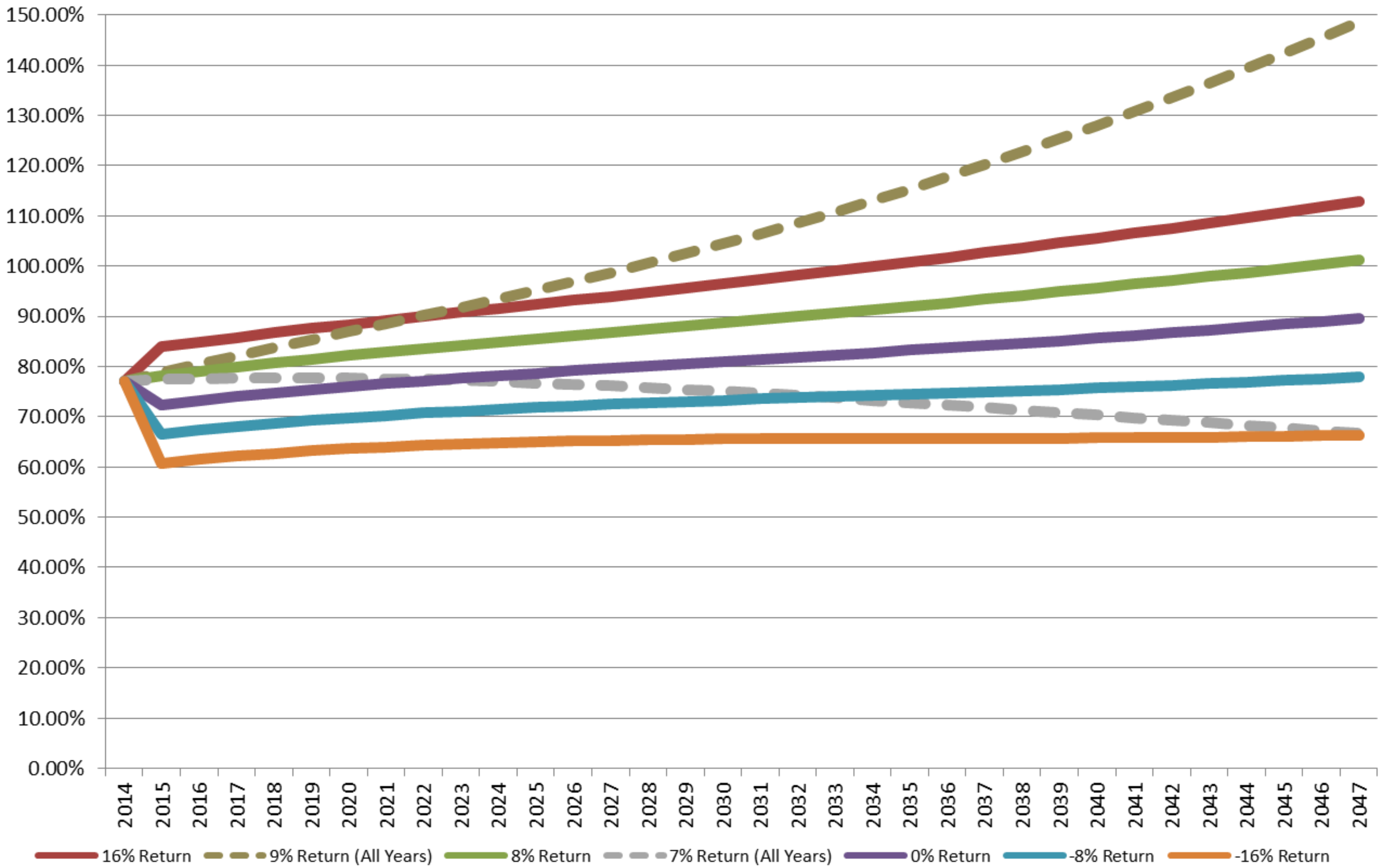
Target Funded Ratios
Highway Patrol

RATE OF RETURN REQUIRED FOR ALL YEARS BEGINNING ON AND AFTER 2015/2016 TO ACHIEVE TARGET IN 2034

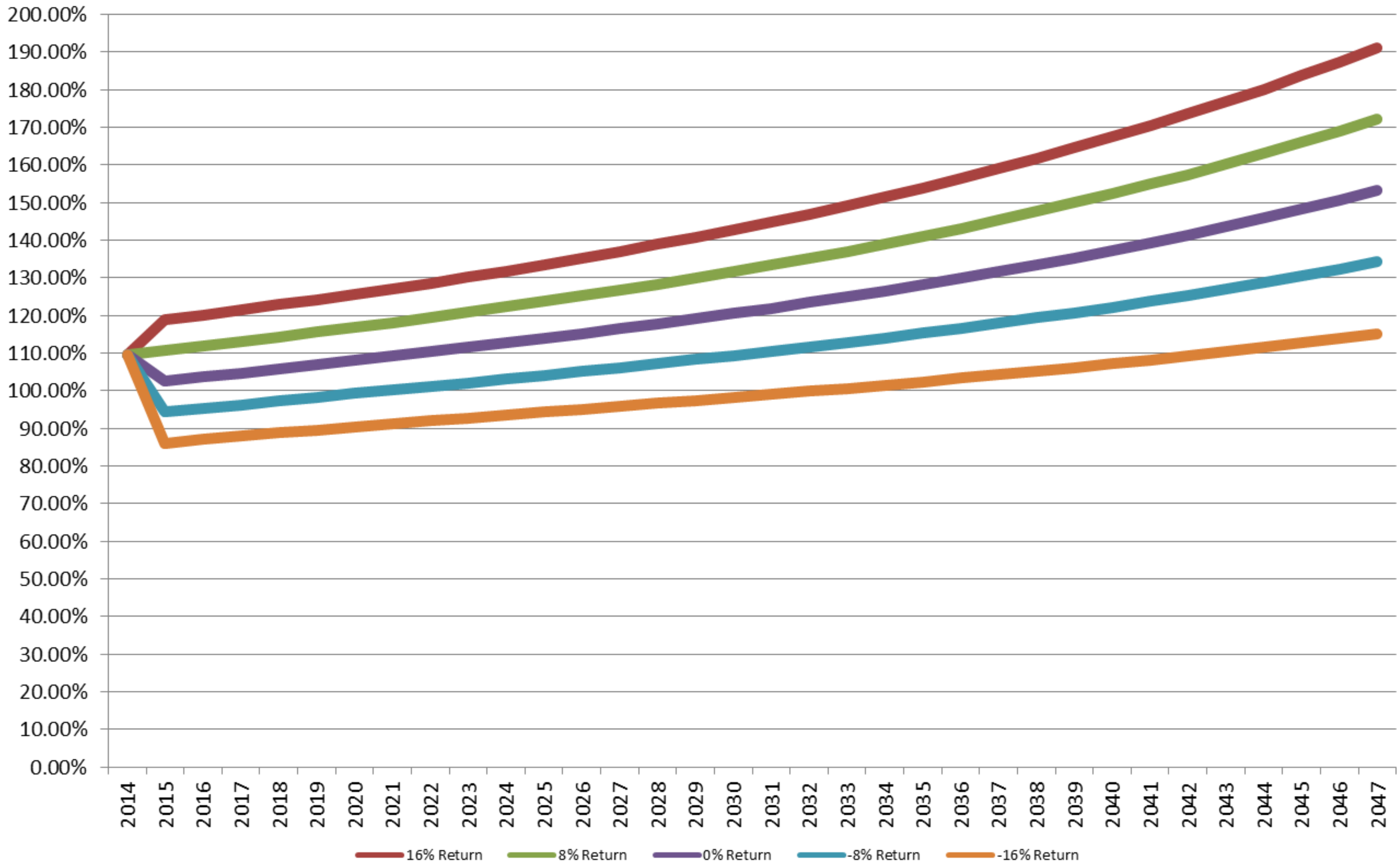
	Assumed 2014/2015 Return				
Target Funded Ratio	**16.0%**	**8.0%**	**0.0%**	**-8.0%**	**-16.0%**
70%	5.3%	5.8%	6.3%	6.9%	7.5%
80%	6.0%	6.5%	7.0%	7.6%	8.2%
90%	6.6%	7.1%	7.6%	8.2%	8.9%
100%	7.2%	7.7%	8.2%	8.8%	9.4%

Projected Funded Ratios (MVA Basis)

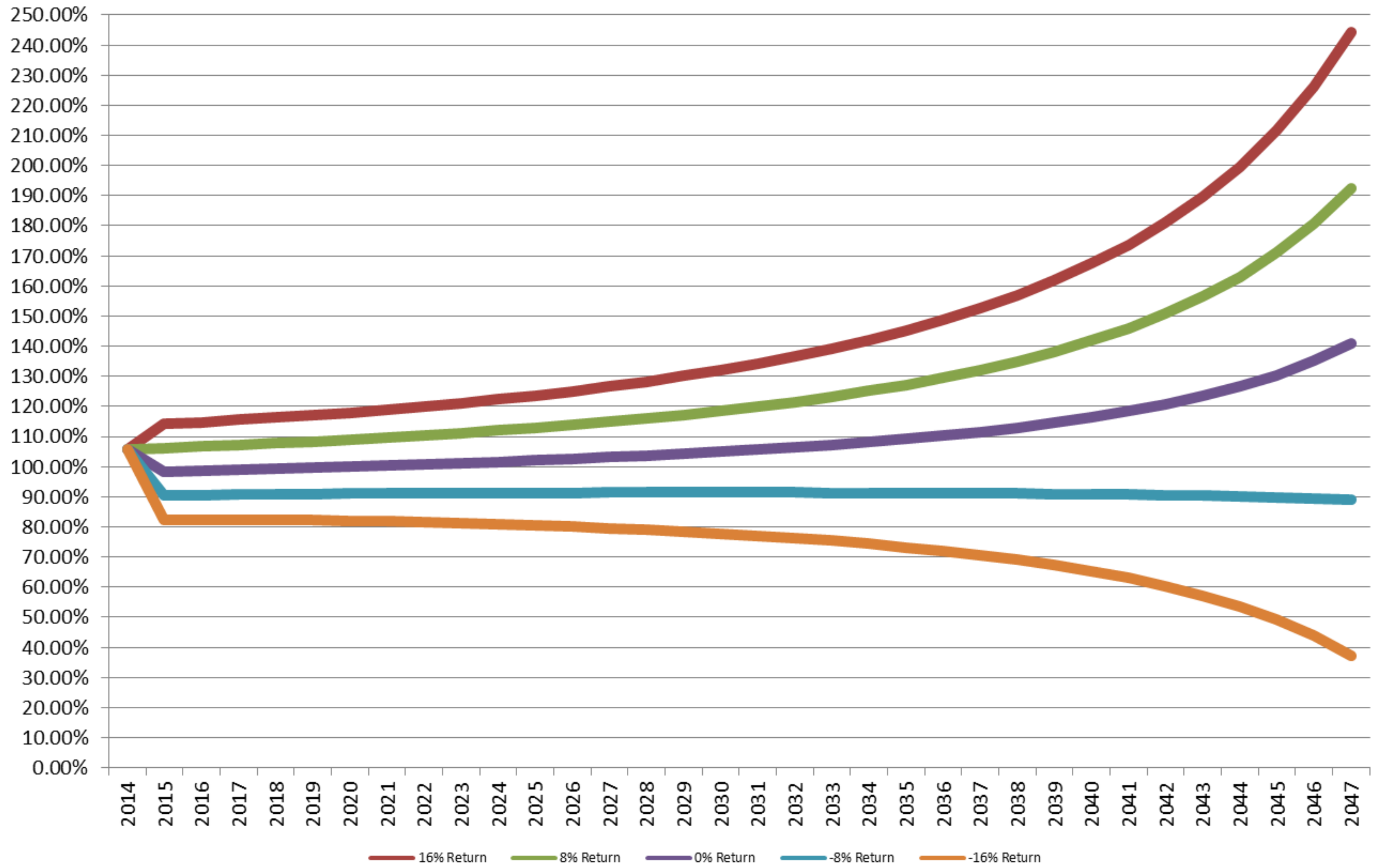
Main System



Projected Funded Ratios (MVA Basis)
Judges

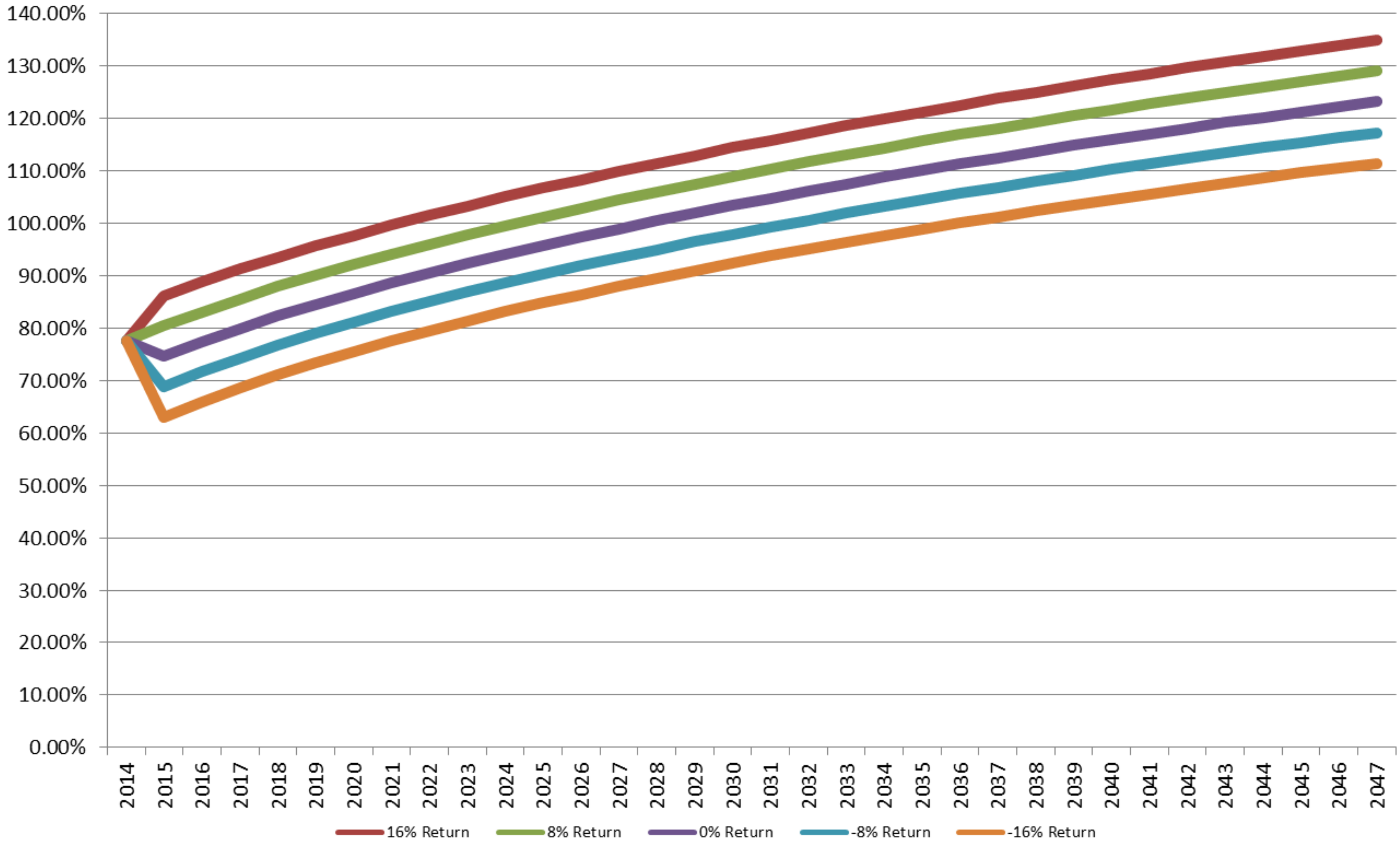


Projected Funded Ratios (MVA Basis)
National Guard

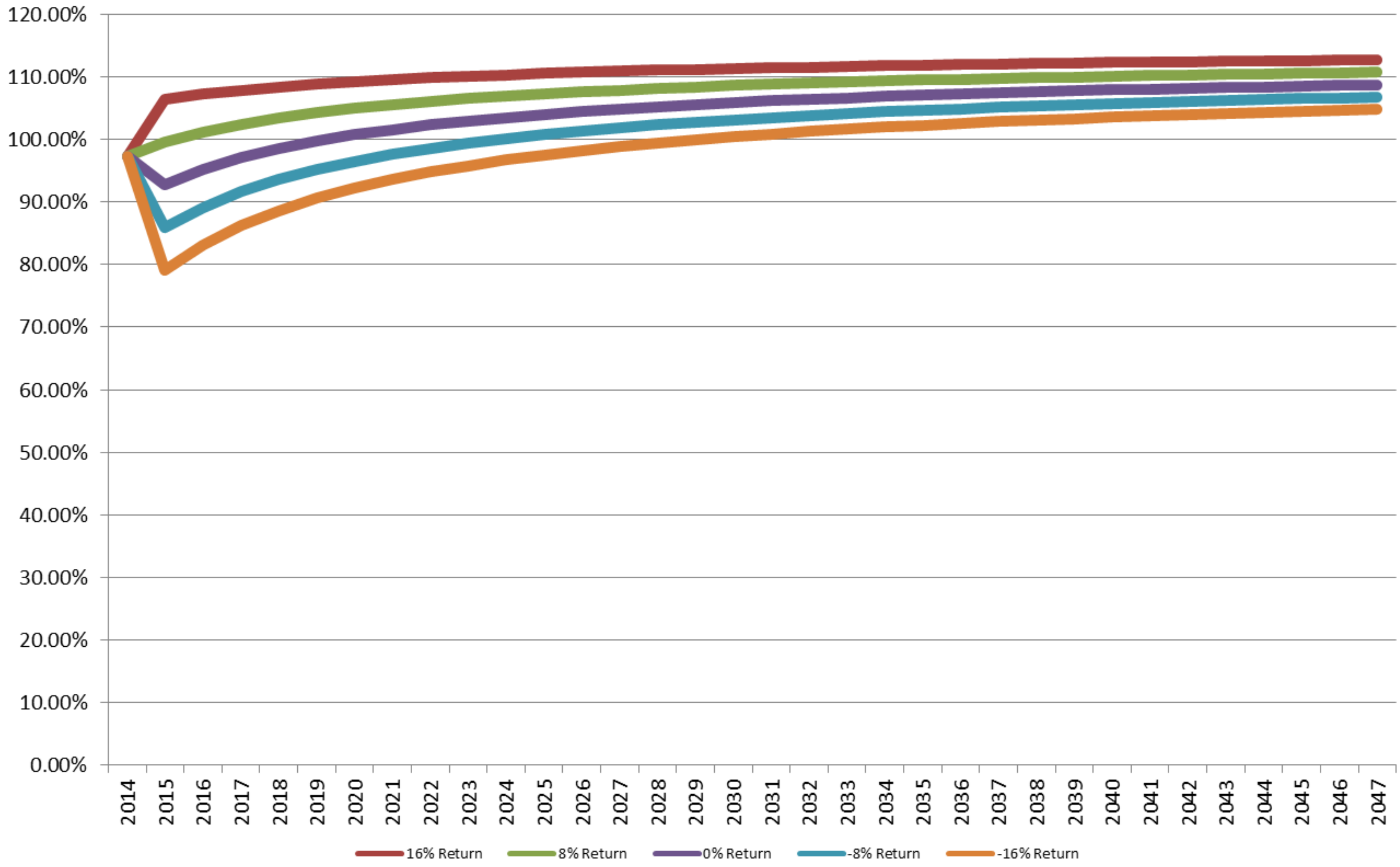


Projected Funded Ratios (MVA Basis)

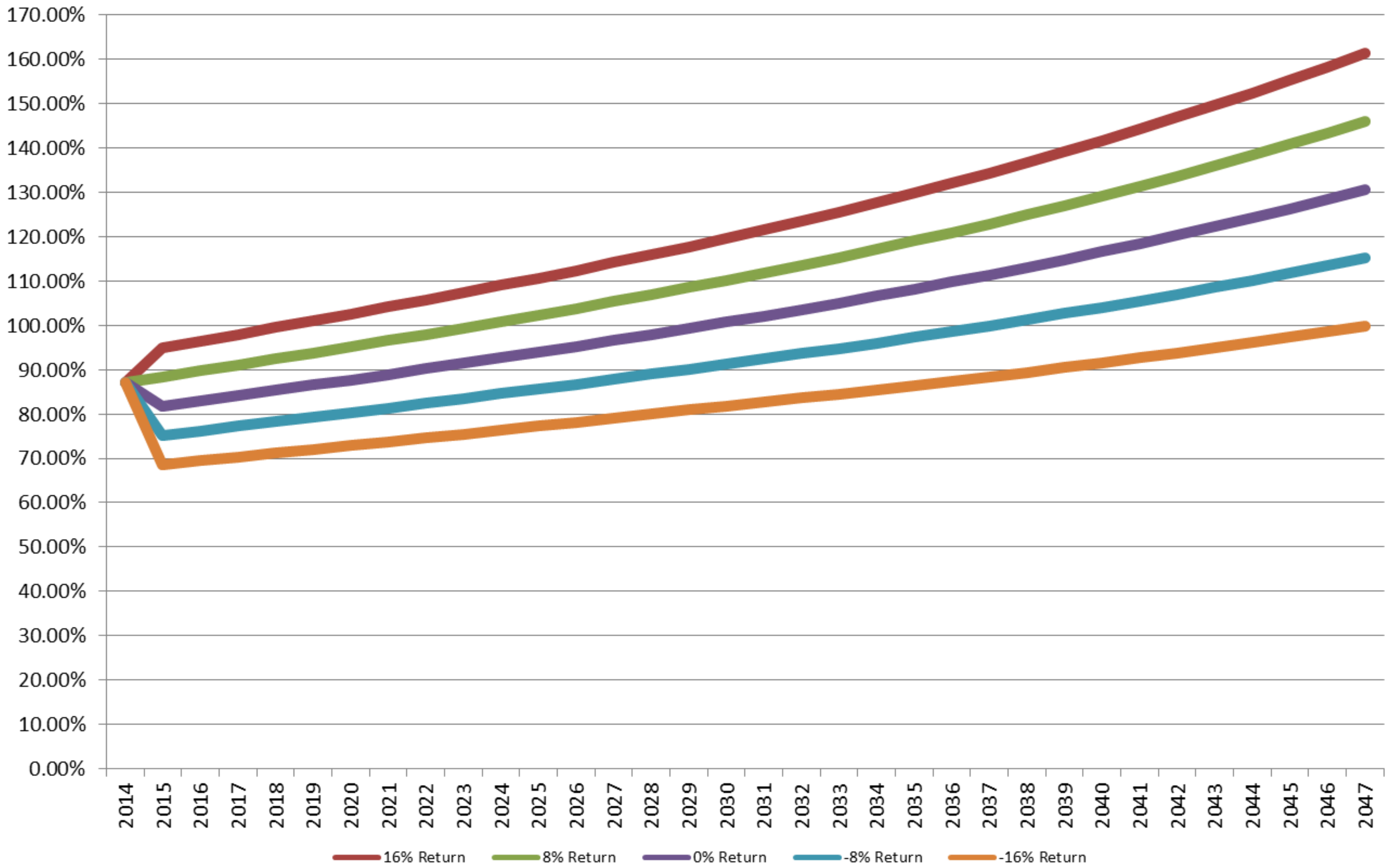
Law Enforcement with Prior Main System Service



Projected Funded Ratios (MVA Basis)
Law Enforcement without Prior Main System Service



Projected Funded Ratios (MVA Basis)
Highway Patrol



Questions?

Segal Consulting

5990 Greenwood Plaza Bloulevard, Suite 118
Greenwood Village, CO 80111
T 303.714.9952

Brad Ramirez, FSA, MAAA, EA, FCA
bramirez@segalco.com

Segal Consulting

330 North Brand Bloulevard, Suite 1100
Glendale, CA 91203
T 818.956.6767

Tammy Dixon, FSA, MAAA, EA
tdixon@segalco.com

www.segalco.com

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sparb

DATE: October 15, 2014

SUBJECT: Actuarial Audit

It has been the policy of NDPERS to do an actuarial audit of the main plan about every ten years. The purpose of the audit is to have an outside actuarial firm review the work of your existing actuary to verify the integrity of the valuation.

At the last meeting Gallagher reviewed with you the work they had done for the Legislative Government Finance Committee. At that meeting we asked them if the work they had done would be considered an actuarial audit. They indicated it was since they did a complete replication of the last valuation of the Main Retirement plan.

After discussion, it was decided that we would ask Segal at this meeting if they also considered the work done by Gallagher as an actuarial audit. If Segal also believes that work would qualify as an audit, we may want to designate it as our actuarial audit.

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400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
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1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS@state.nd.us ● discovernd.com/NDPERS

Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: October 14, 2014

SUBJECT: Job Service COLA

According to Article VII(3) of the plan document for the Retirement Plan for Employees of Job Service North Dakota, "effective each December 1 of any year, the monthly amount of each retirement annuity, death benefit, or disability benefit then payable shall be increased by the percent increase, if any, in the Consumer Price Index." It further states…"no increase in retirement allowance granted under the Plan, or the date for commencement of such increase, will become effective unless the same increase has been authorized for the Civil Service Retirement System, and unless the increase has been authorized by the NDPERS Board." This provision for a COLA increase was authorized by the United States Department of Labor as part of a larger agreement reached with the USDOL in the late 1970's. Since that time the Plan practice has been to provide COLA's consistent with the Federal Civil Service Plan. The plan assumes a post-retirement COLA of 5%.

The annual COLA percentage adjustment for the Federal Civil Service Plan is not available until October 15. Therefore, the increase and any effect on the system will be provided at the meeting.

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FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: NDPERS Board

FROM: Kathy

DATE: October 15, 2014

SUBJECT: Retiree Health Insurance Credit (RHIC) Request for Proposal

At the August meeting, the Board was presented with the following two options with regard to administration of the portability of the Retiree Health Insurance Credit:

1. To have PERS staff do the review, approval and reimbursement.

2. Contract with a third party administrator to perform these services.

The Board directed staff to go out to bid and obtain a vendor for a two-year period to administer the program and during the interim, staff is to develop a proposal to incorporate the administration into the PERSLink business system.

Included for your review is the Request for Proposal developed by staff to solicit bids for this service. In Section II-B we specified that if the Board decides to hire a vendor it will be for the time period of July 1, 2015 through June 30, 2017 with an option to renew for two subsequent two-year periods. The optional renewals were included in the event that research indicates incorporating this function into the PERSLink system would not be feasible.

At the time of this memo, we did not have our attorney's input on the Contract Offer in Section VII. We expect to have that information by the time of the Board meeting. If the Board has any comments, please notify staff by October 27.

Following is the proposed schedule of activities:

October 31, 2014	RFP issued
November 19, 2014	Bidders Conference
November 26, 2014	Deadline for RFP Questions
December 5, 2014	Answers to RFP Questions posted to NDPERS Website
December 22, 2014	RFP's Due
February 2015	NDPERS Board Selects Vendor

BOARD ACTION REQUESTED

REQUEST FOR PROPOSAL

FOR

North Dakota
Public Employees Retirement System

Administrative and Recordkeeping Services
For Retiree Health Insurance Credit Program

October 2014

Request for Proposal
Table of Contents

REQUEST FOR PROPOSAL

SECTION I – INTRODUCTION

A. Scope of Work

This Request for Proposal (RFP) is issued for administrative and recordkeeping functions as described in this RFP relating to the North Dakota Public Employees Retirement System (NDPERS) Retiree Health Insurance Credit (RHIC) program. The NDPERS Board is considering changing its method for processing benefits for the RHIC program and, therefore, as part of its considerations, the Board is seeking proposals for a vendor to assist with the services identified in this RFP. The following is a sequence of activities for this RFP:

October 31, 2014	RFP issued
November 19, 2014	Bidders Conference
November 26, 2014	Deadline for RFP Questions
December 5, 2014	Answers to RFP Questions posted to NDPERS Website
December 22, 2014	RFP's Due
February 2015	NDPERS Board Selects Vendor

B. Fees

The Board is seeking a proposal on a per participant per month basis. This number should include full payment for all the services requested in this RFP. This is a fee only contract, no product sales should be part of the pricing.

C. Rating

This proposal will be rated by a review team at NDPERS. Please submit your Technical Proposal and Cost Proposal separately. This evaluation will be submitted to the NDPERS Board for its consideration in determining if a vendor should be selected pursuant to this RFP. Please note the ratings are one factor that will be used by the NDPERS Board in its considerations, the board will consider other factors it deems appropriate and necessary in making a decision including an interview.

Staff will rate all proposals based on the following criteria:

Technical Proposal:

General Background (Questions Section IV, A.1 to A.4)	10 points
Scope of Work (Questions Section IV, B.1 to B.6)	35 points
Experience	
Firm (Questions Section IV, C.1 to C.4)	7 points
Staffing (Questions Section IV, D.1 to D.3)	8 points

Cost Proposal**:** 40 points

SECTION II - BACKGROUND

A. The Agency:

The North Dakota Public Employees Retirement System is responsible for the administration of the State's retirement, health, life, dental, vision, deferred compensation, FlexComp, retiree health insurance credit, long term care and EAP programs. This proposal is for assistance with the Retiree Health Insurance Credit program.

NDPERS is managed by a Board comprised of seven members:

1-Chairman appointed by the Governor

1-Member appointed by the Attorney General

1-Member elected by retirees

3-Members elected by active employees

1-State Health Officer

NDPERS is a separate agency created under North Dakota state statute.

B. RHIC Program:

The RHIC program is authorized under Chapter 54-52.1-03.3 of the North Dakota Century Code (NDCC). Additional information on the RHIC program including the plan document can be found on our web site at http://www.nd.gov/ndpers/health-credit/index.html. Presently, NDPERS self-administers the RHIC program using its integrated benefits administration system (PERSLink). The system applies the available monthly credit to the monthly health premium and the member is billed the premium amount less the credit. At this time the credit may only be used to offset the premium for the NDPERS sponsored group health insurance plan. Effective July 1, 2015 the RHIC will become portable and may be used for not only the NDPERS health plan but also for other non-NDPERS health and prescription drug plans as well as for the NDPERS sponsored dental, vision and long term care plans. With this change, the PERSLink system will no longer be used since the credit will now be reimbursed to the member directly once they have demonstrated that they have incurred an eligible expense. The Board is considering hiring a vendor to do these services as the expanded functions required to administer reimbursement of the credit for multiple plans is not available on the PERSLink system. The purpose of this RFP is to solicit information on the services that are available, type of documentation required to substantiate a claim, the cost to administer the program, and other factors deemed necessary and appropriate so the Board can decide how to proceed prior to the effective date of July 1, 2015. If the Board decides to hire a vendor, it will be for the time period of July 1, 2015 through June 30, 2017 with an option to renew for two subsequent two year periods from July 1, 2017 through June 20, 2019 and July 1, 2019 through June 30, 2021. Such renewals will be based upon the cost and the history of the services provided.

The following information relates to current RHIC participation as of 6/30/2014:

Current number of members receiving a benefit:	5,048
Amount of credit applied each month:	$580,000
Average credit amount per participant:	$115

It is expected when the credit becomes portable, more members will utilize the benefit. The following statistics assume 100% utilization:

Number of members eligible to receive a benefit:	8,900
Amount of credit applied each month:	$875,000
Average credit amount per participant:	$98

Following are the in force pensions for the NDPERS and Highway Patrol Systems, respectively. This represents the potential eligible population if all members utilized the RHIC.

Current Plan Pensioners in Force as of July 1, 2013
by Type of Pension and Nearest Age

(All Members – Main System, Judges, National Guard, and Law Enforcement)

		Type of Pension			
Nearest Age	Total	Normal	Early	Service*	Disability
Total	7,926	2,547	2,288	2,756	335
Under 50	21	0	0	0	21
50 - 54	63	1	0	32	30
55 - 59	316	7	54	202	53
60 - 64	1,058	31	325	627	75
65 - 69	1,968	543	566	804	55
70 - 74	1,657	664	433	515	45
75 - 79	1,250	494	376	351	29
80 - 84	822	373	274	156	19
85 - 89	499	262	179	53	5
90 & over	272	172	81	16	3

Pensions in Force on July 1, 2013
by Type of Recipient and Nearest Age

Nearest Age	Total	Pensioner	Beneficiary	Disabled
Total	116	82	30	4
Under 55	10	5	1	4
55 - 59	18	16	2	-
60 - 64	25	22	3	-
65 - 69	16	13	3	-
70 - 74	17	9	8	-
75 - 79	11	8	3	-
80 - 84	13	7	6	-
85 - 89	2	1	1	-
90 & over	4	1	3	-

SECTION III - SCOPE OF SERVICES

This Section outlines the scope of services.

A: BID SOLICITATION AND EVALUATION FOR THE RETIREE HEALTH INSURANCE CREDIT PROGRAM

A.1 GENERAL REQUIREMENTS

The contractor selected by the NDPERS Board shall handle all administrative and recordkeeping functions. This will be an employer payment plan as described in IRS Revenue Ruling 61-146 and IRS Notice 2013-54. The contractor will be responsible for setting up and maintaining individual accounts of participating members based on member indicative data forwarded to the contractor for processing on the contractor's system. This will be a deposit driven account.

A.2 SPECIFIC REQUIREMENTS

The contractor shall be required to provide the following administrative services:

A.2.1 ADMINISTRATIVE ACCOUNT SERVICES

1. All required account services shall be in place prior to July 1, 2015.
2. Set up and maintain individual accounts to include processing new accounts, terminations and account changes. Allow members to enroll for direct deposit.
3. Issue checks for members that do not elect direct deposit.
4. The contractor shall meet with NDPERS staff to discuss and develop a mobilization and implementation plan.
5. The contractor shall indicate what forms it proposes to use including an explanation for their use.

A.2.2 ADMINISTRATIVE SERVICES

The contractor shall establish a website for the State's RHIC program that employees can access to obtain account information and register for direct deposit. The website shall include general information about seeking reimbursement under the RHIC program. Desired internet services provided by the contractor shall include: (a) ability to download reimbursement claim forms, (b) access to member account information, including claim payments, pending claims and account balances; and (c) ability to file reimbursement claim forms on-line.

The contractor shall provide a toll-free number that employees can call for general account information or to speak to a representative. Customer service representatives shall be available Monday through Friday between the hours of 8:00 a.m. and 5:00 p.m. central time.

A.2.3 CLAIMS PROCESSING SERVICES

NDPERS will provide the contractor with the following information each month:

- A file of all members who are eligible for the RHIC benefit and the amount of the available benefit for each month.
- A file of all members who paid the monthly premium(s) for an NDPERS sponsored insurance plan and the amount of premium(s) eligible for reimbursement. This file will be used to substantiate the incurred expenses for members enrolled in NDPERS sponsored insurance plans, in lieu of having the member file a reimbursement claim form for these premiums.

The contractor will set up individual member accounts to record each member's monthly available benefit that is available for reimbursement. To ensure RHIC members have immediate access to their funds, the available benefit provided by NDPERS shall be posted to the member's account and available for reimbursement. The contractor shall detail their timelines for posting the benefits to the member accounts.

Reimbursements for incurred expenses shall be made to members upon the submission of a properly completed reimbursement claim form along with required documentation. The contractor shall establish and maintain controls to ensure that only valid claims are processed and that proper documentation to substantiate incurred expenses accompany submitted claims. The contractor will be required to confirm that the coverage qualifies as an accident or health insurance plan and substantiate proof of payment in compliance with Revenue Ruling 61-146.

If a filed claim is deemed to be invalid or if additional information is required to process a claim, notification must be sent to the claimant detailing the reason for the denial of the claim or the specific information needed in order to process the claim. The contractor shall process claim reimbursements on a daily basis during the work week.

A.2.4 ELECTRONIC FILE TRANSFER REQUIREMENTS:

The contractor shall provide a secure internet site from which eligibility and premium payment files can be safely transferred between the contractor and NDPERS.

A.2.5 END OF YEAR SERVICES

The NDPERS plan year runs from July 1 through June 30. The program's cut-off date for filing reimbursement claims is September 30, following the end of the plan year. The contractor shall be required to process reimbursement claims received from members for the previous plan year up through the September 30 cutoff date.

The contractor shall prepare and send a final reconciliation report of the individual member accounts to NDPERS. This listing shall include the member's name, last 4 digits of their social security number and account balance. This must be accomplished within 60 days of the September 30 cutoff date.

A.3 REPORTS

The contractor shall compile, on a periodic basis, reports that summarize the claims activity and provide detailed member account information. At a minimum, the following reports shall be prepared and forwarded to NDPERS:

1. A quarterly activity report which includes a detailed listing of participants, deposits to date, claims submitted, claims paid and current account balances.
2. A final report with member account detail within sixty (60) days following the close of the plan year as outlined in A.2.5.

A.4 CONFIDENTIALITY & HIPAA

The vendor shall comply with the state's confidentiality requirements as set forth in NDCC 54-52.1-11 and 54-52-26 and all applicable HIPAA requirements.

B: SEQUENCE OF ACTIVITIES

Following is a sequence of major activities:

January 2015	If so determined by the NDPERS Board, a vendor will be selected.
February 2015	Vendor will begin work with the NDPERS staff concerning the July 1, 2015 mobilization and implementation date.
June 2015	NDPERS sends initial eligibility file. Vendor must start providing welcome kits to eligible members pursuant to A.2.1.
July 1, 2015	Vendor starts processing NDPERS claims.

C. MEETINGS

The consultant should plan on one on-site meeting each year with the NDPERS Board.

SECTION IV - INFORMATION REQUESTS

The proposal must contain your organization's response to the following requested information. Please respond by using the following format and answering each request by restating it followed by your response **(proposals not following this format will lose points)**.

A. General Background:

1. Provide a brief description of the size, structure and services provided by your organization.
2. Generally, provide your understanding of the services NDPERS is requesting.
3. Describe your organization's approach to administrative and recordkeeping services for premium reimbursement plans.
4. Indicate your organization's depth of experience in each of the following areas:
   - Substantiating claims
   - Set up and account maintenance
   - Claims reimbursement
   - Direct deposit
   - Dispute Resolution
   - Appeals Process
   - Process for returning and correcting funds paid in error

B. Scope of Work

1. Detail your understanding of the work effort by restating each of the items in Section III A and discussing how you intend to provide services that respond to the work effort identified.
2. It is essential that the vendor move forward quickly upon notification of award. Therefore, the bidder must include as part of its proposal a mobilization and implementation plan, beginning with the date of notification of contract award. Such mobilization and implementation plan should include the following elements:

   (a) A detailed timetable for the mobilization and implementation period. Such detailed timetable shall be designed to demonstrate how the bidder will have the contract up and operational following the notification of the contract award. In preparing the timetable, the following key elements should be taken into consideration:

   - All plan materials.

- The timeline and a procedure for the importing and exporting of eligibility files must be established with NDPERS. The contractor shall identify when this needs to be in place for a July 1, 2015 effective date.

(b) The bidder's plan for the deployment and use of management, supervisory or other key personnel during the mobilization and implementation period. The plan should show all management, supervisory and key personnel that will be assigned to manage, supervise and monitor the bidder’s mobilization and implementation of the contract.

3. The bidder should set forth a summary of any and all challenges/problems that the bidder anticipates during implementation or the term of the contract. For each challenge/problem identified, the bidder should provide its proposed solution.
4. The bidder should include the location of the bidder's office that will be responsible for managing the contract. The bidder should include the telephone number and name of the individual to contact.
5. Provide your performance standards for this contract for each major activity.
6. This is a unique program to NDPERS members. How will you train your call center staff to respond to member questions/concerns?

C. Experience of Firm

1. Provide a listing of similar projects your firm has worked on, names of clients and contact individuals for each.
2. The bidder shall include an organizational chart showing the bidder’s entire organizational structure. This chart should show the relationship of the individuals assigned to the contract to the bidders overall organizational structure.
3. Provide a listing and the experience your firm has with public sector clients and other clients.
4. The vendor shall also discuss its disaster planning procedures for its operations.

D. Staffing

1. Provide a list and resume of staff assigned to this project.
2. The bidder should also include a list of backup staff that may be called upon to assist or replace primary individuals assigned.
3. Provide the locations of where the work will be done on this project and its staff.

SECTION V – FEES/HOURS

Contractor's proposal for fees shall be on a per-participant per month fee. A participant may be enrolled in one or several eligible insurance products. This fee will include all services identified in this RFP. Separately, please identify the hourly rate for any services that NDPERS may request that are outside the scope of the services requested herein.

THE COST PROPOSAL SHALL BE UNDER SEPARATE COVER AND NOT PART OF THE RESPONSES TO THE OTHER INFORMATION REQUESTS.

SECTION VI - SUBMISSION OF PROPOSAL

A. Proposals should be prepared in a straightforward manner to satisfy the requirements of this RFP. Emphasis should be on completeness and clarity of content. Costs for developing proposals are entirely the responsibility of the proposer and shall not be reimbursed by NDPERS.

B. Section VII – Contract Offer, must be signed by a partner or principal of the firm and included with your proposal. This will constitute the contract between NDPERS and the vendor if your proposal is accepted. If you have any exceptions or changes they should be added to this contract.

Do not replace this contract with a new contract.

C. Address or deliver the RFP to:

Kathy Allen
Benefit Programs Manager
North Dakota Public Employees Retirement System
400 E. Broadway, Suite 505
PO Box 1657
Bismarck, ND 58502-1657
Phone: 701.328.3900

Questions concerning the RFP shall be directed, by e-mail to kallen@nd.gov by November 26, 2014. Responses will be posted on the NDPERS website by 2:00 p. m. December 5, 2014 at http://www.nd.gov/ndpers/providers-consultants/consultants/rfp-index.html . If you would like a copy e-mailed to you, please notify us at cstocker@nd.gov .

D. Ten (10) copies of the proposal must be received at the above listed location by **5:00 p.m. central time, December 22, 2014**. The package the proposal is delivered in must be plainly marked "PROPOSAL TO PROVIDE ADMINISTRATIVE AND RECORDKEEPING SERVICES FOR RETIREE HEALTH INSURANCE CREDIT PLAN". In addition to the ten copies, submit an electronic copy of the proposal.

A proposal shall be considered late and may be rejected if received at any time after the exact time specified for return of proposals.

E. NDPERS Board reserves the right to reject any or all proposals that are submitted pursuant to this solicitation.

F. The NDPERS Board and/or its staff may request that representatives of your organization appear before them for interviewing purposes. Travel expenses and related costs will be the responsibility of the organization being interviewed.

G. The NDPERS Board will award the contract for services no later than the end of February 2015 if it decides to hire a vendor for these services.

H. In evaluating the proposals, price will not be the sole factor. The Board may consider any factors it deems necessary and proper, including but not limited to: price; quality of service; response to this request; experience; staffing, information from interviews and general reputation.

I. The failure to meet all procurement policy requirements shall not automatically invalidate a proposal or procurement. The final decision rests with the NDPERS Board.

SECTION VII - CONTRACT OFFER

The parties to this contract are the State of North Dakota, acting through its [North Dakota Public Employees Retirement System] (STATE) and [contractor's legal name] (CONTRACTOR);

SCOPE OF SERVICE

CONTRACTOR, in exchange for the compensation paid by STATE under this contract, agrees to provide services as outlined in this Request for Proposal and CONTRACTOR'S proposal.

TERM OF CONTRACT

The term of this contract begins DATE HERE and ends on DATE HERE.

COMPENSATION

STATE will pay for the services provided by CONTRACTOR under this contract pursuant to a per participant monthly fee in Section V of the proposal. Payments will be made monthly based upon an invoice identifying the number of participants for that month.

TERMINATION OF CONTRACT

a. Termination without cause. This contract may be terminated by mutual consent of both parties.

b. Termination for lack of funding or authority. STATE by written notice of default to CONTRACTOR, may terminate the whole or any part of this contract, under any of the following conditions:

(1) If funding from federal, state, or other sources is not obtained and continued at levels sufficient to allow for purchase of the services or supplies in the indicated quantities or term.

(2) If federal or state laws or rules are modified or interpreted in a way that the services are no longer allowable or appropriate for purchase under this contract or are no longer eligible for the funding proposed for payments authorized by this contract.

(3) If any license, permit, or certificate required by law or rule, or by the terms of this contract, is for any reason denied, revoked, suspended, or not renewed.

Termination of this contract under this subsection is without prejudice to any obligations or liabilities of either party already accrued prior to termination.

c. Termination for cause. STATE may terminate this contract effective upon delivery of written notice to CONTRACTOR, or any later date stated in the notice:

(1) If CONTRACTOR fails to provide services required by this contract within the time specified or any extension agreed to by STATE; or

(2) If CONTRACTOR fails to perform any of the other provisions of this contract, or so fails to pursue the work as to endanger performance of this contract in accordance with its terms.

The rights and remedies of STATE provided in this subsection are not exclusive and are in addition to any other rights and remedies provided by law or under this contract.

FORCE MAJEURE

CONTRACTOR shall not be held responsible for delay or default caused by fire, flood, riot, acts of God or war if the event is beyond CONTRACTOR'S reasonable control and CONTRACTOR gives notice to STATE immediately upon occurrence of the event causing the delay or default or that is reasonably expected to cause a delay or default.

RENEWAL

This contract will not automatically renew. If STATE desires to renew, STATE will provide written notice to CONTRACTOR of its intent to renew this contract at least 60 days before the scheduled termination date.

MERGER AND MODIFICATION

This contract constitutes the entire agreement between the parties. There are no understandings, agreements, or representations, oral or written, not specified within this contract. This contract may not be modified, supplemented or amended, in any manner, except by written agreement signed by both parties.

SEVERABILITY

If any term of this contract is declared by a court having jurisdiction to be illegal or unenforceable, the validity of the remaining terms is unaffected, and, if possible, the rights and obligations of the parties are to be construed and enforced as if the contract did not contain that term.

ASSIGNMENT AND SUBCONTRACTS

CONTRACTOR may not assign or otherwise transfer or delegate any right or duty without STATE'S express written consent. However, CONTRACTOR may enter into subcontracts provided that any subcontract acknowledges the binding nature of this contract and incorporates this contract, including any attachments. CONTRACTOR is solely responsible for the performance of any subcontractor. CONTRACTOR does not have authority to contract for or incur obligations on behalf of STATE.

NOTICE

All notices or other communications required under this contract must be given by registered or certified mail and are complete on the date mailed when addressed to the parties at the following addresses:

Sparb Collins, Executive Director
ND Public Employees Retirement System
400 East Broadway, Suite 505   or   CONTRACTOR
PO Box 1657
Bismarck, ND 58502-1657

Notice provided under this provision does not meet the notice requirements for monetary claims against the State found at N.D.C.C. § 32-12.2-04.

APPLICABLE LAW AND VENUE

This contract is governed by and construed in accordance with the laws of the State of North Dakota. Any action to enforce this contract must be adjudicated exclusively in the State District Court of Burleigh County, North Dakota.

SPOLIATION – NOTICE OF POTENTIAL CLAIMS
CONTRACTOR shall promptly notify STATE of all potential claims that arise or result from this contract. CONTRACTOR shall also take all reasonable steps to preserve all physical evidence and information that may be relevant to the circumstances surrounding a potential claim, while maintaining public safety, and grants to STATE the opportunity to review and inspect the evidence, including the scene of an accident.

INDEMNITY
The STATE and CONTRACTOR each agrees to assume its own liability for any and all claims of any nature including all costs, expenses and attorneys' fees which may in any manner result from or arise out of this agreement.

INSURANCE
CONTRACTOR shall secure and keep in force during the term of this agreement, from insurance companies, government self-insurance pools or government self-retention funds, authorized to do business in North Dakota, the following insurance coverages:

1) Commercial general liability, including premises or operations, contractual, and products or completed operations coverages (if applicable), with minimum liability limits of $250,000 per person and $1,000,000 per occurrence.
2) Professional errors and omissions with minimum limits of $1,000,000 per occurrence and in the aggregate, Contractor shall continuously maintain such coverage during the contact period and for three years thereafter. In the event of a change or cancellation of coverage, Contractor shall purchase an extended reporting period to meet the time periods required in this section.
3) Automobile liability, including Owned (if any), Hired, and Non-Owned automobiles, with minimum liability limits of $250,000 per person and $500,000 per occurrence.
4) Workers compensation coverage meeting all statutory requirements.

The insurance coverages listed above must meet the following additional requirements:

1) Any deductible or self-insured retention amount or other similar obligation under the policies shall be the sole responsibility of the Contractor. The amount of any deductible or self retention is subject to approval by the State.
2) This insurance may be in policy or policies of insurance, primary and excess, including the so-called umbrella or catastrophe form and must be placed with insurers rated "A-" or better by A.M. Best Company, Inc., provided any excess policy follows form for coverage. Less than an "A-" rating must be approved by the State. The policies shall be in form and terms approved by the State.
3) The insurance required in this agreement, through a policy or endorsement, shall include a provision that the policy and endorsements may not be canceled or modified without thirty (30) days' prior written notice to the undersigned State representative.
4) The Contractor shall furnish a certificate of insurance to the undersigned State representative prior to commencement of this agreement.
5) Failure to provide insurance as required in this agreement is a material breach of contract entitling State to terminate this agreement immediately.

ATTORNEY FEES
In the event a lawsuit is instituted by STATE to obtain performance due under this contract, and STATE is the prevailing party, CONTRACTOR shall, except when prohibited by N.D.C.C. § 28-26-04, pay STATE'S reasonable attorney fees and costs in connection with the lawsuit.

ALTERNATIVE DISPUTE RESOLUTION – JURY TRIAL
STATE does not agree to any form of binding arbitration, mediation, or other forms of mandatory alternative dispute resolution. The parties have the right to enforce their rights and remedies in judicial proceedings. STATE does not waive any right to a jury trial.

CONFIDENTIALITY
CONTRACTOR shall not use or disclose any information it receives from STATE under this contract that STATE has previously identified as confidential or exempt from mandatory public disclosure except as necessary to carry out the purposes of this contract or as authorized in advance by STATE. STATE shall not disclose any information it receives from CONTRACTOR that CONTRACTOR has previously identified as confidential and that STATE determines in its sole discretion is protected from mandatory public disclosure under a specific exception to the North Dakota open records law, N.D.C.C. ch. 44-04. The duty of STATE and CONTRACTOR to maintain confidentiality of information under this section continues beyond the term of this contract.

COMPLIANCE WITH PUBLIC RECORDS LAW
CONTRACTOR understands that, except for disclosures prohibited in this contract, STATE must disclose to the public upon request any records it receives from CONTRACTOR. CONTRACTOR further understands that any records that are obtained or generated by CONTRACTOR under this contract, except for records that are confidential under this contract, may, under certain circumstances, be open to the public upon request under the North Dakota open records law. STATE retains ownership of all work product, equipment or materials created or purchased under this contract. CONTRACTOR agrees to contact STATE immediately upon receiving a request for information under the open records law and to comply with STATE'S instructions on how to respond to the request.

WORK PRODUCT, EQUIPMENT AND MATERIALS
All work product, equipment or materials created or purchased under this contract belong to STATE and must be delivered to STATE at STATE'S request upon termination of this contract. CONTRACTOR agrees that all materials prepared under this contract are "works for hire" within the meaning of the copyright laws of the United States and assigns to STATE all rights and interests CONTRACTOR may have in the materials it prepares under this contract, including any right to derivative use of the material. CONTRACTOR shall execute all necessary documents to enable STATE to protect its rights under this section.

INDEPENDENT ENTITY
CONTRACTOR is an independent entity under this contract and is not a STATE employee for any purpose, including the application of the Social Security Act, the Fair Labor Standards Act, the Federal Insurance Contribution Act, the North Dakota Unemployment Compensation Law and the North Dakota Workforce Safety and Insurance Act. CONTRACTOR retains sole and absolute discretion in the manner and means of carrying out CONTRACTOR'S activities and responsibilities under this contract, except to the extent specified in this contract.

NONDISCRIMINATION AND COMPLIANCE WITH LAWS
CONTRACTOR agrees to comply with all laws, rules, and policies, including those relating to nondiscrimination, accessibility and civil rights. CONTRACTOR agrees to timely file all required reports, make required payroll deductions, and timely pay all taxes and premiums owed, including sales and use taxes and unemployment compensation and workers' compensation premiums. CONTRACTOR shall have and keep current at all times during the term of this contract all licenses and permits required by law.

STATE AUDIT
All records, regardless of physical form, and the accounting practices and procedures of CONTRACTOR relevant to this contract are subject to examination by the North Dakota State Auditor or the Auditor's designee. CONTRACTOR shall maintain all such records for at least three years following completion of this contract.

PREPAYMENT
STATE will not make any advance payments before performance by CONTRACTOR under this contract.

TAXPAYER ID
CONTRACTOR'S federal employer ID number is: ____________________.

PAYMENT OF TAXES BY STATE
State is not responsible for and will not pay local, state, or federal taxes. State sales tax exemption number is E-2001, and certificates will be furnished upon request by the purchasing agency.

EFFECTIVENESS OF CONTRACT
This contract is not effective until fully executed by both parties.

CONTRACTOR	STATE OF NORTH DAKOTA Acting through its ND Public Employees Retirement System
By: ________________________	By: __________________________
Title: ______________________	Title: _________________________
Date: ______________________	Date: _________________________

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Rebecca

DATE: October 9, 2014

SUBJECT: Affordable Care Act Update

The 2nd Affordable Care Act (ACA) Special Forum was held in Bismarck on September 24, 2014 at the Bismarck Civic Center. Staff from NDPERS, BCBS and OMB presented at the forum and responded to questions from attendees. There were approximately 100 individuals in attendance representing a variety of employers, including state agencies, schools, counties and other political subdivisions. Attached is the agenda for your reference.

The forum was recorded and has been posted to the NDPERS website at http://www.nd.gov/ndpers/news/special-aca-forum.html. Also available on this web page are the power point presentations and additional resources related to the ACA that have been made available to the employers.

AGENDA

Special Forum: Affordable Care Act

Wednesday, September 24, 8:30 a.m. to 1:00 p.m.

Bismarck Civic Center, Prairie Rose Rooms, Bismarck, ND

- **Review of New Health Insurance Requirements**
    - NDPERS ACA Requirements
        - Change in Definition for Temporary Employees
    - Revised State Measurement Period (11/1/13-10/31/14)
    - Federal ACA Requirements
        - Employer Requirements
        - Special Transition – Shorter Initial Measurement Period
        - Administrative Period, Measurement Period, Stability Period

- **Implementation**
    - NDPERS Website
    - Dual Coverage
    - Rates – Single Plus Dependent
    - Offer of Coverage to Newly Eligible Employees
        - Timeframe of Special Enrollment
        - Enrollment form
        - Decline form
    - Payroll Files - OMB
    - Premium Reimbursement for State Agencies - OMB

- **ACA Questions & Answers**

- **ACA New Hire Eligibility Process**
    - Decision Chart
    - Case Examples
        - Permanent
        - Seasonal
        - Variable Hour

- **ACA Employer Reporting to IRS**

- **Questions & Closing**

Parking is available on the south side of the Civic Center.
Enter the Civic Center through the Main Entrance.

This conference will be recorded and posted to the NDPERS website after the conference.

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Bismarck, North Dakota 58502-1657

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Executive Director
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Memorandum

TO: PERS Board

FROM: Sparb

DATE: October 10, 2014

SUBJECT: State Employee Compensation Commission

Attached, for your information, is the recommendation of the State Employee Compensation to the Governor.

SECC State Employees Compensation Commission

State Capitol, 600 East Boulevard Dept 110, Bismarck, ND 58505-0400 Telephone 328-4904

September 30, 2014

The Honorable Jack Dalrymple
Governor, State of North Dakota
600 East Boulevard Avenue
State Capitol, 1st Floor
Bismarck, ND 58505

Dear Governor Dalrymple,

Pursuant to North Dakota Century Code 54-06-25, the State Employees Compensation Commission (SECC) hereby forwards to you its recommendation for state employee salary increases for the 2013-15 biennium.

1. The SECC recommends that approximately $48.0 million of general funds be provided for state employee salary increases and that the increases should be based on the Legislative compensation philosophy statement in NDCC 54-44.3-1.2 and the Hay Group recommendations in the Legislative Classified Employee Compensation Study. (Passed 6-3 vote.)

2. The SECC recommends that fully funded family health insurance be provided with no changes to the current plan and with no increases in deductibles or copays. (Passed unanimously.)

The SECC also asks that additional consideration be given to agencies where additional equity dollars are needed to address salary issues.

Sincerely,

Pam Sharp, Chair

North Dakota
Public Employees Retirement System
400 East Broadway, Suite 505 ● Box 1657
Bismarck, North Dakota 58502-1657

Sparb Collins
Executive Director
(701) 328-3900
1-800-803-7377

FAX: (701) 328-3920 ● EMAIL: NDPERS-info@nd.gov ● www.nd.gov/ndpers

Memorandum

TO: PERS Board

FROM: Sparb

DATE: October 15, 2014

SUBJECT: Legislation

The Government Finance Committee met on October 8. They considered the following bill drafts:

- LC 176 – Closing the DB/Hybrid plan and having all new employees go to the DC plan
- LC 189 – Establishing a Public Employee Retirement Stabilization Fund
- LC 010 – Relating to a constitutional amendment relating to the Foundation aid stabilization fund

LC 176 – Closing the DB/Hybrid plan and having all new employees go to the DC plan

The committee voted to forward this bill draft to legislative management. They did amend the bill to the following:

1. To accept the PERS technical amendments
2. To allow existing employees to have the option of either the actuarial present value or the accrued account balance (the original bill only provided for accrued account balance)
3. Reduce the vesting period to one year
4. Added in Section 9 which States:

    For the period beginning January 1, 2016, and ending June 30, 2017, upon the request of an individual who is eligible for termination of membership in the public employees retirement system under chapter 54-52 as provided for in Subsection 1 of Section 54-52.6-02, the public employees retirement system shall estimate the individual's accumulated balance transfer amount by calculating the actuarial present value of the individual's accumulated benefit obligation under the public employees retirement system based on the assumption the individual will retire under the earliest applicable normal retirement age.

<u>LC 189 – Establishing a Public Employee Retirement Stabilization Fund</u>

This bill was passed out of the committee with no change. However, Attachment 1 was considered but was not included.

<u>LC 010 – Relating to a constitutional amendment relating to the Foundation aid stabilization fund</u>

This proposed bill was passed out of committee as well.

<u>LC 018 – Relating to a study of state contributions to the state health insurance plan</u>

Attachment 2 is LC 018 which was passed by the committee concerning state contribution to the state health insurance plan.

PROPOSED CHANGES TO BILL DRAFT 15.0189.01000 TO PROVIDE FOR A TRANSFER FROM THE PUBLIC EMPLOYEE RETIREMENT STABILIZAITON FUND TO THE PUBLIC EMPLOYEES RETIREMENT SYSTEM FUND

This memorandum summarizes proposed changes to interim committee bill draft [15.0189.01000] being considered by the Government Finance Committee. The proposed changes provide for an automatic transfer from the public employee retirement stabilization fund to the Public Employees Retirement System fund if the actuarial funded ratio of the main Public Employees Retirement System plan falls below 50 percent. The amount of the transfer would be limited to the amount needed to increase the actuarial funded ratio of the plan to 50 percent.

The following is detail regarding how the proposed changes would be incorporated into the bill draft:

SECTION 2. A new section to chapter 54-52 of the North Dakota Century Code is created and enacted as follows:

Public employee retirement stabilization fund - Transfers from fund.

The public employee retirement stabilization fund is a special fund in the state treasury. Moneys in the fund may be used by the legislative assembly only for the purpose of addressing any unfunded retirement benefit obligations of public employee retirement plans. Any interest or other fund earnings must be deposited in the fund. Upon certification by the public employees retirement system to the office of management and budget that the actuarial value of assets of the main public employees retirement system plan is less than 50 percent of the actuarial accrued liabilities of the plan, the office of management and budget shall transfer funds available in the public employee retirement stabilization fund to the public employees retirement system fund to address the unfunded liability of the main system plan. The amount of the transfer is limited to the amount needed to increase the actuarial value of assets of the main public employees retirement system plan to 50 percent of the actuarial accrued liabilities of the plan. For purposes of this section, "main public employees retirement system plan" includes all participating members of the public employees retirement system excluding supreme or district court judges, employees eligible to participate in the national guard retirement plan, and employees eligible to participate in the law enforcement retirement plan.

15.3018.01000

Sixty-fourth
Legislative Assembly
of North Dakota

FIRST DRAFT:
Prepared by the Legislative Council staff for the
Government Finance Committee
October 2014

Attachment 2

Introduced by

A concurrent resolution directing the Legislative Management to study state contributions to state employee health insurance premiums, including the effect of the federal Affordable Care Act on the state uniform group insurance program.

WHEREAS, the state of North Dakota pays one hundred percent of the premium for either a single or family health insurance plan for eligible state employees; and

WHEREAS, the monthly combined health insurance premium rate for state employees has increased from $554 dollars per month during the 2005-07 biennium to $982 dollars per month during the 2013-15 biennium; and

WHEREAS, in 2012, only thirteen states paid the entire premium for a state employee single health insurance plan and only four states paid the entire premium for a state employee family health insurance plan; and

WHEREAS, the state currently has a grandfathered status under the federal Affordable Care Act which exempts the state from certain requirements under the Act; and

WHEREAS, the state employee health insurance plan may lose its grandfathered status under the federal Affordable Care Act if employees are required to contribute more than five percent towards the cost of state employee health insurance premiums.

NOW, THEREFORE, BE IT RESOLVED BY THE OF NORTH DAKOTA, THE CONCURRING THEREIN:

That the Legislative Management study state contributions for state employee health insurance premiums, including the feasibility and desirability of establishing a maximum state contribution for state employee health insurance premiums and the effect of losing the state's grandfathered status under the federal Affordable Care Act.

BE IT FURTHER RESOLVED, that the Legislative Management report its findings and recommendations, together with any legislation required to implement the recommendations, to the Sixty-fifth Legislative Assembly.