2008

COMPREHENSIVE ANNUAL FINANCIAL REPORT

RIO

NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE

An Agency of the
State of North Dakota

For the year ended June 30, 2008

North Dakota

Retirement and Investment Office

An Agency of the State of North Dakota

Comprehensive Annual Financial Report

Prepared by the ND Retirement and Investment Office Staff
1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
Phone: (701) 328-9885
www.nd.gov/rio

For the Fiscal Year Ended June 30, 2008

All printed materials can be made available in alternate formats.
Contact the administrative office should this be necessary.

Table of Contents

INTRODUCTORY SECTION

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
ND Toll Free 800-952-2970
Relay ND 800-366-6888
Fax 701-328-9897
www.nd.gov/rio

November 17, 2008

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

Dear Board Members:

With pleasure we present you with the June 30, 2008, Comprehensive Annual Financial Report (CAFR) for the North Dakota Retirement and Investment Office (RIO). The report is a complete review of the financial, investment, and actuarial conditions of the two programs for which you are responsible. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of RIO.

Generally accepted accounting principals (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. RIO's MD&A can be found immediately following the report of the independent auditors in the Financial Section.

RIO is an agency of the State of North Dakota. The agency was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two important long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB).

Established in 1913, TFFR is one of the oldest retirement plans in the nation. TFFR is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. North Dakota Century Code Chapter 15-39.1 contains the actual language governing the fund. The plan covers North Dakota public school teachers and administrators. The TFFR plan is funded on an actuarial reserve basis. Benefit funding comes from member and employer contributions and investment earnings. TFFR serves over 9,500 teachers from 235 employer groups and pays benefits to more than 6,300 retirees and beneficiaries. High quality member services and outreach programs are offered to members and employers as part of the continuing effort to keep them informed about the retirement program.

The SIB is responsible for setting policies and procedures guiding the investment of $5.4 billion in assets for six pension funds and 15 other insurance-type funds. Their investments are divided into two investment trust funds and one individual investment account. The following table details the participants in each trust fund as of June 30, 2008:

Pension Investment Pool Participants	Insurance Investment Pool Participants
Teachers' Fund for Retirement	Workforce Safety & Insurance (WSI) Fund
Public Employees Retirement Fund	State Fire and Tornado Fund
City of Bismarck Employees Pension Fund	State Bonding Fund
City of Bismarck Police Pension Fund	Insurance Regulatory Trust Fund
Job Service of North Dakota Pension Fund	Petroleum Tank Release Compensation Fund
City of Fargo Employee Pension Fund	ND Health Care Trust Fund
	State Risk Management Fund
Individual Investment Account	State Risk Management Workers Compensation Fund
	Cultural Endowment Fund
PERS Retiree Health Insurance Credit Fund	Budget Stabilization Fund
	ND Association of Counties Fund
	ND Association of Counties Program Savings Fund
	City of Bismarck Deferred Sick Leave Fund
	NDPERS Group Insurance Account
	City of Fargo FargoDome Permanent Fund

The pension investment pool is made up of only qualified pension funds whose monies must be invested exclusively for the benefit of their participants. The insurance investment pool is made up of mainly insurance-type funds, but also includes other funds that do not qualify as pension funds and would like to benefit from the cost savings of being pooled with other funds' assets. All of these funds are invested in accordance with the "Prudent Investor Rule."

An important aspect of the prudent investor rule is that individual investments are considered not in isolation but in the context of the trust portfolio as a whole. Some new opportunities may appear risky when viewed alone. However, when part of a diversified mix of investments in stocks, bonds and other assets they can increase returns often without increasing the overall portfolio risk and, in some cases, may help decrease the overall portfolio's risk.

The pension investment pool was created in July 1989 with the pooling of selected investments of TFFR and the Public Employees Retirement System (PERS). Assets from the City of Bismarck Employees and Police pension funds were added later that same fiscal year. In April 1994, Job Service of North Dakota made their initial contribution to the pool. And most recently, the City of Fargo Employees pension plan joined the pension pool in December 2007.

The insurance investment pool began in December 1993 with the pooling of the assets of the WSI, Fire and Tornado, Bonding, Insurance Regulatory, and Petroleum Tank Release funds.

Other additions to this pool have occurred as follows:

- The Risk Management Fund was added in October 1996.
- The two North Dakota Association of Counties funds were added during fiscal year 1999, in January and March.
- The City of Bismarck Deferred Sick Leave and PERS Group Insurance funds were both added in July 1999.
- The ND Health Care Trust fund was added in July 2001 by legislative mandate.
- The City of Fargo FargoDome Permanent Fund was added in October 2002.
- The Risk Management Workers Compensation Fund was added in October 2003.
- The Cultural Endowment Fund was added by the 2005 legislature and funded in July 2005.
- The Budget Stabilization Fund joined the pool in September 2005 upon reaching statutorily designated levels.

Four funds have left the insurance investment pool after having been included in it at some point during its existance - the Veterans' Home Improvement Fund was added in July 1996 and removed in August 1997, the National Guard Tuition Waiver Fund was added in June 1996 and removed in June 1999, the Veterans Post War Trust Fund was added in December 1997 and left the pool in September 2005, and the Veterans Cemetery Trust joined the pool in August 1997 and was removed in August 2007.

MAJOR INITIATIVES

- Retirement Program

TFFR Funding Improvement Legislation - The 2007 Legislature approved changes to improve TFFR's long-term financial condition. Funding information and details can be found in the Actuarial Section. Administrative rules were adopted, system programming was completed, member and employer publications were updated, and legislative changes were implemented during the fiscal year.

Effective 7/1/07, employer contributions of 7.75% required on salaries of re-employed retired members.

Effective 7/1/08, employer contributions increase from 7.75% to 8.25% on salaries of active and re-employed retired members until TFFR reaches 90% funded level on an actuarial basis. Also, a second tier of reduced member benefits is created for new TFFR members. Tier 2 member benefit provisions include Rule of 90, 5 year vesting, and 5 year final average salary calculation.

Other Legislation – The 2007 Legislature approved legislation which allowed 16 employees of the State Board of Career and Technical Education to transfer from TFFR to PERS. Employees were given the option, and member account data and funds were transferred from TFFR to PERS in September 2007.

Service Purchase Project – TFFR Board approved new actuarial methodology and factors for calculating the cost to purchase service credit. Changes were communicated to members, system programming was completed, and changes were implemented on July 1, 2008.

TFFR Member and Employer Web-Based Services - As part of the ongoing effort to expand services, TFFR Employer Online is scheduled to be available in 2009, and TFFR Member Online in 2010.

- Investment Program

Investment details by trust fund can be found in the Investment Section.

Initiatives completed by the SIB during the year included:

Within the Pension Investment Pool
- ✓ Committed funds to a non-US private equity fund.
- ✓ Committed funds to an emerging markets priviate equity fund in the emerging markets asset class.
- ✓ Diversified real estate asset class by committing funds to a value added real estate fund.
- ✓ Committed funds to a mezzanine debt fund in the high yield asset class.
- ✓ Funded a portable alpha manager in the domestic fixed income asset class.
- ✓ Funded two portable alpha managers in the large cap domestic equity asset class.
- ✓ Committed funds to two distressed mortgage funds in the high yield asset class.
- ✓ Replaced a small cap value international equity manager.
- ✓ Committed funds to a co-investment opportunity with an existing private equity manager.
- ✓ Committed funds to a distressed senior credit fund in the domestic fixed income asset class.
- ✓ Opened a second cash management fund for the pension cash allocation.
- ✓ Committed funds to an Asian infrastructure fund in the emerging markets asset class.

Within the Insurance Investment Pool
- ✓ Committed funds to a timberland investment fund to be included in the inflation protected asset class.
- ✓ Replaced a small cap value international equity manager.
- ✓ Committed funds to an infrastructure investment fund to be included in the inflation protected asset class.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the tenth consecutive year that RIO has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

TFFR also received the Public Pension Coordinating Council (PPCC) 2008 Recognition Award for Administration. To receive the award, the retirement system must certify that it meets the requirements in five areas of assessment which include a comprehensive benefit program, actuarial valuations, financial reporting, investments and communications to members.

FINANCIAL INFORMATION

RIO is subject to very strict operational controls. Well-established internal controls are in place, segregation of duties is maintained, and an internal audit program is in effect. In addition, an annual external audit is performed and the results are reported to the Legislative Audit and Fiscal Review Committee.

Brady Martz & Associates conducted the external audit under the direction of the North Dakota State Auditor. The auditor's opinion was unqualified for the agency for the year ended June 30, 2008.

The tables below summarize RIO's revenues and expenses for the current and prior fiscal years:

Pension Trust Fund (TFFR)	June 30, 2008	June 30, 2007	Incr/(Decr) $	Incr/(Decr) %
Additions	$ (70,067,670)	$ 413,128,085	$ (483,195,755)	-117.0%
Deductions	113,596,331	104,658,896	8,937,435	8.5%
Net Change	$ (183,664,001)	$ 308,469,189	$ (492,133,190)	-159.5%

In the pension trust fund, additions decreased due to a decrease in net investment income as a result of the decline in the investment markets. Deductions increased because the average benefit increased from the previous year, as did the number of retirees receiving benefits throughout the year.

Investment Trust Funds	June 30, 2008	June 30, 2007	Incr/(Decr) $	Incr/(Decr) %
Additions	$ (106,478,131)	$ 485,544,925	$ (592,023,056)	-121.9%
Deductions	333,264	300,296	$ 32,968	11.0%
Net Change in Units	55,407,290	(63,899,794)	$ 119,307,084	-186.7%
Net Change	$ (51,404,105)	$ 421,344,835	$ (472,748,940)	-112.2%

In the investment trust funds, additions also decreased due to a decrease in net investment income. Deductions increased due to an increase in administrative expenses allocated to the pool participants during the year.

FUNDING STATUS

The overall objective of a pension fund is to accumulate sufficient funds to meet all expected future obligations to participants. The member and employer contribution rates are established by statute. The member rate is set at 7.75%. Effective July 1, 2008, the employer rate increased from 7.75% to 8.25%. The addition of 0.50% to the employer contribution rate will remain in effect until TFFR is 90% funded on an actuarial basis. The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 30 years from the valuation date. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution (ARC). The thirty-year period is in common use for public-sector plans and is considered reasonable by the actuary.

In order to determine the adequacy of the 8.25% statutory contribution rate, it is compared to the GASB 25 ARC. The ARC is equal to the sum of (a) the employer normal cost, and (b) the level percentage of pay required to amortize the UAAL over a 30-year period. For this calculation, payroll is assumed to increase 2.00% per annum. As of July 1, 2008, the ARC is 9.24%, decreased from 10.15% last year. This is greater than the 8.25% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law and the rate necessary to fund the UAAL in 30 years is -0.99%.

The plan had a net asset loss of $63 million from previous years which has not yet been recognized in the actuarial value of assets, because of the five-year smoothing. This unrecognized asset loss is due to a large market loss during FY2008.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at July 1, 2007, was 79.2%, while it is 81.9% as of July 1, 2008. Based on market values rather than actuarial values of assets, the funded ratio decreased to 79.2% from 91.9% last year.

The following table summarizes the actuarial valuation of the TFFR plan. A detailed discussion of funding is provided in the Actuarial Section of this report.

	July 1, 2008 (in millions)	July 1, 2007 (in millions)
Actuarial value of assets	$ 1,909.5	$ 1,750.1
Unfunded actuarial accrued liability	421.2	459.2
Funded ratio	81.9%	79.2%

INVESTMENT ACTIVITIES

The investment policies and strategies for each of the funds under the SIB can be found in the Investment Section of this report. Each policy is created by the individual fund and presented to the SIB for acceptance. Once accepted, the policy is used as a guide to determine participation in the applicable pools. The policies are designed to provide safeguards on assets while optimizing return based on each fund's risk parameters.

The return information presented in the Investment Section is calculated with the assistance of our consultant, Callan Associates, based on data supplied by our custodian, The Northern Trust Company, and the individual investment managers. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit.

PROFESSIONAL SERVICES

Professional consultants are selected by the TFFR Board and the SIB to perform professional services that are essential to the effective and efficient operation of the retirement and investment programs. An opinion from the certified public accountant and the actuary are included in this report. The consultants chosen by the boards are listed in the Introductory Section of this report.

Respectfully yours,

Fay Kopp

a

STEVE COCHRANE, CFA
Executive Director/CIO

FAY KOPP
Deputy Executive Director

CONNIE L. FLANAGAN
Fiscal & Investment Officer

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Mission

The North Dakota Retirement and Investment Office exists in order that:

- SIB clients receive cost-effective investment services directed at meeting their written financial goals under the Prudent Investor Rule.
- SIB clients receive investment returns consistent with their written investment policies and market variables.
- Potential SIB clients have access to information regarding the investment services provided by the SIB.
- TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
- TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
- SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

Administrative Staff

Steve Cochrane, CFA
Executive Director/CIO

Fay Kopp
Deputy Executive Director

Supervisory Staff

Connie L. Flanagan
Fiscal Management

Shelly Schumacher
Retirement Services

Les Mason
Internal Audit

Bonnie Heit
Administrative Services

Gary Vetter
Information Services

NORTH DAKOTA STATE INVESTMENT BOARD
Board Members as of June 30, 2008

Investment Program

Investment Process

The ND State Investment Board believes that an investment program must be built and managed like any good business, with a clear statement of mission, overall objectives, roles and responsibilities, and policies and guidelines. Major issues include:

Asset allocation targets:

- Setting appropriate benchmarks.
- Finding the right managers.
- Monitoring the program.
- Searching for appropriate new opportunities.

To ensure rigorous attention to all aspects of the investment program, the SIB follows an established investment process. This process involves three phases:

- Investment policy development/modification
- Implementation/monitoring
- Evaluation

Jack Dalrymple
Chair
Lt. Governor

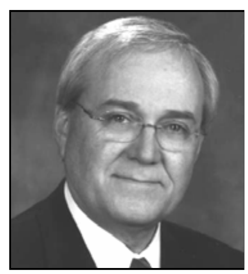
Clarence Corneil
Vice Chair
TFFR Trustee

Kelly Schmidt
State Treasurer

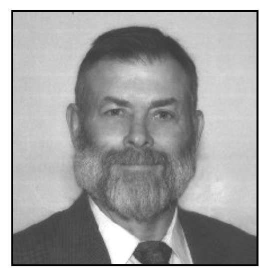
Adam Hamm
State Insurance Commissioner

Cindy Ternes
Workforce Safety & Insurance Designee

Gary Preszler
University and School Land Commissioner



Robert Toso
TFFR Trustee



Mike Gessner
TFFR Trustee

Mike Sandal
PERS Trustee

Ron Leingang
PERS Trustee

Thomas Trenbeath
PERS Trustee

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
Board of Trustees as of June 30, 2008

Retirement Program

Mission

The mission of the Teachers' Fund for Retirement, a trust fund, is to advocate for, develop, and administer a comprehensive retirement program for all trust fund members within the resources available.

Goals

Investment and Funding Goals:

- Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.
- Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.
- Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.
- Build a funding cushion to provide for future benefit improvements.

Benefit Goals:

- Provide 2.0% benefit formula for all current and future retirees.
- Provide ad hoc retiree benefit adjustments (fixed formula and percent based) for all current and future retirees to maintain purchasing power of retirement benefits and assist with rising health care costs. Benefit adjustments may be considered when the Board believes it is prudent based upon actuarial funding measurements including:
    - a. Positive contribution margin
    - b. Amortization of UAAL within GASB 30-year funding period
    - c. Funded ratio of 90% or greater

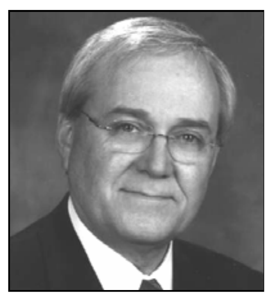
Service Goals:

- Administer accurate, prompt, and efficient pension benefits program.
- Deliver high quality, friendly service to members and employers.
- Provide educational outreach programs including pre-retirement seminars and individual counseling sessions.

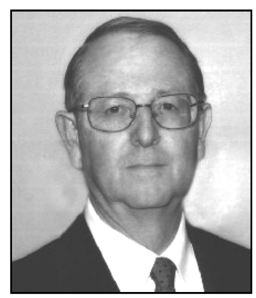
Mike Gessner
President
(active teacher)

Lowell Latimer
Vice President
(retired member)

Kim Franz
Trustee
(active teacher)



Robert Toso
Trustee
(active administrator)



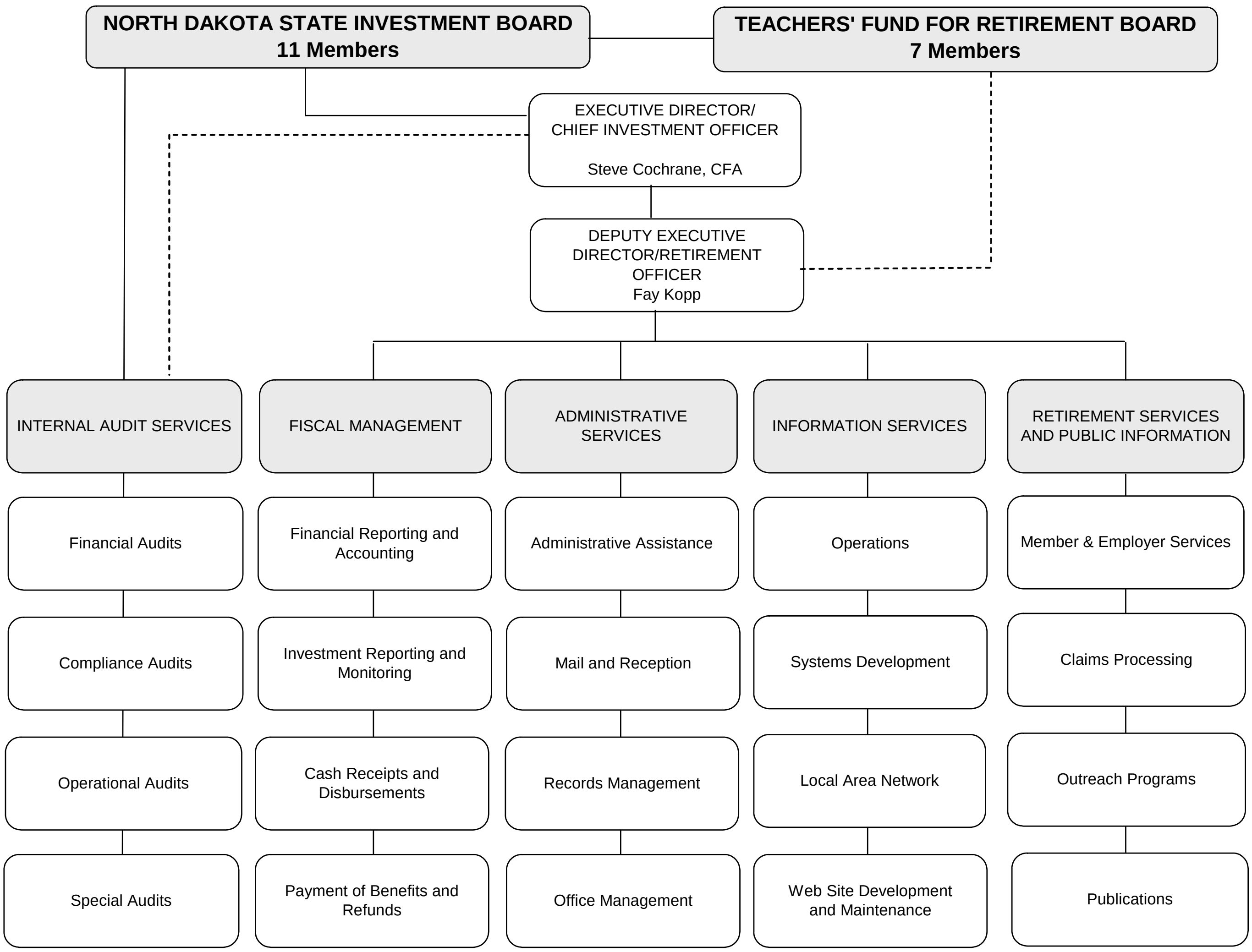
Clarence Corneil
Trustee
(retired member)

Kelly Schmidt
State Treasurer

Wayne Sanstead
State Superintendent of Public Instruction

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

ADMINISTRATIVE ORGANIZATION
JUNE 30, 2008



Note: See page 67 in the Investment Section for a summary of fees paid to investment professionals and pages 148-151 in the Statistical Section for a detailed list of the investment professionals who provide services to the State Investment Board and their corresponding fees.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

CONSULTING AND PROFESSIONAL SERVICES
AS OF JUNE 30, 2008

Actuary
Gabriel, Roeder, Smith & Co.
Dallas, Texas

Auditor
Brady, Martz & Associates, P.C.
Bismarck, North Dakota

Legal Counsel
North Dakota Attorney General's Office
Bismarck, North Dakota

Information Technology
CPAS Systems Inc.
Toronto, Ontario

Master Custodian
The Northern Trust Company
Chicago, Illinois

Investment Consultant and Performance Measurement
Callan Associates Inc.
San Francisco, California

Investment Managers
Adams Street Partners, LLC
Chicago, Illinois

Bank of North Dakota
Bismarck, North Dakota

Brandywine Asset Management
Wilmington, Delaware

Calamos Advisors LLC
Naperville, Illinois

Callan Associates
San Francisco, California

Capital Guardian Trust Company
Los Angeles, California

Clifton Group
Minneapolis, MN

Corsair Capital
New York, New York

Coral Partners, Inc.
Minneapolis, Minnesota

Declaration Mgmt & Research, LLC
McLean, Virginia

Dimensional Fund Advisors
Chicago, Illinois

Investment Managers (cont.)
Epoch Investment Partners, Inc.
New York, New York

European Credit Mgmt
London, England

Franklin Porfolio Associates, LLC
Boston, Massachusetts

Goldman Sachs Asset Mgmt
New York, New York

Hearthstone Homebuilding Investors, LLC
Encino, California

Hyperion Brookfield Asset Management Inc.
New York, New York

INVESCO Realty Advisors
Dallas, Texas

InvestAmerica L&C, LLC
Cedar Rapids, Iowa

J.P. Morgan Invest. Mgmt, Inc.
New York, New York

Loomis Sayles & Company
Boston, Massachusetts

Los Angeles Capital Management
Los Angeles, California

LSV Asset Management
Chicago, Illinois

Matlin Patterson Global Advisers LLC
New York, New York

Northern Trust Global Investments
Chicago, Illinois

PanAgora Asset Management, Inc.
Boston, Massachusetts

PIMCO
Newport Beach, California

Prudential Investment Management
Newark, New Jersey

Quantum Energy Partners
Houston, Texas

Quantum Resources Mgmt, LLC
Denver, Colorado

Research Affiliates, LLC
Newport Beach, California

Investment Managers (cont.)
SEI Investments Management Co.
Oaks, Pennsylvania

State Street Global Advisors
Boston, Massachusetts

Trust Company of the West Asset Management Co.
Los Angeles, California

Timberland Investment Resources, LLC
Atlanta, Georgia

UBS Global Asset Management
Chicago, Illinois

The Vanguard Group
Valley Forge, Pennsylvania

Wellington Trust Company, NA
Boston, Massachusetts

Wells Capital Management, Inc.
Menomonee Falls, Wisconsin and Minneapolis, Minnesota

Western Asset Management Co.
Pasadena, California

WestLB Asset Management, LLC
Chicago, Illinois

Westridge Capital Mgmt, Inc.
Santa Barbara, California

Securities Lending
Wachovia Global Securities Lending
Short Hills, New Jersey

Certificate of Achievement for Excellence in Financial Reporting

Presented to

North Dakota Retirement and Investment Office

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Public Pension Coordinating Council

Recognition Award for Administration 2008

Presented to

North Dakota Teachers' Fund for Retirement

In recognition of meeting professional standards for
plan administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

This page intentionally blank.

FINANCIAL SECTION

BRADY MARTZ

CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Governor John Hoeven
The Legislative Assembly
Steve Cochrane, Executive Director
State Investment Board
Teachers' Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of the fiduciary funds of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements, as listed in the table of contents, as of and for the year ended June 30, 2008. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of RIO are intended to present the financial position, the changes in financial position and plan net assets of only that portion of the fiduciary funds of the State of North Dakota that is attributable to the transactions of RIO. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2008, and the changes in its financial position and plan net assets, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The actuary for the North Dakota Teachers' Fund for Retirement has determined the Fund's unfunded actuarial accrued liability is approximately $421 million at June 30, 2008. The funding for the actuarial accrued liabilities is predicated on employer and employee funding rates mandated by North Dakota statutes. The actuary has determined that the current statutory contribution rates will amortize the unfunded actuarial accrued liability over 57 years, based on the current actuarial assumptions, unless there are sufficient actuarial gains in the future to offset the recent investment losses.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the fiduciary funds of RIO as of June 30, 2008, and the respective changes in financial position, plan net assets where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual fund financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds of RIO as of June 30, 2008, and the results of operations of such funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BRADY, MARTZ & ASSOCIATES, P.C.
207 East Broadway, Suite 200 P.O. Box 1297
Bismarck, ND 58502-1297 (701) 223-1717 Fax (701) 222-0894

OTHER OFFICES: Minot and Grand Forks, ND
Thief River Falls, MN

RSM McGladrey Network
An Independently Owned Member

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information shown on page 47 is presented for purposes of additional analysis and are not a required part of the financial statements. The required supplementary information and supporting schedules are the responsibility of RIO's management. The Schedules of Funding Progress and Employer Contributions and the supporting schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) on pages 18 through 22 are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements that collectively comprise RIO's basic financial statements and on the combining and individual fund financial statements. The Supplementary Information shown on pages 52 through 55 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in our audit of the basic, combining and individual fund financial statements, and, in our opinion, is fairly stated, in all material respects, in relation to the basic, combining and individual fund financial statements taken as a whole.

We did not audit the data included in the introductory, investment, actuarial and statistical sections of this report, and accordingly, we do not express an opinion thereon.

A report in accordance with Government Auditing Standards, on the RIO's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants is issued under separate cover.

Brady, Martz

BRADY, MARTZ & ASSOCIATES, P.C.

October 13, 2008

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2008

Our discussion and analysis of the ND Retirement and Investment Office's (RIO) financial performance provides an overview of RIO's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

Total net assets decreased in the fiduciary funds by $235 million or 4.2% due mostly to net losses in the investment markets.

Additions in the fiduciary funds for the year were actually negative due to the net decrease in fair value of investments. Net investment loss was $248.7 million. Total contributions were $70.6 million, an increase of 6.3% over 2007.

Deductions in the fiduciary fund increased over the prior year by $9.0 million or 8.6%. This increase represented a rise in the total number of retirees drawing retirement benefits from the pension fund as well as an increase in the retirement salaries of new retirees.

The ND Teachers' Fund for Retirement's (TFFR) funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2008, the funded ratio was approximately 81.9%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of four parts – *management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and an optional section that presents *combining statements* for the investment trust funds. The basic financial statements include fund financial statements that focus on individual parts of RIO's activities (fiduciary funds).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with combining statements that provide details about our investment trust funds, each of which are added together and presented in single columns in the basic financial statements.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2008

Fund Financial Statements

The fund financial statements provide detailed information about RIO's activities. Funds are accounting devices that RIO uses to keep track of specific sources of funding and spending for particular purposes.

RIO uses fiduciary funds as RIO is the trustee, or fiduciary, for TFFR (a pension plan) and SIB (investment trust funds). RIO is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of RIO's fiduciary activities are reported in a statement of net assets and a statement of changes in net assets.

FINANCIAL ANALYSIS

RIO's fiduciary fund total assets as of June 30, 2008, were $5.6 billion and were comprised mainly of investments and invested securities lending collateral. Total assets decreased over $627 million or 10% from the prior year primarily due to losses in the financial markets during the fiscal year.

Total liabilities as of June 30, 2008 were $201 million and were comprised mostly of securities lending collateral. Total liabilities decreased $392 million or 66.1% from the prior year primarily due to a decrease in securities lending collateral at year-end.

RIO's fiduciary fund total net assets were $5.4 billion at the close of fiscal year 2008.

ND Retirement and Investment Office
Net Assets – Fiduciary Funds
(In Millions)

	2008	2007	Total % Change
Assets			
Investments	$ 5,384	$ 5,619	-4.2%
Sec Lending Collateral	194	585	-66.9%
Receivables	30	32	-4.4%
Cash & Other	12	11	9.0%
Total Assets	5,620	6,247	-10.0%
Liabilities			
Accounts Payable	7	8	-10.8%
Sec Lending Collateral	194	585	-66.9%
Total Liabilities	201	593	-66.1%
Total Net Assets	$ 5,419	$ 5,654	-4.2%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2008

ND Retirement and Investment Office
Changes in Net Assets – Fiduciary Funds
(In Millions)

	2008	2007	Total % Change
Additions:			
Contributions	$ 70.60	$ 66.40	6.3%
Investment Income	(247.12)	832.31	-129.7%
Total Additions	(176.52)	898.71	-119.6%
Deductions	113.93	104.96	8.5%
Net change from unit transactions	55.41	(63.90)	-186.7%
Total change in net assets	$ (235.04)	$ 729.85	-132.2%

Statement of Changes in Net Assets – Additions

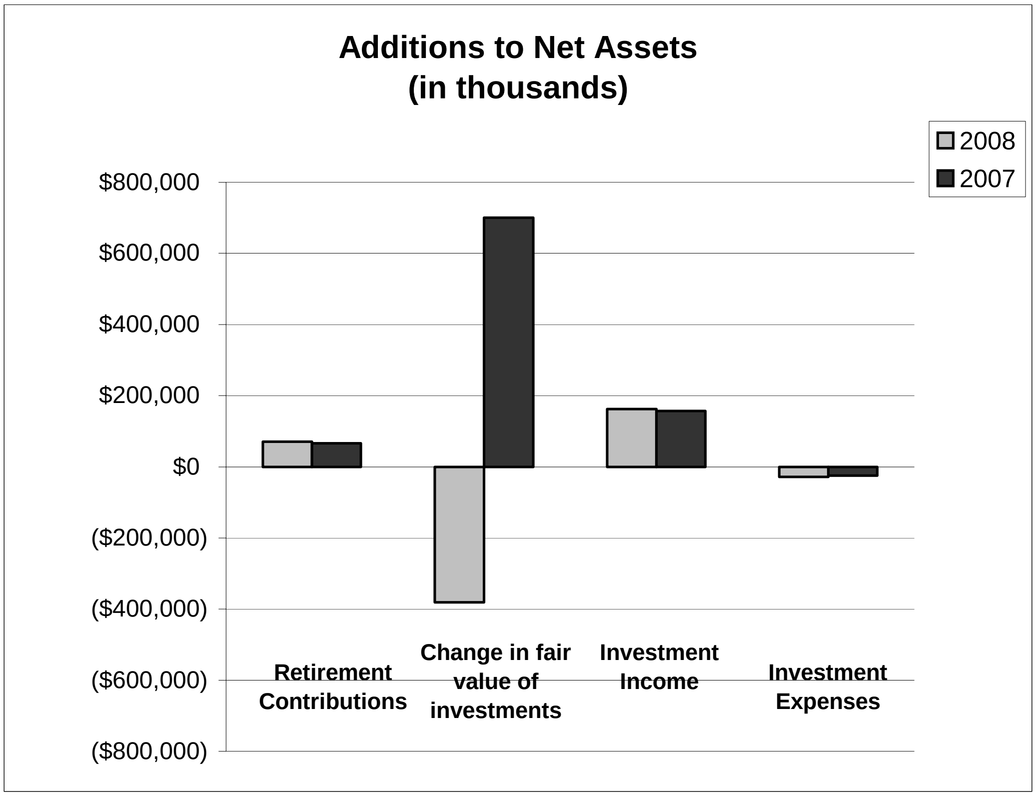
Contributions to the pension trust fund increased by $4.2 million or 6.3% over the previous fiscal year. The net change in fair value of investments in the fiduciary funds was a decrease of $380.9 million in fiscal year 2008 following a positive change of $700.4 million the previous year.

Investment income, including net income from securities lending activities, increased by $6.0 million from last year. Investment expenses increased by $4.1 million or 16.7% mainly due to the timing of incentive-based fees related to certain timber investments. This fee will fluctuate over the life of the investment based on the continued performance of the manager.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2008



Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $6.7 million or 6.7% during the fiscal year ended June 30, 2008. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary which the benefits are based upon.

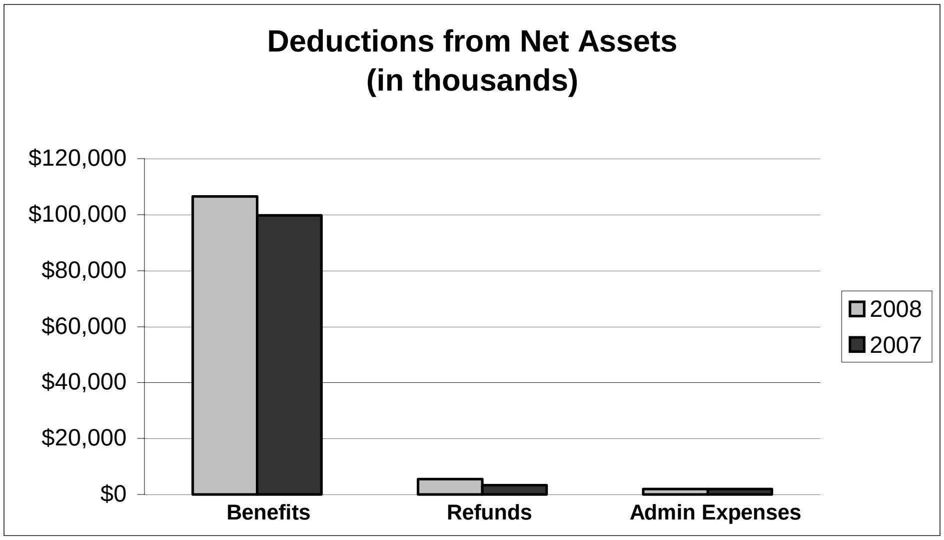
Refunds increased significantly in fiscal year 2008. The 2007 legislature approved a bill allowing employees of the Department of Career and Technical Education covered under TFFR to make an election to transfer to the Public Employees Retirement System (PERS). Approximately $3.2 million in member account balances and/or actuarially determined values were transferred to PERS and these are shown as refunds on the financial statements. Total refunds for the year, including those transfers, were $5.5 million versus $3.3 million the previous fiscal year; a 65.2% increase.

Administrative expenses increased by just over $80,000, or 4.3%, due mainly to legislatively approved salary increases for state employees.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Management's Discussion and Analysis

June 30, 2008



CONCLUSION

Fiscal year 2008 was highly influenced by tightening in the general credit market as well as declining economic conditions. This resulted in many global equities and non-governmental bonds losing value, as investors shunned assets presumed to have risk.

Within the SIB's investment program, the investment trust funds are invested within their policy guidelines and seek to add investment return to their expected benchmark return objectives over multi-year periods. As global economies and financial markets continue to adjust to changing conditions, the SIB remains vigilant to identify investment opportunities which will benefit the plans over the long term.

TFFR's funded ratio improved in 2008 due to the 5 year smoothing of asset gains and losses. However, long term projections show the plan's funding level is expected to decline should TFFR experience another year of investment losses. While 2007 legislation was passed to improve TFFR's long term financial status, additional statutory changes to enhance revenue may need to be considered in the future.

CONTACTING RIO FINANCIAL MANAGEMENT

This financial report is designed to provide our Boards, our membership, our clients and the general public with a general overview of RIO's finances and to demonstrate RIO's accountability for the money we receive. If you have any questions about this report or need additional information, contact the North Dakota Retirement and Investment Office, PO Box 7100, Bismarck, ND 58507-7100.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Statements of Net Assets
Fiduciary Funds
As of June 30, 2008 and 2007

	Pension Trust		Investment Trust	
	2008	2007	2008	2007
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 25,968,232	$ 29,149,500
Equity pool	1,038,055,015	1,260,494,121	1,291,115,204	1,501,115,243
Fixed income	-	-	13,658,848	15,383,953
Fixed income pool	459,221,747	429,624,787	1,837,537,823	1,707,756,245
Real estate pool	218,557,672	212,437,075	214,544,096	205,201,801
Alternative Investments	101,316,753	87,610,571	101,957,749	85,898,100
Cash and cash pool	4,421,123	16,588,981	77,722,742	68,344,985
Total investments	1,821,572,310	2,006,755,535	3,562,504,694	3,612,849,827
Invested securities lending collateral	21,349,349	143,933,101	172,541,068	441,048,728
Receivables:				
Investment income	7,971,796	8,366,495	14,278,826	15,301,708
Contributions	8,065,995	8,058,323	-	-
Miscellaneous	5,361	3,064	5,102	4,011
Total receivables	16,043,152	16,427,882	14,283,928	15,305,719
Due from other state agency	38	112	9	23
Cash and cash equivalents	11,156,236	9,950,883	80,255	81,972
Equipment & Software (net of depr)	555,989	789,382	-	-
Total assets	1,870,677,074	2,177,856,895	3,749,409,954	4,069,286,269
Liabilities:				
Accounts payable	58,308	48,835	21,804	16,676
Investment expenses payable	2,634,849	3,603,855	4,138,715	4,109,302
Securities lending collateral	21,349,349	143,933,101	172,541,068	441,048,728
Accrued expenses	514,856	483,601	36,114	36,231
Capital lease payable	-	1,210	-	-
Miscellaneous payable	-	-	7,896	6,341
Due to other state agencies	6,301	8,881	729	1,258
Total liabilities	24,563,663	148,079,483	176,746,326	445,218,536
Net assets:				
Held in trust for pension benefits (see Schedule of Funding Progress on page 47)	1,846,113,411	2,029,777,412	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,002,929,586	2,104,537,811
Insurance pool	-	-	1,529,753,733	1,474,613,291
Held in trust for individual investment account	-	-	39,980,309	44,916,631
Total net assets	$ 1,846,113,411	$ 2,029,777,412	$ 3,572,663,628	$ 3,624,067,733
Each participant unit is valued at $1.00				
Participant units outstanding			3,572,663,628	3,624,067,733

The accompanying notes are an integral part of this financial statement.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Statements of Changes in Net Assets
Fiduciary Funds
For the Years Ended June 30, 2008 and 2007

	Pension Trust		Investment Trust	
	2008	2007	2008	2007
Additions:				
Contributions:				
Employer contributions	$ 33,683,550	$ 31,865,466	$ -	$ -
Member contributions	33,237,677	31,865,772	-	-
Purchased service credit	3,636,528	2,629,006	-	-
Interest and penalties	15,634	1,855	-	-
Total contributions	70,573,389	66,362,099	-	-
Investment income:				
Net change in fair value of investments	(178,531,370)	308,580,419	(202,384,896)	391,832,839
Interest, dividends and other income	48,889,586	48,309,521	112,082,263	107,039,898
	(129,641,784)	356,889,940	(90,302,633)	498,872,737
Less investment expenses	11,359,487	10,547,809	17,388,018	14,080,766
Net investment income	(141,001,271)	346,342,131	(107,690,651)	484,791,971
Securities lending activity:				
Securities lending income	2,918,949	7,254,776	12,029,518	24,706,273
Less securities lending expenses	2,558,737	6,830,921	10,816,998	23,953,319
Net securities lending income	360,212	423,855	1,212,520	752,954
Total additions	(70,067,670)	413,128,085	(106,478,131)	485,544,925
Deductions:				
Benefits paid to participants	105,764,195	98,784,161	-	-
Partial lump-sum distributions	692,139	953,744	-	-
Refunds	5,500,476	3,328,931	-	-
Administrative charges	1,639,521	1,592,060	333,264	300,296
Total deductions	113,596,331	104,658,896	333,264	300,296
Net change in net assets resulting from operations	(183,664,001)	308,469,189	(106,811,395)	485,244,629
Unit transactions at net asset value of $1.00 per unit:				
Purchase of units	-	-	316,098,641	140,877,109
Redemption of units	-	-	(260,691,351)	(204,776,903)
Net change in assets and units resulting from unit transactions	-	-	55,407,290	(63,899,794)
Total change in net assets	(183,664,001)	308,469,189	(51,404,105)	421,344,835
Net assets:				
Beginning of year	2,029,777,412	1,721,308,223	3,624,067,733	3,202,722,898
End of Year	$ 1,846,113,411	$ 2,029,777,412	$ 3,572,663,628	$ 3,624,067,733

The accompanying notes are an integral part of this financial statement.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The North Dakota Retirement and Investment Office (RIO) is charged with providing and coordinating the administrative activities of the Teachers' Fund for Retirement (TFFR) and the North Dakota State Investment Board (SIB).

RIO is an agency of the State of North Dakota operating through the legislative authority of North Dakota Century Code (NDCC) Chapter 54-52.5 and is considered part of the State of North Dakota financial reporting entity and included in the State of North Dakota's Comprehensive Annual Financial Report.

For financial reporting purposes, RIO has included all funds, and has considered all potential component units for which RIO is financially accountable, and other organizations for which the nature and significance of their relationship with RIO are such that exclusion would cause RIO's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of RIO to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on RIO.

Based upon these criteria, there are no component units to be included within RIO as a reporting entity and RIO is part of the State of North Dakota as a reporting entity.

B) Fund Financial Statement

All activities of RIO are pension and investment trust funds and are shown in the fiduciary fund financial statements.

C) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of RIO are reported using the economic resources measurement focus and the accrual basis of accounting.

This measurement focus includes all assets and liabilities associated with the operations of the fiduciary funds on the statements of net assets. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Fiduciary Fund

A pension trust fund and investment trust funds have been established to account for the assets held by RIO in a trustee capacity for TFFR and as an agent for other governmental units or funds which have placed certain investment assets under the management of SIB. The SIB manages two external investment pools and one individual investment account.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fiduciary Fund - Continued

The two external investment pools consist of a pension pool and insurance pool. SIB manages the investments of the North Dakota Public Employees Retirement System, Job Service of North Dakota, and Bismarck City Employees and Police, and City of Fargo pension plans in the pension pool. The investments of Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery (transferred out in fiscal year 2008), North Dakota Association of Counties Fund, North Dakota Association of Counties Program Savings Fund, Risk Management, Risk Management Workers Comp, PERS Group Insurance, City of Bismarck Deferred Sick Leave, City of Fargo FargoDome Permanent Fund, Cultural Endowment Fund, and Budget Stabilization Fund are managed in the insurance pool.

PERS Retiree Health investments are managed by SIB in an individual investment account. RIO has no statutory authority over, nor responsibility for, these investment trust funds other than the investment responsibility provided for by statute or through contracts with the individual agencies. Those pool participants that are required to participate according to statute are: Public Employees Retirement System, Workforce Safety and Insurance, State Fire and Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust, Veterans Cemetery (tranferred out in fiscal year 2008), Risk Management, Risk Management Workers Comp, Cultural Endowment Fund and Budget Stabilization Fund.

RIO follows the pronouncements of the Governmental Accounting Standards Board (GASB), which is the nationally accepted standard setting body for establishing accounting principles generally accepted in the United States of America for governmental entities.

Pension and Investment Trust Funds are accounted for using the accrual basis of accounting. Member contributions are recognized in the period in which they are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the NDCC.

D) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Use of Estimates – Continued

Actual results could differ from those estimates. RIO utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statement of net assets.

E) Budgetary Process

RIO operates through a biennial appropriation, which represents appropriations recommended by the Governor and presented to the General Assembly (the Assembly) at the beginning of each legislative session. The Assembly enacts RIO's budget through passage of a specific appropriation bill. The State of North Dakota's budget is prepared principally on a modified accrual basis. The Governor has line item veto power over all legislation, subject to legislative override.

Once passed and signed, the appropriation bill becomes RIO's financial plan for the next two years. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. The Emergency Commission can authorize receipt of federal or other moneys not appropriated by the Assembly if the Assembly did not indicate an intent to reject the money. The Emergency Commission may authorize pass-through federal funds from one state agency to another. The Emergency Commission may authorize the transfer of expenditure authority between appropriated line items, however RIO has specific authority as a special fund to transfer between the contingency line item and other line items. Unexpended appropriations lapse at the end of each biennium, except certain capital expenditures covered under the NDCC section 54-44.1-11.

RIO does not use encumbrance accounting. The legal level of budgetary control is at the agency, appropriation and expenditure line item level. RIO does not formally budget revenues and it does not budget by fund. The statement of revenues, expenditures and changes in fund balances - budget and actual is not prepared because revenues are not budgeted.

F) Capital Assets and Depreciation

Capital asset expenditures greater than $5,000 are capitalized at cost in accordance with Section 54-27-21 of the NDCC. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are as follows:

	Years
Office equipment	5
Furniture and fixtures	5

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G) Investments

NDCC Section 21-10-07 states that the SIB shall apply the prudent investor rule when investing funds under its supervision. The prudent investor rule means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation, but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

The pension fund belonging to TFFR and investment trust funds attributable to the Bismarck City Employee Pension Plan, the Bismarck City Police Pension Plan, Fargo City Employee Pension Plan, Job Service of North Dakota, and the Public Employees Retirement System (PERS) must be invested exclusively for the benefit of their members. All investments are made in accordance with the respective fund's long-term investment objectives and performance goals.

Pooled Investments

Several agencies whose investments are under the supervision of the SIB participate in pooled investments. The agencies transfer money into the investment pools and receive an appropriate percentage ownership of the pooled portfolio based upon fair value. All activities of the investment pools are allocated to the agencies based upon their respective ownership percentages. Each participant unit is valued at $1.00 per unit.

Investment Valuation and Income Recognition

Investments are reported at fair value. Quoted market prices, when available, have been used to value investments. The market values for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that value. International securities are valued based upon quoted foreign market prices and translated into U.S. dollars at the exchange rate in effect at June 30. In general, corporate debt securities have been valued at quoted market prices or, if not available, values are based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investment securities, including timberland, is based on appraisals plus fiscal year-to-date capital transactions. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued using current estimates of fair value from the investment manager. Such valuations

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Valuation and Income Recognition – Continued

consider variables such as financial performance of the issuer, comparison of comparable companies' earnings multiples, cash flow analysis, recent sales prices of investments, withdrawal restrictions, and other pertinent information. Because of the inherent uncertainty of the valuation for these other alternative investments, the estimated fair value may differ from the values that would have been used had a ready market existed.

The net increase (decrease) in fair value of investments consists of the realized gains or losses and the unrealized increase or decrease in fair value of investments during the year. Realized gains and losses on sales of investments are computed based on the difference between the sales price and the original cost of the investment sold. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current fiscal year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

Unrealized increase or decrease is computed based on changes in the fair value of investments between years. Security transactions are accounted for on a trade date basis. Interest income is recognized when earned. Dividend income is recorded on the ex-dividend date.

Securities Lending

GASB Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

The State Investment Board (SIB) lends its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The SIB has contracted with a third party securities lending agent (Agent) to lend the SIB's securities portfolios. The Agent lends securities of the type on loan at June 30, 2008, for collateral in the form of cash or other securities at 102% of the loaned securities market value plus accrued interest for domestic securities and 105% of the loaned securities market value plus accrued interest for international securities. The collateral for the loans

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Securities Lending – Continued

is maintained at 100% per the contractual requirements. As of June 30, 2008, the market value of the SIB's securities on loan totaled $192,667,996. As of June 30, 2008, the total amount of cash and non-cash collateral related to these lent securities was $196,015,966. As of June 30, 2008, the Fund has no credit risk exposure to borrowers because the amounts the SIB owes the borrowers exceed the amounts the borrowers owe the SIB.

The Average Duration of the collateral investments as of June 30, 2008, was 6 days. The Average Weighted Maturity of collateral investments as of June 30, 2008, was 174 days. The interest rate sensitivity (duration) of the securities on loan matched the duration of the collateral investments.

The Agent provides indemnification if the borrowers fail to return the underlying securities (and if the collateral is inadequate to replace the securities lent) or fails to pay income distributions on them. All open securities loans can be terminated on demand by either the SIB or the borrower. All term securities loans can be terminated with five days notice by either the SIB or the borrower. Cash collateral is invested in accordance with investment guidelines approved by the SIB. The SIB cannot pledge or sell collateral securities received unless the borrower defaults.

Derivative Securities

SIB's investment policy allows investment managers to use derivative securities. Managers are specifically permitted to use Treasury futures and options, S & P 500 index futures and options, and currency forwards and futures to hedge portfolio risk, but not to speculate or to leverage the portfolio. Managers may use their discretion to use other derivatives to enhance returns, reduce risk, or facilitate the management of index funds. SIB's policy with respect to these derivatives is that their use may not increase the credit, market or legal risk level associated with a fully invested portfolio of common stocks or fixed income obligations, depending on the manager's designated role.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Accumulated Leave

Annual leave is a part of permanent employees' compensation as set forth in Section 54-06-14 of the NDCC. Employees earn leave based on tenure of employment. Sick leave is also part of permanent employees' compensation as set forth in Section 54-52-04 of the NDCC. Accrued leave amounted to $94,499 at June 30, 2008. The current portion of accrued leave amounted to $71,335 at June 30, 2008, and is included in accrued expenses of the Fiduciary Funds in the statements of net assets. Changes in accrued leave for the year ended June 30, 2008 consisted of the following:

Balance July 1, 2007	$92,753
Additions	75,884
Deductions	(74,138)
Balance June 30, 2008	$94,499

NOTE 2 CASH AND CASH EQUIVALENTS

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. NDCC 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, NDCC 6-09-07 states, "[a]ll state funds…must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provisions.

Pension Trust Fund

Deposits held by the Pension Trust Fund at June 30, 2008 were deposited in the Bank of North Dakota. At June 30, 2008, the carrying amount of TFFR's deposits was $11,040,507 and the bank balance was $11,071,043. The difference results from checks outstanding or deposits not yet processed by the bank. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

Investment Trust Funds

Certificates of deposit and an insurance trust cash pool are recorded as investments and have a cost and carrying value of $160,562,842 at June 30, 2008. In addition these funds carry cash and cash equivalents totaling $73,357 at June 30, 2008. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through NDCC Section 6-09-10.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 3 INVESTMENTS

The investment policy of the SIB is governed by NDCC 21-10. The SIB shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to 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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. The SIB does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates.

At June 30, 2008 the following table shows the investments by investment type and maturity (expressed in thousands).

	Total Market Value	Less than 1 Year	1-6 Years	6-10 Years	10+ Years
Asset Backed Securities	$ 41,040	$ -	$ 918	$ 1,403	$ 38,719
Bank Loans	22,887	1,450	16,905	4,532	-
Commercial Mortgage-Backed	21,281	-	135	-	21,146
Commercial Paper	-	-	-	-	-
Corporate Bonds	664,627	12,294	203,956	241,048	207,329
Corporate Convertible Bonds	31,661	607	13,035	-	18,019
Government Agencies	61,575	5,005	25,845	15,868	14,857
Government Bonds	148,374	6,024	77,771	34,407	30,172
Government Mortgage-Backed	88,617	2	824	1,561	86,230
Hedge Multi-Strategy	83,441	83,441	-	-	-
Index Linked Government Bonds	126,720	-	36,951	40,889	48,880
Municipal/Provincial Bonds	12,221	-	2,019	5,313	4,889
Non-Government Backed CMOs	64,969	505	164	600	63,700
Short Term Bills and Notes	14,613	14,613	-	-	-
Pooled Investments	503,527	77,591	63,063	362,664	209
Total Debt Securities	$ 1,885,553	$ 201,532	$ 441,586	$ 708,285	$ 534,150

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 3 INVESTMENTS - Continued

Interest Rate Risk – Continued

In the table above, the market values of inflation indexed bonds are reflected in the columns based on their stated maturity dates. The principal balances of these bonds are adjusted every six months based on the inflation index for that period.

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

Interest-only (IO) and principal-only (PO) strips are transactions, which involve the separation of the interest and principal components of a security. They are highly sensitive to prepayments by mortgagors, which may result from a decline in interest rates. The SIB held IOs valued at $1.1 million, and POs valued at $1.2 million at fiscal year end. The SIB has no policy regarding IO or PO strips.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The State Investment Board maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories. The following table presents the SIB's ratings as of June 30, 2008 (expressed in thousands).

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 3 INVESTMENTS – Continued

Credit Risk – Continued

	Total Market Value	Credit Rating* AAA	AA	A	BBB	BB	B	CCC	D
Asset Backed Securities	$ 41,040	$ 11,356	$ 2,038	$ 558	$ 3,670	$ 21,303	$ 2,011	$ 62	$ 42
Bank Loans	22,887	-	-	-	2,059	14,988	5,166	434	240
Commercial Mortgage Backed	21,281	20,498	560	223	-	-	-	-	-
Corporate Bonds	664,627	9,210	38,680	129,861	290,020	98,089	74,130	24,637	-
Corporate Convertible Bonds	31,661	-	-	4,935	6,897	12,357	3,696	3,776	-
Gov't Agencies	43,199	39,191	-	1,302	2,500	206	-	-	-
Gov't Bonds	142,842	106,333	-	25,204	8,209	3,096	-	-	-
Gov't Mortgage Backed	485	485	-	-	-	-	-	-	-
Hedge Multi-Strategy	83,441	-	83,441	-	-	-	-	-	-
Index Linked Gov't Bonds	123,153	123,153	-	-	-	-	-	-	-
Municipal/Provincial Bonds	12,221	4,747	2,259	-	3,521	1,694	-	-	-
Non-Gov't Backed CMOs	64,969	44,144	12,121	7,354	570	641	139	-	-
Pooled Investments	503,527	243,253	111,367	77,711	58,860	12,166	170	-	-
Total Credit Risk of Debt Securities	1,755,333	$602,370	$250,466	$ 247,148	$ 376,306	$ 164,540	$ 85,312	$ 28,909	$ 282
US Gov't & Agencies	130,220								
Total Debt Securities	$ 1,885,553								

* Majority of debt securities rated by S&P, however, some were determined by Moody’s, Fitch or the manager.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Although the SIB does not have a formal investment policy governing foreign currency risk, the SIB does manage its exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios to limit foreign currency and security risk. The SIB’s exposure to foreign currency risk is presented in the following table as of June 30, 2008 (expressed in thousands).

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 3 INVESTMENTS – Continued

Foreign Currency Risk - Continued

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (6,327)	$ 10,547	$ 15,621	$ 19,841
Brazilian real	3	7,162	4,420	11,585
British pound sterling	(35,289)	6,070	60,486	31,267
Canadian dollar	(19,451)	4,209	22,028	6,786
Colombian peso	-	-	-	-
Danish krone	(1,221)	-	3,431	2,210
Euro	(58,596)	3,382	122,535	67,321
Hong Kong dollar	(1,326)	-	5,594	4,268
Hungarian forint	(180)	222	-	42
Iceland krona	-	3,411	-	3,411
Indonesian Rupiah	21	4,094	30	4,145
Japanese yen	(50,151)	-	96,105	45,954
Malaysian Ringgit	-	7,221	-	7,221
Mexican peso	(162)	8,569	61	8,468
New Zealand dollar	(134)	4,038	-	3,904
Norwegian krone	(1,319)	1,255	6,027	5,963
Polish zloty	(395)	5,897	83	5,585
Singapore dollar	(1,077)	9,960	3,477	12,360
South African rand	(35)	3,598	175	3,738
South Korean won	-	936	308	1,244
Swedish krona	(3,266)	4,768	6,868	8,370
Swiss franc	(20,006)	-	35,445	15,439
Thai baht	-	-	-	-
Turkish lira	1,565	-	-	1,565
International commingled funds (various currencies)	-	94,880	360,310	455,190
Total international investment securities	$ (197,346)	$ 180,219	$ 743,004	$ 725,877

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 3 INVESTMENTS – Continued

Alternative Investments

In relation to investment asset allocation within the pension pool, the State Investment Board (SIB) considers alternative investments to be any investments that do not fit into any of the other specific asset classes available for investment. Examples of investments the SIB has included in the alternative investments asset class are private equity, venture capital and distressed debt. All of the investments in this asset class are in the form of limited partnerships with specific time horizons and capital commitments.

***Private Equity* —** Private Equity investments are typically private interests in corporations across different areas of the capital structure and in different stages of the corporations' development via limited partnership vehicles. Private Equity investments are illiquid and long term in nature (10-12 years), typically held until maturity. Private Equity portfolios generally have a "J-Curve Effect" whereby there are low to negative returns in the initial years due to the payment of investment management fees and initial funding of investments made by the General Partner during a period when investments are typically carried at cost and returns have not been realized. To diversify the program, Private Equity investments are made across business cycles, vintage years, and different strategies.

***Venture Capital* —** these include investments in companies in a range of stages of development from start-up/seed stage, early stage, and later/expansion stage. Investments are typically made in years one through six and returns typically occur in years four through ten.

***Distressed Debt* —** these include investments in the debt instruments of companies which may be publicly traded or privately held that are financially distressed and are either in bankruptcy or likely candidates for bankruptcy. Typical holdings are senior and subordinated debt instruments, mortgages and bank loans.

The AICPA expands the definition of Alternative Investments for the purpose of performing audits. The expanded definition includes investments for which a readily determinable fair value does not exist (that is, investments not listed on national exchanges or over-the-counter markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or Nasdaq). These types of investments can be held within any of the asset classes used by the SIB based on underlying portfolio holdings and analysis of risk and return relationships. These investments can be structured in different ways, including limited partnerships, limited liability companies, common trusts and mutual funds. Some are closed-ended with a specific life and capital commitment while others are open-ended with opportunity for ad hoc contributions or withdrawals and termination upon proper notice.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 3 INVESTMENTS – Continued

Alternative Investments - Continued

Commingled/Mutual Funds — These types of funds are generally open-ended funds and may be utilized in equities or fixed income asset classes. They are funds made up of underlying securities that have readily available market values (publically traded stocks or bonds). The SIB owns units of these funds rather than the individual securities. Contributions or withdrawals from these funds can be done as needed.

Private Equity — See definition above. The SIB has determined that private equity investments add diversification opportunities within asset classes that traditionally hold public equity investments. Therefore, there are private equity investments within equity asset classes as well as the alternative investments asset class.

Distressed Debt — See definition above. The SIB has determined that certain distressed debt investments add diversification and return opportunities within traditional fixed income asset classes. Therefore, there are distressed debt investments within fixed income asset classes as well as the alternative investments asset class.

Mezzanine Debt — This strategy is a hybrid of debt and equity financing. It is basically debt capital that gives the lender the rights to convert to an ownership or equity interest in the company if the loan is not paid back in time and in full. It is generally subordinated to senior debt. The SIB utilizes this strategy, through a limited partnership structure, in its high yield bond allocation.

Equity Long/Short — This strategy is a combination of long and short positions, primarily in publicly traded equities. The SIB utilizes this strategy in its US equity allocations.

Portable Alpha Strategies — This strategy separates alpha from beta in a portfolio by investing in securities that differ from the market index from which their beta is derived. Alpha is the return achieved over and above the return that results from the correlation between the portfolio and the market (beta). This strategy involves investing in areas that have little to no correlation with the beta of the portfolio. The SIB utilizes this strategy in its US equity and fixed income allocations.

Real Estate and Real "Tangible" Assets — These investments are intended to provide allocations to tangible assets that are expected to be inflation protected and provide performance above the inflation rate as indicated by the CPI. Investments are generally structured as limited partnerships or limited liability companies. Investments in Real Estate and Real Assets include:

> ***Real Estate —*** includes investments in private vehicles through limited partnerships or commingled vehicles that have an ownership interest in direct real estate properties. The investment strategies may include "value added" strategies, which derive their return from both income and appreciation,

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 3 INVESTMENTS – Continued

Alternative Investments - Continued

“opportunistic”, which derive their return primarily through appreciation, and “alternative” which invest in less traditional types of property. Both domestic and international real estate funds are utilized. The SIB has a dedicated asset class for these types of investments.

Timberland — includes investments in limited liability companies that have an ownership interest in properties where the value of the property is derived mainly from income-producing timber but also from the “higher and better use” value of the underlying land. The SIB has analyzed this type of investment and determined that its risk and return profile is very similar to bonds. Therefore, they have chosen to include timberland in fixed income asset allocations to provide additional diversification and return options.

Infrastructure — includes investments in limited partnerships that have an ownership interest in transportation assets such as toll roads, tunnels and bridges; and regulated assets such as electricity transmission, gas and oil distribution and wastewater collection. Other possible investments would include communication assets and social infrastructure. Similar to timberland, the SIB has included these types of investments in fixed income asset allocations.

NOTE 4 SECURITIES LENDING

The following represents the balances relating to the securities lending transactions at June 30, 2008 (expressed in thousands).

Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	$ -	$ -	$ -
US government securities	171,586	-	171,724
US corporate fixed income securities	3,503	-	3,593
Global government fixed income securities	-	-	-
US equities	5,900	-	6,336
Global equities	11,679	-	12,237
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	2,126	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	$ 192,668	$ 2,126	$ 193,890

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 5 CAPITAL ASSETS

	7/1/2007	Additions	Retirements	6/30/2008
Office equipment	$ 27,996	$ 11,441	$ (5,526)	$ 33,911
Software	1,213,500	-	-	1,213,500
Less accumulated depreciation	(452,115)	(244,833)	5,526	(691,422)
	$ 789,381			$ 555,989

NOTE 6 STATE AGENCY TRANSACTIONS

Due To / Due From Other State Agencies

Amounts due to and due from other state agencies are as follows as of June 30, 2008:

Due To:	
Information Technology Department	$ 6,254
Attorney General's Office	663
Secretary of State	10
Office of Management and Budget	103
Total due to other state agencies	$ 7,030
Due From:	
Bank of North Dakota	$ 47

These balances are a result of a time lag between the dates that services are provided, the payments are made, and the transactions are entered into the accounting system.

NOTE 7 OPERATING LEASES

RIO leases office space under an operating lease, which expires on June 30, 2009. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $73,871 for fiscal 2008. RIO entered into a two-year lease for office space effective July 1, 2007. Minimum payments under this lease for fiscal 2009 are $72,397.

NOTE 8 CAPITAL LEASES

RIO was obligated under a lease accounted for as a capital lease in its pension trust fund. The liability is reduced by payments of principal, with a portion of the payment allocated to interest expense. This lease was paid off in fiscal year 2008.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 9 CHANGES IN NONCURRENT LIABILITIES

Changes in noncurrent liabilities for the year ended June 30, 2008 is summarized as follows:

	Beginning Balance 7/1/2007	Additions	Reductions	Ending Balance 6/30/2008	Amounts Due Within One Year
Capital Leases Payable	$ 1,210	$ -	$ (1,210)	$ -	$ -
Accrued Annual Leave	92,753	75,884	(74,138)	94,499	71,335
	$ 93,963	$ 75,884	$ (75,348)	$ 94,499	$ 71,335

The Pension Trust Fund generally liquidates the capital lease. Pension and Investment Trust Funds liquidate the accrued annual leave.

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT

General

The following brief description of TFFR is provided for general information purposes only. Participants should refer to NDCC Chapter 15-39.1 for more complete information.

TFFR is a cost-sharing multiple-employer defined benefit pension plan covering all North Dakota public teachers and certain other teachers who meet various membership requirements. TFFR provides for pension, survivor and disability benefits. The costs to administer the TFFR plan are financed out of TFFR assets.

Membership

As of June 30, 2008 and 2007, the number of participating employer units was 235 and 244 consisting of the following:

	2008	2007
Public School Districts	188	196
County Superintendents	12	13
Special Education Units	19	18
Vocational Education Units	3	3
Other	13	14
Total	235	244

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – Continued

Membership - Continued

TFFR's membership consisted of the following:

	2008	2007
Retirees and beneficiaries currently receiving benefits	6,317	6,077
Terminated employees - vested	1,459	1,439
Terminated employees - nonvested	229	142
Total	8,005	7,658
Current employees:		
Vested	8,262	8,355
Nonvested	1,299	1,244
Total	9,561	9,599

Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (equities, fixed income securities, real estate, private equity, and cash). The overall long-term investment objective for TFFR is to match or exceed an expected rate of return of 8.93%, but at a minimum is not less than the 8% actuarially assumed rate of return required to pay future benefits. Long-term performance goals are set and evaluated by the boards of SIB and TFFR for each type of investment.

Realized Gains and Losses

Realized gains and losses on sales of investments are components of net appreciation in fair value of investments and are computed as described in Note 1. For the year ended June 30, 2008, TFFR had net realized gains of $37,457,768.

Investment Expenses

Investment expenses consist of fees charged by RIO for investment managers and investment-related service fees from The Northern Trust Company, the Bank of North Dakota, and certain other investment advisors. All TFFR expenses are paid out of TFFR assets.

Member and Employer Contributions

Member and employer contributions paid to TFFR are set by NDCC Section 15-39.1-09. Every eligible teacher in the State of North Dakota is required to be a member of TFFR and is assessed at a rate of 7.75% of salary as defined by NDCC Section 15-39.1-04. Every governmental body employing a teacher must also pay into TFFR a sum equal to 7.75% (8.25% effective July 1, 2008, until the fund reaches 90% funded ratio on actuarial basis) of the Teachers' salary.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT - Continued

Member and Employer Contributions - Continued

A vested member who terminates covered employment may elect a refund of contributions paid plus 6% interest or defer payment until eligible for pension benefits. A nonvested member who terminates covered employment must claim a refund of contributions paid before 70½. Refunded members forfeit all service credits under TFFR. These service credits may be repurchased upon return to covered employment under certain circumstances, as defined by the NDCC.

Pension Benefits

Effective July 1, 2008, for purposes of determining pension benefits, members are classified as those with service credit on file as of July 1, 2008, (Tier 1), and those newly employed and returning refunded members on or after July 1, 2008, (Tier 2).

Tier 1

A Tier 1 member is entitled to receive full benefits when three or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 85. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 85. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the three highest annual salaries earned divided by 36 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas. All members may be eligible for legislative increases in monthly benefits.

Tier 2 (Effective July 1, 2008)

A Tier 2 member is entitled to receive full benefits when five or more years of credited service as a teacher in North Dakota have accumulated, the member is no longer employed as a teacher and the member has reached age 65, or the sum of age and years of service credit equals or exceeds 90. TFFR permits early retirement from ages 55 to 64, with benefits actuarially reduced by 6% per year for every year the member's retirement age is less than 65 years or the date as of which age plus service equal 90. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – Continued

Pension Benefits - Continued

Pension benefits paid by TFFR are determined by NDCC Section 15-39.1-10. Monthly benefits under TFFR are equal to the five highest annual salaries earned divided by 60 months and multiplied by 2.00% times the number of service credits earned. Retirees may elect payment of benefits in the form of a single life annuity, 100% or 50% joint and survivor annuity, ten or twenty-year term certain annuity, partial lump-sum option or level income with Social Security benefits. Members may also qualify for benefits calculated under other formulas. Members may be eligible for legislative increases in monthly benefits.

Survivor and Disability Benefits

Survivor benefits may be paid to a member's designated beneficiary. If a member's death occurs before retirement, the benefit options available are determined by the member's vesting status prior to death. If a member's death occurs after retirement, the death benefit received by the beneficiary (if any) is based on the retirement plan the member selected at retirement.

An active member is eligible to receive disability benefits when: (a) a total disability lasting 12 months or more does not allow the continuation of teaching, (b) the member has accumulated one year of credited service in North Dakota, and (c) the Board of Trustees of TFFR has determined eligibility based upon medical evidence. The amount of the disability benefit is computed by the retirement formula in NDCC Section 15-39.1-10 without consideration of age and assuming the member has a minimum of 20 years of credited service. There is no actuarial reduction for reason of disability retirement.

Funded Status and Funding Progress

The funded status of the Defined Benefit Plan as of the most recent actuarial valuation date is as follows (in millions):

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Annual Covered Payroll
2008	$1,909.5	$2,330.6	$421.1	81.9%	$417.7	100.8%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – Continued

Funded Status and Funding Progress - Continued

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear funding trend information as obtained from TFFR's independent actuary's annual valuation report.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the plan is becoming financially stronger or weaker. Generally, the greater the percentage the stronger the retirement plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage the stronger the retirement plan.

The accompanying schedule of employer contributions, presented as required supplementary information following the notes to the financial statements, presents trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution (ARC). The ARC is actuarially determined in accordance with the parameters of GASB Statement 50. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	July 1, 2008
Actuarial Cost Method:	Entry age normal
Amortization Method:	Level percentage of payroll
Amortization Period for GASB 25 ARC (**):	30-year open period
Asset Valuation Method:	5 year smoothed market
Actuarial Assumptions:	
Investment Rate of Return (*)	8.00%
Projected Salary Increases (*)	4.50% to 14.00%
Cost-of-Living Adjustments	None

(*) Includes inflation at 3.00%

(**) The GASB Annual Required Contribution (ARC) for this plan is defined as the larger of (a) the sum of (i) the employer normal costs, and (ii) an amount necessary to amortize the UAAL as a level percentage of payroll over an open 30-year amortization period, or (b) the 8.25% statutory employer contribution rate. Payroll is assumed to increase at 2.00% per annum.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 10 NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT – Continued

Funded Status and Funding Progress - Continued

The following updated actuarial assumptions were adopted by the TFFR board.

Updated actuarial assumptions effective July 1, 2005, consisted of the following:

1. The 1994 Uninsured Pensioner Mortality Table set back three years for males and two years for females.
2. Rates of retirement assumptions for members eligible to retire modified.
3. Changed termination rates to 80% of withdrawal rates based on age and service, for causes other than death, disability, or retirement.
4. For salary rate increases, assumptions are an inflation rate of 3.00% plus productivity increase rate of 1.50%, plus step-rate/promotional increase as modified.
5. Payroll growth rate of 2.00%, with an assumption that does not include any allowance for future increase in the number of members.

Benefit change for new hires employed after July 1, 2008, made at July 1, 2007:

1. Members who join TFFR on or after July 1, 2008, called Tier 2 members, will be subject to the following benefit provisions:
   - Vesting will require five years of service, not three years
   - Unreduced retirement will be available when the member's age plus years of service is at least 90, not 85
   - Unreduced retirement at age 65 will require five years of service, not three years
   - Reduced retirement at age 55 will require five years of service, not three years
   - The member's Final Average Compensation will be defined as a five-year average, not a three-year average

Change in definition of the Annual Required Contribution:

The GASB Annual Required Contribution (ARC) for this plan is defined to be the greater of the 8.25% statutory contribution rate or the sum of (a) the employer normal cost, and (b) the amount needed to amortize the Unfunded Actuarial Accrued Liability as a level percentage of payroll over 30 years. For fiscal year 2005 and prior years, the ARC was defined using a 20-year amortization with a level percentage of payroll.

NOTE 11 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Permanent employees of RIO participate in PERS, which is also an agency of the State of North Dakota financial reporting entity and is included in the State of North Dakota's Comprehensive Annual Financial Report. PERS is a cost-sharing multiple-employer defined benefit public employee retirement system that provides retirement, disability and death benefits to eligible employees and beneficiaries. PERS is administered in accordance with NDCC Chapter 54-52. PERS issues a publicly available financial report

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Notes to Combined Financial Statements

June 30, 2008

NOTE 11 PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS) - Continued

that may be obtained by writing to North Dakota Public Employees Retirement System, 400 East Broadway, Suite 505, Bismarck, North Dakota 58501 or by calling 1-800-803-7377.

The financial statements of PERS are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable in accordance with the terms of PERS.

RIO is required to contribute to PERS at an actuarially determined rate for permanent employees. The current contribution rate is 8.12% of annual covered payroll as established by the NDCC. RIO's contributions to PERS for the years ended June 30, 2008, 2007, and 2006, were $73,133, $68,366, and $64,818, equal to the required contributions for each year plus a 1% contribution for retiree health benefits.

NOTE 12 RELATED PARTIES

As stated in Note 1, RIO is an agency of the State of North Dakota; as such, other agencies of the state are related parties.

NOTE 13 COMMITMENTS

The State Investment Board has at June 30, 2008, committed to fund certain alternative private equity partnerships for an amount of $971.2 million. Funding of $636.8 million has been provided, leaving an unfunded commitment of $334.4 million.

NOTE 14 NEW PRONOUNCEMENTS

GASB Statement No. 50, *"Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27"*, was issued in May 2007, and implemented for the fiscal year beginning July 1, 2007. This statement modifies the financial reporting requirements for pensions and enhances information disclosed in the notes to the financial statements or presented as required supplementary information.

NOTE 15 SUBSEQUENT EVENTS

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, SIB managed (which includes TFFR Plan assets) investments have likely incurred a significant decline in fair value since June 30, 2008.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Required Supplementary Information

June 30, 2008

Schedule of Funding Progress
North Dakota Teachers' Fund for Retirement
(Dollars in Millions)

Actuarial Valuation Date July 1	Actuarial Value of Plan Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funded Excess)	Funded Ratio	Annual Covered Payroll	UAAL (Funded Excess) as a Percentage of Annual Covered Payroll
2003	$1,438.4	$1,690.3	$251.9	85.1%	$367.9	68.5%
2004	1,445.6	1,800.4	354.8	80.3	376.5	94.2
2005	1,469.7	1,965.2	495.5	74.8	386.6	128.2
2006	1,564.0	2,073.9	509.9	75.4	390.1	130.7
2007	1,750.1	2,209.3	459.2	79.2	401.3	114.4
2008	1,909.5	2,330.6	421.1	81.9	417.7	100.8

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

Fiscal Year	Annual Required Contribution	Percentage Contributed
2003	$ 28,850,725	100.0%
2004	34,186,080	86.7%
2005	44,471,740	68.3%
2006	48,747,189	63.9%
2007	50,532,462	63.1%
2008	44,114,585	76.4%

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
Combining Statement of Net Assets – Investment Trust Funds
Fiduciary Funds
As of June 30, 2008
(With Comparative Totals for 2007)

	Pension Pool Participants					Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Assets:										
Investments										
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	934,134,393	20,683,404	10,631,455	33,461,205	15,817,138	252,005,517	8,481,055	838,324	2,820,710	1,151,103
Fixed income	-	-	-	-	-	-	-	-	-	-
Fixed income pool	644,103,751	23,097,878	9,277,106	56,211,468	10,444,283	906,858,202	14,445,705	1,415,135	4,348,404	1,457,427
Real estate pool	121,924,794	5,375,053	2,232,500	-	1,595,296	83,402,474	-	-	-	-
Alternative Investments	99,234,751	303,817	734,527	-	1,684,654	-	-	-	-	-
Cash and cash pool	9,799,104	177,709	97,628	105,055	122,633	8,442,930	2,656,655	263,002	1,326,385	1,471,935
Total investments	1,809,196,793	49,637,861	22,973,216	89,777,728	29,664,004	1,250,709,123	25,583,415	2,516,461	8,495,499	4,080,465
Invested sec lending collateral	29,156,196	917,267	378,078	2,781,230	477,898	136,798,103	821,154	81,315	250,026	84,775
Investment income receivable	3,833,432	82,703	44,180	230,971	(6,444)	8,442,876	116,214	28,561	57,934	6,961
Operating Cash	31,831	-	-	-	-	45,423	602	452	445	136
Miscellaneous receivable	2,765	-	-	-	-	1,963	40	4	14	6
Due from other state agency	5	-	-	-	-	4	-	-	-	-
Total assets	1,842,221,022	50,637,831	23,395,474	92,789,929	30,135,458	1,395,997,492	26,521,425	2,626,793	8,803,918	4,172,343
Liabilities:										
Investment expenses payable	2,276,912	66,462	30,269	91,934	36,681	1,481,102	39,241	3,903	12,375	4,363
Securities lending collateral	29,156,196	917,267	378,078	2,781,230	477,898	136,798,103	821,154	81,315	250,026	84,775
Accounts payable	11,815	-	-	-	-	8,388	170	16	59	27
Accrued expenses	19,647	-	-	-	-	14,147	293	30	105	30
Miscellaneous payable	-	1,370	636	2,509	829	-	-	-	-	-
Due to other state agencies	395	-	-	-	-	280	6	1	2	1
Total liabilities	31,464,965	985,099	408,983	2,875,673	515,408	138,302,020	860,864	85,265	262,567	89,196
Net assets held in trust for external investment pool participants	$ 1,810,756,057	$ 49,652,732	$ 22,986,491	$ 89,914,256	$ 29,620,050	$ 1,257,695,472	$ 25,660,561	$ 2,541,528	$ 8,541,351	$ 4,083,147
Each participant unit is valued at $1.00										
Participant units outstanding	1,810,756,057	49,652,732	22,986,491	89,914,256	29,620,050	1,257,695,472	25,660,561	2,541,528	8,541,351	4,083,147

Insurance Pool Participants										Individual Investment Acct.	Totals	
Health Care Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	2008	2007
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 25,968,232	$ 25,968,232	$ 29,149,500
-	142,303	1,018,171	1,054,641	594,408	345,037	-	-	225,663	7,710,677	-	1,291,115,204	1,501,115,243
-	-	-	-	-	-	-	-	-	-	13,658,848	13,658,848	15,383,953
-	104,429	2,351,498	1,907,002	470,681	416,865	-	151,887,600	533,063	8,207,326	-	1,837,537,823	1,707,756,245
-	13,979	-	-	-	-	-	-	-	-	-	214,544,096	205,201,801
-	-	-	-	-	-	-	-	-	-	-	101,957,749	85,898,100
2,284,976	8,447	185,642	94,366	58,779	41,265	4,391,120	45,986,033	41,024	168,054	-	77,722,742	68,344,985
2,284,976	269,158	3,555,311	3,056,009	1,123,868	803,167	4,391,120	197,873,633	799,750	16,086,057	39,627,080	3,562,504,694	3,612,849,827
-	6,303	131,410	105,814	28,528	24,053	-	-	29,659	469,259	-	172,541,068	441,048,728
-	35	47,430	5,654	880	509	-	998,889	988	7,437	379,616	14,278,826	15,301,708
280	152	195	389	-	-	-	350	-	-	-	80,255	81,972
3	-	6	6	-	-	-	295	-	-	-	5,102	4,011
-	-	-	-	-	-	-	-	-	-	-	9	23
2,285,259	275,648	3,734,352	3,167,872	1,153,276	827,729	4,391,120	198,873,167	830,397	16,562,753	40,006,696	3,749,409,954	4,069,286,269
-	354	5,483	4,648	1,672	1,231	-	32,950	1,346	22,507	25,282	4,138,715	4,109,302
-	6,303	131,410	105,814	28,528	24,053	-	-	29,659	469,259	-	172,541,068	441,048,728
15	2	23	26	-	-	-	1,263	-	-	-	21,804	16,676
130	3	42	45	-	-	-	1,642	-	-	-	36,114	36,231
-	-	-	-	250	250	250	-	250	447	1,105	7,896	6,341
-	-	1	1	-	-	-	42	-	-	-	729	1,258
145	6,662	136,959	110,534	30,450	25,534	250	35,897	31,255	492,213	26,387	176,746,326	445,218,536
$ 2,285,114	$ 268,986	$ 3,597,393	$ 3,057,338	$ 1,122,826	$ 802,195	$ 4,390,870	$ 198,837,270	$ 799,142	$ 16,070,540	$ 39,980,309	$ 3,572,663,628	$ 3,624,067,733
2,285,114	268,986	3,597,393	3,057,338	1,122,826	802,195	4,390,870	198,837,270	799,142	16,070,540	39,980,309	3,572,663,628	3,624,067,733

The accompanying notes are an integral part of this financial statement.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Combining Statement of Changes in Net Assets – Investment Trust Funds
Fiduciary Funds
For the Year Ended June 30, 2008
(With Comparative Totals for 2007)

	Pension Pool Participants					Insurance Pool Participants					
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund	Health Care Trust Fund
Additions:											
Investment income:											
Net change in fair value of investments	$ (133,303,450)	$ (2,969,501)	$ (1,541,978)	$ (2,847,451)	$ (2,060,774)	$ (38,116,867)	$ (1,888,307)	$ (199,930)	$ (700,200)	$ (162,849)	$ -
Interest, dividends and other income	43,867,012	1,396,664	610,805	2,133,511	357,768	50,628,924	1,011,901	100,393	356,171	122,260	76,044
	(89,436,438)	(1,572,837)	(931,173)	(713,940)	(1,703,006)	12,512,057	(876,406)	(99,537)	(344,029)	(40,589)	76,044
Less investment expenses	11,257,255	330,632	147,621	622,355	138,325	4,439,530	86,491	8,570	28,760	8,294	-
Net investment income	(100,693,693)	(1,903,469)	(1,078,794)	(1,336,295)	(1,841,331)	8,072,527	(962,897)	(108,107)	(372,789)	(48,883)	76,044
Securities lending activity:											
Securities lending income	3,485,257	104,911	45,443	284,811	14,215	7,884,760	87,976	8,462	28,897	8,075	-
Less Securities lending expenses	3,123,166	94,265	40,768	258,635	10,574	7,101,126	79,170	7,594	25,948	7,279	-
Net securities lending income	362,091	10,646	4,675	26,176	3,641	783,634	8,806	868	2,949	796	-
Total Additions	(100,331,602)	(1,892,823)	(1,074,119)	(1,310,119)	(1,837,690)	8,856,161	(954,091)	(107,239)	(369,840)	(48,087)	76,044
Deductions:											
Administrative Expenses	190,508	-	-	-	-	118,294	2,398	993	981	994	979
Net change in net assets resulting from operations	(100,522,110)	(1,892,823)	(1,074,119)	(1,310,119)	(1,837,690)	8,737,867	(956,489)	(108,232)	(370,821)	(49,081)	75,065
Unit transactions at net asset value of $1 per unit:											
Purchase of units	3,208,999	-	-	-	31,807,740	4,000,000	9,500,000	-	-	3,500,000	-
Redemption of units	(26,165,000)	-	-	(3,473,103)	(350,000)	(55,000,000)	(11,350,000)	(80,000)	(1,110,000)	(3,350,000)	-
Net change in net assets and units resulting from unit transactions	(22,956,001)	-	-	(3,473,103)	31,457,740	(51,000,000)	(1,850,000)	(80,000)	(1,110,000)	150,000	-
Total change in net assets	(123,478,111)	(1,892,823)	(1,074,119)	(4,783,222)	29,620,050	(42,262,133)	(2,806,489)	(188,232)	(1,480,821)	100,919	75,065
Net assets:											
Beginning of year	1,934,234,168	51,545,555	24,060,610	94,697,478	-	1,299,957,605	28,467,050	2,729,760	10,022,172	3,982,228	2,210,049
End of year	$ 1,810,756,057	$ 49,652,732	$ 22,986,491	$ 89,914,256	$ 29,620,050	$ 1,257,695,472	$ 25,660,561	$ 2,541,528	$ 8,541,351	$ 4,083,147	$2,285,114

		Insurance Pool Participants								Individual Investment Acct.	Totals	
Veterans Cemetery	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n of Counties Fund	ND Ass'n of Counties Program Savings	PERS Group Insurance	Budget Stabilization Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	2008	2007
$ -	$ (29,699)	$ (231,219)	$ (305,448)	$ (127,524)	$ (75,391)	$ -	$ (8,591,387)	$ (57,118)	$ (1,474,491)	$ (7,701,312)	$ (202,384,896)	$ 391,832,839
1,479	9,101	144,326	152,814	38,236	29,646	334,983	8,845,339	33,570	492,384	1,338,932	112,082,263	107,039,898
1,479	(20,598)	(86,893)	(152,634)	(89,288)	(45,745)	334,983	253,952	(23,548)	(982,107)	(6,362,380)	(90,302,633)	498,872,737
-	1,132	11,757	12,136	5,148	3,861	1,000	115,864	3,835	54,510	110,942	17,388,018	14,080,766
1,479	(21,730)	(98,650)	(164,770)	(94,436)	(49,606)	333,983	138,088	(27,383)	(1,036,617)	(6,473,322)	(107,690,651)	484,791,971
-	755	12,713	13,970	3,474	2,631	-	-	2,924	40,244	-	12,029,518	24,706,273
-	673	11,476	12,601	3,094	2,356	-	-	2,624	35,649	-	10,816,998	23,953,319
-	82	1,237	1,369	380	275	-	-	300	4,595	-	1,212,520	752,954
1,479	(21,648)	(97,413)	(163,401)	(94,056)	(49,331)	333,983	138,088	(27,083)	(1,032,022)	(6,473,322)	(106,478,131)	485,544,925
46	434	990	989	-	-	-	15,658	-	-	-	333,264	300,296
1,433	(22,082)	(98,403)	(164,390)	(94,056)	(49,331)	333,983	122,430	(27,083)	(1,032,022)	(6,473,322)	(106,811,395)	485,244,629
1,033	16,500	-	-	-	-	157,000,000	100,527,369	-	5,000,000	1,537,000	316,098,641	140,877,109
(124,716)	-	-	(1,000,000)	-	-	(157,000,000)	(1,688,532)	-	-	-	(260,691,351)	(204,776,903)
(123,683)	16,500	-	(1,000,000)	-	-	-	98,838,837	-	5,000,000	1,537,000	55,407,290	(63,899,794)
(122,250)	(5,582)	(98,403)	(1,164,390)	(94,056)	(49,331)	333,983	98,961,267	(27,083)	3,967,978	(4,936,322)	(51,404,105)	421,344,835
122,250	274,568	3,695,796	4,221,728	1,216,882	851,526	4,056,887	99,876,003	826,225	12,102,562	44,916,631	3,624,067,733	3,202,722,898
$ -	$ 268,986	$ 3,597,393	$ 3,057,338	$1,122,826	$ 802,195	$ 4,390,870	$ 198,837,270	$ 799,142	$16,070,540	$ 39,980,309	$ 3,572,663,628	$ 3,624,067,733

The accompanying notes are an integral part of this financial statement.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension and Investment Trust Funds – Schedule of Administrative Expenses

For the Years Ended June 30, 2008 and 2007

	Pension Trust		Investment Trust	
	2008	2007	2008	2007
Salaries and wages:				
Salaries and wages	$519,997	$489,246	$289,018	268,569
Fringe benefits	168,629	145,156	73,570	66,958
Total salaries and wages	688,626	634,402	362,588	335,527
Operating expenses:				
Information services	66,267	59,907	8,371	9,936
Intergovernmental services	6,226	6,008	2,075	2,003
Professional fees	202,373	203,481	33,821	21,878
Rent of building space	52,026	51,221	21,845	21,327
Lease/rent of office equipment	(413)	(1,290)	797	3,025
Mailing services and postage	40,915	41,700	17,782	16,677
Travel and lodging	31,975	28,582	13,906	12,839
Printing	14,164	26,566	6,506	5,844
Office supplies	3,592	7,608	805	1,407
Professional development	12,635	14,798	10,117	1,065
Outside services	7,594	9,884	2,719	5,686
Small office equipment expense	4,110	12,224	570	3,172
Miscellaneous fees	6,175	2,533	3,187	2,159
Resource and reference materials	591	833	707	946
Service contracts - office equipment	0	112	0	38
IT contractual services	102,791	102,129	585	181
Repairs - office equipment	443	169	133	12
Insurance	1,011	1,064	337	355
Total operating expenses	552,475	567,529	124,263	108,550
Pension trust portion of investment program expenses	153,587	143,782	(153,587)	(143,782)
Depreciation	244,833	246,348	-	-
Total administrative expenses	1,639,521	1,592,061	333,264	300,295
Capital assets	11,441	-	-	-
Capital lease payments - principal	1,210	4,451	-	-
Less - nonappropriated items:				
Professional fees	202,373	203,481	33,821	21,878
Other operating fees paid under continuing appropriation	12,798	13,964	24,156	25,094
Depreciation	244,833	246,348	-	-
Accrual adjustments to employee benefits	3,605	(5,435)	(1,859)	(817)
Total nonappropriated items	463,609	458,358	56,118	46,155
Total appropriated expenditures	$ 1,188,563	$ 1,138,154	$ 277,146	$ 254,140

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Schedule of Appropriations – Budget Basis

Fiduciary Funds

July 1, 2007 to June 30, 2009 Biennium

	Approved 2007-2009 Appropriation	2007-2009 Appropriation Adjustment	Adjusted 2007-2009 Appropriation	Fiscal 2008 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	$ 2,334,909	$ 18,228	$ 2,353,137	$ 1,049,470	$ 1,303,667
Operating expenses	935,999	-	935,999	404,798	531,201
Contingency	82,000	-	82,000	11,441	70,559
Total	$ 3,352,908	$ 18,228	$ 3,371,136	$ 1,465,709	$ 1,905,427

NOTE: *Only those expenses for which there are appropriations are included in this statement.*

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2008
Administrative expenses as reflected in the financial statements	1,972,785
Plus:	
Capital assets	11,441
Capital lease payments - principal	1,210
Less:	
Professional fees	(236,194)
Other operating fees paid under continuing appropriations*	(36,954)
Depreciation expense	(244,833)
Changes in annual leave and FICA payments	(1,746)
Total appropriated expenses	$1,465,709

* North Dakota Century Code 21-10-06.2 and 15-39.1-05.2 provide authorization for the continuing appropriation.

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund - Schedule of Investment Expenses

For the Years Ended June 30, 2008 and 2007

	2008	2007
Investment managers' fees:		
Domestic large cap equity managers	$ 2,481,980	$ 2,766,305
Domestic small cap equity managers	1,126,009	1,144,929
International equity managers	1,879,098	1,998,428
Emerging markets equity managers	1,134,320	754,438
Domestic fixed income managers	1,941,477	813,102
High yield fixed income managers	1,355,064	967,072
International fixed income managers	331,436	307,349
Real estate managers	1,983,139	1,815,867
Private equity managers	1,959,890	3,129,870
Cash & equivalents managers	19,900	21,891
Total investment managers' fees	14,212,313	13,719,251
Custodian fees	414,885	375,019
Investment consultant fees	95,218	86,066
Total investment expenses	$ 14,722,416	$ 14,180,336
Securities lending fees	$ 2,558,737	$ 6,830,921

Reconciliation of Investment Expenses to Financial Statements

	2008	2007
Investment expenses as reflected in the financial statements	$ 11,359,487	$ 10,547,809
Plus investment management fees included in investment income		
Domestic large cap equity	224,966	-
Domestic small cap equity	326,676	560,592
International equity	130,153	-
Emerging markets equity	452,309	141,833
High Yield	441,884	63,816
Private equity	1,713,230	2,844,395
Cash equivalents	19,900	21,891
Investment expenses per schedule	$ 14,722,416	$ 14,180,336

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

Pension Trust Fund - Schedule of Consultant Expenses

For the Years Ended June 30, 2008 and 2007

	2008	2007
Actuary fees:		
Gabriel, Roeder, Smith & Co.	$ 132,107	$ 118,261
Consulting fees:		
Brady Martz & Associates, P.C.	34,519	33,641
Buck Consultants	-	43,000
Enterprise Solutions Inc.	-	480
Miriam Carver-Carver Governance	2,344	-
Total consulting fees:	36,863	77,121
Disability consulting fees:		
Dr. G.M. Lunn	625	275
Legal fees:		
Calhoun Law Group P.C.	634	-
ND Attorney General	32,144	8,304
Total legal fees:	32,778	8,304
Total consultant expenses	$ 202,373	$ 203,961

Reconciliation of Consultant Expenses to Schedule of Administrative Expenses

	2008	2007
Total professional services on schedule	$ 202,373	$ 203,481
Plus IT contractual services from ESI	-	480
Total consultant expenses	$ 202,373	$ 203,961

This page intentionally blank.

INVESTMENT SECTION

ND Retirement and Investment Office

Teachers' Fund for Retirement
State Investment Board

Steve Cochrane, CFA
Executive Director

Fay Kopp
Deputy Executive Director

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

November 17, 2008

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

Dear Board Members:

It is a pleasure to provide the following summary of the North Dakota Pension and Insurance pools' investment portfolios and market environment for the fiscal year ended June 30, 2008.

Introduction

For the fiscal year ended June 30, 2008, the $3.8 billion North Dakota Pension investment pool portfolio experienced a net total return of -6.40%. The Teachers' Fund for Retirement, a participant in the Pension pool, had a net loss of 7.51% for the year. The Insurance investment pool, valued at $1.5 billion on June 30, 2008, returned 0.32% net, during the same time frame. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit.

The Pension and Insurance investment pools are pooled investment funds. The Pension pool was created in 1989 in an effort to realize cost savings through pooling of pension assets. The Insurance pool was created in 1993 for similar reasons. A list of the participants and their ownership in each pool is provided in this section of the report. The pooled funds' strategies are a proportional reflection of the investment objectives of each of the participating funds. The returns experienced by the individual funds were consistent with their respective investment policies and related asset allocations. Investment program details for the participating plans, including investment objectives and a listing of their 42 external investment managers are presented in the Investment Section.

Our investment program's cost effectiveness as measured by expense ratio is 66.4 basis points and includes investment office administrative expenses, consultant fees, money manager fees and master custodian fees. Allocation of monthly income and expenses to the participants in the pools is based on a time-weighted beginning balance. A "time factor" and "time-weighted amount" are calculated for each plan based on individual plan-related activities. The time-weighted amounts are added up for all plan-related activities to compose the time-weighted beginning balance used to allocate the activity of the pool. Five-year annualized risk for the period ended June 30, 2008, as measured by standard deviation has been 7.28% for the Pension Trust and 3.59% for the Insurance Trust. Risk exposure for each participating fund is also limited in accordance with the guidelines presented in the Investment Section.

Economic Overview

During the last fiscal year the Federal Reserve slashed interest rates from 5.25% to 2.0%, in an attempt to increase consumer spending and bolster the economy. Despite the effort of the Fed, the cost of funds to companies and to individuals has actually risen due to the risk aversion in the credit market. As a result, both home sales and home prices are down precipitously from the middle of 2007. The combination of such home price declines, a weakening job market and higher oil prices has resulted in an uneasy consumer. In fact, the University of Michigan's Index of Consumer Sentiment dropped to a 28-year low of 56.4 in June 2008. Inflation pressures continue to build, particularly in commodities and producer prices. The year-over-year Consumer Price Index (CPI) hit 5% in June, the highest level since 1991. Producer prices rose 9.2% over the same period marking the largest increase in 27 years. Real GDP was driven primarily by net exports buoyed by the weak dollar and economic growth abroad.

Domestic Equity Overview

The last fiscal year showed negative results across the broad equity market. The S&P 1500 Index, a broad market indicator, finished the fiscal year with a return of -12.72%, giving back much of the gains from the prior fiscal year return of 20.22%. Over the last fiscal year, the September quarter was the only quarter in which the index had a positive return (1.65%). Large cap stocks held up slightly better than small cap stocks over this time period. The S&P 500, a large cap index, outpaced the S&P 600, a small cap index, -13.12% to -14.67% respectively. Growth stocks held up much better than Value stocks in all capitalization ranges during fiscal year 2008. The difference was most pronounced in the large cap arena, where value lost 18.78% while growth stocks were down only 5.96%.

International Equity Overview

International equity, as represented by the MSCI EAFE Index, produced lackluster results in fiscal year 2008. The index lost 10.61%, a sharp turn around from the 27.00% gain from the year before. International Growth outperformed International Value in every quarter of fiscal year 2008. For the trailing twelve months ended June 30, 2008, MSCI EAFE Growth Index lost 4.44% while the MSCI EAFE Value Index was down 16.60%. Norway, rich with commodity and energy stocks, fared much better than the index returning 8.70% for the fiscal year. Despite a loss of 12.5% in January, the Emerging Markets Index gained 4.89% for the fiscal year. A gain much less than the 45.45% return in the year prior.

Domestic Fixed-Income Overview

The bond market, as measured by the Lehman Aggregate Bond Index, had a 7.12% return for the four quarters ended June 30, 2008. This return was 100 basis points above the 6.12% return of the prior fiscal year. The first half of the fiscal year was marked by a "flight to quality" where fixed income investors shifted to US Treasuries due to uncertainty within financial markets. Because of increased demand for Treasuries, yields were driven down, which ultimately widened spreads between Treasuries and spread sector products. This pattern continued until the final quarter of the fiscal year when investors started selling Treasuries to take on more risk.

The Lehman Government/Credit Intermediate index returned 7.37% over the fiscal year. This return was slightly higher than the 6.78% gain of the Lehman Government/Credit Long Index. Corporate bonds were up by a relatively modest amount as the Lehman Credit Index rose 3.81% over the same time period.

High yield investors showed negative returns as yield spreads continued to widen. The Lehman High Yield Index lost 2.26% over the trailing twelve months.

International Fixed-Income Overview

Due in large part to a declining US Dollar, the international bond market showed a large gain for fiscal year 2008. The Citi Non-US World Government Bond Index rose 18.72%, despite a decline of 4.72% in the June quarter. The Citi Euro Government Bond Index fared even better with a 19.94% gain for the fiscal year. Rising inflation and slower growth was more pronounced in the emerging market countries leading to underperformance relative to the developed world. The JP Morgan Emerging Markets Bond Plus Index gained 5.16% for the fiscal year.

Real Estate Overview

The NCREIF Total Index gained 9.20% over the past four quarters. The September and December quarters produced positive returns gaining 3.56% and 3.21% respectively. The second half of the fiscal year was not as favorable with a modest return of 1.60% in the March quarter and a .56% return in the June quarter. The NAREIT Total Index had a negative 13.64% return for the most recent fiscal year. The majority of this loss was due to a negative 12.06% loss that occurred in the December quarter.

Alternative Investments Overview

After a record breaking calendar year 2007 the first half of 2008 is only 3% behind 2007's record pace, which is unexpected given the current bear market environment. Much of the activity is occurring in the distressed debt arena with $14 billion raised over nine funds in the most recent quarter alone. Another bright spot for private equity activity is taking place in Europe, with $61 billion raised across 79 funds so far this year. Weakness continues in buyout commitments where activity thus far in calendar year 2008 is 20% ($16 billion) behind last years pace. Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous. Instead of recognizing any particular index as representative of the opportunity for the fiscal year ended June 30, 2008, it is worth noting that the Pension Trust's alternative investment allocation of Total Fund assets was 5.3%. The market value of the alternative investment allocation, including investment returns and net new investment, gained 4.56% over the prior fiscal year.

Summary

Fiscal year 2008 brought an atmosphere of change to the investments markets. As the woes of the sub-prime mortgage markets began to spill over into the broader credit markets, the stock market took note. This made for a challenging investment environment which no longer rewarded the controlled risks of value investing, credit exposure and quantitative modeling. Broad diversification was helpful in this fiscal year, but it was not enough to continue the levels of performance experienced during the several previous fiscal years. The State Investment Board will continue its mission to remain long-term oriented and seek investments which have proven successful over full market cycles.

Sincerely,

STEVE COCHRANE, CFA
Executive Director/CIO

INVESTMENT PERFORMANCE SUMMARY
JUNE 30, 2008

	Market Value	% Of Pool	Rates of Return (net of fees) For Fiscal Year Ended 6/30					Annualized	
PENSION POOL PARTICIPANTS			2008	2007	2006	2005	2004	3 Years	5 Years
Teachers' Fund for Retirement	$1,829,544,106	47.7%	-7.51%	20.04%	14.79%	13.36%	19.30%	8.42%	11.50%
Public Employees Retirement System	1,813,030,225	47.3%	-5.60%	18.96%	12.00%	14.07%	16.66%	7.94%	10.85%
Bismarck City Employee Pension Fund	49,720,564	1.3%	-3.82%	17.02%	9.13%	13.81%	14.85%	7.09%	9.93%
Bismarck City Police Pension Fund	23,017,396	0.6%	-4.69%	17.87%	10.18%	13.45%	15.99%	7.37%	10.25%
Job Service of North Dakota	90,008,699	2.3%	-1.64%	16.40%	7.09%	14.72%	12.57%	7.03%	9.63%
City of Fargo Pension Fund	29,657,560	0.8%	*	*	*	*	*	*	*
Subtotal Pension Pool Participants	3,834,978,550	100.0%							
INSURANCE POOL PARTICIPANTS									
Workforce Safety & Insurance Fund	1,259,151,999	82.2%	0.57%	10.33%	3.45%	7.29%	9.62%	4.70%	6.19%
State Fire and Tornado Fund	25,699,629	1.7%	-4.01%	12.43%	5.27%	6.66%	9.98%	4.34%	5.91%
State Bonding Fund	2,545,022	0.2%	-4.14%	12.41%	5.28%	6.62%	9.88%	4.29%	5.85%
Petroleum Tank Release Fund	8,553,433	0.6%	-4.07%	12.37%	5.58%	6.51%	10.41%	4.41%	6.00%
Insurance Regulatory Trust Fund	4,087,426	0.3%	-2.71%	11.10%	5.75%	5.41%	9.62%	4.56%	5.72%
Health Care Trust Fund	2,284,976	0.1%	3.43%	5.01%	5.11%	4.34%	2.91%	4.51%	4.16%
State Risk Management Fund	3,602,741	0.2%	-2.70%	11.20%	2.38%	5.98%	8.09%	3.47%	4.88%
State Risk Management Workers Comp	3,061,663	0.2%	-3.99%	12.17%	3.25%	5.88%	*	3.60%	*
Cultural Endowment Fund	269,193	0.0%	-7.59%	15.68%	6.32%	*	*	4.36%	*
Budget Stabilization Fund	198,872,522	13.0%	0.01%	5.12%	*	*	*	*	*
ND Assoc. of Counties (NDACo) Fund	1,124,748	0.1%	-7.79%	15.46%	6.38%	7.19%	12.43%	4.24%	6.42%
NDACo Program Savings Fund	803,676	0.1%	-5.77%	13.91%	6.25%	7.18%	12.42%	4.48%	6.56%
City of Bismarck Deferred Sick Leave	800,738	0.1%	-3.20%	11.81%	4.30%	6.75%	8.91%	4.12%	5.59%
PERS Group Insurance	4,391,120	0.3%	3.43%	5.38%	4.50%	2.46%	1.20%	4.43%	3.38%
City of Fargo FargoDome Permanent Fund	16,093,494	1.1%	-6.25%	14.00%	5.44%	7.21%	12.38%	4.06%	6.31%
Subtotal Insurance Pool Participants	1,531,342,380	100.0%							
INDIVIDUAL INVESTMENT ACCOUNT									
Retiree Health Insurance Credit Fund	40,006,696	100.0%	-14.19%	16.65%	8.47%	8.74%	15.24%	2.78%	6.35%
TOTAL	$5,406,327,626								
BENCHMARKS									
S&P 500			-13.12%	20.59%	8.63%	6.32%	19.11%	4.41%	7.58%
Lehman Brothers Aggregate			7.12%	6.12%	-0.81%	6.80%	0.32%	4.08%	3.85%
90 Day T-Bills			3.63%	5.21%	4.00%	2.15%	0.98%	4.28%	3.18%
Callan Public Plan Sponsors Database (Median)			-4.84%	17.17%	10.42%	9.29%	15.10%	7.18%	9.14%

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

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

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS
FOR PERIODS ENDED JUNE 30, 2008

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Epoch Investment Partners, Inc.	Absolute Return	07/2007	$ 68,728,349	*	*	*
European Credit Management LTD	Portable Alpha	11/2007	63,840,646	*	*	*
Franklin Portfolio Associates	Market Neutral	09/2006	61,763,575	-12.58%	*	*
Los Angeles Capital Management	Structured Growth	08/2003	157,475,485	-6.74%	8.46%	*
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	127,963,081	-10.50%	6.78%	9.25%
LSV Asset Management	Structured Value	06/1998	138,751,465	-21.93%	3.99%	11.63%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	58,718,056	-15.84%	3.28%	6.90%
Prudential	Portable Alpha	03/2008	72,804,068	*	*	*
State Street Global Advisors	130/30 Long/Short	06/1987	73,497,803	-18.03%	3.34%	6.93%
Wells Capital Management Co.	Portable Alpha	04/2006	104,139,249	-30.50%	*	*
Westridge Capital Management, Inc.	Index Arbitrage	08/2000	131,472,530	-11.87%	5.29%	8.36%
TOTAL DOMESTIC LARGE CAP EQUITY			1,059,154,307	-15.66%	4.66%	8.54%
Standard & Poor's 500 Index				-13.12%	4.41%	7.58%
DOMESTIC SMALL CAP EQUITY:						
Callan Associates, Inc.	Mgr of Managers	05/2006	102,244,619	-15.34%	*	*
SEI Investments Management Co.	Mgr of Managers	06/2001	242,219,772	-21.52%	2.22%	9.56%
TOTAL DOMESTIC SMALL CAP EQUITY			344,464,391	-19.70%	3.05%	10.10%
Russell 2000 Index				-16.19%	3.79%	10.29%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	03/1992	163,642,761	-13.47%	12.06%	14.62%
Dimensional Fund Advisors	Small Cap Value	11/2007	51,865,582	*	*	*
LSV Asset Management	Core	11/2004	152,137,528	-23.48%	8.62%	*
State Street Global Advisors	Enhanced EAFE Index	03/1987	52,959,039	-12.42%	13.12%	14.81%
Wellington Trust Company, NA	Small Cap Growth	03/2002	53,439,072	-14.30%	10.81%	17.10%
TOTAL INTERNATIONAL EQUITY			474,043,982	-17.91%	10.12%	14.52%
MSCI EAFE 50% Hedged Index				-15.49%	10.78%	14.99%
EMERGING MARKETS EQUITY:						
Capital International	Private Equity	08/2007	10,739,302	*	*	*
Dimensional Fund Advisors	Small Cap	10/2005	30,223,626	-13.59%	*	*
J.P. Morgan Investment Management, Inc.	Core	11/2005	29,333,503	4.43%	*	*
PanAgora Asset Management, Inc.	Core	02/2006	30,178,552	7.93%	*	*
UBS Global Asset Management	Core	07/2005	46,122,039	6.73%	*	*
WestLB Asset Management, LLC	Core	03/2006	31,182,579	11.77%	*	*
TOTAL EMERGING MARKETS EQUITY			177,779,601	3.69%	27.95%	29.48%
MSCI Emerging Markets Index				4.89%	27.52%	30.15%
DOMESTIC FIXED INCOME:						
Bank of North Dakota	LB G/C Index	01/1988	100,292,630	7.77%	3.99%	3.63%
Calamos	Convertibles	10/2006	61,169,324	-2.16%	*	*
J.P. Morgan Investment Management, Inc.	Infrastructure	05/2007	113,875,561	15.05%	*	*
Prudential	Private Debt	06/2005	58,820,436	3.62%	3.66%	*
Timberland Investment Resources - Teredo	Timberland	06/2001	75,064,735	22.69%	15.91%	14.93%
Timberland Investment Resources - Springbank	Timberland	09/2004	166,576,942	17.23%	19.32%	*
Wells Capital Management, Inc.	Baa Average	11/1998	74,083,100	3.91%	3.09%	4.55%
Western Asset Management Co.	Core Bonds	02/1986	58,447,150	-0.10%	1.99%	3.11%
Westridge Capital Management, Inc.	Index Arbitrage	01/2008	53,381,321	*	*	*
TOTAL DOMESTIC FIXED INCOME			761,711,199	9.78%	8.80%	10.20%
Lehman Brothers Aggregate Index				7.12%	4.09%	3.85%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2008

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
HIGH YIELD FIXED INCOME:						
Declaration Mgmt & Research	Distressed Mortgages	05/2008	3,660,134	*	*	*
Goldman Sachs	Mezzanine Debt-2006	04/2006	6,560,894	-3.89%	*	*
Goldman Sachs	Mezzanine Debt-Fund V	11/2007	7,354,991	*	*	*
Loomis Sayles	High Yield	04/2004	113,931,490	-0.92%	5.92%	*
PIMCO	Distressed Mortgages	10/2007	12,391,968	*	*	*
Wells Capital Management, Inc.	High Yield	04/2004	100,341,550	-5.08%	3.30%	*
Trust Company of the West	Mezz Debt - Energy	07/2007	9,658,590	*	*	*
TOTAL HIGH YIELD FIXED INCOME			253,899,617	-3.62%	4.39%	6.83%
Lehman Brothers High Yield Corp 2% Issuer Cap				-1.74%	4.48%	6.84%
INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	94,879,700	17.52%	5.87%	6.84%
Brandywine Asset Management	Core Non-U.S.	05/2003	100,237,040	11.17%	7.49%	8.94%
TOTAL INTERNATIONAL FIXED INCOME			195,116,740	14.24%	6.67%	7.89%
Citigroup Non-US Gov't Bond Index				18.72%	6.65%	7.06%
ALTERNATIVE INVESTMENTS						
Adams Street Partners (I.V.C.F. II)	Diversified Private Equity	03/1989	5,751	19.90%	24.67%	16.18%
Adams Street Partners (I.V.C.F. III)	Diversified Private Equity	01/1993	250,829	43.93%	72.98%	50.49%
Adams Street Partners (1998 Fund)	Diversified Private Equity	01/1998	1,016,350	6.91%	16.93%	15.91%
Adams Street Partners (1999 Fund)	Diversified Private Equity	01/1999	3,068,742	13.31%	16.14%	14.44%
Adams Street Partners (2000 Fund)	Diversified Private Equity	10/1999	10,296,421	21.82%	21.03%	17.78%
Adams Street Partners (2001 Fund)	Diversified Private Equity	12/2000	8,663,455	2.22%	12.37%	9.51%
Adams Street Partners (2002 Fund)	Diversified Private Equity	03/2002	4,711,241	3.20%	14.93%	10.72%
Adams Street Partners (2003 Fund)	Diversified Private Equity	04/2003	1,613,644	-6.41%	16.61%	9.01%
Adams Street Partners (1999 Non-U.S. Fund)	Diversified Private Equity	01/1999	1,456,453	-9.78%	40.17%	35.08%
Adams Street Partners (2000 Non-U.S. Fund)	Diversified Private Equity	01/2000	3,531,406	27.03%	38.56%	28.82%
Adams Street Partners (2001 Non-U.S. Fund)	Diversified Private Equity	02/2001	2,386,052	13.44%	14.61%	13.91%
Adams Street Partners (2002 Non-U.S. Fund)	Diversified Private Equity	05/2002	6,375,059	14.08%	44.34%	32.08%
Adams Street Partners (2003 Non-U.S. Fund)	Diversified Private Equity	04/2003	5,177,336	24.94%	42.47%	23.29%
Adams Street Partners (2004 Non-U.S. Fund)	Diversified Private Equity	04/2004	2,485,864	29.17%	25.88%	*
Adams Street Partners (2008 Non-U.S. Fund)	Diversified Private Equity	01/2008	334,476	*	*	*
Adams Street Partners (B.V.C.F. IV)	Diversified Private Equity	05/1999	15,293,391	-1.94%	6.30%	9.07%
Adams Street Partners (Direct Co-Investment)	Direct Private Equity	09/2006	15,833,271	4.06%	*	*
Coral Partners, Inc. (V.P. II)	Direct Venture Capital	06/1990	13,582	-58.58%	-24.60%	-13.13%
Coral Partners, Inc. (Fund V)	Direct Venture Capital	03/1998	8,563,981	9.09%	5.22%	-8.24%
Coral Partners, Inc. (Supplemental Fund V)	Direct Venture Capital	08/2001	905,046	-6.34%	3.94%	6.41%
Coral Partners, Inc. (Momentum Fund)	Direct Venture Capital	07/2002	15,102,998	13.96%	-3.64%	-7.09%
Corsair Capital (Fund III)	Pvt Eq - Financial Svcs	02/2006	13,972,418	64.06%	*	*
Corsair Capital (ND Investors)	Pvt Eq - Financial Svcs	03/2008	10,000,000	*	*	*
Hearthstone Homebuilding Investors (MSII)	Residential Financing	10/1999	85,347	-62.01%	-99.97%	-98.61%
Hearthstone Homebuilding Investors (MSIII)	Residential Financing	09/2003	1,485,284	-10.75%	63.83%	*
Invest America (Lewis and Clark)	Direct Venture Capital	02/2002	7,899,668	27.35%	13.22%	1.67%
Matlin Patterson Global Opportunities Fund I	Distressed Debt	07/2002	7,835,368	-29.56%	-11.62%	10.19%
Matlin Patterson Global Opportunities Fund II	Distressed Debt	10/2004	33,251,945	-5.54%	8.03%	*
Matlin Patterson Global Opportunities Fund III	Distressed Debt	06/2007	16,467,493	-20.03%	*	*
Quantum Energy Partners	Pvt Equity - Energy	01/2007	2,513,240	-3.17%	*	*
Quantum Resources	Pvt Equity - Energy	10/2006	2,678,462	-52.43%	*	*
TOTAL ALTERNATIVE INVESTMENTS			203,274,573	4.56%	11.94%	11.12%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2008

	Style	Initiated	Market Value	1 Year	3 Years	5 Years
REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	08/1997	149,464,922	8.71%	16.82%	15.77%
INVESCO Realty Advisors	Core Plus LP	11/2007	3,306,374	*	*	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	156,709,973	6.80%	15.67%	15.50%
J. P. Morgan Investment Mgmt. Inc.	Alternative Commingled	01/2006	37,696,083	7.13%	*	*
J. P. Morgan Investment Mgmt. Inc.	Asian LP	01/2008	3,606,696	*	*	*
TOTAL REAL ESTATE			350,784,048	7.27%	15.15%	14.95%
NCREIF Total Index				9.20%	14.97%	14.73%
CASH EQUIVALENTS:						
The Northern Trust Company	STIF/STEP	07/1994	14,750,092	0.71%	3.44%	2.80%
90 Day T-Bills				3.63%	4.27%	3.18%
TOTAL PENSION POOL			$ 3,834,978,550	-5.82%	8.70%	11.60%
Policy Target				-4.21%	7.91%	10.22%

INSURANCE POOL PARTICIPANTS

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
Los Angeles Capital Management	Structured Growth	08/2003	$ 21,124,257	-7.57%	7.91%	*
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	41,098,028	-9.35%	7.20%	*
LSV Asset Management	Structured Value	06/1998	18,622,090	-21.07%	4.23%	12.00%
State Street Global Advisors	S&P 500 Index	10/1996	13,596,195	-18.05%	3.31%	6.90%
Westridge Capital Management, Inc.	Enhanced S&P 500	04/2004	41,661,962	-11.80%	5.33%	*
TOTAL DOMESTIC LARGE CAP EQUITY			136,102,532	-12.42%	5.99%	9.59%
Standard & Poor's 500 Index				-13.12%	4.41%	7.58%
DOMESTIC SMALL CAP EQUITY:						
Research Affiliates		07/2007	22,342,404	*	*	*
SEI Investments Management Co.	Mgr of Managers	06/2001	22,872,927	-20.06%	2.95%	9.98%
TOTAL DOMESTIC SMALL CAP EQUITY			45,215,331	-20.25%	2.87%	9.92%
Russell 2000 Index				-16.19%	3.79%	10.29%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	39,329,278	-11.79%	12.88%	15.03%
Dimensional Fund Advisors	Small Cap Value	11/2007	9,176,757	*	*	*
LSV Asset Management	Core	11/2004	37,910,170	-25.29%	7.92%	*
The Vanguard Group	Small Cap Growth	06/2003	9,057,906	-17.05%	12.35%	20.89%
TOTAL INTERNATIONAL EQUITY			95,474,111	-18.30%	10.39%	15.17%
MSCI EAFE 50% Hedged Index				-15.49%	10.78%	14.99%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
INSURANCE POOL PARTICIPANTS (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2008

	Style	Date Initiated	Market Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC FIXED INCOME:						
Bank of North Dakota (BND)	LB G/C Index	07/1989	94,996,481	7.76%	3.99%	3.34%
Clifton Group	Enhanced Fixed Income	07/2006	54,941,192	11.67%	*	*
Hyperion Brookfield	Mortgage Backed	01/2007	43,609,101	-19.73%	*	*
Prudential	Core-Plus	08/2006	55,562,170	5.20%	*	*
Wells Capital	Baa Average Quality	04/2002	190,488,110	3.77%	3.17%	4.01%
Western Asset Management Co.	Core Bond	07/1990	188,494,019	2.27%	2.97%	3.76%
TOTAL DOMESTIC FIXED INCOME			628,091,073	2.65%	2.82%	3.30%
Lehman Brothers Aggregate Index				7.12%	4.09%	3.85%
INFLATION PROTECTED ASSETS:						
Northern Trust Global Investments	Index	05/2004	144,904,184	15.67%	5.81%	*
Western Asset Management Co.	Core	05/2004	141,247,512	12.38%	4.47%	*
TOTAL INFLATION PROTECTED ASSETS			286,151,696	14.02%	5.14%	*
Lehman Brothers US TIPS Index				15.09%	5.59%	*
REAL ESTATE:						
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	11/2005	84,217,744	0.61%	*	*
TOTAL REAL ESTATE			84,217,744	0.61%	*	*
NCREIF Total Index				9.20%	14.97%	*
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	67,420,615	3.44%	4.44%	3.38%
90 Day T-Bills				3.63%	4.27%	3.18%
TOTAL INSURANCE POOL			$ 1,342,673,102	0.68%	4.89%	6.30%
Policy Target				3.94%	5.71%	6.48%
NON-POOLED INVESTMENTS						
Bank of North Dakota Match Loan CD's						
Held by Workforce Safety & Insurance	Certificates of Deposit	various	35,782,795	4.63%	*	*
Held by Budget Stabilization Fund	Certificates of Deposit	various	57,359,432	5.24%	*	*
Prudential (Budget Stabilization Fund)	Enhanced Cash Fund	07/2007	95,527,051	-4.19%	*	*

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

The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon market values and are subject to independent audit. Returns are shown before the effect of investment management fees, except for alternative investments, which are shown net of fees.

LARGEST HOLDINGS (By Market Value) AT JUNE 30, 2008

PENSION POOL PARTICIPANTS

Shares	Stocks	Market Value
230,958	Exxon Mobile Corporation	$ 20,354,329
100,198	International Business Machines Corporation	11,876,469
113,138	Chevron Corporation	11,215,370
613,401	Pfizer Incorporated	10,716,115
98,191	National Oilwell Varco	8,711,506
305,721	Microsoft Corporation	8,410,385
34,000	Potash Corporation	7,928,027
117,900	Johnson & Johnson	7,585,686
140,595	Philip Morris International Inc.	6,943,987
71,577	ConocoPhillips	6,756,153

Par	Bonds	Market Value
25,000,000	Tiers Credit Backed TR 2006-14 Due 01-25-2019	$ 20,968,750
25,000,000	Tiers Credit Backed TR 2006-5 Due 07-25-2018	20,937,500
10,000,000	US Treasury Bonds 4.125% Due 08-15-2010	10,303,120
6,500,000	FNMA Single Family Mortgage 5% 30 Years (August)	6,215,625
5,500,000	US Treasury Notes 6.5% Due 2-15-2010	5,852,341
6,205,000	New South Wales Treasury 5.5% SR MTN 01-03-2017	5,373,546
5,400,000	FNMA 30 Year Pass-Throughs 5.5% (August)	5,308,875
12,351,000	Republic of Poland Bonds 5.25% 10/17/2025	5,268,730
4,350,000	US Treasury Notes 3.5% Due 11-15-2009	4,417,969
13,825,000	Malaysia Bonds 3.756% 04-11-2028	4,183,253

INSURANCE POOL PARTICIPANTS

Shares	Stocks	Market Value
40,163	Exxon Mobile Corporation	$ 3,539,565
17,824	International Business Machines Corporation	2,112,679
18,792	Chevron Corporation	1,862,851
103,761	Pfizer Incorporated	1,812,705
6,100	Potash Corporation	1,422,381
119,200	BP Amoco Ord USD0.25	1,383,620
14,680	BNP Paribas	1,330,847
19,600	CSX Corporation	1,231,076
18,935	Johnson & Johnson	1,218,278
11,353	Burlington Northern Santa Fe Corporation	1,134,051

Par	Bonds	Market Value
11,635,000	US Treasury Notes Inflation Linked 1.625% 01-15-2015	$ 13,521,818
7,070,000	US Treasury Bonds Inflation Index Linked 3.875% 04-15-2029	11,982,788
6,940,000	US Treasury Bonds Inflation Index Linked 3.625% Due 4-15-2028	11,482,358
9,800,000	US Treasury Bonds Inflation Index Linked 2% Due 1-15-2026	10,503,069
7,335,000	US Treasury Notes Inflation Indexed 0.875% 04-15-2010	8,461,438
6,720,000	US Treasury Notes Inflation Indexed 1.875% Due 07-15-2015	7,773,334
7,120,000	US Treasury Notes Inflation Indexed 1.625% Due 01-15-2018	7,420,462
5,335,000	US Treasury Notes Inflation Indexed 3.5% 01-15-2011	7,168,470
6,190,000	US Treasury Notes Inflation Indexed 2% 01-15-2016	7,058,488
7,030,000	Comcast Corporation Note 5.875% Due 02-15-2018	6,763,486

The individual investment account, PERS Retiree Health Credit Fund, is invested in various commingled funds, and so has no individual stock or bond holdings. A complete list of all holdings is available upon request.

SCHEDULE OF INVESTMENT FEES & COMMISSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Assets under management	Fees	Basis points
Investment managers' fees:			
Domestic large cap equity managers	$ 1,195,256,839	$ 5,728,599	46
Domestic small cap equity managers	389,679,722	2,641,084	65
International equity managers	569,518,093	3,536,343	57
Emerging markets equity managers	177,779,601	2,275,173	106
Domestic fixed income managers	1,578,471,550	8,666,661	54
Inflation protected assets managers	286,151,696	59,045	2
High yield fixed income managers	253,899,617	2,387,315	90
International fixed income managers	195,116,740	706,041	35
Real estate managers	435,001,792	4,338,086	100
Alternative investment managers	203,274,573	3,924,667	206
Cash & equivalents managers	82,170,707	57,539	6
Balanced account managers	40,006,696	141,727	34
Total investment managers' fees	$ 5,406,327,626	34,462,280	61
Custodian fees		1,042,896	2
Investment consultant fees		290,366	1
SIB Service Fees		24,952	0
Total investment expenses		$ 35,820,494	64
Securities lending fees		$ 13,375,736	24

Reconciliation of Investment Expenses to Financial Statements

Investment expenses as reflected in the financial statements	$ 28,747,505
Plus investment management fees included in investment income	
Domestic large cap equity	483,018
Domestic small cap equity	803,236
International equity	318,048
Emerging markets equity	908,228
Domestic fixed income	174,842
High Yield	776,814
Real estate	85,880
Private equity	3,430,367
Cash equivalents	57,539
Balanced fund	35,018
Investment expenses per schedule	$ 35,820,494

Brokers	Number of shares traded	Total commissions	Commissions per share
Investment Technology Group Inc.	6,147,482	$ 77,535	$0.013
J.P. Morgan Securities Inc.	3,804,532	62,676	0.016
Heflin & Co, LLC	3,452,339	69,047	0.020
CSFB New York	3,194,283	19,125	0.006
Goldman Sachs & Co New York	2,965,098	31,510	0.011
Citigroup Global Markets Ind/Smith Barney	2,906,086	53,236	0.018
Bear Stearns	2,806,826	26,524	0.009
Merrill Lynch Intl LTD Equities	2,071,251	30,320	0.015
Fidelity Capital Markets	1,955,920	39,118	0.020
Guzman & Company	1,791,035	35,821	0.020
Other 185 Brokers *	47,282,247	688,231	0.015
Gross commissions	78,377,099	$ 1,133,144	$0.014
Less commissions recaptured		(2,646)	
Net commissions paid		$ 1,130,498	$0.014

* A complete listing of investment brokers utilized is available upon request.
Note: This schedule includes only brokerage costs for agency trades of common stock.

TEACHERS' FUND FOR RETIREMENT

■ Teachers' Fund for Retirement Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

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

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

Funding is provided by monthly employee and employer contributions. Member contributions are 7.75% of payroll. Employer contributions are 7.75% of payroll until July 1, 2008, when employer contributions increase to 8.25% of payroll. Employer contributions will return to 7.75% when TFFR reaches 90% funded level. On an annual basis, benefit payouts exceed contributions. The asset/liability study completed in June 2005 indicates that a 1% cash equivalents allocation is expected to provide sufficient liquidity for the next ten years.

The TFFR Board has an actuarial valuation performed annually. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics as of the most recent valuation are recorded in the Asset/Liability Model presented in June 2005 by Gabriel, Roeder, Smith and Company (GRS) and on file at the North Dakota Retirement and Investment Office.

Responsibilities and Discretion of the State Investment Board (SIB)

The TFFR Board is charged by law under NDCC 21-10-02.1 with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

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

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

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

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

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

Investment Objectives

The investment objectives of the plan have been established by the TFFR board upon consideration of the board's strategic objectives and a comprehensive review of current and projected financial requirements.

Objective #1: Prudently invest assets in a well diversified portfolio to optimize long term returns while controlling risk to the fund.

Objective #2: Accumulate sufficient funds to pay all current and future benefit and expense obligations when due.

Objective #3: Improve and maintain adequate funding of all promised benefits to ensure the financial integrity of the system.

Objective #4: Build a funding cushion to provide for future benefit improvements.

Standards of Investment Performance

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

a. The Fund should produce a rate of return that at least matches that of the policy portfolio.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.93% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 13.52%.

Policy and Guidelines

The asset allocation of the TFFR fund is established by the TFFR Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by Gabriel, Roeder, Smith and Company in June 2005. 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 over the next 20 years.

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 Equities – Large Cap	28%
Domestic Equities – Small Cap	10%
International Equities	18%
Emerging Markets Equities	5%
Venture Capital/Alt. Invsts.	5%
Domestic Fixed Income	12%
High Yield Bonds	7%
International Fixed Income	5%
Cash Equivalents	1%
Real Estate	9%

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

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

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

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

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

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

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

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

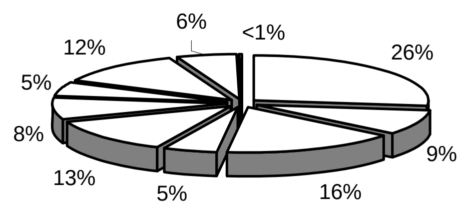
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

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

■ Teachers' Fund for Retirement
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 492,563,517	26%	
Domestic Small Cap Equity	164,717,985	9%	
International Equity	294,478,822	16%	
Emerging Markets Equity	87,883,870	5%	
Domestic Fixed Income	229,787,473	13%	
High Yield Fixed Income	143,723,091	8%	
International Fixed Income	91,389,349	5%	
Real Estate	219,255,494	12%	
Private Equity	101,316,752	6%	
Cash Equivalents	4,427,753	<1%	
TOTAL FUND	$ 1,829,544,106	100%	-7.51%



PUBLIC EMPLOYEES RETIREMENT SYSTEM

■ Public Employees Retirement System (PERS) Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

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

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

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 manger has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

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

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

Delegation of Authority

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

Such procedures must provide for:

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

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

Investment Goals

The investment goals of the Fund have been established by the North Dakota Public Employees Retirement 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 and have been established after full consideration of all factors set out in the Statement of Investment Goals, Objectives and Policies.

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

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

Investment Performance Objective

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

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

a. The funds rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the asset/liability study without exceeding the expected risk for the period.

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 December 2005 – SEI Corporation

Domestic Equities-Large Cap	30%
Domestic Equities-Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Private Equity	5%
Cash	1%
Expected Return	9.3%
Standard Deviation of Returns	10.5%

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

Restrictions

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

B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.

C. No transaction may be made which threatens the tax exempt status of the Fund.

D. No unhedged short sales or speculative margin purchases may be made.

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

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

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

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

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

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

   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

   (4) The safeguards and diversity that a prudent investor would adhere to are present.

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

H. Where timberland is used as part of the domestic fixed income portfolio, it may not make up more than 30% of the total asset class at the time of initial purchase. If timberland becomes 50% or more of the domestic fixed income portfolio through market appreciation, the SIB must review the situation with the goal of bringing the timberland portion of the domestic fixed income portfolio into line with this restriction and, considering market conditions at the time, take any action deemed prudent.

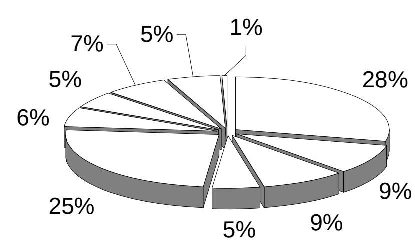
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

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

■ **Public Employees Retirement Fund**
Actual Asset Allocation – June 30, 2008

Asset Allocation	**Market Value**	**Percent of Total**	**One Year Return**
Domestic Large Cap Equity	$ 518,333,014	28%	
Domestic Small Cap Equity	164,274,258	9%	
International Equity	165,672,936	9%	
Emerging Markets Equity	86,873,169	5%	
Domestic Fixed Income	451,683,184	25%	
High Yield Fixed Income	103,975,210	6%	
International Fixed Income	90,864,713	5%	
Real Estate	122,304,874	7%	
Private Equity	99,234,758	5%	
Cash Equivalents	9,814,109	1%	
TOTAL FUND	$ 1,813,030,225	100%	-5.60%



BISMARCK CITY EMPLOYEE PENSION PLAN

■ Bismarck City Employee Pension Plan Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

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

The Fund and benefits provided are funded by contributions from the members and members' employer. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

Responsibilities and Discretion of the State Investment Board (SIB)

The BCEPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCEPP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

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

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

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

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

Standards of Investment Performance

Investments of the Fund must seek to generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of the Fund and its beneficiaries that 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.

a. The Fund should produce a rate of return, over any given time period, that matches or exceeds that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.6% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 9.7%.

Policy and Guidelines

The asset allocation of the Fund is established by the BCEPP Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by SEI in March 2006. 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 over the next 20 years.

In recognition of the Fund's objectives, benefit projections, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Large Cap Equity	20.0%
Domestic Small Cap Equity	12.0%
International Equity	11.0%
Emerging Markets Equity	2.0%
Domestic Fixed Income	29.0%
High Yield Fixed Income	6.0%
International Fixed Income	9.5%
Real Estate	9.5%
Alternative Investments	1.0%

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

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

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

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

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

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

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

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

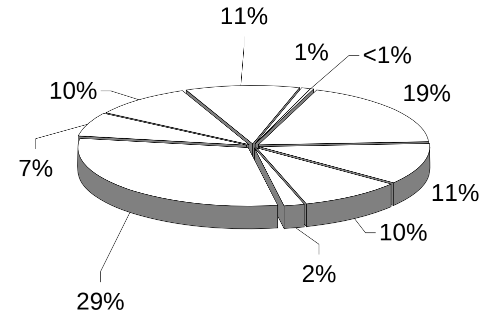
Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCEPP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

<u>Internal Controls</u>

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

■ Bismarck City Employee Pension Plan
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 9,283,523	19%	
Domestic Small Cap Equity	5,652,276	11%	
International Equity	4,795,640	10%	
Emerging Markets Equity	956,754	2%	
Domestic Fixed Income	15,096,857	29%	
High Yield Fixed Income	3,327,211	7%	
International Fixed Income	4,734,312	10%	
Real Estate	5,390,196	11%	
Private Equity	303,845	1%	
Cash Equivalents	179,950	<1%	
TOTAL FUND	$ 49,720,564	100%	-3.82%



BISMARCK CITY POLICE PENSION PLAN

■ Bismarck City Police Pension Plan Investment Objectives and Policy Guidelines

<u>Plan Characteristics and Fund Constraints</u>

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

The Fund and benefits provided are funded by contributions from the members and members' employer. The Fund was established to provide benefits to members eligible to receive them in accordance with the provisions of the Fund.

<u>Responsibilities and Discretion of the State Investment Board (SIB)</u>

The BCPPP Board has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. The BCPPP Board is responsible for establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The Fund must be invested exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

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

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

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

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

<u>Standards of Investment Performance</u>

Investments of the Fund must seek to generate sufficient return to meet the goals outlined in this policy. The objectives established in this section are in accordance with the fiduciary requirement as set forth in federal and state law.

It is in the best interest of the Fund and its beneficiaries that 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.

a. The Fund should produce a rate of return, over any given time period, that matches or exceeds that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB and reflected in the monthly investment performance reports.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 8.9% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 10.6%.

<u>Policy and Guidelines</u>

The asset allocation of the Fund is established by the BCPPP Board, with input from consultants and RIO staff. Asset allocation is based upon the asset/liability study completed by SEI in March 2006. 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 over the next 20 years.

In recognition of the Fund's objectives, benefit projections, and capital market expectations, the following is the asset allocation for the Fund:

Domestic Large Cap Equity	24.0%
Domestic Small Cap Equity	12.0%
International Equity	11.0%
Emerging Markets Equity	3.0%
Domestic Fixed Income	24.5%
High Yield Fixed Income	5.0%
International Fixed Income	9.0%
Real Estate	8.5%
Venture Capital	3.0%

Rebalancing of the Fund's investment portfolio to this target must be done as soon as feasible while ensuring the process is effectively coordinated and accomplished in a cost effective manner. Maintenance of allocations to this target must be done in accordance with the SIB's rebalancing policy.

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

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

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

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

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

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

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

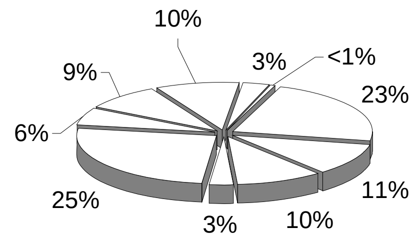
Where investment characteristics, including yield, risk, and liquidity are equivalent, the BCPPP Board's policy favors investments which will have a positive impact on the economy of North Dakota.

<u>Internal Controls</u>

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

Bismarck City Police Pension Plan
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 5,194,855	23%	
Domestic Small Cap Equity	2,496,078	11%	
International Equity	2,274,595	10%	
Emerging Markets Equity	669,897	3%	
Domestic Fixed Income	5,944,919	25%	
High Yield Fixed Income	1,296,668	6%	
International Fixed Income	2,068,290	9%	
Real Estate	2,238,681	10%	
Private Equity	734,567	3%	
Cash Equivalents	98,846	<1%	
TOTAL FUND	$ 23,017,396	100%	-4.69%



RETIREMENT PLAN FOR EMPLOYEES OF JOB SERVICE NORTH DAKOTA

■ Job Service ND Investment Objectives and Policy Guidelines

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

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

Each year the Plan has an actuarial valuation performed. The current actuarial assumed rate of return on assets is 7.5%.

<u>Responsibilities and Discretion of the State Investment Board</u>

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 manger 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.

<u>Delegation of Authority</u>

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

Such procedures must provide for:

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

includes selecting performance measurements, consultants, report formats, and frequency of meetings with money managers.

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

Investment Goals

The investment 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 percent per year (based on current actuarial assumptions of 8% 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.

Investment Performance Objectives

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

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

a. The funds rate of return, over the long term should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 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.

Asset Allocation

The NDPERS 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 Buck Consultants in May 2002. 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 over the next 20 years.

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	30%
Domestic Small Cap Equity	5%
International Equity	5%
Domestic Fixed Income	55%
International Fixed Income	5%

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

Restrictions

While the SIB is responsible for establishing specific quality, diversification, restrictions, and performance objectives for the investment vehicles in which the Plan'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.
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.

   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."*

e. 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 Plan with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

(3) Sufficient liquidity is maintained in the Plan to permit distributions in accordance with the terms of the plan.

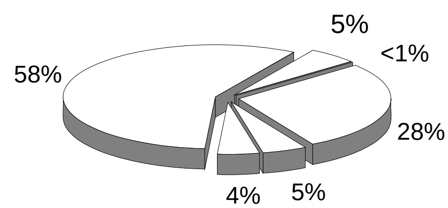
(4) The safeguards and diversity that a prudent investor would adhere to are present.

Internal Controls

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

■ Job Service ND
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 25,140,585	28%	
Domestic Small Cap Equity	4,361,236	5%	
International Equity	3,997,997	4%	
Domestic Fixed Income	51,856,641	58%	
International Fixed Income	4,544,339	5%	
Cash Equivalents	107,901	<1%	
TOTAL FUND	$ 90,008,699	100%	-1.64%



CITY OF FARGO EMPLOYEE PENSION PLAN

■ City of Fargo Employee Pension Plan Investment Objectives and Policy Guidelines

<u>Plan Characteristics and Fund Constraints</u>

The City Employees Pension Fund is operated by the Pension Board pursuant to the authority granted in the City of Fargo Home Rule Charter, Chapter 6-02. This fund is managed by a seven person Board elected by the membership, or appointed by ordinance. Two members are elected every two years on a rotating basis. Elections are held in July of each year.

<u>Plan Description</u> The City of Fargo Employees' Pension plan is a cost-sharing multiple employer public employee retirement system. The plan is integrated with social security and therefore, is considered a supplemental plan. All full-time City employees not covered by another plan are eligible for participation in the Employees' Pension Plan.

Membership in the plan on January 1, 2007 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	182
Terminated vested and deferred beneficiaries	8
Active plan members	502

Number of participating employers: 2

Employees may be eligible for early, normal or disability retirement. The plan permits early retirements at age 55 with at least 5 years of service. Normal retirement age for full benefits is age 62 or when an employee's age plus their years of service as a full time city employee reaches a sum of 90.

Employee death benefits of $20,000 are paid to a designated beneficiary for a participant who dies prior to retirement. If a participant dies after retirement, the designated beneficiary will receive a $3,000 death benefit.

Participants are fully vested in the plan benefit after five years of full-time employment. Non- vested participants are eligible for a full refund of their contributions plus interest at 5%. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin between ages 55-62 or a lump sum payment. Lump sum settlements are allowable up to age 55. Lump sum payments are computed as the greater of the actuarial value of plan assets or the "cash balance" in their plan account. The cash balance consists of the employee contributions, plus one-half of the employer's contribution since January 1, 1990, plus interest at 5%.

The City makes a matching contribution of $25 per month to a deferred compensation plan on behalf of pension plan members who also contribute a minimum of $25 per month to the deferred compensation plan.

Benefit provisions are established under the authority of the City Commission.

<u>Contributions</u> Participating employees contribute to the plan at a rate of 4.5% of salary and the employers contribute at a rate of 6.0% of regular salary for all employees. The contribution rates are established by local ordinance, and the employers contribution rate is set by the City Commission. Costs of administering the plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

<u>Reserves</u> The net assets at December 31, 2006 are $30,248,640 and the entire amount is reserved for employee pension benefits.

<u>Responsibilities and Discretion of the State Investment Board (SIB)</u>

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The City Employees Pension Board is required to develop asset allocation plans pursuant to its responsibilities are outlined in the City of Fargo Home Rule Charter, Chapter 6-02. 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 City Employees Pension Fund must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

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

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

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

Delegation of Authority

Management responsibility for City of Fargo City Employee Pension 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 City of Fargo City Employee Pension 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 risks are not taken by the money managers.
   c. All assets must be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1)(d).
4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

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

Investment Goals

The investment goals of the Fund have been established by the City Employee Pension 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 City Employee Pension fund to pay all current and future retirement benefits and expense obligations of the Fund.

Goal #2: To obtain investment returns in excess of that needed to allow for increases in the benefit plan multiplier over time.

Investment Performance Objective

The City Employee Pension 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 and City Ordinances.

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

a. The funds rate of return, over the long term should equal, that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10-year and longer periods the fund should match or exceed the expected rate of return projected in the most recent actuarial study without exceeding the expected risk for the period as measured by standard deviation.

Asset Allocation

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

Domestic Equities-Large Cap	30%
Domestic Equities-Small Cap	10%
International Equities	10%
Emerging Markets Equities	5%
Domestic Fixed Income	24%
High Yield Fixed Income	5%
International Fixed Income	5%
Real Estate	5%
Private Equity	5%
Cash	1%
Expected Return	9.3%
Standard Deviation of Returns	10.5%

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

Restrictions

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

B. Use of derivatives will be monitored to ensure that undue risks are not taken by the money managers.

C. No transaction may be made which threatens the tax exempt status of the Fund.

D. No unhedged short sales or speculative margin purchases may be made.

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

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

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

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

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

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

   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

   (4) The safeguards and diversity that a prudent investor would adhere to are present.

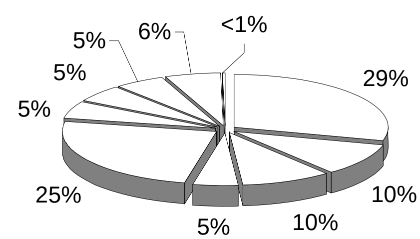
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

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

- **City of Fargo Employee Pension Plan**
  Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 8,638,813	29%	
Domestic Small Cap Equity	2,962,558	10%	
International Equity	2,823,992	10%	
Emerging Markets Equity	1,395,911	5%	
Domestic Fixed Income	7,342,125	25%	
High Yield Fixed Income	1,577,437	5%	
International Fixed Income	1,515,737	5%	
Real Estate	1,594,803	5%	
Private Equity	1,684,651	6%	
Cash Equivalents	121,533	<1%	
TOTAL FUND	$ 29,657,560	100%	*



* This fund does not have the specified history under SIB management.

WORKFORCE SAFETY & INSURANCE FUND

■ Workforce Safety & Insurance Fund Investment Objectives and Policy Guidelines

Introduction

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

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

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

Responsibilities of the North Dakota State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

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

Standards of Investment Performance

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

a. The Fund should produce a rate of return that at least matches that of the policy portfolio, which is comprised of 9.75% S&P 500 domestic stock index, 3.25% Russell 2000 domestic stock, 8% MSCI EAFE international stock index, 50% Lehman Aggregate bond index, 22% Lehman Treasury Inflation Protected bond index, 6% NCREIF Total real estate index, and 1% 90-day T-bills.
b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.
c. Over 10 year and longer time periods the Fund should match or exceed the expected 5.75% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 5.65%.

Policy and Guidelines

The asset allocation policy developed herein is based on an evaluation of WSI's ability and willingness to assume investment risk in light of WSI's financial goals and objectives. In recognition of these goals and objectives, coupled with a liability-sensitive asset allocation study conducted by Callan Associates in May, 2005, the following asset allocation is deemed appropriate for WSI. The portfolio mix shall be in accordance with the following asset allocation and periodically reviewed by WSI.

Asset Class	Target Allocation
Large Cap Equity	9.75%
Small Cap Equity	3.25%
International Equity	8.00%
Domestic Fixed Income	50.00%
TIPS	22.00%
Real Estate	6.00%
Cash Equivalents	1.00%

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

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

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

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

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

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

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

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

   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.

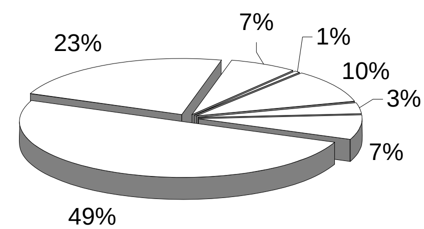
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.

   (4) The safeguards and diversity that a prudent investor would adhere to are present.

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

■ Workforce Safety & Insurance Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	120,851,609	10%	
Domestic Small Cap Equity		40,203,773	3%	
International Equity		91,334,458	7%	
Fixed Income		627,963,889	49%	
Inflation Protected		286,151,696	23%	
Real Estate		84,203,644	7%	
Cash Equivalents		8,442,930	1%	
TOTAL FUND	$	1,259,151,999	100%	0.57%



STATE FIRE AND TORNADO FUND

■ State Fire and Tornado Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

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

Funding is primarily provided by annual premiums charged to policyholders in accordance with NDCC 26.1-22. Premiums are expected to total approximately $5.1 million annually, with the bulk of these premiums received at the beginning of each fiscal year. A 50% credit will be applied to the July, 2007 invoices.

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

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

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

Claims paid from the Fund are highly unpredictable. Weather damage accounts for the majority of claims. Fires generally result in the most extensive damage.

Generally, there is a two week lead time to prepare for a claim payment. Large claim payments have a longer lead time and are spread out in multiple payments whenever possible. Total claim payments and transfers over the last three fiscal years have averaged $1.7 million annually.

Operating expenses are paid from the Fund as incurred. These include Fund administration, boiler inspection program, anhydrous ammonia storage facility inspections, State Fire Marshall's Office, and State Firemen's Association. For planning purposes over the 2007-2009 biennium, these appropriations were assumed to be $569,000 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

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

Objective #4: The risk of violating the statutory minimum balance requirement of $12,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.48% rate of return based on 2007 market projections. Expected risk for the period, measured by standard deviation, is 7.00%.

Policy and Guidelines

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

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

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

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

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

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

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

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

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

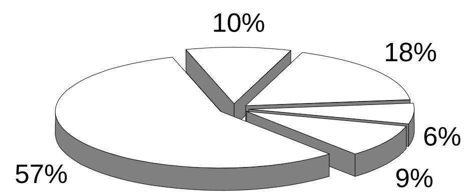
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ State Fire and Tornado Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 4,585,990	18%	
Domestic Small Cap Equity	1,500,484	6%	
International Equity	2,403,238	9%	
Fixed Income	14,553,262	57%	
Cash Equivalents	2,656,655	10%	
TOTAL FUND	$ 25,699,629	100%	-4.01%



STATE BONDING FUND

■ State Bonding Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

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

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

Claims paid from the Fund are on an as-needed basis and are highly unpredictable. A judgment against the guilty party is required prior to the Fund making a claim payment. Generally, there is a 60-90 day lead time to prepare for a claim payment. Claims have averaged $48,000 annually over the last three fiscal years.

Appropriations from the Fund are exclusively for administrative costs. For planning purposes during the 2007-2009 biennium, these appropriations are assumed to be $17,500 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

The investment objectives of the Fund reflect the long-term nature of the Fund, but also recognize the shorter-term liquidity needs. Operating and statutory considerations shape the policies and priorities outlined below.

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

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

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

Objective #4: The risk of violating the statutory minimum balance requirement of $2,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.48% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 7.00%.

Policy and Guidelines

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

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

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

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

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

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

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

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

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

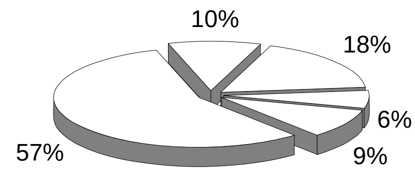
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ State Bonding Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 454,202	18%	
Domestic Small Cap Equity	148,661	6%	
International Equity	238,041	9%	
Fixed Income	1,441,116	57%	
Cash Equivalents	263,002	10%	
TOTAL FUND	$ 2,545,022	100%	-4.14%



PETROLEUM TANK RELEASE COMPENSATION FUND

■ Petroleum Tank Release Compensation Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Petroleum Tank Release Compensation Fund (the Fund) was established in 1989 in response to the Environmental Protection Agency's (EPA) requirement that all underground storage tank owners have proof of financial responsibility. Operation of the Fund is in accordance with the 1991 Session Laws, Chapter 299. The Fund's "sunset clause" date of June 30, 2011, has been extended and the time horizon for this Fund is uncertain at this time.

Funding is provided by annual premiums collected for above ground and subterranean petroleum storage tanks. Registration of tanks with the Fund is mandatory, although certain types of tanks are excluded. Premiums are estimated to total $295,000 annually during the current biennium.

A statutory minimum balance of $6 million must be maintained in the Fund. Also, a minimum balance of $2 million is required by EPA. In the event reserves drop below this minimum, EPA would evaluate the Fund's ability to pay claims and would in all likelihood disapprove the Fund as a financial responsibility mechanism for North Dakota petroleum tank owners.

If a petroleum release occurs or petroleum contamination is discovered, an eligible tank owner is reimbursed 90% of necessary and reasonable costs between $5,000 and $155,000 for cleanup of contamination or third-party liability. The Fund reimburses 100% of costs between $155,000 and $1,000,000. Claims have averaged $596,000 annually over the last three fiscal years.

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2007-2009 biennium, these appropriations were assumed to be $60,000 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

The Fund is charged by law under Chapter 285 of the 1993 Session Laws with the responsibility of establishing policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

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

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

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

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

Investment Objectives

The investment objectives of the Fund reflect the need to augment premium income to provide for claim payments and stability of insurance reserves. Operating considerations shape the Fund's policies and priorities as follows:

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

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

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

Objective #4: The risk of violating the EPA mandated minimum balance requirement of $2,000,000 is to be minimized. This will be achieved by an asset allocation consistent with this objective.

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.42% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 6.87%

Policy and Guidelines

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

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

Large Cap Domestic Equity	18.75%
Small Cap Domestic Equity	6.25%
International Equity	10.00%
Fixed Income	50.00%
Cash Equivalents	15.00%

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

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

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

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

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

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

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

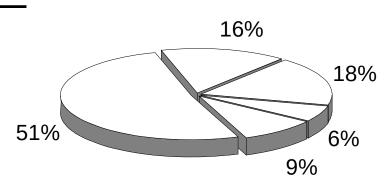
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ Petroleum Tank Release Compensation Fund Actual Asset Allocation – June 30, 2008

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	1,525,573	18%	
Domestic Small Cap Equity		498,912	6%	
International Equity		799,120	9%	
Fixed Income		4,403,444	51%	
Cash Equivalents		1,326,384	16%	
TOTAL FUND	$	8,553,433	100%	-4.07%



INSURANCE REGULATORY TRUST FUND

■ Insurance Regulatory Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

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

Funding is provided primarily through the collection of fees and fines as specified in NDCC 26.1-01-07.1. Fees and other collections are expected to total approximately $4.5 million annually, with the bulk of this income received in the second half of each fiscal year. Earnings from investments are also considered a funding source.

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

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

Operating expenses are paid from the Fund as incurred. For planning purposes over the 2007-2009 biennium, these appropriations were assumed to be $2.8 million annually.

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

The investment objectives of the Fund reflect moderate risk tolerance and short-term liquidity needs. The increasing need to augment fee income as growth in expenses outpaces traditional funding sources is also recognized.

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

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

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

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 5.98% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 5.70%.

Policy and Guidelines

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

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

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

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

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

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

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

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

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

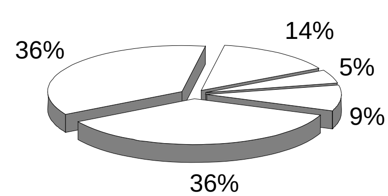
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ Insurance Regulatory Trust Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 580,483	14%	
Domestic Small Cap Equity	189,952	5%	
International Equity	380,210	9%	
Fixed Income	1,464,845	36%	
Cash Equivalents	1,471,936	36%	
TOTAL FUND	$ 4,087,426	100%	-2.71%



NORTH DAKOTA HEALTH CARE TRUST FUND

■ North Dakota Health Care Trust Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

Through the passage of House Bill 1196, the 2001 North Dakota Legislature created a special fund, in the State Treasury, known as the North Dakota Health Care Trust Fund (the Fund). The Fund consists of revenue received from government nursing facilities for remittance to the Fund under Section 50-24.4-30. Section 13 of House Bill 1196 provides that the State Investment Board (SIB) shall invest moneys in the Fund in accordance with Chapter 21-10, and the income earned must be deposited in the Fund. All moneys deposited in the Fund are available to the Department of Human Services for payment as authorized by legislative appropriations and for transfer to the long-term care facility loan fund as authorized by legislative appropriation.

Responsibilities and Discretion of the SIB

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

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

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

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

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

Investment Objectives

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

Objective #1: Sufficient liquidity is to be maintained to meet known or anticipated financial obligations and preserve the value of the surplus. Cash equivalent investments will be used to achieve this objective.

Objective #2: Investment income is needed to provide stability for the Fund. This will be achieved through investment in certificates of deposit and cash equivalents.

Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the North Dakota Department of Human Services. 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 & CD's	100%

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

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

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

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

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

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

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

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

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

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

■ North Dakota Health Care Trust Fund Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents & CD's	2,284,976	100%	
TOTAL FUND	$ 2,284,976	100%	3.43%

STATE RISK MANAGEMENT FUND

■ State Risk Management Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

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

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

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

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

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

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

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

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.34% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 6.59%.

Policy and Guidelines

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

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

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

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

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

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

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

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

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

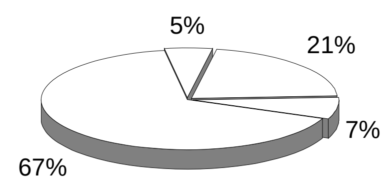
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ State Risk Management Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 767,513	21%	
Domestic Small Cap Equity	250,922	7%	
Fixed Income	2,398,664	67%	
Cash Equivalents	185,642	5%	
TOTAL FUND	$ 3,602,741	100%	-2.70%



STATE RISK MANAGEMENT WORKERS COMPENSATION FUND

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

Plan Characteristics and Fund Constraints

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

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

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

The Fund's asset allocation will need to be reviewed at the end of the 2007-2009 biennium for appropriateness.

Responsibilities of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

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

Standards of Investment Performance

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

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

Policy and Guidelines

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

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

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

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

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

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

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

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

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

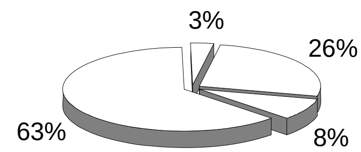
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ State Risk Management WC Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 797,078	26%	
Domestic Small Cap Equity	259,169	8%	
Fixed Income	1,911,050	63%	
Cash Equivalents	94,366	3%	
TOTAL FUND	$ 3,061,663	100%	-3.99%



NORTH DAKOTA ASSOCIATION OF COUNTIES

■ ND Association of Counties (NDACo) Fund and NDACo Program Savings Fund Investment Objectives and Policy Guidelines

Introduction

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

The NDACo has chosen to segregate these monies into two separate fund (Funds) with identical investment policies. This statement governs both Funds.

Responsibilities and Discretion of the State Investment Board (SIB)

NDACo has entered into a contract with the SIB for investment services as allowed under NDCC 21-10-06. It is the responsibility of NDACo to establish policies on investment goals and asset allocation of the 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 Funds' assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools.

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

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

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

Investment Objectives

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

Standards of Investment Performance

The Funds' investment objectives and liquidity constraints give rise to asset allocations that are considered the most likely to achieve the results desired. For evaluation purposes, the following performance targets will apply:

a. The Funds should produce rates of return that meet or exceed the portfolio policy index defined as 26.25% S&P 500 domestic stock index, 8.75% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 50% Lehman Brothers Aggregate domestic bond index, and 5% 90-day Treasury bills.
b. The annual standard deviation of total returns for the Funds should not exceed that of the policy portfolio.
c. Over 10 year and longer time periods the Funds should match or exceed the expected 6.65% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 8.50%.

Policy and Guidelines

The asset allocation is established by the SIB, with input from NDACo. 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 allocations are deemed appropriate for the funds.

Asset Class	NDACo Fund	NDACo Program Savings
Dom Lg Cap Equity	29.7%	26.2%
Dom Sm Cap Equity	12.0%	8.8%
Int'l Equity	13.3%	10.0%
Dom Fixed Income	40.0%	50.0%
Cash Equivalents	5.0%	5.0%

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

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

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

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

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

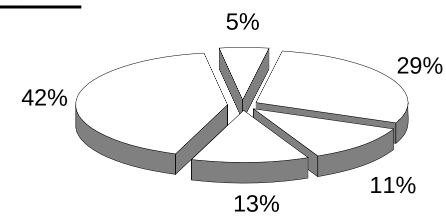
   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:
   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

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

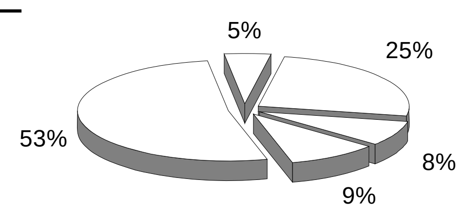
■ ND Association of Counties (NDACo) Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 323,163	29%	
Domestic Small Cap Equity	128,921	11%	
International Equity	142,575	13%	
Fixed Income	471,310	42%	
Cash Equivalents	58,779	5%	
TOTAL FUND	$ 1,124,748	100%	-7.79%



■ NDACo Program Savings Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 202,560	25%	
Domestic Small Cap Equity	66,328	8%	
International Equity	76,225	9%	
Fixed Income	417,298	53%	
Cash Equivalents	41,265	5%	
TOTAL FUND	$ 803,676	100%	-5.77%



CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT

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

Fund Characteristics and Constraints

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 15% S&P 500 domestic stock index, 5% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 65% Lehman Aggregate domestic bond index, and 5% 90-day Treasury Bills.

b. The annual standard deviation of total returns for the Fund should be consistent with that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.00% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 6.50%.

Policy and Guidelines

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

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

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

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

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

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

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

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

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

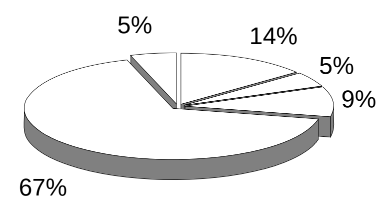
   For the purpose of this document economically targeted investment is defined as an investment designed to produce a competitive rate of return commensurate with risk involved, as well as to create collateral economic benefits for a targeted geographic area, group of people, or sector of the economy.

   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:
   (1) The cost does not exceed the fair market value at the time of investment.
   (2) The investment provides the Fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and similar risk.
   (3) Sufficient liquidity is maintained in the Fund to permit distributions in accordance with the terms of the plan.
   (4) The safeguards and diversity that a prudent investor would adhere to are present.

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

■ City of Bismarck Deferred Sick Leave Actual Asset Allocation – June 30, 2008

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	113,874	14%	
Domestic Small Cap Equity		37,307	5%	
International Equity		74,585	9%	
Fixed Income		533,948	67%	
Cash Equivalents		41,024	5%	
TOTAL FUND	$	800,738	100%	-3.20%



NDPERS GROUP INSURANCE ACCOUNT

■ NDPERS Group Insurance Account Investment Objectives and Policy Guidelines

Introduction

The NDPERS Group Insurance Account (the Fund) was established to hold insurance premiums collected from employers until paid to the insurance carrier.

Responsibilities and Discretion of the State Investment Board (SIB)

The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

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

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

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

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.

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as the 90-day Treasury bill.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation is established by NDPERS. Asset allocation is based upon the appraisal of projected liquidity. In recognition of this factor, 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 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. No derivative instruments or strategies which make use of derivatives which would cause the portfolio to be in any way leveraged will be used.
b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
d. No funds shall be borrowed.
e. No short sales or margin purchases shall be made.

■ NDPERS Group Insurance Account Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Cash Equivalents	$4,391,120	100%	3.43%

CITY OF FARGO FARGODOME PERMANENT FUND

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

Fund Characteristics and Constraints

The City of Fargo has set aside excess sales tax collections intended for the administration of the FargoDome in the FargoDome Permanent Fund (Fund). The initial amount in the fund is approximately $2.8 million with additional deposits of $1 million per year until 2009. No withdrawals are expected to be made until after 2009 when the sales tax revenue is discontinued.

Responsibilities of the State Investment Board (SIB)

The SIB is charged by law under NDCC 21-10 with the responsibility of establishing investment policy and investing the assets of the Fund. The assets are to be invested in a manner consistent with the prudent investor rule as provided in NDCC 21-10-07.

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

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

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

Investment Objectives

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

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

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

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 37.5% S&P 500 domestic stock index, 12.5% Russell 2000 domestic small cap index, 49% Lehman Aggregate domestic bond index, and 1% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.91% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 9.47%.

Policy and Guidelines

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

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

Large Cap Domestic Equity	37.5%
Small Cap Domestic Equity	12.5%
Fixed Income	49.0%
Cash Equivalents	1.0%

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

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

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

b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.

c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

d. No funds shall be borrowed.

e. No unhedged short sales or speculative margin purchases shall be made.

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

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

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

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

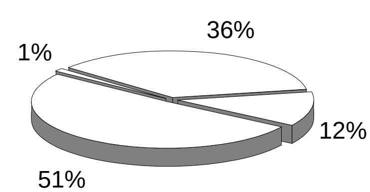
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ City of Fargo FargoDome Permanent Fund Actual Asset Allocation – June 30, 2008

Asset Allocation		Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	5,812,495	36%	
Domestic Small Cap Equity		1,902,155	12%	
Fixed Income		8,210,790	51%	
Cash Equivalents		168,054	1%	
TOTAL FUND	$	16,093,494	100%	-6.25%



NORTH DAKOTA CULTURAL ENDOWMENT FUND

■ ND Cultural Endowment Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

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

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

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

The goals of the Fund are:

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

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

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

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

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 33.75% S&P 500 domestic stock index, 11.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 37% Lehman Aggregate domestic bond index, 5% NCREIF Total real estate index, and 3% 90-day Treasury bills.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 10 year and longer time periods the Fund should match or exceed the expected

7.26% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 10.44%.

Policy and Guidelines

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

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

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

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

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

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

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

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

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

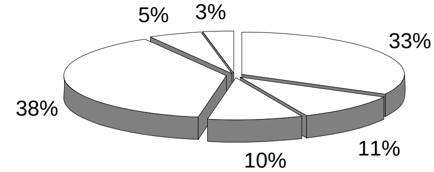
Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ ND Cultural Endowment Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation	Market Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 87,992	33%	
Domestic Small Cap Equity	28,747	11%	
International Equity	25,659	10%	
Fixed Income	104,248	38%	
Real Estate	14,100	5%	
Cash Equivalents	8,447	3%	
TOTAL FUND	$ 269,193	100%	-7.59%



NORTH DAKOTA BUDGET STABILIZATION FUND

■ ND Budget Stabilization Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Budget Stabilization Fund (Fund) is a special fund created in 1987 under Chapter 54-27.2 of the North Dakota Century Code used to deposit general fund moneys in excess of appropriations. Notwithstanding any other provision of law except sections 54-27.2-01 and 54-27.2-02, any amount in the state general fund in excess of $100,527,369 was required to be transferred by the state treasurer to the budget stabilization fund from the general fund on July 1, 2007. This transfer will provide for a total of $200,000,000 in the budget stabilization fund for the biennium beginning July 1, 2007 and ending June 30, 2009. The state investment board shall supervise investment of the budget stabilization fund in accordance with chapter 21-10.

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

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

Policy and Guidelines

The asset allocation of the Budget Stabilization Fund is established by the Office of Management and Budget, 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 & CDs	Minimum of 50%
Other Fixed Income	Maximum of 10%
Absolute Return Strategies	Maximum of 10%

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

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

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

   For the purpose of this document, Social Investing is defined as "The investment or commitment of public pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."
g. Economically targeted investing is prohibited unless the investment meets the Exclusive Benefit Rule.

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

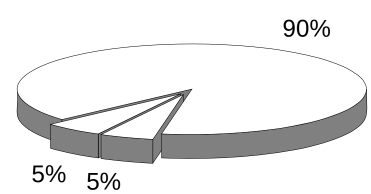
   Also, for the purpose of this document, the Exclusive Benefit Rule is met if the following four conditions are satisfied:

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

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

■ ND Budget Stabilization Fund
Actual Asset Allocation – June 30, 2008

Asset Allocation		Market Value	Percent of Total	One Year Return
Fixed Income	$	10,204,050	5%	
Absolute Return Strategies		10,637,027	5%	
Cash Equivalents & CD's		178,031,445	90%	
TOTAL FUND	$	198,872,522	100%	0.01%



RETIREE HEALTH INSURANCE CREDIT FUND

■ Retiree Health Insurance Credit Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Constraints

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

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

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

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

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

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

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

Delegation of Authority

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

Such procedures must provide for:

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

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

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

Investment Goals

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

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

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

Investment Performance Objective

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

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

a. The fund's rate of return, over the long term, should equal that of the policy portfolio which is comprised of policy weights of appropriate asset class benchmarks as set by the SIB.

b. The annual standard deviation of total returns for the Fund should not exceed that of the policy portfolio.

c. Over 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.

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 December 2005 – SEI Corporation

Large Cap Domestic Equities	35%
Small Cap Domestic Equities	15%
International Equities	15%
Domestic Fixed Income	35%
Expected Return	9.4%
Standard Deviation of Returns	10.6%

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

Restrictions

A. No transaction may be made which threatens the tax exempt status of the Fund.

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

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

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

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

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

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

(4) The safeguards and diversity that a prudent investor would adhere to are present.

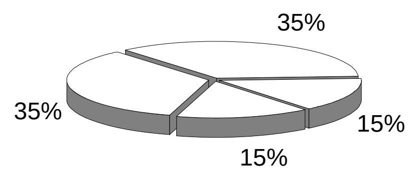
Where investment characteristics, including yield, risk, and liquidity are equivalent, the Board's policy favors investments which will have a positive impact on the economy of North Dakota.

Internal Controls

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

■ **Retiree Health Insurance Credit Fund**
Actual Asset Allocation – June 30, 2008

Asset Allocation	**Market Value**	**Percent of Total**	**One Year Return**
Domestic Large Cap Equity	$ 14,138,251	35%	
Domestic Small Cap Equity	5,934,705	15%	
International Equity	6,110,015	15%	
Fixed Income	13,823,725	35%	
TOTAL FUND	$40,006,696	100%	-14.19%



This page intentionally blank.

ACTUARIAL SECTION

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

October 7, 2008

Board of Trustees
North Dakota Teachers' Fund for Retirement
1930 Burnt Boat Drive
P. O. Box 7100
Bismarck, ND 58507-7100

SUBJECT: ACTUARIAL VALUATION AS OF JULY 1, 2008

We certify that the information contained in this report is accurate and fairly presents the actuarial position of the North Dakota Teachers' Fund for Retirement (TFFR) as of July 1, 2008.

All calculations have been made in conformity with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion the results presented also comply with the North Dakota Century Code, and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board. The undersigned are independent actuaries. Both are Enrolled Actuaries and Members of the American Academy of Actuaries and are experienced in performing valuations for large public retirement systems. Both meet the Qualification Standards of the American Academy of Actuaries.

ACTUARIAL VALUATION

The primary purposes of the valuation report are to determine the adequacy of the current employer contribution rate, to describe the current financial condition of TFFR, and to analyze changes in TFFR's condition. In addition, the report provides information required by TFFR in connection with Governmental Accounting Standards Board Statement No. 25 (GASB 25), and it provides various summaries of the data. Valuations are prepared annually, as of July 1 of each year, the first day of TFFR's plan and fiscal year.

FINANCING OBJECTIVES

The member and employer contribution rates are established by statute. The member rate is set at 7.75%. Effective July 1, 2008, the employer rate increased from 7.75% to 8.25%. The addition of 0.50% to the employer contribution rate will remain in effect until TFFR is 90% funded on an actuarial basis.

The rates are intended to be sufficient to pay TFFR's normal cost and to amortize TFFR's unfunded actuarial accrued liability (UAAL) over a period of 30 years from the valuation date. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual

Board of Trustees
October 7, 2008
Page 2

Required Contribution (ARC). The thirty-year period is in common use for public-sector plans and is considered reasonable by the actuary.

PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVES

In order to determine the adequacy of the 8.25% statutory employer contribution rate, it is compared to the GASB 25 Annual Required Contribution (ARC). The ARC is equal to the sum of (a) the employer normal cost rate, and (b) the level percentage of pay required to amortize the UAAL over a 30-year period. For this calculation, payroll is assumed to increase 2.00% per annum. As of July 1, 2008, the ARC is 9.24%, decreased from 10.15% last year. This is greater than the 8.25% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law and the rate necessary to fund the UAAL in 30 years is -0.99%.

The plan had a net asset loss of $63 million from previous years which has not yet been recognized in the actuarial value of assets, because of the five-year smoothing. This unrecognized asset loss is due to a large market loss during FY 2008.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at July 1, 2007 was 79.2%, while it is 81.9% as of July 1, 2008. Based on market values rather than actuarial values of assets, the funded ratio decreased to 79.2% from 91.9% last year.

REPORTING CONSEQUENCES

TFFR is required to report in its Comprehensive Annual Financial Report (CAFR) for the current fiscal year ending June 30, 2008 that actual contributions received in FY 2008 were less than the ARC. The FY 2008 7.75% statutory rate was 76.4% of the 10.15% ARC determined by the last valuation. Next year, the CAFR for FY 2009 will show that the 8.25% statutory rate is only 89.3% of the 9.24% ARC. There are no other accounting consequences for the state or the other school districts that sponsor TFFR, since it is a cost-sharing, multiple-employer retirement system.

BENEFIT PROVISIONS

The actuarial valuation reflects the benefit and contribution provisions set forth in the North Dakota Century Code. These have not changed from the prior year's valuation.

In addition to making the employer contribution rate increase discussed above, SB 2046, enacted in 2007, created a new tier of benefits for members hired on or after July 1, 2008. These provisions are described in detail on Table 19. These future hires are called Tier 2 members. There are no Tier 2 members in the data used for this valuation, but the Tier 2 provisions were used in calculating the normal cost, as they were in last year's valuation.

Board of Trustees
October 7, 2008
Page 3

In FY 2008, sixteen employees of the Career and Technical Education department transferred to the Public Employees' Retirement System (PERS), and in conjunction with this, $3.2 million in assets were transferred to PERS at the same time. This did not materially affect TFFR.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. These assumptions and procedures were last changed in 2005, following an analysis of plan experience for the five-year period ending June 30, 2004. The Board adopted the assumptions and methods recommended by the actuary. We believe the assumptions are internally consistent and are reasonable, based on the actual experience of TFFR. These actuarial assumptions and methods comply with the parameters for disclosure in GASB 25.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates, and funding periods.

Data

Member data for retired, active, and inactive participants was supplied as of July 1, 2008, by the staff of the Retirement and Investment Office (RIO). We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset information was also supplied by the RIO staff.

CAFR Schedules

The undersigned provided the information used to prepare all of the schedules and exhibits in this section except for the Schedule of Retirees and Beneficiaries, which was prepared by the Retirement and Investment Office staff. We also provided the information shown on the Schedule of Funding Progress and the Schedule of Employer Contributions in the Financial Section.

Sincerely,
Gabriel, Roeder, Smith & Co.

J. Christian Conradi

J. Christian Conradi, ASA, MAAA, EA
Senior Consultant

Leslie L. Thompson

Leslie L. Thompson, FSA, MAAA, EA
Senior Consultant

2039/2008/val/2008_val.doc

Gabriel Roeder Smith & Company

SUMMARY OF ACTUARIAL VALUATION RESULTS

Valuation Date	7/1/2008	7/1/2007
Fiscal Year Ending	6/30/2009	6/30/2008
Membership		
• Number of		
- Active Members	9,561	9,599
- Retirees and Beneficiaries	6,317	6,077
- Inactive, Vested	1,459	1,439
- Inactive, Nonvested	229	142
- Total	17,566	17,257
• Payroll	$417.7 million	$401.3 million
Statutory contribution rate		
• Employer	8.25%	7.75%
• Member	7.75%	7.75%
Assets		
• Market value	$1,846.1 million	$2,029.8 million
• Actuarial value	1,909.5 million	1,750.1 million
• Return on market value	(7.0)%	20.4 %
• Return on actuarial value	11.6 %	14.4 %
• Ratio - actuarial value to market value	103.4 %	86.2 %
• External cash flow %	(2.3)%	(1.9)%
Actuarial Information		
• Normal cost %	10.26%	10.26%
• Unfunded actuarial accrued liability (UAAL)	$421.2 million	$459.2 million
• Funded ratio	81.9%	79.2%
• Funding period	57.0 years	Infinite
GASB 25 ARC		
• Amortization period	30 years	30 years
• Amortization method	Level % (2.00%)	Level % (2.00%)
• Calculated contribution rate	9.24%	10.15%
• Margin	(0.99)%	(2.40)%
Gains/(Losses)		
• Asset experience	$ 62.4 million	$ 99.2 million
• Liability experience	(15.7) million	7.8 million
• Benefit changes	0.0 million	(36.0) million
• Assumption/method changes	0.0 million	(0.0) million
• Total	$ 46.7 million	$ 71.0 million

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS

1. Investment Return Rate — 8.00% per annum, compounded annually, composed of an assumed 3.00% inflation rate and a 5.00% real rate of return. (Adopted July 1, 1990; allocation between inflation and real rate of return modified July 1, 2000.)

2. Mortality Rates

   a. Post Termination Non-Disabled—1994 Uninsured Pensioner Mortality Table set back three years for males and two years for females. (Adopted July 1, 2005.)

   b. Post Retirement Disabled—Pension Benefit Guaranty Corporation Disabled Life Mortality Tables Va and VIa. (Adopted July 1, 1990.)

   c. Active Mortality—65% of non-disabled post-termination mortality rates. (Adopted July 1, 2005.)

Deaths per 100 Lives

	Male Participants		Female Participants	
Age	Non-Disabled	Disabled	Non-Disabled	Disabled
20	.0463	4.83	.0293	2.63
25	.0598	4.83	.0313	2.63
30	.0782	3.62	.0338	2.37
35	.0902	2.78	.0454	2.14
40	.0958	2.82	.0643	2.09
45	.1346	3.22	.0943	2.24
50	.2042	3.83	.1297	2.57
55	.3455	4.82	.2051	2.95
60	.6001	6.03	.3612	3.31
65	1.0911	6.78	.7179	3.70
70	1.9391	7.39	1.2648	4.11

Summary of Actuarial Assumptions and Methods (continued)

3. Retirement Rates — The following rates of retirement are assumed for members eligible to retire. (Adopted July 1, 2005.)

Retirements per 100 Members

	Unreduced Retirement Ultimate Rate*		Reduced Retirement	
Age	Male	Female	Male	Female
50	20.0%	25.0%	0.0%	0.0%
51	20.0%	25.0%	0.0%	0.0%
52	20.0%	25.0%	0.0%	0.0%
53	20.0%	25.0%	0.0%	0.0%
54	20.0%	25.0%	0.0%	0.0%
55	20.0%	25.0%	2.0%	1.5%
56	20.0%	25.0%	2.0%	1.5%
57	20.0%	25.0%	2.0%	1.5%
58	20.0%	25.0%	2.0%	1.5%
59	20.0%	20.0%	2.0%	1.5%
60	25.0%	25.0%	5.0%	2.0%
61	30.0%	30.0%	5.0%	2.0%
62	30.0%	50.0%	20.0%	10.0%
63	25.0%	25.0%	5.0%	5.0%
64	20.0%	50.0%	25.0%	20.0%
65	65.0%	50.0%	- -	- -
66	35.0%	30.0%	- -	- -
67	35.0%	30.0%	- -	- -
68	35.0%	30.0%	- -	- -
69	35.0%	30.0%	- -	- -
70	100.0%	100.0%	- -	- -

* If a member reaches eligibility for unreduced retirement under the rule of 85 before age 65, a retirement rate of 50.0% (for males) or 65.0% (for females) is used for that age only.

4. Disability Rates — As shown below for selected ages. (Adopted July 1, 2000.)

Age	Disabilities Per 100 Members
20	0.016
25	0.016
30	0.016
35	0.016
40	0.048
45	0.080
50	0.128
55	0.224
60	0.432
65	0.000

Summary of Actuarial Assumptions and Methods (continued)

5. Termination Rates — 80% of the following withdrawal rates are used based on age and service, for causes other than death, disability, or retirement. (Adopted July 1, 2005.)

	Males										
	Years of Service										
Age	0	1	2	3	4	5	6	7	8	9	10+
25	0.1420	0.1379	0.1366	0.1339	0.1220	0.1067	0.0896	0.0878	0.0860	0.0842	0.0598
30	0.1416	0.1376	0.1363	0.1336	0.1210	0.1053	0.0907	0.0889	0.0871	0.0853	0.0470
35	0.1359	0.1321	0.1308	0.1282	0.1141	0.0988	0.0867	0.0849	0.0832	0.0815	0.0343
40	0.1317	0.1280	0.1267	0.1243	0.1074	0.0928	0.0824	0.0808	0.0791	0.0775	0.0252
45	0.1282	0.1246	0.1234	0.1210	0.1002	0.0868	0.0777	0.0761	0.0746	0.0730	0.0196
50	0.1246	0.1211	0.1199	0.1176	0.0916	0.0809	0.0725	0.0710	0.0696	0.0681	0.0188
55	0.1444	0.1403	0.1390	0.1362	0.0974	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
60	0.1588	0.1544	0.1529	0.1499	0.1071	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
65	0.1747	0.1698	0.1681	0.1648	0.1178	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

	Females										
	Years of Service										
Age	0	1	2	3	4	5	6	7	8	9	10+
25	0.1654	0.1607	0.1592	0.1560	0.1307	0.1119	0.0952	0.0806	0.0790	0.0774	0.0352
30	0.1373	0.1334	0.1321	0.1295	0.1107	0.0964	0.0836	0.0738	0.0723	0.0708	0.0312
35	0.1143	0.1110	0.1100	0.1078	0.0926	0.0820	0.0732	0.0672	0.0658	0.0645	0.0275
40	0.0978	0.0951	0.0941	0.0923	0.0779	0.0695	0.0637	0.0607	0.0595	0.0583	0.0242
45	0.0910	0.0885	0.0876	0.0859	0.0686	0.0593	0.0553	0.0545	0.0535	0.0524	0.0220
50	0.0967	0.0940	0.0931	0.0912	0.0670	0.0519	0.0480	0.0484	0.0475	0.0465	0.0227
55	0.1455	0.1414	0.1400	0.1373	0.0742	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
60	0.1885	0.1831	0.1814	0.1778	0.0907	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
65	0.2498	0.2428	0.2404	0.2357	0.1167	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Summary of Actuarial Assumptions and Methods (continued)

6. Salary Increase Rates — Inflation rate of 3.00% plus productivity increase rate of 1.50%, plus step-rate/promotional increase as shown below. (Adopted July 1, 2005.)

Years of Service	Annual Step-Rate/ Promotional Component	Annual Total Salary Increase
0	9.50%	14.00%
1	3.50%	8.00%
2	3.25%	7.75%
3	3.00%	7.50%
4	2.75%	7.25%
5	2.50%	7.00%
6	2.25%	6.75%
7	2.00%	6.50%
8	1.75%	6.25%
9	1.50%	6.00%
10	1.25%	5.75%
11	1.00%	5.50%
12	1.00%	5.50%
13	1.00%	5.50%
14	0.75%	5.25%
15 or more	0.00%	4.50%

7. Payroll Growth Rate — 2.00% per annum. This assumption does not include any allowance for future increase in the number of members. (Adopted July 1, 2005.)

8. Percent Married — For valuation purposes, 75% of members are assumed to be married. Male members are assumed to be three years older than their spouses, and female members are assumed to be three years younger than their spouses. (Adopted July 1, 1992.)

9. Percent Electing a Deferred Termination Benefit — Terminating members are assumed to elect the most valuable benefit at the time of termination. Termination benefits are assumed to commence at the first age at which unreduced benefits are available. (Adopted July 1, 1990.)

10. Provision for Expense — The assumed investment return rate represents the anticipated net rate of return after payment of all administrative expenses and investment expenses. (Adopted July 1, 1992.)

Summary of Actuarial Assumptions and Methods (continued)

ASSET VALUATION METHOD

The actuarial value of assets is based on the market value of assets with a five-year phase-in of actual investment return in excess of (or less than) expected investment income. Expected investment income is determined using the assumed investment return rate and the market value of assets (adjusted for receipts and disbursements during the year). The actual investment return for this purpose is determined net of all investment and administrative expenses.

ACTUARIAL COST METHOD

The GASB Annual Required Contribution (ARC) is determined using the Entry Age Normal actuarial cost method. This method assigns the plan's total actuarial present value of future benefits to various periods. The actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are assigned to future years.

The normal cost rate is determined as a level percentage of payroll for a hypothetical group of new entrants, based on the characteristics (age at hire, sex, pay at hire) of actual new members joining TFFR during FY 2000 through FY 2004. The normal cost is determined on an aggregate basis for this group of hypothetical new entrants by dividing the total actuarial present value of future benefits by the actuarial present value of their future pay. Entry age is determined as the age at member's enrollment in TFFR. In the calculation of the normal cost, the benefit provisions applicable to future Tier 2 members were used. The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability over the actuarial value of assets.

AMORTIZATION PERIOD AND METHOD

The GASB Annual Required Contribution (ARC) is determined as the sum of (a) the employer normal cost rate, and (b) a level percentage of payroll required to amortize the unfunded actuarial accrued liability over 30 years. If the calculated ARC is less than the 8.25% statutory employer contribution rate, the 8.25% rate will be treated as the ARC. The 30-year period is an open period, and does not decrease in subsequent valuations.

SCHEDULE OF ACTIVE MEMBERS

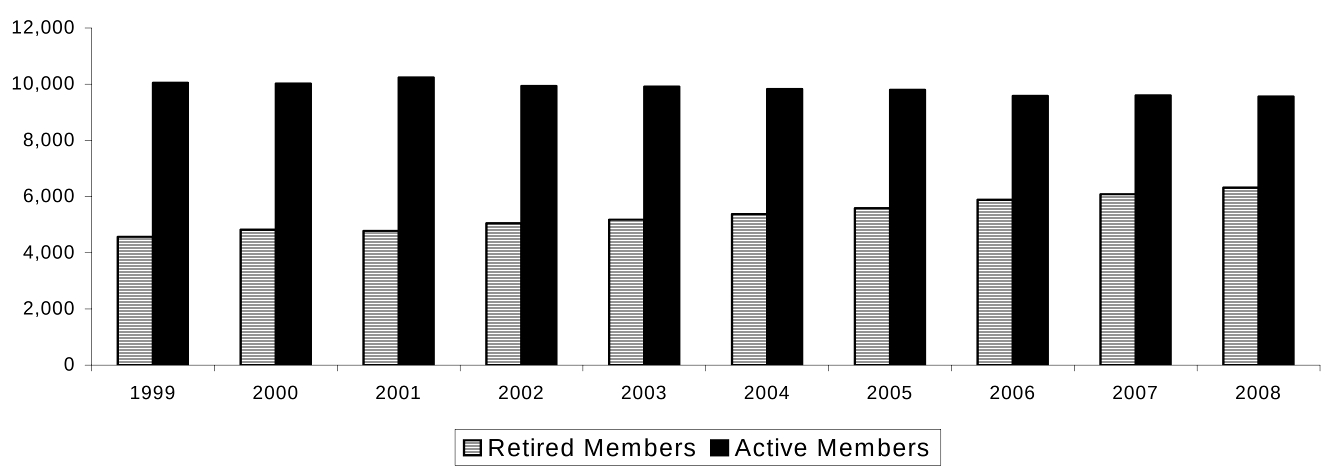
	Active Members		Covered Payroll		Average Salary			
Valuation Year	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
1999	10,046	1.5	314.6	5.4	31,318	3.9	44.0	14.4
2000	10,025	(0.2)	323.0	2.7	32,223	2.9	43.9	14.1
2001	10,239	2.1	342.2	5.9	33,421	3.7	44.4	14.4
2002	9,931	(3.0)	348.1	1.7	35,052	4.9	44.5	14.4
2003	9,916	(0.2)	367.9	5.7	37,105	5.9	44.8	14.6
2004	9,826	(0.9)	376.5	2.3	38,321	3.3	44.9	14.7
2005	9,801	(0.3)	386.6	2.7	39,447	2.9	44.9	14.7
2006	9,585	(2.2)	390.1	0.9	40,703	3.2	44.8	14.6
2007	9,599	0.1	401.3	2.9	41,810	2.7	44.7	14.5
2008	9,561	(0.4)	417.7	4.1	43,684	4.5	44.6	14.4

SCHEDULE OF RETIREES AND BENEFICIARIES

Valuation Year	Number Added During Year	Annual Benefits Added (in mils)	Number Removed During Year	Annual Benefits Removed (in mils)	Number Receiving End of Year	Average Annual Benefit	Annual Pension Benefits (in mils)	Percent Increase In Annual Benefits
1999	170		187		4,568	$ 9,996	$46.1	5.5%
2000	425		166		4,827	11,640	53.6	16.3
2001	162		212		4,777	11,940	57.7	7.6
2002	505		228		5,054	13,824	67.5	17.0
2003	312		189		5,177	14,436	72.0	6.7
2004	385	$ 8.3	189	$ 1.9	5,373	15,060	77.2	7.2
2005	385	8.9	172	1.8	5,586	15,708	84.5	9.5
2006	501	12.3	194	2.0	5,893	16,596	91.8	8.6
2007	380	8.8	196	1.9	6,077	17,208	99.7	8.6
2008	406	9.4	166	1.9	6,317	17,724	106.5	6.8

Detail on annual benefits added and removed is not available prior to 2004.

ACTIVE MEMBERS VS RETIRED MEMBERS 10-YEAR SUMMARY



ANALYSIS OF CHANGE IN GASB ANNUAL REQUIRED CONTRIBUTION (ARC)

	2008	2007
Prior valuation	10.15 %	12.29 %
Increases/(decreases) due to:		
Open amortization	(0.10)%	(0.12)%
Growth in covered payroll	(0.15)%	(0.07)%
Employer contributions received at 7.75%; rather than 10.15% or 12.29%	0.09 %	0.28 %
Liability experience	0.25 %	(0.13)%
Investment experience	(1.00)%	(1.65)%
Assumption changes	0.00 %	0.00 %
Change in amortization method	0.00 %	0.00 %
Legislative changes	0.00 %	(0.45)%
Total	(0.91)%	(2.14)%
Current valuation	9.24 %	10.15 %
Statutory employer contribution rate	8.25 %	7.75 %
Margin available	(0.99)%	(2.40)%

ANALYSIS OF CHANGE IN UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

	Unfunded Actuarial Accrued Liability ($ in millions)	
	2008	2007
Prior valuation	$ 459.2	$ 509.9
Increases/(decreases) due to:		
Amortization payments	$ 8.7	$ 20.3
Investment experience	(62.4)	(99.2)
Assumption changes	-	-
Liability experience	15.7	(7.8)
Change in actuarial methods	-	-
Legislative changes	-	36.0
Total	$ (38.0)	$ (50.7)
Current valuation	$ 421.2	$ 459.2

SOLVENCY TEST

	Actuarial Accrued Liability (AAL) (in millions)				Portion of AAL Covered by Valuation Assets		
Valuation Year	Active Member Contributions	Retirees and Beneficiaries	Active/Inactive Members (Employer Financed)	Actuarial Value of Assets ($ in millions)	Active Member Contributions	Retirees and Beneficiaries	Active/Inactive Members (Employer Financed)
1999	$361.0	$ 426.5	$ 400.8	$1,053.1	100.0%	100.0%	66.3%
2000	372.3	504.2	411.3	1,308.5	100.0	100.0	100.0
2001	413.9	551.6	502.2	1,414.7	100.0	100.0	89.4
2002	421.5	643.9	510.3	1,443.5	100.0	100.0	74.1
2003	451.4	689.4	549.5	1,438.4	100.0	100.0	54.2
2004	475.3	755.2	569.9	1,445.6	100.0	100.0	37.8
2005	498.2	820.8	646.2	1,469.7	100.0	100.0	23.3
2006	504.4	929.1	640.3	1,564.0	100.0	100.0	20.4
2007	526.9	1,000.1	682.3	1,750.1	100.0	100.0	32.7
2008	547.3	1,074.8	708.6	1,909.5	100.0	100.0	40.6

SUMMARY OF BENEFIT PROVISIONS

1. Effective Date: July 1, 1971.

2. Plan Year: Twelve-month period ending June 30th.

3. Administration: The Teachers' Fund for Retirement (TFFR) is administered by a Board of Trustees. A separate State Investment Board is responsible for the investment of the trust assets, although the TFFR Board establishes the asset allocation policy. The Retirement and Investment Office is the administrative agency for TFFR.

4. Type of Plan: TFFR is a qualified governmental defined benefit retirement plan. For Governmental Accounting Standards Board purposes, it is a cost-sharing multiple employer Public Employee Retirement System.

5. Eligibility: All certified teachers of any public school in North Dakota participate in TFFR. This includes teachers, supervisors, principals, administrators, etc. Non-certified employees such as teacher's aides, janitors, secretaries, drivers, etc. are not allowed to participate in TFFR. Eligible employees become members at their date of employment.

6. Employee Contributions: All active members contribute 7.75% of their salary per year. The employer may "pick up" the member's assessments under the provisions of Internal Revenue Code Section 414(h).

7. Salary: The member's total earnings are used for salary purposes, including overtime, etc., and including nontaxable wages under a Section 125 plan, but excluding certain extraordinary compensation, such as fringe benefits or unused sick and vacation leave.

8. Employer Contributions: The district or other employer which employs a member contributes 7.75% of the member's salary. Effective July 1, 2008, 0.50% if the member's salary will be added to the employer contribution, making it 8.25%. However, the contribution rate will revert to 7.75% once the funded ratio reaches 90%, measured using the actuarial value of assets.

9. Service: Employees receive credit for service while a member. A member may also purchase credit for certain periods, such as time spent teaching at a public school in another state, by paying the actuarially determined cost of the additional service. Special rules and limits govern the purchase of additional service.

10. Tiers: Members who join TFFR by June 30, 2008, are in Tier 1, while members who join later are in Tier 2. If a Tier 1 member terminates, takes a refund, and later rejoins TFFR after June 30, 2008, that member will be in Tier 2 after being reemployed.

11. Final Average Compensation (FAC): The average of the member's highest three (Tier 1 members) or five (Tier 2 members) plan year salaries. Monthly benefits are based on one-twelfth of this amount.

12. Normal Retirement

    a. Eligibility:

    - Tier 1 members may retire upon Normal Retirement on or after age 65 with credit for 3 years of service, or if earlier, when the sum of the member's age and service is at least 85.
    - Tier 2 members may retire upon Normal Retirement on or after ager 65 with credit for 5 years of service, or if earlier, when the sum of the member's age and service is at least 90.

Summary of Benefit Provisions (continued)

b. Monthly Benefit: 2.00% of FAC (monthly) times years of service.

c. Payment Form: Benefits are paid as a monthly life annuity, with a guarantee that if the payments made do not exceed the member's assessments plus interest, determined as of the date of retirement, the balance will be paid in a lump-sum to the member's beneficiary. Optional forms of payment are available; see below.

13. Early Retirement

a. Eligibility: Tier 1 members may retire early after reaching age 55 with credit for three years of service, while Tier 2 members may retire early after reaching age 55 with credit for five years of service.

b. Monthly Benefit: 2.00% of FAC (monthly) times years of service, multiplied by a factor which reduces the benefit 6% for each year from the earlier of (i) age 65, or (ii) the age at which current service plus age equals 85 (Tier 1 members) or 90 (Tier 2 members).

c. Payment Form: Same as for Normal Retirement above.

14. Disability Retirement

a. Eligibility: A member is eligible provided he/she has credit for at least one year of service.

b. Monthly Benefit: 2.00% of FAC (monthly) times years of service with a minimum 20 years of service.

c. Payment Form: The disability benefit commences immediately upon the member's retirement. Benefits cease upon recovery or reemployment. Disability benefits are payable as a monthly life annuity with a guarantee that, at the member's death, the sum of the member's contributions plus interest as of the date of retirement that is in excess of the sum of payments already received will be paid in a lump-sum to the member's beneficiary.

d. All alternative forms of payment other than option 5 and the partial lump-sum option are also permitted in the case of disability retirement. Disability benefits are converted to normal retirement benefits when the member reaches normal retirement age or age 65, whichever is earlier.

15. Deferred Termination Benefit

a. Eligibility: A Tier 1 member with at least three years of service, or a Tier 2 member with at least five years of service, who does not withdraw his/her contributions from the fund, is eligible for a deferred termination benefit.

b. Monthly Benefit: 2.00% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment. Benefits may commence unreduced at age 65 or when the member’s age and service is 85 (Tier 1 members) or 90 (Tier 2 members). Reduced benefits may commence at or after age 55 if the member is not eligible for an unreduced benefit.

c. Payment Form: The form of payment is the same as for Normal Retirement above.

Summary of Benefit Provisions (continued)

d. Death Benefit: A member who dies after leaving active service but before retiring is entitled to receive a benefit as described below in 17b.

16. Withdrawal (Refund) Benefit

a. Eligibility: Tier 1 members leaving covered employment with less than three years of service, and Tier 2 members leaving covered employment with less than five years of service, are eligible. Optionally, vested members may withdraw their contributions plus interest in lieu of the deferred benefits otherwise due.

b. Benefit: The member who withdraws receives a lump-sum payment of his/her employee contributions, plus the interest credited on these contributions. Interest is credited at 6% per year (0.5% per month).

17. Death Benefit

a. Eligibility: Death must have occurred while an active or an inactive, non-retired member.

b. Benefit: Upon the death of a nonvested member, a refund of the member's contributions and interest is paid. Upon the death of a vested member, the beneficiary may elect (i) the refund benefit above, (ii) payment for 60 months of the normal retirement benefit, based on FAC and service determined at the date of death, or (iii) a life annuity of the normal retirement benefit, determined under Option One below, based on FAC and service as of the date of death, but without applying any reduction for the member's age at death. In determining the reduction for Option One, members not eligible for normal retirement benefits use the Fund's option tables for disabled members.

18. Optional Forms of Payment: There are optional forms of payment available on an actuarially equivalent basis, as follows:

a. Option 1 - A life annuity payable while either the participant or his beneficiary is alive, "popping-up" to the original life annuity if the beneficiary predeceases the member.

b. Option 2 - A life annuity payable to the member while both the member and beneficiary are alive, reducing to 50% of this amount if the member predeceases the beneficiary, and "popping-up" to the original life annuity if the beneficiary predeceases the member.

c. Option 3a - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 60 payments (five years), the payments will be continued to a beneficiary for the balance of the five-year period. (This option has been replaced by Option 3b. It is not available to employees who retire on or after August 1, 2003. Retirees who elected this option prior to that date are unaffected.)

d. Option 3b - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 240 payments (twenty years), the payments will be continued to a beneficiary for the balance of the twenty-year period. (This option replaced Option 3a effective August 1, 2003.)

e. Option 4 - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 120 payments (ten years), the payments will be continued to a beneficiary for the balance of the ten-year period.

Summary of Benefit Provisions (continued)

f. Option 5 - A nonlevel annuity payable to the member, designed to provide a level total income when combined with the member's Social Security benefit. This option is not available to disabled retirees.

   In addition, members may elect a partial lump-sum option (PLSO) at retirement. Under this option, a member receives an immediate lump-sum equal to 12 times the monthly life annuity benefit and a reduced annuity. The reduction is determined actuarially. The member can then elect to receive the annuity benefit in one of the other optional forms, except that members who receive a PLSO may not elect Option 5 – the level income option. The PLSO is not available to disabled retirees or retirees who are not eligible for an unreduced retirement benefit.

   Actuarial equivalence is based on tables adopted by the Board of Trustees.

18. Cost-of-living Increase: From time to time, TFFR has been amended to grant certain post-retirement benefit increases. However, TFFR has no automatic cost-of-living increase features.

SUMMARY OF PLAN CHANGES

1991 Legislative Session:

1. Benefit multiplier increased from 1.275% to 1.39% for all future retirees.

2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1991. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:

   a. $3 per year of service for retirements before 1980.
   b. $2 per year of service for retirements between 1980 and 1983.
   c. $1 per year of service for retirements from 1984 through June 30, 1991.

   Minimum increase is $5 per month. Maximum increase is $75 per month.

1993 Legislative Session:

1. Benefit multiplier increased from 1.39% to 1.55% for all future retirees.

2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1993. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:

   a. $3 per year of service for retirements before 1980.
   b. $2.50 per year of service for retirements between 1980 and 1983.
   c. $1 per year of service for retirements from 1984 through June 30, 1993.

   Minimum increase is $5 per month. Maximum increase is $100 per month.

3. Minimum retirement benefit increased to $10 times years of service up to 25, plus $15 times years of service greater than 25. (Previously was $6 up to 25 years of service plus $7.50 over 25 years of service.)

4. Disability benefit changed to 1.55% of FAC times years of service using a minimum of 20 years of service.

1995 Legislative Session:

There were no material changes made during the 1995 legislative session.

1997 Legislative Session:

1. Benefit multiplier increased from 1.55% to 1.75% for all future retirees.

2. Member assessment rate and employer contribution rate increased from 6.75% to 7.75%.

3. A $30.00/month benefit improvement was granted to all retirees and beneficiaries.

Summary of Plan Changes (continued)

1999 Legislative Session:

1. Active members will now be fully vested after three years (rather than five years) of service.

2. Early retirement benefits will be reduced 6% per year from the earlier of (i) age 65, or (ii) the date as of which age plus service equals 85 (rather than from age 65 in all cases).

3. An ad hoc COLA was provided for all retirees and beneficiaries. This increase is equal to an additional $2 per month for each year of service plus $1 per month for each year since the member's retirement.

4. The formula multiplier was increased from 1.75% to 1.88% effective July 1, 1999.

2001 Legislative Session:

1. An ad hoc COLA was provided for all retirees and beneficiaries. The ad hoc COLA increase is equal to an additional $2.00 per month for each year of service plus $1.00 per month for each year since the member's retirement. Retirees and beneficiaries will also receive two additional increases equal to 0.75% times the monthly benefit, payable July 1, 2001 and July 1, 2002. The two 0.75% increases are conditional. If the actuarial margin is a shortfall, i.e., is negative, by 60 basis points or more, or if the margin has been negative by 30 or more basis points for two years, the Board could elect to suspend the increase.

2. The formula multiplier was increased from 1.88% to 2.00% effective July 1, 2001.

2003 Legislative Session:

1. Partial lump-sum option adopted, equal to twelve times the monthly life annuity benefit. Not available if level-income option is elected. Not available for reduced retirement or disability retirement.

2. Five-year certain and life option replaced with 20-year certain and life. This does not impact retirees who retired under the five-year certain and life option.

3. Employer service purchase authorized.

4. Active members of the Department of Public Instruction are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY2004. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be based on the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance if larger.

2005 Legislative Session:

There were no material changes made during the 2005 legislative session.

Summary of Plan Changes (continued)

2007 Legislative Session:

1. For active members hired on or after July 1, 2008 (called Tier 2 members):

   a. Members will be eligible for an unreduced retirement benefit when they reach age 65 with at least five years of service (rather than three years of service); or if earlier, when the sum of the member's age and service is at least 90 (rather than 85).
   b. Members will be eligible for a reduced (early) retirement benefit when they reach age 55 with five years of service, rather then three years of service.
   c. Members will be fully vested after five years of service (rather than three years of service).
   d. The Final Average Compensation for Tier 2 members is the average of the member's highest five plan year salaries, rather than the average of the three highest salaries.

2. The employer contribution rate increases from 7.75% to 8.25% effective July 1, 2008, but this rate will reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of asset. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.25%.)

3. Employer contributions are required on the salary of reemployed retirees.

4. Active members of the Department of Career and Technical Education are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY 2008. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance, if larger.

This page intentionally blank.

STATISTICAL SECTION

CHANGES IN NET ASSETS
PENSION TRUST FUND

ADDITIONS:

Fiscal Year	Member Contributions	Employer Contributions	Employer Contributions as a Percentage of Annual Covered Payroll	Investment and Other Income	Purchased Service Credit	Total Additions
1999	$ 24,257,091	$ 24,257,131	7.75	$ 129,906,989	$ 636,015	$ 179,057,226
2000	25,528,245	25,527,734	7.75	146,483,648	2,509,576	200,049,203
2001	26,289,672	26,289,206	7.75	(107,137,559)	1,942,467	(52,616,214)
2002	27,244,008	27,243,542	7.75	(110,415,690)	1,927,764	(54,000,376)
2003	28,851,110	28,850,725	7.75	24,501,262	2,507,168	84,710,265
2004	29,635,970	29,635,584	7.75	220,243,131	4,383,456	283,898,141
2005	30,388,650	30,388,265	7.75	180,763,780	3,292,441	244,833,136
2006	31,171,156	31,170,851	7.75	220,713,886	3,225,589	286,281,482
2007	31,865,772	31,865,466	7.75	346,767,841	2,629,006	413,128,085
2008	33,237,677	33,683,550	7.75	(140,625,425)	3,636,528	(70,067,670)

DEDUCTIONS:

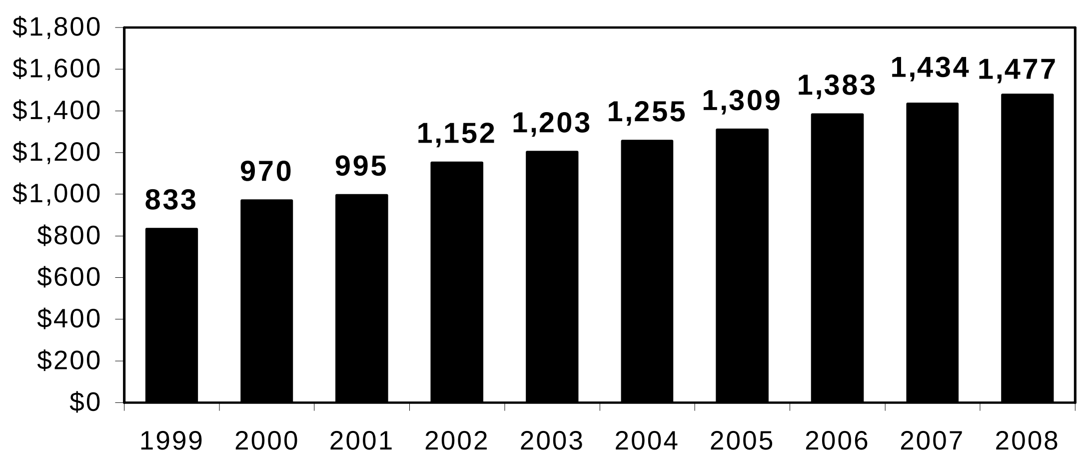
Fiscal Year	Benefits Paid to Participants	Refunds	Administrative Charges	Total Deductions	Change in Net Assets
1999	$ 46,120,317	$ 2,877,423	$ 944,654	$ 49,942,394	$ 150,106,809
2000	53,583,271	2,788,019	1,015,549	57,386,839	(110,003,053)
2001	57,740,914	3,127,841	1,099,331	61,968,086	(115,968,462)
2002	67,482,482	2,743,408	1,066,309	71,292,199	13,418,066
2003	72,044,977	1,729,764	1,056,611	74,831,352	209,066,789
2004	77,153,054	5,800,100	1,513,788	84,466,942	160,366,194
2005	84,498,130	2,733,407	2,086,849	89,318,386	196,963,096
2006	91,818,092	2,697,308	1,620,623	96,136,023	316,992,062
2007	99,737,905	3,328,931	1,592,060	104,658,896	(174,726,566)
2008	106,456,334	5,500,476	1,639,521	113,596,331	(183,664,001)

BENEFIT AND REFUND DEDUCTIONS BY TYPE

	Annuity Payments					Refunds			
Fiscal Year	**Service Retirements**	**PLSO Distributions**	**Disability Retirements**	**Beneficiaries**	**Total Annuity Payments**	**Separation**	**Death**	**Total Refunds**	**Total Benefit Expenses**
1999	$ 42,529,225	$ -	$ 487,987	$ 3,103,105	$ 46,120,317	$ 2,877,178	$ 245	$ 2,877,423	$ 48,997,740
2000	49,624,550	-	559,211	3,399,510	53,583,271	2,945,162	182,679	2,788,019	56,711,112
2001	52,946,453	-	781,619	4,012,842	57,740,914	2,435,789	307,619	3,127,841	60,484,322
2002	62,037,432	-	841,690	4,603,360	67,482,482	2,522,300	221,108	2,743,408	70,225,890
2003	66,307,771	-	885,718	4,851,489	72,044,977	1,660,035	69,729	1,729,764	73,774,741
2004	71,091,246	40,136	893,973	5,127,699	77,153,054	5,686,052	114,048	5,800,100	79,886,461
2005	77,838,622	372,761	890,333	5,396,414	84,498,130	2,581,112	152,295	2,733,407	87,195,438
2006	84,795,930	420,224	950,658	5,651,280	91,818,092	3,012,819	316,112	2,697,308	95,147,023
2007	91,808,846	953,744	1,142,896	5,832,419	99,737,905	2,967,619	361,312	3,328,931	103,066,836
2008	98,381,551	692,139	1,296,946	6,085,698	106,456,334	5,154,211	346,265	5,500,476	111,956,810

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Valuation Year		Years of Service < 10	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	> 34	TOTAL
1999	Number of Retirees	124	396	423	528	973	1,056	1,068	4,568
	Average Monthly Benefit	199	252	385	585	747	1,108	1,235	833
	Average Years of Service	6	12	17	22	27	32	39	28
2000	Number of Retirees	137	403	438	554	1,030	1,156	1,109	4,827
	Average Monthly Benefit	223	325	455	683	897	1,279	1,417	970
	Average Years of Service	6	12	18	22	27	32	39	28
2001	Number of Retirees	146	404	416	545	1,012	1,174	1,080	4,777
	Average Monthly Benefit	235	401	455	696	942	1,311	1,442	995
	Average Years of Service	6	12	17	22	27	32	39	28
2002	Number of Retirees	171	412	417	567	1,066	1,332	1,089	5,054
	Average Monthly Benefit	318	354	519	804	1,080	1,513	1,651	1,152
	Average Years of Service	6	12	17	22	27	32	39	28
2003	Number of Retirees	187	420	409	585	1,076	1,409	1,091	5,177
	Average Monthly Benefit	259	391	533	826	1,140	1,592	1,716	1,203
	Average Years of Service	6	12	17	22	27	32	39	28
2004	Number of Retirees	206	426	399	597	1,130	1,513	1,102	5,373
	Average Monthly Benefit	264	398	545	879	1,212	1,657	1,751	1,255
	Average Years of Service	6	12	17	23	27	32	39	28
2005	Number of Retirees	230	431	403	615	1,182	1,612	1,113	5,586
	Average Monthly Benefit	272	377	577	887	1,281	1,722	1,833	1,309
	Average Years of Service	6	12	17	23	27	32	38	28
2006	Number of Retirees	269	436	417	627	1,254	1,750	1,140	5,893
	Average Monthly Benefit	276	399	607	938	1,351	1,804	1,938	1,383
	Average Years of Service	6	13	17	23	28	32	38	28
2007	Number of Retirees	283	437	418	643	1,310	1,843	1,143	6,077
	Average Monthly Benefit	274	404	634	982	1,415	1,850	2,012	1,434
	Average Years of Service	6	13	17	23	28	32	38	28
2008	Number of Retirees	305	451	421	670	1,363	1,938	1,169	6,317
	Average Monthly Benefit	285	410	656	1,025	1,471	1,897	2,066	1,477
	Average Years of Service	6	13	17	23	28	32	38	28



SCHEDULE OF RETIREES BY BENEFIT AMOUNT

Monthly Benefit Amount	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Under $199	185	177	171	157	146	134	119	154	146	218
200 to 399	470	461	460	465	466	473	481	646	669	904
400 to 599	539	552	590	619	637	671	705	927	997	1,007
600 to 799	506	527	563	593	637	663	715	538	564	477
800 to 999	419	420	423	432	434	439	458	490	497	482
1,000 to 1,199	538	540	542	528	517	513	503	470	459	410
1,200 to 1,399	498	493	492	478	458	450	431	417	405	357
1,400 to 1,599	534	519	498	474	455	432	423	349	343	237
1,600 to 1,799	510	483	449	422	392	358	327	229	225	166
1,800 to 1,999	499	474	438	382	348	297	261	173	164	100
2,000 & Over *						747	631	384	358	210
2,000 to 2,199	377	338	310	270	245					
2,200 to 2,399	329	287	258	227	202					
2,400 to 2,599	250	228	190	157	133					
2,600 to 2,799	185	160	150	119	105					
2,800 to 2,999	144	126	102	86	68					
3,000 & Over	334	292	257	177	130					
TOTAL	6,317	6,077	5,893	5,586	5,373	5,177	5,054	4,777	4,827	4,568

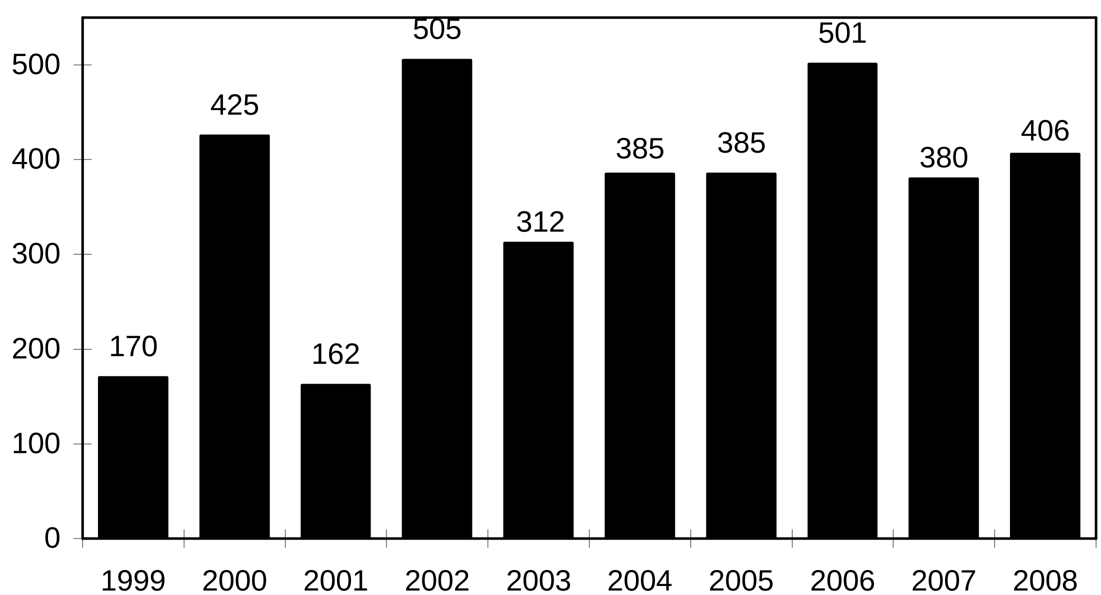
* Breakdown of data for monthly benefits > $2,000 is not available for years prior to 2004.

SCHEDULE OF RETIREES BY BENEFIT TYPE

Type of Benefit/ Form of Payment	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Service:										
Straight Life	2,578	2,541	2,549	2,544	2,527	2,531	2,566	2,566	2,674	2,661
100% J&S	1,836	1,697	1,570	1,361	1,243	1,128	1,030	872	862	719
50% J&S	458	433	408	372	357	333	328	301	303	281
5 Years C&L	32	33	34	34	35	34	32	31	33	31
10 Years C&L	169	166	157	154	151	149	149	140	141	130
20 Years C&L	38	34	28	16	8	0	0	0	0	0
Level	584	580	567	539	495	458	422	354	335	279
Subtotal	5,695	5,484	5,313	5,020	4,816	4,633	4,527	4,264	4,348	4,101
Disability:										
Straight Life	81	73	66	61	59	57	55	50	44	41
100% J&S	12	12	11	9	10	11	10	10	10	7
50% J&S	5	4	4	5	6	9	8	7	5	4
5 Years C&L	2	2	2	2	2	2	2	2	2	1
10 Years C&L	1	1	1	1	1	1	1	1	1	1
20 Years C&L	1	1	1	1	1	0	0	0	0	0
Subtotal	102	93	85	79	79	80	76	70	62	54
Beneficiaries:										
Straight Life	506	482	475	466	457	442	439	431	407	404
5 Years C&L	9	11	8	9	9	6	2	2	1	1
10 Years C&L	5	7	12	12	12	16	10	10	9	8
Subtotal	520	500	495	487	478	464	451	443	417	413
TOTAL	6,317	6,077	5,893	5,586	5,373	5,177	5,054	4,777	4,827	4,568

SCHEDULE OF NEW RETIREES BY TYPE

Valuation Year	Retirement	Disability	Beneficiary	Total
1999	133	7	30	170
2000	391	11	23	425
2001	115	9	38	162
2002	456	10	39	505
2003	266	6	40	312
2004	342	5	38	385
2005	351	6	28	385
2006	466	8	27	501
2007	332	8	40	380
2008	357	10	39	406



SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA BY COUNTY

County	Number	Average Benefit	County	Number	Average Benefit	County	Number	Average Benefit
Adams	18	$ 1,478	Griggs	30	$ 1,104	Richland	112	$ 1,469
Barnes	130	1,482	Hettinger	25	1,582	Rolette	56	1,373
Benson	32	1,556	Kidder	28	1,323	Sargent	28	1,145
Billings	7	1,123	LaMoure	49	1,440	Sheridan	19	1,281
Bottineau	89	1,329	Logan	23	1,371	Sioux	6	793
Bowman	44	1,598	McHenry	57	1,297	Slope	4	455
Burke	36	1,348	McIntosh	40	1,537	Stark	182	1,486
Burleigh	626	1,605	McKenzie	39	1,431	Steele	16	1,023
Cass	712	1,706	McLean	100	1,402	Stutsman	163	1,399
Cavalier	67	1,377	Mercer	68	1,653	Towner	27	1,247
Dickey	62	1,115	Morton	211	1,655	Traill	80	1,491
Divide	25	1,881	Mountrail	70	1,344	Walsh	119	1,499
Dunn	22	1,325	Nelson	53	1,307	Ward	486	1,598
Eddy	35	1,254	Oliver	18	1,753	Wells	58	1,429
Emmons	28	1,199	Pembina	69	1,529	Williams	167	1,486
Foster	36	1,478	Pierce	53	1,466	Out-of-State	1,177	1,211
Golden Valley	17	1,214	Ramsey	125	1,371			
Grand Forks	477	1,770	Ransom	45	1,343	GRAND TOTALS:	6,317	$ 1,477
Grant	24	1,014	Renville	27	1,575			

PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2008			1999		
Participating Employer	**Covered Employees**	**Rank**	**% of Total System**	**Covered Employees**	**Rank**	**% of Total System**
Fargo Public Schools	992	1	9.62%	897	1	8.66%
Bismarck Public Schools	939	2	9.11%	813	2	7.85%
Grand Forks Schools	738	3	7.16%	743	3	7.17%
Minot Schools	614	4	5.96%	598	4	5.77%
West Fargo Schools	517	5	5.02%	342	5	3.30%
Mandan Public Schools	274	6	2.66%	254	6	2.45%
Dickinson Schools	235	7	2.28%	222	8	2.14%
Jamestown Schools	224	8	2.17%	229	7	2.21%
Williston Schools	187	9	1.81%	196	9	1.89%
Devils Lake Schools	174	10	1.69%	161	10	1.55%
All Other [1]	5,413		52.52%	5,908		57.01%
Total (235 & 287 employers) [2]	10,307		100.00%	10,363		100.00%

[1] In 2008 "all other" consisted of:

Type	**Number**	**Employees**
School Districts	178	4,889
County Superintendents	12	12
Special Education Units	21	378
Vocational Centers	3	46
State Agencies/Institutions	4	76
Colleges/Universities	3	3
Other	4	9
Total	225	5,413

[2] This schedule includes all employees who earned service credit during the fiscal year. If an employee worked for more than one employer during the year, that employee is counted multiple times. The total differs from the actuary's total active members as the actuary's total only includes those employees who were active at the end of the fiscal year and only counts each individual one time.

SCHEDULE OF PARTICIPATING EMPLOYERS AT JUNE 30, 2008

School Districts
Adams
Alexander
Anamoose
Apple Creek Elementary
Ashley
Bakker Elementary
Baldwin Elementary
Beach
Belcourt
Belfield
Bell Elementary
Beulah
Billings County School
Bisbee/Egland
Bismarck
Bottineau
Bowbells
Bowman
Burke Central
Carrington
Cavalier
Center-Stanton
Central Cass
Central Elementary
Central Valley
Dakota Prairie
Devils Lake
Dickinson
Divide
Dodge Elementary
Drake
Drayton
Dunseith
Earl Elementary
Edgeley
Edinburg
Edmore
Eight Mile
Elgin/New Leipzig
Ellendale
Emerado Elementary
Enderlin
Eureka Elementary
Fairmount
Fargo
Fessenden-Bowdon
Finley-Sharon
Flasher
Fordville Lankin
Fort Ransom Elementary
Fort Totten
Fort Yates
Gackle-Streeter
Garrison
Glen Ullin
Glenburn
Goodrich
Grafton
Grand Forks
Grenora
Griggs County Central
Halliday
Hankinson
Harvey
Hatton
Hazelton – Moffit
Hazen
Hebron
Hettinger
Hillsboro
Hope
Horse Creek Elementary
Jamestown
Kenmare
Kensal
Killdeer
Kindred
Kulm
Lakota
LaMoure
Langdon
Larimore
Leeds
Lewis and Clark
Lidgerwood
Linton
Lisbon
Litchville-Marion
Little Heart Elementary
Lone Tree Elementary
Maddock
Mandan
Mandaree
Manning Elementary
Manvel Elementary
Maple Valley
Mapleton Elementary
Marmarth Elementary
Max
Mayville – Portland CG
McClusky
McKenzie County School District
Medina
Menoken Elementary
Midkota
Midway
Milnor
Minnewauken
Minot
Minto
Mohall-Lansford-Sherwood
Montefiore
Montpelier
Mott-Regent
Mt. Pleasant
Munich
Napoleon
Nash Elementary
Naughton Rural
Nedrose
Nesson
New Elementary
New England
New Rockford-Sheyenne
New Salem
New Town
Newburg United
North Border School
North Central of Towner
North Sargent
Northern Cass
Northwood
Oakes
Oberon Elementary
Page
Park River
Parshall
Pingree – Buchanan
Powers Lake
Richardton
Richland
Robinson
Rolette
Roosevelt
Rugby
Sargent Central
Sawyer
Scranton
Selfridge
Sims Elementary
Solen – Cannonball
South Heart
South Prairie Elementary
Southern
St. John's School

SCHEDULE OF PARTICIPATING EMPLOYERS (Continued)

School Districts (cont.)

St. Thomas
Stanley
Starkweather
Steele – Dawson
Sterling Elementary
Strasburg
Surrey
Sweet Briar Elementary
Tappen
TGU
Thompson
Tioga
Turtle Lake – Mercer
Twin Buttes Elementary
Underwood
United
Valley
Valley City
Velva
Wahpeton
Warwick
Washburn
West Fargo
Westhope
White Shield
Williston
Wing
Wishek
Wolford
Wyndmere
Yellowstone
Zeeland

Total School Districts 188

County Superintendents

Billings County
Bottineau County
Grant County
Logan County
McHenry County
McKenzie County
Morton County
Nelson County
Rolette County
Slope County
Ward County
Williams County

Total County Supts. 12

Special Education Units

Burleigh County Special Ed.
Dickey Lamoure Special Ed.
East Central Special Ed.
GST Educational
Lake Region Special Ed.
Lonetree Special Ed.
Oliver – Mercer Special Ed.
Peace Garden Special Ed.
Pembina Special Ed.
Northern Plains Special Ed.
Rural Cass County Special Ed.
Sheyenne Valley Special Ed.
Souris Valley Special Ed.
South Central Prairie Special Ed.
South Valley Special Ed.
Southwest Special Ed.
Upper Valley Special Ed.
West River Student Services
Wil-Mac Special Ed.

Total Special Ed Units 19

Vocational Centers

North Valley Career & Tech. Ctr
SE Region Career/Tech Center
Sheyenne Valley Area Voc. Ctr.

Total Vocational Centers 3

State Agencies & Institutions

Division of Independent Study
ND School for the Blind
ND School for the Deaf
ND Youth Correctional Center
State Brd for Career & Tech. Ed.

Total State Agencies & Institutions 5

Colleges/Universities

Bismarck State College
ND State College of Science
ND State University

Total Colleges/Univ. 3

Other

Fargo Catholic Schools Network
Great NW Education Co-Op
ND High School Activities Assn.
ND Education Assn.
Valley City Teacher Center

Total Other 5

Total Employers 235

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION POOL PARTICIPANTS

	2008	2007	2006	2005	2004
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management	$ -	$ -	$ -	$ -	$ 12,457
Epoch Investment Partners	750,984				
European Credit Management	189,841	-	-	-	-
Franklin Portfolio Associates	922,539	841,678			
Los Angeles Capital Management	627,332	694,224	745,621	660,619	520,099
LSV Asset Management	596,487	627,189	601,936	590,168	533,657
Northern Trust Global Investments	(320)	456,072	177,332	402,732	291,741
Prudential Investment Management	293,177				
State Street Global Advisors	144,955	572,824	24,122	17,541	16,857
Wells Capital Management Co.	1,221,370	2,104,890	4,904	-	262,974
Westridge Capital Management, Inc.	584,925	568,689	543,316	493,687	452,368
Total Domestic Large Cap Equity	5,331,290	5,865,566	2,097,231	2,164,747	2,090,153
Domestic Small Cap Equity:					
Callan Associates Inc.	111,692	106,919	75,401	-	-
SEI Investments Management Co.	2,221,532	2,237,847	2,635,502	2,370,310	2,242,925
Total Domestic Small Cap Equity	2,333,224	2,344,766	2,710,903	2,370,310	2,242,925
International Equity:					
Bank of Ireland Asset Management	231,286	367,618	344,610	322,720	291,873
Capital Guardian Trust Company	721,012	734,011	662,525	693,054	851,348
Dimensional Fund Advisors	207,791	-	-	-	-
Lazard Asset Management	168,235	385,717	360,262	345,025	307,157
LSV Asset Management	789,271	813,989	711,900	416,411	-
State Street Global Advisors	377,186	373,900	291,655	114,231	245,192
Wellington Trust Company, NA	490,485	466,239	442,878	403,531	387,222
Total International Equity	2,985,266	3,141,474	2,813,830	2,294,972	2,082,792
Emerging Markets Equity:					
Capital Guardian Trust Company	-	-	300,224	976,495	886,004
Capital International	656,250	-	-	-	-
Dimensional Fund Advisors	251,978	284,295	226,859	-	-
J.P. Morgan Investment Management, Inc.	314,349	309,740	156,328	-	-
PanAgora Asset Management, Inc.	263,231	219,298	63,104	-	-
UBS Global Asset Management	546,104	496,221	432,929	-	-
WestLB Asset Management, LLC	243,261	202,658	59,106	-	-
Total Emerging Markets Equity	2,275,173	1,512,212	1,238,550	976,495	886,004
Domestic Fixed Income:					
Bank of North Dakota	79,825	91,128	80,304	52,529	50,271
Calamos Advisors LLC	522,810	424,710	-	-	-
J.P. Morgan Investment Management, Inc.	1,606,393	703,125	-	-	-
Prudential Investment Management	224,754	230,399	133,901	-	-
RMK Timberland Investment Mgmt.	-	-	412,804	567,599	736,627
Timberland Investment Resources	3,596,378	843,000	12,022,865	455,891	-
Trust Company of the West	-	76,469	299,027	218,650	242,297
Wells Capital Management, Inc.	174,789	181,612	146,039	134,936	117,820
Western Asset Management Company	156,624	168,222	136,234	111,449	101,180
WestLB Asset Management	-	-	-	82,413	130,429
Total Domestic Fixed Income	6,361,573	2,718,665	13,231,174	1,623,467	1,378,624

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION POOL PARTICIPANTS (Continued)

	2008	2007	2006	2005	2004
INVESTMENT MANAGERS (continued)					
High Yield Fixed Income:					
Declaration Management & Research LLC	7,031	-	-	-	-
Goldman Sachs Asset Management	251,837	110,647	-	-	-
Loomis Sayles & Company	567,711	554,291	485,906	437,397	92,700
PIMCO	66,455	-	-	-	-
Trust Company of the West	451,490	-	-	-	-
Wells Capital Management, Inc.	1,042,791	1,009,349	500,657	422,859	96,369
Western Asset Management Company	-	-	-	-	198,017
Total High Yield Fixed Income	2,387,315	1,674,287	986,563	860,256	387,086
International Fixed Income:					
UBS Global Asset Management	286,966	267,314	265,882	297,226	267,101
Brandywine Asset Management	419,075	382,959	344,396	313,098	273,526
Total International Fixed Income	706,041	650,273	610,278	610,324	540,627
Real Estate:					
INVESCO Realty Advisors	745,911	708,879	705,687	642,900	777,309
J.P. Morgan Investment Management, Inc.	2,418,987	2,144,259	1,516,689	1,189,060	1,009,926
Total Real Estate	3,164,898	2,853,138	2,222,376	1,831,960	1,787,235
Alternative Investments:					
Adams Street Partners	946,207	1,080,138	961,377	1,075,470	1,152,935
Coral Partners, Inc.	973,463	1,037,472	1,137,086	1,689,769	1,684,712
Corsair Capital	365,112	565,104	-	-	-
Hearthstone Homebuilding Investors, LLC	(280,445)	1,697,762	5,554,616	4,542,006	2,354,122
InvestAmerica L&C, LLC	504,382	587,157	375,000	375,000	375,000
Matlin Patterson Global Opportunities, LLC	901,140	740,551	729,871	640,625	437,500
Quantum Energy Partners	364,808	387,705	-	-	-
Quantum Resources Management	150,000	98,954	-	-	-
Total Alternative Investments	3,924,667	6,194,843	8,757,950	8,322,870	6,004,269
Cash Equivalents:					
The Northern Trust Company, Inc.	57,539	51,177	122,988	92,149	75,054
Total Investment Manager Fees	29,526,986	27,006,401	34,791,843	21,147,550	18,767,129
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	741,919	664,524	648,728	665,915	523,890
INVESTMENT CONSULTANT					
Callan Associates Inc.	197,734	176,260	181,705	178,389	193,175
SIB SERVICE FEES	16,070	13,442	12,033	10,112	10,256
SECURITIES LENDING FEES					
Rebates	5,871,386	15,456,908	10,044,445	3,556,742	1,107,164
Fees	214,760	290,207	261,337	262,466	212,251
Total Securities Lending Fees	6,086,146	15,747,115	10,305,782	3,819,208	1,319,415

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE POOL PARTICIPANTS

	2008	2007	2006	2005	2004
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
AllianceBernstein Capital Management	$ -	$ -	$ -	$ -	$ 4,525
Los Angeles Capital Management	127,696	129,444	134,125	130,010	62,875
LSV Asset Management	74,445	80,512	84,145	84,484	85,026
State Street Global Advisors	25,395	112,420	10,868	10,000	33,648
Westridge Capital Management, Inc.	169,773	136,069	119,733	110,895	27,844
Total Domestic Large Cap Equity	397,309	458,445	348,871	335,389	213,918
Domestic Small Cap Equity:					
Research Affiliates	109,426	-	-	-	-
SEI Investments Management	198,434	382,764	382,694	521,070	548,495
Total Domestic Small Cap Equity	307,860	382,764	382,694	521,070	548,495
International Equity:					
Capital Guardian Trust Company	241,112	265,710	258,024	199,852	356,373
Dimensional Fund Advisors	40,530	-	-	-	-
Lazard Asset Management	24,588	90,303	96,692	66,902	83,289
LSV Asset Management	199,709	216,449	215,086	101,949	-
The Vanguard Group	45,138	49,690	55,961	45,275	91,048
Total International Equity	551,077	622,152	625,763	413,978	530,710
Convertible Bonds:					
Trust Company of the West	-	-	-	292,953	505,255
Domestic Fixed Income:					
Bank of North Dakota	58,692	60,914	119,080	142,950	109,926
The Clifton Group	853,284	-	-	-	-
Hyperion Brookfield Asset Management	127,097	56,220	-	-	-
Prudential Investment Management	164,533	138,546	-	-	-
Wells Capital Management, Inc.	425,196	455,171	475,084	298,661	301,395
Western Asset Management Company	398,731	430,831	442,296	411,419	535,966
Total Domestic Fixed Income	2,027,533	1,141,682	1,036,460	853,030	947,287
Inflation Protected Assets					
Northern Trust Global Investments	59,045	55,354	55,493	60,268	-
Western Asset Management Company	-	151,504	-	-	-
Total Inflation Protected Assets	59,045	206,858	55,493	60,268	-
Real Estate:					
J.P. Morgan Investment Management, Inc.	1,173,188	1,088,484	443,730	-	-
Enhanced Cash					
Prudential Investment Management	277,555	-	-	-	-
Total Investment Manager Fees	4,793,567	3,900,385	2,893,011	2,476,688	2,745,665

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE POOL PARTICIPANTS (Continued)

	2008	2007	2006	2005	2004
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	300,326	250,812	276,945	261,904	247,232
INVESTMENT CONSULTANT					
Callan Associates	92,632	87,827	88,132	140,608	110,159
SIB SERVICE FEES	5,301	4,881	4,366	6,000	6,000
SECURITIES LENDING FEES					
Rebates	7,072,529	14,887,734	11,746,006	5,720,527	1,422,043
Fees	217,060	149,391	201,103	219,027	149,306
Total Securities Lending Fees	7,289,590	15,037,125	11,947,109	5,939,554	1,571,349

INDIVIDUAL INVESTMENT ACCOUNT

	2008	2007	2006	2005	2004
INVESTMENT MANAGERS					
State Street Global Advisors	$ 141,727	$ 130,161	$ 72,797	$ 65,534	$ 56,210
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	651	660	654	652	648
SIB SERVICE FEES	3,581	3,487	2,944	2,696	2,618

See reconciliation of current year investment expenses to financial statements on page 67.

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL

	2008	2007	2006	2005	2004
Public Employees Retirement System					
Net assets beginning of year	$ 1,934,234,168	$ 1,634,909,225	$ 1,475,694,042	$ 1,304,738,956	$ 1,126,095,333
Net increase/(decrease) in fair value of investments	(133,303,450)	285,031,437	152,103,565	154,870,263	156,289,529
Interest, dividends and other income	43,867,012	43,845,522	36,924,447	34,148,529	34,280,353
Expenses	11,447,763	9,471,759	12,827,174	5,316,187	4,043,903
Net securities lending income	362,091	329,743	264,345	260,073	218,294
Net incr/(decr) in net assets resulting from unit transactions	(22,956,001)	(20,410,000)	(17,250,000)	(13,000,000)	(8,100,650)
Net assets end of year	$ 1,810,756,057	$ 1,934,234,168	$ 1,634,909,225	$ 1,475,701,634	$ 1,304,738,956
City of Bismarck Employees Pension Plan					
Net assets beginning of year	$ 51,545,555	$ 44,002,952	$ 40,305,437	$ 26,354,623	$ 22,968,106
Net increase/(decrease) in fair value of investments	(2,969,501)	6,407,926	3,073,287	3,332,675	2,770,138
Interest, dividends and other income	1,396,664	1,381,274	1,054,196	649,709	683,552
Expenses	330,632	256,348	437,255	108,273	71,632
Net securities lending income	10,646	9,751	7,287	5,048	4,459
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	10,071,655	-
Net assets end of year	$ 49,652,732	$ 51,545,555	$ 44,002,952	$ 40,305,437	$ 26,354,623
City of Bismarck Police Pension Plan					
Net assets beginning of year	$ 24,060,610	$ 20,386,327	$ 18,501,337	$ 12,807,676	$ 11,077,471
Net increase/(decrease) in fair value of investments	(1,541,978)	3,189,234	1,570,167	1,519,817	1,428,040
Interest, dividends and other income	610,805	599,580	487,465	346,503	340,580
Expenses	147,621	118,932	175,864	55,815	40,476
Net securities lending income	4,675	4,401	3,222	2,373	2,061
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	3,880,783	-
Net assets end of year	$ 22,986,491	$ 24,060,610	$ 20,386,327	$ 18,501,337	$ 12,807,676
Job Service of North Dakota					
Net assets beginning of year	$ 94,697,478	$ 84,340,399	$ 81,450,677	$ 73,259,542	$ 67,303,290
Net increase/(decrease) in fair value of investments	(2,847,451)	11,691,612	4,905,261	9,452,746	6,536,599
Interest, dividends and other income	2,133,511	2,325,117	1,916,260	1,682,114	1,946,003
Expenses	622,355	416,599	1,073,229	268,358	184,664
Net securities lending income	26,176	18,666	17,719	17,556	15,958
Net incr/(decr) in net assets resulting from unit transactions	(3,473,103)	(3,261,717)	(2,876,289)	(2,692,923)	(2,357,644)
Net assets end of year	$ 89,914,256	$ 94,697,478	$ 84,340,399	$ 81,450,677	$ 73,259,542
City of Fargo Employee Pension Plan					
Net assets beginning of year	$ -	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	(2,060,774)	-	-	-	-
Interest, dividends and other income	357,768	-	-	-	-
Expenses	138,325	-	-	-	-
Net securities lending income	3,641	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	31,457,740	-	-	-	-
Net assets end of year	$ 29,620,050	$ -	$ -	$ -	$ -

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL (Continued)

	2008	2007	2006	2005	2004
TOTAL PENSION INVESTMENT POOL					
Net assets beginning of year	$ 2,104,537,811	$ 1,783,638,903	$ 1,615,951,493	$ 1,417,160,797	$ 1,227,444,200
Net increase/(decrease) in fair value of investments	(142,723,154)	306,320,209	161,652,280	169,175,501	167,024,306
Interest, dividends and other income	48,365,760	48,151,493	40,382,368	36,826,855	37,250,488
Expenses	12,686,696	10,263,638	14,513,522	5,748,633	4,340,675
Net securities lending income	407,229	362,561	292,573	285,050	240,772
Net incr/(decr) in net assets resulting from unit transactions	5,028,636	(23,671,717)	(20,126,289)	(1,740,485)	(10,458,294)
Net assets end of year	$ 2,002,929,586	$ 2,104,537,811	$ 1,783,638,903	$ 1,615,959,085	$ 1,417,160,797

INSURANCE INVESTMENT POOL

	2008	2007	2006	2005	2004
Workforce Safety & Insurance Fund					
Net assets beginning of year	$ 1,299,957,605	$ 1,200,779,620	$ 1,168,192,236	$ 1,078,349,677	$ 980,192,555
Net increase/(decrease) in fair value of investments	(38,116,867)	75,378,694	715,343	47,067,853	59,516,744
Interest, dividends and other income	50,628,924	49,231,820	41,248,969	34,684,534	34,358,320
Expenses	4,557,824	3,806,600	2,828,034	2,393,638	2,552,501
Net securities lending income	783,634	374,071	451,106	489,070	334,559
Net incr/(decr) in net assets resulting from unit transactions	(51,000,000)	(22,000,000)	(7,000,000)	10,000,000	6,500,000
Net assets end of year	$ 1,257,695,472	$ 1,299,957,605	$ 1,200,779,620	$ 1,168,197,496	$ 1,078,349,677
State Fire & Tornado Fund					
Net assets beginning of year	$ 28,467,050	$ 24,566,021	$ 22,845,575	$ 19,607,853	$ 16,328,742
Net increase/(decrease) in fair value of investments	(1,888,307)	2,215,277	450,751	857,407	1,276,515
Interest, dividends and other income	1,011,901	1,075,299	872,241	730,323	596,671
Expenses	88,889	72,371	61,266	60,054	50,261
Net securities lending income	8,806	7,824	8,720	10,148	6,186
Net incr/(decr) in net assets resulting from unit transactions	(1,850,000)	675,000	450,000	1,700,000	1,450,000
Net assets end of year	$ 25,660,561	$ 28,467,050	$ 24,566,021	$ 22,845,677	$ 19,607,853
State Bonding Fund					
Net assets beginning of year	$ 2,729,760	$ 2,703,646	$ 2,618,683	$ 3,772,597	$ 5,136,038
Net increase/(decrease) in fair value of investments	(199,930)	225,746	48,219	130,648	264,390
Interest, dividends and other income	100,393	107,480	93,108	123,768	131,611
Expenses	9,563	7,898	7,298	10,057	10,792
Net securities lending income	868	786	934	1,743	1,350
Net incr/(decr) in net assets resulting from unit transactions	(80,000)	(300,000)	(50,000)	(1,400,000)	(1,750,000)
Net assets end of year	$ 2,541,528	$ 2,729,760	$ 2,703,646	$ 2,618,699	$ 3,772,597

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2008	2007	2006	2005	2004
Petroleum Tank Release Compensation Fund					
Net assets beginning of year	$ 10,022,172	$ 9,292,010	$ 9,254,759	$ 8,958,441	$ 8,574,000
Net increase/(decrease) in fair value of investments	(700,200)	775,170	205,297	317,187	653,442
Interest, dividends and other income	356,171	376,839	326,035	289,064	261,312
Expenses	29,741	24,457	22,139	23,799	22,988
Net securities lending income	2,949	2,610	3,058	3,905	2,675
Net incr/(decr) in net assets resulting from unit transactions	(1,110,000)	(400,000)	(475,000)	(290,000)	(510,000)
Net assets end of year	$ 8,541,351	$ 10,022,172	$ 9,292,010	$ 9,254,798	$ 8,958,441
Insurance Regulatory Trust Fund					
Net assets beginning of year	$ 3,982,228	$ 3,690,531	$ 2,978,086	$ 2,690,119	$ 2,763,062
Net increase/(decrease) in fair value of investments	(162,849)	145,567	24,805	77,694	87,813
Interest, dividends and other income	122,260	101,231	92,959	54,367	43,323
Expenses	9,288	5,640	5,953	4,699	4,500
Net securities lending income	796	539	634	610	421
Net incr/(decr) in net assets resulting from unit transactions	150,000	50,000	600,000	160,000	(200,000)
Net assets end of year	$ 4,083,147	$ 3,982,228	$ 3,690,531	$ 2,978,091	$ 2,690,119
ND Health Care Trust Fund					
Net assets beginning of year	$ 2,210,049	$ 19,530,767	$ 18,581,480	$ 25,498,926	$ 28,646,477
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	76,044	506,858	950,929	1,075,658	1,209,708
Expenses	979	1,179	1,642	2,370	3,664
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	-	(17,826,397)	-	(7,990,650)	(4,353,595)
Net assets end of year	$ 2,285,114	$ 2,210,049	$ 19,530,767	$ 18,581,564	$ 25,498,926
Veterans Cemetery Fund					
Net assets beginning of year	$ 122,250	$ 102,778	$ 86,003	$ 71,103	$ 63,417
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	1,479	5,954	4,130	1,956	811
Expenses	46	168	138	13	10
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	(123,683)	13,686	12,783	12,959	6,885
Net assets end of year	$ -	$ 122,250	$ 102,778	$ 86,005	$ 71,103
Risk Management Fund					
Net assets beginning of year	$ 3,695,796	$ 3,263,199	$ 2,438,261	$ 2,968,620	$ 2,538,517
Net increase/(decrease) in fair value of investments	(231,219)	243,237	(30,158)	144,646	60,323
Interest, dividends and other income	144,326	148,090	111,959	79,971	75,280
Expenses	12,747	9,593	7,861	5,961	6,181
Net securities lending income	1,237	863	998	1,000	681
Net incr/(decr) in net assets resulting from unit transactions	-	50,000	750,000	(750,000)	300,000
Net assets end of year	$ 3,597,393	$ 3,695,796	$ 3,263,199	$ 2,438,276	$ 2,968,620

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2008	2007	2006	2005	2004
Risk Management Workers Comp Fund					
Net assets beginning of year	$ 4,221,728	$ 3,765,613	$ 2,905,892	$ 2,679,178	$ -
Net increase/(decrease) in fair value of investments	(305,448)	319,237	4,963	68,035	124,123
Interest, dividends and other income	152,814	146,847	112,448	64,068	61,166
Expenses	13,125	10,851	8,713	6,125	6,729
Net securities lending income	1,369	882	1,023	747	618
Net incr/(decr) in net assets resulting from unit transactions	(1,000,000)	-	750,000	100,000	2,500,000
Net assets end of year	$ 3,057,338	$ 4,221,728	$ 3,765,613	$ 2,905,903	$ 2,679,178
ND Association of Counties Fund					
Net assets beginning of year	$ 1,216,882	$ 791,257	$ 385,409	$ 306,518	$ 273,797
Net increase/(decrease) in fair value of investments	(127,524)	100,031	11,765	20,629	25,891
Interest, dividends and other income	38,236	29,240	15,551	10,059	8,525
Expenses	5,148	3,908	2,293	1,941	1,786
Net securities lending income	380	262	164	144	91
Net incr/(decr) in net assets resulting from unit transactions	-	300,000	380,661	50,000	-
Net assets end of year	$ 1,122,826	$ 1,216,882	$ 791,257	$ 385,409	$ 306,518
ND Association of Counties Program Savings Fund					
Net assets beginning of year	$ 851,526	$ 526,560	$ 403,009	$ 325,508	$ 290,719
Net increase/(decrease) in fair value of investments	(75,391)	55,757	10,908	18,684	27,475
Interest, dividends and other income	29,646	21,745	14,400	10,661	9,053
Expenses	3,861	2,710	1,909	1,996	1,835
Net securities lending income	275	174	152	152	96
Net incr/(decr) in net assets resulting from unit transactions	-	250,000	100,000	50,000	-
Net assets end of year	$ 802,195	$ 851,526	$ 526,560	$ 403,009	$ 325,508
PERS Group Insurance Fund					
Net assets beginning of year	$ 4,056,887	$ 1,923,916	$ 1,370,395	$ 286,269	$ 133,981
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	334,983	444,207	304,521	135,190	53,303
Expenses	1,000	1,000	1,000	1,064	1,015
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	-	1,689,764	250,000	950,000	100,000
Net assets end of year	$ 4,390,870	$ 4,056,887	$ 1,923,916	$ 1,370,395	$ 286,269
City of Bismarck Deferred Sick Leave Fund					
Net assets beginning of year	$ 826,225	$ 740,239	$ 710,962	$ 660,487	$ 607,608
Net increase/(decrease) in fair value of investments	(57,118)	56,893	4,983	28,817	33,526
Interest, dividends and other income	33,570	31,863	26,757	24,078	21,800
Expenses	3,835	3,014	2,750	2,769	2,673
Net securities lending income	300	244	287	349	226
Net incr/(decr) in net assets resulting from unit transactions	-	-	-	-	-
Net assets end of year	$ 799,142	$ 826,225	$ 740,239	$ 710,962	$ 660,487

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2008	2007	2006	2005	2004
City of Fargo FargoDome Permanent Fund					
Net assets beginning of year	$ 12,102,562	$ 9,748,034	$ 7,316,376	$ 5,863,757	$ 4,307,480
Net increase/(decrease) in fair value of investments	(1,474,491)	1,043,035	216,395	274,460	419,447
Interest, dividends and other income	492,384	339,243	235,113	192,967	149,299
Expenses	54,510	29,827	21,991	17,144	13,802
Net securities lending income	4,595	2,077	2,141	2,336	1,333
Net incr/(decr) in net assets resulting from unit transactions	5,000,000	1,000,000	2,000,000	1,000,000	1,000,000
Net assets end of year	$ 16,070,540	$ 12,102,562	$ 9,748,034	$ 7,316,376	$ 5,863,757
Cultural Endowment Fund					
Net assets beginning of year	$ 274,568	$ 218,552	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	(29,699)	27,678	7,263	-	-
Interest, dividends and other income	9,101	8,158	6,054	-	-
Expenses	1,566	1,251	978	-	-
Net securities lending income	82	61	54	-	-
Net incr/(decr) in net assets resulting from unit transactions	16,500	21,370	206,159	-	-
Net assets end of year	$ 268,986	$ 274,568	$ 218,552	$ -	$ -
Budget Stabilization Fund					
Net assets beginning of year	$ 99,876,003	$ 99,876,516	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	(8,591,387)	-	-	-	-
Interest, dividends and other income	8,845,339	4,989,847	3,618,316	-	-
Expenses	131,522	8,860	6,586	-	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	98,838,837	(4,981,500)	96,264,786	-	-
Net assets end of year	$ 198,837,270	$ 99,876,003	$ 99,876,516	$ -	$ -
TOTAL INSURANCE INVESTMENT POOL					
Net assets beginning of year	$ 1,474,613,291	$ 1,381,519,259	$ 1,243,693,902	$ 1,153,380,140	$ 1,050,982,600
Net increase/(decrease) in fair value of investments	(51,960,430)	80,586,322	1,697,292	49,285,206	62,690,324
Interest, dividends and other income	62,377,571	57,564,721	48,038,197	37,534,433	36,998,468
Expenses	4,923,644	3,989,327	2,980,551	2,538,940	2,683,030
Net securities lending income	805,291	390,393	469,367	511,288	348,488
Net incr/(decr) in net assets resulting from unit transactions	48,841,654	(41,458,077)	90,601,052	5,527,309	5,043,290
Net assets end of year	$ 1,529,753,733	$ 1,474,613,291	$ 1,381,519,259	$ 1,243,699,436	$ 1,153,380,140