2012

Comprehensive Annual Financial Report

For the year ended June 30, 2012

North Dakota Retirement and Investment Office
An Agency of the State of North Dakota

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
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For the Fiscal Year Ended June 30, 2012

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INTRODUCTORY SECTION

ND Retirement and Investment Office

State Investment Board
Teachers' Fund for Retirement

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November 30, 2012

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

Dear Board Members:

With pleasure we present to you the June 30, 2012, 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 principles (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 the 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 10,000 teachers from 222 employer groups and pays benefits to more than 7,100 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 over $6.0 billion in assets for eight pension funds and 15 other insurance-type funds. Their investments are divided into two investment trust funds and one individual investment account. Individual investment guidelines, including asset allocation, for each fund can be found in the Investment Section. The following table details the participants in each trust fund as of June 30, 2012:

	Fair Value in millions	% Of Pool	FY2012 Return
PENSION POOL PARTICIPANTS			
Teachers' Fund for Retirement	$1,631.30	44.6%	-0.97%
Public Employees Retirement System	1,774.31	48.5%	0.06%
Bismarck City Employee Pension Fund	61.19	1.7%	1.57%
Bismarck City Police Pension Fund	26.59	0.7%	1.31%
Job Service of North Dakota	84.75	2.3%	3.09%
City of Fargo Pension Fund	29.56	0.8%	0.97%
City of Grand Forks Pension Fund	43.94	1.2%	1.09%
Grand Forks Park District Pension Fund	4.50	0.1%	0.86%
Subtotal Pension Pool Participants	$3,656.15	100.0%	
INDIVIDUAL INVESTMENT ACCOUNT			
Retiree Health Insurance Credit Fund	$62.12		2.62%

	Fair Value in millions	% Of Pool	FY2012 Return
INSURANCE POOL PARTICIPANTS			
Workforce Safety & Insurance Fund	$1,434.71	61.9%	6.14%
Legacy Fund	399.01	17.2%	*
State Fire and Tornado Fund	24.52	1.1%	4.93%
State Bonding Fund	3.06	0.1%	5.31%
Petroleum Tank Release Fund	6.76	0.3%	4.84%
Insurance Regulatory Trust Fund	0.96	0.0%	2.82%
State Risk Management Fund	5.17	0.2%	7.63%
State Risk Management Workers Comp	5.01	0.2%	7.40%
Cultural Endowment Fund	0.28	0.0%	4.65%
Budget Stabilization Fund	395.07	17.1%	1.67%
ND Assoc. of Counties (NDACo) Fund	1.65	0.1%	1.69%
City of Bismarck Deferred Sick Leave	0.93	0.0%	5.69%
PERS Group Insurance	6.90	0.3%	0.24%
City of Fargo FargoDome Permanent Fund	32.09	1.4%	3.14%
Subtotal Insurance Pool Participants	2,316.12	100.0%	
TOTAL ASSETS UNDER MANAGEMENT	**$6,034.39**		

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. The City of Fargo Employees pension plan joined the pension pool in December 2007 and the City of Grand Forks Employees pension plan in May 2009. Most recently, the Grand Forks Park District pension plan began participating in the pension pool in December 2009.

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 (NDACo) 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 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.
- The Legacy Fund assets were added to SIB management in September 2011 after being approved by initiated measure.

Six funds have left the insurance investment pool after having been included in it at some point during its existence - 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, the Veterans Cemetery Trust joined the pool in August 1997 and was removed in August 2007, the ND Health Care Trust Fund was added to the pool in July 2001 and left the pool in June 2012, and the National Board Certification Fund joined in July 2009 and was removed in September 2011. Additionally, the two NDACo funds were combined into one fund in July, 2010.

MAJOR INITIATIVES

TFFR Retirement Program

- As part of a comprehensive funding improvement study undertaken by the TFFR Board, legislative proposals were developed to improve TFFR's financial condition. The proposals were based on five core principles: (1) Restore the financial health of the TFFR plan for past, present, and future ND educators; (2) maintain adequate retirement security; (3) share responsibility with employees and employers; (4) phase changes over time; and (5) protect benefits of those employees closest to retirement. The legislative proposals were studied by the interim Legislative Employee Benefits Programs Committee in 2010 and two bills were given favorable recommendations.
- The TFFR Board submitted the study bills for consideration by the 62nd Legislative Assembly. The 2011 Legislature approved the bills which are expected to restore the financial health of the TFFR plan over the long term.

  ✓ HB1134 – Base Funding Improvements: (1) Increase member and employer contributions an additional 4% each (total 8%) phased in over two bienniums. When TFFR reaches 90% funded level, member and employer contribution rates will be reduced to 7.75% each. (2) Require member contributions on re-employed retirees. (3) Modify disability retirement benefits. (4) Increase normal retirement age to minimum age 60 with Rule of 90 (or age 65) for members who are more than 10 years away from retirement eligibility. Members who are less than 10 years away from retirement eligibility would be grandfathered under current Rule of 85 (or age 65) eligibility provisions. (5) Increase reduction factor for early reduced benefits to 8% per year for non-grandfathered members who are minimum age 55 and not eligible for normal retirement benefits.

  ✓ HB1133 – Administrative changes: (1) Update definition of beneficiary. (2) Modify outdated death benefit provisions to clearly describe to whom, under what conditions, and what amount should be paid to a beneficiary, spouse, or estate. (3) Clarify the definition of eligible retirement salary by removing retention, experience, and service related bonuses from being included as eligible retirement salary and clarify the TFFR Board can determine ineligible retirement salary. (4) Incorporate federal tax law changes as they relate to qualified governmental plans.

- Developed and presented additional group presentations, informational meetings, newsletters, and website materials to provide detailed information to members and employers about how legislative changes will affect them.
- Adopted administrative rules, updated service purchase cost calculation, programmed business system software, and modified other necessary policies and procedures to implement 2011 legislative changes.

- Updated employer payment plan models and amended methodology used for tax treatment of member contributions.
- Transitioned actuarial consulting services from prior actuary to Segal Company. Validated and audited actuarial methods and prior valuation results.
- Completed Asset Liability Study with Callan Associates and SIB Chief Investment Officer. Board also approved revised asset class descriptions, policy asset mix, investment goals, and investment policy statement for implementation by SIB in fiscal year 2012.
- Received favorable IRS determination letter on TFFR plan.

Investment Program

- Investment details by trust fund can be found in the Investment Section.
- Hired Darren Schulz as Deputy Chief Investment Officer (CIO) who began work in January 2012.
- In May, 2012, John Geissinger resigned as Executive Director/CIO in order to move closer to family on the East Coast. Deputy CIO Darren Schulz was named Interim CIO and Deputy Executive Director/Chief Retirement Officer Fay Kopp was named Interim Executive Director until a replacement can be found.
- Initiatives completed by the SIB during the year included:

Pension Investment Pool

- ✓ Assisted the TFFR and PERS boards in conducting asset/liability studies for their plans, which included restructuring/reclassification of existing investments.
- ✓ Provided education to all participants in the pension investment pool regarding restructuring/reclassification project and accepted revised asset allocations for implementation.
- ✓ Implemented asset allocation changes for all eight pension investment pool participants.
- ✓ Accepted staff recommendations for restructuring the investment grade domestic fixed income asset class, resulting in the termination of three existing manager mandates, re-mandating two existing manager mandates, and funding three new manager mandates.
- ✓ Began reviewing global equity asset class.

Insurance Investment Pool

- ✓ Extended manager relationships with three pension pool managers into the insurance pool in the domestic fixed income, inflation protected and real estate asset classes.
- ✓ Hired two new managers to create a short term fixed income asset class to accommodate asset allocations for the Budget Stabilization Fund and Legacy Fund.

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, 2011. This was the fourteenth 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 2012 Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council. To receive the award, the retirement system must certify that it meets specific professional standards for a comprehensive benefit program, actuarial valuations, financial reporting, investments, communications to members, and funding adequacy.

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 financial audit is performed and the results are reported to the Legislative Audit and Fiscal Review Committee (LAFRC). Although internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives, RIO believes the internal controls that are in place have been designed to reduce risks of material misstatements.

CliftonLarsonAllen LLP conducted the external financial 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, 2012.

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

Pension Trust Fund (TFFR)	June 30, 2012	June 30, 2011	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 67,297,080	$ 419,879,481	$ (352,582,401)	-84.0%
Deductions	139,326,738	131,650,007	7,676,731	5.8%
Net Change	$ (72,029,658)	$ 288,229,474	$ (360,259,132)	-125.0%

In the pension trust fund, additions decreased due to weak financial 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, 2012	June 30, 2011	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 100,454,476	$ 549,295,647	$ (448,841,171)	-81.7%
Deductions	529,383	897,242	$ (367,859)	-41.0%
Net Change in Units	435,956,648	(63,096,554)	$ 499,053,202	-790.9%
Net Change	$ 535,881,741	$ 485,301,851	$ 50,579,890	10.4%

In the investment trust funds, additions also decreased due to weak financial markets. Deductions decreased due to a decrease in administrative expenses allocated to the pool participants during the year, specifically, a drastic decrease in legal fees due to the WG Trading fraud case resolution.

FUNDING STATUS

The objective of the TFFR 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 was increased from 7.75% to 9.75% effective July 1, 2012, and is scheduled to increase to 11.75% effective July 1, 2014. The employer rate was increased from 8.75% to 10.75% effective July 1, 2012, and is scheduled to increase to 12.75% effective July 1, 2014. The 11.75% member contribution rate and 12.75% employer contribution rate will remain in effect until TFFR is 90% funded on an actuarial basis. At that point, the employer and member contribution rates will revert to 7.75%. 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; although at any given time the statutory rates may be insufficient. A thirty-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution (ARC).

In order to determine the adequacy of the 10.75% statutory employer contribution rate, it is compared to the GASB 25 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 3.25% per year. As of July 1, 2012, the ARC is 13.02%, compared to 13.16% last year. This is greater than the 10.75% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law (10.75%) and the rate necessary to fund the UAAL in 30 years is -2.27%.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at July 1, 2011, was 66.3%, while it is 60.9% as of July 1, 2012. Based on market values rather than actuarial values of assets, the funded ratio decreased to 57.6 %, compared to 62.8% last year.

The plan had a net asset loss of $94 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 large market losses during FY2009 and FY2012. As these losses are recognized over the next four years, the ARC is expected to continue to increase and the funded ratio is expected to continue decreasing, assuming the plan earns 8.00% in the future. However, the scheduled increases in the employer and member contribution rates are projected to improve the funded status and reduce the ARC.

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, 2012 (in millions)	July 1, 2011 (in millions)
Actuarial value of assets	$ 1,748.1	$ 1,822.6
Unfunded actuarial accrued liability	1,123.8	927.2
Funded ratio	60.9%	66.3%

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 review.

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 — Darren Schulz — Connie L Flanagan

FAY KOPP
Interim Executive Director/
Chief Retirement Officer

DARREN SCHULZ, CFA
Interim Chief Investment Officer

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 investment returns, consistent with their written investment policies and market variables, in a cost-effective investment manner and under the Prudent Investor Rule.
- 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

Fay Kopp
Interim Executive Director/
Chief Retirement Officer

Darren Schulz, CFA
Interim Chief Investment Officer

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, 2012

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

Drew Wrigley
Chair
Lt. Governor

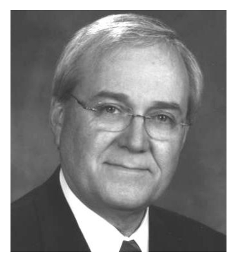
Mike Sandal
Vice Chair
PERS Trustee

Kelly Schmidt
State Treasurer

Adam Hamm
State Insurance Commissioner

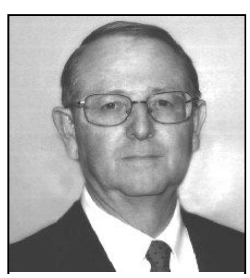
Cindy Ternes, CPA
Workforce Safety & Insurance Designee

Lance Gaebe
University and School Land Commissioner



Robert Toso
TFFR Trustee

Mike Gessner
TFFR Trustee



Clarence Corneil
TFFR Trustee

Howard Sage
PERS Trustee

Levi Erdmann
PERS Trustee

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
Board of Trustees as of June 30, 2012

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.

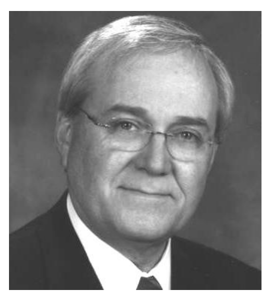
Goals

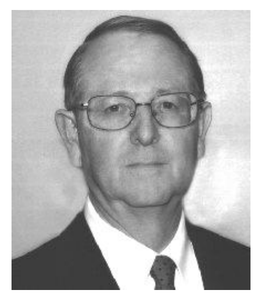
Investment and Funding Goals:

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

Service Goals:

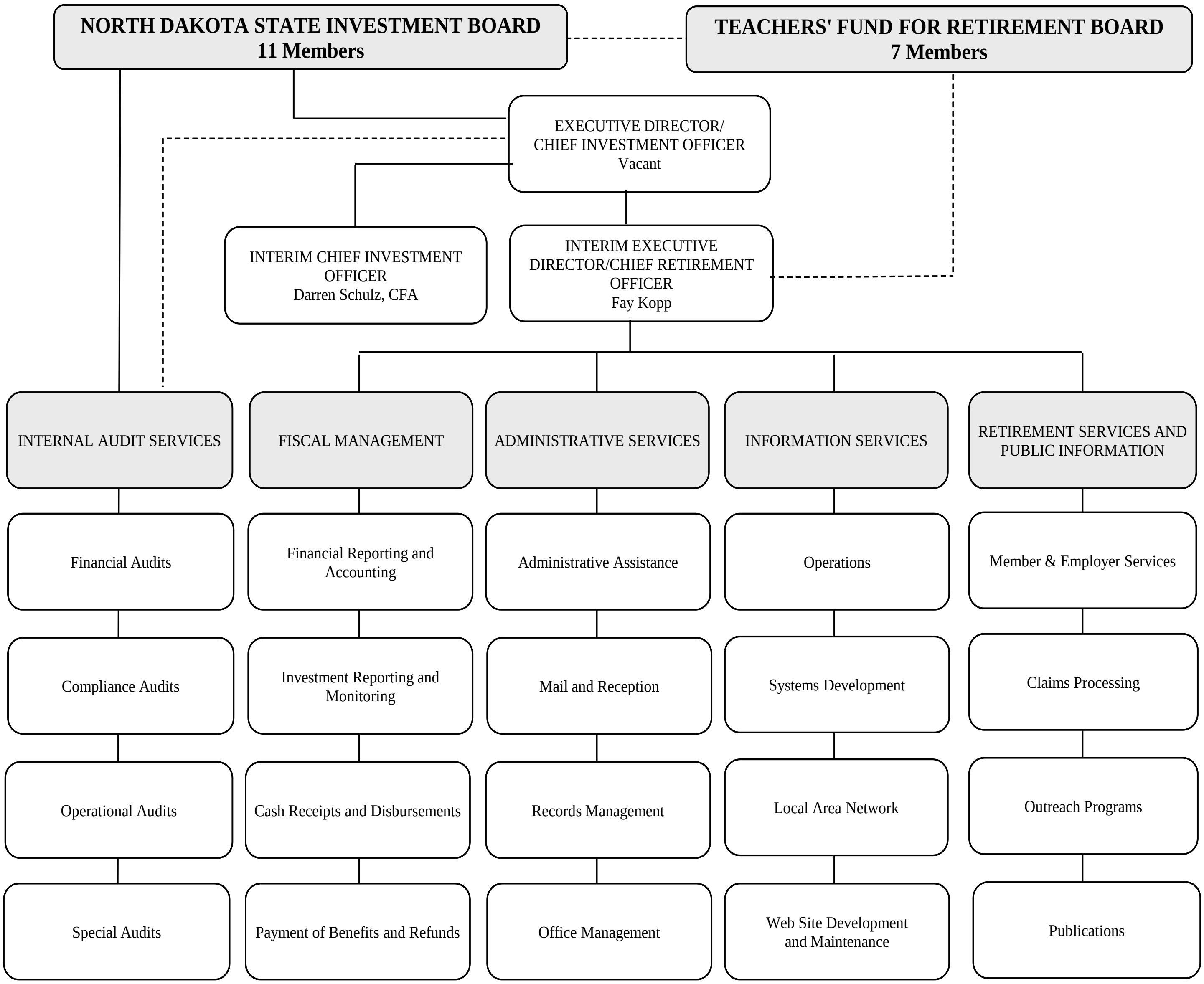
- Administer accurate, prompt, and efficient pension benefits program.
- Deliver high quality, friendly service to members and employers.
- Provide educational outreach programs including pre-retirement seminars and individual counseling sessions.





NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

ADMINISTRATIVE ORGANIZATION
JUNE 30, 2012



See page 73 in the Investment Section for a summary of fees paid to investment professionals and pages 164-168 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, 2012

Actuary

The Segal Company
Chicago, Illinois

Auditor

CliftonLarsonAllen LLP
Baltimore, Maryland

Legal Counsel

North Dakota Attorney General's Office
Bismarck, North Dakota

Jenner & Block
Chicago, Illinois

K&L Gates
Boston, Massachusetts

Calhoun Law Group P.C.
Bethesda, Maryland

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

Babson Capital Management LLC
Boston, Massachusetts

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

Investment Managers (cont.)

The Clifton Group
Minneapolis, Minnesota

Coral Partners, Inc.
Minneapolis, Minnesota

Corsair Capital
New York, New York

Credit Suisse
New York, NY

Declaration Mgmt & Research, LLC
McLean, Virginia

Dimensional Fund Advisors
Chicago, Illinois

EIG Energy Partners
Los Angeles, California

Epoch Investment Partners, Inc.
New York, New York

Goldman Sachs Asset Mgmt
New York, New York

Hearthstone Homebuilding Investors, LLC
Encino, California

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

Investment Managers (cont.)

Prudential Investment Management
Newark, New Jersey

Quantum Energy Partners
Houston, Texas

Quantum Resources Mgmt, LLC
Denver, Colorado

Research Affiliates, LLC
Newport Beach, California

SEI Investments Management Co.
Oaks, Pennsylvania

State Street Global Advisors
Boston, Massachusetts

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

Western Asset Management Co.
Pasadena, California

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, 2011

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.

President

Executive Director

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
_2012_

Presented to

North Dakota Teachers' Fund for Retirement

In recognition of meeting professional standards for
plan funding and 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

FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditors' Report

Governor Jack Dalrymple
The Legislative Assembly
Fay Kopp, Interim Executive Director
State Investment Board
Teacher's Fund for Retirement Board
North Dakota Retirement and Investment Office

We have audited the accompanying financial statements of fiduciary net assets 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 of and for the year end June 30, 2012. These financial statements are the responsibility of RIO's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of fiduciary net assets of RIO as of June 30, 2011, were audited by other auditors whose report dated November 8, 2011, expressed an unqualified opinion of those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets of the fiduciary funds of RIO as of June 30, 2012 and the respective changes in 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, 2012, and the results of the operations of such funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Audit Standards*, we have also issued our report dated October 19, 2012, on our consideration of RIO's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions and related notes, as listed on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds, as listed on the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory Section, Investment Section, Actuarial Section and Statistical Section as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Baltimore, Maryland
October 19, 2012

North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2012 and 2011

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, 2012. Please read it in conjunction with the basic financial statements, which follow this discussion.

RIO administers two fiduciary funds, a pension trust fund for the ND Teachers' Fund for Retirement (TFFR) and an investment trust fund for the ND State Investment Board (SIB) consisting of 21 investment clients in two investment pools and one individual investment account.

Financial Highlights

Total net assets increased in the fiduciary funds by $463.9 million or 8.3% from the prior year primarily due to the addition of the Legacy Fund during the fiscal year. The Legacy Fund was created by a constitutional amendment in 2010. The amendment provides that 30% of oil and gas gross production and oil extraction taxes on oil produced after June 30, 2011, be transferred to the Legacy Fund. Transfers into the Legacy Fund totaled $396.6 million during the fiscal year.

Additions in the fiduciary funds for the year decreased $801.4 million from the previous year. Net investment income decreased by $804.8 million and total contributions increased $3.9 million.

Deductions in the fiduciary funds increased over the prior year by $7.3 million or 5.2%. 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 TFFR funding objective is to meet long-term benefit obligations through contributions and investment income. As of July 1, 2012, the funded ratio was approximately 60.9%.

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.

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.

North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2012 and 2011

Financial Analysis

RIO's fiduciary fund total assets as of June 30, 2012, were $6.1 billion and were comprised mainly of investments. Total assets increased by $463.7 million or 8.3% from the prior year primarily due to the addition of the Legacy Fund during the fiscal year.

Total liabilities as of June 30, 2012, were $6.4 million and were comprised mostly of investment expenses payable. Total liabilities decreased by $186,000 or 2.8% from the prior year due mainly to a decrease in investment expenses payable at June 30, 2012.

RIO's fiduciary fund total net assets were $6.1 billion at the close of fiscal year 2012.

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

	2012	2011	Total % Change
Assets			
Investments	$ 6,010	$ 5,553	8.2%
Receivables	35	31	13.5%
Cash & Other	15	13	11.7%
Total Assets	6,060	5,597	8.3%
Liabilities			
Accounts Payable	6	7	-2.6%
Total Liabilities	6	7	-2.6%
Total Net Assets	$ 6,054	$ 5,590	8.3%

	2011	2010	Total % Change
Assets			
Investments	$ 5,553	$ 4,780	16.2%
Sec Lending Collateral	0	26	-99.9%
Receivables	31	30	3.6%
Cash & Other	13	12	2.8%
Total Assets	5,597	4,848	15.4%
Liabilities			
Accounts Payable	7	6	8.8%
Sec Lending Collateral	0	26	-99.9%
Total Liabilities	7	32	-79.7%
Total Net Assets	$ 5,590	$ 4,816	16.1%

ND RETIREMENT AND INVESTMENT OFFICE
CHANGES IN NET ASSETS – FIDUCIARY FUNDS
(In Millions)

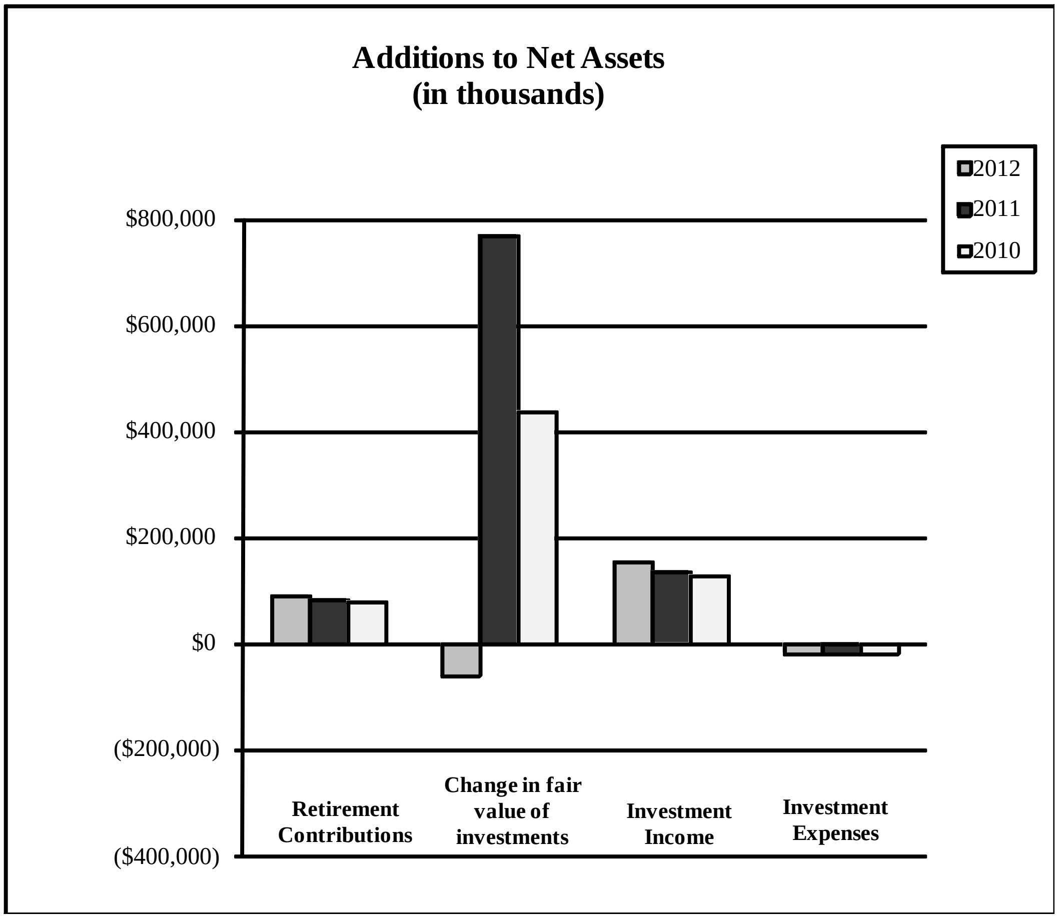
	2012	2011	Total % Change
Additions:			
Contributions	$ 89	$ 85	4.5%
Investment Income	$ 79	$ 884	91.1%
Total Additions	$ 168	$ 969	82.7%
Deductions	$ 140	$ 133	5.2%
Net change from unit transactions	$ 436	$ (63)	792.0%
Total change in net assets	$ 464	$ 773	40.0%

	2011	2010	Total % Change
Additions:			
Contributions	$ 85	$ 78	9.0%
Investment Income	$ 884	$ 545	62.2%
Total Additions	$ 969	$ 623	55.5%
Deductions	$ 133	$ 129	3.1%
Net change from unit transactions	$ (63)	$ 104	160.6%
Total change in net assets	$ 773	$ 598	29.3%

Statement of Changes in Net Assets – Additions

Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $3.9 million or 4.5% over the previous fiscal year. Net investment income, including securities lending activities and investment expenses, decreased by $805.3 million or 91.1% from last year. This was the result of weaker financial markets during the fiscal year.

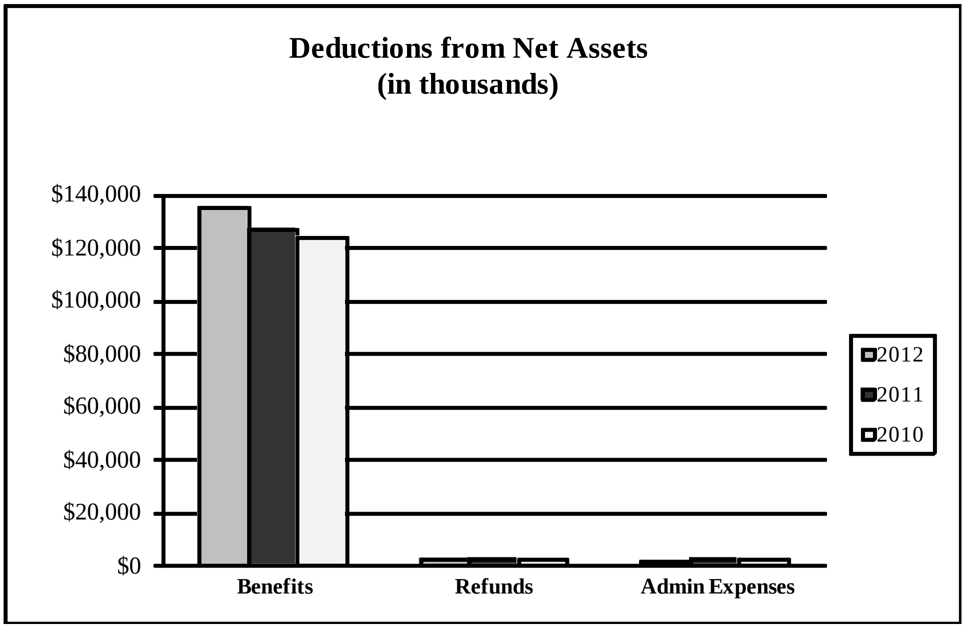
North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2012 and 2011



Statement of Changes in Net Assets – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $7.8 million or 6.1% during the fiscal year ended June 30, 2012. This was due to an increase in the total number of retirees in the plan as well as an increased retirement salary on which the benefits are based upon. Refunds increased slightly in fiscal year 2012 by $268,500 or 12.1%.

Administrative expenses decreased by $774,500 or 26.7%, due mainly to a decrease in legal fees during FY2012. Legal fees had increased significantly in FY2011 due to the legal proceedings in the WG Trading fraud case which culminated in May, 2011, with the initial distribution of recovered assets. Legal fees continued, but at a much slower pace, in FY2012 as the SIB joined in an appeal regarding the distribution of those assets.



Conclusion

In contrast to the prior two fiscal years, which delivered strong back-to-back total fund returns, fiscal year 2012 results reflect a market environment characterized by low investment returns and high volatility. Driven by ongoing deleveraging in the private sector, uncertainty surrounding policy responses to weak global economic growth, a never-ending sovereign debt crisis in Europe, and political gridlock in the U.S., financial markets alternated between risk-on and risk-off phases over the course of the fiscal year. Positive asset class performance was lead by real estate, followed by fixed income, private equity, infrastructure, and domestic equity. International equity markets were the worst performing asset class in the fiscal year, suffering low to mid-teen negative returns. Investment trust funds within the SIB's investment program are invested within their policy guidelines and are positioned to withstand short-term volatility in order to deliver the long-term returns required to meet pension and other obligations.

Historically, financial crisis recessions tend to have a longer-term recessionary drag as compared to "normal" business cycle recessions; the recovery from the current balance sheet recession is no different. Advanced economies continue to experience sub-par economic growth as global balance sheet deleveraging continues to weigh on private sector demand. Given the prospect of further deleveraging in advanced economies, we believe the investment climate will remain challenging as the structural imbalances from excess private and public sector debt are fully addressed. The SIB will continue to research and consider investment options to address funding issues in the challenging years ahead.

North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2012 and 2011

To address TFFR's funding shortfall, the ND State Legislature took action in 2011 and approved legislation to increase member and employer contributions and modify certain benefits. This funding recovery plan, along with solid investment performance in the future, is expected to improve TFFR's funding level over the long term. Although TFFR's funding level has been declining, and is 60.9% as of 7/1/12, funding levels are projected to begin rising after past investment losses are phased in to actuarial calculations and as 2012 and 2014 contribution increases begin to flow into the system. Protecting the long term solvency of the pension plan is the TFFR Board's fiduciary responsibility. The Board will continue to proactively address TFFR funding issues so the plan will be financially strong and sustainable for past, present, and future ND educators.

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

Statement of Net Assets – Fiduciary Funds

June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 36,131,488	$ 34,084,756
Equity pool	812,749,740	1,049,479,984	1,312,774,041	1,411,952,870
Fixed income	-	-	806,874,577	22,935,906
Fixed income pool	370,045,662	395,005,152	1,582,382,143	2,005,016,528
Real assets pool	315,768,906	174,937,685	469,548,278	196,439,719
Private equity pool	104,823,271	63,012,510	108,766,790	67,591,681
Cash pool	21,082,755	15,900,962	69,354,213	116,312,551
Total investments	1,624,470,334	1,698,336,293	4,385,831,530	3,854,334,011
Invested securities lending collateral	-	-	-	13,600
Receivables:				
Investment income	6,832,046	7,419,806	17,254,744	12,821,803
Contributions	11,076,423	10,871,495	-	-
Miscellaneous	5,472	7,651	9,506	12,232
Total receivables	17,913,941	18,298,952	17,264,250	12,834,035
Due from other state agency	1,461	-	-	-
Cash and cash equivalents	14,370,170	12,365,575	152,772	153,724
Equipment & Software (net of depr)	762	3,050	-	-
Total assets	1,656,756,668	1,729,003,870	4,403,248,552	3,867,335,370
Liabilities:				
Accounts payable	62,950	73,258	26,714	54,288
Investment expenses payable	1,922,962	2,123,667	3,649,932	3,573,700
Securities lending collateral	-	-	-	13,600
Accrued expenses	607,086	616,348	50,425	51,601
Miscellaneous payable	-	-	13,537	18,091
Due to other state agencies	14,011	11,280	3,309	1,196
Total liabilities	2,607,009	2,824,553	3,743,917	3,712,476
Net assets:				
Held in trust for pension benefits	1,654,149,659	1,726,179,317	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,022,512,983	2,040,261,179
Insurance pool	-	-	2,314,911,441	1,766,310,444
Held in trust for individual investment account	-	-	62,080,211	57,051,271
Total net assets	$ 1,654,149,659	$ 1,726,179,317	$ 4,399,504,635	$ 3,863,622,894
Each participant unit is valued at $1.00				
Participant units outstanding			4,399,504,635	3,863,622,894

The accompanying notes are an integral part of the financial statements.

North Dakota Retirement and Investment Office
Statement of Changes in Net Assets – Fiduciary Funds
Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Additions:				
Contributions:				
Employer contributions	$ 46,126,193	$ 44,545,433	$ -	$ -
Member contributions	40,254,562	38,869,260	-	-
Purchased service credit	2,417,995	1,499,748	-	-
Interest and penalties	9,854	8,809	-	-
Total contributions	88,808,604	84,923,250	-	-
Investment income:				
Net change in fair value of investments	(55,818,260)	305,331,203	(2,301,149)	461,489,827
Interest, dividends and other income	39,954,588	35,864,291	115,514,522	100,078,804
	(15,863,672)	341,195,494	113,213,373	561,568,631
Less investment expenses	5,661,973	6,430,327	12,779,965	12,614,624
Net investment income	(21,525,645)	334,765,167	100,433,408	548,954,007
Securities lending activity:				
Securities lending income	8,737	134,520	17,400	293,286
Less securities lending expenses	(5,384)	(56,544)	(3,668)	(48,354)
Net securities lending income	14,121	191,064	21,068	341,640
Total additions	67,297,080	419,879,481	100,454,476	549,295,647
Deductions:				
Benefits paid to participants	134,718,464	126,484,335	-	-
Partial lump-sum distributions	532,104	951,229	-	-
Refunds	2,479,194	2,210,738	-	-
Administrative charges	1,596,976	2,003,705	529,383	897,242
Total deductions	139,326,738	131,650,007	529,383	897,242
Net change in net assets resulting from operations	(72,029,658)	288,229,474	99,925,093	548,398,405
Unit transactions at net asset value of $1.00 per unit:				
Purchase of units	-	-	716,465,386	214,994,890
Redemption of units	-	-	(280,508,738)	(278,091,444)
Net change in assets and units resulting from unit transactions	-	-	435,956,648	(63,096,554)
Total change in net assets	(72,029,658)	288,229,474	535,881,741	485,301,851
Net assets:				
Beginning of year	1,726,179,317	$ 1,437,949,843	$ 3,863,622,894	$ 3,378,321,043
End of Year	$ 1,654,149,659	$ 1,726,179,317	$ 4,399,504,635	$ 3,863,622,894

The accompanying notes are an integral part of the financial statements.

Note 1 - Summary of Significant Accounting Policies

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.

Fund Financial Statement

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

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. 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, Bismarck City Employees and Police, City of Fargo Employees, City of Grand Forks Employees and Grand Forks Parks Employees pension plans in the pension pool. The investments of Workforce Safety and Insurance, State Fire & Tornado, State Bonding, Petroleum Tank Release Compensation Fund, Insurance Regulatory Trust, Health Care Trust (closed at year-end), North Dakota Association of Counties 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, Department of Public Instruction (DPI) National Board Certification Fund (closed during the fiscal year), Legacy 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, Risk Management, Risk Management Workers Comp, Cultural Endowment Fund, DPI National Board Certification Fund, Legacy 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.

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. 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.

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 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.

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

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 City of Bismarck Employee Pension Plan, the City of Bismarck Police Pension Plan, City of Fargo Employee Pension Plan, Job Service of North Dakota, City of Grand Forks Employee Pension Plan, Grand Forks Parks Pension Plan 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

Most 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 fair values for securities that have no quoted market price represent estimated fair 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 investments, 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 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.

Accumulated Leave

Annual leave for permanent employees of the state of North Dakota is a part of their 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 $136,458 and $129,737 at June 30, 2012 and 2011, respectively. The current portions of accrued leave amounted to $69,848 and $70,469 at June 30, 2012 and 2011, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net assets.

Changes in accrued leave for the years ended June 30, 2012 and 2011 consisted of the following:

Balance, July 1, 2010	$107,984
Additions	84,726
Deductions	(62,973)
Balance, June 30, 2011	129,737
Additions	82,071
Deductions	(75,350)
Balance, June 30, 2012	$136,458

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, 2012 and 2011 were deposited in the Bank of North Dakota. At June 30, 2012 and 2011, the carrying amount of TFFR's deposits was $14,370,170 and $12,365,575, respectively, and the bank balance was $14,380,332 and $12,377,252 respectively. 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 $146,245,136 and $188,347,945 at June 30, 2012 and 2011, respectively. In addition these funds carry cash and cash equivalents totaling $152,772 and $153,724 at June 30, 2012 and 2011, respectively. 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.

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 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.

Securities Lending

The State Investment Board (SIB) did not have a securities lending program in place during the fiscal year ended June 30, 2012. Income and expenses from securities lending activity appearing on the financial statements represent final activity from June, 2011, not recorded until July, 2011.

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, 2012 and 2011, the following tables show the investments by investment type and maturity (expressed in thousands).

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2012	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years	Maturity not Determined
Asset Backed Securities	$ 102,356	$ -	$ 48,669	$ 12,196	$ 41,491	$ -
Bank Loans	8,174	-	6,647	1,527	-	-
Collateralized Bonds	467	-	-	467	-	-
Commercial Mortgage-Backed	51,641	210	216	-	51,215	-
Commercial Paper	148,695	148,695	-	-	-	-
Corporate Bonds	654,246	37,542	300,508	149,223	166,928	45
Corporate Convertible Bonds	28,737	8,096	8,126	5,265	7,250	-
Government Agencies	122,362	6,385	85,036	16,639	14,302	-
Government Bonds	328,043	17,257	170,222	64,109	76,455	-
Gov't Mortgage Backed and CMB	457,941	-	3,530	27,893	426,518	-
Guaranteed Fixed Income	4,058	4,058	-	-	-	-
Index Linked Government Bonds	2,664	-	-	-	2,664	-
Municipal/Provincial Bonds	22,267	879	9,407	687	11,294	-
Non-Government Backed CMOs	29,353	-	6,277	5,441	17,635	-
Other Fixed Income	5,089	251	4,838	-	-	-
Short Term Bills and Notes	11,909	11,909	-	-	-	-
Funds/Pooled Investments	645,416	67,902	285,942	121,849	169,723	-
Total Debt Securities	$ 2,623,418	$ 303,184	$ 929,418	$ 405,296	$ 985,475	45

2011	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 32,332	$ -	$ 5,243	$ 3,667	$ 23,422
Bank Loans	6,481	127	5,347	1,007	-
Commercial Mortgage-Backed	35,795	-	702	-	35,093
Guaranteed Fixed Income	4,498	377	4,121	-	-
Corporate Bonds	644,800	40,852	233,060	190,687	180,201
Corporate Convertible Bonds	59,474	1,836	37,242	4,166	16,230
Government Agencies	83,634	460	53,116	18,225	11,833
Government Bonds	227,352	3,256	80,864	65,396	77,836
Gov't Mortgage Backed and CMB	166,767	554	3,354	16,954	145,905
Index Linked Government Bonds	3,409	-	-	-	3,409
Municipal/Provincial Bonds	25,327	588	13,147	629	10,963
Non-Government Backed CMOs	49,736	-	-	11,875	37,861
Other Fixed Income	977	723	254	-	-
Short Term Bills and Notes	11,802	11,802	-	-	-
Funds/Pooled Investments	655,037	-	223,634	431,403	-
Total Debt Securities	$ 2,007,421	$ 60,575	$ 660,084	$ 744,009	$ 542,753

In the table above, the fair 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 $4.8 million and $4.7 million, and POs valued at $3.2 million and $3.8 million at June 30, 2012 and 2011 respectively. 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. Although the SIB has no overall policy regarding credit risk, 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 tables present the SIB's ratings as of June 30, 2012 and 2011 (expressed in thousands).

		Credit Rating*												
2012	Total Fair Value	A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 102,356	$ -	$ -	$ 66,546	$ 21,144	$ 5,400	$ 3,975	$ 959	$ 816	$ 3,382	$ 129	$ -	$ 5	$ -
Bank Loans	8,174	-	-	-	-	-	1,690	4,634	1,850	-	-	-	-	-
Collateralized Bonds	467	-	-	467	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage Backed	51,641	-	-	33,073	4,007	11,746	2,752	63	-	-	-	-	-	-
Commercial Paper	148,695	6,499	142,196	-	-	-	-	-	-	-	-	-	-	-
Corporate Bonds	654,246	-	-	1,129	31,044	154,661	329,180	74,848	38,781	19,594	1,264	295	2,851	599
Corporate Convertible Bonds	28,737	-	-	-	-	9,407	-	5,359	10,241	3,730	-	-	-	-
Gov't Agencies	115,457	-	-	4,643	98,647	8,076	4,091	-	-	-	-	-	-	-
Gov't Bonds	65,005	-	-	7,479	5,142	31,203	15,591	5,590	-	-	-	-	-	-
Gov't Issued Commercial & Gov't Mortgage Backed	360,427	-	-	-	360,427	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	4,058	-	-	-	4,058	-	-	-	-	-	-	-	-	-
Index Linked Corporate Bonds	1,117	-	-	-	-	-	1,117	-	-	-	-	-	-	-
Municipal/Provincial Bonds	22,267	-	-	5,080	7,726	6,961	896	725	-	-	-	-	-	879
Non-Gov't Backed CMOs	29,353	-	-	18,110	1,437	1,586	1,931	554	1,084	3,750	854	-	47	-
Other Fixed Income	5,089	-	-	5,089	-	-	-	-	-	-	-	-	-	-
Funds/Pooled Investments	645,416	-	-	88,548	331,989	54,842	2,609	13,303	150,277	-	-	-	-	3,848
Total Credit Risk of Debt Securities	2,242,505	$ 6,499	$ 142,196	$ 230,164	$ 865,621	$ 283,882	$ 363,832	$ 106,035	$ 203,049	$ 30,456	$ 2,247	$ 295	$ 2,903	$ 5,326
US Gov't & Agencies **	380,913													
Total Debt Securities	$ 2,623,418													

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2011	Total Fair Value	Credit Rating* AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 32,332	$ 12,757	$ 5,347	$ 2,923	$ 5,118	$ 333	$ 2,505	$ 2,991	$ 184	$ -	$ 174	$ -
Bank Loans	6,481	-	-	-	922	3,338	1,786	435	-	-	-	-
Commercial Mortgage Backed	35,795	26,774	2,654	4,647	1,651	69	-	-	-	-	-	-
Corporate Bonds	644,800	3,735	40,827	165,601	310,264	62,240	42,149	14,095	2,237	210	3,215	227
Corporate Convertible Bonds	59,474	590	4,448	14,314	6,311	10,579	13,493	9,739	-	-	-	-
Gov't Agencies	71,498	55,965	3,660	8,416	3,457	-	-	-	-	-	-	-
Gov't Bonds	186,165	140,409	2,948	26,425	9,906	6,068	326	83	-	-	-	-
Gov't Mortgage and Commercial Mortgage Backed	2,761	2,761	-	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	4,498	4,498	-	-	-	-	-	-	-	-	-	-
Index Linked Gov't Bonds	3,409	2,222	-	-	-	1,187	-	-	-	-	-	-
Municipal/Provincial Bonds	25,327	7,854	4,868	9,531	1,002	2,072	-	-		-	-	-
Non-Gov't Backed CMOs	49,026	23,098	3,849	3,903	3,246	1,704	2,773	8,855	250	1	1,347	-
Short Term Bills and Notes	480	480	-	-	-	-	-	-		-	-	-
Other Fixed Income	977	977	-							-	-	
Pooled Investments	655,037	198,626	330,311	1,872	105,338	6,475	12,415	-	-	-	-	-
Total Credit Risk of Debt Securities	1,778,060	$ 480,746	$ 398,912	$ 237,632	$ 447,215	$ 94,065	$ 75,447	$ 36,198	$ 2,671	$ 211	$ 4,736	$ 227
US Gov't & Agencies	229,361											
Total Debt Securities	$ 2,007,421											

* Ratings are determined in the following order:

1. S&P rating
2. Moody's rating
3. Fitch rating
4. Manager-determined rating (internal rating)
5. If no ratings available using steps 1-4, then shown as not rated.

** US government agency securities explicitly guaranteed by the US government are categorized here. Credit ratings of US government agency securities that are only implicitly guaranteed by the US government are categorized accordingly in the main body of this table.

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 tables as of June 30, 2012 and 2011 (expressed in thousands).

2012

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (11,683)	$ 11,796	$ 13,446	$ 13,559
Brazilian real	217	5,362	77	5,656
British pound sterling	6,868	7,480	64,386	78,734
Canadian dollar	338	1,249	4,004	5,591
Chilean peso	3,152	-	-	3,152
Czech koruna	136	1	-	137
Israeli shekel	21	-	1,234	1,255
Danish krone	37	-	1,600	1,637
Euro	(7,385)	3,435	98,386	94,436
Hong Kong dollar	36	-	7,471	7,507
Hungarian forint	197	3,966	-	4,163
Iceland krona	30	-	-	30
Indian rupee	-	-	-	-
Indonesian Rupiah	-	-	-	-
Japanese yen	(3,317)	-	50,209	46,892
Malaysian Ringgit	-	4,222	-	4,222
Mexican peso	200	12,493	-	12,693
New Zealand dollar	(2,382)	3,330	-	948
Norwegian krone	514	6	4,425	4,945
Philippine peso	-	2,251	-	2,251
Polish zloty	301	5,756	-	6,057
Singapore dollar	405	1	3,160	3,566
South African rand	56	3,967	-	4,023
South Korean won	-	4,428	572	5,000
Swedish krona	394	1	7,034	7,429
Swiss franc	-	-	19,809	19,809
Thai baht	-	-	-	-
Turkish lira	(307)	4,774	-	4,467
International commingled funds (various currencies)	-	94,744	280,732	375,476
Total international investment securities	$ (12,172)	$ 169,262	$ 556,545	$713,635

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2011

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (9,878)	$ 11,131	$ 16,244	$ 17,497
Brazilian real	(3,802)	6,877	62	3,137
British pound sterling	10,553	8,647	65,886	85,086
Canadian dollar	(1,525)	7,511	5,252	11,238
Chinese yuan renminbi	4,033	-	-	4,033
Czech koruna	381	-	-	381
Israeli shekel	6	-	1,997	2,003
Danish krone	47	-	1,878	1,925
Euro	1,608	1,825	106,726	110,159
Hong Kong dollar	6	-	8,231	8,237
Hungarian forint	527	2,642	-	3,169
Iceland krona	33	-	-	33
Indian rupee	-	745	-	745
Indonesian Rupiah	-	8,915	-	8,915
Japanese yen	(1,703)	-	54,211	52,508
Malaysian Ringgit	-	4,718	57	4,775
Mexican peso	194	7,660	-	7,854
New Zealand dollar	(2,930)	3,600	-	670
Norwegian krone	639	4,209	9,444	14,292
Philippine peso	-	2,101	-	2,101
Polish zloty	234	6,321	137	6,692
Singapore dollar	2,969	-	2,477	5,446
South African rand	282	3,148	-	3,430
South Korean won	-	7,369	966	8,335
Swedish krona	587	-	5,576	6,163
Swiss franc	385	-	20,775	21,160
Turkish lira	3,681	423	-	4,104
International commingled funds (various currencies)	-	-	182,464	182,464
Total international investment securities	$ 6,327	$ 87,842	$ 482,383	$576,552

Derivative Securities

Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from, the performance of some agreed upon benchmark. The investment policies of the SIB's clients allow the use of derivative securities to hedge or replicate underlying exposures but not for speculation. All derivatives are considered investment derivative instruments. The fair value of all derivative securities is reported in the Statements of Net Assets. At June 30, 2012 and 2011, the SIB had four types of derivative securities: futures, options, swaps and currency forwards.

Futures

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specific price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the SIB's counterparty risk. The net change in the futures contracts' value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included in net change in fair value of investments in the Statement of Changes in Net Assets and totaled $(35.0) million for fiscal year 2012 and $156.5 million for fiscal year 2011. At June 30, 2012 and 2011, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value	
	June 30, 2012	June 30, 2011
Cash & Cash Equivalent Derivative Futures		
Long	$ 188,297	$ 140,245
Short	(117,655)	(130,777)
Equity Derivative Futures		
Long	411,726	529,063
Short	-	-
Fixed Income Derivative Futures		
Long	4,710	13,821
Short	(31,035)	(94,484)
Total Futures	$ 456,043	$ 457,868

Options

Options represent or give buyers the right, but not the obligation, to buy (call) or sell (put) an asset at a preset price over a specified period. Options are traded on organized exchanges (exchange traded) thereby minimizing the SIB's counterparty credit risk. The option's price is usually a small percentage of the underlying asset's value. As a seller of a financial option, the SIB, through its investment manager, receives a premium at the beginning of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a buyer of a financial option, the SIB, through its investment manager, pays a premium at the beginning of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Gains and losses on options are determined based on fair values and recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $0.4 million for fiscal year 2012 and $(1.8) million for fiscal year 2011. At June 30, 2012 and 2011, the SIB investment portfolio had the following option balances (expressed in thousands).

Options	Fair Value June 30, 2012	Fair Value June 30, 2011
Cash & Cash Equivalent Options		
Call	$ -	$ -
Put	1	-
Equity Options		
Call	-	-
Put	-	-
Fixed Income Options		
Call	-	-
Put	5	-
Total Options	$ 6	$ -

Swaps

A swap is a derivative in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument. Specifically, the two counterparties agree to exchange one stream of cash flows for another stream. The SIB, through its investment managers, has entered into various swap agreements in an attempt to manage its exposure to interest rate and credit risk.

Interest rate risk represents the exposure to fair value losses arising from future changes in prevailing market interest rates. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty, who in turn agrees to make return interest payments that float with some reference rate.

Credit risk represents the exposure to fair value losses arising from a credit event such as default, failure to pay, restructuring or bankruptcy. In a credit default swap (CDS) contract, the protection buyer of the CDS makes a series of payments to the protection seller and, in exchange, receives a payoff if the credit instrument experiences a credit event. CDS contracts are also used to establish exposure to a desired credit instrument.

Gains and losses on swaps are determined based on fair values and are recorded with the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $921 thousand for fiscal year 2012 and $(201) thousand for fiscal year 2011. The maximum loss that would be recognized at June 30, 2012 and 2011, if all counterparties failed to perform as contracted is $1.75 million and $1.25 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2012 and 2011, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

Credit Default Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value June 30, 2012	Fair Value June 30, 2011
Deutsche Bank AG New York/Aa3	$ 45	3/20/2014	$ -	$ (8)
Deutsche Bank AG New York/Aa3	120	9/20/2013	-	1
Deutsche Bank AG New York/Aa3	75	3/20/2012	-	(2)
JP Morgan Chase Bank N.A./Aa3 (3 contracts)	11,000	10/12/2052	396	-
JP Morgan Chase Bank N.A./Aa3	400	3/20/2017	12	-
JP Morgan Chase Bank N.A./Aa3 (3 contracts)	12,700	6/20/2017	73	-
Deutsche Bank AG New York/A2	45	3/20/2014	(5)	-
Deutsche Bank AG New York/A2	120	9/20/2013	-	-
Morgan Stanley Cap Services NY/Baa1 (3 contracts)	300	3/20/2013	2	-
Citibank N.A. NY/A3	2,000	6/20/2017	68	-
Total Credit Default Swaps	$ 26,805		$ 546	$ (9)

Interest Rate Swaps

Counterparty	Notional Amount	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value June 30, 2012	Fair Value June 30, 2011
Barclays Bank PLC London (15 contracts)	(3,348)	0.283% to 7.130%	Various overnight bank rates depending on currency	12/2011 - 06/2021	Aa3	-	(19)
Barclays Bank PLC New York (13 contracts)	6,047	0.359% to 5.750%		08/2012 - 02/2022	A2	8	-
Barclays Capital Securities London (7 contracts)	(1,229)	0.329% to 5.665%		01/2012 - 08/2020	Aa3	-	(5)
Barclays Capital Securities London (7 contracts)	3,124	1.10% to 6.60%		02/2013 - 02/2022	A2	20	-
Citibank N.A. New York (10 contracts)	(2,193)	0.430% to 3.763%		01/2012 - 02/2021	A1	-	(138)
Citibank N.A. New York (11 contracts)	5,426	0.62% to 7.70%		11/2012 - 06/2022	A3	151	-
Deutsche Bank Singapore (1 contract)	316	0.345%		7/21/2012	A2	(0)	-
HSBC Bank USA New York (1 contract)	190	3.810%		1/3/2028	A1	75	-
JP Morgan Chase Bank N.A. (4 contracts)	(4,109)	0.913% to 6.380%		07/2012 - 01/2028	Aa3	(8)	-
Morgan Stanley Capital Services NY (1 contract)	290	6.370%		5/25/2022	Baa1	11	-
Morgan Stanley Capital Services NY (5 contracts)	504	2.510% to 5.110%		02/2012 - 06/2021	A2	-	(115)
Total Interest Rate Swaps	$ 5,018					$ 257	$ (277)

Currency Forwards

Currency forwards represent forward exchange contracts that are entered into in order to manage the exposure to changes in currency exchange rates on the currency denominated portfolio holdings. A forward exchange contract is a commitment to purchase or sell a currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in the net change in fair value of investments in the Statement of Changes in Net Assets and totaled $0.9 million for fiscal year 2012 and $(12.9) million for fiscal year 2011. At June 30, 2012 and 2011, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

Currency	Cost	Purchases	Sales	Fair Value 6/30/2012	Fair Value 6/30/2011
Australian dollar	$ (9,459)	$ 878	$ (10,337)	$ (9,486)	$ (9,842)
Brazilian real	4	2,684	(2,680)	217	(3,802)
British pound sterling	7,098	7,562	(464)	7,108	6,070
Canadian dollar	298	980	(682)	300	(1,554)
Chilean peso	3,206	3,206	-	3,152	-
Chinese yuan renminbi	-	-	-	-	4,033
Czech koruna	141	658	(517)	132	388
Euro	(3,514)	181	(3,695)	(3,451)	(2,400)
Hungarian forint	193	405	(212)	197	540
Japanese yen	(1,873)	-	(1,873)	(1,859)	(492)
Mexican peso	189	714	(525)	199	195
New Zealand dollar	(2,261)	632	(2,893)	(2,382)	(2,931)
Norwegian krone	269	1,084	(815)	263	495
Polish zloty	299	598	(299)	300	251
Singapore dollar	364	1,178	(814)	367	2,519
South African rand	63	665	(602)	55	282
Swedish krona	197	562	(365)	205	494
Swiss franc	-	-	-	-	83
Turkish lira	3,940	4,702	(762)	3,919	3,681
United States dollar	843	27,532	(26,689)	843	1,254
Total forwards subject to currency risk				$ 79	$ (736)

Derivative Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the value of an interest rate-based derivative investment. The SIB does not have a formal investment policy regarding such derivative investments. At June 30, 2012 and 2011, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2012

	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Futures-interest rate contracts	$ (151,319)	$ (98,853)	$ (2,736)	$ (42,526)	$ (7,204)	$ -

	Total Fair Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Options on interest rate futures	$ 6	$ -	$ 6	$ -	$ -	$ -
Swaps - interest rate contracts	257	6	4	16	30	201
Total	$ 263	$ 6	$ 10	$ 16	$ 30	$ 201

2011

	Total Notional Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Futures-interest rate contracts	$ (212,302)	$ (123,551)	$ (88,751)	$ -	$ -	$ -

	Total Fair Value	3 months or less	3 to 6 months	6 to 12 months	1-5 years	Greater than 5 years
Options on interest rate futures	$ -	$ -	$ -	$ -	$ -	$ -
Swaps - interest rate contracts	(277)	-	(7)	(14)	(11)	(245)
Total	$ (277)	$ -	$ (7)	$ (14)	$ (11)	$ (245)

Alternative Investments

The AICPA defines Alternative Investments for the purpose of performing audits. The 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.

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

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. The SIB has a dedicated asset class for private equity investments.

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.

Buyouts — these include investments in funds that seek out and purchase underperforming or undervalued companies in order to improve them and sell them or take them public many years later. These funds are also often involved in management buyouts, which are buyouts conducted by the management of the company being purchased, and they often play key roles in leveraged buyouts, which are buyouts that are funded with borrowed money.

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 SIB is including these types of investments in its private equity 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 below investment grade fixed income 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.

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, "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 a dedicated asset class for these types of investments.
>
> **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. The SIB has a dedicated asset class for these types of investments.

Securities Lending

The following represents the balances relating to the securities lending transactions at June 30, 2011 (expressed in thousands). There was no securities lending program in place for the year ended June 30, 2012.

June 30, 2011 Securities Lent	Underlying Securities	Non-Cash Collateral Value	Cash Collateral Investment Value
Lent for cash collateral:			
US agency securities	$ -	$ -	$ -
US government securities	-	-	-
US corporate fixed income securities	-	-	-
Global government fixed income securities	-	-	-
US equities	< 1	-	14
Global equities	-	-	-
Lent for non-cash collateral:			
US agency securities	-	-	-
US government securities	-	-	-
US corporate fixed income securities	-	-	-
US equities	-	-	-
Global equities	-	-	-
Total	< 1	$ -	$ 14

Note 4 - Capital Assets

	June 30, 2010	Additions	Retirements	June 30, 2011	Additions	Retirements	June 30, 2012
Office equipment	$33,911	$ -	$ (14,590)	$19,321	$ -	$0	$19,321
Less accumulated depreciation on office equipment	(28,573)	(2,288)	14,590	(16,271)	(2,288)	-	(18,559)
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation on software	(1,152,825)	(60,675)	-	(1,213,500)	-	-	(1,213,500)
	$66,013			$3,050			$762

Note 5 - State Agency Transactions

Due From/To Other State Agencies

Amounts due from/to other state agencies are as follows as of June 30, 2012 and 2011:

	2012	2011
Due To		
Information Technology Department	$ 6,234	$ 7,194
Office of Attorney General	1,336	1,439
Office of Management and Budget	9,750	3,843
Total due to other state agencies	$ 17,320	$ 12,476
Due From		
Public Employees Retirement System	$ 1,461	$ -
Total due from other state agencies	$ 1,461	$ -

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 6 - Operating Leases

RIO leases office space under an operating lease effective July 1, 2011 through June 30, 2013. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled $77,983 and $76,104 for fiscal 2012 and 2011. Minimum payments under the lease for fiscal 2013 are $76,351.

Note 7 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2012 and 2011 are summarized as follows:

	Beginning Balance 7/1/2011	Additions	Reductions	Ending Balance 6/30/2012	Amounts Due Within One Year
Accrued Leave	$129,737	$82,071	($75,350)	$136,458	$69,848

	Beginning Balance 7/1/2010	Additions	Reductions	Ending Balance 6/30/2011	Amounts Due Within One Year
Accrued Leave	$107,984	$84,726	($62,973)	$129,737	$70,469

Pension and Investment Trust Funds liquidate the accrued annual leave.

Note 8 - 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, death and disability benefits. The cost to administer the TFFR plan is financed by investment income and contributions.

Membership

As of June 30, 2012 and 2011, the number of participating employer units was 222 and 226, respectively, consisting of the following:

	2012	2011
Public School Districts	180	181
County Superintendents	8	9
Special Education Units	19	21
Vocational Education Units	5	5
Other	10	10
Total	222	226

TFFR's membership consisted of the following:

	2012	2011
Retirees and beneficiaries currently receiving benefits	7,151	6,933
Terminated employees - vested	1,483	1,463
Terminated employees - nonvested	468	407
Total	9,102	8,803
Current employees		
Vested	7,570	8,013
Nonvested	2,444	1,991
Total	10,014	10,004

Investments

Current investment guidelines set by TFFR's board specify the percentage of assets to be invested in various types of investments (global equities, global fixed income, global real assets, and cash). The Board has set 8% as the plan's actuarially assumed rate of return. 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 years ended June 30, 2012 and 2011, TFFR had net realized gains of $10,017,507 and $103,985,143 respectively.

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 8.75% of the teacher's salary. Member contributions will increase to 9.75% on 7/1/2012 and 11.75% on 7/1/2014. Employer contributions will increase to 10.75% on 7/1/2012 and 12.75% on 7/1/2014. Member and employer contributions will be reduced to 7.75% each when the fund reaches 90% funded ratio on an actuarial basis.

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 age 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

For purposes of determining pension benefits, members are classified within one of two "tiers." Tier 1 members are those with service credit on file as of July 1, 2008, and Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008. (Note: Legislation approved in 2011 will modify pension eligibility requirements for certain non-grandfathered Tier 1 members and Tier 2 members effective 7/1/2013.)

Tier 1

A Tier 1 member is entitled to receive unreduced 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.

Tier 2

A Tier 2 member is entitled to receive unreduced 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.

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.

Death and Disability Benefits

Death 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. (Note: Legislation approved in 2011 will modify disability eligibility requirements and benefit calculations effective 7/1/2013.)

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	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
2012	$ 1,748.1	$ 2,871.9	$ 1,123.8	60.9%	$ 505.3	222.4%

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, 2012	July 1, 2011
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level percent of payroll, assuming payroll increases of 3.25% per annum	Level percent of payroll, assuming payroll increases of 3.25% per annum
Amortization period	30-year open period	30-year open period
Asset valuation method	Market value of assets less unrecognized returns in each of last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period.	Market value of assets less unrecognized returns in each of last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the actuarial value, and is recognized over a five-year period.
Actuarial assumptions:		
Investment rate of return	8.00%	8.00%
Projected salary increases	4.50% to 14.75%	4.50% to 14.75%
Inflation	3.00%	3.00%
Cost of living adjustments	None	None

TFFR Plan Changes Affecting Audit Period

1. The employer contribution rate increased from 8.25% to 8.75% effective July 1, 2010. The employer contribution rate increases from 8.75% to 10.75% effective July 1, 2012, and increases thereafter to 12.75% effective July 1, 2014. The member contribution rate increases from 7.75% to 9.75% effective July 1, 2012, and increases thereafter to 11.75% effective July 1, 2014. Employer and member contributions will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets.

2. For current Tier 1 members who, as of June 30, 2013, are vested (at least 3 years of service), and at least age 55, OR the sum of the member's age and service is at least 65, are considered a Tier 1 Grandfathered member. Current Tier 1 members, who do not meet this criteria as of June 30, 2013, are considered a Tier 1 Non-grandfathered member.

3. Eligibility for normal/unreduced retirement benefits does not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective after June 30, 2013, unreduced retirement benefits start when a member reaches age 65 and is vested (3 years for Tier 1 Non-grandfathered, 5 years for Tier 2); or if earlier, when the sum of the member's age and service is at least 90, with a minimum age of 60.

4. Early retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective after June 30, 2013, the normal retirement benefit will be reduced by 8% per year from the earlier of age 65 OR the age at which the sum of the member's age and service is at least 90, with a minimum age of 60.

5. Effective after June 30, 2013, members may retire on disability after a period of at least five years of service (rather the one year of service). The amount of the benefit is based on a 2% multiplier and actual service (rather than a minimum of twenty years of service in the current calculation).

6. Effective July 1, 2012, member contributions are required on re-employed retirees.

7. Effective August 1, 2011, beneficiary and death benefit provisions were updated, and the 60-month death payment benefit was removed.

Note 9 - 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 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 (as of January 1, 2012) is 9.12% of annual covered payroll as established by the NDCC. Prior to that date the contribution rate was 8.12%. RIO's contributions to PERS for the years ended June 30, 2012, 2011, and 2010, were $102,664, $84,091, and $82,788, equal to the required contributions for each year plus a 1.14% contribution for retiree health benefits.

Note 10 - 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 11 - Commitments

The State Investment Board has at June 30, 2012 committed to fund certain alternative investment partnerships in the amount of $1.13 billion. Funding of $802.7 million has been provided leaving an unfunded commitment of approximately $325.4 million.

Note 12 - Pending Litigation

WG Trading

In February, 2009, the State Investment Board (SIB) was notified of legal action being taken against one of its investment advisors. The principals of WG Trading Company, the broker/dealer for the Westridge Capital Management portfolios, were charged with securities fraud for allegedly diverting investor funds for their personal use. The SIB was an investor along with numerous other public and private pension funds. Investors had been offered two options: invest directly in WG Trading Company (WGTC) by purchasing a limited partnership interest in it; or lend money to WG Trading Inc. (WGTI). WGTC was subject to SEC regulation, capital requirements, reporting and oversight, whereas WGTI was an unregulated and unaudited entity. SIB chose to invest directly in the regulated, audited WGTC.

At the time the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission (SEC) charges were filed, the court appointed a receiver to take control of any recoverable assets. The receiver recommended the court distribute the recovered assets as follows: pool the assets of WGTC and WGTI, and distribute those assets *pro rata* to all investors. The receiver's method did not take into consideration the terms in which each investor entered into the investment (i.e. limited partnership interest versus note holder agreement), even though the majority of the WGTC assets were intact and the fraud predominantly occurred with WGTI. The SIB joined with other WGTC investors and objected to a *pro rata* distribution to all investors. The receiver and the WGTI investors opposed. The court agreed with the receiver and in April, 2011, the recovered assets were distributed to all investors in a *pro rata* distribution based on net investment balances. The SIB received a total distribution of $63.9 million, which represented approximately 85% of its remaining cost basis with WGTC. The total realized loss included in the June 30, 2011, financial statements attributable to the fraud is $11.3 million and is allocated to the participating pooled funds as follows (expressed in thousands):

North Dakota Retirement and Investment Office
Notes to Combined Financial Statements
June 30, 2012 and 2011

	Total Recovery (April 2011)	Cost Basis	Realized loss
Teachers' Fund for Retirement	$ 23,001	$ 27,080	$ (4,079)
Public Employees Retirement System	26,012	30,626	(4,614)
Bismarck City Employee Pension Plan	503	592	(89)
Bismarck City Police Pension Plan	268	316	(48)
Job Service of ND	1,408	1,657	(249)
City of Fargo Employee Pension Plan	445	524	(79)
Workforce Safety & Insurance	10,616	12,499	(1,883)
State Fire & Tornado	512	603	(91)
State Bonding	51	60	(9)
Risk Mgmt	88	104	(16)
Risk Mgmt Work Comp	63	74	(11)
Insurance Regulatory Trust Fund	16	18	(2)
Petroleum Tank Release Comp Fund	155	182	(27)
ND Ass'n of Counties Fund	54	64	(10)
City of Bismarck Deferred Sick Leave	13	15	(2)
City of Fargo FargoDome Permanent Fund	718	846	(128)
Cultural Endowment Fund	8	10	(2)
Totals	$ 63,931	$ 75,270	$ (11,339)

The SIB does not agree with the method used to distribute the assets, and along with the other WGTC limited partners is appealing the District Court's ruling. It is the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners are entitled to a greater share of the recovered assets than the unaudited note holders. At this time it is difficult to estimate the potential additional distribution that could be received if the appeal is successful, therefore, no amount has been included on the balance sheet as of June 30, 2012 or 2011.

Tribune

The SIB has been listed as a defendant in a putative defense class action originally filed in the United States Bankruptcy Court for the District of Delaware, styled The Official Committee of Unsecured Creditors of Tribune Company v. Fitzsimmons, et al., Bankr. Case No. 10-54010 (the "Adversary Proceeding"), and subsequently transferred to a multi-district litigation proceeding in the United States District Court for the Southern District of New York, Case Nos. 12-cv-02652, and 11-md-02296.

The Adversary Proceeding arises out of a leveraged buyout by which the Tribune Company converted to a privately held company in 2007 pursuant to which beneficial owners of Tribune stock were paid $34 a share. The Official Committee of Unsecured Creditors (the "Committee") contends that there was misconduct in connection with that offering, including fraud. No such allegations have been made against the SIB. Nevertheless, the Committee seeks to recover the payments made pursuant to the offering to beneficial owners, allegedly including the SIB (among thousands of other putative shareholder defendants) in connection with the leveraged buyout. The SIB's records indicate that it received, in the aggregate, $1,003,000.00 in Tribune leveraged buyout payments, comprised of two separate payments.

The Committee purportedly served the SIB with a copy of the summons and complaint in the Adversary Proceeding on or about February 13, 2012. In large part, however, the Adversary Proceeding has been stayed from its inception, and no substantive motions or answers have been filed by the SIB or any other defendant in response to the complaint. The Court has preliminary indicated that motion to dismiss briefing will be due in November 2012, with a hearing sometime in March 2013. Under the circumstances, we are not able to assess the likelihood of a loss to the State or predict the probability of a favorable or unfavorable outcome or the amount of potential loss, in the event of an unfavorable outcome.

North Dakota Retirement and Investment Office
Required Supplementary Information
June 30, 2012 and 2011

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
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
2009	1,900.3	2,445.9	545.6	77.7	440.0	124.0
2010	1,842.0	2,637.2	795.2	69.8	465.0	171.0
2011	1,822.6	2,749.8	927.2	66.3	488.8	189.7
2012	1,748.1	2,871.9	1,123.8	60.9	505.3	222.4

Schedule of Employer Contributions
North Dakota Teachers' Fund for Retirement

	GASB 25 Annual Required Contribution (ARC)		Actual Employer Contributions		Percentage of GASB ARC Contributed
Fiscal Year	% of Payroll[1]	Amount[2]	% of Payroll	Amount	
2007	12.29%	$50,532,462	7.75%	$31,865,466	63.1%
2008	10.15%	44,114,585	7.75%	33,683,550	76.4%
2009	9.24%	41,986,174	8.25%	37,487,655	89.3%
2010	10.78%	52,053,217	8.25%	39,836,646	76.5%
2011	12.79%	65,112,696	8.75%	44,545,433	68.4%
2012	13.16%	69,373,794	8.75%	46,126,193	66.5%

1. The GASB ARC for each fiscal year is based on the actuarial valuation as of the beginning of the year. Therefore, the FY2012 ARC is based on the July 1, 2011 valuation. The ARC is defined as the contribution rate required to pay the employer normal cost and to amortize the unfunded actuarial accrued liability over a 30-year period as a level percentage of payroll, but not less than the statutory contribution rate.

2. The dollar amount of the ARC is based on actual payroll for the year. The FY2012 ARC shown above differs from the estimated dollar amount shown in the July 1, 2011 actuarial valuation report because of differences between estimated and actual FY2012 payroll.

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	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	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund
Assets:											
Investments											
Equities	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Equity pool	890,663,278	27,342,251	13,174,506	34,308,190	15,970,037	24,097,344	2,666,215	275,288,439	8,563,036	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	404,805,375	19,734,123	7,403,755	50,097,236	7,036,817	10,438,691	1,102,504	1,039,343,979	13,422,707	1,658,363	3,333,169
Real assets pool	344,423,175	12,947,067	4,905,930	-	4,569,923	6,360,775	430,221	95,897,221	-	-	-
Private equity pool	103,233,766	640,767	823,410	-	1,593,469	2,230,176	245,202	-	-	-	-
Cash pool	28,494,539	502,582	260,798	284,806	425,720	826,921	54,165	14,199,479	2,408,042	1,370,919	3,372,174
Total investments	1,771,620,133	61,166,790	26,568,399	84,690,232	29,595,966	43,953,907	4,498,307	1,424,729,118	24,393,785	3,029,282	6,705,343
Invested sec lending collateral	-	-	-	-	-	-	-	-	-	-	-
Investment income receivable	2,692,043	26,690	23,238	63,276	(36,514)	(9,727)	(2,930)	9,979,790	129,089	26,945	58,092
Operating Cash	66,326	-	-	-	-	-	-	53,797	988	1,117	1,015
Miscellaneous receivable	4,369	-	-	-	-	-	-	3,441	59	7	16
Total assets	1,774,382,871	61,193,480	26,591,637	84,753,508	29,559,452	43,944,180	4,495,377	1,434,766,146	24,523,921	3,057,351	6,764,466
Liabilities:											
Investment expenses payable	2,089,183	75,461	32,581	69,349	35,545	52,570	4,292	936,846	19,874	941	1,902
Securities lending collateral	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	12,705	-	-	-	-	-	-	9,544	167	20	46
Accrued expenses	24,906	-	-	-	-	-	-	19,414	359	42	114
Miscellaneous payable	-	2,277	1,001	3,275	1,141	1,465	250	-	-	-	-
Due to other state agencies	1,521	-	-	-	-	-	-	1,198	21	3	6
Total liabilities	2,128,315	77,738	33,582	72,624	36,686	54,035	4,542	967,002	20,421	1,006	2,068
Net assets held in trust for external investment pool participants	$ 1,772,254,556	$ 61,115,742	$ 26,558,055	$ 84,680,884	$ 29,522,766	$ 43,890,145	$ 4,490,835	$ 1,433,799,144	$ 24,503,500	$ 3,056,345	$ 6,762,398
Each participant unit is valued at $1.00											
Participant units outstanding	1,772,254,556	61,115,742	26,558,055	84,680,884	29,522,766	43,890,145	4,490,835	1,433,799,144	24,503,500	3,056,345	6,762,398

See Notes to Financial Statements

North Dakota Retirement and Investment Office

Combining Statement of Net Assets – Investment Trust Funds – Fiduciary Funds

June 30, 2012

(With Comparative Totals for 2011)

Insurance Pool Participants										Individual Investment Acct.	Totals	
Insurance Regulatory Trust Fund	Cultural Endowment Fund	Risk Mgmt	Risk Mgmt Work Comp	ND Ass'n. of Counties Fund	PERS Group Insurance	Budget Stabilization Fund	Legacy Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	PERS Retiree Health Credit Fund	2012	2011
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 36,131,488	$ 36,131,488	$ 34,084,756
289,174	156,681	1,586,358	1,894,470	493,924	-	-	-	276,579	16,003,559	-	1,312,774,041	1,411,952,870
-	-	-	-	-	-	383,678,688	397,275,464	-	-	25,920,425	806,874,577	22,935,906
332,773	105,304	3,276,241	2,966,252	945,998	-	-	-	603,062	15,775,794	-	1,582,382,143	2,005,016,528
-	13,966	-	-	-	-	-	-	-	-	-	469,548,278	196,439,719
-	-	-	-	-	-	-	-	-	-	-	108,766,790	67,591,681
331,606	8,150	254,671	147,249	210,472	6,899,785	8,940,825	38,124	45,332	277,854	-	69,354,213	116,312,551
953,553	284,101	5,117,270	5,007,971	1,650,394	6,899,785	392,619,513	397,313,588	924,973	32,057,207	62,051,913	4,385,831,530	3,854,334,011
-	-	-	-	-	-	-	-	-	-	-	-	13,600
8,819	83	49,270	6,621	1,987	19	2,447,112	1,691,686	1,501	30,127	67,527	17,254,744	12,821,803
874	361	979	1,004	-	-	13,524	12,787	-	-	-	152,772	153,724
2	1	11	10	-	-	948	642	-	-	-	9,506	12,232
963,248	284,546	5,167,530	5,015,606	1,652,381	6,899,804	395,081,097	399,018,703	926,474	32,087,334	62,119,440	4,403,248,552	3,867,335,370
614	265	3,938	4,131	1,244	-	119,850	129,089	736	34,467	37,054	3,649,932	3,573,700
-	-	-	-	-	-	-	-	-	-	-	-	13,600
8	2	31	28	-	-	2,482	1,681	-	-	-	26,714	54,288
15	4	62	53	-	-	3,629	1,827	-	-	-	50,425	51,601
-	-	-	-	250	250	-	-	250	1,203	2,175	13,537	18,091
-	-	4	3	-	-	330	223	-	-	-	3,309	1,196
637	271	4,035	4,215	1,494	250	126,291	132,820	986	35,670	39,229	3,743,917	3,712,476
$ 962,611	$ 284,275	$ 5,163,495	$ 5,011,391	$ 1,650,887	$ 6,899,554	$ 394,954,806	$ 398,885,883	$ 925,488	$ 32,051,664	$ 62,080,211	$ 4,399,504,635	$ 3,863,622,894
962,611	284,275	5,163,495	5,011,391	1,650,887	6,899,554	394,954,806	398,885,883	925,488	32,051,664	62,080,211	4,399,504,635	3,863,622,894

	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	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund	Insurance Regulatory Trust Fund
Additions:												
Investment income:												
Net change in fair value of investments	$ (40,138,712)	$ 176,642	$ (10,241)	$ 456,149	$ (294,620)	$ (429,165)	$ (60,414)	$ 39,444,727	$ 387,069	$ 80,255	$ 161,701	$ (49,067)
Interest, dividends and other income	43,094,734	1,664,728	673,595	2,908,939	688,900	1,003,146	111,050	47,896,009	819,440	79,056	161,523	43,279
	2,956,022	1,841,370	663,354	3,365,088	394,280	573,981	50,636	87,340,736	1,206,509	159,311	323,224	(5,788)
Less investment expenses	6,284,634	213,743	92,910	264,891	100,760	151,256	14,575	4,683,033	58,902	3,503	7,093	2,259
Net investment income	(3,328,612)	1,627,627	570,444	3,100,197	293,520	422,725	36,061	82,657,703	1,147,607	155,808	316,131	(8,047)
Securities lending activity:												
Securities lending income	10,138	303	143	436	165	227	28	5,619	118	13	25	11
Less Securities lending expenses	(1,505)	(60)	(26)	(73)	(26)	(37)	(6)	(1,749)	(53)	3	7	(9)
Net securities lending income	11,643	363	169	509	191	264	34	7,368	171	10	18	20
Total Additions	(3,316,969)	1,627,990	570,613	3,100,706	293,711	422,989	36,095	82,665,071	1,147,778	155,818	316,149	(8,027)
Deductions:												
Administrative Expenses	265,959	-	-	-	-	-	-	186,926	3,340	990	1,008	996
Net change in net assets resulting from operations	(3,582,928)	1,627,990	570,613	3,100,706	293,711	422,989	36,095	82,478,145	1,144,438	154,828	315,141	(9,023)
Unit transactions at net asset value of $1 per unit:												
Purchase of units	-	6,000,000	1,500,000	-	1,000,000	4,004,185	259,727	24,000,000	-	-	-	-
Redemption of units	(24,500,000)	-	-	(4,137,055)	(575,000)	(3,550,470)	(218,759)	(22,500,000)	(1,800,000)	-	-	(2,700,000)
Net change in net assets and units resulting from unit transactions	(24,500,000)	6,000,000	1,500,000	(4,137,055)	425,000	453,715	40,968	1,500,000	(1,800,000)	-	-	(2,700,000)
Total change in net assets	(28,082,928)	7,627,990	2,070,613	(1,036,349)	718,711	876,704	77,063	83,978,145	(655,562)	154,828	315,141	(2,709,023)
Net assets:												
Beginning of year	1,800,337,484	53,487,752	24,487,442	85,717,233	28,804,055	43,013,441	4,413,772	1,349,820,999	25,159,062	2,901,517	6,447,257	3,671,634
End of year	$ 1,772,254,556	$ 61,115,742	$ 26,558,055	$ 84,680,884	$ 29,522,766	$ 43,890,145	$ 4,490,835	$ 1,433,799,144	$ 24,503,500	$ 3,056,345	$ 6,762,398	$ 962,611

See Notes to Financial Statements

North Dakota Retirement and Investment Office
Combining Statement of Changes in Net Assets – Investment Trust Funds – Fiduciary Funds
Year Ended June 30, 2012
(With Comparative Totals for 2011)

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	PERS Group Insurance	Budget Stabilization Fund	Legacy Fund	City of Bismarck Deferred Sick Leave	City of Fargo FargoDome Fund	DPI Board Certification Fund	PERS Retiree Health Credit Fund	2012	2011
$ -	$ 4,789	$ 188,985	$ 167,998	$ (21,216)	$ -	$ (2,472,612)	$ (50,393)	$ 19,419	$ (25,951)	$ -	$ 163,508	$ (2,301,149)	$ 461,489,827
4,137	8,718	159,639	135,705	53,400	34,885	10,787,170	2,594,368	32,907	972,310	57	1,586,827	115,514,522	100,078,804
4,137	13,507	348,624	303,703	32,184	34,885	8,314,558	2,543,975	52,326	946,359	57	1,750,335	113,213,373	561,568,631
-	890	10,414	9,803	4,749	1,000	396,900	227,390	3,235	101,630	-	146,395	12,779,965	12,614,624
4,137	12,617	338,210	293,900	27,435	33,885	7,917,658	2,316,585	49,091	844,729	57	1,603,940	100,433,408	548,954,007
-	1	23	18	7	-	-	-	5	120	-	-	17,400	293,286
-	(1)	6	4	(4)	-	-	-	(2)	(137)	-	-	(3,668)	(48,354)
-	2	17	14	11	-	-	-	7	257	-	-	21,068	341,640
4,137	12,619	338,227	293,914	27,446	33,885	7,917,658	2,316,585	49,098	844,986	57	1,603,940	100,454,476	549,295,647
742	402	985	987	-	-	50,498	16,360	-	-	190	-	529,383	897,242
3,395	12,217	337,242	292,927	27,446	33,885	7,867,160	2,300,225	49,098	844,986	(133)	1,603,940	99,925,093	548,398,405
-	-	500,000	1,000,000	-	216,776,254	61,414,562	396,585,658	-	-	-	3,425,000	716,465,386	214,994,890
(2,325,883)	-	-	-	-	(215,500,000)	-	-	-	(2,200,000)	(501,571)	-	(280,508,738)	(278,091,444)
(2,325,883)	-	500,000	1,000,000	-	1,276,254	61,414,562	396,585,658	-	(2,200,000)	(501,571)	3,425,000	435,956,648	(63,096,554)
(2,322,488)	12,217	837,242	1,292,927	27,446	1,310,139	69,281,722	398,885,883	49,098	(1,355,014)	(501,704)	5,028,940	535,881,741	485,301,851
2,322,488	272,058	4,326,253	3,718,464	1,623,441	5,589,415	325,673,084	-	876,390	33,406,678	501,704	57,051,271	3,863,622,894	3,378,321,043
$ -	$ 284,275	$ 5,163,495	$ 5,011,391	$ 1,650,887	$ 6,899,554	$ 394,954,806	$ 398,885,883	$ 925,488	$ 32,051,664	$ -	$ 62,080,211	$ 4,399,504,635	$ 3,863,622,894

North Dakota Retirement and Investment Office

Pension and Investment Trust Funds – Schedule of Administrative Expenses

Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Salaries and wages:				
Salaries and wages	$624,735	$609,564	$445,615	$409,882
Fringe benefits	227,391	223,493	124,842	106,270
Total salaries and wages	852,126	833,057	570,457	516,152
Operating expenses:				
Information services	74,036	74,221	11,899	10,594
Intergovernmental services	6,210	5,644	2,790	2,087
Professional services	161,937	512,737	45,650	382,628
Rent of building space	54,665	55,018	23,318	21,086
Mailing services and postage	39,147	52,399	23,926	31,648
Travel and lodging	21,665	25,680	25,454	33,831
Printing	10,498	23,125	5,345	9,170
Supplies	1,658	5,087	847	3,369
Professional development	9,819	11,201	1,882	3,173
Outside services	8,421	7,948	2,679	90,957
Small office equipment expense	700	10,900	2,527	2,115
Miscellaneous fees	3,771	3,000	2,908	3,867
Resource and reference materials	443	507	2,149	1,411
IT contractual services	154,436	102,492	1,326	1,982
Repairs - office equipment	9	68	340	24
Insurance	754	588	279	218
Total operating expenses	548,170	890,615	153,319	598,160
Pension trust portion of investment program expenses	194,393	217,070	(194,393)	(217,070)
Depreciation	2,288	62,963	-	-
Total administrative expenses	1,596,976	2,003,705	529,383	897,242
Less - nonappropriated items:				
Professional fees	161,937	512,737	45,650	382,628
Other operating fees paid under continuing appropriation	19,305	22,997	40,136	45,695
Depreciation	2,288	62,963	-	-
Accrual adjustments to employee benefits	5,557	15,457	1,164	6,295
Total nonappropriated items	189,087	614,154	86,951	434,618
Total appropriated expenditures	$ 1,407,890	$ 1,389,551	$ 442,432	$ 462,625

North Dakota Retirement and Investment Office
Schedule of Appropriations – Budget Basis – Fiduciary Funds
July 1, 2011 to June 30, 2013 Biennium

	Approved 2011-2013 Appropriation	2009-2011 Appropriation Adjustment	Adjusted 2011-2013 Appropriation	Fiscal 2012 Expenses	Unexpended Appropriations
All Fund Types:					
Salaries and wages	$ 3,203,114	$ -	$ 3,203,114	$ 1,415,862	$ 1,787,252
Operating expenses	947,840	-	947,840	434,460	513,380
Contingency	82,000	-	82,000	-	82,000
Total	$ 4,232,954	$ -	$ 4,232,954	$ 1,850,322	$ 2,382,632

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

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2012
Administrative expenses as reflected in the financial statements	2,126,359
Less:	
Professional fees*	(207,587)
Other operating fees paid under continuing appropriations*	(59,441)
Depreciation expense	(2,288)
Changes in annual leave and FICA payments	(6,721)
Total appropriated expenses	$1,850,322

* 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 and Investment Trust Funds – Schedule of Consultant Expenses
Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Actuary fees:				
Gabriel, Roeder, Smith & Co.	$ -	$ 254,291	$ -	$ -
Segal Company	93,777	-	-	-
Auditing fees:				
CliftonLarsonAllen LLC	44,755	-	24,220	-
Eide Bailly, P.C.	(5,461)	46,768	(2,789)	23,882
CliftonGunderson LLC	-	24,379	-	53,271
Total Auditing Fees	39,294	71,147	21,431	77,153
Disability consulting fees:				
Dr. G.M. Lunn	300	500	-	-
Legal fees:				
Calhoun Law Group P.C.	5,748	16,348	-	-
K&L Gates LLP	6,742	136,904	8,508	261,400
Jenner & Block	978	13,268	1,903	25,102
ND Attorney General	15,098	20,279	13,808	18,973
Total legal fees:	28,566	186,799	24,219	305,475
Total consultant expenses	$ 161,937	$ 512,737	$ 45,650	$ 382,628

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Investment Expenses
Years Ended June 30, 2012 and 2011

	Pension Trust		Investment Trust	
	2012	2011	2012	2011
Investment managers' fees:				
Global equity managers	$ 628,427	$ -	793,618	$ -
Domestic large cap equity managers	1,162,581	2,137,914	1,814,098	3,200,378
Domestic small cap equity managers	674,689	1,224,383	1,105,160	1,701,887
International equity managers	1,027,046	1,354,642	1,586,055	1,401,715
Emerging markets equity managers	428,517	1,058,054	590,141	1,211,990
Domestic fixed income managers	712,767	1,511,673	3,985,356	5,264,491
Below investment grade fixed income managers	990,581	2,783,656	1,264,007	2,483,649
Inflation protected assets managers	-	-	2,324,656	1,648,218
International fixed income managers	293,376	293,805	370,977	360,280
Real estate managers	1,628,104	1,952,869	2,784,378	2,224,531
Infrastructure managers	886,429	-	1,266,196	-
Timber managers	451,879	-	584,518	-
Private equity managers	2,798,325	1,261,507	2,920,720	1,351,879
Short term fixed income managers	-	-	564,284	217,963
Cash & equivalents managers	23,326	24,577	49,510	38,069
Balanced account managers	-	-	249,704	224,707
Total investment managers' fees	11,706,050	13,603,080	22,253,378	21,329,758
Custodian fees	247,562	321,522	552,859	606,384
Investment consultant fees	96,205	150,457	232,947	229,819
SIB Service Fees	-	-	45,891	70,980
Total investment expenses	$ 12,049,817	$ 14,075,059	$ 23,085,076	$ 22,236,940
Securities lending fees	$ (5,384)	$ (56,544)	$ (3,668)	$ (48,354)

Reconciliation of investment expenses to financial statements

	2012	2011	2012	2011
Investment expenses as reflected in the financial statements	$ 5,661,973	$ 6,430,327	$ 12,779,965	$ 12,614,624
Plus investment management fees included in investment income				
Domestic large cap equity managers	136,427	445,019	197,944	708,369
Domestic small cap equity managers	437,092	858,551	547,055	986,777
International equity managers	179,602	234,358	281,352	275,330
Emerging markets equity managers	101,321	649,968	137,180	742,194
Domestic fixed income managers	403,043	910,025	2,073,076	2,314,772
Below investment grade fixed income managers	664,742	2,394,957	857,137	2,136,880
Inflation protected assets managers	-	-	1,228,180	451,705
Real estate managers	871,583	1,020,107	832,223	661,497
Infrastructure managers	446,542	-	622,240	-
Timber managers	451,879	-	584,518	-
Private equity managers	2,695,613	1,115,854	2,814,550	1,195,895
Short term fixed income managers	-	-	18,401	22,674
Cash equivalents managers	-	15,893	-	25,401
Balanced account managers	-	-	111,255	100,823
Investment expenses per schedule	$ 12,049,817	$ 14,075,059	$ 23,085,076	$ 22,236,940

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INVESTMENT SECTION

ND Retirement and Investment Office

State Investment Board
Teachers' Fund for Retirement

1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100
Telephone 701-328-9885
Toll Free 800-952-2970
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November 30, 2012

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

Dear Board Members:

This report is a summary of the North Dakota pension and insurance pools' investment portfolios and market environment for the fiscal year ended June 30, 2012.

Introduction

For the fiscal year ended June 30, 2012, the $3.7 billion North Dakota pension investment pool portfolio experienced a net total return of -0.46%. The Teachers' Fund for Retirement, a participant in the pension pool, had a net loss of -0.97% for the year. The insurance investment pool, valued at $2.3 billion on June 30, 2012, returned 4.66% net, during the same time frame. The investment return calculations were prepared using a monthly time-weighted rate of return methodology based upon fair values and are subject to independent verification.

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

Our investment program's cost as measured by expense ratio is 70.3 basis points for the pension pool and 38.2 basis points for the insurance pool 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, 2012, as measured by standard deviation has been 15.43% for the pension pool and 6.98% for the insurance pool. Risk exposure for each participating fund is also limited in accordance with the guidelines presented in the Investment Section.

Economic Overview

The new fiscal year began where the last one left off; plunging equity markets, spiking volatility, and a rush into "safe" investments, such as U.S. Treasuries. Risk aversion arose in part as a result of the downgrade of U.S. Government debt by the rating agency Standard & Poor's. As the Federal Reserve's second round of monetary easing came to an end in June 2011 the next round was announced. "Operation Twist" was designed to bring down long-term borrowing costs for companies and individuals. Even though the capital markets responded well to these announcements, the impact on the real economy was unclear at best. GDP only grew 2.2% for the fiscal year ended June 2012, which was only a slight improvement over the prior year's 1.6% growth. There are few signs that point to a more robust economy in the future.

After reaching 3.9% in September, inflation steadily declined the rest of the year, hitting 1.7% by fiscal year end. While the unemployment rate remained well above historical levels, it too gradually dropped throughout the fiscal year, from 9.1% to 8.2%. Unfortunately, the labor force participation rate also dropped slightly to 63.8%, well below a 30 year average of about 66%.

The economy grew at a modest pace but continued to fight high unemployment, a weak housing market, and modest consumer spending. The Fed is also still making attempts to stimulate the economy through very loose monetary policy. In fact, shortly after the end of the fiscal year the Fed announced another stimulus program beyond the first three ("QE1", "QE2", and "Operation Twist). The new program, nicknamed "QE3", differs from the others by lacking a specified end date. Under this program the Federal Reserve will purchase $40 billion of agency mortgage backed securities every month until they see substantial improvement in the employment situation.

Global Equity Overview

Domestic Equity

The fiscal year ended June 30, 2012, brought modest returns across the broad domestic equity market. The S&P 1500 Index, a broad market indicator for the U.S. stock market, finished the fiscal year with a return of +4.63%. The first and last quarters of the fiscal year were negative, but the middle two quarters were strong (-14.61%; +12.10%; +12.64%; -2.96%, respectively). Large cap stocks performed better than small cap stocks during the fiscal year. The S&P 600, a gauge of small cap stock performance, underperformed its large cap peer (the S&P 500 index), +1.43% to +5.45%. Growth stocks held up better than value stocks during fiscal year 2012. The Russell 3000 Growth Index advanced 5.05% versus a gain of 2.64% for the Russell 3000 Value Index.

International Equity

Developed International equity markets, as represented by the MSCI EAFE Index, fell in fiscal year 2012. The index returned -13.83%, which was drastically below the 30.36% gain in the 2011 fiscal year. As in the U.S., growth stocks produced better returns than value stocks in the developed world's stock markets. For the trailing twelve-months ended June 30, 2012, the MSCI EAFE Growth Index fell 12.56% while the MSCI EAFE Value Index was down 15.16%. Emerging market returns slightly trailed developed market returns in fiscal year 2012 as the MSCI Emerging Markets Index declined 15.94%. In sum, fiscal 2012 was a tough year for the world's stock markets.

Private Equity

The private equity market grew at a faster pace in fiscal year 2012 as more institutional investors placed capital into new programs. According to "Buyouts" newsletter, 437 transactions closed in the amount of $143 billion during the 2012 fiscal year. This is an increase in the total number of transactions from fiscal year 2011 (347) and nearly 32% more dollar volume ($109 billion). 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, 2012, it is worth noting that the pension pool's private equity allocation of total fund assets was 4.8%. The market value of the private equity allocation, including investment returns and net new investment, gained 5.12% during the fiscal year.

Global Fixed-Income Overview

Domestic Fixed-Income

The U.S. bond market, as measured by the Barclays Capital Aggregate Bond Index, had a +7.47% return for the four calendar quarters ended 6/30/2012. With fears of a global recession and other economic uncertainty (such as a potential breakup of the European Union), investors fled the equity markets into the relative safe haven of the bond market, particularly the government bond market. Treasury yields fell across the curve but most significantly fell at the long end. When compared to fiscal year 2011, yield spreads for non-government bonds widened during fiscal year 2012.

The Barclays Capital Government/Credit Index returned +8.78% over the fiscal year. This return was substantially below the +24.58% gain of the Barclays Capital Government/Credit Long Index. The Barclays Capital Credit Index rose 9.54% for the trailing twelve-months as company balance sheets continued to improve. High yield investors saw positive returns; the Barclays Capital High Yield Index returned +7.27% for the year ended June 30, 2012.

International Fixed-Income

The International fixed income markets continued to be affected by the debt crisis that started with Greece but spread to many other Eurozone members. Largely due to these on-going and unresolved issues, the Citi Euro Government Bond Index fell 6.15% while the rest of the world showed gains (+0.44% for the Citi non-U.S. World Government index; this index includes the poor return from Europe). As was the case at the end of the prior fiscal year, European Union leaders continued their efforts to contain the debt crisis through many measures. However, investors remained unconvinced that these new steps will solve the underlying problem.

The U.S. Dollar appreciated relative to most foreign currencies during the fiscal year, which hurt U.S. investors' foreign bond returns. In U.S. Dollar-denominated returns, the Citi Non-U.S. World Government Bond Index rose 0.44% for the year ended 6/30/12. For comparative purposes, the local currency return – the currency where the investments are actually made – for the Citi Non-U.S. World Government Bond Index was +6.58%. Emerging Market countries experienced positive returns for fiscal year 2012; the JP Morgan Emerging Markets Bond Plus Index gained 11.15%.

Global Real Assets Overview

Real Estate
The NCREIF Property Index, a measure of the private real estate market, rose 12.04% during the 2012 fiscal year. The index was positive in each of the four quarters, extending its positive streak to ten (10) straight quarters. Capitalization rates have come down since the previous fiscal year and returns are positive across sectors. The NAREIT Equity Index, a measure of the public securities real estate market, gained 12.92% during the 2012 fiscal year.

Timber
Over the last several years timber has become an increasingly important investment for many plan sponsors. As of June 30, 2012, the total market size of the NCREIF Timberland Property Index reached nearly $23 billion representing approximately 13.3 million acres of land. The index returned 1.13% for the fiscal year, consisting of a -1.62% appreciation return and a +2.79% income return. The Pacific Northwest was the best performing region for the year, gaining 4.16%.

Infrastructure
Private infrastructure fund raising remained competitive with a record 144 funds on the road seeking capital during fiscal year 2012. This represents a 15% increase from the prior year. Despite the expanded opportunity set, the market did not experience a material increase from investor capital commitments, in part due to the uncertainty within the Eurozone. As a result, several managers have lowered their fund raising targets. The number of deals made by infrastructure managers has remained flat, as the need for infrastructure investments have been off-set by the lack of affordable long-term debt financing. A widely accepted private market index for infrastructure still does not exist, making yearly market performance challenging to evaluate.

Summary
Following two fiscal years of double-digit returns, fiscal year 2012 returns reflect a challenging environment in which top-down global macro forces dominated asset class performance. The pension pool failed to deliver favorable results on both an absolute and relative basis. The performance of the insurance pool was positive in absolute terms and slightly negative relative to its policy benchmark.

As a result of asset/liability studies that were conducted for the TFFR and Public Employees Retirement System (PERS) portfolios, new policy target allocations and a broad asset allocation framework were adopted and implemented during the course of the fiscal year. We believe that these independent reviews as well as other investment initiatives will further optimize the investment programs of both the pension and insurance pools in the low return, high volatility environment.

Additionally, the global capital markets have become an important consideration when constructing a portfolio. The SIB will need to be prepared to take advantage of investment opportunities throughout the world as they occur. The SIB will continue to invest the monies entrusted to them in a fiduciary sound manner, while at the same time explore investment opportunities that will add investment return to expected benchmark return expectations.

Sincerely,

Darren Schulz

DARREN SCHULZ, CFA
Interim Chief Investment Officer

INVESTMENT PERFORMANCE SUMMARY
JUNE 30, 2012

			Rates of Return (net of fees)									
	Fair Value	**% Of Pool**	**For Fiscal Year Ended 6/30**					**Annualized**				
PENSION POOL PARTICIPANTS			2012	2011	2010	2009	2008	3 Years	5 Years	10 Years	20 Years	30 Years
Teachers' Fund for Retirement	$1,631,302,380	44.6%	-0.97%	24.21%	13.87%	-27.44%	-7.51%	11.88%	-1.23%	6.01%	7.06%	8.79%
Public Employees Retirement System	1,774,312,176	48.5%	0.06%	21.43%	13.67%	-24.50%	-5.60%	11.36%	-0.31%	6.29%	7.53%	9.57%
Bismarck City Employee Pension Fund	$61,193,480	1.7%	1.57%	20.32%	12.74%	-20.61%	-3.82%	11.27%	1.02%	6.40%	7.60%	*
Bismarck City Police Pension Fund	$26,591,637	0.7%	1.31%	21.10%	13.30%	-22.59%	-4.69%	11.60%	0.51%	6.27%	7.40%	*
Job Service of North Dakota	$84,753,508	2.3%	3.09%	16.39%	13.63%	-16.62%	-1.64%	10.89%	2.26%	6.60%	*	*
City of Fargo Pension Fund	$29,559,452	0.8%	0.97%	21.58%	14.82%	-24.88%	*	*	*	*	*	*
City of Grand Forks Pension Fund	$43,944,180	1.2%	1.09%	21.64%	13.91%	*	*	*	*	*	*	*
Grand Forks Park District Pension Fund	$4,495,377	0.1%	0.86%	20.98%	*	*	*	*	*	*	*	*
Subtotal Pension Pool Participants	3,656,152,190	100.0%										
INSURANCE POOL PARTICIPANTS												
Workforce Safety & Insurance Fund	1,434,708,908	61.9%	6.14%	13.26%	11.94%	-10.25%	0.57%	10.40%	3.97%	5.90%	7.21%	*
Legacy Fund	399,005,274	17.2%	*	*	*	*	*	*	*	*	*	*
State Fire and Tornado Fund	24,522,874	1.1%	4.93%	14.52%	14.52%	-9.85%	-4.01%	11.23%	3.56%	5.87%	6.16%	*
State Bonding Fund	3,056,227	0.1%	5.31%	5.01%	8.63%	-15.49%	-4.14%	6.30%	-0.54%	3.98%	5.23%	*
Petroleum Tank Release Fund	6,763,435	0.3%	4.84%	4.97%	7.79%	-15.49%	-4.07%	5.86%	-0.78%	3.67%	*	*
Insurance Regulatory Trust Fund	962,372	0.0%	2.82%	11.61%	10.29%	-6.86%	-2.71%	8.17%	2.78%	5.18%	5.74%	*
State Risk Management Fund	5,166,540	0.2%	7.63%	14.36%	16.02%	-8.97%	-2.70%	12.61%	4.81%	*	*	*
State Risk Management Workers Comp	5,014,592	0.2%	7.40%	16.23%	16.40%	-11.29%	-3.99%	13.26%	4.35%	*	*	*
Cultural Endowment Fund	284,184	0.0%	4.65%	21.33%	14.89%	-18.49%	-7.59%	13.41%	1.90%	*	*	*
Budget Stabilization Fund	395,066,625	17.1%	1.67%	3.63%	7.38%	-4.23%	0.01%	4.20%	1.62%	5.34%	*	*
ND Assoc. of Counties (NDACo) Fund	1,652,381	0.1%	1.69%	17.73%	15.34%	-16.29%	-7.79%	11.36%	1.28%	3.21%	*	*
City of Bismarck Deferred Sick Leave	926,474	0.0%	5.69%	13.80%	21.28%	-8.34%	-3.20%	13.41%	5.29%	6.13%	*	*
PERS Group Insurance	6,899,804	0.3%	0.24%	0.31%	0.36%	1.08%	3.43%	0.30%	1.08%	2.04%	*	*
City of Fargo FargoDome Permanent Fund	32,087,334	1.4%	3.14%	19.16%	16.78%	-15.64%	-6.25%	12.80%	2.57%	*	*	*
Subtotal Insurance Pool Participants	2,316,117,023	100.0%										
INDIVIDUAL INVESTMENT ACCOUNT												
Retiree Health Insurance Credit Fund	62,119,440	100.0%	2.62%	21.65%	16.86%	-17.14%	-14.19%	13.41%	0.73%	5.45%	7.10%	*
TOTAL	$6,034,388,653											
BENCHMARKS												
S&P 500			5.45%	30.69%	14.43%	-26.21%	-13.12%	16.40%	0.22%	5.33%	8.34%	11.62%
Barclays Aggregate			7.47%	3.90%	9.50%	6.05%	7.12%	6.93%	6.79%	5.63%	6.48%	8.82%
90 Day T-Bills			0.06%	0.16%	0.16%	0.95%	3.63%	0.13%	0.98%	1.87%	3.27%	4.70%
Callan Public Plan Sponsors Database (Median)			1.16%	21.35%	12.92%	-18.00%	-4.65%	11.73%	1.86%	6.33%	7.96%	10.36%

* 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 INVESTMENT POOL
FOR PERIODS ENDED JUNE 30, 2012

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
GLOBAL EQUITY:						
Epoch Investment Partners, Inc.	Core	01/2012	$ 167,814,398	*	*	*
Calamos	Core	03/2012	50,038,427	*	*	*
TOTAL GLOBAL EQUITY			217,852,825	*	*	*
MSCI World Index				*	*	*
DOMESTIC LARGE CAP EQUITY:						
The Clifton Group	Enhanced S&P 500	06/2011	76,360,781	6.57%	*	*
Los Angeles Capital Management	Structured Growth	08/2003	233,239,036	6.79%	17.65%	2.22%
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	157,640,744	6.36%	17.27%	1.25%
LSV Asset Management	Structured Value	06/1998	227,082,825	-1.21%	15.39%	-2.85%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	76,397,310	6.47%	16.89%	0.13%
Prudential	Port. Alpha (liquidating)	03/2008	367,548	6.42%	30.88%	*
TOTAL DOMESTIC LARGE CAP EQUITY			771,088,244	3.68%	17.23%	-3.88%
Russell 1000 Index (1)				5.34%	16.36%	0.20%
DOMESTIC SMALL CAP EQUITY:						
Callan Associates, Inc.	Mgr of Managers	05/2006	116,985,662	-3.11%	19.04%	1.05%
The Clifton Group	Enhanced Russell 2000	11/2009	117,922,590	-0.63%	*	*
SEI Investments Management Co.	Mgr of Mgrs (liquidating)	06/2001	686,132	-27.98%	-3.92%	-16.98%
TOTAL DOMESTIC SMALL CAP EQUITY			235,594,384	0.23%	22.93%	0.37%
Russell 2000 Index				-2.08%	17.80%	0.54%
DEVELOPED INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	03/1992	55,108,794	-11.29%	6.93%	-5.92%
The Clifton Group	EAFE Index	03/2010	176,404,405	-15.37%	*	*
Dimensional Fund Advisors	Small Cap Value	11/2007	48,660,915	-17.09%	7.92%	*
LSV Asset Management	Core	11/2004	105,086,195	-15.65%	4.91%	-8.59%
State Street Global Advisors	Enhanced EAFE Index	03/1987	39,551,224	-17.85%	4.88%	-7.61%
Wellington Trust Company, NA	Small Cap Growth	03/2002	56,378,889	-7.52%	13.15%	-2.05%
TOTAL DEVELOPED INTERNATIONAL EQUITY			481,190,422	-14.72%	8.25%	-5.42%
MSCI EAFE (unhedged) Index (2)				-13.83%	4.92%	-6.56%
EMERGING MARKETS EQUITY:						
Dimensional Fund Advisors	Small Cap	10/2005	29,520,295	-16.19%	15.04%	1.78%
J.P. Morgan Investment Management, Inc.	Core	11/2005	36,673,147	-12.95%	10.63%	1.23%
PanAgora Asset Management, Inc.	Core	02/2006	15,095,747	-14.67%	9.90%	-0.50%
UBS Global Asset Management	Core	07/2005	36,497,727	-15.06%	11.31%	0.84%
TOTAL EMERGING MARKETS EQUITY			117,786,916	-9.21%	12.69%	1.69%
MSCI Emerging Markets Index				-15.94%	9.98%	0.14%
PRIVATE EQUITY:						
Adams Street Partners (I.V.C.F. II)	Diversified Private Equity	03/1989	9,396	-12.12%	-6.63%	14.39%
Adams Street Partners (I.V.C.F. III)	Diversified Private Equity	01/1993	40,278	9.19%	19.22%	14.97%
Adams St. Partners (1998 Fund)	Diversified Private Equity	01/1998	523,517	-14.46%	-1.43%	-7.20%
Adams St. Partners (1999 Fund)	Diversified Private Equity	01/1999	1,360,818	-5.66%	8.72%	0.81%
Adams St. Partners (2000 Fund)	Diversified Private Equity	10/1999	4,530,862	6.74%	14.10%	5.38%
Adams St. Partners (2001 Fund)	Diversified Private Equity	12/2000	5,138,882	4.90%	12.44%	2.58%
Adams St. Partners (2002 Fund)	Diversified Private Equity	03/2002	2,936,953	12.41%	22.51%	3.79%
Adams St. Partners (2003 Fund)	Diversified Private Equity	04/2003	950,077	-5.78%	10.46%	-0.59%
Adams St. Partners (1999 Non-U.S. Fund)	Diversified Private Equity	01/1999	764,501	-0.36%	18.50%	2.79%
Adams St. Partners (2000 Non-U.S. Fund)	Diversified Private Equity	01/2000	1,297,580	-3.49%	12.53%	2.59%
Adams St. Partners (2001 Non-U.S. Fund)	Diversified Private Equity	02/2001	832,465	-14.12%	5.11%	-7.15%
Adams St. Partners (2002 Non-U.S. Fund)	Diversified Private Equity	05/2002	3,055,650	-2.78%	12.98%	-1.62%
Adams St. Partners (2003 Non-U.S. Fund)	Diversified Private Equity	04/2003	1,805,331	-11.60%	16.11%	4.71%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION INVESTMENT POOL (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2012

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
PRIVATE EQUITY (continued):						
Adams St. Partners (2004 Non-U.S. Fund)	Diversified Private Equity	04/2004	1,384,508	-8.24%	9.51%	0.91%
Adams St. Partners (2008 Non-U.S. Fund)	Diversified Private Equity	01/2008	3,605,308	-1.84%	3.99%	*
Adams St. Partners (2010 Direct Fund)	Direct Private Equity	04/2010	681,185	22.19%	*	*
Adams St. Partners (2010 Non-U.S. Developed)	Diversified Private Equity	04/2010	936,334	4.57%	*	*
Adams St. Partners (2010 Partnership Fund)	Diversified Private Equity	04/2010	1,906,534	8.84%	*	*
Adams St. Partners (2010 Emerging Mkts Fund)	Diversified Private Equity	01/2011	120,994	-21.77%	*	*
Adams St. Partners (B.V.C.F. IV)	Diversified Private Equity	05/1999	4,314,590	64.19%	89.31%	44.31%
Adams St. Partners (Direct Co-Investment)	Direct Private Equity	09/2006	19,141,537	5.82%	14.37%	1.24%
Capital International (Fund V)	EM Private Equity	08/2007	23,984,653	-3.29%	14.14%	*
Capital International (Fund VI)	EM Private Equity	08/2007	4,296,657	*	*	*
Coral Partners, Inc. (Fund V)	Direct Venture Capital	03/1998	51,384	12.85%	75.73%	38.62%
Coral Partners, Inc. (Supplemental Fund V)	Direct Venture Capital	08/2001	431,263	-58.37%	-15.86%	-14.90%
Coral Partners, Inc. (Momentum Fund)	Direct Venture Capital	07/2002	4,611,310	4.47%	-14.90%	-16.04%
EIG (formerly Trust Company of the West)	Mezz Debt - Energy	07/2007	36,003,321	7.17%	13.10%	*
Corsair Capital (Fund III)	Pvt Eq - Financial Svcs	02/2006	12,383,715	-2.14%	1.61%	5.38%
Corsair Capital (ND Investors)	Pvt Eq - Financial Svcs	03/2008	10,606,202	5.04%	1.06%	*
Corsair Capital (Fund IV)	Pvt Eq - Financial Svcs	05/2010	8,566,379	-16.03%	*	*
Invest America (Lewis and Clark Fund)	Direct Venture Capital	02/2002	6,852,369	6.14%	8.60%	8.40%
Invest America (L&C Fund II)	Direct Venture Capital	06/2009	6,688,550	-3.26%	-10.62%	*
Matlin Patterson Global Opportunities Fund I	Distressed Debt	07/2002	10,140	N/A	4355.20%	635.41%
Matlin Patterson Global Opportunities Fund II	Distressed Debt	10/2004	1,684,344	-79.03%	-53.26%	-45.01%
Matlin Patterson Global Opportunities Fund III	Distressed Debt	06/2007	23,363,982	124.86%	44.49%	5.42%
Quantum Energy Partners	Pvt Equity - Energy	01/2007	8,863,850	30.29%	16.80%	3.54%
Quantum Resources	Pvt Equity - Energy	10/2006	9,851,000	-0.85%	-13.12%	-49.44%
TOTAL PRIVATE EQUITY			213,590,062	5.12%	12.90%	-0.10%
INVESTMENT GRADE FIXED INCOME:						
Bank of North Dakota	BC Long Treasury Index	01/1988	49,421,998	9.53%	7.95%	7.80%
Declaration Management & Research	Securitized	04/2012	54,841,865	*	*	*
PIMCO	Distressed Sr. Debt	10/2012	78,462,373	*	*	*
PIMCO	Mortgage Backed	03/2012	146,632,811	*	*	*
PIMCO	Unconstrained	03/2012	67,901,855	*	*	*
Western Asset Management Co.	Mortgage Backed	02/1986	99,903,659	6.89%	11.10%	5.41%
TOTAL INVESTMENT GRADE FIXED INCOME			497,164,561	6.24%	6.23%	5.01%
Barclays Aggregate Index				7.47%	6.93%	6.79%
BELOW INVESTMENT GRADE FIXED INCOME:						
Goldman Sachs	Mezzanine Debt-2006	04/2006	4,215,000	-20.28%	31.00%	-2.25%
Goldman Sachs	Mezzanine Debt-Fund V	11/2007	10,362,000	7.04%	22.19%	*
Loomis Sayles	High Yield Bonds	04/2004	156,137,533	2.57%	16.71%	7.46%
PIMCO	Distressed Mortgages	10/2007	15,340,116	5.54%	30.43%	*
TOTAL BELOW INVESTMENT GRADE FIXED INCOME			186,054,649	3.46%	17.25%	4.42%
Barclays High Yield Corp 2% Issuer Cap				7.21%	16.19%	8.62%
DEVELOPED INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	94,744,089	-0.87%	5.36%	7.02%
Brandywine Asset Management	Core-Plus Non-U.S.	05/2003	97,224,774	9.67%	13.36%	9.77%
TOTAL DEVELOPED INTERNATIONAL FIXED INCOME			191,968,863	4.62%	9.76%	8.65%
BC Global Aggregate ex-US Index (3)				-0.33%	5.05%	7.34%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION INVESTMENT POOL (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2012

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
GLOBAL REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	08/1997	126,225,149	8.97%	8.03%	-0.79%
INVESCO Realty Advisors	Core Plus LP (Fund II)	11/2007	36,193,731	28.70%	-3.09%	*
INVESCO Realty Advisors	Core Plus LP (Fund III)	05/2012	19,577,698	*	*	*
INVESCO Realty Advisors	Asian LP	11/2008	18,736,155	1.09%	-22.90%	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	112,610,551	13.37%	8.43%	-1.20%
J. P. Morgan Investment Mgmt. Inc.	Alternative Commingled	01/2006	16,625,164	26.25%	2.52%	-7.88%
J. P. Morgan Investment Mgmt. Inc.	European LP	09/2009	8,010,685	-100.01%	*	*
J. P. Morgan Investment Mgmt. Inc.	Asian LP	01/2008	23,841,030	-4.20%	3.62%	*
TOTAL GLOBAL REAL ESTATE			361,820,163	12.97%	7.34%	-2.17%
NCREIF Total Index				12.04%	8.82%	2.51%
TIMBER:						
Timberland Investment Resources - Teredo	Timberland	06/2001	76,936,495	-2.76%	4.79%	8.43%
Timberland Investment Resources - Springbank	Timberland	09/2004	123,997,275	-5.48%	-8.07%	-1.34%
TOTAL TIMBER			200,933,770	*	*	*
NCREIF Timber Index				1.13%	-0.67%	3.95%
INFRASTRUCTURE:						
Credit Suisse	Infrastructure	12/2011	23,931,450	*	*	*
J.P. Morgan Investment Management, Inc.	Asian Infrastructure	07/2008	16,469,637	-4.28%	-0.68%	*
J.P. Morgan Investment Management, Inc.	Infrastructure	05/2007	88,770,000	4.51%	5.87%	0.66%
TOTAL INFRASTRUCTURE			129,171,087	*	*	*
CPI-W				1.58%	2.33%	2.08%
CASH EQUIVALENTS:						
The Northern Trust Company	STIF	07/1994	51,936,243	0.13%	0.15%	0.46%
TOTAL CASH EQUIVALENTS			51,936,243	0.13%	0.19%	0.48%
90 Day T-Bills				0.06%	0.12%	0.98%
TOTAL PENSION INVESTMENT POOL			$ 3,656,152,190	-0.06%	11.92%	-0.23%
Policy Target				0.79%	11.42%	2.03%

INSURANCE INVESTMENT POOL

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
DOMESTIC LARGE CAP EQUITY:						
The Clifton Group	Enhanced S&P 500	11/2008	$ 31,119,059	5.97%	18.08%	*
Los Angeles Capital Management	Structured Growth	08/2003	48,806,885	7.55%	18.02%	2.44%
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	32,342,744	6.36%	17.35%	1.92%
LSV Asset Management	Structured Value	06/1998	46,284,651	-0.66%	15.64%	-2.41%
TOTAL DOMESTIC LARGE CAP EQUITY			158,553,339	4.53%	16.11%	-1.77%
Standard & Poor's 500 Index				5.45%	16.40%	0.22%
DOMESTIC SMALL CAP EQUITY:						
The Clifton Group	Enhanced Russell 2000	11/2008	29,322,734	-0.86%	20.25%	*
Research Affiliates	Core	07/2007	28,034,679	-3.32%	19.98%	*
TOTAL DOMESTIC SMALL CAP EQUITY			57,357,413	-2.06%	19.95%	0.31%
Russell 2000 Index				-2.08%	17.80%	0.54%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	31,488,022	-12.20%	6.70%	-5.68%
Dimensional Fund Advisors	Small Cap Value	11/2007	9,015,409	-17.09%	7.92%	*
LSV Asset Management	Core	11/2004	39,328,635	-14.44%	4.99%	-8.69%
The Vanguard Group	Small Cap Growth	06/2003	9,339,081	-17.06%	8.43%	-4.96%
TOTAL INTERNATIONAL EQUITY			89,171,147	-14.23%	6.48%	-6.65%
MSCI EAFE (unhedged) Index (2)				-13.83%	4.92%	-6.56%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
INSURANCE INVESTMENT POOL (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2012

	Style	Date Initiated	Fair 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	111,046,635	8.08%	7.00%	6.86%
Declaration Mgmt & Research	Mortgage Backed	03/2010	50,153,818	7.05%	11.02%	-7.13%
PIMCO	Distressed Sr. Debt	10/2012	69,086,123	*	*	*
Prudential	Core-Plus	08/2006	66,809,328	9.58%	11.45%	8.79%
Wells Capital	Baa Average Bonds	04/2002	281,135,601	10.06%	12.68%	9.68%
Western Asset Management Co.	Core Bonds	07/1990	208,292,184	8.88%	11.89%	7.16%
TOTAL DOMESTIC FIXED INCOME			786,523,689	9.83%	11.54%	7.64%
Barclays Aggregate Index				7.47%	6.93%	6.79%
INFLATION PROTECTED ASSETS:						
Credit Suisse	Infrastructure	12/2011	11,965,725	*	*	*
J. P. Morgan Investment Mgmt. Inc.	Infrastructure	11/2008	60,740,000	4.51%	5.47%	*
Timberland Investment Resources	Timberland	10/2008	61,632,984	3.93%	2.31%	*
Western Asset Management Co.	Global TIPS	05/2004	169,723,269	4.72%	6.35%	6.00%
TOTAL INFLATION PROTECTED ASSETS			304,061,978	4.64%	5.57%	4.96%
Barclays Global Inflation Linked Index (4)				4.25%	6.67%	6.68%
REAL ESTATE:						
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	11/2005	96,851,718	17.95%	10.92%	-7.09%
TOTAL REAL ESTATE			96,851,718	17.95%	10.92%	-7.09%
NCREIF Total Index				12.04%	8.82%	2.51%
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	38,504,683	0.25%	0.31%	1.08%
90 Day T-Bills				0.06%	0.12%	0.98%
SHORT-TERM FIXED INCOME						
Babson Capital Management (Budget Stabilization Fund)	Short Term Bonds	09/2011	132,396,781	*	*	*
Babson Capital Management (Legacy Fund)	Short Term Bonds	10/2011	199,856,942	*	*	*
Babson Capital Management (Budget Stabilization Fund)	Bank Loans	09/2011	6,366,797	*	*	*
J.P. Morgan Investment Mgmt. Inc. (Budget Stabilization Fund)	Short Term Bonds	09/2011	138,386,611	*	*	*
J.P. Morgan Investment Mgmt. Inc. (Legacy Fund)	Short Term Bonds	10/2011	199,110,280	*	*	*
Prudential (Budget Stabilization Fund)	Enhanced Cash (liquidating)	07/2007	90,705	2.49%	5.95%	*
TOTAL SHORT-TERM FIXED INCOME			676,208,116	0.24%	5.24%	*
Barclays Government 1-3 Year				0.86%	1.69%	
NON-POOLED INVESTMENTS:						
Bank of North Dakota Match Loan CD's Held by Budget Stabilization Fund	Certificates of Deposit	various	108,884,940	4.34%	4.32%	4.51%
TOTAL INSURANCE INVESTMENT POOL			$ 2,316,117,023	4.94%	9.67%	3.64%
Policy Target				4.07%	7.32%	4.31%

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

(1) S&P500 Index through 6/30/11 and Russell 1000 Index thereafter.

(2) MSCI 50% Hedged EAFE Index through 3/31/11 and MSCI EAFE (Unhedged) thereafter.

(3) Citigroup Non-US Government Bond Index through 12/31/09 and BC Global Aggregate Index ex US thereafter.

(4) BC US TIPS Index through 12/31/09 and BC Global Inflation-Linked thereafter.

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 private equity and other similarly structured investment vehicles, which are shown net of fees.

LARGEST HOLDINGS (By Fair Value)
AT JUNE 30, 2012

PENSION INVESTMENT POOL

Shares	Stocks	Fair Value
56,039	Apple Incorporated	$ 32,726,776
744,024	Microsoft Corporation	22,759,694
118,073	Chevron Corporation	12,456,702
128,891	McDonalds Corporation	11,410,720
133,172	Exxon Mobile Corporation	11,395,528
402,065	Intel Corporation	10,715,032
441,549	Pfizer Incorporated	10,155,627
51,859	International Business Machines Corporation	10,142,583
121,387	Amgen Incorporated	8,866,106
223,166	Aetna Incorporated	8,652,146

Par	Bonds	Fair Value
20,441,353	FNMA Guaranteed Mortgage Pool #AL1627 4.5% Due 09-01-2041	$ 22,038,435
20,999,993	FNMA Pool #AO4073 2.5% Due 05-01-2027	21,678,713
18,905,214	FNMA Guaranteed Mortgage Pool #AH0059 4.5% Due 02-01-2041	20,990,837
15,400,000	FHLMC Gold Single Family 4.5% 30 Years July	16,446,723
13,500,000	FNMA Single Family Mortgage 4.0% 30 Years July	14,366,957
13,000,000	GNMA I Single Family Mortgage 5.0% 30 Years July	14,304,069
13,000,000	GNMA I Single Family Mortgage 4.5% 30 Years July	14,212,653
12,087,270	FNMA Pool #AE5440 4.5% Due 10-01-2040	13,009,045
10,352,119	FHLMC Gold Q06359 4.0% Due 02-01-2042	11,006,063
8,440,707	GNMA Pool #MA0022 3.5% Due 04-20-2042	9,034,106

INSURANCE INVESTMENT POOL

Shares	Stocks	Fair Value
8,420	Apple Incorporated	$ 4,917,280
100,412	Microsoft Corporation	3,071,603
21,892	Chevron Corporation	2,309,606
75,734	Intel Corporation	2,018,311
80,798	Pfizer Incorporated	1,858,354
23,490	Amgen Incorporated	1,715,710
8,744	International Business Machines Corporation	1,710,152
18,453	Philip Morris International	1,610,209
37,721	Merck & Company	1,574,852
45,420	Wells Fargo & Company	1,518,845

Par	Bonds	Fair Value
13,000,000	US Treasury Notes 0.125% Due 9-30-2013	$ 12,975,118
7,550,000	US Treasury Bonds 3.125% Due 11-15-2041	8,116,250
8,000,000	US Treasury Notes 0.50% Due 11-15-2013	8,022,816
8,000,000	US Treasury Notes 0.25% Due 09-15-2014	7,982,496
7,000,000	US Treasury Notes 1.875% Due 02-28-2014	7,179,648
6,500,000	US Treasury Securities 1.25% Due 02-15-2014	6,597,247
6,000,000	FNMA Single Family Mortgage 3.5% 30 Years July	6,306,564
5,600,000	US Treasury Notes 4.0% Due 02-15-2015	6,124,563
6,000,000	US Treasury Notes 1.0% Due 01-15-2014	6,063,048
5,700,000	FNMA Preassigned 0.5% Due 08-09-2013	5,713,583

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Pension Investment Pool			Insurance Investment Pool & Individual Investment Account		
	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points
Investment manager fees:						
Global equity managers	$ 207,463,108	$ 1,422,045	69			
Domestic large cap equity managers	837,738,524	2,629,497	31	$ 160,415,498	$ 347,182	22
Domestic small cap equity managers	263,514,590	1,527,957	58	56,733,966	251,893	44
Developed international equity managers	486,495,625	2,122,087	44	90,328,432	491,013	54
Emerging markets equity managers	144,650,596	1,018,659	70			
Private equity managers	188,996,540	5,719,046	303			
Investment grade fixed income managers	528,343,519	1,429,349	27	802,418,607	3,268,774	41
Inflation protected assets managers				306,527,780	2,324,657	76
Below investment grade fixed income managers	182,037,114	2,254,588	124			
Developed international fixed income managers	184,148,435	664,353	36			
Real estate managers	328,030,971	3,339,482	102	98,129,004	1,073,000	109
Timber managers	204,684,181	1,036,397	51			
Infrastructure managers	126,215,433	2,152,625	171			
Cash & equivalents managers	36,331,630	72,836	20	38,504,683	-	-
Short term fixed income managers				741,593,615	564,283	8
Balanced account managers (Individual Investment Acct.)				58,420,185	249,704	43
Total investment manager fees	$ 3,718,650,266	25,388,921	68	$ 2,353,071,770	8,570,506	36
Custodian fees		518,376	1		282,045	1
Investment consultant fees		215,043	1		114,109	0
SIB Service Fees		31,573	0		14,318	0
Total investment expenses *		$ 26,153,913	70		$ 8,980,978	38
Securities lending fees		$ (7,119)	(0)		$ (1,935)	(0)

Reconciliation of Investment Expenses to Financial Statements

	Pension Investment Pool	Insurance Investment Pool & Individual Investment Account
Investment expenses as reflected in the financial statements	$ 12,784,742	$ 5,657,196
Plus investment management fees included in investment income		
Domestic large cap equity managers	311,472	22,899
Domestic small cap equity managers	984,147	-
Developed international equity managers	354,025	106,929
Emerging markets equity managers	238,500	-
Investment Grade domestic fixed income managers	640,000	1,836,118
Inflation protected assets managers	-	1,228,180
Below investment grade domestic fixed income managers	1,521,879	-
Developed international fixed income managers	1,703,806	-
Timber managers	1,036,397	-
Infrastructure managers	1,068,782	-
Private equity managers	5,510,163	-
Cash & equivalents managers	-	-
Short term fixed income managers	-	18,401
Balanced account managers (Individual Investment Acct.)	-	111,255
Investment expenses per schedule	$ 26,153,913	$ 8,980,978

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

SCHEDULE OF COMMISSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Brokers	Number of shares traded	Total commissions	Commissions per share
Investment Technology Group	5,070,868	$ 74,485	$0.015
USB Securities Asia Limited	4,202,017	3,177	0.001
UNX	3,548,060	53,223	0.015
Credit Suisse First Boston	3,405,640	43,301	0.013
ITG Incorporated	2,993,141	29,931	0.010
Merrill Lynch Fenner & Smith	2,852,327	2,091	0.001
Sanford C. Bernstein LTD	1,823,352	25,341	0.014
Merrill Lynch Pierce Fenner & Smith	1,622,868	12,708	0.008
CSFB New York	1,444,399	2,093	0.001
Merrill Lynch & Company	1,387,002	13,441	0.010
Other 250 Brokers *	30,717,557	482,977	0.016
Total commissions	59,067,231	$ 742,768	$0.013

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

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

TEACHERS' FUND FOR RETIREMENT

❖ Teachers' Fund for Retirement Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

The North Dakota Teachers' Fund for Retirement (TFFR) is a pension benefit plan that was established in 1913 to provide retirement income to all public school and certain state teachers and administrators in the state of North Dakota. The plan is administered by a seven member Board of Trustees comprised of five 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, disability, and death benefits in accordance with Chapter 15-39.1 of the North Dakota Century Code (NDCC). Monthly retirement benefits are based on the formula: Number of Years of Service X 2.0% X Final Average Annual Salary. Adjustments to the basic formula are made depending on the retirement option selected.

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

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

Employee and employer contributions will be reduced to 7.75% each when TFFR reaches 90% funded level on an actuarial basis.

The TFFR Board has an actuarial valuation performed annually, and an experience study and asset/liability study performed every five years. The current actuarial assumed rate of return on assets is 8.0%. Key plan and financial statistics are recorded in the most recent valuation report on file at the North Dakota Retirement and Investment Office (RIO).

Fund Goals

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

As a result, the Fund goals are to:

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

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

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

Risk Tolerance

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

Investment Objectives

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

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

Policy Asset Mix

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

Asset Class	Policy Target %	Rebalancing Range %
Global Equity	**57**	**46-65**
Domestic Equity	31	26-36
Large	24	20-28
Small	7	4-10
International Equity	21	16-26
Developed	17	12-22
Emerging	4	2-6
Private Equity	5	4-8
Global Fixed Income	**22**	**16-28**
Domestic Fixed	17	13-21
Investment Grade	12	10-18
Non-investment Grade	5	3-7
International Fixed	5	3-7
Developed	5	3-7
Emerging		0-3
Global Real Assets	**20**	**12-28**
Global Real Estate	10	5-15
Other	10	0-15
Infrastructure		0-10
Timber		0-7
Commodities		0-5
Inflation Linked Bonds		0-10
Other Inflation Sensitive		0-5
Global Alternatives		**0-10**
Cash	**1**	**0-2**

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

Restrictions

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

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

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

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

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

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

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

<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.

<u>Evaluation and Review</u>

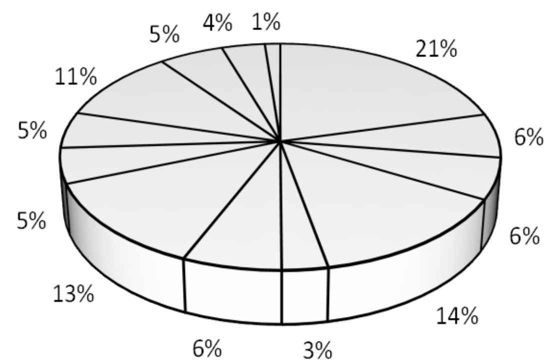
Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the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

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

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

❖ Teachers' Fund for Retirement
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	342,073,818	21%	
Domestic Small Cap Equity		103,126,185	6%	
Global Equity		95,506,178	6%	
Developed International Equity		225,011,023	14%	
Emerging Markets Equity		48,525,891	3%	
Private Equity		104,823,235	6%	
Investment Grade Fixed Income		207,580,288	13%	
Below Investment Grade Fixed Income		81,822,472	5%	
International Fixed Income		84,628,675	5%	
Global Real Estate		170,310,434	11%	
Timber		87,994,311	5%	
Infrastructure		58,820,558	4%	
Cash Equivalents		21,079,312	1%	
Total Fund	$	1,631,302,380		-0.97%
Policy Benchmark				-0.82%



PUBLIC EMPLOYEES RETIREMENT SYSTEM

❖ Public Employees Retirement System Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

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

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

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

Funding for the NDPERS plan is provided by monthly employee contributions and employer contributions with the amount varying based upon which NDPERS plan the member participates in. For the Main NDPERS plan the employee contribution is 4% and the employer contribution is 4.12%, for the Judges Plan the employee contribution is 5% and employer contribution is 14.52%, for the National Guard Plan the employee contribution is 4% and employer contribution is 6.5%, for the Law Enforcement Plan with prior service the employee contribution is 4% and the employer contribution is 8.31% and for the Law Enforcement Plan without prior service the employee contribution rate is 4% and the employer rate is 6.43%. Funding for the Highway Patrol plan is provided by a monthly employee contribution of 10.3% and an employer contribution of 16.7%

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

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

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

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

Delegation of Authority

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

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).

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

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

Investment Goals

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

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

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

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

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

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

Investment Performance Objective

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

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

Asset Allocation

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

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

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

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

<u>Restrictions</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>Internal Controls</u>

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.

<u>Evaluation</u>

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

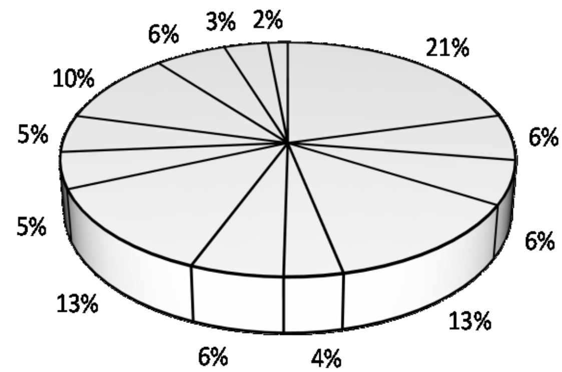
An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining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

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

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

❖ **Public Employees Retirement Fund**
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 373,025,969	21%	
Domestic Small Cap Equity	112,032,850	6%	
Global Equity	107,446,229	6%	
Developed International Equity	233,860,148	13%	
Emerging Markets Equity	65,281,209	4%	
Private Equity	103,233,737	6%	
Investment Grade Fixed Income	225,176,384	13%	
Below Investment Grade Fixed Income	88,838,982	5%	
International Fixed Income	91,414,042	5%	
Global Real Estate	179,610,861	10%	
Timber	102,659,760	6%	
Infrastructure	63,234,155	3%	
Cash Equivalents	28,497,850	2%	
Total Fund	$ 1,774,312,176		0.06%
Policy Benchmark			1.17%



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%
Developed International Equity	11.0%
Emerging Markets Equity	1.5%
Private Equity	1.0%
Investment Grade Fixed Income	17.9%
Below Investment Grade Fixed Income	6.0%
International Fixed Income	9.5%
Global Real Estate	9.5%
Timber	7.8%
Infrastructure	3.8%

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.

<u>Evaluation and Review</u>

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

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

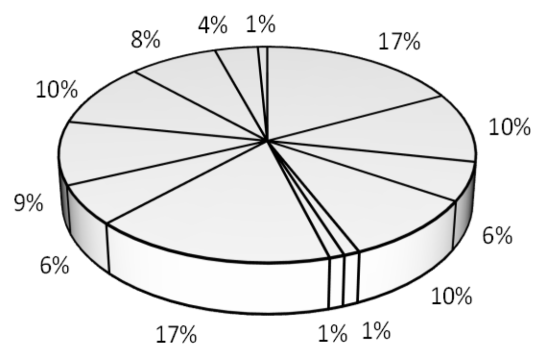
- Changes in asset class portfolio structures, tactical approaches and market values;

- All material legal or legislative proceedings affecting the SIB.

All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to review by the BCEPP at such frequency as that board deems appropriate. Any material changes will be reported to the SIB in writing.

❖ Bismarck City Employee Pension Plan
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	10,755,655	17%	
Domestic Small Cap Equity		6,441,875	10%	
Global Equity		3,537,134	6%	
Developed International Equity		5,938,540	10%	
Emerging Markets Equity		673,942	1%	
Private Equity		640,796	1%	
Investment Grade Fixed Income		10,245,617	17%	
Below Investment Grade Fixed Income		3,656,566	6%	
International Fixed Income		5,804,340	9%	
Global Real Estate		5,926,851	10%	
Timber		4,762,078	8%	
Infrastructure		2,305,359	4%	
Cash Equivalents		504,727	1%	
Total Fund	$	61,193,480		1.57%
Policy Benchmark				2.81%



BISMARCK CITY POLICE PENSION PLAN

- **Bismarck City Police Pension Plan Investment Objectives and Policy Guidelines**

Plan Characteristics and Fund Constraints

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

The Fund 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 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.

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 8.9% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 10.6%.

Policy and Guidelines

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	16.0%
Domestic Small Cap Equity	11.0%
International Equity	13.0%
Emerging Markets Equity	6.0%
Private Equity	5.0%
Domestic Fixed Income	19.0%
High Yield Fixed Income	6.0%
International Fixed Income	4.0%
Real Estate	10.0%

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.

Internal Controls

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

Evaluation and Review

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

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

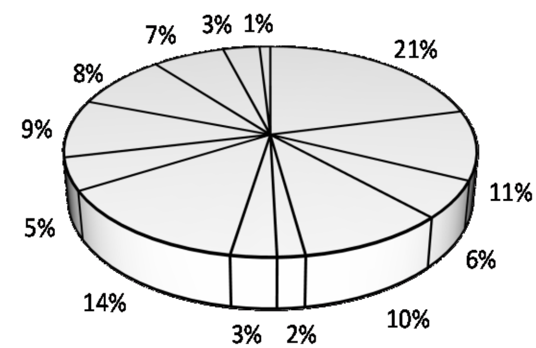
- Changes in asset class portfolio structures, tactical approaches and market values;

- All material legal or legislative proceedings affecting the SIB.

All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to review by the BCEPP at such frequency as that board deems appropriate. Any material changes will be reported to the SIB in writing.

- **Bismarck City Police Pension Plan**
  Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	5,641,971	21%	
Domestic Small Cap Equity		2,838,541	11%	
Global Equity		1,539,860	6%	
Developed International Equity		2,654,940	10%	
Emerging Markets Equity		503,019	2%	
Private Equity		823,450	3%	
Investment Grade Fixed Income		3,702,204	14%	
Below Investment Grade Fixed Income		1,322,184	5%	
International Fixed Income		2,378,576	9%	
Global Real Estate		2,284,036	8%	
Timber		1,755,329	7%	
Infrastructure		885,537	3%	
Cash Equivalents		261,990	1%	
Total Fund	$	26,591,637		1.31%
Policy Benchmark				2.46%



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

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

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

<u>Delegation of Authority</u>

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

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1)(a).

2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:

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

3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1)(d).

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

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

Investment Goals

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

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

Objective #2: To achieve a rate of return which exceeds the rate of inflation, as measured by the Consumer Price Index (CPI), by 3.0 percentage points per year (based on current actuarial assumptions of 7.5% return and 5% inflation), over a complete market cycle; and

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

Investment Performance Objective

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

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

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

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

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 Board as plan Administrator establishes the asset allocation of the Fund, with input from consultants and SIB staff. The current asset allocation is based upon the asset/liability study completed by SEI Consultants in February 2009. That study provided an appraisal of current cash flow projections and estimates of the investment returns likely to be achieved by the various asset classes.

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

Domestic Large Cap Equity	25%
Domestic Small Cap Equity	6%
International Equity	9%
Domestic Fixed Income	47%
International Fixed Income	5%
High Yield Bonds	8%

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

Restrictions

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

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

b. Derivatives use will be monitored to ensure that undue risks are not taken by the money managers.

c. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.

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

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

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

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

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

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

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

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

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

Internal Controls

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

Evaluation

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

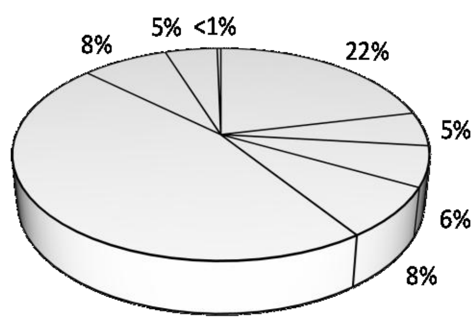
An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining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

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

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

❖Job Service ND
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	18,218,208	21%	
Domestic Small Cap Equity		4,407,924	5%	
Global Equity		5,173,768	6%	
Developed International Equity		6,546,346	8%	
Investment Grade Fixed Income		39,266,286	46%	
Below Investment Grade Fixed Income		6,762,663	8%	
International Fixed Income		4,091,305	5%	
Cash Equivalents		287,008	0%	
Total Fund	$	84,753,508		3.09%
Policy Benchmark				4.26%



CITY OF FARGO EMPLOYEE PENSION PLAN

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

Plan Characteristics and Fund Constraints

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.

Plan Description 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.

Contributions

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 employer's 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.

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

Delegation of Authority

Management responsibility for 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:

Asset Class	Policy Target %
Global Equity	**60**
Domestic Equity	40
Large	30
Small	10
International Equity	15
Developed	10
Emerging	5
Private Equity	5
Global Fixed Income	**24**
Domestic Fixed	19
Investment Grade	14
Non-investment Grade	5
International Fixed	5
Developed	5
Global Real Assets	**15**
Global Real Estate	5
Infrastructure	5
Timber	5
Cash	**1**

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.

Evaluation

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

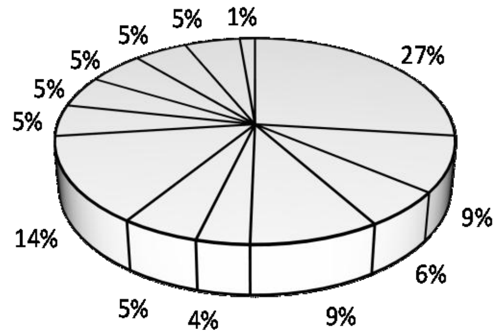
The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

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

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

❖ **City of Fargo Employee Pension Plan**
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	7,915,108	27%	
Domestic Small Cap Equity		2,576,332	9%	
Global Equity		1,715,139	6%	
Developed International Equity		2,671,392	9%	
Emerging Markets Equity		1,096,773	4%	
Private Equity		1,593,466	5%	
Investment Grade Fixed Income		4,056,592	14%	
Below Investment Grade Fixed Income		1,467,718	5%	
International Fixed Income		1,469,384	5%	
Global Real Estate		1,544,835	5%	
Timber		1,482,346	5%	
Infrastructure		1,545,888	5%	
Cash Equivalents		424,478	1%	
Total Fund	$	29,559,452		0.97%
Policy Benchmark				2.30%



CITY OF GRAND FORKS PENSION PLAN

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

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

Plan Description

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

Membership in the Plan on January 1, 2009 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	200
Terminated vested/deferred beneficiaries	34
Active plan members	225
Active plan members (70½, drawing pension while working)	1
Number of participating employers:	2

Participants may be eligible for early retirement, special early retirement or normal retirement. The Plan permits early retirements at age 55 with at least 5 years of vesting service. Normal retirement age for full benefits is age 65 (unless the employee has elected a special early retirement age of either 55 or 62).

If a participant dies prior to starting retirement benefits, and is married, the participant' spouse will receive a survivor annuity. If the participant is not married, the participant's beneficiary will receive a single lump sum payment equal to the participant's accumulated employee contributions. If the participant dies after starting retirement benefits, payments will continue to the survivor if the participant elected an annuity with a survivor benefit. If the participant elected a single life annuity or received a lump sum payment, no benefits will be paid after the participant's death. If the amount of payments paid to the participant and the participant's joint annuitant, if any, do not equal the participant's accumulated employee contributions, the participant's beneficiary will receive an amount equal to the participant's accumulated employee contributions, minus any payments previously received by participant and the participant's joint annuitant.

Participants are fully vested in the Plan benefit after five years of vesting service. Non-vested participants are eligible for a full refund of their accumulated employee contributions. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin no earlier than age 55. However, participants may elect to withdraw their accumulated employee contributions at any time after termination of employment. The participant's accrued benefit will be reduced by the equivalent value of any withdrawn accumulated employee contributions. If the present value of a participant's benefit is $1,000 or less (including the participant's accumulated employee contributions), payment will be made in a lump sum.

Benefit provisions are established by the City Council.

Contributions

Participating employees contribute to the Plan at a rate of 3.7% of salary (7.4% or 4.7%, respectively if the participant has elected a special early retirement age of 55 or 62). The employers contribute such amounts as necessary to provide the promised benefits. The contribution amounts are determined by the annual actuarial valuation report and approved by the City Council. Costs of administering the Plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserves

The Plan's net assets as of December 31, 2008 are $32,933,349 and the entire amount is reserved for employee pension benefits.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The City Council is required to develop asset allocation plans pursuant to its responsibilities as outlined in the Grand Forks City Code Chapter 7. The SIB is charged with implementing the asset allocation as promptly and prudently as possible in accordance with the Board's policies by investing the assets of the Fund in the manner provided in the prudent investor rule, which provides:

The SIB 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 Plan participants and in accordance with the Fund's 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 manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

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

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

Delegation of Authority

Management responsibility for Plan assets not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the Fund, 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 City Council based upon their strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

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

Investment Performance Objective

The City Council 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 Plan 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 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 Council has established the following asset allocation:

Asset Class	Policy Target %
Global Equity	**60**
Domestic Equity	40
Large	30
Small	10
International Equity	15
Developed	10
Emerging	5
Private Equity	5
Global Fixed Income	**24**
Domestic Fixed	19
Investment Grade	14
Non-investment Grade	5
International Fixed	5
Developed	5
Global Real Assets	**15**
Global Real Estate	5
Infrastructure	5
Timber	5
Cash	**1**

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

Restrictions

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

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

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

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

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

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

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

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

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

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

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

<u>Internal Controls</u>

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.

<u>Evaluation</u>

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

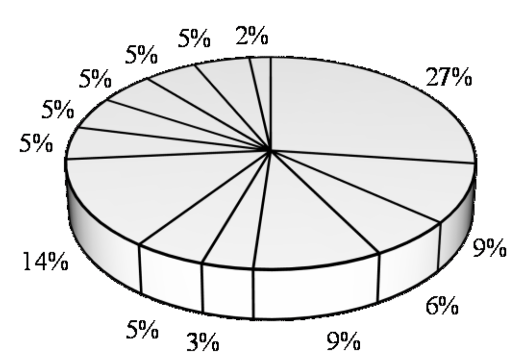
The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

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

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

❖ **City of Grand Forks Pension Plan**
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 11,840,208	27%	
Domestic Small Cap Equity	3,972,435	9%	
Global Equity	2,668,548	6%	
Developed International Equity	4,023,222	9%	
Emerging Markets Equity	1,605,222	3%	
Private Equity	2,230,176	5%	
Investment Grade Fixed Income	6,038,847	14%	
Below Investment Grade Fixed Income	2,184,064	5%	
International Fixed Income	2,182,541	5%	
Global Real Estate	2,143,146	5%	
Timber	2,056,007	5%	
Infrastructure	2,173,046	5%	
Cash Equivalents	826,718	2%	
Total Fund	$ 43,944,180		1.09%
Policy Benchmark			2.30%



GRAND FORKS PARK DISTRICT PENSION PLAN

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

The Grand Forks Park District Pension Fund (the "Fund") is operated by the Grand Forks Park District pursuant to the authority granted by state statute.

Plan Description: The Grand Forks Park District of Grand Forks, North Dakota Pension Plan (the "Plan") is a cost-sharing public employee pension plan. All employees are required to participate in the Plan. Some participants have elected to cease benefit accruals under the Plan as of January, 1, 2010 and to participate in the North Dakota Public Employees Retirement System. All future hires after December 31, 2009, will be required to participate in the North Dakota Public Employees Retirement System.

Membership in the Plan on January 1, 2009 (date of most recent actuarial study) is as follows:

Retirees and beneficiaries	9
Terminated vested and deferred beneficiaries	5
Active plan members	43
Active plan members (70 ½, drawing pension while working)	0
Number of participating employers:	1

Participants may be eligible for early retirement, special early retirement or normal retirement. The Plan permits early retirements at age 55 with at least 5 years of vesting service. Normal retirement age for full benefits is age 65 (unless the employee has elected a special early retirement age when they meet the Rule of 90 (age plus years of service).

If a participant dies prior to starting retirement benefits, and is married, the participant' spouse will receive a survivor annuity. If the participant is not married, the participant's beneficiary will receive a single lump sum payment equal to the participant's accumulated employee contributions. If the participant dies after starting retirement benefits, payments will continue to the survivor if the participant elected an annuity with a survivor benefit. If the participant elected a single life annuity or received a lump sum payment, no benefits will be paid after the participant's death. If the amount of payments paid to the participant and the participant's joint annuitant, if any, do not equal the participant's accumulated employee contributions, the participant's beneficiary will receive an amount equal to the participant's accumulated employee contributions, minus any payments previously received by participant and the participant's joint annuitant.

Participants are fully vested in the plan benefit after five years of vesting service. Non-vested participants are eligible for a full refund of their accumulated employee contributions. Upon termination of employment prior to retirement age, vested participants may elect a deferred vested benefit to begin no earlier than age 55. However, participants may elect to withdraw their accumulated employee contributions at any time after termination of employment. The participant's accrued benefit will be reduced by the equivalent value of any withdrawn accumulated employee contributions.

Benefit provisions are established by the Grand Forks Board of Park Commissioners.

Contributions:
Participating employees contribute to the Plan at a rate of 3.7% of base salary. If an employee is eligible for the Rule of 90, he or she will contribute at a rate of 5.9% of base salary. The employers contribute such amounts as necessary to provide the promised benefits. The contribution amounts are determined by the annual actuarial valuation report and approved by the Grand Forks Board of Park Commissioners. Costs of administering the Plan are financed by the employer and employee contributions, and by the Plan's investment earnings.

Reserves: The Plan's net assets as of September 30, 2009 are $3,457,164.83 and the entire amount is reserved for employee pension benefits.

Responsibilities and Discretion of the State Investment Board (SIB)

Aggregate plan contributions plus earnings, minus allowable expenses constitute the Fund. The Park Board is required to develop asset allocation plans pursuant to its responsibilities as outlined in the Pension Plan Document. 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:

The SIB 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 Plan participants and in accordance with the Fund's 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 manager has been retained, the SIB's role in determining investment strategy is supervisory not advisory.

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

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

Delegation of Authority

Management responsibility for Plan assets not assigned to the SIB in Chapter 21-10 of the North Dakota Century Code (NDCC) is hereby delegated to the SIB, which must establish written policies and procedures for the operation of the Fund, 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 City Council based upon their strategic objectives and a comprehensive review of the current and projected financial requirements. These goals are to be viewed over the long term.

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

Investment Performance Objective

The Grand Forks Board of Park Commissioners 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 Grand Forks Park District ordinances.

It is in the best interest of the Plan 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 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 Grand Forks Board of Park Commissioners has established the following asset allocation:

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

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

Restrictions

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

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

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

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

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

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

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

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

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

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

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

<u>Internal Controls</u>

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.

<u>Evaluation</u>

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

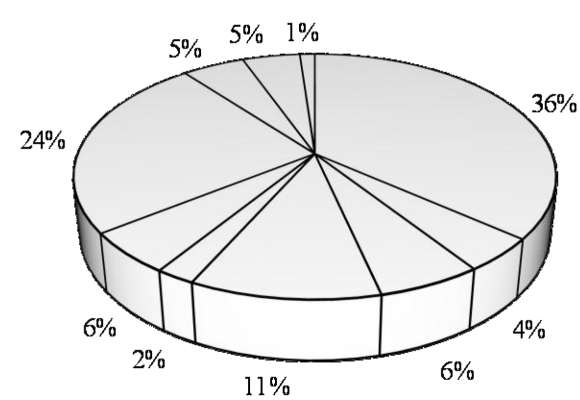
The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

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

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

❖Grand Forks Park District Pension Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	1,617,307	36%	
Domestic Small Cap Equity		198,242	4%	
Global Equity		265,969	6%	
Developed International Equity		484,810	11%	
Emerging Markets Equity		100,860	2%	
Private Equity		245,202	6%	
Investment Grade Fixed Income		1,098,343	24%	
Timber		223,939	5%	
Infrastructure		206,545	5%	
Cash Equivalents		54,160	1%	
Total Fund	$	4,495,377		0.86%
Policy Benchmark				2.87%



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

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

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

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

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

Investment Objectives

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

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

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

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

Standards of Investment Performance

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

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

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

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.4% rate of return assumed in the asset/liability study. Expected risk for the period, measured by standard deviation, is 5.5%.

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 August, 2009, 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	7.00%
Domestic Fixed Income	51.00%
Inflation Protected Assets	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.

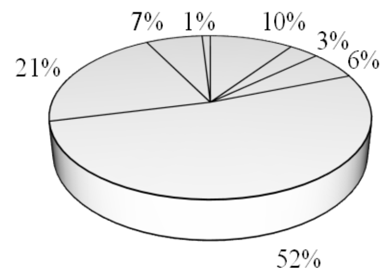
Evaluation and Review

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

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

❖Workforce Safety & Insurance Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	143,130,794	10%	
Domestic Small Cap Equity		50,764,749	3%	
International Equity		81,909,400	6%	
Fixed Income		746,957,747	52%	
Inflation Protected		300,909,000	21%	
Real Estate		96,837,623	7%	
Cash Equivalents		14,199,595	1%	
Total Fund	$	1,434,708,908		6.14%
Policy Benchmark				5.19%



NORTH DAKOTA LEGACY FUND

❖ND Legacy Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

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

Fund Mission

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

Responsibilities and Discretion of the State Investment Board (SIB)

The Legacy Fund Advisory Board (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.

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

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

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

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

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

Risk Tolerance

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

Investment Objectives

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

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

Policy Asset Mix

After consideration of all the inputs and a discussion of its own collective risk tolerance, the Board approves the appropriate policy asset mix for the Legacy Fund as of December 9, 2011:

Asset Class	Policy Target Percentage
Bonds or fixed income[1]	100%
Stocks and equities[2]	0%

[1] It is the preference of the Board that investment grade bonds will be purchased to provide a range of laddered maturities not to exceed 10 years with an effective duration not to exceed 3.5 years.
[2] Plans for including stocks and equities as a part of the asset class mix will be finalized by the Board in the future.

Restrictions

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

a. It is the preference of the Board that Legacy Fund assets not be pooled with any other fund assets managed by the SIB.
b. Futures and options may be used to hedge or replicate underlying index exposure, but not for speculation.
c. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.
d. No transaction may be made that would threaten the tax-exempt status of the Legacy Fund.
e. All assets will be held in custody by the SIB's master custodian or such other custodians as are acceptable to the SIB.
f. No unhedged short sales or speculative margin purchases shall be made.
g. 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."*

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

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

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

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

Internal Controls

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

Evaluation and Review

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

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

- Changes in asset class portfolio structures, tactical approaches, and market values.

- Loss of principal, if any.
- Management costs associated with various types of investments.
- All material legal or legislative proceedings affecting the SIB.
- Compliance with this investment policy statement.
- An evaluation of the national economic climate.A forecast of the expected economic opportunities and dangers.
- Management of risk by the SIB.

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

❖ ND Legacy Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Short-term Fixed Income	$	399,005,274	100%	
Total Fund	$	399,005,274		*
Policy Benchmark				*

STATE FIRE AND TORNADO FUND

❖State Fire and Tornado Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

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

Funding is primarily provided by annual premiums charged to policy holders in accordance with NDCC 26.1-22. Premiums are expected to total approximately $6.4 million annually, with the bulk of these premiums received at the beginning of each fiscal year.

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

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

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

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

Generally, there is a two week lead time to prepare for a claim payment. Large claim payments have a longer lead time and are spread out in multiple payments whenever possible. Total claim payments and transfers over the last three fiscal years have averaged $2.2 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 North Dakota Firefighter's Association. For planning purposes over the 2009-2011 biennium, these appropriations were assumed to be $967,080 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2011-2013 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 is to 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.

Policy and Guidelines

The asset allocation of the State Fire & Tornado Fund is established by the Insurance Department, 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 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 pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."*

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

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

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

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

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

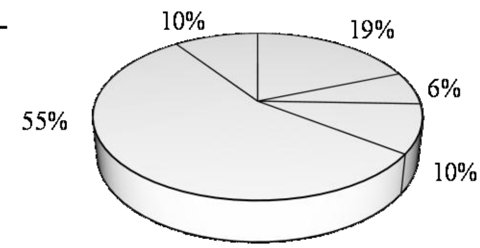
Evaluation and Review

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

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

❖State Fire and Tornado Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 4,687,699	19%	
Domestic Small Cap Equity	1,572,027	6%	
International Equity	2,315,113	10%	
Fixed Income	13,539,998	55%	
Cash Equivalents	2,408,037	10%	
Total Fund	$ 24,522,874		4.93%
Policy Benchmark			3.98%



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 $114,170 annually over the last three fiscal years.

Appropriations from the Fund are exclusively for administrative costs. For planning purposes during the 2009-2011 biennium, these appropriations are assumed to be $20,759 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2011-2013 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.

Policy and Guidelines

The asset allocation of the State Bonding Fund is established by the Insurance Department, 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:

Fixed Income	55.00%
Cash Equivalents	45.00%

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

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

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

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

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

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

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

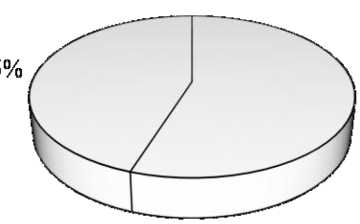
Evaluation and Review

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

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

❖State Bonding Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Fixed Income	$ 1,685,309	55%	
Cash Equivalents	1,370,918	45%	
Total Fund	$ 3,056,227		5.31%
Policy Benchmark			4.08%



PETROLEUM TANK RELEASE COMPENSATION FUND

❖Petroleum Tank Release Compensation Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

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

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

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

If a petroleum release occurs or petroleum contamination is discovered, an eligible tank owner is reimbursed 90% of necessary and reasonable costs between $5,000 and $155,000 for cleanup of contamination or third-party liability. The Fund reimburses 100% of costs between $155,000 and $1,000,000. 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 2009-2011 biennium, these appropriations were assumed to be $48,119 annually.

The Fund's asset allocation will need to be reviewed at the end of the 2011-2013 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, 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.

Policy and Guidelines

The asset allocation of the state Petroleum Tank Release Compensation Fund is established by the Insurance Department, 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:

Fixed Income	50.00%
Cash Equivalents	50.00%

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

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

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

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

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

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

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

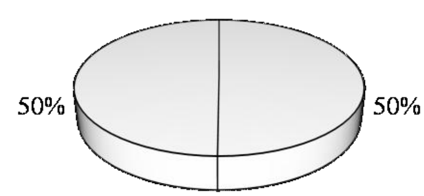
Evaluation and Review

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

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

❖Petroleum Tank Release Compensation Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Fixed Income	**$ 3,391,261**	**50%**	
Cash Equivalents	**3,372,174**	**50%**	
Total Fund	**$ 6,763,435**		**4.84%**
Policy Benchmark			**3.71%**



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 2009-2011 biennium, these appropriations were assumed to be $3.3 million annually.

The Fund's asset allocation will need to be reviewed at the end of the 2011-2013 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.

Policy and Guidelines

The asset allocation of the state Insurance Regulatory Trust Fund is established by the Insurance Department, 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 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 pension fund money for the purpose of obtaining an effect other than a maximized return to the intended beneficiaries."

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

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

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

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

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

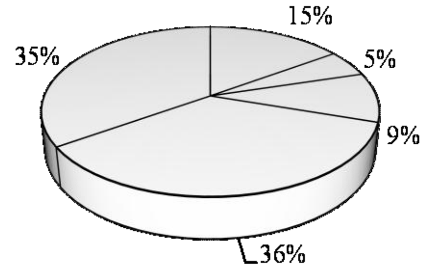
Evaluation and Review

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

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

❖Insurance Regulatory Trust Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	147,695	15%	
Domestic Small Cap Equity		49,547	5%	
International Equity		90,849	9%	
Fixed Income		342,685	36%	
Cash Equivalents		331,596	35%	
Total Fund	$	962,372		2.82%
Policy Benchmark				2.27%



STATE RISK MANAGEMENT FUND

❖State Risk Management Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

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

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

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

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

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

Responsibilities of the State Investment Board (SIB)

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

At the discretion of the SIB, the Fund's assets may be pooled with other funds. In pooling funds, the SIB may establish whatever asset class pools it deems necessary with specific quality, diversification, restrictions, and performance objectives appropriate to the prudent investor rule and objectives of the funds participating in the pools. The SIB may delegate investment responsibility to professional money managers. When a money manager has been retained, the SIB's role in determining investment strategy and security selection is supervisory, not advisory.

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

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

Investment Objectives

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

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

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

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

Standards of Investment Performance

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

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

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

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

Policy and Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

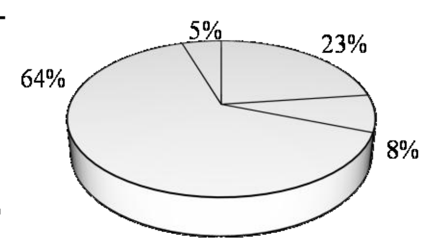
Evaluation and Review

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

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

❖State Risk Management Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 1,188,381	23%	
Domestic Small Cap Equity	398,290	8%	
Fixed Income	3,325,198	64%	
Cash Equivalents	254,671	5%	
Total Fund	$ 5,166,540		7.63%
Policy Benchmark			6.36%



STATE RISK MANAGEMENT WORKERS COMPENSATION FUND

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

Plan Characteristics and Fund Constraints

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

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

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

Responsibilities of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

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

Standards of Investment Performance

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

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

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

c. Over 10 year and longer time periods the Fund should match or exceed the expected 6.64% rate of return based on Callan Associates' 2007 market projections. Expected risk for the period, measured by standard deviation, is 7.57%.

Policy and Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

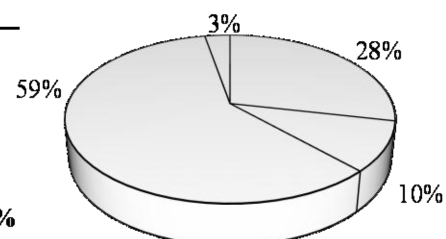
Evaluation and Review

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

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

❖ **State Risk Management WC Fund**
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 1,419,469	28%	
Domestic Small Cap Equity	476,324	10%	
Fixed Income	2,971,550	59%	
Cash Equivalents	147,249	3%	
Total Fund	$ 5,014,592		7.40%
Policy Benchmark			6.29%



NORTH DAKOTA CULTURAL ENDOWMENT FUND

❖ND Cultural Endowment Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

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

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

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

The goals of the Fund are:

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

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

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

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

Standards of Investment Performance

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

a. The Fund should produce a rate of return that meets or exceeds the portfolio policy index defined as 33.75% S&P 500 domestic stock index, 11.25% Russell 2000 domestic small cap index, 10% MSCI EAFE international stock index, 37% Barclays Capital Aggregate domestic bond index, 5% NCREIF Total real estate index, and 3% 90-day Treasury bills.

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

c. Over 10 year and longer time periods the Fund should match or exceed the expected 7.26% rate of return based on Callan Associates' 2005 market projections. Expected risk for the period, measured by standard deviation, is 10.44%.

Policy and Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

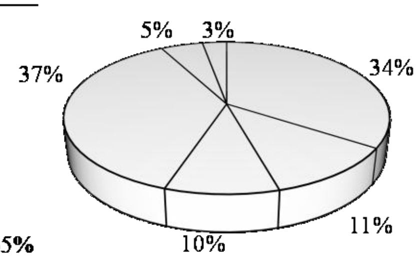
Evaluation and Review

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

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

❖ND Cultural Endowment Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	**$**	**97,057**	**34%**	
Domestic Small Cap Equity		**32,628**	**11%**	
International Equity		**27,074**	**10%**	
Fixed Income		**105,180**	**37%**	
Real Estate		**14,095**	**5%**	
Cash Equivalents		**8,150**	**3%**	
Total Fund	**$**	**284,184**		**4.65%**
Policy Benchmark				**3.97%**



NORTH DAKOTA BUDGET STABILIZATION FUND

❖ND Budget Stabilization Fund Investment Objectives and Policy Guidelines

Fund Characteristics and Constraints

The Budget Stabilization Fund (Fund) is a special fund created in 1987 under Chapter 54-27.2 of the North Dakota Century Code used to deposit general fund moneys in excess of appropriations. Notwithstanding the provisions of sections 54-27.2-01 and 54-27.2-02, $124,936,548 was required to be transferred by the state treasurer to the budget stabilization fund from the general fund on July 1, 2009. This transfer will provide for a total of $324,936,548 in the budget stabilization fund for the biennium beginning July 1, 2009 and ending June 30, 2011. The state investment board shall supervise investment of the budget stabilization fund in accordance with chapter 21-10.

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

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

Standards of Investment Performance

The Fund's investment objectives 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 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:

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

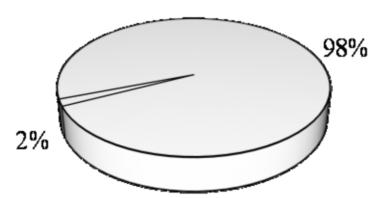
<u>Evaluation and Review</u>

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

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

- **ND Budget Stabilization Fund**
  Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Short-term Fixed Income & BND CDs	$ 388,699,828	98%	
Bank Loans	6,366,797	2%	
Total Fund	$ 395,066,625		1.67%
Policy Benchmark			0.31%



NORTH DAKOTA ASSOCIATION OF COUNTIES

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

Introduction

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

Standards of Investment Performance

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

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

Policy and Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

Internal Controls

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

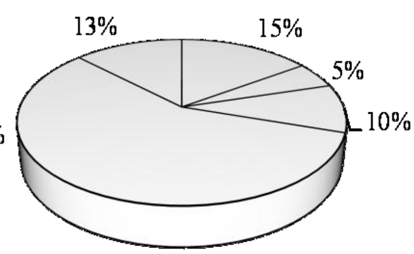
Evaluation and Review

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

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

❖ND Association of Counties (NDACo) Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 253,573	15%	
Domestic Small Cap Equity	84,906	5%	
International Equity	155,812	10%	
Fixed Income	947,618	57%	
Cash Equivalents	210,472	13%	
Total Fund	$ 1,652,381		1.69%
Policy Benchmark			0.89%



CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT

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

Fund Characteristics and Constraints

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

Standards of Investment Performance

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

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

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

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

Policy and Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

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

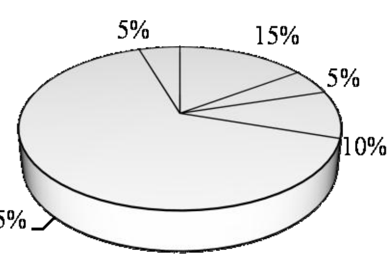
Evaluation and Review

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

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

❖City of Bismarck Deferred Sick Leave Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	141,918	15%	
Domestic Small Cap Equity		47,587	5%	
International Equity		87,309	10%	
Fixed Income		604,328	65%	
Cash Equivalents		45,331	5%	
Total Fund	$	926,474		5.69%
Policy Benchmark				4.51%



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.

Evaluation and Review

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

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

❖NDPERS Group Insurance Account Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Cash Equivalents	$6,899,804	100%	0.24%
Policy Benchmark			0.06%

CITY OF FARGO FARGODOME PERMANENT FUND

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

Fund Characteristics and Constraints

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

Responsibilities of the State Investment Board (SIB)

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

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

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

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

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

Investment Objectives

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

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

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

Standards of Investment Performance

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

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

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

Policy and Guidelines

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

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

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

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

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

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

b. Derivative use will be monitored to ensure that undue risks are not taken by the money managers.

c. All assets will be held in custody by the State Investment Board's master custodian or such other custodians as are acceptable to the State Investment Board.

d. No funds shall be borrowed.

e. No unhedged short sales or speculative margin purchases shall be made.

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

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

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

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

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

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

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

Internal Controls

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

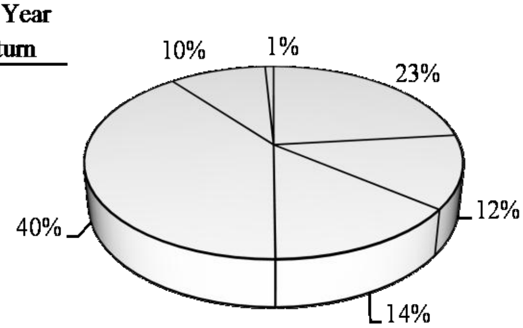
Evaluation and Review

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

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

❖City of Fargo FargoDome Permanent Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	7,486,754	23%	
Domestic Small Cap Equity		3,931,355	12%	
International Equity		4,585,590	14%	
Fixed Income		12,652,815	40%	
Inflation Protected		3,152,978	10%	
Cash Equivalents		277,842	1%	
Total Fund	$	32,087,334		3.14%
Policy Benchmark				2.62%



RETIREE HEALTH INSURANCE CREDIT FUND

❖Retiree Health Insurance Credit Fund Investment Objectives and Policy Guidelines

Plan Characteristics and Constraints

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

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

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

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

Responsibilities and Discretion of the State Investment Board (SIB)

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

Fund fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives. (NDCC 21-10-07)

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

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

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

Delegation of Authority

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

Such procedures must provide for:

1. The definition and assignment of duties and responsibilities to advisory services and persons employed by the SIB pursuant to NDCC 21-10-02.1(1) (a).

2. Investment diversification, investment quality, qualification of money managers, and amounts to be invested by money managers pursuant to NDCC 21-10-02.1(1)(e). In developing these policies it is understood:

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

3. Guidelines for the selection and redemption of investments will be in accordance with NDCC 21-10-02.1(1) (d).

4. The criteria for making decisions with respect to hiring, retention, and termination of money managers will be clearly defined. This also includes selecting performance measurement standards, consultants, report formats, and frequency of meetings with money managers.

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

Investment Goals

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

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

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

Investment Performance Objective

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

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

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

b. The annual standard deviation of total returns for the Fund should not 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 February 2009 – SEI Corporation

Domestic Large Cap	37%
Domestic Small Cap	9%
International Equities	14%
Core Plus Fixed Income	40%
Expected Return	8.4%
Standard Deviation of Returns	11.7%

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

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

Restrictions

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

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

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

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

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

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

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

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

Internal Controls

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

Evaluation

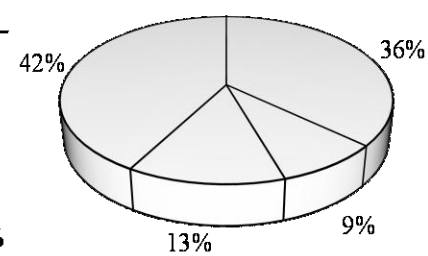
Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.

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

- Changes in asset class portfolio structures, tactical approaches and market values;
- All pertinent legal or legislative proceedings affecting the SIB;
- Compliance with these investment goals, objectives and policies;
- A general market overview and market expectations;
- A review of fund progress and its asset allocation strategy;
- A report on investment fees and the SIB's effort relating to Section 6. To measure investment cost PERS requires as part of the annual review information from CEM or other acceptable source showing the value added versus the cost.

❖Retiree Health Insurance Credit Fund
Actual Asset Allocation – June 30, 2012

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 22,704,728	36%	
Domestic Small Cap Equity	5,393,573	9%	
International Equity	8,033,187	13%	
Core Plus Fixed Income	25,987,952	42%	
Total Fund	$62,119,440		2.62%
Policy Benchmark			2.84%



ACTUARIAL SECTION

SEGAL
THE SEGAL COMPANY
101 North Wacker Drive, Suite 500 Chicago, IL 60606-1724
T 312.984.8500 F 312.984.8590 www.segalco.com

November 16, 2012

Board of Trustees
North Dakota Teachers' Fund for Retirement
1930 Burnt Boat Drive
P.O. Box 7100
Bismarck, ND 58507-7100

Re: Actuarial Valuation as of July 1, 2012

Dear Trustees:

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, 2012.

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 (GASB). The undersigned are independent actuaries. All are Fellows of the Society of Actuaries, Enrolled Actuaries, and Members of the American Academy of Actuaries, and all are experienced in performing valuations for large public retirement systems. They all 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 financial 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 was increased from 7.75% to 9.75% effective July 1, 2012, and is scheduled to increase to 11.75% effective July 1, 2014. The employer rate was increased from 8.75% to 10.75% effective July 1, 2012, and is scheduled to increase to 12.75% effective July 1, 2014. The 11.75% member contribution rate and 12.75% employer contribution rate will remain in effect until TFFR is 90% funded on an actuarial basis. At that point, the employer and member contribution rates will revert to 7.75%.

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, although at any given time the statutory rates may be insufficient. A 30-year period is the maximum amortization period allowed by GASB 25 in computing the Annual Required Contribution.

Board of Trustees
North Dakota Teachers' Fund for Retirement
November 16, 2012
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PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVES

In order to determine the adequacy of the 10.75% 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 3.25% per year. As of July 1, 2012, the ARC is 13.02%, compared to 13.16% last year. This is greater than the 10.75% rate currently required by law. The shortfall (the negative margin) between the rate mandated by law (10.75%) and the rate necessary to fund the UAAL in 30 years is 2.27%.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) decreased from last year. The funded ratio at July 1, 2011 was 66.3%, while it is 60.9% as of July 1, 2012. Based on market values rather than actuarial values of assets, the funded ratio decreased to 57.6%, compared to 62.8% last year.

The plan has a net asset loss of $94 million from previous years that has not yet been recognized in the actuarial value of assets because of the five-year smoothing. This unrecognized asset loss is due to large market losses during FY 2009 and FY 2012. As these losses are recognized over the next four years, the ARC is expected to continue to increase and the funded ratio is expected to continue decreasing, assuming the plan earns 8.00% in the future. However, the scheduled increases in the employer and member contribution rates are projected to improve the funded status and reduce the ARC.

REPORTING CONSEQUENCES

TFFR is required to report in its Comprehensive Annual Financial Report (CAFR) for the current fiscal year ending June 30, 2012 that actual contributions received in FY 2012 were less than the ARC. The FY 2012 8.75% statutory rate was 66.5% of the 13.16% ARC determined by the last valuation. Next year, the CAFR for FY 2013 will show that the 10.75% statutory rate is 82.6% of the 13.02% 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 valuation.

ASSUMPTIONS AND METHODS

Actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. On January 21, 2010, the Board adopted new assumptions, effective for the July 1, 2010 valuation. These actuarial assumptions and methods comply with the parameters for disclosure in GASB 25. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of the Plan.

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.

Board of Trustees
North Dakota Teachers' Fund for Retirement
November 16, 2012
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DATA

Member data for retired, active and inactive participants was supplied as of July 1, 2012, 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,

Kim Nicholl

Kim Nicholl, FSA, MAAA, EA, FCA
Senior Vice President and Consulting Actuary

Matthew A. Strom

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

kn/ms/ns

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SUMMARY OF ACTUARIAL VALUATION RESULTS

	2012	2011
Demographic Data for Plan Year Beginning July 1:		
• Number of		
- Retirees and Beneficiaries	7,151	6,933
- Inactive, Vested	1,483	1,463
- Inactive, Nonvested	468	407
- Active Members	10,014	10,004
• Payroll	$505.3 million	$488.8 million
Statutory Contributions (% of Payroll) for Plan Year Beginning July 1:		
• Employer	10.75%	8.75%
• Member	9.75%	7.75%
Assets:		
• Market value	$1,654.1 million	$1,726.2 million
• Actuarial value	1,748.1 million	1,822.6 million
• Return on market value (per actuary)	-1.4%	23.5%
• Return on actuarial value	-1.4%	1.4%
• Ratio - actuarial value to market value	105.7%	105.6%
• External cash flow %	-3.1%	-2.7%
Actuarial Information:		
• Normal cost %	9.83%	9.80%
• Normal cost	$52.7 million	$50.8 million
• Actuarial accrued liability	$2,871.9 million	$2,749.8 million
• Unfunded actuarial accrued liability (UAAL)	$1,123.8 million	$927.2 million
• Funded ratio	60.9%	66.3%
• Funding period*	51 years	Infinite
GASB 25 Information:		
• Annual required employer contribution rate	13.02%	13.16%
• Margin/(Deficit)	-2.27%	-4.41%
Gains/(Losses):		
• Asset experience	$(169.5) million	$(120.2) million
• Liability experience	9.8 million	(6.2) million
• Benefit changes	0.0 million	24.3 million
• Assumption/method changes	0.0 million	0.0 million
• Total Gain/(Loss)	$(159.7) million	$(102.1) million

* Does not reflect increases in member and employer contribution rates effective in future years (July 1, 2012 and 2014 for 2011 valuation year and July 1, 2014 for 2012 valuation year).

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS

1. Investment Return Rate — 8.00% per annum, compounded annually, equal to an assumed 3.00% inflation rate plus a 5.65% real rate of return, less 0.65% for expected investment and administrative expenses. (Adopted July 1, 1990; allocation among inflation, real rate of return, and expenses modified July 1, 2010.)

2. Mortality Rates

a. **Post Termination Non-Disabled***
GRS tables as shown.
i. 80% of GRS Table 378
ii. 75% of GRS Table 379
(Adopted July 1, 2010.)

b. **Post Retirement Disabled***:
RP-2000 Disabled-Life tables for males and females multiplied by 80% and 95% respectively.
(Adopted July 1, 2010.)

c. **Active Mortality***:
Non-disabled post-termination mortality rates multiplied by 60% for males and 40% for females.
(Adopted July 1, 2010.)

Number of Deaths per 100				
	Male Annuitants		Female Annuitants	
Age	Nondisabled	Disabled	Nondisabled	Disabled
20	0.044	1.806	0.023	0.708
25	0.057	1.806	0.023	0.708
30	0.069	1.806	0.028	0.708
35	0.073	1.806	0.039	0.708
40	0.092	1.806	0.057	0.708
45	0.136	1.806	0.078	0.708
50	0.222	2.318	0.115	1.096
55	0.381	2.835	0.283	1.572
60	0.358	3.363	0.354	2.075
65	0.457	4.014	0.327	2.662
70	1.198	5.007	0.672	3.575

*The mortality tables above reasonably reflect the projected mortality experience of the Fund as of the measurement date. As of the most recent experience study, the ratio of actual to the expected deaths was 118% for males and 115% for females (116% and 121% for males and females for post-disabled mortality). This provides a sufficient margin for future mortality improvement.

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, 2010.)

Retirements Per 100 Members				
	Unreduced Retirement*		Reduced Retirement	
Age	Male	Female	Male	Female
50	25.00%	15.00%		
51	25.00%	15.50%		
52	25.00%	16.00%		
53	25.00%	16.50%		
54	25.00%	17.00%		
55	20.00%	17.50%	1.50%	1.50%
56	20.00%	18.00%	1.50%	1.50%
57	20.00%	18.50%	1.50%	1.50%
58	20.00%	19.00%	1.50%	1.50%
59	20.00%	19.50%	1.50%	1.50%
60	20.00%	20.00%	4.00%	3.00%
61	20.00%	20.00%	4.00%	3.00%
62	45.00%	35.00%	9.00%	8.00%
63	35.00%	30.00%	7.00%	12.00%
64	35.00%	30.00%	10.00%	15.00%
65	40.00%	30.00%		
66	30.00%	30.00%		
67	30.00%	30.00%		
68	30.00%	30.00%		
69	30.00%	30.00%		
70	25.00%	25.00%		
71	25.00%	25.00%		
72	25.00%	25.00%		
73	25.00%	25.00%		
74	25.00%	25.00%		
75	100.00%	100.00%		

* If a member reaches eligibility for unreduced retirement before age 65 under the rule of 85 (Grandfathered Tier 1) or the Rule of 90/Age 60 (Non-grandfathered Tier 1 and Tier 2), 10% is added to the rate just at the age the member becomes first eligible for an unreduced retirement benefit.

Summary of Actuarial Assumptions and Methods (continued)

4. Disability Rates — Shown below for selected ages. (Adopted July 1, 2010.)

Disabilities per 100 Members	
Age	Number
20	0.011
25	0.011
30	0.011
35	0.011
40	0.033
45	0.055
50	0.088
55	0.154
60	0.297

5. Termination Rates — Termination rates based on service, for causes other than death, disability, or retirement. (Adopted July 1, 2010.)

Termination Rates*		
Service	Male	Female
0	33.00%	30.00%
1	15.00%	15.00%
2	12.00%	10.00%
3	9.00%	8.50%
4	8.00%	7.00%
5	7.00%	6.00%
6	6.00%	5.00%
7	5.00%	4.50%
8	4.00%	4.25%
9	3.75%	4.00%
10	3.50%	3.50%
11	3.25%	3.25%
12	3.00%	3.00%
13	2.75%	2.75%
14	2.50%	2.50%
15-19	1.25%	2.00%
20-24	1.25%	1.50%
25-28	1.25%	0.75%
29 and over	0.00%	0.00%

**Termination rates cut out at first retirement eligibility.*

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, 2010.)

Summary of Actuarial Assumptions and Methods (continued)

Years of Service	Annual Step-Rate Promotional Component	Annual Total Salary Increase
0	10.25%	14.75%
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	1.75%	6.25%
10	1.50%	6.00%
11	1.50%	6.00%
12	1.25%	5.75%
13	1.25%	5.75%
14	1.00%	5.50%
15	1.00%	5.50%
16	0.75%	5.25%
17	0.75%	5.25%
18	0.75%	5.25%
19	0.50%	5.00%
20	0.50%	5.00%
21	0.50%	5.00%
22	0.50%	5.00%
23	0.25%	4.75%
24	0.25%	4.75%
25+	0.00%	4.50%

7. Payroll Growth Rate — 3.25% per annum. This assumption does not include any allowance for future increase in the number of members. (Adopted July 1, 2010.)

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. These expenses are expected to reduce the gross investment return by 0.65%. (Adopted July 1, 2010.)

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

Normal cost and actuarial accrued liability are calculated on an individual basis and are allocated by service, with normal cost determined as if the current benefit provisions had always been in effect. 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 10.75% statutory employer contribution rate, the 10.75% 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

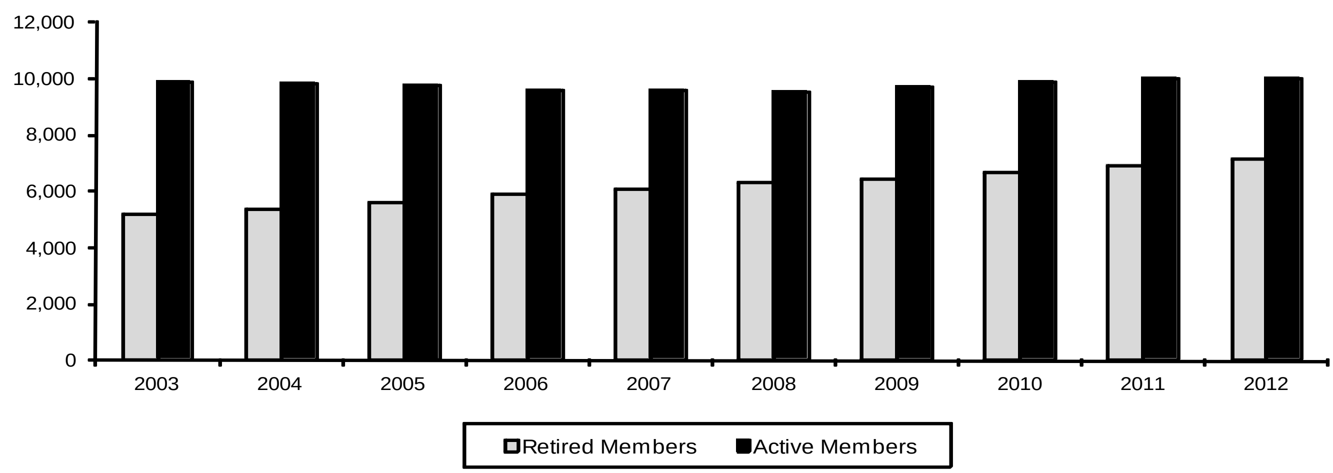
	Active Members		Covered Payroll		Average Salary			
Valuation Year	Number	Percent Increase	Amount in $ Millions	Percent Increase	$ Amount	Percent Increase	Average Age	Average Service
2003	9,916	(0.2)	367.9	5.7	37,105	5.9	44.8	14.6
2004	9,826	(0.9)	376.5	2.3	38,321	3.3	44.9	14.7
2005	9,801	(0.3)	386.6	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
2009	9,707	1.5	440.0	5.3	45,327	3.8	44.5	14.3
2010	9,907	2.1	465.0	5.7	46,937	3.6	44.2	14.0
2011	10,004	1.0	488.8	5.1	48,857	4.1	43.9	13.8
2012	10,014	0.1	505.3	3.4	50,458	3.3	43.7	13.7

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
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
2009	346	7.9	197	2.5	6,466	18,168	114.0	7.0
2010	406	10.1	200	2.0	6,672	18,768	124.5	9.2
2011	426	9.9	165	2.0	6,933	19,272	127.4	2.3
2012	416	10.2	198	2.3	7,151	19,968	135.3	6.1

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)

	7/1/2012	7/1/2011
Prior valuation	13.16 %	12.79 %
Increases/(decreases) due to:		
Open amortization	(0.21)%	(0.18)%
Change in covered payroll and normal cost	0.02 %	(0.61)%
Employer contributions received at 8.75%; rather than 13.16% or 12.79%	0.26 %	0.23 %
Liability experience	(0.11)%	0.07 %
Investment experience	1.98 %	1.46 %
Legislative changes	(2.08)%	(0.60)%
Total	(0.14)%	0.37 %
Current valuation	13.02 %	13.16 %
Statutory employer contribution rate	10.75 %	8.75 %
Margin available	(2.27)%	(4.41)%

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

	($ in millions) 7/1/2012	7/1/2011
UAAL at beginning of year	$ 927.2	$ 795.2
Normal cost	50.8	52.2
Total contributions	(88.8)	(84.9)
Interest on:		
UAAL and normal cost	78.2	65.7
Total contributions	(3.2)	(3.1)
Expected UAAL	$ 964.2	$ 825.1
Changes due to (gain)/loss from:		
Investments	$ 169.4	$ 120.2
Demographics	(9.8)	6.2
Change due to plan amendments	-	(24.3)
Change due to actuarial assumptions	-	-
UAAL at end of year	$ 1,123.8	$ 927.2

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)
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
2009	576.8	1,134.2	734.8	1,900.3	100.0	100.0	25.8
2010	600.4	1,246.1	790.7	1,842.0	100.0	99.6	0.0
2011	626.0	1,332.1	791.6	1,822.6	100.0	89.8	0.0
2012	647.9	1,429.0	794.9	1,748.1	100.0	77.0	0.0

SUMMARY OF PLAN 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. Member Contributions: All active members contribute 9.75% of their salary per year. The employer may "pick up" the member's contributions under the provisions of Internal Revenue Code Section 414(h). The member contribution rate was increased from 7.75% to 9.75% effective July 1, 2012, and is scheduled to increase to 11.75% effective July 1, 2014. The total addition of 4% to the member contribution rate will remain in effect until TFFR is 90% funded on an actuarial basis. At that point, the member contribution rate will revert to 7.75%

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 that employs a member contributes a percentage of the member's salary. This percentage consists of a base percentage of 7.75%, plus, since July 1, 2008, additions as shown below.

Effective Date	Addition to 7.75% Base Rate	Employer Contribution Rate
July 1, 2008	0.50%	8.25%
July 1, 2010	1.00%	8.75%
July 1, 2012	3.00%	10.75%
July 1, 2014	5.00%	12.75%

However, the additions are subject to a “sunset” provision, so the contribution rate will revert to 7.75% once the funded ratio reaches 90%, measured using the actuarial value of assets. The contribution rate will not automatically increase if the funded ratio falls back below 90%.

Summary of Plan Provisions (continued)

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. As of June 30, 2013, Tier 1 members who are at least age 55 and vested (3 years of service) as of the effective date, or the sum of the member's age and service is at least 65 are considered Grandfathered, and previous plan provisions will not change. Tier 1 members who do not fit this criteria as of June 30, 2013, are considered Non-grandfathered. These members along with Tier 2, will have new plan provisions, as described below.

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. Effective as of June 30, 2013, Tier 1 members who are at least age 55 and vested (3 years of service) as of the effective date, or the sum of the member's age and service is at least 65, normal retirement eligibility will not change (participants are Grandfathered). For those who do not meet this criteria as of June 30, 2013 (Non-grandfathered), 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 90, with a minimum age of 60.

    - Tier 2 members may retire upon Normal Retirement on or after age 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. Effective July 1, 2013, Tier 2 members may retire upon Normal Retirement on or after age 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, with a minimum age of 60.

    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.

Summary of Plan Provisions (continued)

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). Effective July 1, 2013, for members who are either Non-grandfathered Tier 1 or Tier 2: 2.00% of FAC (monthly) times years of service, multiplied by a factor which reduces the benefit 8% for each year from the earlier of (i) age 65, or (ii) the age at which current service plus age equals 90 with a minimum age of 60.

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. Effective July 1, 2013, a member is eligible provided he/she has credit for at least five years of service.

b. Monthly Benefit: 2.00% of FAC (monthly) times years of service with a minimum 20 years of service. Effective July 1, 2013, 2.00% of FAC (monthly) times 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 level income and the partial lump-sum option are also permitted in the case of disability retirement. For basis recovery only, 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 (Grandfathered Tier 1 members) or 90 with a minimum age of 60 (Non-grandfathered Tier 1 and 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.

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.

Summary of Plan Provisions (continued)

   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, or (ii) 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.

   f. Option 5 - A non-level 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.

19. 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 than 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.

2009 Legislative Session:

1. An individual who retired before January 1, 2009, and is receiving monthly benefits is entitled to receive a supplemental payment from the fund. The supplemental payment is equal to an amount determined by taking twenty dollars multiplied by the member's number of years of service credit plus fifteen dollars multiplied by the number of years since the member's retirement as of January 1, 2009. The supplemental payment may not exceed the greater of 10% of the member's annual annuity or $750.00. TFFR will make the supplemental payment in December 2009.

2. The employer contribution rate increases from 8.25% to 8.75% effective July 1, 2010, but this rate will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.75%.)

2011 Legislative Session:

1. The employer contribution rate increases from 8.75% to 10.75% effective July 1, 2012, and increases thereafter to 12.75% effective July 1, 2014. The member contribution rate increases from 7.75% to 9.75% effective July 1, 2012, and increases thereafter to 11.75% effective July 1, 2014. Employer and member contributions will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets.

2. Current Tier 1 members who, as of June 30, 2013, are vested (at least 3 years of service), and at least age 55, OR the sum of the member's age and service is at least 65, are considered a Tier 1 Grandfathered member. Current Tier 1 members, who do not meet this criteria as of June 30, 2013, are considered a Tier 1 Non-grandfathered member.

Summary of Plan Changes (continued)

3. Eligibility for normal/unreduced retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective June 30, 2013, unreduced retirement benefits start when the member reaches age 65 and is vested (3 years for Tier 1 Non-grandfathered, 5 years for Tier 2); or if earlier, when the sum of the member's age and service is at least 90, with a minimum age of 60.

4. Early retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective after June 30, 2013, the normal retirement benefit will be reduced by 8% per year from the earlier of age 65 OR the age at which the sum of the member's age and service is at least 90, with the minimum age of 60.

5. Effective after June 30, 2013, all members may retire on disability after a period of at least five years of service (rather than one year of service). The amount of the benefit is based on a 2% multiplier and actual service (rather than a minimum of twenty years of service in the current calculation).

6. Effect July 1, 2012, re-employed retirees are required to pay member contributions.

7. Effective August 1, 2011, beneficiary and death benefit provisions were updated, and the 60-month death payment benefit was removed.

STATISTICAL SECTION

This part of the Retirement and Investment Office's (RIO) comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about RIO's overall financial health.

Contents **Page**

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

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
2003	$ 28,851,110	$ 28,850,725	7.75	$ 24,501,262	$ 2,507,168	$ 84,710,273
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)
2009	34,712,846	37,487,655	8.25	(492,738,080)	2,176,734	(418,360,845)
2010	36,848,481	39,836,646	8.25	179,066,695	1,413,481	257,165,303
2011	38,869,260	44,545,433	8.75	334,965,040	1,499,748	419,879,481
2012	40,254,562	46,126,193	8.75	(21,501,670)	2,417,995	67,297,080

DEDUCTIONS:

Fiscal Year	Benefits Paid to Participants	Refunds	Administrative Charges	Total Deductions	Change in Net Assets
2003	$ 72,044,977	$ 1,729,764	$ 1,056,611	$ 74,831,352	$ 9,878,921
2004	77,153,054	5,800,100	1,513,788	84,466,942	199,431,199
2005	84,498,130	2,733,407	2,086,849	89,318,386	155,514,750
2006	91,818,092	2,697,308	1,620,623	96,136,023	190,145,459
2007	99,737,905	3,328,931	1,592,060	104,658,896	308,469,189
2008	106,456,334	5,500,476	1,639,521	113,596,331	(183,664,001)
2009	113,966,079	2,362,251	1,707,506	118,035,836	(536,396,681)
2010	124,472,154	2,557,240	1,902,796	128,932,190	128,233,113
2011	127,435,564	2,210,738	2,003,705	131,650,007	288,229,474
2012	135,250,568	2,479,194	1,596,976	139,326,738	(72,029,658)

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
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	82,953,154
2005	77,838,622	372,761	890,333	5,396,414	84,498,130	2,581,112	152,295	2,733,407	87,231,537
2006	84,795,930	420,224	950,658	5,651,280	91,818,092	2,381,196	316,112	2,697,308	94,515,400
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
2009	105,258,155	895,742	1,419,050	6,393,132	113,966,079	2,131,709	230,542	2,362,251	116,328,330
2010	115,203,349	821,478	1,440,481	7,006,846	124,472,154	2,300,466	256,774	2,557,240	127,029,394
2011	117,868,157	951,229	1,705,041	6,911,137	127,435,564	1,871,271	339,467	2,210,738	129,646,302
2012	125,721,931	532,104	1,685,206	7,311,327	135,250,568	2,296,492	182,702	2,479,194	137,729,762

PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2012			2003		
Participating Employer	**Covered Employees**	**Rank**	**% of Total System**	**Covered Employees**	**Rank**	**% of Total System**
Bismarck Public Schools	1,098	1	10.03%	889	2	8.60%
Fargo Public Schools	1,072	2	9.79%	957	1	9.26%
Grand Forks Schools	789	3	7.21%	753	3	7.28%
Minot Schools	671	4	6.13%	612	4	5.92%
West Fargo Schools	662	5	6.05%	384	5	3.71%
Mandan Public Schools	299	6	2.73%	260	6	2.51%
Dickinson Schools	248	7	2.27%	238	8	2.30%
Jamestown Schools	225	8	2.06%	239	7	2.31%
Williston Schools	206	9	1.88%	181	9	1.75%
Devils Lake Schools	165	10	1.51%	159	10	1.54%
All Other [1]	5,513		50.36%	5,667		54.81%
Total (222 & 267 employers) [2]	10,948		100.00%	10,339		100.00%

[1] In 2012 "all other" consisted of:

Type	Number	Employees
School Districts	170	5,029
County Superintendents	8	8
Special Education Units	19	340
Vocational Centers	5	51
State Agencies/Institutions	4	73
Other	6	12
Total	212	5,513

[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, 2012

School Districts

Adams
Alexander
Anamoose
Apple Creek Elementary
Ashley
Bakker Elementary
Barnes County North
Beach
Belcourt
Belfield
Beulah
Billings County School
Bismarck
Bottineau
Bowbells
Bowman
Burke Central
Carrington
Cavalier
Center-Stanton
Central Cass
Central Elementary
Central Valley
Dakota Prairie
Devils Lake
Dickinson
Divide
Drake
Drayton
Dunseith
Earl Elementary
Edgeley
Edmore
Eight Mile
Elgin/New Leipzig
Ellendale
Emerado Elementary
Enderlin Area School
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
Kidder County School Dist
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
Montpelier
Mott-Regent
Mt. Pleasant
Munich
Napoleon
Naughton Rural
Nedrose
Nesson
New Elementary
New England
New Rockford-Sheyenne
New Salem-Almont
New Town
Newburg United
North Border School
North Central of Towner
North Sargent
North Star
Northern Cass
Northwood
Oakes
Oberon Elementary
Page
Park River
Parshall
Pingree – Buchanan
Pleasant Valley Elementary
Powers Lake
Richardton-Taylor
Richland
Robinson
Rolette
Roosevelt
Rugby
Sargent Central
Sawyer
Scranton
Selfridge
Solen-Cannonball
South Heart
South Prairie Elementary
St. John’s
St. Thomas
Stanley
Starkweather
Sterling
Strasburg

SCHEDULE OF PARTICIPATING EMPLOYERS (Continued)

School Districts (cont.)
Surrey
Sweet Briar Elementary
TGU
Thompson
Tioga
Turtle Lake – Mercer
Twin Buttes Elementary
Underwood
United
Valley-Edinburg
Valley City
Velva
Wahpeton
Warwick
Washburn
West Fargo
Westhope
White Shield
Williston
Wilton
Wing
Wishek
Wolford
Wyndmere
Yellowstone
Zeeland

Total School Districts 180

County Superintendents
Logan County
McHenry County
McKenzie County
Morton County
Nelson County
Rolette County
Slope County
Ward County
Total County Supts. 8

Special Education Units
Burleigh County Special Ed.
E Central Center for Exc. Children
GST Educational Services
James River Multidistrict Spec Ed.
Lake Region Special Ed.
Lonetree Special Ed.
Northern Plains Spec. Ed.
Oliver – Mercer Special Ed.
Peace Garden Special Ed.
Pembina Spec. Ed. Co-Op
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
N Central Area Career & Tech
North Valley Career & Tech Center
Roughrider Area Career & Tech
SE Region Career & Tech Center
Sheyenne Valley Area Voc Center

Total Vocational Centers 5

State Agencies & Institutions
ND Center for Distance Education
ND School for the Blind
ND School for the Deaf
ND Youth Correctional Center

Total State Agencies & Institutions 4

Other
Bismarck State College
Blessed John Paul II Cath. Schools
Great NW Cooperative
ND Education Association
ND High School Activities Assn.
Roughrider Service Program

Total Other 6

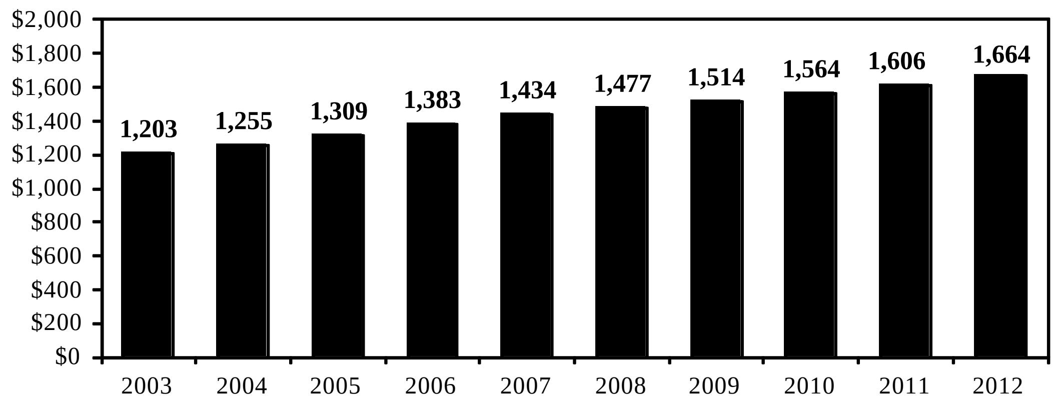
Total Employers 222

SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA BY COUNTY

County	Number	Average Benefit	County	Number	Average Benefit	County	Number	Average Benefit
Adams	19	$ 1,459	Griggs	33	$ 1,397	Richland	115	$ 1,802
Barnes	138	1,789	Hettinger	28	1,638	Rolette	69	1,569
Benson	41	1,779	Kidder	28	1,547	Sargent	32	1,261
Billings	4	1,249	LaMoure	53	1,578	Sheridan	18	1,409
Bottineau	109	1,555	Logan	23	1,556	Sioux	6	854
Bowman	48	1,570	McHenry	64	1,576	Slope	5	924
Burke	36	1,401	McIntosh	38	1,604	Stark	206	1,711
Burleigh	741	1,807	McKenzie	49	1,861	Steele	16	1,379
Cass	863	1,913	McLean	111	1,651	Stutsman	175	1,664
Cavalier	74	1,382	Mercer	88	1,793	Towner	26	1,538
Dickey	65	1,219	Morton	239	1,760	Traill	89	1,584
Divide	29	2,049	Mountrail	76	1,440	Walsh	132	1,576
Dunn	33	1,874	Nelson	48	1,450	Ward	515	1,748
Eddy	32	1,572	Oliver	18	1,757	Wells	62	1,651
Emmons	28	1,539	Pembina	79	1,798	Williams	180	1,783
Foster	40	1,783	Pierce	63	1,622	Out-of-State	1,376	1,346
Golden Valley	17	1,363	Ramsey	140	1,540			
Grand Forks	516	1,946	Ransom	53	1,465	GRAND TOTALS:	7,151	$ 1,664
Grant	31	1,279	Renville	34	1,773			

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Valuation Year		Years of Service									
		< 5	5 - 9	< 10	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	> 34	TOTAL
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	74	195		436	417	627	1,254	1,750	1,140	5,893
	Average Monthly Benefit	208	302		399	607	938	1,351	1,804	1,938	1,383
	Average Years of Service	2.645	7		13	17	23	28	32	38	28
2007	Number of Retirees	77	206		437	418	643	1,310	1,843	1,143	6,077
	Average Monthly Benefit	207	299		404	634	982	1,415	1,850	2,012	1,434
	Average Years of Service	3	7		13	17	23	28	32	38	28
2008	Number of Retirees	83	222		451	421	670	1,363	1,938	1,169	6,317
	Average Monthly Benefit	220	310		410	656	1,025	1,471	1,897	2,066	1,477
	Average Years of Service	3	7		13	17	23	28	32	38	28
2009	Number of Retirees	90	243		450	420	692	1,410	2,008	1,153	6,466
	Average Monthly Benefit	216	308		417	670	1,074	1,515	1,942	2,120	1,514
	Average Final Average Salary	1,751	1,984		1,751	2,144	2,627	2,972	3,318	3,315	2,910
	Average Years of Service	3	7		13	17	23	28	32	38	28
2010	Number of Retirees	90	262		463	430	717	1,438	1,971	1,301	6,672
	Average Monthly Benefit	199	316		441	695	1,130	1,569	1,984	2,194	1,564
	Average Final Average Salary	1,695	2,034		1,901	2,253	2,761	3,100	3,403	3,427	3,018
	Average Years of Service	3	7		13	17	23	28	32	38	28
2011	Number of Retirees	99	291		475	446	746	1,494	2,148	1,234	6,933
	Average Monthly Benefit	203	316		457	719	1,182	1,626	2,015	2,306	1,606
	Average Final Average Salary	1,806	2,072		1,967	2,351	2,869	3,209	3,456	3,537	3,100
	Average Years of Service	3	7		12	17	23	28	32	38	27
2012	Number of Retirees	99	309		482	464	771	1,521	2,232	1,273	7,151
	Average Monthly Benefit	202	317		479	757	1,228	1,673	2,065	2,438	1,664
	Average Final Average Salary	1,973	2,118		2,120	2,507	3,008	3,322	3,570	3,740	3,235
	Average Years of Service	3	7		13	17	23	28	32	38	27



SCHEDULE OF RETIREES BY BENEFIT AMOUNT

Monthly Benefit Amount	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Under $200	215	215	199	193	185	177	171	157	146	134
200 to 399	464	471	466	475	470	461	460	465	466	473
400 to 599	473	489	500	517	539	552	590	619	637	671
600 to 799	418	436	446	469	506	527	563	593	637	663
800 to 999	409	410	410	417	419	420	423	432	434	439
1,000 to 1,199	518	515	527	529	538	540	542	528	517	513
1,200 to 1,399	525	524	514	505	498	493	492	478	458	450
1,400 to 1,599	573	574	556	550	534	519	498	474	455	432
1,600 to 1,799	592	568	550	525	510	483	449	422	392	358
1,800 to 1,999	570	557	526	513	499	474	438	382	348	297
2,000 & Over *										747
2,000 to 2,199	501	474	445	412	377	338	310	270	245	
2,200 to 2,399	409	394	381	353	329	287	258	227	202	
2,400 to 2,599	325	313	287	267	250	228	190	157	133	
2,600 to 2,799	281	267	237	208	185	160	150	119	105	
2,800 to 2,999	227	200	178	155	144	126	102	86	68	
3,000 & Over *					334	292	257	177	130	
3,000 to 3,199	178	155	124	110						
3,200 to 3,399	124	91	84	70						
3,400 to 3,599	92	79	72	61						
3,600 to 3,799	72	55	46	41						
3,800 to 3,999	42	35	34	24						
4,000 & Over	143	111	90	72						
TOTAL	7,151	6,933	6,672	6,466	6,317	6,077	5,893	5,586	5,373	5,177

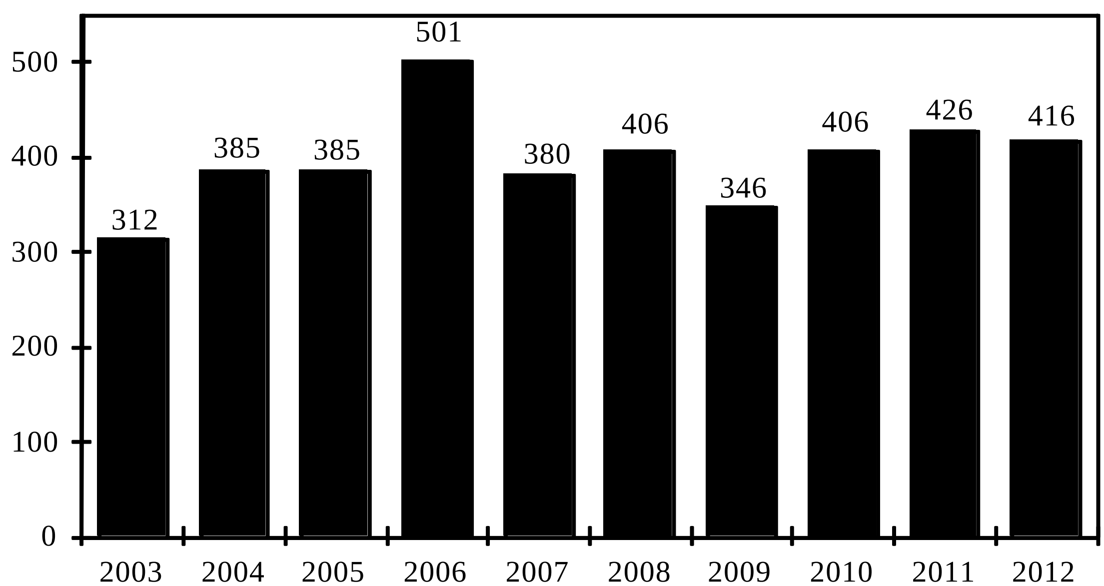
* Breakdown of data for monthly benefits > $2,000 is not available for years prior to 2004, and > $3,000 prior to 2009.

SCHEDULE OF RETIREES BY BENEFIT TYPE

Form of Payment	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Service:										
Straight Life	2,801	2,739	2,583	2,560	2,578	2,541	2,549	2,544	2,527	2,531
100% J&S	2,279	2,153	2,095	1,963	1,836	1,697	1,570	1,361	1,243	1,128
50% J&S	515	501	500	468	458	433	408	372	357	333
5 Years C&L	23	28	32	32	32	33	34	34	35	34
10 Years C&L	178	184	179	174	169	166	157	154	151	149
20 Years C&L	73	63	55	46	38	34	28	16	8	0
Level	579	584	585	590	584	580	567	539	495	458
Subtotal	6,448	6,252	6,029	5,833	5,695	5,484	5,313	5,020	4,816	4,633
Disability:										
Straight Life	96	97	88	85	81	73	66	61	59	57
100% J&S	13	11	11	13	12	12	11	9	10	11
50% J&S	8	8	7	6	5	4	4	5	6	9
5 Years C&L	2	2	2	2	2	2	2	2	2	2
10 Years C&L	0	1	2	1	1	1	1	1	1	1
20 Years C&L	1	1	1	1	1	1	1	1	1	0
Subtotal	120	120	111	108	102	93	85	79	79	80
Beneficiaries:										
Straight Life	571	545	522	513	506	482	475	466	457	442
5 Years C&L	2	6	6	6	9	11	8	9	9	6
10 Years C&L	9	9	3	5	5	7	12	12	12	16
20 Years C&L	1	1	1	1	0	0	0	0	0	0
Subtotal	583	561	532	525	520	500	495	487	478	464
TOTAL	7,151	6,933	6,672	6,466	6,317	6,077	5,893	5,586	5,373	5,177

SCHEDULE OF NEW RETIREES BY TYPE

Valuation Year	Retirement	Disability	Beneficiary	Total
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
2009	304	8	34	346
2010	366	8	32	406
2011	370	12	44	426
2012	371	7	38	416



PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL

	2012	2011	2010	2009	2008
INVESTMENT MANAGERS					
Global Equity:					
Calamos Advisors LLC	$ 189,743	-	-	-	-
Epoch Investment Partners	1,232,302	-	-	-	-
Total Global Equity	1,422,045	-	-	-	-
Domestic Large Cap Equity:					
AllianceBernstein Capital Management *	$ -	$ 48,771	$ 252,829	$ 1,233	$ -
The Clifton Group *	186,582	125,676	263,156	84,121	-
Declaration Management & Research LLC *	138,223	138,832	1,104,813	-	-
Epoch Investment Partners	565,569	2,493,467	2,253,844	1,039,747	750,984
European Credit Management *	-	229,619	258,751	206,886	189,841
Los Angeles Capital Management *	749,333	1,086,050	616,788	448,835	627,332
LSV Asset Management	628,401	633,088	544,008	460,844	596,487
Mellon Capital Management	-	-	75,117	433,778	922,539
Northern Trust Global Investments *	294,405	-	-	53,277	(320)
Prudential Investment Management *	66,984	91,728	73,997	341,803	293,177
State Street Global Advisors *	-	-	1,826	42,965	144,955
Wells Capital Management Co. *	-	-	135,313	241,392	1,221,370
Westridge Capital Management, Inc.	-	-	-	298,304	584,925
Total Domestic Large Cap Equity	2,629,497	4,847,231	5,580,442	3,653,185	5,331,290
Domestic Small Cap Equity:					
Callan Associates Inc.	984,147	1,168,384	735,212	534,239	111,692
The Clifton Group *	543,810	789,856	307,599	72,907	-
Corsair Capital *	-	676,944	1,140,081	-	-
SEI Investments Management Co. *	-	-	139,146	918,546	2,221,532
Total Domestic Small Cap Equity	1,527,957	2,635,184	2,322,038	1,525,692	2,333,224
Developed International Equity:					
Bank of Ireland Asset Management	-	-	-	-	231,286
Capital Guardian Trust Company	291,582	313,271	278,328	409,573	721,012
The Clifton Group	163,014	105,236	86,789	93,396	-
Dimensional Fund Advisors	354,025	383,099	331,117	250,385	207,791
Lazard Asset Management	-	-	-	-	168,235
LSV Asset Management	522,100	579,826	335,924	370,918	789,271
State Street Global Advisors	293,343	324,700	257,184	250,514	377,186
Wellington Trust Company, NA	498,023	505,226	426,370	331,897	490,485
Total Developed International Equity	2,122,087	2,211,358	1,715,712	1,706,683	2,985,266
Emerging Markets Equity:					
BlackFriars Asset Management	134,724	187,073	162,921	124,072	243,261
Capital International *	-	500,024	523,627	525,000	656,250
Dimensional Fund Advisors	238,500	297,930	254,114	159,310	251,978
J.P. Morgan Investment Management, Inc. *	241,094	833,936	812,919	301,488	314,349
PanAgora Asset Management, Inc.	160,326	220,209	192,768	133,067	263,231
UBS Global Asset Management	244,015	230,871	320,092	220,316	546,104
Total Emerging Markets Equity	1,018,659	2,270,043	2,266,441	1,463,253	2,275,173

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL (Continued)

	2012	2011	2010	2009	2008
INVESTMENT MANAGERS (cont.)					
Private Equity:					
Adams Street Partners *	1,164,226	782,707	812,239	1,050,075	946,207
Capital International *	807,471	-	-	-	-
Coral Partners, Inc. *	174,802	272,143	737,717	827,471	973,463
Corsair Capital *	735,968	-	-	346,138	365,112
EIG Global Energy Partners *	448,379	-	-	-	-
Hearthstone Homebuilding Investors, LLC *	22,020	83,633	232,757	(717,002)	(280,445)
InvestAmerica L&C, LLC *	540,063	521,797	558,215	177,785	187,500
Matlin Patterson Global Opportunities, LLC *	1,506,228	613,794	766,878	(6,536)	901,140
Quantum Energy Partners *	196,790	205,649	205,933	192,704	364,808
Quantum Resources Management *	123,099	133,663	150,000	150,000	150,000
Total Private Equity	5,719,046	2,613,386	3,463,739	2,020,635	3,607,785
Investment Grade Fixed Income:					
Bank of North Dakota	49,262	37,455	34,771	41,873	79,825
Calamos Advisors LLC	189,726	412,998	407,217	340,643	522,810
Declaration Management & Research LLC *	82,705	-	-	-	-
The Clifton Group*	-	-	15,544	93,498	-
J.P. Morgan Investment Management, Inc.	58,957	1,291,500	1,251,397	1,522,491	1,606,393
PIMCO *	600,343	2,399,875	5,232,458	244,483	
Prudential Investment Management	133,059	169,688	197,085	169,582	224,754
SEI Investments Management Co.	58,459	50,081	39,460	6,977	-
Timberland Investment Resources *	-	803,522	2,688,409	818,935	3,596,378
Wells Capital Management, Inc.	97,351	122,662	163,106	136,373	174,789
Western Asset Management Company	159,487	101,609	101,490	102,337	156,624
Total Investment Grade Fixed Income	1,429,349	5,389,390	10,130,937	3,477,192	6,361,573
Below Investment Grade Fixed Income:					
Declaration Management & Research LLC *	-	-	787,851	168,759	7,031
Goldman Sachs Asset Management *	594,279	1,419,792	970,558	440,810	251,837
Loomis Sayles & Company	732,709	735,467	590,660	411,522	567,711
PIMCO *	927,600	1,715,456	372,285	268,049	66,455
EIG Global Energy Partners *	-	1,396,590	952,333	1,104,372	451,490
Wells Capital Management, Inc.	-	-	211,702	500,807	1,042,791
Total Below Investment Grade Fixed Income	2,254,588	5,267,305	3,885,389	2,894,319	2,387,315
Developed International Fixed Income:					
UBS Global Asset Management	260,945	246,055	262,573	278,189	286,966
Brandywine Asset Management	403,408	408,030	447,706	385,373	419,075
Total Developed International Fixed Income	664,353	654,085	710,279	663,562	706,041
Real Estate:					
INVESCO Realty Advisors *	1,312,204	1,174,449	1,157,461	1,071,305	745,911
J.P. Morgan Investment Management, Inc. *	2,027,278	2,052,612	1,898,305	1,956,455	2,418,987
Total Real Estate	3,339,482	3,227,061	3,055,766	3,027,760	3,164,898

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL (Continued)

	2012	2011	2010	2009	2008
INVESTMENT MANAGERS (cont.)					
Timber:					
Timberland Investment Resources *	1,036,397	-	-	-	-
Infrastructure:					
Credit Suisse *	472,826	-	-	-	-
J.P. Morgan Investment Management, Inc.*	1,679,799	-	-	-	-
Total Infrastructure	2,152,625	-	-	-	-
Cash Equivalents:					
The Northern Trust Company, Inc.	72,836	62,646	29,642	14,331	57,539
Total Investment Manager Fees	25,388,921	29,177,689	33,160,385	20,446,612	29,210,104
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	518,376	625,684	570,972	551,849	741,919
INVESTMENT CONSULTANT					
Callan Associates Inc.	215,043	270,183	190,879	188,799	197,734
SIB SERVICE FEES	31,573	52,758	33,123	22,608	16,070
SECURITIES LENDING FEES					
Rebates	(13,940)	(178,234)	(237,860)	152,080	5,871,386
Fees	6,821	100,629	63,250	82,112	214,760
Total Securities Lending Fees	(7,119)	(77,605)	(174,610)	234,192	6,086,146

INSURANCE INVESTMENT POOL

	2012	2011	2010	2009	2008
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
The Clifton Group *	$ 53,176	$ 121,697	$ 328,385	$ 373,925	$ -
Los Angeles Capital Management *	162,237	263,933	164,823	104,393	127,696
LSV Asset Management	131,769	105,431	87,269	70,004	74,445
State Street Global Advisors *	-	-	1,248	12,674	25,395
Westridge Capital Management, Inc.	-	-	-	94,488	169,773
Total Domestic Large Cap Equity	347,182	491,061	581,725	655,484	397,309
Domestic Small Cap Equity:					
The Clifton Group *	122,062	158,649	390,421	221,082	-
Research Affiliates	129,831	132,438	106,631	85,949	109,426
SEI Investments Management	-	-	-	58,418	198,434
Total Domestic Small Cap Equity	251,893	291,087	497,052	365,449	307,860

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2012	2011	2010	2009	2008
INVESTMENT MANAGERS (cont.)					
International Equity:					
Capital Guardian Trust Company	189,258	205,361	208,162	193,395	241,112
Dimensional Fund Advisors	69,190	78,546	83,070	55,616	40,530
Lazard Asset Management	-	-	-	-	24,588
LSV Asset Management	194,826	213,049	225,184	182,431	199,709
The Vanguard Group	37,739	48,043	50,785	29,127	45,138
Total International Equity	491,013	544,999	567,201	460,569	551,077
Domestic Fixed Income:					
Bank of North Dakota	65,084	60,984	58,340	58,375	58,692
Brookfield Investment Management	-	-	51,899	75,328	127,097
The Clifton Group *	-	-	-	516,425	853,284
Declaration Management & Research LLC	194,885	166,415	39,163	-	-
PIMCO *	1,836,119	-	-	-	-
Prudential Investment Management	190,576	174,060	180,577	161,549	164,533
Wells Capital Management, Inc.	583,784	538,689	500,223	419,769	425,196
Western Asset Management Company	398,326	446,627	414,506	384,219	398,731
Total Domestic Fixed Income	3,268,774	1,386,775	1,244,708	1,615,665	2,027,533
Inflation Protected Assets					
Credit Suisse *	720,652	-	-	-	-
J.P. Morgan Investment Management, Inc.*	782,238	883,330	839,066	512,663	-
Northern Trust Global Investments *	-	385	31,109	48,927	59,045
Timberland Investment Resources *	507,528	451,705	221,700	116,863	-
Western Asset Management Company *	314,239	312,798	590,444	9,124	-
Total Inflation Protected Assets	2,324,657	1,648,218	1,682,319	687,577	59,045
Real Estate:					
J.P. Morgan Investment Management, Inc.	1,073,000	950,339	557,938	786,098	1,173,188
Short Term Fixed Income:					
Babson Capital Management LLC	292,383	-	-	-	-
J.P. Morgan Investment Management, Inc.	207,366	-	-	-	-
Prudential Investment Management*	64,534	217,963	218,275	99,805	277,555
Total Short Term Fixed Income	564,283	217,963	218,275	99,805	277,555
Total Investment Manager Fees	8,320,802	5,530,442	5,349,218	4,670,647	4,793,567
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	281,339	301,194	323,560	288,023	300,326
INVESTMENT CONSULTANT					
Callan Associates	114,109	110,094	96,975	95,858	92,632
SIB SERVICE FEES	7,078	10,408	7,881	6,099	5,301
SECURITIES LENDING FEES					
Rebates	(3,908)	(59,839)	7,052	1,244,805	7,072,529
Fees	1,973	32,546	56,356	199,028	217,060
Total Securities Lending Fees	(1,935)	(27,293)	63,408	1,443,833	7,289,590

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

INDIVIDUAL INVESTMENT ACCOUNT

	2012	2011	2010	2009	2008
INVESTMENT MANAGERS					
SEI Investments Management	$ 249,704	$ 224,707	$ 174,464	$ -	$ -
State Street Global Advisors	-	-	-	73,830	141,727
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	706	1,027	1,166	654	651
SIB SERVICE FEES	7,240	7,813	5,115	4,561	3,581

*Indicates fee schedule for this account includes some form of performance based fees.

See reconciliation of current year investment expenses to financial statements on page 61.

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL

	2012	2011	2010	2009	2008
Public Employees Retirement System					
Net assets beginning of year	$ 1,800,337,484	$ 1,510,006,420	$ 1,353,174,174	$ 1,810,756,057	$ 1,934,234,168
Net increase/(decrease) in fair value of investments	(40,138,712)	288,857,273	153,004,660	(463,523,677)	(133,303,450)
Interest, dividends and other income	43,094,734	35,540,149	32,225,018	35,721,096	43,867,012
Expenses	6,550,593	6,904,640	6,413,077	6,636,715	11,447,763
Net securities lending income	11,643	188,282	115,645	157,919	362,091
Net incr/(decr) in net assets resulting from unit transactions	(24,500,000)	(27,350,000)	(22,100,000)	(23,300,506)	(22,956,001)
Net assets end of year	$ 1,772,254,556	$ 1,800,337,484	$ 1,510,006,420	$ 1,353,174,174	$ 1,810,756,057
City of Bismarck Employees Pension Plan					
Net assets beginning of year	$ 53,487,752	$ 44,536,966	$ 39,763,978	$ 49,652,732	$ 51,545,555
Net increase/(decrease) in fair value of investments	176,642	7,976,275	3,838,691	(10,902,385)	(2,969,501)
Interest, dividends and other income	1,664,728	1,176,167	1,121,694	1,205,465	1,396,664
Expenses	213,743	206,459	190,180	196,099	330,632
Net securities lending income	363	4,803	2,783	4,265	10,646
Net incr/(decr) in net assets resulting from unit transactions	6,000,000	-	-	-	-
Net assets end of year	$ 61,115,742	$ 53,487,752	$ 44,536,966	$ 39,763,978	$ 49,652,732
City of Bismarck Police Pension Plan					
Net assets beginning of year	$ 24,487,442	$ 20,256,072	$ 17,958,666	$ 22,986,491	$ 24,060,610
Net increase/(decrease) in fair value of investments	(10,241)	3,805,226	1,907,796	(5,454,384)	(1,541,978)
Interest, dividends and other income	673,595	517,733	476,013	513,627	610,805
Expenses	92,910	93,931	87,805	89,034	147,621
Net securities lending income	169	2,342	1,402	1,966	4,675
Net incr/(decr) in net assets resulting from unit transactions	1,500,000	-	-	-	-
Net assets end of year	$ 26,558,055	$ 24,487,442	$ 20,256,072	$ 17,958,666	$ 22,986,491
Job Service of North Dakota					
Net assets beginning of year	$ 85,717,233	$ 77,650,186	$ 72,147,891	$ 89,914,256	$ 94,697,478
Net increase/(decrease) in fair value of investments	456,149	10,200,840	7,565,552	(15,799,734)	(2,847,451)
Interest, dividends and other income	2,908,939	2,068,491	2,042,786	1,998,050	2,133,511
Expenses	264,891	277,752	305,699	301,287	622,355
Net securities lending income	509	7,844	4,884	10,350	26,176
Net incr/(decr) in net assets resulting from unit transactions	(4,137,055)	(3,932,376)	(3,805,228)	(3,673,744)	(3,473,103)
Net assets end of year	$ 84,680,884	$ 85,717,233	$ 77,650,186	$ 72,147,891	$ 89,914,256
City of Fargo Employee Pension Plan					
Net assets beginning of year	$ 28,804,055	$ 24,534,685	$ 21,872,249	$ 29,620,050	$ -
Net increase/(decrease) in fair value of investments	(294,620)	4,700,965	2,756,456	(7,476,802)	(2,060,774)
Interest, dividends and other income	688,900	574,934	510,050	557,875	357,768
Expenses	100,760	109,591	106,028	106,556	138,325
Net securities lending income	191	3,062	1,958	2,682	3,641
Net incr/(decr) in net assets resulting from unit transactions	425,000	(900,000)	(500,000)	(725,000)	31,457,740
Net assets end of year	$ 29,522,766	$ 28,804,055	$ 24,534,685	$ 21,872,249	$ 29,620,050

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL (Continued)

	2012	2011	2010	2009	2008
City of Grand Forks Pension Plan					
Net assets beginning of year	$ 43,013,441	$ 34,915,157	$ 30,006,961	$ -	$ -
Net increase/(decrease) in fair value of investments	(429,165)	6,821,525	3,626,358	1,238,569	-
Interest, dividends and other income	1,003,146	818,617	674,685	122,529	-
Expenses	151,256	153,222	137,909	51,129	-
Net securities lending income	264	4,499	3,136	1,502	-
Net incr/(decr) in net assets resulting from unit transactions	453,715	606,865	741,926	28,695,490	-
Net assets end of year	$ 43,890,145	$ 43,013,441	$ 34,915,157	$ 30,006,961	$ -
Grand Forks Park District Pension Plan					
Net assets beginning of year	$ 4,413,772	$ 3,570,354	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	(60,414)	685,078	(138,086)	-	-
Interest, dividends and other income	111,050	73,134	30,872	-	-
Expenses	14,575	16,348	11,082	-	-
Net securities lending income	34	621	185	-	-
Net incr/(decr) in net assets resulting from unit transactions	40,968	100,933	3,688,465	-	-
Net assets end of year	$ 4,490,835	$ 4,413,772	$ 3,570,354	$ -	$ -
TOTAL PENSION INVESTMENT POOL					
Net assets beginning of year	$ 2,040,261,179	$ 1,715,469,840	$ 1,534,923,919	$ 2,002,929,586	$ 2,104,537,811
Net increase/(decrease) in fair value of investments	(40,300,361)	323,047,182	172,561,427	(501,918,413)	(142,723,154)
Interest, dividends and other income	50,145,092	40,769,225	37,081,118	40,118,642	48,365,760
Expenses	7,388,728	7,761,943	7,251,780	7,380,820	12,686,696
Net securities lending income	13,173	211,453	129,993	178,684	407,229
Net incr/(decr) in net assets resulting from unit transactions	(20,217,372)	(31,474,578)	(21,974,837)	996,240	5,028,636
Net assets end of year	$ 2,022,512,983	$ 2,040,261,179	$ 1,715,469,840	$ 1,534,923,919	$ 2,002,929,586

INSURANCE INVESTMENT POOL

	2012	2011	2010	2009	2008
Workforce Safety & Insurance Fund					
Net assets beginning of year	$ 1,349,820,999	$ 1,211,055,668	$ 1,082,338,485	$ 1,257,695,472	$ 1,299,957,605
Net increase/(decrease) in fair value of investments	39,444,727	119,651,617	86,825,301	(165,281,764)	(38,116,867)
Interest, dividends and other income	47,896,009	44,585,328	44,376,314	47,266,977	50,628,924
Expenses	4,869,959	5,091,768	5,098,648	4,616,101	4,557,824
Net securities lending income	7,368	120,154	214,216	773,901	783,634
Net incr/(decr) in net assets resulting from unit transactions	1,500,000	(20,500,000)	2,400,000	(53,500,000)	(51,000,000)
Net assets end of year	$ 1,433,799,144	$ 1,349,820,999	$ 1,211,055,668	$ 1,082,338,485	$ 1,257,695,472
Legacy Fund					
Net assets beginning of year	$ -	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	(50,393)	-	-	-	-
Interest, dividends and other income	2,594,368	-	-	-	-
Expenses	243,750	-	-	-	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	396,585,658	-	-	-	-
Net assets end of year	$ 398,885,883	$ -	$ -	$ -	$ -

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2012	2011	2010	2009	2008
State Fire & Tornado Fund					
Net assets beginning of year	$ 25,159,062	$ 26,360,103	$ 22,315,554	$ 25,660,561	$ 28,467,050
Net increase/(decrease) in fair value of investments	387,069	2,819,526	2,554,316	(3,758,616)	(1,888,307)
Interest, dividends and other income	819,440	953,119	1,002,687	977,252	1,011,901
Expenses	62,242	77,003	91,987	97,685	88,889
Net securities lending income	171	3,317	4,533	9,042	8,806
Net incr/(decr) in net assets resulting from unit transactions	(1,800,000)	(4,900,000)	575,000	(475,000)	(1,850,000)
Net assets end of year	$ 24,503,500	$ 25,159,062	$ 26,360,103	$ 22,315,554	$ 25,660,561
State Bonding Fund					
Net assets beginning of year	$ 2,901,517	$ 2,763,321	$ 2,150,027	$ 2,541,528	$ 2,729,760
Net increase/(decrease) in fair value of investments	80,255	59,619	137,116	(477,513)	(199,930)
Interest, dividends and other income	79,056	83,032	80,281	90,769	100,393
Expenses	4,493	4,578	4,322	5,513	9,563
Net securities lending income	10	123	219	756	868
Net incr/(decr) in net assets resulting from unit transactions	-	-	400,000	-	(80,000)
Net assets end of year	$ 3,056,345	$ 2,901,517	$ 2,763,321	$ 2,150,027	$ 2,541,528
Petroleum Tank Release Compensation Fund					
Net assets beginning of year	$ 6,447,257	$ 6,624,103	$ 6,298,834	$ 8,541,351	$ 10,022,172
Net increase/(decrease) in fair value of investments	161,701	150,874	339,451	(1,549,239)	(700,200)
Interest, dividends and other income	161,523	181,494	194,448	268,874	356,171
Expenses	8,101	9,480	9,161	14,385	29,741
Net securities lending income	18	266	531	2,233	2,949
Net incr/(decr) in net assets resulting from unit transactions	-	(500,000)	(200,000)	(950,000)	(1,110,000)
Net assets end of year	$ 6,762,398	$ 6,447,257	$ 6,624,103	$ 6,298,834	$ 8,541,351
Insurance Regulatory Trust Fund					
Net assets beginning of year	$ 3,671,634	$ 4,115,864	$ 3,235,054	$ 4,083,147	$ 3,982,228
Net increase/(decrease) in fair value of investments	(49,067)	205,758	133,302	(203,636)	(162,849)
Interest, dividends and other income	43,279	55,377	55,755	64,262	122,260
Expenses	3,255	5,621	8,575	9,247	9,288
Net securities lending income	20	256	328	528	796
Net incr/(decr) in net assets resulting from unit transactions	(2,700,000)	(700,000)	700,000	(700,000)	150,000
Net assets end of year	$ 962,611	$ 3,671,634	$ 4,115,864	$ 3,235,054	$ 4,083,147
Risk Management Fund					
Net assets beginning of year	$ 4,326,253	$ 3,783,457	$ 3,252,697	$ 3,597,393	$ 3,695,796
Net increase/(decrease) in fair value of investments	188,985	395,152	391,534	(477,819)	(231,219)
Interest, dividends and other income	159,639	158,783	151,308	146,455	144,326
Expenses	11,399	11,543	12,687	14,680	12,747
Net securities lending income	17	404	605	1,348	1,237
Net incr/(decr) in net assets resulting from unit transactions	500,000	-	-	-	-
Net assets end of year	$ 5,163,495	$ 4,326,253	$ 3,783,457	$ 3,252,697	$ 3,597,393

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2012	2011	2010	2009	2008
Risk Management Workers Comp Fund					
Net assets beginning of year	$ 3,718,464	$ 3,198,090	$ 1,864,433	$ 3,057,338	$ 4,221,728
Net increase/(decrease) in fair value of investments	167,998	398,292	242,300	(426,876)	(305,448)
Interest, dividends and other income	135,705	132,097	102,186	93,030	152,814
Expenses	10,790	10,390	11,250	9,931	13,125
Net securities lending income	14	375	421	872	1,369
Net incr/(decr) in net assets resulting from unit transactions	1,000,000	-	1,000,000	(850,000)	(1,000,000)
Net assets end of year	$ 5,011,391	$ 3,718,464	$ 3,198,090	$ 1,864,433	$ 3,057,338
Cultural Endowment Fund					
Net assets beginning of year	$ 272,058	$ 233,415	$ 204,223	$ 268,986	$ 274,568
Net increase/(decrease) in fair value of investments	4,789	42,194	22,732	(63,711)	(29,699)
Interest, dividends and other income	8,718	8,608	7,822	8,338	9,101
Expenses	1,292	1,352	1,405	1,683	1,566
Net securities lending income	2	38	43	88	82
Net incr/(decr) in net assets resulting from unit transactions	-	(10,845)	-	(7,795)	16,500
Net assets end of year	$ 284,275	$ 272,058	$ 233,415	$ 204,223	$ 268,986
Budget Stabilization Fund					
Net assets beginning of year	$ 325,673,084	$ 325,116,846	$ 190,101,212	$ 198,837,270	$ 99,876,003
Net increase/(decrease) in fair value of investments	(2,472,612)	1,701,753	11,710,253	(15,274,089)	(8,591,387)
Interest, dividends and other income	10,787,170	10,618,859	10,013,545	6,647,958	8,845,339
Expenses	447,398	289,511	259,540	109,927	131,522
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	61,414,562	(11,474,863)	113,551,376	-	98,838,837
Net assets end of year	$ 394,954,806	$ 325,673,084	$ 325,116,846	$ 190,101,212	$ 198,837,270
ND Association of Counties Fund					
Net assets beginning of year	$ 1,623,441	$ 1,074,275	$ 929,491	$ 1,122,826	$ 1,216,882
Net increase/(decrease) in fair value of investments	(21,216)	201,705	114,484	(223,010)	(127,524)
Interest, dividends and other income	53,400	56,013	35,633	35,516	38,236
Expenses	4,749	5,432	5,541	6,228	5,148
Net securities lending income	11	225	208	387	380
Net incr/(decr) in net assets resulting from unit transactions	-	296,655	-	-	-
Net assets end of year	$ 1,650,887	$ 1,623,441	$ 1,074,275	$ 929,491	$ 1,122,826
City of Bismarck Deferred Sick Leave Fund					
Net assets beginning of year	$ 876,390	$ 842,549	$ 729,156	$ 799,142	$ 826,225
Net increase/(decrease) in fair value of investments	19,419	82,130	82,542	(99,854)	(57,118)
Interest, dividends and other income	32,907	35,011	34,359	33,397	33,570
Expenses	3,235	3,411	3,653	3,829	3,835
Net securities lending income	7	111	145	300	300
Net incr/(decr) in net assets resulting from unit transactions	-	(80,000)	-	-	-
Net assets end of year	$ 925,488	$ 876,390	$ 842,549	$ 729,156	$ 799,142

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2012	2011	2010	2009	2008
PERS Group Insurance Fund					
Net assets beginning of year	$ 5,589,415	$ 4,034,326	$ 3,996,417	$ 4,390,870	$ 4,056,887
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	34,885	32,357	38,909	106,547	334,983
Expenses	1,000	1,000	1,000	1,000	1,000
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	1,276,254	1,523,732	-	(500,000)	-
Net assets end of year	$ 6,899,554	$ 5,589,415	$ 4,034,326	$ 3,996,417	$ 4,390,870
City of Fargo FargoDome Permanent Fund					
Net assets beginning of year	$ 33,406,678	$ 25,092,617	$ 17,578,204	$ 16,070,540	$ 12,102,562
Net increase/(decrease) in fair value of investments	(25,951)	4,252,514	2,389,046	(3,002,920)	(1,474,491)
Interest, dividends and other income	972,310	961,003	823,931	603,865	492,384
Expenses	101,630	104,374	102,595	99,654	54,510
Net securities lending income	257	4,918	4,031	6,373	4,595
Net incr/(decr) in net assets resulting from unit transactions	(2,200,000)	3,200,000	4,400,000	4,000,000	5,000,000
Net assets end of year	$ 32,051,664	$ 33,406,678	$ 25,092,617	$ 17,578,204	$ 16,070,540
ND Health Care Trust Fund					
Net assets beginning of year	$ 2,322,488	$ 2,316,101	$ 2,308,711	$ 2,285,114	$ 2,210,049
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	4,137	7,374	8,373	24,591	76,044
Expenses	742	987	983	994	979
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	(2,325,883)	-	-	-	-
Net assets end of year	$ -	$ 2,322,488	$ 2,316,101	$ 2,308,711	$ 2,285,114
DPI Board Certification Fund					
Net assets beginning of year	$ 501,704	$ 500,859	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	57	1,594	1,609	-	-
Expenses	190	749	750	-	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net assets resulting from unit transactions	(501,571)	-	-	-	-
Net assets end of year	$ -	$ 501,704	$ 500,859	$ -	$ -
TOTAL INSURANCE INVESTMENT POOL					
Net assets beginning of year	$ 1,766,310,444	$ 1,617,908,249	$ 1,337,991,755	$ 1,529,753,733	$ 1,474,613,291
Net increase/(decrease) in fair value of investments	37,835,704	129,961,134	105,024,870	(190,976,187)	(51,960,430)
Interest, dividends and other income	63,782,603	57,870,049	56,955,892	56,396,195	62,377,571
Expenses	5,774,225	5,617,199	5,616,069	4,995,303	4,923,644
Net securities lending income	7,895	130,187	225,425	796,112	805,291
Net incr/(decr) in net assets resulting from unit transactions	452,749,020	(33,941,976)	123,326,376	(52,982,795)	48,841,654
Net assets end of year	$ 2,314,911,441	$ 1,766,310,444	$ 1,617,908,249	$ 1,337,991,755	$ 1,529,753,733