2013

Comprehensive Annual Financial Report

For the year ended June 30, 2013

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, 2013

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INTRODUCTORY SECTION

ND Retirement and Investment Office

State Investment Board
Teachers' Fund for Retirement

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November 30, 2013

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, 2013, 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 220 employer groups and pays benefits to more than 7,400 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 $7.4 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 for each fund can be found in the Investment Section. These guidelines include goals and objectives, risk tolerance, liquidity constraints, asset allocation and portfolio restrictions specific to each fund's unique circumstances. When creating investment pools to implement the asset allocations for each client fund, the SIB takes all of these guidelines into consideration in order to best meet the objectives of each fund and safeguard fund assets. The following table details the participants in each trust fund as of June 30, 2013:

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	Fair Value in millions	% Of Pool	FY2013 Return
PENSION POOL PARTICIPANTS			
Teachers' Fund for Retirement	$1,810.74	44.3%	13.63%
Public Employees Retirement System	2,000.90	48.9%	13.50%
Bismarck City Employee Pension Fund	68.82	1.7%	12.41%
Bismarck City Police Pension Fund	30.07	0.7%	13.03%
Job Service of North Dakota	90.44	2.2%	11.71%
City of Fargo Pension Fund	34.13	0.8%	13.90%
City of Grand Forks Pension Fund	50.15	1.2%	14.01%
Grand Forks Park District Pension Fund	5.11	0.1%	14.43%
Subtotal Pension Pool Participants	$4,090.36	100.0%	
INDIVIDUAL INVESTMENT ACCOUNT			
Retiree Health Insurance Credit Fund	$73.68		14.80%

	Fair Value in millions	% Of Pool	FY2013 Return
INSURANCE POOL PARTICIPANTS			
Workforce Safety & Insurance Fund	$1,557.72	47.4%	8.32%
Legacy Fund	1,194.78	36.4%	1.14%
State Fire and Tornado Fund	26.63	0.8%	10.59%
State Bonding Fund	3.14	0.1%	2.96%
Petroleum Tank Release Fund	6.84	0.2%	2.47%
Insurance Regulatory Trust Fund	1.04	0.0%	8.49%
State Risk Management Fund	6.19	0.2%	10.19%
State Risk Management Workers Comp	5.25	0.2%	11.61%
Cultural Endowment Fund	0.32	0.0%	15.58%
Budget Stabilization Fund	401.35	12.2%	1.84%
ND Assoc. of Counties (NDACo) Fund	2.72	0.1%	9.46%
City of Bismarck Deferred Sick Leave	1.02	0.0%	9.83%
PERS Group Insurance	42.79	1.3%	0.11%
City of Fargo FargoDome Permanent Fund	36.41	1.1%	13.46%
Subtotal Insurance Pool Participants	3,286.21	100.0%	
TOTAL ASSETS UNDER MANAGEMENT	$7,450.25		

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

- Welcomed new trustee to the Board, State Superintendent Kirsten Baesler, on January 1, 2013.
- Developed comprehensive actuarial funding policy to help ensure the systematic funding of future benefit payments for members of TFFR. The policy includes the actuarial cost method, asset smoothing method, and amortization method. The goals of the policy are:
  1) To achieve long-term full funding of the cost of benefits provided by TFFR.
  2) To seek reasonable and equitable allocation of the cost of benefits over time.
  3) To maintain a policy that is both transparent and accountable to the stakeholders of TFFR, including plan participants, employers, and residents of the State.
- Implemented funding improvement legislative changes approved in 2011 – member and employer contribution increases effective 7/1/12 and 7/1/14, and benefit modifications effective 7/1/13. This included modifying member and employer educational outreach programs and materials; updating pension system software; and updating program policies and procedures.
- Began review of new Government Accounting Standards Board (GASB) pension accounting and financial reporting standards and their impact on TFFR plan and participating employers.
- Celebrated TFFR's 100-year anniversary (1913-2013) with special edition newsletter and slide show highlighting TFFR's history. Active and retired member groups also honored TFFR's centennial at their annual meetings.

Investment Program

- Investment details by trust fund can be found in the Investment Section.
- Initiatives completed by the SIB during the year included:
  - ✓ Assisted the City of Bismarck Employees and Police pension boards in conducting asset/liability studies for their plans, and implemented resulting asset allocations.
  - ✓ Contracted for and completed an asset allocation and spending study for the Legacy Fund and assisted the Policy Board in revising the investment guidelines for the Fund. An 18 month implementation plan has been approved by the SIB, to begin in August 2013.
  - ✓ Transitioned a separate domestic and international equity strategy to a single global equity strategy.
  - ✓ Completed installation and implementation of an electronic records management system for the investment program.
  - ✓ Completed an investment management fee study based on fiscal year 2012 fees paid.

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, 2012. This was the fifteenth 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 2013 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 unmodified for the agency for the year ended June 30, 2013.

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

Pension Trust Fund (TFFR)	June 30, 2013	June 30, 2012	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 336,054,657	$ 67,297,080	$ 268,757,577	399.4%
Deductions	150,620,356	139,326,738	11,293,618	8.1%
Net Change	$ 185,434,301	$ (72,029,658)	$ 257,463,959	357.4%

In the pension trust fund, additions increased due to strong 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, 2013	June 30, 2012	Incr/(Decr) $	Incr/(Decr) %
Additions	$ 417,581,039	$ 100,454,476	$ 317,126,563	315.7%
Deductions	558,744	529,383	$ 29,361	5.5%
Net Change in Units	818,478,735	435,956,648	$ 382,522,087	87.7%
Net Change	$ 1,235,501,030	$ 535,881,741	$ 699,619,289	130.6%

In the investment trust funds, additions also increased due to strong financial markets. Deductions increased due to an increase in administrative expenses allocated to the pool participants during the year, mainly related to the purchase of a new software license for an electronic record-keeping system for the investment program.

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 100% 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 beginning July 1, 2013, 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 closed 30-year period that began July 1, 2013. For this calculation, payroll is assumed to increase 3.25% per year. As of July 1, 2013, the ARC is 10.26%, compared to 9.49% last year. This is less than the 10.75% rate currently required by law. The ARC calculation reflects the scheduled increases in member and employer contribution rates that will be effective July 1, 2014.

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, 2012, was 60.9%, while it is 58.8% as of July 1, 2013. Based on market values rather than actuarial values of assets, the funded ratio increased to 61.4 %, compared to 57.6% last year.

The plan had a net asset gain of $77 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 gain is due to market gains during FY2010, FY2011 and FY2013. As these gains are recognized over the next four years, the funded ratio is expected to continue to improve, assuming the plan earns 8.00% in the future.

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, 2013 (in millions)	July 1, 2012 (in millions)
Actuarial value of assets	$ 1,762.3	$ 1,748.1
Unfunded actuarial accrued liability	1,234.8	1,123.8
Funded ratio	58.8%	60.9%

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. Additionally, each investment manager is given explicit guidelines identifying the types of investments that are acceptable within each portfolio, based on asset allocation expectations of the individual funds in the pools.

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

FAY KOPP
Interim Executive Director/
Chief Retirement Officer

Darren Schulz

DARREN SCHULZ, CFA
Interim Chief Investment Officer

NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE
As of June 30, 2013

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, 2013

Drew Wrigley
Chair
Lt. Governor

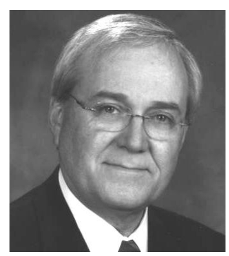
Mike Sandal
Vice Chair
PERS Trustee

Kelly Schmidt
State Treasurer

Adam Hamm
State Insurance Commissioner

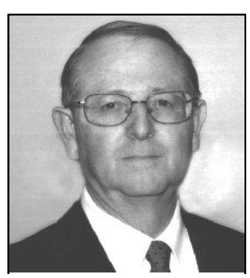
Cindy Ternes, CPA
Workforce Safety & Insurance Designee

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

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

NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
Board of Trustees as of June 30, 2013

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.

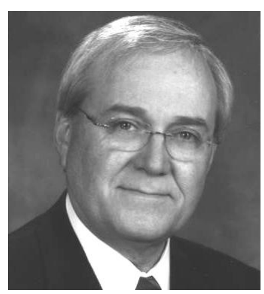
Goals

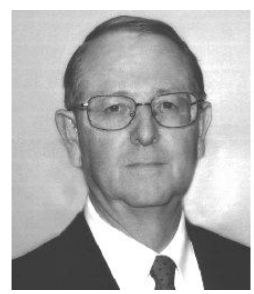
Investment and Funding Goals:

- 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:

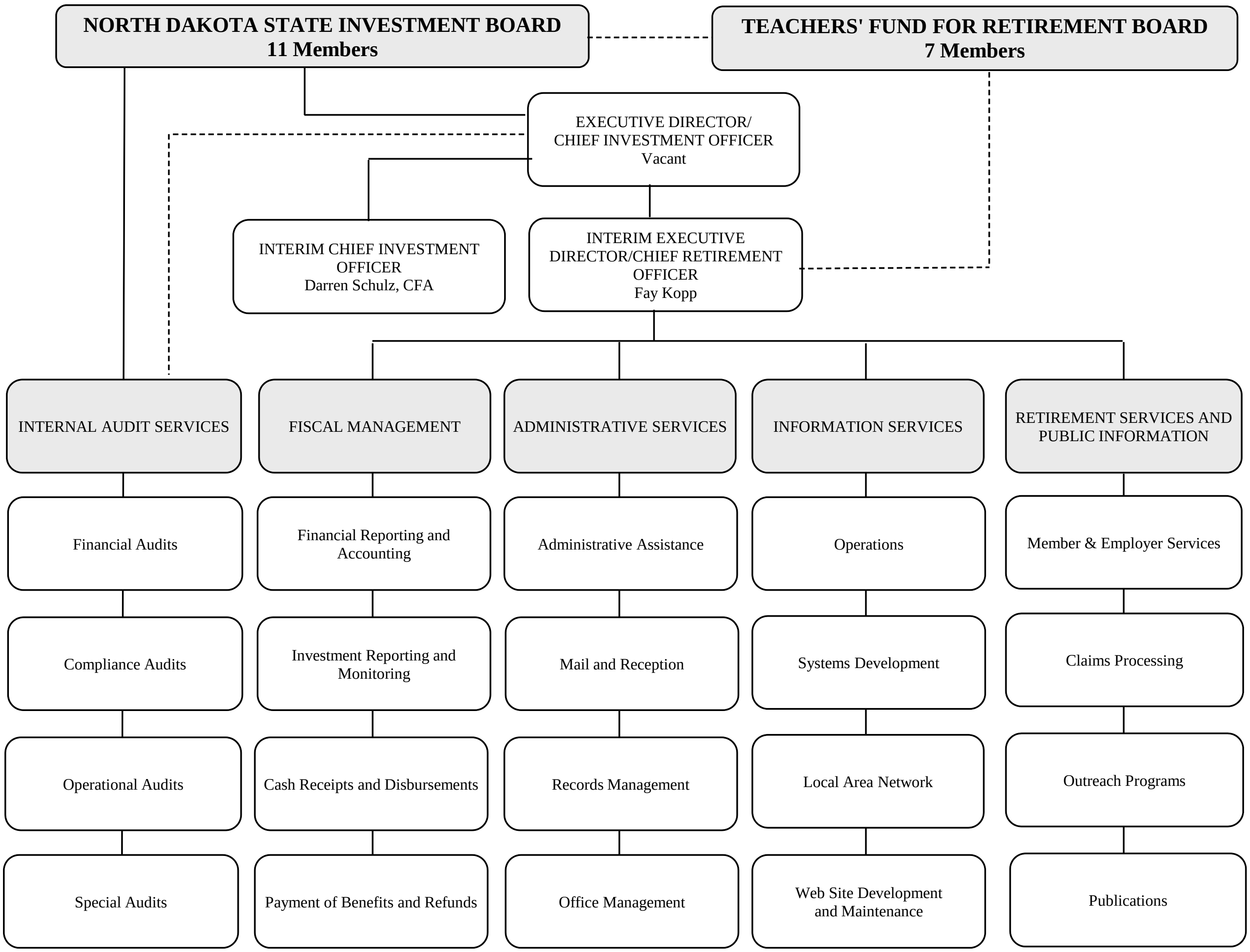
- Administer accurate, prompt, and efficient pension benefits program.
- Deliver high quality, friendly service to members and employers.
- Provide educational outreach programs including pre-retirement seminars and individual counseling sessions.





NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE

ADMINISTRATIVE ORGANIZATION
JUNE 30, 2013



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, 2013

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

Advent Software, Inc.
San Francisco, CA

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

Brandywine Asset Management
Wilmington, Delaware

Calamos Advisors LLC
Naperville, Illinois

Callan Associates
San Francisco, California

Investment Managers (cont.)

Capital Guardian Trust Company
Los Angeles, California

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

Parametric Portfolio Associates
DBA The Clifton Group
Minneapolis, Minnesota

Investment Managers (cont.)

PIMCO
Newport Beach, California

Prudential Investment Management
Newark, New Jersey

Quantum Energy Partners
Houston, Texas

Quantum Resources Mgmt, LLC
Denver, Colorado

Research Affiliates, LLC
Newport Beach, California

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

Government Finance Officers Association

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, 2012

Executive Director/CEO

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2013

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

Report on the Financial Statements

We have audited the accompanying financial statements of the North Dakota Retirement and Investment Office (RIO), a department of the State of North Dakota, which comprise the statement of net position as of June 30, 2013 and 2012, and the related statement of changes in net position for the years then ended, and the related notes to the financial statements, which collectively comprise RIO's basic financial statements, and the combining and individual fund financial statements as of and for the years ended June 30, 2013 and 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RIO as of June 30, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance 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, 2013 and 2012, and the results of the changes in financial position of such funds for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the RIO, are intended to present the financial position and the changes in financial position of only that portion of the State of North Dakota that is attributable to the transactions of the RIO. They do not purport to, and do not, present fairly the financial position of State of North Dakota as of June 30, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise RIO's basic financial statements and the combining and individual fund financial statements. The schedules of administrative expenses, consultant expenses, investment expenses, and appropriations – budget basis – fiduciary funds, as listed in 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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 basic financial statements or to the basic 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 as a whole.

The Introductory, Investment, Actuarial 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 do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Audit Standards*, we have also issued our report dated October 24, 2013, 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* in considering RIO's internal control over financial reporting.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
October 24, 2013

North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2013 and 2012

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, 2013. 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 position increased in the fiduciary funds by $1.42 billion or 23.5% from the prior year. Over 50% of that increase is due to the growth of the Legacy Fund. 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 $791.1 million during the fiscal year.

Additions in the fiduciary funds for the year increased $585.9 million from the previous year. Net investment income increased by $558.9 million and total contributions increased $27.0 million.

Deductions in the fiduciary funds increased over the prior year by $11.3 million or 8.1%. 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, 2013, the funded ratio was approximately 58.8%.

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 position and a statement of changes in net position.

North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2013 and 2012

Financial Analysis

RIO's fiduciary fund total assets as of June 30, 2013, were $7.5 billion and were comprised mainly of investments. Total assets increased by $1.4 billion or 23.5% from the prior year primarily due to the growth of the Legacy Fund.

Total liabilities as of June 30, 2013, were $7 million and were comprised mostly of investment expenses payable. Total liabilities increased by $1.1 million or 18.5% from the prior year due mainly to an increase in investment expenses payable at June 30, 2013.

RIO's fiduciary fund total net position was $7.5 billion at the close of fiscal year 2013.

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

	2013	2012	Total % Change
Assets			
Investments	$ 7,422	$ 6,010	23.5%
Receivables	44	35	25.4%
Cash & Other	16	15	11.6%
Total Assets	7,482	6,060	23.5%
Liabilities			
Accounts Payable	7	6	18.5%
Total Liabilities	7	6	18.5%
Total Net Position	$ 7,475	$ 6,054	23.5%

	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 Position	$ 6,054	$ 5,590	8.3%

North Dakota Retirement and Investment Office
Changes in Net Position – Fiduciary Funds
(In Millions)

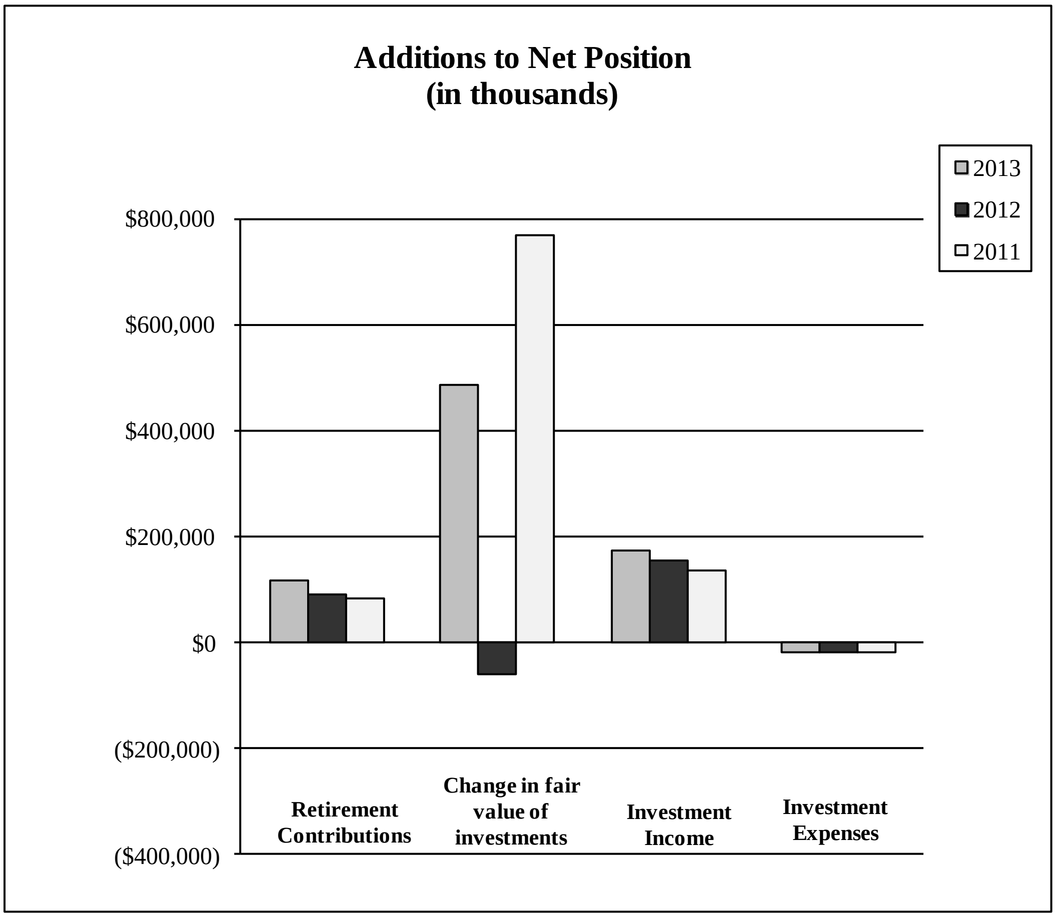
	2013	2012	Total % Change
Additions:			
Contributions	$ 116	$ 89	30.4%
Investment Income	638	79	707.9%
Total Additions	754	168	349.3%
Deductions	151	140	8.1%
Net change from unit transactions	818	436	87.7%
Total change in net position	$ 1,421	$ 464	206.3%

	2012	2011	Total % Change
Additions:			
Contributions	$ 89	$ 85	4.6%
Investment Income	$ 79	$ 884	91.1%
Total Additions	$ 168	$ 969	82.7%
Deductions	$ 140	$ 133	5.5%
Net change from unit transactions	$ 436	$ (63)	790.9%
Total change in net position	$ 464	$ 773	40.0%

North Dakota Retirement and Investment Office
Management's Discussion and Analysis
June 30, 2013 and 2012

Statement of Changes in Net Position – Additions

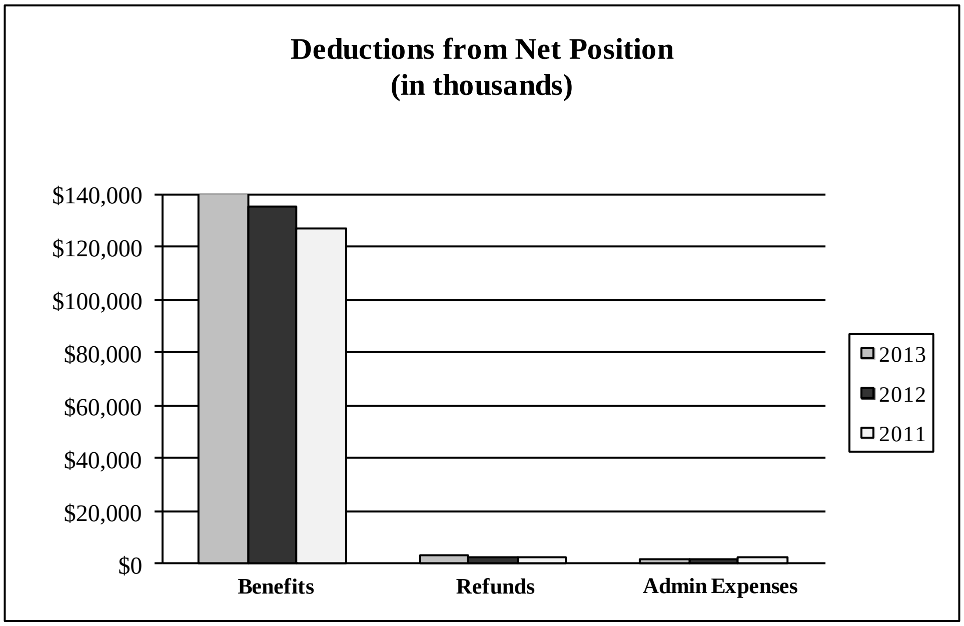
Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by $27.0 million or 30.4% over the previous fiscal year. The increase is due to an increase in the statutorily required contribution rates for members and employers that took effect July 1, 2012. Member contribution rates increased from 7.75% to 9.75% and employer contribution rates increased from 8.75% to 10.75%. Net investment income (net of investment expenses) increased by $558.9 million or 708% from last year. This was the result of stronger financial markets during the fiscal year.



Statement of Changes in Net Position – Deductions

Benefits paid to TFFR plan participants, including partial lump-sum distributions, increased by $10.7 million or 7.9% during the fiscal year ended June 30, 2013. 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 2013 by $574,201 or 23.2%.

Administrative expenses increased by $56,023 or 2.6%.



Conclusion

Following a challenging market environment the prior fiscal year, financial markets performed well in fiscal year 2013. Aggressive efforts by central banks in developed markets to stimulate economic growth fostered a favorable backdrop for investing, in general. For the year, most developed stock markets advanced to levels exceeding that achieved during the last market cycle. On an absolute basis, all asset and sub-asset classes overseen by the State Investment Board generated positive returns. Relative to underlying benchmarks, most asset classes performed in-line or outperformed.

Despite a barrage of policy initiatives, including near-zero interest rates and interference in financial markets by central banks and policy makers, the leading economies remain generally fragile, underscoring the structural (rather than cyclical) nature of the challenges faced in the post-credit crisis era. Of little doubt, however, are the distorting effects of policy settings designed explicitly to shield financial asset prices from normal market forces and the threat that it may lead to a heightening of the very risks which gave the financial system its dependency on central bank support in the first place.

In this environment, financial markets are, we anticipate, likely to remain unstable. To meet this challenge, the State Investment Board will continue to research strategies 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, 2013 and 2012

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. The first phase of the funding improvement plan went into effect on July 1, 2012 with 2% member and 2% employer contribution increases. 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 58.8% as of 7/1/13, 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. Increased contribution rates will be in effect until TFFR reaches 100% funding on an actuarial basis. 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 Position – Fiduciary Funds
June 30, 2013 and 2012

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Assets:				
Investments, at fair value				
Equities	$ -	$ -	$ 43,854,432	$ 36,131,488
Equity pool	951,272,867	812,749,740	1,543,210,098	1,312,774,041
Fixed income	-	-	1,611,285,649	806,874,577
Fixed income pool	392,807,091	370,045,662	1,692,041,813	1,582,382,143
Real assets pool	340,442,941	315,768,906	516,202,669	469,548,278
Private equity pool	94,185,760	104,823,271	111,364,820	108,766,790
Cash pool	24,369,601	21,082,755	100,765,983	69,354,213
Total investments	1,803,078,260	1,624,470,334	5,618,725,464	4,385,831,530
Invested securities lending collateral	-	-	-	-
Receivables:				
Investment income	7,657,195	6,832,046	20,787,440	17,254,744
Contributions	15,648,020	11,076,423	-	-
Miscellaneous	5,172	5,472	12,752	9,506
Total receivables	23,310,387	17,913,941	20,800,192	17,264,250
Due from other state agency	616	1,461	-	-
Cash and cash equivalents	16,044,045	14,370,170	159,403	152,772
Equipment & Software (net of depr)	-	762	-	-
Total assets	1,842,433,308	1,656,756,668	5,639,685,059	4,403,248,552
Liabilities:				
Accounts payable	69,417	62,950	50,916	26,714
Investment expenses payable	2,113,717	1,922,962	4,549,821	3,649,932
Securities lending collateral	-	-	-	-
Accrued expenses	658,494	607,086	60,040	50,425
Miscellaneous payable	-	-	17,382	13,537
Due to other state agencies	7,720	14,011	1,235	3,309
Total liabilities	2,849,348	2,607,009	4,679,394	3,743,917
Net position:				
Held in trust for pension benefits	1,839,583,960	1,654,149,659	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,276,983,263	2,022,512,983
Insurance pool	-	-	3,284,399,099	2,314,911,441
Held in trust for individual investment account	-	-	73,623,303	62,080,211
Total net position	$ 1,839,583,960	$ 1,654,149,659	$ 5,635,005,665	$ 4,399,504,635
Each participant unit is valued at $1.00				
Participant units outstanding			5,635,005,665	4,399,504,635

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

North Dakota Retirement and Investment Office
Statement of Changes in Net Position – Fiduciary Funds
Years Ended June 30, 2013 and 2012

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Additions:				
Contributions:				
Employer contributions	$ 59,352,860	$ 46,126,193	$ -	$ -
Member contributions	53,824,557	40,254,562	-	-
Purchased service credit	2,641,019	2,417,995	-	-
Interest and penalties	30,912	9,854	-	-
Total contributions	115,849,348	88,808,604	-	-
Investment income:				
Net change in fair value of investments	185,196,374	(55,818,260)	299,338,412	(2,301,149)
Interest, dividends and other income	41,018,935	39,954,588	132,358,789	115,514,522
	226,215,309	(15,863,672)	431,697,201	113,213,373
Less investment expenses	6,010,000	5,661,973	14,116,162	12,779,965
Net investment income	220,205,309	(21,525,645)	417,581,039	100,433,408
Securities lending activity:				
Securities lending income	-	8,737	-	17,400
Less securities lending expenses	-	(5,384)	-	(3,668)
Net securities lending income	-	14,121	-	21,068
Total additions	336,054,657	67,297,080	417,581,039	100,454,476
Deductions:				
Benefits paid to participants	145,079,333	134,718,464	-	-
Partial lump-sum distributions	863,990	532,104	-	-
Refunds	3,053,395	2,479,194	-	-
Administrative charges	1,623,638	1,596,976	558,744	529,383
Total deductions	150,620,356	139,326,738	558,744	529,383
Net change in net position resulting from operations	185,434,301	(72,029,658)	417,022,295	99,925,093
Unit transactions at net position value of $1.00 per unit:				
Purchase of units	-	-	1,053,337,604	716,465,386
Redemption of units	-	-	(234,858,869)	(280,508,738)
Net change in position and units resulting from unit transactions	-	-	818,478,735	435,956,648
Total change in net position	185,434,301	(72,029,658)	1,235,501,030	535,881,741
Net position:				
Beginning of year	1,654,149,659	$ 1,726,179,317	$ 4,399,504,635	$ 3,863,622,894
End of Year	$ 1,839,583,960	$ 1,654,149,659	$ 5,635,005,665	$ 4,399,504,635

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 position. 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, 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, 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, Risk Management, Risk Management Workers Comp, Cultural Endowment 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 statements of net position.

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 $147,115 and $136,458 at June 30, 2013 and 2012, respectively. The current portions of accrued leave amounted to $71,864 and $69,848 at June 30, 2013 and 2012, respectively, and are included in accrued expenses of the Fiduciary Funds in the statements of net position.

Changes in accrued leave for the years ended June 30, 2013 and 2012 consisted of the following:

Balance, July 1, 2011	$129,737
Additions	82,071
Deductions	(75,350)
Balance, June 30, 2012	136,458
Additions	94,877
Deductions	(84,220)
Balance, June 30, 2013	$147,115

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, 2013 and 2012 were deposited in the Bank of North Dakota. At June 30, 2013 and 2012, the carrying amount of TFFR's deposits was $16,044,045 and $14,370,170, respectively, and the bank balance was $16,055,352 and $14,380,332 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 $188,293,365 and $146,245,136 at June 30, 2013 and 2012, respectively. In addition these funds carry cash and cash equivalents totaling $159,403 and $152,772 at June 30, 2013 and 2012, 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 years ended June 30, 2013 and 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, 2013 and 2012, the following tables show the investments by investment type and maturity (expressed in thousands).

North Dakota Retirement and Investment Office
Notes to Combined Financial Statements
June 30, 2013 and 2012

2013	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	$ 199,406	$ 301	$ 99,376	$ 24,782	$ 74,947
Bank Loans	2,928	-	2,447	481	-
Collateralized Bonds	325	-	-	325	-
Commercial Mortgage-Backed	72,266	-	205	1,011	71,050
Commercial Paper	325,951	325,951	-	-	-
Corporate Bonds	895,610	70,183	536,976	140,078	148,373
Corporate Convertible Bonds	23,851	237	11,481	3,071	9,062
Government Agencies	136,027	37,219	76,811	10,765	11,232
Government Bonds	439,887	99,659	261,554	30,147	48,527
Gov't Mortgage Backed and CMB	521,193	-	3,742	15,179	502,272
Guaranteed Fixed Income	-	-	-	-	-
Index Linked Government Bonds	12,289	1,442	6,894	-	3,953
Municipal/Provincial Bonds	17,273	-	7,244	867	9,162
Non-Government Backed CMOs	25,052	-	3,054	729	21,269
Other Fixed Income	9,901	482	9,419	-	-
Short Term Bills and Notes	31,442	31,442	-	-	-
Funds/Pooled Investments	924,518	5,430	554,075	120,030	244,983
Total Debt Securities	$ 3,637,919	$ 572,346	$ 1,573,278	$ 347,465	$ 1,144,830

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

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 $4.2 million and $4.8 million, and POs valued at $3.4 million and $3.2 million at June 30, 2013 and 2012 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, 2013 and 2012 (expressed in thousands).

		Credit Rating*												
2013	Total Fair Value	A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	NR
Asset Backed Securities	$ 199,406	$ -	$ -	$ 115,713	$ 41,692	$ 24,401	$ 10,545	$ 3,274	$ 2,011	$ 1,623	$ 145	$ -	$ 2	$ -
Bank Loans	2,928	-	-	-	-	-	291	2,066	571	-	-	-	-	-
Collateralized Bonds	325	-	-	325	-	-	-	-	-	-	-	-	-	-
Commercial Mortgage Backed	70,815	-	-	39,405	12,598	14,157	3,507	1,148	-	-	-	-	-	-
Commercial Paper	325,951	14,692	311,259	-	-	-	-	-	-	-	-	-	-	-
Corporate Bonds	895,610	-	-	3,853	43,139	225,872	462,032	102,342	37,470	18,932	1,529	-	441	-
Corporate Convertible Bonds	23,851	-	-	-	-	2,170	1,522	11,692	6,876	1,591	-	-	-	-
Gov't Agencies	136,027	-	-	8,534	118,474	5,256	3,763	-	-	-	-	-	-	-
Gov't Bonds	86,364	-	-	500	12,507	27,039	34,309	9,386	164	-	-	-	-	2,459
Gov't Issued Commercial & Gov't Mortgage Backed	398,611	-	-	705	397,906	-	-	-	-	-	-	-	-	-
Guaranteed Fixed Income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Index Linked Corporate Bonds	1,300	-	-	-	-	-	1,300	-	-	-	-	-	-	-
Municipal/Provincial Bonds	17,273	-	-	4,868	4,166	5,375	2,346	518	-	-	-	-	-	-
Non-Gov't Backed CMOs	23,956	-	-	1,804	5,922	6,108	5,328	234	63	3,529	623	276	69	-
Other Fixed Income	9,901	-	-	9,901	-	-	-	-	-	-	-	-	-	-
Short Term Bills & Notes	15,626	-	-	-	15,626	-	-	-	-	-	-	-	-	-
Funds/Pooled Investments	924,518	-	-	216,755	399,773	32,218	61,911	-	17,519	-	-	196,342	-	-
Total Credit Risk of Debt Securities	3,132,462	$ 14,692	$ 311,259	$ 402,363	$ 1,051,803	$ 342,596	$ 586,854	$ 130,660	$ 64,674	$ 25,675	$ 2,297	$ 196,618	$ 512	$ 2,459
US Gov't & Agencies **	505,457													
Total Debt Securities	$ 3,637,919													

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2012	Total Fair Value	Credit Rating* 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													

* 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. Implicitly guaranteed agency securities included in the *Gov't Mortgage Backed, Gov't Agencies,* and *Short Term Bills and Notes* categories are issued by FNMA, FDIC, FHLB, FHLMC, Federal Financing Corp., SBA, Farmer Mac and Federal Farm Credit.

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, 2013 and 2012 (expressed in thousands).

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2013

Currency	Short-Term	Debt	Equity	Total
Australian dollar	$ (7,940)	$ 10,481	$ 13,350	$ 15,891
Brazilian real	1,898	4,833	6,905	13,636
British pound sterling	13,886	5,191	71,637	90,714
Canadian dollar	132	830	17,011	17,973
Chilean peso	3,297	(2)	-	3,295
Chinese yuan renminbi	137	(2)	-	135
Columbian peso	100	14	-	114
Czech koruna	(1)	2	1,922	1,923
Israeli shekel	42	-	1,590	1,632
Danish krone	-	-	1,328	1,328
Euro	(15,889)	22,493	127,923	134,527
Hong Kong dollar	128	-	18,215	18,343
Hungarian forint	(16)	4,004	1,034	5,022
Iceland krona	31	-	-	31
Indian rupee	4,605	8	-	4,613
Indonesian Rupiah	-	-	56	56
Japanese yen	14,150	72	64,525	78,747
Malaysian Ringgit	94	4,209	2,173	6,476
Mexican peso	317	19,102	-	19,419
New Zealand dollar	(2,692)	3,040	-	348
Norwegian krone	449	9	3,193	3,651
Peruvian nuevo sol	(61)	-	-	(61)
Philippine peso	-	2,219	-	2,219
Polish zloty	65	4,204	1,239	5,508
Russian ruble	15	(9)	-	6
Singapore dollar	450	(1)	4,233	4,682
South African rand	91	3,100	4,024	7,215
South Korean won	(4,224)	4,435	8,344	8,555
Swedish krona	1,067	-	7,447	8,514
Swiss franc	-	-	29,353	29,353
Thai baht	56	1	1,172	1,229
Turkish lira	(394)	3,220	997	3,823
International commingled funds (various currencies)	-	91,153	327,274	418,427
Total international investment securities	$ 9,793	$ 182,606	$ 714,945	$ 907,344

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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

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 position. At June 30, 2013 and 2012, 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 statements of changes in net position and totaled $90.1 million for fiscal year 2013 and $(35.0) million for fiscal year 2012. At June 30, 2013 and 2012, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

Futures	Notional Value	
	June 30, 2013	June 30, 2012
Cash & Cash Equivalent Derivative Futures		
Long	$ 180,058	$ 188,297
Short	(165,105)	(117,655)
Equity Derivative Futures		
Long	478,996	411,726
Short	-	-
Fixed Income Derivative Futures		
Long	3,124	4,710
Short	(64,623)	(31,035)
Total Futures	$ 432,450	$ 456,043

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 statements of changes in net position and totaled $43,000 for fiscal year 2013 and $0.4 million for fiscal year 2012. At June 30, 2013 and 2012, the SIB investment portfolio had the following option balances (expressed in thousands).

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Options	Fair Value June 30, 2013	Fair Value June 30, 2012
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 statements of changes in net position and totaled $(933) thousand for fiscal year 2013 and $921 thousand for fiscal year 2012. The maximum loss that would be recognized at June 30, 2013 and 2012, if all counterparties failed to perform as contracted is $4.25 million and $1.75 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2013 and 2012, the SIB's investment portfolio had the swap fair value balances as shown below (expressed in thousands).

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Credit Default Swaps

Counterparty/Moody's Rating	Notional Amount	Expiration Date	Fair Value June 30, 2013	Fair Value June 30, 2012
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/Aa3	45	3/20/2014	-	(5)
Deutsche Bank AG New York/Aa3	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
Bank of America N.A./A3	1,560	12/20/2017	6	-
Credit Suisse International London/A1	240	12/20/2016	(15)	-
Deutsche Bank AG New York/A2 (3 contracts)	2,160	12/20/2016	(135)	-
Deutsche Bank AG New York/A2	120	9/20/2013	-	-
Deutsche Bank AG New York/A2	1,560	6/20/2017	1	-
Deutsche Bank AG New York/A2 (2 contracts)	(3,250)	12/20/2017	34	-
Deutsche Bank London/A2	1,560	6/20/2017	1	-
Deutsche Bank London/A2	1,560	12/20/2017	6	-
JP Morgan Chase U.S. NYC/Aa3	400	3/20/2017	-	-
JP Morgan Chase N.A./Aa3 (4 contracts)	12,700	6/20/2017	(140)	-
JP Morgan Chase N.A./Aa3 (2 contracts)	4,400	12/20/2017	(46)	-
JP Morgan Chase N.A./Aa3 (3 contracts)	30	10/12/2052	1	-
Total Credit Default Swaps	$ 49,605		$ (287)	$ 546

Interest Rate Swaps

Counterparty	Notional Amount	Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value June 30, 2013	Fair Value June 30, 2012
Bank of Nova Scotia (4 contracts)	$ (493)	0.751% to 1.355%	Various overnight	10/2019	Aa2	$ 34	
Barclays Bank PLC London (2 contracts)	(53)	2.065% to 4.423%	bank rates	12/2027 - 12/2032	A2	2	
Barclays Bank PLC New York (13 contracts)	6,047	0.359% to 5.750%	depending on	08/2012 - 02/2022	A2		8
Barclays Bank PLC New York (6 contracts)	4,240	0.00% to 5.48%	currency	07/2013 - 12/2037	A2	(108)	
Barclays Capital Securities London (7 contracts)	3,124	1.10% to 6.60%		02/2013 - 02/2022	A2		20
Barclays Capital Securities London (9 contracts)	1,800	0.00% to 7.42%		09/2013 - 05/2023	A2	(19)	-
Citibank N.A. New York (11 contracts)	5,426	0.62% to 7.70%		11/2012 - 06/2022	A3		151
Citibank N.A. New York (14 contracts)	(2,094)	0.349% to 4.50%		12/2014 - 04/2023	A3	57	
Citibank London (3 contracts)	1,364	0.695% to 4.42%		01/2016 - 06/2017	A3	(58)	
Credit Suisse First Boston Corporation (5 contracts)	1,783	0.689% to 7.25%		06/2018 - 05/2023	A1	(6)	
Deutsche Bank London (2 contracts)	670	1.96% to 3.12%		10/2013 - 01/2014	A2	-	
Deutsche Bank Singapore (1 contract)	316	0.345%		7/21/2012	A2		(0)
Goldman Sachs Bank USA (2 contracts)	233	0.52% to 1.438%		4/19/2020	A2	3	
HSBC Bank USA New York (1 contract)	190	3.810%		1/3/2028	A1		75
HSBC Bank USA New York (6 contracts)	2,277	0.38% to 3.81%		07/2013 - 01/2028	A1	54	
JP Morgan Chase Bank N.A. (4 contracts)	(4,109)	0.913% to 6.380%		07/2012 - 01/2028	Aa3		(8)
JP Morgan Chase Bank N.A. (5 contracts)	206	0.654% to 4.74%		07/2013 - 08/2016	Aa3	(23)	
Morgan Stanley Capital Services NY (1 contract)	290	6.370%		5/25/2022	Baa1		11
Morgan Stanley Capital Services NY (1 contract)	299	6.370%		5/25/2022	Baa1	(4)	
Morgan Stanley Capital Group Inc. NY (1 contract)	1,090	1.355%		2/15/2020	Baa1	(48)	
Morgan Stanley & Co. Inc. NY (5 contracts)	(2,435)	1.155% to 6.06%		10/2013 - 05/2022	Baa1	27	
Total Interest Rate Swaps	$ 20,171					$ (89)	$ 257

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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 statements of changes in net position and totaled $0.2 million for fiscal year 2013 and $0.9 million for fiscal year 2012. At June 30, 2013 and 2012, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

				Fair Value	
Currency	Cost	Purchases	Sales	6/30/2013	6/30/2012
Australian dollar	$ (10,009)	$ 1,996	$ (12,005)	$ (8,874)	$ (9,486)
Brazilian real	2,087	2,087	-	1,899	217
British pound sterling	8,263	9,121	(858)	8,074	7,108
Canadian dollar	108	1,259	(1,151)	98	300
Chilean peso	3,369	3,501	(132)	3,296	3,152
Chinese yuan renminbi	132	522	(390)	138	-
Colombian peso	102	102	-	101	-
Czech koruna	1	606	(605)	(2)	132
Euro	(23,251)	638	(23,889)	(23,087)	(3,451)
Hungarian forint	(35)	836	(871)	(35)	197
Indian rupee	4,741	4,803	(62)	4,605	-
Japanese yen	(353)	604	(957)	(345)	(1,859)
South Korean won	(4,365)	68	(4,433)	(4,225)	-
Malaysian ringgit	68	68	-	68	-
Mexican peso	323	1,465	(1,142)	317	199
New Zealand dollar	(2,720)	1,260	(3,980)	(2,694)	(2,382)
Norwegian krone	402	2,269	(1,867)	373	263
Peruvian nuevo sol	(61)	56	(117)	(61)	-
Polish zloty	81	864	(783)	66	300
Russian ruble	32	2,180	(2,148)	15	-
Singapore dollar	394	2,063	(1,669)	378	367
South African rand	-	-	-	-	55
Swedish krona	409	1,779	(1,370)	388	205
Turkish lira	(425)	420	(845)	(395)	3,919
United States dollar	20,705	59,271	(38,566)	20,705	843
Total forwards subject to currency risk				$ 803	$ 79

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, 2013 and 2012, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

2013

	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	$ (218,918)	$ (38,025)	$ (98,722)	$ (89,857)	$ 7,686	$ -

	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	(90)	22	10	(31)	(142)	51
Total	$ (90)	$ 22	$ 10	$ (31)	$ (142)	$ 51

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

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 within 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.

North Dakota Retirement and Investment Office
Notes to Combined Financial Statements
June 30, 2013 and 2012

Securities Lending

There was no securities lending program in place for the fiscal years ended June 30, 2013 and 2012.

Note 4 - Capital Assets

	June 30, 2011	Additions	Retirements	June 30, 2012	Additions	Retirements	June 30, 2013
Office equipment	$19,321	$ -	$ -	$19,321	$ -	$ -	$19,321
Less accumulated depreciation on office equipment	(16,271)	(2,288)	-	(18,559)	(762)	-	(19,321)
Software	1,213,500	-	-	1,213,500	-	-	1,213,500
Less accumulated depreciation on software	(1,213,500)	-	-	(1,213,500)	-	-	(1,213,500)
	$3,050			$762			$0

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, 2013 and 2012:

	2013	2012
Due To		
Information Technology Department	$ 7,010	$ 6,234
Office of Attorney General	1,035	1,336
Office of Management and Budget	910	9,750
Total due to other state agencies	$ 8,955	$ 17,320
Due From		
Public Employees Retirement System	$ 616	$ 1,461
Total due from other state agencies	$ 616	$ 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 $77,948 and $77,983 for fiscal 2013 and 2012. Minimum payments under the lease for fiscal 2014 are $78,467.

North Dakota Retirement and Investment Office
Notes to Combined Financial Statements
June 30, 2013 and 2012

Note 7 - Changes in Noncurrent Liabilities

Changes in noncurrent liabilities for the years ended June 30, 2013 and 2012 are summarized as follows:

	Beginning Balance 7/1/2012	Additions	Reductions	Ending Balance 6/30/2013	Amounts Due Within One Year
Accrued Leave	$136,458	$94,877	($84,220)	$147,115	$71,864

	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

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, 2013 and 2012, the number of participating employer units was 220 and 222, respectively, consisting of the following:

	2013	2012
Public School Districts	179	180
County Superintendents	7	8
Special Education Units	19	19
Vocational Education Units	5	5
Other	10	10
Total	220	222

TFFR's membership consisted of the following:

	2013	2012
Retirees and beneficiaries currently receiving benefits	7,489	7,151
Terminated employees - vested	1,500	1,483
Terminated employees - nonvested	563	468
Total	9,552	9,102
Current employees		
Vested	7,465	7,570
Nonvested	2,673	2,444
Total	10,138	10,014

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, 2013 and 2012, TFFR had net realized gains of $73,604,646 and $10,017,507 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 9.75% 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 10.75% of the teacher's salary. Member contributions will increase to 11.75% on 7/1/2014. Employer contributions will increase to 12.75% on 7/1/2014. Member and employer contributions will be reduced to 7.75% each when the fund reaches 100% 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
2013	$ 1,762.3	$ 2,997.1	$ 1,234.8	58.8%	$ 526.7	234.4%

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, 2013	July 1, 2012
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 closed period, effective July 1, 2013	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 market value, and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.	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 market 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. Effective with the July 1, 2013 actuarial valuation, the Trustees adopted an Actuarial Funding Policy, which includes the following:

    - Actuarial Cost Method: The Entry Age Normal method shall be applied to the projected benefits in determining the Normal Cost and the Actuarial Accrued Liability. The Normal Cost shall be determined as a level percentage of pay on an individual basis for each active member based on the benefit provisions applicable to that member.
    - Asset Smoothing Method: The investment gains or losses of each valuation period, as a result of comparing the actual market return to the expected market return, shall be recognized in level amounts over 5 years in calculating the Actuarial Value of Assets. Deferred investment gains or losses cannot exceed a corridor of 20% of the Market Value of Assets (i.e., the Actuarial Value of Assets cannot be more than 120%, nor less than 80%, of the Market Value of Assets as of any valuation date).
    - Amortization Policy: The Unfunded Actuarial Accrued Liability shall be amortized over a “closed” 30-year period that began July 1, 2013.

2. Prior to adoption of the Actuarial Funding Policy, the Actuarial Cost Method used for valuation purposes was "ultimate" entry age normal with normal cost determined for each member based on the ultimate schedule of benefits (e.g., the normal cost for a Tier 1 Grandfathered member was based on the benefits applicable to Tier 2 members). The change in Entry Age Normal valuation approach resulted in a decrease in accrued liability of $11,150,759.

3. The employer statutory contribution rate for the fiscal year beginning July 1, 2013 under the North Dakota Century Code is equal to 10.75% of payroll for employers. Compared to the annual required contribution of 10.26% of payroll, the contribution sufficiency is 0.49% of payroll as of July 1, 2013.

4. The 2011 legislative changes included increases to the statutory contribution rates: 2% each for employer and member effective July 1, 2012 and an additional 2% each for employer and member effective July 1, 2014. Employer and member contributions will be reset to 7.75% each once the Fund reaches a 100% funded ratio, measured using the actuarial value of assets. The 10.26% annual required contribution stated above reflects the actuarial present value of the increased statutory contributions scheduled to occur July 1, 2014.

5. The funding ratio based on the actuarial value of assets over the actuarial accrued liability as of July 1, 2013, is 58.8%, compared to 60.9% as of July 1, 2012. This ratio is a measure of funding status, its history is a measure of funding progress, and is the ratio required to be reported under GASB 25. The total 8% increase in the statutory contribution rates is expected to improve the funding ratio of the plan over time.

6. For the year ended June 30, 2013, Segal has determined that the asset return on a market value basis was 13.4%. After gradual recognition of investment gains and losses under the actuarial smoothing method, the actuarial rate of return was 2.7%. This represents an experience loss when compared to the assumed rate of 8%. As of June 30, 2013, the actuarial value of assets ($1.762 billion) represented 95.8% of the market value ($1.840 billion).

7. The portion of deferred investment gains and losses recognized during the calculation of the July 1, 2013, actuarial value of assets contributed to a loss of $91,132,324. In addition, the demographic and liability experience resulted in a $4,300,712 loss.

8. As mentioned above, the current method used to determine the actuarial value of assets yields an amount that is 95.8% of the market value of assets as of June 30, 2013. 95.8% falls within the 20% corridor, so no further adjustment to the actuarial value of assets is necessary. Guidelines in Actuarial Standard of Practice No. 44 (Selection and Use of Asset Valuation Methods for Pension Valuations) recommend that asset values fall within a reasonable range around the corresponding market value. The actuarial asset method complies with these guidelines.

9. The actuarial valuation report as of July 1, 2013, is based on financial data as of the date. Changes in the value of assets subsequent to that date are not reflected. Declines in asset values will increase the cost of the plan, while increases in asset values (in excess of expected) will decrease the cost of the plan.

10. The Fund's cash flow (contributions minus benefit payments, refunds, and expenses) as a percentage of the market value of assets is -1.9% as of June 30, 2013, compared to -3.1% as of June 30, 2012. The scheduled increases in the employer and member contribution rates will continue to improve the cash flow percentage, assuming all other experience emerges as expected.

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, 2013) is 10.12% of annual covered payroll as established by the NDCC. Prior to that date the contribution rate was 9.12% (as of January 1, 2012) and 8.12% prior to January 1, 2012. RIO's contributions to PERS for the years ended June 30, 2013, 2012, and 2011, were $108,353, $102,664 and $84,091, 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, 2013, committed to fund certain alternative investment partnerships in the amount of $900.0 million. Funding of $694.1 million has been provided leaving an unfunded commitment of approximately $205.9 million.

Note 12 - 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 SIB did not agree with the method used to distribute the assets, and along with the other WGTC limited partners appealed the District Court's ruling. It was the SIB's position that the District Court incorrectly determined the amount of the distribution; and that the audited limited partners were entitled to a greater share of the recovered assets than the unaudited note holders. In April, 2013, the District Court's original ruling was upheld by the United States Court of Appeals for the Second Circuit and the SIB received an additional $3.1 million *pro rata* distribution, bringing the total distributions received to $67.1 million. It should be noted that the receiver continues to pursue certain "clawback" actions and to dispose of various real and personal property held by the receiver in order to recover additional funds that may eventually be distributed to the investors, including the SIB. While future additional distributions are possible, the amount of any additional distributions to the SIB will likely be small as compared to the prior distributions. Total distributions to date have resulted in a net realized loss attributable to the fraud of $8.2 million which was allocated to the participating pooled funds as follows (expressed in thousands):

	Initial Recovery April 2011 (in thousands)	Subsequent Recovery April 2013 (in thousands)	Cost Basis (in thousands)	Net Realized loss (in thousands)
Teachers' Fund for Retirement	$ 23,001	$ 1,129	$ 27,080	$ (2,950)
Public Employees Retirement System	26,012	1,277	30,626	(3,337)
Bismarck City Employee Pension Plan	503	25	592	(64)
Bismarck City Police Pension Plan	268	13	316	(35)
Job Service of ND	1,408	69	1,657	(180)
City of Fargo Employee Pension Plan	445	22	524	(57)
Workforce Safety & Insurance	10,616	521	12,499	(1,362)
State Fire & Tornado	512	25	603	(66)
State Bonding	51	2	60	(7)
Risk Mgmt	88	4	104	(12)
Risk Mgmt Work Comp	63	3	74	(8)
Insurance Regulatory Trust Fund	16	1	18	(1)
Petroleum Tank Release Comp Fund	155	8	182	(19)
ND Ass'n of Counties Fund	54	3	64	(7)
City of Bismarck Deferred Sick Leave	13	1	15	(1)
City of Fargo FargoDome Permanent Fund	718	35	846	(93)
Cultural Endowment Fund	8	-	10	(2)
Totals	$ 63,931	$ 3,138	$ 75,270	$ (8,201)

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. In addition to the Adversary Proceeding, other Tribune creditors have filed numerous state court actions (the "State Court Actions") to assert fraudulent transfer claims against certain recipients of the offering described below. The SIB was not named in any of these actions, which have since been consolidated and transferred to the MDL Proceeding (the State Court Actions together with the Adversary Proceeding, the "Tribune LBO Litigation").

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. On July 26, 2013, the Court granted the Litigation Trustee leave to file a Fifth Amended Complaint. A response to the Litigation Trustee's Fifth Amended Complaint will not yet be required, and the Court has stayed all discovery pending its disposition of a Motion to Dismiss in the State Court Actions. The Court held a hearing on the Motion on May 23, 2013, and took the matter under advisement. In large part, however, the Adversary Proceeding has been stayed from its inception, and continues to be stayed. No substantive motions or answers have been filed by the SIB or any other defendant in response to the complaint. 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, 2013 and 2012

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
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
2013	1,762.3	2,997.1	1,234.8	58.8	526.7	234.4

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	
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%
2013	9.49%[3]	52,396,153	10.75%	59,352,860	113.3%

1. The GASB ARC for each fiscal year is based on the actuarial valuation as of the beginning of the year. Therefore, the FY2013 ARC is based on the July 1, 2012 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 FY 2013 ARC shown above differs from the estimated dollar amount shown in the July 1, 2012 actuarial valuation report because of differences between estimated and actual FY 2013 payroll.

3. The FY 2013 ARC reflects the actuarial present value of the increased statutory contributions scheduled to occur July 1, 2014 and has been restated in the 2013 valuation report.

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	Pension 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	1,051,393,689	29,432,743	14,093,881	36,368,800	18,847,898	27,730,342	3,059,307	329,124,548	9,440,169	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	441,491,591	23,397,268	8,696,450	53,427,026	8,217,984	12,062,393	1,278,331	1,096,297,039	14,640,443	1,683,588	3,323,991
Real assets pool	375,048,624	13,198,095	5,559,176	-	4,979,280	7,531,092	479,034	109,390,403	-	-	-
Private equity pool	102,930,687	2,434,322	1,481,843	-	1,681,860	2,585,280	250,828	-	-	-	-
Cash pool	26,448,952	305,985	207,675	601,042	425,132	223,873	42,581	14,537,107	2,446,147	1,433,736	3,463,508
Total investments	1,997,313,543	68,768,413	30,039,025	90,396,868	34,152,154	50,132,980	5,110,081	1,549,349,097	26,526,759	3,117,324	6,787,499
Invested sec lending collateral	-	-	-	-	-	-	-	-	-	-	-
Investment income receivable	3,585,793	54,434	33,794	45,896	(18,483)	15,081	(770)	8,370,189	106,658	23,894	51,984
Operating Cash	56,297	-	-	-	-	-	-	53,954	775	916	1,078
Miscellaneous receivable	5,107	-	-	-	-	-	-	4,057	70	8	18
Total assets	2,000,960,740	68,822,847	30,072,819	90,442,764	34,133,671	50,148,061	5,109,311	1,557,777,297	26,634,262	3,142,142	6,840,579
Liabilities:											
Investment expenses payable	2,346,133	81,902	37,038	78,952	39,384	57,491	4,486	1,015,148	19,127	843	1,674
Securities lending collateral	-	-	-	-	-	-	-	-	-	-	-
Accounts payable	22,629	-	-	-	-	-	-	15,669	316	37	85
Accrued expenses	27,231	-	-	-	-	-	-	21,341	394	45	121
Miscellaneous payable	-	2,691	1,180	3,954	1,369	1,765	250	-	-	-	-
Due to other state agencies	495	-	-	-	-	-	-	393	7	-	2
Total liabilities	2,396,488	84,593	38,218	82,906	40,753	59,256	4,736	1,052,551	19,844	925	1,882
Net position held in trust for external investment pool participants	$ 1,998,564,252	$ 68,738,254	$ 30,034,601	$ 90,359,858	$ 34,092,918	$ 50,088,805	$ 5,104,575	$ 1,556,724,746	$ 26,614,418	$ 3,141,217	$ 6,838,697
Each participant unit is valued at $1.00											
Participant units outstanding	1,998,564,252	68,738,254	30,034,601	90,359,858	34,092,918	50,088,805	5,104,575	1,556,724,746	26,614,418	3,141,217	6,838,697

See Notes to Financial Statements

North Dakota Retirement and Investment Office
Combining Statement of Net Position – Investment Trust Funds – Fiduciary Funds
June 30, 2013
(With Comparative Totals for 2012)

Insurance Pool Participants										Individual Investment Acct.		
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	Totals 2013	Totals 2012
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 43,854,432	$ 43,854,432	$ 36,131,488
312,902	178,141	1,874,447	1,958,548	815,897	-	-	-	305,919	18,272,867	-	1,543,210,098	1,312,774,041
-	-	-	-	-	-	392,878,101	1,188,657,699	-	-	29,749,849	1,611,285,649	806,874,577
351,942	118,892	3,954,801	3,126,548	1,541,597	-	-	-	658,600	17,773,329	-	1,692,041,813	1,582,382,143
-	16,965	-	-	-	-	-	-	-	-	-	516,202,669	469,548,278
-	-	-	-	-	-	-	-	-	-	-	111,364,820	108,766,790
370,477	9,936	315,768	161,256	360,305	42,792,860	6,132,284	71,022	51,836	364,501	-	100,765,983	69,354,213
1,035,321	323,934	6,145,016	5,246,352	2,717,799	42,792,860	399,010,385	1,188,728,721	1,016,355	36,410,697	73,604,281	5,618,725,464	4,385,831,530
-	-	-	-	-	-	-	-	-	-	-	-	-
8,326	(20)	42,282	1,096	(355)	18	2,342,796	6,050,472	479	894	72,982	20,787,440	17,254,744
890	166	1,072	1,071	-	-	12,878	30,306	-	-	-	159,403	152,772
3	1	15	11	-	-	1,038	2,424	-	-	-	12,752	9,506
1,044,540	324,081	6,188,385	5,248,530	2,717,444	42,792,878	401,367,097	1,194,811,923	1,016,834	36,411,591	73,677,263	5,639,685,059	4,403,248,552
577	275	4,160	3,821	1,762	1	202,045	568,043	711	34,952	51,296	4,549,821	3,649,932
-	-	-	-	-	-	-	-	-	-	-	-	-
12	4	64	48	-	-	3,614	8,438	-	-	-	50,916	26,714
16	4	72	57	-	-	3,940	6,819	-	-	-	60,040	50,425
-	-	-	-	250	1,565	-	-	250	1,444	2,664	17,382	13,537
-	-	1	1	-	-	101	235	-	-	-	1,235	3,309
605	283	4,297	3,927	2,012	1,566	209,700	583,535	961	36,396	53,960	4,679,394	3,743,917
$ 1,043,935	$ 323,798	$ 6,184,088	$ 5,244,603	$ 2,715,432	$ 42,791,312	$ 401,157,397	$ 1,194,228,388	$ 1,015,873	$ 36,375,195	$ 73,623,303	$ 5,635,005,665	$ 4,399,504,635
1,043,935	323,798	6,184,088	5,244,603	2,715,432	42,791,312	401,157,397	1,194,228,388	1,015,873	36,375,195	73,623,303	5,635,005,665	4,399,504,635

	Pension 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
Additions:											
Investment income:											
Net change in fair value of investments	$ 200,819,548	$ 6,237,415	$ 2,898,709	$ 7,978,316	$ 3,464,908	$ 4,988,932	$ 561,321	$ 75,120,636	$ 1,873,759	$ 16,248	$ 35,781
Interest, dividends and other income	44,790,884	1,613,666	680,528	2,248,708	763,619	1,104,377	97,383	48,176,241	803,166	73,189	148,726
	245,610,432	7,851,081	3,579,237	10,227,024	4,228,527	6,093,309	658,704	123,296,877	2,676,925	89,437	184,507
Less investment expenses	6,656,785	228,569	102,691	242,783	112,375	162,026	14,622	4,698,342	62,939	3,575	7,178
Net investment income	238,953,647	7,622,512	3,476,546	9,984,241	4,116,152	5,931,283	644,082	118,598,535	2,613,986	85,862	177,329
Securities lending activity:											
Securities lending income	-	-	-	-	-	-	-	-	-	-	-
Less Securities lending expenses	-	-	-	-	-	-	-	-	-	-	-
Net securities lending income	-	-	-	-	-	-	-	-	-	-	-
Total Additions	238,953,647	7,622,512	3,476,546	9,984,241	4,116,152	5,931,283	644,082	118,598,535	2,613,986	85,862	177,329
Deductions:											
Administrative Expenses	254,826	-	-	-	-	-	-	172,933	3,068	990	1,030
Net change in net position resulting from operations	238,698,821	7,622,512	3,476,546	9,984,241	4,116,152	5,931,283	644,082	118,425,602	2,610,918	84,872	176,299
Unit transactions at net position value of $1 per unit:											
Purchase of units	-	-	-	-	740,000	4,148,698	236,892	26,500,000	-	-	-
Redemption of units	(12,389,125)	-	-	(4,305,267)	(286,000)	(3,881,321)	(267,234)	(22,000,000)	(500,000)	-	(100,000)
Net change in net position and units resulting from unit transactions	(12,389,125)	-	-	(4,305,267)	454,000	267,377	(30,342)	4,500,000	(500,000)	-	(100,000)
Total change in net position	226,309,696	7,622,512	3,476,546	5,678,974	4,570,152	6,198,660	613,740	122,925,602	2,110,918	84872	76,299
Net position:											
Beginning 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
End of year	$ 1,998,564,252	$ 68,738,254	$ 30,034,601	$ 90,359,858	$ 34,092,918	$ 50,088,805	$ 5,104,575	$ 1,556,724,746	$ 26,614,418	$ 3,141,217	$ 6,838,697

See Notes to Financial Statements

North Dakota Retirement and Investment Office

Combining Statement of Changes in Net Position – Investment Trust Funds – Fiduciary Funds

Year Ended June 30, 2013

(With Comparative Totals for 2012)

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	2013	2012
$ 61,472	$ 35,577	$ 352,442	$ 349,656	$ 107,664	$ -	$ (3,112,671)	$ (12,331,605)	$ 60,827	$ 3,435,467	$ 6,384,010	$ 299,338,412	$ (2,301,149)
22,735	9,320	181,504	144,640	63,052	129,167	10,804,040	17,696,018	32,997	997,950	1,776,879	132,358,789	115,514,522
84,207	44,897	533,946	494,296	170,716	129,167	7,691,369	5,364,413	93,824	4,433,417	8,160,889	431,697,201	113,213,373
1,886	925	12,368	10,097	6,171	3,819	407,183	1,070,706	3,439	109,886	197,797	14,116,162	12,779,965
82,321	43,972	521,578	484,199	164,545	125,348	7,284,186	4,293,707	90,385	4,323,531	7,963,092	417,581,039	100,433,408
-	-	-	-	-	-	-	-	-	-	-	-	17,400
-	-	-	-	-	-	-	-	-	-	-	-	(3,668)
-	-	-	-	-	-	-	-	-	-	-	-	21,068
82,321	43,972	521,578	484,199	164,545	125,348	7,284,186	4,293,707	90,385	4,323,531	7,963,092	417,581,039	100,454,476
997	449	985	987	-	-	44,798	77,681	-	-	-	558,744	529,383
81,324	43,523	520,593	483,212	164,545	125,348	7,239,388	4,216,026	90,385	4,323,531	7,963,092	417,022,295	99,925,093
-	-	500,000	1,000,000	900,000	224,605,535	-	791,126,479	-	-	3,580,000	1,053,337,604	716,465,386
-	(4,000)	-	(1,250,000)	-	(188,839,125)	(1,036,797)	-	-	-	-	(234,858,869)	(280,508,738)
-	(4,000)	500,000	(250,000)	900,000	35,766,410	(1,036,797)	791,126,479	-	-	3,580,000	818,478,735	435,956,648
81,324	39,523	1,020,593	233,212	1,064,545	35,891,758	6,202,591	795,342,505	90,385	4,323,531	11,543,092	1,235,501,030	535,881,741
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
$ 1,043,935	$ 323,798	$ 6,184,088	$ 5,244,603	$ 2,715,432	$ 42,791,312	$ 401,157,397	$ 1,194,228,388	$ 1,015,873	$ 36,375,195	$ 73,623,303	$ 5,635,005,665	$ 4,399,504,635

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Administrative Expenses
Years Ended June 30, 2013 and 2012

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Salaries and wages:				
Salaries and wages	$661,555	$624,735	$370,585	$445,615
Fringe benefits	250,440	227,391	116,457	124,842
Total salaries and wages	911,995	852,126	487,042	570,457
Operating expenses:				
Information services	66,750	74,036	12,415	11,899
Intergovernmental services	5,558	6,210	2,616	2,790
Professional services	166,169	161,937	51,949	45,650
Rent of building space	52,299	54,665	25,649	23,318
Mailing services and postage	49,934	39,147	25,483	23,926
Travel and lodging	21,359	21,665	12,056	25,454
Printing	21,859	10,498	6,550	5,345
Supplies	3,446	1,658	1,674	847
Professional development	10,344	9,819	5,939	1,882
Outside services	8,033	8,421	51,005	2,679
Small office equipment expense	2,040	700	2,483	2,527
Miscellaneous fees	2,642	3,771	30,341	2,908
Resource and reference materials	427	443	1,270	2,149
IT contractual services	125,506	154,436	15,018	1,326
Repairs - office equipment	510	9	215	340
Insurance	709	754	334	279
Total operating expenses	537,585	548,170	244,997	153,319
Pension trust portion of investment program expenses	173,295	194,393	(173,295)	(194,393)
Depreciation	763	2,288	-	-
Total administrative expenses	1,623,638	1,596,976	558,744	529,383
Less - nonappropriated items:				
Professional fees	166,169	161,937	51,949	45,650
Other operating fees paid under continuing appropriation	20,607	19,305	47,831	40,136
Depreciation	763	2,288	-	-
Accrual adjustments to employee benefits	10,118	5,557	539	1,164
Total nonappropriated items	197,657	189,087	100,319	86,951
Total appropriated expenditures	$ 1,425,981	$ 1,407,890	$ 458,425	$ 442,432

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	2011-2013 Appropriation Adjustment	Adjusted 2011-2013 Appropriation	Fiscal 2012 Expenses	Fiscal 2013 Expenses	Unexpended Appropriations
All Fund Types:						
Salaries and wages	$ 3,203,114	$ -	$ 3,203,114	$ 1,415,862	$ 1,388,380	$ 398,872
Operating expenses	947,840	-	947,840	434,460	447,938	65,442
Contingency	82,000	-	82,000	-	48,088	33,912
Total	$ 4,232,954	$ -	$ 4,232,954	$ 1,850,322	$ 1,884,406	$ 498,226

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

Reconciliation of Administrative Expenses to Appropriated Expenditures

	2012	2013
Administrative expenses as reflected in the financial statements	2,126,359	2,182,382
Less:		
Professional fees*	(207,587)	(218,118)
Other operating fees paid under continuing appropriations*	(59,441)	(68,438)
Depreciation expense	(2,288)	(763)
Changes in annual leave and FICA payments	(6,721)	(10,657)
Total appropriated expenses	$1,850,322	$1,884,406

* 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, 2013 and 2012

	Pension Trust		Investment Trust	
	2013	2012	2013	2012
Actuary fees:				
Segal Company	$ 94,848	$ 93,777	$ -	$ -
Auditing fees:				
CliftonLarsonAllen LLC	45,385	44,755	26,290	24,220
Eide Bailly, P.C.	-	(5,461)	-	(2,789)
Total Auditing Fees	45,385	39,294	26,290	21,431
Disability consulting fees:				
Dr. G.M. Lunn	775	300	-	-
Legal fees:				
Calhoun Law Group P.C.	-	5,748	-	-
K&L Gates LLP	9,073	6,742	10,692	8,508
Jenner & Block	2,337	978	3,644	1,903
ND Attorney General	13,751	15,098	11,323	13,808
Total legal fees:	25,161	28,566	25,659	24,219
Total consultant expenses	$ 166,169	$ 161,937	$ 51,949	$ 45,650

North Dakota Retirement and Investment Office
Pension and Investment Trust Funds – Schedule of Investment Expenses
Years Ended June 30, 2013 and 2012

	Pension Trust 2013	Pension Trust 2012	Investment Trust 2013	Investment Trust 2012
Investment managers' fees:				
Global equity managers	$ 1,403,825	$ 628,427	1,761,085	793,618
Domestic large cap equity managers	661,279	1,162,581	1,201,040	1,814,098
Domestic small cap equity managers	656,041	674,689	1,111,392	1,105,160
International equity managers	911,366	1,027,046	1,630,296	1,586,055
Emerging markets equity managers	378,684	428,517	559,955	590,141
Domestic fixed income managers	2,787,286	712,767	10,394,210	3,985,356
Below investment grade fixed income managers	1,604,541	990,581	2,108,519	1,264,007
Inflation protected assets managers	-	-	1,782,509	2,324,656
International fixed income managers	317,489	293,376	395,909	370,977
Real estate managers	1,863,035	1,628,104	3,090,481	2,784,378
Infrastructure managers	939,370	886,429	1,148,077	1,266,196
Timber managers	349,639	451,879	422,177	584,518
Private equity managers	1,850,618	2,798,325	2,148,730	2,920,720
Short term fixed income managers	-	-	1,235,929	564,284
Cash & equivalents managers	26,873	23,326	34,063	49,510
Balanced account managers	-	-	294,454	249,704
Total investment managers' fees	13,750,046	11,706,050	29,318,826	22,253,378
Custodian fees	257,367	247,562	717,989	552,859
Investment consultant fees	198,775	96,205	412,898	232,947
SIB Service Fees	-	-	47,331	45,891
Total investment expenses	$ 14,206,188	$ 12,049,817	$ 30,497,044	$ 23,085,076
Securities lending fees	$ -	$ (5,384)	$ -	$ (3,668)

Reconciliation of investment expenses to financial statements

	2013	2012	2013	2012
Investment expenses as reflected in the financial statements	$ 6,010,000	$ 5,661,973	$ 14,116,162	$ 12,779,965
Plus investment management fees included in investment income				
Domestic large cap equity managers	61,579	136,427	103,667	197,944
Domestic small cap equity managers	365,861	437,092	468,421	547,055
International equity managers	177,806	179,602	318,745	281,352
Emerging markets equity managers	94,991	101,321	140,772	137,180
Domestic fixed income managers	2,595,308	403,043	8,593,171	2,073,076
Below investment grade fixed income managers	1,227,212	664,742	1,603,162	857,137
Inflation protected assets managers	-	-	729,506	1,228,180
Real estate managers	1,076,639	871,583	1,257,309	832,223
Infrastructure managers	466,573	446,542	571,119	622,240
Timber managers	349,639	451,879	422,177	584,518
Private equity managers	1,780,580	2,695,613	2,068,299	2,814,550
Short term fixed income managers	-	-	-	18,401
Cash equivalents managers	-	-	-	-
Balanced account managers	-	-	104,534	111,255
Investment expenses per schedule	$ 14,206,188	$ 12,049,817	$ 30,497,044	$ 23,085,076

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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
Fax 701-328-9897
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November 30, 2013

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, 2013.

Introduction

For the fiscal year ended June 30, 2013, the $4.1 billion North Dakota pension investment pool portfolio experienced a gross total return of 13.84%. The insurance investment pool, valued at $3.2 billion on June 30, 2013, returned 5.98% (gross), 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 external investment managers are presented in the Investment Section.

Economic Overview as of June 30, 2013

The first quarter of fiscal year 2013 commenced with the breaking of the LIBOR fixing scandal and culminated with the Federal Reserve announcing open-ended bond purchases, nicknamed "QE3" or "QE-Infinity. Soon attention was turned to the looming "fiscal cliff", tax increases coupled with a reduction in government spending. While the "cliff" was averted at the last minute, no long-term solutions to the U.S. debt problem were found. The beginning of calendar year 2013 brought news of more turmoil abroad, particularly in the Eurozone. The mid-February announcement that banks in Cyprus were insolvent and would need a bailout set off investor concerns around the world. The situation, however, was well contained within a couple of months and equity markets continued their upward march. In late May, the Federal Reserve announced that a "tapering" of bond purchases (quantitative easing) might begin as soon as July. The taper comment sent equity markets tumbling from their all-time highs and bond yields rose to levels not seen in more than a year.

There were some encouraging signs of economic growth during the fiscal year. After starting at 8.2%, unemployment steadily declined throughout the fiscal year, ending at 7.6%. The recent downward trend in the labor force participation rate seems to have bottomed out as well. Although many feared high inflation due to quantitative easing, it remained very benign throughout the year, never topping 2.2%.

The domestic economy grew a modest 1.4% in fiscal year 2013 while Europe suffered through a mild recession, which appears to be ending. The developed world's major central banks all continued their respective quantitative easing programs in efforts to spur their economies to more substantial growth. So far, the Bank of Japan may have been the most successful as Japan's GDP growth for the first two quarters of 2013 was 3.8% and 2.6%. China is in the midst of a long-term decline in GPD growth. Even though the days of double-digit growth may be behind China growth this year is still expected to be a very robust 7.5%.

Domestic Equity Overview
The fiscal year ended June 30, 2013 brought strong 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 +20.94%. While all quarters were positive, the bulk of return came in the third fiscal quarter (+10.88%). Small cap stocks performed better than large cap stocks during the fiscal year. The S&P 600, a gauge of small cap stock performance, outperformed its large cap peer (the S&P 500 Index), +25.18% to +20.60%. Value stocks held up better than growth stocks during fiscal year 2013. The Russell 3000 Value Index advanced 25.28% versus a gain of 17.56% for the Russell 3000 Growth Index.

International Equity Overview
Developed International equity markets, as represented by the MSCI EAFE Index, rose in fiscal year 2013. The index returned +18.62%, significantly better than the 13.83% loss in the 2012 fiscal year. Growth and value stocks produced nearly identical returns. For the trailing twelve-months ended June 30, 2013, the MSCI EAFE Growth Index gained 18.67% while the MSCI EAFE Value Index was rose 18.56%. Emerging market returns trailed developed market returns in fiscal year 2013 as the MSCI Emerging Markets Index gained only 3.23%. In sum, fiscal 2013 was a good year for the developed world's stock markets.

Private Equity
The private equity market was healthy in fiscal year 2013 as institutional investors placed capital into new programs. According to "Buyouts" newsletter, 1,592 transactions closed in the amount of $183 billion during the 2013 fiscal year. This is an increase in the total number of transactions from fiscal year 2012 (437) and in dollar volume ($143 billion). Due to the nature of private equity performance measurement, relative comparisons of fund performance with benchmarks are inherently ambiguous.

Domestic Fixed-Income Overview
The U.S. bond market, as measured by the Barclays Capital Aggregate Bond Index, had a -0.69% return for the four calendar quarters ended 6/30/2013. With fears of a recession fading and Federal Reserve's intention to "taper" quantitative easing, investors fled the bond markets into higher returning equity markets. Treasury yields rose across the curve. When compared to fiscal year 2012, yield spreads for non-government bonds tightened during fiscal year 2013.

The Barclays Capital Government Index fell 1.51% over the fiscal year. This return was substantially above the 8.18% loss of the Barclays Capital Government Long Index. The Barclays Capital Credit Index rose 0.84% for the trailing twelve-months as company balance sheets continued to improve. High yield investors saw strong returns; the Barclays Capital High Yield Index returned +9.49% for the year ended June 30, 2013.

International Fixed-Income Overview
The International fixed income markets as whole struggled in fiscal year 2013. The Citi Non-U.S. World Government Unhedged Index fell 5.72%. However, there were pockets of positive movement. On the hopes of more quantitative easing the Citi Euro Government Bond Index rose 9.44%. 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. Investors are now somewhat hopeful that these steps, couple with positive economic growth 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 declined 5.72% for the year ended 6/30/13, but its local currency return – the currency where the investments are actually made – for the Citi Non-U.S. World Government Bond Index was +2.86%. Emerging Market countries experienced flat returns for fiscal year 2013; the JP Morgan Emerging Markets Bond Plus Index was up 0.07%.

Real Estate Overview

The NCREIF Property Index, a measure of the private real estate market, rose 10.72% during the 2013 fiscal year. The index was positive in each of the four quarters, extending its positive streak to fourteen (14) straight quarters. Capitalization rates are essentially with the previous fiscal year and returns are positive across sectors. The FTSE NAREIT Equity Index, a measure of the public securities real estate market, gained 9.42% during the 2013 fiscal year.

Timber

The timber sector has seen continued growth in market size over the course of the last twelve months. As of June 30, 2013 the total market size of the NCREIF Timberland Property Index reached almost $25 billion representing approximately 14.3 million acres of land. The index returned 9.36% for the twelve months ending June 30, 2013, consisting of a +6.51% appreciation return and a +2.71% income return. The Pacific Northwest was the best performing region for the twelve months ended June 30, 2013, gaining 14.62%. The South is currently the largest region, representing $15 billion and 9.8 million acres of land.

Infrastructure

As of mid-2013 there were 142 private infrastructure funds raising capital worldwide, 71 of which have held a first close. This number is comparable to the 144 in the market during this time last year. However, a total of $15.4 billion in institutional investor capital was secured by private infrastructure fund managers in the first half of 2013, which represents an 88% increase over the $8.2 billion raised during the same period in 2012. As such, momentum in the current fundraising market is clearly stronger than at the same point in 2012. However, fund managers still face plenty of competition as they are still marketing to a small and highly selective investor pool given the relatively small allocations to infrastructure that most investors have. At the deal level, energy related investments represent the largest portion of trades and Europe remains the dominate region for deal flow.

Summary

Financial markets performed well in fiscal year 2013, fueled by low interest rates and unconventional measures adopted by monetary policymakers in the major developed markets in an effort to stimulate economic growth. Both the pension and insurance pools delivered favorable results on both an absolute and relative basis. Performance was favorably impacted by exposure to such asset classes as developed country equities, private real estate, infrastructure, and credit-related fixed income.

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

Sincerely,

DARREN SCHULZ, CFA
Interim Chief Investment Officer

INVESTMENT PERFORMANCE SUMMARY
JUNE 30, 2013

			Rates of Return (net of fees)									
	Fair Value	% Of Pool	For Fiscal Year Ended 6/30					Annualized				
PENSION POOL PARTICIPANTS			2013	2012	2011	2010	2009	3 Years	5 Years	10 Years	20 Years	30 Years
Teachers' Fund for Retirement	$1,810,735,455	44.3%	13.63%	-0.97%	24.21%	13.87%	-27.44%	11.81%	2.92%	7.12%	6.99%	8.93%
Public Employees Retirement System	2,000,899,336	48.9%	13.50%	0.06%	21.43%	13.67%	-24.50%	11.31%	3.43%	7.07%	7.46%	8.62%
Bismarck City Employee Pension Fund	$68,822,847	1.7%	12.41%	1.57%	20.32%	12.74%	-20.61%	11.16%	4.22%	7.01%	7.41%	*
Bismarck City Police Pension Fund	$30,072,819	0.7%	13.03%	1.31%	21.10%	13.30%	-22.59%	11.52%	3.99%	7.02%	7.26%	*
Job Service of North Dakota	$90,442,764	2.2%	11.71%	3.09%	16.39%	13.63%	-16.62%	10.26%	4.90%	7.19%	*	*
City of Fargo Pension Fund	$34,133,671	0.8%	13.90%	0.97%	21.58%	14.82%	-24.88%	11.82%	3.82%	*	*	*
City of Grand Forks Pension Fund	$50,148,061	1.2%	14.01%	1.09%	21.64%	13.91%	*	11.92%	*	*	*	*
Grand Forks Park District Pension Fund	$5,109,311	0.1%	14.43%	0.86%	20.98%	*	*	*	*	*	*	*
Subtotal Pension Pool Participants	4,090,364,264	100.0%										
INSURANCE POOL PARTICIPANTS												
Workforce Safety & Insurance Fund	1,557,719,286	47.4%	8.32%	6.14%	13.26%	11.94%	-10.25%	9.20%	5.52%	5.84%	6.99%	*
Legacy Fund	1,194,779,193	36.4%	1.14%	*	*	*	*	*	*	*	*	*
State Fire and Tornado Fund	26,633,417	0.8%	10.59%	4.93%	14.52%	14.52%	-9.85%	9.94%	6.53%	6.19%	6.37%	*
State Bonding Fund	3,141,218	0.1%	2.96%	5.31%	5.01%	8.63%	-15.49%	4.42%	0.89%	3.53%	5.01%	*
Petroleum Tank Release Fund	6,839,483	0.2%	2.47%	4.84%	4.97%	7.79%	-15.49%	4.08%	0.54%	3.22%	*	*
Insurance Regulatory Trust Fund	1,043,647	0.0%	8.49%	2.82%	11.61%	10.29%	-6.86%	7.57%	5.04%	5.35%	6.01%	*
State Risk Management Fund	6,187,298	0.2%	10.19%	7.63%	14.36%	16.02%	-8.97%	10.69%	7.45%	6.15%	*	*
State Risk Management Workers Comp	5,247,448	0.2%	11.61%	7.40%	16.23%	16.40%	-11.29%	11.69%	7.54%	*	*	*
Cultural Endowment Fund	323,914	0.0%	15.58%	4.65%	21.33%	14.89%	-18.49%	13.64%	6.57%	*	*	*
Budget Stabilization Fund	401,353,181	12.2%	1.84%	1.67%	3.63%	7.38%	-4.23%	2.38%	1.99%	5.61%	*	*
ND Assoc. of Counties (NDACo) Fund	2,717,444	0.1%	9.46%	1.69%	17.73%	15.34%	-16.29%	9.43%	4.82%	5.61%	*	*
City of Bismarck Deferred Sick Leave	1,016,834	0.0%	9.83%	5.69%	13.80%	21.28%	-8.34%	9.72%	7.99%	6.23%	*	*
PERS Group Insurance	42,792,878	1.3%	0.11%	0.24%	0.31%	0.36%	1.08%	0.22%	0.42%	1.91%	*	*
City of Fargo FargoDome Permanent Fund	36,411,591	1.1%	13.46%	3.14%	19.16%	16.78%	-15.64%	11.72%	6.56%	6.42%	*	*
Subtotal Insurance Pool Participants	3,286,206,832	100.0%										
INDIVIDUAL INVESTMENT ACCOUNT												
Retiree Health Insurance Credit Fund	73,677,263	100.0%	14.80%	2.62%	21.65%	16.86%	-17.14%	12.74%	6.77%	6.56%	7.29%	*
TOTAL	$7,450,248,360											
BENCHMARKS												
S&P 500			20.60%	5.45%	30.69%	14.43%	-26.21%	18.45%	7.01%	7.30%	8.66%	10.54%
Barclays Aggregate			-0.69%	7.47%	3.90%	9.50%	6.05%	3.51%	5.19%	4.52%	5.86%	7.84%
90 Day T-Bills			0.11%	0.06%	0.16%	0.16%	0.95%	0.11%	0.29%	1.72%	3.11%	4.39%
Callan Public Plan Sponsors Database (Median)			11.99%	1.20%	20.87%	12.91%	-17.13%	11.02%	5.32%	7.06%	7.89%	9.25%

* 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, 2013

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
GLOBAL EQUITY:						
Epoch Investment Partners, Inc.	Core	01/2012	$ 201,294,044	20.85%	*	*
LSV Asset Management	Core Value	03/2013	411,503,439	*	*	*
Calamos	Core	03/2012	53,886,160	8.37%	*	*
TOTAL GLOBAL EQUITY			666,683,643	17.06%	*	*
MSCI World Index				18.58%	*	*
DOMESTIC LARGE CAP EQUITY:						
The Clifton Group	Enhanced S&P 500	06/2011	132,792,362	20.43%	*	*
Los Angeles Capital Management	Structured Growth	08/2003	272,119,765	18.86%	19.03%	7.30%
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	187,898,903	21.63%	19.08%	7.66%
Northern Trust Global Investments	Enhanced S&P 500	08/2000	94,166,770	23.67%	19.75%	8.15%
TOTAL DOMESTIC LARGE CAP EQUITY			686,977,800	23.13%	18.57%	3.69%
Russell 1000 Index (1)				21.24%	18.62%	7.10%
DOMESTIC SMALL CAP EQUITY:						
Callan Associates, Inc.	Mgr of Managers	05/2006	118,458,776	27.71%	20.26%	9.70%
The Clifton Group	Enhanced Russell 2000	11/2009	95,249,792	25.30%	20.17%	*
SEI Investments Management Co.	Mgr of Mgrs (liquidating)	06/2001	225,484	*	*	*
TOTAL DOMESTIC SMALL CAP EQUITY			213,934,052	26.86%	20.05%	9.98%
Russell 2000 Index				24.21%	18.67%	8.77%
DEVELOPED INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	03/1992	66,535,087	21.31%	10.29%	0.66%
The Clifton Group	EAFE Index	03/2010	196,706,051	17.25%	9.03%	*
Dimensional Fund Advisors	Small Cap Value	11/2007	60,377,862	24.89%	12.34%	2.90%
State Street Global Advisors	Enhanced EAFE Index	03/1987	48,388,619	23.17%	10.23%	-1.09%
Wellington Trust Company, NA	Small Cap Growth	03/2002	70,541,386	26.16%	17.16%	5.82%
TOTAL DEVELOPED INTERNATIONAL EQUITY			442,549,005	20.94%	10.61%	2.20%
MSCI EAFE (unhedged) Index (2)				18.62%	8.10%	-0.01%
EMERGING MARKETS EQUITY:						
Dimensional Fund Advisors	Small Cap	10/2005	32,021,757	9.18%	6.59%	6.51%
J.P. Morgan Investment Management, Inc.	Core	11/2005	23,499,467	5.11%	4.79%	1.36%
Northern Trust Global Investments	Passive Core	07/2012	32,194,610	*	*	*
PanAgora Asset Management, Inc.	Core	02/2006	16,043,583	6.28%	4.48%	-0.81%
UBS Global Asset Management	Core	07/2005	21,836,889	-0.62%	3.19%	-0.59%
TOTAL EMERGING MARKETS EQUITY			125,596,306	4.55%	6.69%	1.86%
MSCI Emerging Markets Index				2.87%	3.48%	-0.25%
PRIVATE EQUITY:						
Adams St. Partners (1998 Fund)	Diversified Private Equity	01/1998	130,226	16.27%	4.87%	-5.63%
Adams St. Partners (1999 Fund)	Diversified Private Equity	01/1999	1,158,396	9.46%	10.71%	0.11%
Adams St. Partners (2000 Fund)	Diversified Private Equity	10/1999	3,659,314	6.03%	12.52%	2.49%
Adams St. Partners (2001 Fund)	Diversified Private Equity	12/2000	3,757,912	12.43%	14.42%	4.55%
Adams St. Partners (2002 Fund)	Diversified Private Equity	03/2002	2,253,286	6.52%	17.45%	4.44%
Adams St. Partners (2003 Fund)	Diversified Private Equity	04/2003	854,072	6.11%	8.51%	1.94%
Adams St. Partners (1999 Non-U.S. Fund)	Diversified Private Equity	01/1999	528,156	27.87%	27.63%	10.21%
Adams St. Partners (2000 Non-U.S. Fund)	Diversified Private Equity	01/2000	1,119,815	-1.13%	9.56%	-2.43%
Adams St. Partners (2001 Non-U.S. Fund)	Diversified Private Equity	02/2001	781,987	9.41%	4.02%	-7.82%
Adams St. Partners (2002 Non-U.S. Fund)	Diversified Private Equity	05/2002	2,250,086	8.55%	15.73%	-2.59%
Adams St. Partners (2003 Non-U.S. Fund)	Diversified Private Equity	04/2003	1,967,684	32.82%	20.45%	6.00%
Adams St. Partners (2004 Non-U.S. Fund)	Diversified Private Equity	04/2004	1,268,868	8.52%	9.90%	-2.55%
Adams St. Partners (2008 Non-U.S. Fund)	Diversified Private Equity	01/2008	4,706,109	10.58%	9.37%	-2.17%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION INVESTMENT POOL (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2013

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
PRIVATE EQUITY (continued):						
Adams St. Partners (2010 Direct Fund)	Direct Private Equity	04/2010	896,549	2.36%	4.96%	*
Adams St. Partners (2010 Non-U.S. Developed)	Diversified Private Equity	04/2010	1,483,311	11.47%	0.81%	*
Adams St. Partners (2010 Partnership Fund)	Diversified Private Equity	04/2010	2,889,005	10.31%	15.54%	*
Adams St. Partners (2010 Emerging Mkts Fund)	Diversified Private Equity	01/2011	330,442	-5.04%	*	*
Adams St. Partners (B.V.C.F. IV)	Diversified Private Equity	05/1999	5,222,348	32.89%	83.51%	53.35%
Adams St. Partners (Direct Co-Investment)	Direct Private Equity	09/2006	16,390,530	11.74%	13.70%	2.69%
Capital International (Fund V)	EM Private Equity	08/2007	19,088,448	-10.03%	7.16%	2.71%
Capital International (Fund VI)	EM Private Equity	08/2007	5,974,675	-22.38%	*	*
Coral Partners, Inc. (Momentum Fund)	Direct Venture Capital	07/2002	2,962,572	14.19%	-4.54%	-16.01%
EIG (formerly Trust Company of the West)	Mezz Debt - Energy	07/2007	28,981,069	0.37%	6.68%	10.11%
Corsair Capital (Fund III)	Pvt Eq - Financial Svcs	02/2006	11,588,973	-10.93%	-2.07%	-6.74%
Corsair Capital (ND Investors)	Pvt Eq - Financial Svcs	03/2008	11,610,720	8.19%	4.18%	2.09%
Corsair Capital (Fund IV)	Pvt Eq - Financial Svcs	05/2010	10,312,024	8.75%	-5.19%	*
Invest America (Lewis and Clark Fund)	Direct Venture Capital	02/2002	6,380,717	17.77%	10.58%	6.72%
Invest America (L&C Fund II)	Direct Venture Capital	06/2009	9,543,376	-4.18%	-5.04%	*
Matlin Patterson Global Opportunities Fund I	Distressed Debt	07/2002	11,987	18.21%	2687.13%	715.63%
Matlin Patterson Global Opportunities Fund II	Distressed Debt	10/2004	1,479,860	-12.14%	-53.08%	-45.80%
Matlin Patterson Global Opportunities Fund III	Distressed Debt	06/2007	27,031,270	25.08%	41.76%	15.29%
Quantum Energy Partners	Pvt Equity - Energy	01/2007	9,408,735	18.79%	23.23%	7.86%
Quantum Resources	Pvt Equity - Energy	10/2006	9,528,057	36.60%	38.33%	-37.56%
TOTAL PRIVATE EQUITY			205,550,581	6.69%	8.85%	0.30%
INVESTMENT GRADE FIXED INCOME:						
Declaration Management & Research	Securitized	04/2012	64,249,713	7.83%	*	*
PIMCO	Distressed Sr. Debt	10/2012	104,409,176	33.07%	*	*
PIMCO	Mortgage Backed	03/2012	161,523,175	-0.45%	*	*
PIMCO	Unconstrained	03/2012	64,590,528	2.20%	*	*
State Street Global Advisors	Passive BC Long Treasury	06/2013	52,040,980	*	*	*
Western Asset Management Co.	Mortgage Backed	02/1986	108,855,747	-1.31%	4.46%	5.15%
TOTAL INVESTMENT GRADE FIXED INCOME			555,669,319	5.13%	5.84%	4.09%
Barclays Aggregate Index				-0.69%	3.51%	5.19%
BELOW INVESTMENT GRADE FIXED INCOME:						
Goldman Sachs	Mezzanine Debt-2006	04/2006	4,670,000	18.49%	6.96%	1.93%
Goldman Sachs	Mezzanine Debt-Fund V	11/2007	11,100,000	17.11%	15.96%	13.43%
Loomis Sayles	High Yield Bonds	04/2004	181,078,291	12.75%	11.41%	10.28%
TOTAL BELOW INVESTMENT GRADE FIXED INCOME			196,848,291	14.10%	11.75%	8.01%
Barclays High Yield Corp 2% Issuer Cap				9.49%	10.69%	11.00%
DEVELOPED INTERNATIONAL FIXED INCOME:						
UBS Global Asset Management	Core Non-U.S.	03/1989	91,153,047	-3.45%	3.64%	2.89%
Brandywine Asset Management	Core-Plus Non-U.S.	05/2003	101,670,039	5.00%	9.95%	8.52%
TOTAL DEVELOPED INTERNATIONAL FIXED INCOME			192,823,086	0.83%	6.89%	5.97%
BC Global Aggregate ex-US Index (3)				-3.40%	3.57%	3.00%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
PENSION INVESTMENT POOL (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2013

	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	142,522,220	13.36%	15.86%	0.04%
INVESCO Realty Advisors	Core Plus LP (Fund II)	11/2007	23,434,749	23.44%	35.58%	-16.63%
INVESCO Realty Advisors	Core Plus LP (Fund III)	05/2012	40,307,385	16.79%	*	*
INVESCO Realty Advisors	Asian LP	11/2008	22,960,002	-5.61%	-4.32%	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	127,865,151	14.61%	16.21%	0.20%
J. P. Morgan Investment Mgmt. Inc.	Alternative Commingled	01/2006	5,776,145	15.24%	15.27%	-6.52%
J. P. Morgan Investment Mgmt. Inc.	European LP	09/2009	10,064,173	-48.64%	*	*
J. P. Morgan Investment Mgmt. Inc.	Asian LP	01/2008	22,100,000	-4.51%	2.26%	-2.65%
TOTAL GLOBAL REAL ESTATE			395,029,825	11.05%	15.91%	-1.49%
NCREIF Total Index				10.72%	13.14%	2.79%
TIMBER:						
Timberland Investment Resources - Teredo	Timberland	06/2001	78,633,105	5.64%	3.09%	5.23%
Timberland Investment Resources - Springbank	Timberland	09/2004	120,851,989	-2.45%	-3.02%	-4.90%
TOTAL TIMBER			199,485,094	0.58%	*	*
NCREIF Timber Index				9.37%	3.59%	2.05%
INFRASTRUCTURE:						
Credit Suisse	Infrastructure	12/2011	30,332,188	9.43%	*	*
J.P. Morgan Investment Management, Inc.	Asian Infrastructure	07/2008	29,500,000	23.99%	6.83%	*
J.P. Morgan Investment Management, Inc.	Infrastructure	05/2007	96,758,237	10.64%	7.42%	-0.12%
TOTAL INFRASTRUCTURE			156,590,425	12.33%	*	*
CPI-W				1.75%	2.46%	1.34%
CASH EQUIVALENTS:						
The Northern Trust Company	STIF	07/1994	52,626,837	0.10%	0.12%	0.33%
TOTAL CASH EQUIVALENTS			52,626,837	0.10%	0.13%	0.35%
90 Day T-Bills				0.11%	0.11%	0.29%
TOTAL PENSION INVESTMENT POOL			$ 4,090,364,264	13.84%	11.82%	3.66%
Policy Target				11.73%	10.93%	5.28%

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	$ 36,024,980	20.94%	19.20%	*
Los Angeles Capital Management	Structured Growth	08/2003	54,097,208	18.87%	19.01%	7.73%
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	36,966,179	21.58%	19.18%	8.08%
LSV Asset Management	Structured Value	06/1998	55,817,569	32.50%	20.05%	8.24%
TOTAL DOMESTIC LARGE CAP EQUITY			182,905,936	23.83%	19.34%	5.28%
Russell 1000 Index (1)				21.24%	18.62%	7.10%
DOMESTIC SMALL CAP EQUITY:						
The Clifton Group	Enhanced Russell 2000	11/2008	31,037,776	25.51%	20.17%	*
Research Affiliates	Core	07/2007	31,608,510	30.62%	20.28%	11.06%
TOTAL DOMESTIC SMALL CAP EQUITY			62,646,286	28.04%	20.25%	10.27%
Russell 2000 Index				24.21%	18.67%	8.77%
INTERNATIONAL EQUITY:						
Capital Guardian Trust Company	Core	04/1997	48,311,848	20.78%	9.88%	0.43%
Dimensional Fund Advisors	Small Cap Value	11/2007	11,186,207	24.89%	12.35%	2.90%

SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS
INSURANCE INVESTMENT POOL (CONTINUED)
FOR PERIODS ENDED JUNE 30, 2013

	Style	Date Initiated	Fair Value	Annualized Rates of Return 1 Year	3 Years	5 Years
INTERNATIONAL EQUITY (continued):						
LSV Asset Management	Core	11/2004	46,620,635	20.71%	8.65%	0.50%
The Vanguard Group	Small Cap Growth	06/2003	11,281,029	21.16%	10.68%	2.52%
TOTAL INTERNATIONAL EQUITY			117,399,719	21.07%	9.74%	0.99%
MSCI EAFE (unhedged) Index (2)				18.62%	8.10%	-0.01%
DOMESTIC FIXED INCOME:						
Declaration Mgmt & Research	Mortgage Backed	03/2010	56,544,452	2.49%	6.76%	-2.48%
PIMCO	Distressed Sr. Debt	10/2012	91,932,953	33.07%	*	*
Prudential	Core-Plus	08/2006	67,968,954	2.03%	6.55%	8.13%
State Street Global Advisors	Passive BC Gov't/Credit	06/2013	121,948,089	*	*	*
Wells Capital	Baa Average Bonds	04/2002	269,743,738	3.19%	7.43%	9.56%
Western Asset Management Co.	Core Bonds	07/1990	205,515,598	2.17%	6.29%	7.14%
TOTAL DOMESTIC FIXED INCOME			813,653,784	4.90%	7.50%	8.10%
Barclays Aggregate Index				-0.69%	3.51%	5.19%
INFLATION PROTECTED ASSETS:						
Credit Suisse	Infrastructure	12/2011	15,166,084	9.43%	*	*
J. P. Morgan Investment Mgmt. Inc.	Infrastructure	11/2008	66,160,909	10.62%	7.37%	*
Timberland Investment Resources	Timberland	10/2008	61,853,153	3.36%	1.56%	*
Western Asset Management Co.	Global TIPS	05/2004	192,941,821	-3.22%	4.37%	2.88%
TOTAL INFLATION PROTECTED ASSETS			336,121,967	1.04%	4.54%	2.45%
Barclays Global Inflation Linked Index (4)				-1.05%	5.88%	3.50%
REAL ESTATE:						
INVESCO Realty Advisors	Core Commingled	10/2012	44,027,254	*	*	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	11/2005	67,011,965	23.90%	24.80%	-3.14%
TOTAL REAL ESTATE			111,039,219	19.67%	23.36%	-3.81%
NCREIF Total Index				10.72%	13.14%	2.79%
CASH EQUIVALENTS:						
Bank of North Dakota	Enhanced MMDA	07/1989	72,510,745	0.27%	0.28%	0.46%
90 Day T-Bills				0.11%	0.11%	0.29%
SHORT-TERM FIXED INCOME						
Babson Capital Management (Budget Stabilization Fund)	Short Term Bonds	09/2011	139,726,562	1.89%	*	*
Babson Capital Management (Legacy Fund)	Short Term Bonds	10/2011	595,690,249	1.83%	*	*
J.P. Morgan Investment Mgmt. Inc. (Budget Stabilization Fund)	Short Term Bonds	09/2011	138,849,282	0.68%	*	*
J.P. Morgan Investment Mgmt. Inc. (Legacy Fund)	Short Term Bonds	10/2011	599,017,995	0.65%	*	*
TOTAL SHORT-TERM FIXED INCOME			1,473,284,088	1.29%	1.88%	*
Barclays Government 1-3 Year				0.34%	0.86%	
TOTAL INSURANCE INVESTMENT POOL			$ 3,286,206,832	5.98%	7.65%	4.71%
Policy Target				2.91%	5.67%	4.13%
NON-POOLED INVESTMENTS:						
Bank of North Dakota Match Loan CD's Held by Budget Stabilization Fund	Certificates of Deposit	various	116,645,088	4.33%	4.01%	4.13%

* 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, 2013

PENSION INVESTMENT POOL

Shares	Stocks	Fair Value
610,468	Microsoft Corporation	$ 21,079,460
47,616	Apple Incorporated	18,859,745
205,943	CVS Caremark Corporation	11,775,821
128,409	Exxon Mobil Corporation	11,601,753
228,465	Citigroup Incorporated	10,959,466
55,415	Visa Incorporated	10,127,091
52,339	International Business Machines Corporation	10,002,506
80,559	Chevron Corporation	9,533,352
10,402	Google Incorporated	9,157,609
201,077	American International Group Incorporated	8,988,142

Par	Bonds	Fair Value
16,580,895	FNMA Guaranteed Mortgage Pool 4.5% Due 02-01-2041	$ 17,764,605
15,300,000	FNMA Single Family Mortgage 3.5% 30 Years July	15,531,887
9,400,000	GNMA II Jumbos 3.5% 30 Years July	9,646,750
8,663,183	FHLMC GOLD 4.0% Due 02-01-2042	9,079,363
9,499,993	FNMA Pool 2.5% Due 02-01-2043	8,841,225
7,900,000	FNMA Single Family Mortgage 2.5% 15 Years July	7,945,670
7,300,000	FNMA Single Family Mortgage 3% 30 Years July	7,132,326
5,220,000	Republic of Italy 5% Bonds Due 01-08-2039	6,830,325
6,000,001	FNMA Pool 3% Due 07-01-2043	5,870,400
5,280,931	FHLMC Pool 4.5% Due 03-01-2039	5,750,194

INSURANCE INVESTMENT POOL

Shares	Stocks	Fair Value
20,432	Chevron Corporation	$ 2,417,923
69,932	Microsoft Corporation	2,414,752
40,011	JP Morgan Chase & Company	2,112,181
5,140	Apple Incorporated	2,035,851
71,028	Pfizer Incorporated	1,989,494
19,207	Exxon Mobil Corporation	1,735,352
39,490	Wells Fargo & Company	1,629,752
8,444	International Business Machines Corporation	1,613,733
6,350	Roche Holdings	1,577,181
1,756	Google Incorporated	1,545,930

Par	Bonds	Fair Value
22,000,000	US Treasury Notes 4.25% Due 11-15-2014	$ 23,210,000
21,000,000	US Treasury Notes 2.375% Due 02-28-2015	21,725,970
20,000,000	US Treasury Notes 0.25% Due 07-15-2015	19,945,320
19,200,000	US Treasury Notes 4% Due 02-15-2014	19,660,493
17,500,000	US Treasury Notes 4.25% Due 08-15-2014	18,290,230
15,000,000	US Treasury Notes 4% Due 02-15-2015	15,898,830
14,150,000	FNMA Single Family Mortgage 3.5% 15 Years August	14,720,429
14,215,000	US Treasury Notes 2.375% Due 08-31-2014	14,571,484
13,000,000	US Treasury Bonds 2.625% Due 04-30-2016	13,728,208
10,825,000	US Treasury Notes 4.25% Due 08-15-2015	11,706,220

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, 2013

	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	$ 521,158,106	$ 3,164,910	61			
Domestic large cap equity managers	755,465,685	1,485,381	20	$ 174,202,852	$ 376,938	22
Domestic small cap equity managers	233,163,784	1,499,684	64	61,263,044	267,749	44
Developed international equity managers	490,085,335	1,957,658	40	113,634,464	584,004	51
Emerging markets equity managers	135,852,090	938,639	69			
Private equity managers	210,298,857	3,999,348	190			
Investment grade fixed income managers	526,299,666	6,854,383	130	815,714,960	6,327,113	78
Inflation protected assets managers				329,553,531	1,782,509	54
Below investment grade fixed income managers	195,553,857	3,713,060	190			
Developed international fixed income managers	199,459,945	713,398	36			
Real estate managers	376,303,414	4,045,974	108	103,191,445	907,542	88
Timber managers	200,174,555	771,816	39			
Infrastructure managers	150,625,180	2,087,447	139			
Cash & equivalents managers	41,947,286	60,936	15	69,765,885	-	-
Short term fixed income managers				1,143,178,434	1,235,929	11
Balanced account managers (Individual Investment Acct.)				58,420,185	294,454	50
Total investment manager fees	$ 4,036,387,762	31,292,634	78	$ 2,868,924,799	11,776,238	41
Custodian fees		573,140	1		402,216	1
Investment consultant fees		427,859	1		183,813	1
SIB Service Fees		30,505	0		16,827	0
Total investment expenses *		$ 32,324,138	80		$ 12,379,094	43

Reconciliation of Investment Expenses to Financial Statements

	Pension Investment Pool	Insurance Investment Pool & Individual Investment Account
Investment expenses as reflected in the financial statements	$ 13,529,851	$ 6,596,311
Plus investment management fees included in investment income		
Domestic large cap equity managers	138,334	26,912
Domestic small cap equity managers	834,282	-
Developed international equity managers	380,923	115,628
Emerging markets equity managers	235,763	-
Investment Grade domestic fixed income managers	6,382,276	4,806,203
Inflation protected assets managers	-	729,506
Below investment grade domestic fixed income managers	2,830,374	-
Timber managers	771,816	-
Infrastructure managers	1,037,692	-
Real estate managers	2,333,948	
Private equity managers	3,848,879	-
Balanced account managers (Individual Investment Acct.)	-	104,534
Investment expenses per schedule	$ 32,324,138	$ 12,379,094

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

SCHEDULE OF COMMISSIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Brokers	Number of shares traded	Total commissions	Commissions per share
Merrill Lynch	25,858,714	$ 81,703	$0.003
Instinet	4,192,037	49,667	0.012
UBS	3,863,340	13,735	0.004
Morgan Stanley	3,702,035	36,365	0.010
Credit Suisse	3,638,791	34,097	0.009
Collins Stewart	3,604,230	54,063	0.015
Investment Technology Group	3,548,393	17,798	0.005
Liquidnet	3,526,372	20,018	0.006
MLV and Company	3,233,461	48,502	0.015
Citigroup	3,230,715	13,940	0.004
Other 106 Brokers *	21,185,630	362,582	0.017
Total commissions	79,583,718	$ 732,470	$0.009

* 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 100% 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.

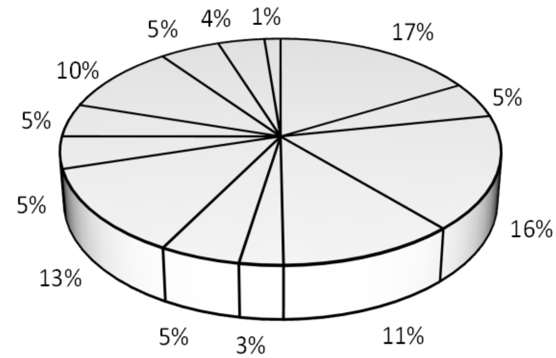
<u>Evaluation and Review</u>

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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 304,716,561	17%	
Domestic Small Cap Equity	93,234,814	5%	
Global Equity	296,605,332	16%	
Developed International Equity	207,424,168	11%	
Emerging Markets Equity	51,237,253	3%	
Private Equity	94,185,823	5%	
Investment Grade Fixed Income	228,039,860	13%	
Below Investment Grade Fixed Income	82,706,429	5%	
International Fixed Income	85,816,885	5%	
Global Real Estate	181,530,696	10%	
Timber	90,734,108	5%	
Infrastructure	70,138,078	4%	
Cash Equivalents	24,365,448	1%	
Total Fund	$ 1,810,735,455		13.63%
Policy Benchmark			11.95%



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.

Restrictions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal Controls

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

Evaluation

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

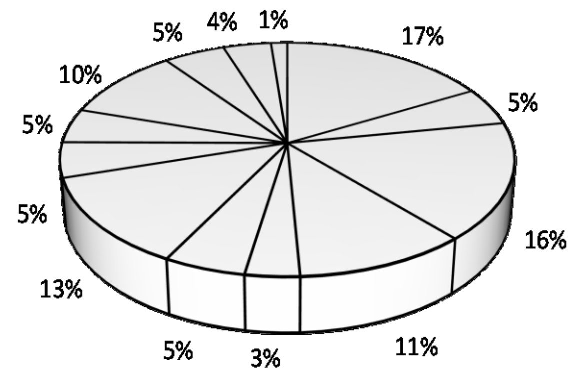
An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining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

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

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

- **Public Employees Retirement Fund**
  Actual Asset Allocation – June 30, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 338,829,042	17%	
Domestic Small Cap Equity	104,285,486	5%	
Global Equity	325,151,009	16%	
Developed International Equity	216,375,504	11%	
Emerging Markets Equity	68,223,706	3%	
Private Equity	102,930,560	5%	
Investment Grade Fixed Income	250,218,090	13%	
Below Investment Grade Fixed Income	97,032,235	5%	
International Fixed Income	94,601,362	5%	
Global Real Estate	199,186,501	10%	
Timber	99,924,462	5%	
Infrastructure	77,690,261	4%	
Cash Equivalents	26,451,118	1%	
Total Fund	$ 2,000,899,336		13.50%
Policy Benchmark			11.84%



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	15.0%
Domestic Small Cap Equity	10.0%
Developed International Equity	12.0%
Emerging Markets Equity	5.0%
Private Equity	4.0%
Investment Grade Fixed Income	24.0%
Below Investment Grade Fixed Income	6.0%
International Fixed Income	4.0%
Global Real Estate	10.0%
Timber	5.0%
Infrastructure	5.0%

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

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

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

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

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

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

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

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

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

<u>Internal Controls</u>

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

<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:

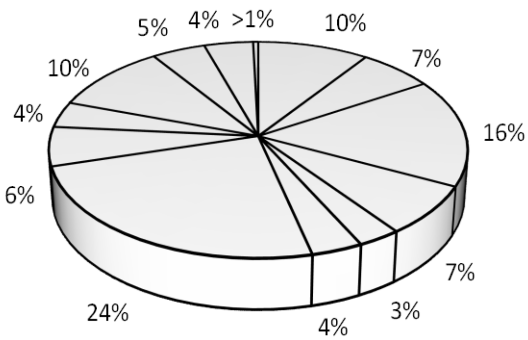
- Changes in asset class portfolio structures, tactical approaches and market values;

- 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, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	6,665,264	10%	
Domestic Small Cap Equity		4,487,490	7%	
Global Equity		11,148,296	16%	
Developed International Equity		5,117,293	7%	
Emerging Markets Equity		2,034,468	3%	
Private Equity		2,434,349	4%	
Investment Grade Fixed Income		16,659,887	24%	
Below Investment Grade Fixed Income		4,027,080	6%	
International Fixed Income		2,670,372	4%	
Global Real Estate		7,116,139	10%	
Timber		3,219,798	5%	
Infrastructure		2,934,296	4%	
Cash Equivalents		308,115	0%	
Total Fund	$	68,822,847		12.41%
Policy Benchmark				10.05%



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%
Global Real Estate	10.0%
Timber	5.0%
Infrastructure	5.0%

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

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

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

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

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

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

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

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

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

<u>Internal Controls</u>

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

<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:

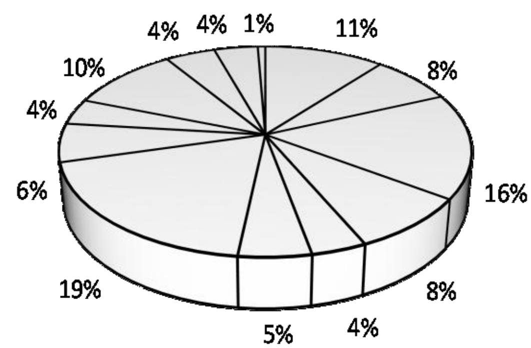
- Changes in asset class portfolio structures, tactical approaches and market values;

- 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 Police Pension Plan**
  Actual Asset Allocation – June 30, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	3,289,946	11%	
Domestic Small Cap Equity		2,286,001	8%	
Global Equity		4,861,387	16%	
Developed International Equity		2,539,411	8%	
Emerging Markets Equity		1,127,627	4%	
Private Equity		1,481,883	5%	
Investment Grade Fixed Income		5,709,421	19%	
Below Investment Grade Fixed Income		1,780,985	6%	
International Fixed Income		1,200,447	4%	
Global Real Estate		3,022,125	10%	
Timber		1,368,703	4%	
Infrastructure		1,196,025	4%	
Cash Equivalents		208,858	1%	
Total Fund	$	30,072,819		13.03%
Policy Benchmark				10.90%



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.

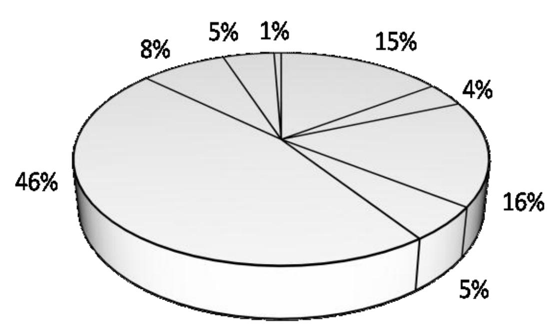
An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining 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, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	13,825,685	15%	
Domestic Small Cap Equity		3,335,382	4%	
Global Equity		14,513,784	16%	
Developed International Equity		4,751,997	5%	
Investment Grade Fixed Income		41,958,545	46%	
Below Investment Grade Fixed Income		7,156,141	8%	
International Fixed Income		4,297,989	5%	
Cash Equivalents		603,241	1%	
Total Fund	$	90,442,764		11.71%
Policy Benchmark				7.84%



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.

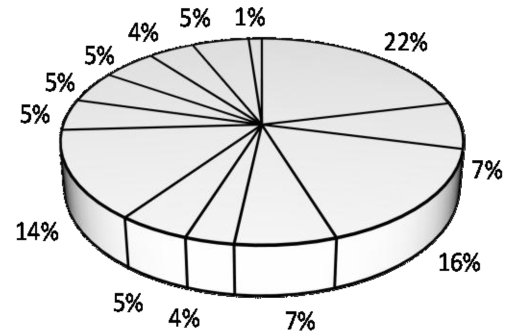
The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- 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, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	7,325,448	22%	
Domestic Small Cap Equity		2,488,400	7%	
Global Equity		5,503,328	16%	
Developed International Equity		2,386,866	7%	
Emerging Markets Equity		1,155,939	4%	
Private Equity		1,681,859	5%	
Investment Grade Fixed Income		4,777,005	14%	
Below Investment Grade Fixed Income		1,673,200	5%	
International Fixed Income		1,719,719	5%	
Global Real Estate		1,710,078	5%	
Timber		1,471,659	4%	
Infrastructure		1,816,315	5%	
Cash Equivalents		423,855	1%	
Total Fund	$	34,133,671		13.90%
Policy Benchmark				11.95%



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.

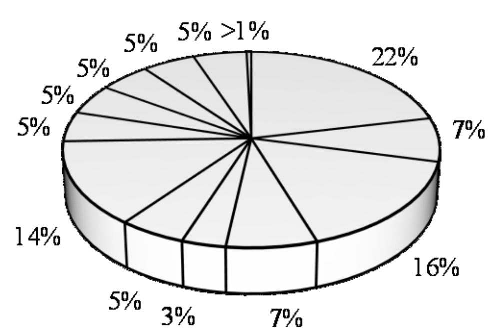
The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- 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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 10,823,532	22%	
Domestic Small Cap Equity	3,625,216	7%	
Global Equity	8,082,073	16%	
Developed International Equity	3,512,110	7%	
Emerging Markets Equity	1,709,480	3%	
Private Equity	2,585,279	5%	
Investment Grade Fixed Income	7,033,375	14%	
Below Investment Grade Fixed Income	2,472,222	5%	
International Fixed Income	2,516,312	5%	
Global Real Estate	2,464,287	5%	
Timber	2,544,040	5%	
Infrastructure	2,556,508	5%	
Cash Equivalents	223,627	0%	
Total Fund	$ 50,148,061		14.01%
Policy Benchmark			11.95%



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.

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.

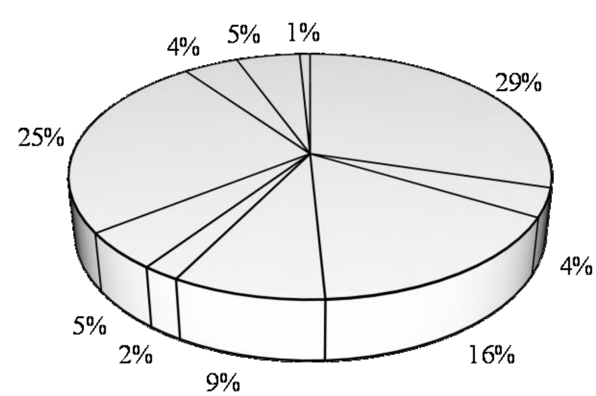
The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- 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.

❖Grand Forks Park District Pension Fund
Actual Asset Allocation – June 30, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 1,502,321	29%	
Domestic Small Cap Equity	191,263	4%	
Global Equity	818,434	16%	
Developed International Equity	441,656	9%	
Emerging Markets Equity	107,834	2%	
Private Equity	250,829	5%	
Investment Grade Fixed Income	1,273,134	25%	
Timber	222,324	4%	
Infrastructure	258,942	5%	
Cash Equivalents	42,574	1%	
Total Fund	$ 5,109,311		14.43%
Policy Benchmark			12.14%



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.

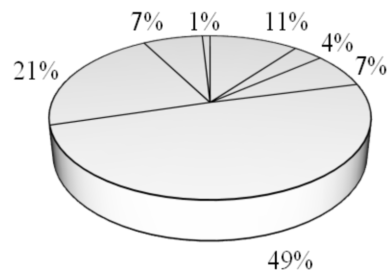
Evaluation and Review

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, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	165,665,233	11%	
Domestic Small Cap Equity		55,233,292	4%	
International Equity		108,871,787	7%	
Fixed Income		769,902,897	49%	
Inflation Protected		332,486,802	21%	
Real Estate		111,022,053	7%	
Cash Equivalents		14,537,222	1%	
Total Fund	$	1,557,719,286		8.32%
Policy Benchmark				3.99%



NORTH DAKOTA LEGACY FUND

❖ND Legacy Fund
Investment Objectives and Policy Guidelines

Plan Characteristics and Fund Constraints

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

Fund Mission

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

Responsibilities and Discretion of the State Investment Board (SIB)

The Legacy and Budget Stabilization Fund Advisory Board (Board) is charged by law under NDCC 21-10-11 with the responsibility of recommending policies on investment goals and asset allocation of the Fund. The SIB is charged with implementing these policies and asset allocation and investing the assets of the Fund in the manner provided in NDCC 21-10-07, the prudent institutional investor rule. The fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, considering probable safety of capital as well as probable income.

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

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

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

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

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

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

Risk Tolerance

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

Investment Objectives

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

a. The Legacy Fund's rate of return, net of fees and expenses, should at least match that of the policy

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

Policy Asset Mix

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

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

Rebalancing of the Fund to this target will be done in accordance with the SIB's rebalancing policy, but not less than annually. **(Note: After considerable analysis, the SIB approved an implementation strategy which began in August, 2013.)**

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

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

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

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

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

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

Internal Controls

A system of internal controls must be in place by the SIB to prevent losses of public funds arising from fraud or employee error. Such controls deemed most important are the separation of responsibilities for investment purchases from the recording of investment activity, custodial safekeeping, written confirmation of investment transactions, and established criteria for 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. Additionally, not less than annually, reports will include information regarding all significant and/or material matters and changes pertaining to the investment of the Legacy Fund, including:

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

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

❖ **ND Legacy Fund**
Actual Asset Allocation – June 30, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Short-term Fixed Income	$	1,194,779,193	100%	
Total Fund	$	1,194,779,193		1.14%
Policy Benchmark				0.34%

STATE FIRE AND TORNADO FUND

❖State Fire and Tornado Fund Investment Objectives and Policy Guidelines

<u>Fund Characteristics and Constraints</u>

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.

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

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.

<u>Investment Objectives</u>

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.

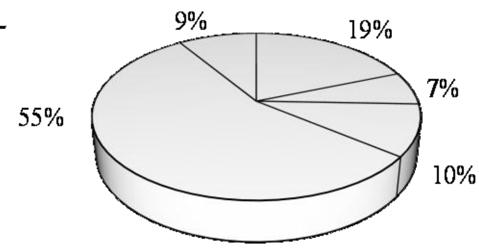
Evaluation and Review

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, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	5,091,502	19%	
Domestic Small Cap Equity		1,714,487	7%	
International Equity		2,649,392	10%	
Fixed Income		14,731,894	55%	
Cash Equivalents		2,446,142	9%	
Total Fund	$	26,633,417		10.59%
Policy Benchmark				6.64%



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.

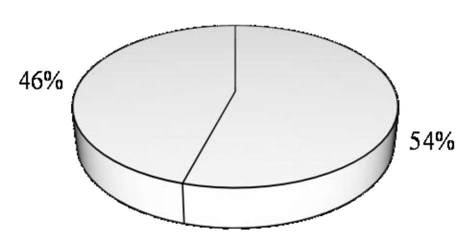
<u>Evaluation and Review</u>

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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Fixed Income	**$ 1,707,482**	**54%**	
Cash Equivalents	**1,433,736**	**46%**	
Total Fund	**$ 3,141,218**		**2.96%**
Policy Benchmark			**-0.32%**



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.

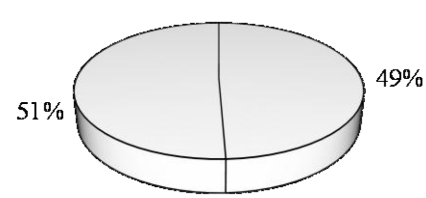
Evaluation and Review

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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Fixed Income	**$ 3,375,975**	**49%**	
Cash Equivalents	**3,463,508**	**51%**	
Total Fund	**$ 6,839,483**		**2.47%**
Policy Benchmark			**-0.28%**



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.

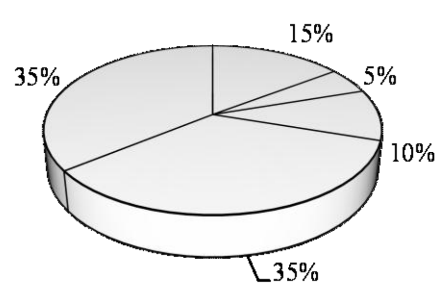
Evaluation and Review

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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 156,923	15%	
Domestic Small Cap Equity	52,882	5%	
International Equity	102,152	10%	
Fixed Income	361,223	35%	
Cash Equivalents	370,467	35%	
Total Fund	$ 1,043,647		8.49%
Policy Benchmark			5.75%



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.

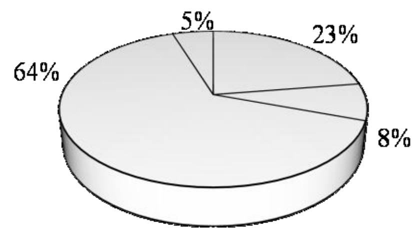
Evaluation and Review

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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 1,402,239	23%	
Domestic Small Cap Equity	472,225	8%	
Fixed Income	3,997,066	64%	
Cash Equivalents	315,768	5%	
Total Fund	$ 6,187,298		10.19%
Policy Benchmark			5.78%



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.

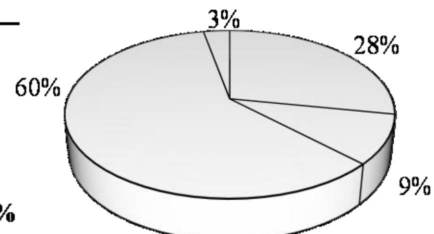
Evaluation and Review

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, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	1,466,156	28%	
Domestic Small Cap Equity		493,297	9%	
Fixed Income		3,126,739	60%	
Cash Equivalents		161,256	3%	
Total Fund	$	5,247,448		11.61%
Policy Benchmark				7.31%



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.

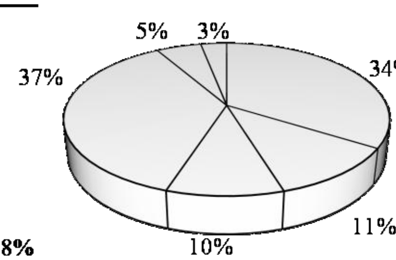
Evaluation and Review

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, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	**$**	**109,685**	**34%**	
Domestic Small Cap Equity		**36,889**	**11%**	
International Equity		**31,675**	**10%**	
Fixed Income		**118,563**	**37%**	
Real Estate		**17,166**	**5%**	
Cash Equivalents		**9,936**	**3%**	
Total Fund	**$**	**323,914**		**15.58%**
Policy Benchmark				**11.68%**



NORTH DAKOTA BUDGET STABILIZATION FUND

❖ND Budget Stabilization Fund Investment Objectives and Policy Guidelines

<u>Fund Characteristics and Constraints</u>

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.

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

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.

<u>Investment Objectives</u>

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.

<u>Standards of Investment Performance</u>

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.

<u>Policy and Guidelines</u>

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.

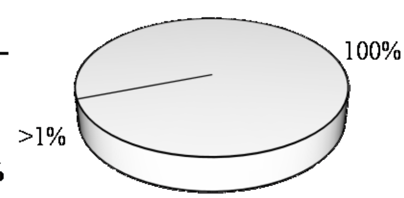
Evaluation and Review

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

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

❖ **ND Budget Stabilization Fund**
Actual Asset Allocation – June 30, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Short-term Fixed Income & BND CDs	$ 401,352,216	100%	
Bank Loans	965	0%	
Total Fund	$ 401,353,181		1.84%
Policy Benchmark			0.29%



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.

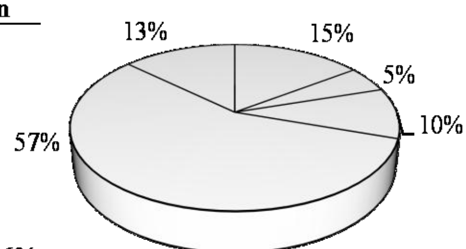
Evaluation and Review

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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 410,652	15%	
Domestic Small Cap Equity	138,420	5%	
International Equity	267,294	10%	
Fixed Income	1,540,773	57%	
Cash Equivalents	360,305	13%	
Total Fund	$ 2,717,444		9.46%
Policy Benchmark			5.56%



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.

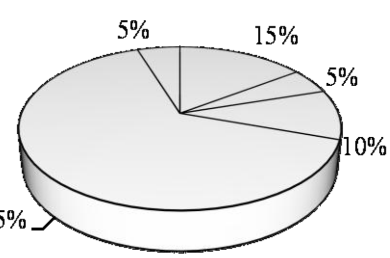
Evaluation and Review

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, 2013

Asset Allocation		Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$	154,160	15%	
Domestic Small Cap Equity		51,903	5%	
International Equity		100,222	10%	
Fixed Income		658,713	65%	
Cash Equivalents		51,836	5%	
Total Fund	$	1,016,834		9.83%
Policy Benchmark				5.49%



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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Cash Equivalents	$42,792,878	100%	0.11%
Policy Benchmark			0.00%

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.

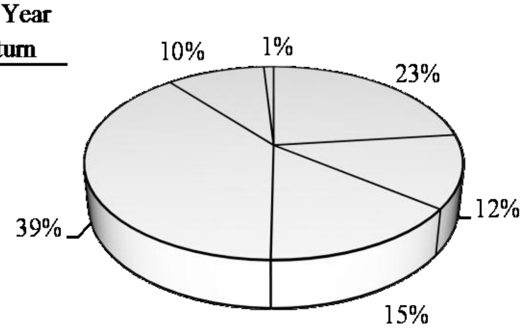
Evaluation and Review

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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 8,449,387	23%	
Domestic Small Cap Equity	4,452,890	12%	
International Equity	5,377,196	15%	
Fixed Income	14,132,463	39%	
Inflation Protected	3,635,165	10%	
Cash Equivalents	364,490	1%	
Total Fund	$ 36,411,591		13.46%
Policy Benchmark			9.83%



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

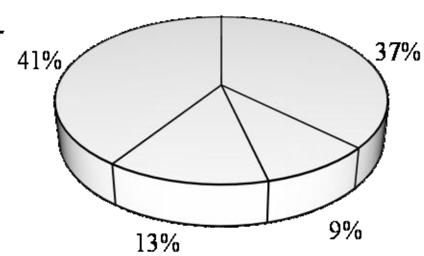
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards.

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, 2013

Asset Allocation	Fair Value	Percent of Total	One Year Return
Domestic Large Cap Equity	$ 27,207,402	37%	
Domestic Small Cap Equity	6,830,843	9%	
International Equity	9,816,186	13%	
Core Plus Fixed Income	29,822,832	41%	
Total Fund	$73,677,263		14.80%
Policy Benchmark			12.00%



ACTUARIAL SECTION

Segal Consulting

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T 312.984.8500 www.segalco.com

October 24, 2013

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, 2013

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, 2013.

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 100% funded on an actuarial basis. At that point, the employer and member contribution rates will revert to 7.75%.

Board of Trustees
North Dakota Teachers' Fund for Retirement
October 24, 2013
Page 2

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 beginning July 1, 2013, 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.

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 closed 30-year period that began July 1, 2013. For this calculation, payroll is assumed to increase 3.25% per year. As of July 1, 2013, the ARC is 10.26%, compared to 9.49% last year. This is less than the 10.75% rate currently required by law. The ARC calculation reflects the scheduled increases in member and employer contribution rates that will be effective July 1, 2014. This is a change from prior valuation reports where the ARC calculation did not reflect the scheduled contribution increases.

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, 2012 was 60.9%, while it is 58.8% as of July 1, 2013. Based on the market value of assets rather than the actuarial value of assets, the funded ratio increased to 61.4%, compared to 57.6% last year.

The plan has a net asset gain of $77 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 gain is due to market gains during FY 2010, FY 2011 and FY 2013, offset by an asset loss in FY 2012. As these gains are recognized over the next four years, the funded ratio is expected to continue to improve, assuming the plan earns 8.00% in the future.

REPORTING CONSEQUENCES

TFFR is required to report in its Comprehensive Annual Financial Report (CAFR) for the current fiscal year ending June 30, 2013 that actual contributions received in FY 2013 were more than the ARC. The FY 2013 statutory rate of 10.75% was 113.3% of the 9.49% ARC determined by the last valuation. 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.

Board of Trustees
North Dakota Teachers' Fund for Retirement
October 24, 2013
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Effective with the July 1, 2013 actuarial valuation, the Trustees adopted an Actuarial Funding Policy, which provides direction on how to calculate an Actuarially Determined Contribution (ADC). The ADC will be compared to statutory contribution rates as a measure of funding adequacy.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates, and funding periods.

DATA

Member data for retired, active and inactive participants was supplied as of July 1, 2013, 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

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SUMMARY OF ACTUARIAL VALUATION RESULTS

	2013	2012
Demographic Data for Plan Year Beginning July 1:		
• Number of		
- Retirees and Beneficiaries	7,489	7,151
- Inactive, Vested	1,500	1,483
- Inactive, Nonvested	563	468
- Active Members	10,138	10,014
• Payroll	$526.7 million	$505.3 million
Statutory Contributions (% of Payroll) for Plan Year Beginning July 1:		
• Employer	10.75%	10.75%
• Member	9.75%	9.75%
Assets:		
• Market value	$1,839.6 million	$1,654.1 million
• Actuarial value	1,762.3 million	1,748.1 million
• Return on market value (per actuary)	13.4%	-1.4%
• Return on actuarial value	2.7%	-1.4%
• Ratio - actuarial value to market value	95.8%	105.7%
• External cash flow %	-1.9%	-3.1%
Actuarial Information:		
• Normal cost %	10.15%	9.83%
• Normal cost	$56.8 million	$52.7 million
• Actuarial accrued liability	$2,997.1 million	$2,871.9 million
• Unfunded actuarial accrued liability (UAAL)	$1,234.8 million	$1,123.8 million
• Funded ratio	58.8%	60.9%
• Effective amortization period*	28 years	25 years
GASB 25 Information:		
• Annual required employer contribution rate*	10.26%	9.49%
• Margin/(Deficit)*	0.49%	1.26%
Gains/(Losses):		
• Asset experience	$(91.1) million	$(169.5) million
• Liability experience	(4.3) million	9.8 million
• Benefit changes	0.0 million	0.0 million
• Assumption/method changes	11.1 million	0.0 million
• Total Gain/(Loss)	$(84.3) million	$(159.7) million

* Reflects increases in member and employer contribution rates effective July 1, 2014. Prior valuations did not reflect future increases in contribution rates. The effective amortization period and GASB 25 information shown above for 2012 have been restated in the 2013 valuation report.

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. The actuarial value is further adjusted, if necessary, to be within 20% of the market value.

ACTUARIAL COST METHOD

Normal cost and actuarial accrued liability are calculated on an individual basis and are allocated by salary, 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. 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 a closed 30-year period that began July 1, 2013.

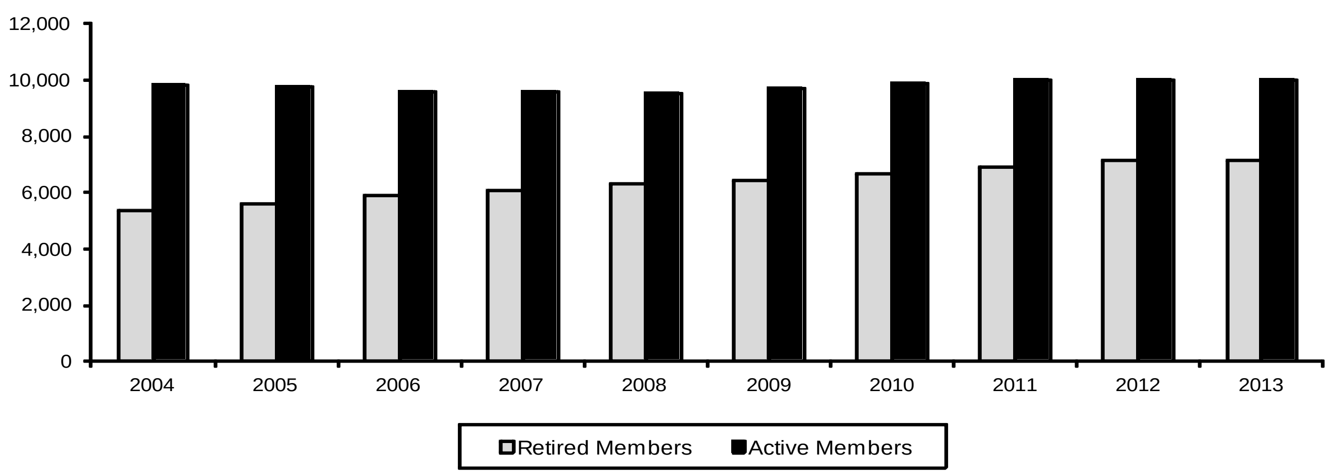
SCHEDULE OF ACTIVE MEMBERS

Valuation Year	Active Members: Number	Active Members: Percent Increase	Covered Payroll: Amount in $ Millions	Covered Payroll: Percent Increase	Average Salary: $ Amount	Average Salary: Percent Increase	Average Age	Average Service
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
2013	10,138	1.2	526.7	4.2	51,953	3.0	43.2	13.2

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
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
2013	480	13.7	142	1.9	7,489	20,664	145.9	7.8

ACTIVE MEMBERS VS RETIRED MEMBERS
10-YEAR SUMMARY



ANALYSIS OF CHANGE IN GASB ANNUAL REQUIRED CONTRIBUTION (ARC)

	7/1/2013	7/1/2012
Prior valuation	9.49 %	13.16 %
Increases/(decreases) due to:		
30-year amortization period	(0.23)%	(0.21)%
Change in covered payroll and normal cost	(0.20)%	0.02 %
Employer contributions received at 10.75%; rather than 9.49% for FY2013 or 13.16% for FY2012	(0.14)%	0.26 %
Liability experience	0.05 %	(0.11)%
Investment experience	1.02 %	1.98 %
Legislative changes	0.00 %	(5.61)%
Actuarial cost method changes	0.27 %	0.00 %
Total	0.77 %	(3.67)%
Current valuation	10.26 %	9.49 %
Statutory employer contribution rate	10.75 %	10.75 %
Margin available	0.49 %	1.26 %

* The amounts shown above for 2012 have been restated in the 2013 valuation report.

DEVELOPMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

	($ in millions)	
	7/1/2013	7/1/2012
UAAL at beginning of year	$ 1,123.8	$ 927.2
Normal cost	52.7	50.8
Total contributions	(115.8)	(88.8)
Interest on:		
UAAL and normal cost	94.1	78.2
Total contributions	(4.2)	(3.2)
Expected UAAL	$ 1,150.6	$ 964.2
Changes due to (gain)/loss from:		
Investments	$ 91.1	$ 169.4
Demographics	4.3	(9.8)
Change due to plan amendments	-	-
Change in actuarial cost method	(11.2)	-
UAAL at end of year	$ 1,234.8	$ 1,123.8

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)
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
2013	671.1	1,551.7	774.3	1,762.3	100.0	77.6	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 100% 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 100%, measured using the actuarial value of assets. The contribution rate will not automatically increase if the funded ratio later falls back below 100%.

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 these 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. <u>Disability Retirement</u>

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. <u>Deferred Termination Benefit</u>

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. Reductions are the same as for Early Retirement.

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. <u>Withdrawal (Refund) Benefit</u>

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.

2013 Legislative Session:

1. Employer and member contribution rates will be reset to 7.75% once the Fund reaches a 100% funded ratio (rather than the 90% funded ratio enacted with the 2011 Legislation), measured using the actuarial value of assets.

2. Various technical and administrative changes that do not have an actuarial effect on the Plan were enacted.

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 POSITION
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
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
2013	53,824,557	59,352,860	10.75	220,236,221	2,641,019	336,054,657

DEDUCTIONS:

Fiscal Year	Benefits Paid to Participants	Refunds	Administrative Charges	Total Deductions	Change in Net Position
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)
2013	145,943,323	3,053,395	1,623,638	150,620,356	185,434,301

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
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
2013	135,498,122	863,990	1,738,006	7,843,205	145,943,323	2,595,636	457,759	3,053,395	148,996,718

PRINCIPAL PARTICIPATING EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO

	2013			2004		
Participating Employer	**Covered Employees**	**Rank**	**% of Total System**	**Covered Employees**	**Rank**	**% of Total System**
Bismarck Public Schools	1,098	1	9.90%	897	2	8.71%
Fargo Public Schools	1,085	2	9.78%	971	1	9.43%
Grand Forks Schools	802	3	7.23%	752	3	7.31%
West Fargo Schools	700	4	6.31%	403	5	3.92%
Minot Schools	679	5	6.12%	607	4	5.90%
Mandan Public Schools	302	6	2.72%	267	6	2.59%
Dickinson Schools	259	7	2.33%	236	7	2.29%
Williston Schools	222	8	2.00%	178	9	1.73%
Jamestown Schools	220	9	1.98%	233	8	2.26%
Devils Lake Schools	168	10	1.51%	160	10	1.55%
All Other [1]	5,559		50.11%	5,589		54.30%
Total (220 & 267 employers) [2]	11,094		100.00%	10,293		100.00%

[1] In 2013 "all other" consisted of:

Type	Number	Employees
School Districts	169	5,063
County Superintendents	7	7
Special Education Units	19	347
Vocational Centers	5	54
State Agencies/Institutions	5	76
Other	5	12
Total	210	5,559

[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, 2013

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
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
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 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
Surrey
Sweet Briar Elementary

SCHEDULE OF PARTICIPATING EMPLOYERS (Continued)

School Districts (cont.)
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 179

County Superintendents
Logan County
McKenzie County
Morton County
Nelson County
Rolette County
Slope County
Ward County
Total County Supts. 7

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 Dept. of Public Instruction
ND School for the Blind
ND School for the Deaf
ND Youth Correctional Center

Total State Agencies & Institutions 5

Other
Bismarck State College
Blessed John Paul II Cath. Schools
Great NW Cooperative
ND Education Association
Roughrider Service Program

Total Other 5

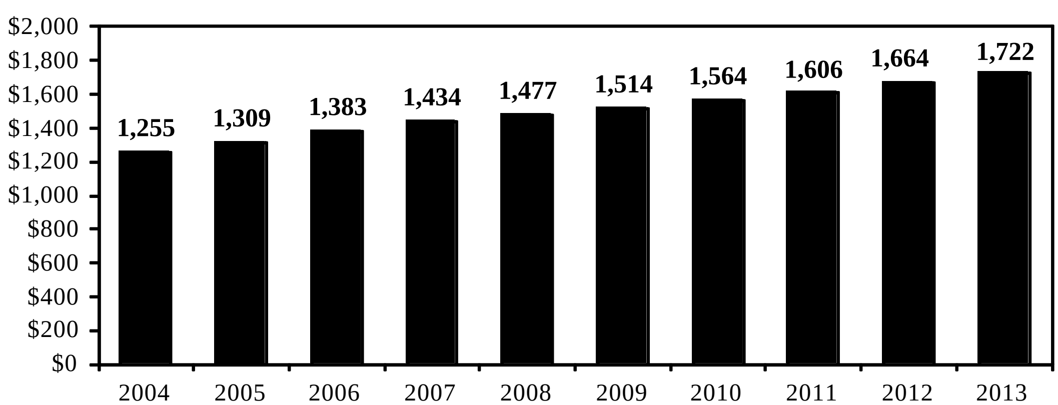
Total Employers 220

SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA BY COUNTY
AS OF JUNE 30, 2013

County	Number	Average Benefit	County	Number	Average Benefit	County	Number	Average Benefit
Adams	22	$ 1,610	Griggs	37	$ 1,616	Richland	120	$ 1,889
Barnes	151	1,854	Hettinger	27	1,659	Rolette	73	1,638
Benson	44	1,856	Kidder	33	1,537	Sargent	36	1,385
Billings	5	1,386	LaMoure	54	1,659	Sheridan	19	1,495
Bottineau	119	1,583	Logan	20	1,488	Sioux	6	854
Bowman	48	1,655	McHenry	67	1,692	Slope	5	924
Burke	38	1,460	McIntosh	40	1,560	Stark	208	1,788
Burleigh	774	1,905	McKenzie	54	2,010	Steele	16	1,499
Cass	939	1,978	McLean	110	1,613	Stutsman	184	1,783
Cavalier	74	1,457	Mercer	95	1,814	Towner	29	1,504
Dickey	67	1,390	Morton	248	1,748	Traill	94	1,651
Divide	30	2,033	Mountrail	76	1,469	Walsh	140	1,613
Dunn	33	1,885	Nelson	51	1,452	Ward	525	1,806
Eddy	33	1,838	Oliver	18	1,654	Wells	63	1,657
Emmons	31	1,560	Pembina	83	1,828	Williams	187	1,863
Foster	42	1,881	Pierce	66	1,615	Out-of-State	1,450	1,416
Golden Valley	16	1,347	Ramsey	141	1,598			
Grand Forks	529	1,973	Ransom	51	1,520	GRAND TOTALS:	7,489	$ 1,722
Grant	34	1,326	Renville	34	1,749			

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
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
2013	Number of Retirees	105	330		493	497	806	1,571	2,322	1,365	7,489
	Average Monthly Benefit	225	331		496	799	1,275	1,717	2,113	2,558	1,722
	Average Final Average Salary	1,989	2,219		2,210	2,663	3,118	3,412	3,661	3,893	3,344
	Average Years of Service	3	7		13	17	23	28	32	38	27



SCHEDULE OF RETIREES BY BENEFIT AMOUNT

Monthly Benefit Amount	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Under $200	224	215	215	199	193	185	177	171	157	146
200 to 399	464	464	471	466	475	470	461	460	465	466
400 to 599	454	473	489	500	517	539	552	590	619	637
600 to 799	417	418	436	446	469	506	527	563	593	637
800 to 999	410	409	410	410	417	419	420	423	432	434
1,000 to 1,199	533	518	515	527	529	538	540	542	528	517
1,200 to 1,399	535	525	524	514	505	498	493	492	478	458
1,400 to 1,599	591	573	574	556	550	534	519	498	474	455
1,600 to 1,799	607	592	568	550	525	510	483	449	422	392
1,800 to 1,999	586	570	557	526	513	499	474	438	382	348
2,000 to 2,199	522	501	474	445	412	377	338	310	270	245
2,200 to 2,399	435	409	394	381	353	329	287	258	227	202
2,400 to 2,599	349	325	313	287	267	250	228	190	157	133
2,600 to 2,799	303	281	267	237	208	185	160	150	119	105
2,800 to 2,999	261	227	200	178	155	144	126	102	86	68
3,000 & Over *						334	292	257	177	130
3,000 to 3,199	206	178	155	124	110					
3,200 to 3,399	147	124	91	84	70					
3,400 to 3,599	114	92	79	72	61					
3,600 to 3,799	83	72	55	46	41					
3,800 to 3,999	58	42	35	34	24					
4,000 & Over	190	143	111	90	72					
TOTAL	7,489	7,151	6,933	6,672	6,466	6,317	6,077	5,893	5,586	5,373

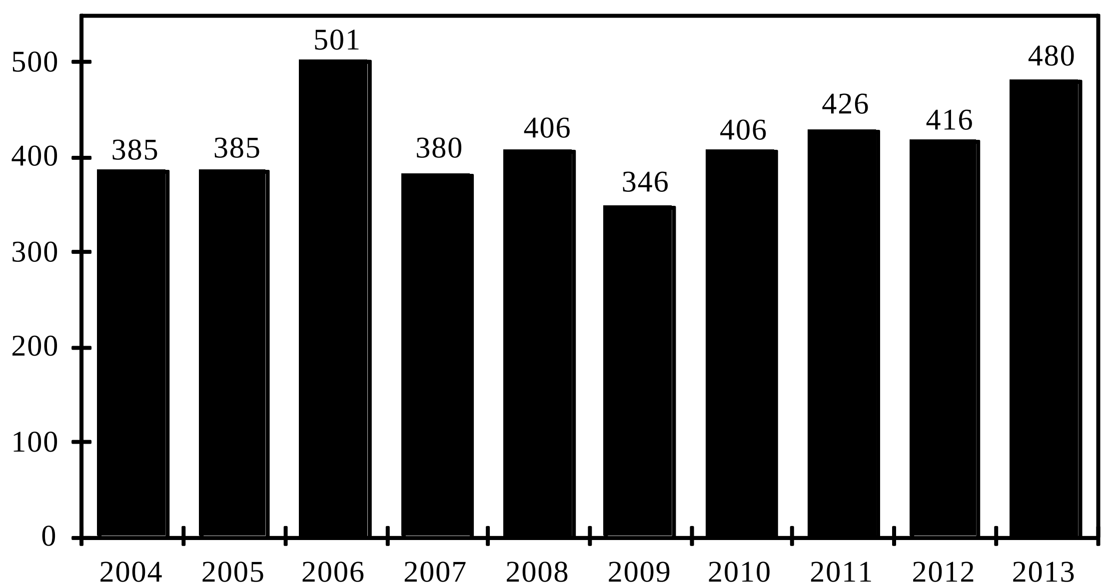
* Breakdown of data for monthly benefits > $3,000 is not available for years prior to 2009.

SCHEDULE OF RETIREES BY BENEFIT TYPE

Form of Payment	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Service:										
Straight Life	2,916	2,801	2,739	2,583	2,560	2,578	2,541	2,549	2,544	2,527
100% J&S	2,449	2,279	2,153	2,095	1,963	1,836	1,697	1,570	1,361	1,243
50% J&S	531	515	501	500	468	458	433	408	372	357
5 Years C&L	22	23	28	32	32	32	33	34	34	35
10 Years C&L	177	178	184	179	174	169	166	157	154	151
20 Years C&L	85	73	63	55	46	38	34	28	16	8
Level	574	579	584	585	590	584	580	567	539	495
Subtotal	6,754	6,448	6,252	6,029	5,833	5,695	5,484	5,313	5,020	4,816
Disability:										
Straight Life	103	96	97	88	85	81	73	66	61	59
100% J&S	12	13	11	11	13	12	12	11	9	10
50% J&S	6	8	8	7	6	5	4	4	5	6
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
20 Years C&L	1	1	1	1	1	1	1	1	1	1
Subtotal	124	120	120	111	108	102	93	85	79	79
Beneficiaries:										
Straight Life	599	571	545	522	513	506	482	475	466	457
5 Years Certain Only	2	2	6	6	6	9	11	8	9	9
10 Years Certain Only	9	9	9	3	5	5	7	12	12	12
20 Years Certain Only	1	1	1	1	1	0	0	0	0	0
Subtotal	611	583	561	532	525	520	500	495	487	478
TOTAL	7,489	7,151	6,933	6,672	6,466	6,317	6,077	5,893	5,586	5,373

SCHEDULE OF NEW RETIREES BY TYPE

Valuation Year	Retirement	Disability	Beneficiary	Total
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
2013	425	11	44	480



PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL

	2013	2012	2011	2010	2009
INVESTMENT MANAGERS					
Global Equity:					
Calamos Advisors LLC	$ 386,180	189,743	-	-	-
Epoch Investment Partners	1,412,498	1,232,302	-	-	-
LSV Asset Management	1,366,232	-	-	-	-
Total Global Equity	3,164,910	1,422,045	-	-	-
Domestic Large Cap Equity:					
AllianceBernstein Capital Management *	$ -	$ -	$ 48,771	$ 252,829	$ 1,233
The Clifton Group *	(139,667)	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
European Credit Management *	-	-	229,619	258,751	206,886
Los Angeles Capital Management *	903,986	749,333	1,086,050	616,788	448,835
LSV Asset Management	441,745	628,401	633,088	544,008	460,844
Mellon Capital Management	-	-	-	75,117	433,778
Northern Trust Global Investments *	279,317	294,405	-	-	53,277
Prudential Investment Management *	-	66,984	91,728	73,997	341,803
State Street Global Advisors *	-	-	-	1,826	42,965
Wells Capital Management Co. *	-	-	-	135,313	241,392
Westridge Capital Management, Inc.	-	-	-	-	298,304
Total Domestic Large Cap Equity	1,485,381	2,629,497	4,847,231	5,580,442	3,653,185
Domestic Small Cap Equity:					
Callan Associates Inc.	834,282	984,147	1,168,384	735,212	534,239
The Clifton Group *	665,402	543,810	789,856	307,599	72,907
Corsair Capital *	-	-	676,944	1,140,081	-
SEI Investments Management Co. *	-	-	-	139,146	918,546
Total Domestic Small Cap Equity	1,499,684	1,527,957	2,635,184	2,322,038	1,525,692
Developed International Equity:					
Capital Guardian Trust Company	307,729	291,582	313,271	278,328	409,573
The Clifton Group	172,768	163,014	105,236	86,789	93,396
Dimensional Fund Advisors	380,923	354,025	383,099	331,117	250,385
LSV Asset Management	286,530	522,100	579,826	335,924	370,918
State Street Global Advisors	248,591	293,343	324,700	257,184	250,514
Wellington Trust Company, NA	561,117	498,023	505,226	426,370	331,897
Total Developed International Equity	1,957,658	2,122,087	2,211,358	1,715,712	1,706,683
Emerging Markets Equity:					
BlackFriars Asset Management	-	134,724	187,073	162,921	124,072
Capital International *	-	-	500,024	523,627	525,000
Dimensional Fund Advisors	235,763	238,500	297,930	254,114	159,310
J.P. Morgan Investment Management, Inc. *	267,068	241,094	833,936	812,919	301,488
Northern Trust Global Investments	28,323	-	-	-	-
PanAgora Asset Management, Inc.	116,010	160,326	220,209	192,768	133,067
UBS Global Asset Management	291,475	244,015	230,871	320,092	220,316
Total Emerging Markets Equity	938,639	1,018,659	2,270,043	2,266,441	1,463,253

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL (Continued)

	2013	2012	2011	2010	2009
INVESTMENT MANAGERS (cont.)					
Private Equity:					
Adams Street Partners *	991,683	1,164,226	782,707	812,239	1,050,075
Capital International *	768,528	807,471	-	-	-
Coral Partners, Inc. *	129,958	174,802	272,143	737,717	827,471
Corsair Capital *	736,919	735,968	-	-	346,138
EIG Global Energy Partners *	365,606	448,379	-	-	-
Hearthstone Homebuilding Investors, LLC *	566	22,020	83,633	232,757	(717,002)
InvestAmerica L&C, LLC *	536,928	540,063	521,797	558,215	177,785
Matlin Patterson Global Opportunities, LLC *	(427,781)	1,506,228	613,794	766,878	(6,536)
Quantum Energy Partners *	844,935	196,790	205,649	205,933	192,704
Quantum Resources Management *	52,006	123,099	133,663	150,000	150,000
Total Private Equity	3,999,348	5,719,046	2,613,386	3,463,739	2,020,635
Investment Grade Fixed Income:					
Bank of North Dakota	24,323	49,262	37,455	34,771	41,873
Calamos Advisors LLC	-	189,726	412,998	407,217	340,643
Declaration Management & Research LLC *	350,673	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
PIMCO *	6,296,078	600,343	2,399,875	5,232,458	244,483
Prudential Investment Management	-	133,059	169,688	197,085	169,582
SEI Investments Management Co.	-	58,459	50,081	39,460	6,977
State Street Global Advisors	992				
Timberland Investment Resources *	-	-	803,522	2,688,409	818,935
Wells Capital Management, Inc.	-	97,351	122,662	163,106	136,373
Western Asset Management Company	182,317	159,487	101,609	101,490	102,337
Total Investment Grade Fixed Income	6,854,383	1,429,349	5,389,390	10,130,937	3,477,192
Below Investment Grade Fixed Income:					
Declaration Management & Research LLC *	-	-	-	787,851	168,759
Goldman Sachs Asset Management *	754,745	594,279	1,419,792	970,558	440,810
Loomis Sayles & Company	882,685	732,709	735,467	590,660	411,522
PIMCO *	2,075,630	927,600	1,715,456	372,285	268,049
EIG Global Energy Partners *	-	-	1,396,590	952,333	1,104,372
Wells Capital Management, Inc.	-	-	-	211,702	500,807
Total Below Investment Grade Fixed Income	3,713,060	2,254,588	5,267,305	3,885,389	2,894,319
Developed International Fixed Income:					
UBS Global Asset Management	285,673	260,945	246,055	262,573	278,189
Brandywine Asset Management	427,725	403,408	408,030	447,706	385,373
Total Developed International Fixed Income	713,398	664,353	654,085	710,279	663,562
Real Estate:					
INVESCO Realty Advisors *	2,104,737	1,312,204	1,174,449	1,157,461	1,071,305
J.P. Morgan Investment Management, Inc. *	1,941,237	2,027,278	2,052,612	1,898,305	1,956,455
Total Real Estate	4,045,974	3,339,482	3,227,061	3,055,766	3,027,760

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL (Continued)

	2013	2012	2011	2010	2009
INVESTMENT MANAGERS (cont.)					
Timber:					
Timberland Investment Resources *	771,816	1,036,397	-	-	-
Infrastructure:					
Credit Suisse *	443,767	472,826	-	-	-
J.P. Morgan Investment Management, Inc.*	1,643,680	1,679,799	-	-	-
Total Infrastructure	2,087,447	2,152,625	-	-	-
Cash Equivalents:					
The Northern Trust Company, Inc.	60,936	72,836	62,646	29,642	14,331
Total Investment Manager Fees	31,292,634	25,388,921	29,177,689	33,160,385	20,446,612
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	573,140	518,376	625,684	570,972	551,849
INVESTMENT CONSULTANTS					
Adams Street Partners	221,839				
Callan Associates Inc.	206,020	215,043	270,183	190,879	188,799
Total Investment Consultants	427,859	215,043	270,183	190,879	188,799
SIB SERVICE FEES	30,505	31,573	52,758	33,123	22,608
SECURITIES LENDING FEES					
Rebates	-	(13,940)	(178,234)	(237,860)	152,080
Fees	-	6,821	100,629	63,250	82,112
Total Securities Lending Fees	-	(7,119)	(77,605)	(174,610)	234,192

INSURANCE INVESTMENT POOL

	2013	2012	2011	2010	2009
INVESTMENT MANAGERS					
Domestic Large Cap Equity:					
The Clifton Group *	$ 35,780	$ 53,176	$ 121,697	$ 328,385	$ 373,925
Los Angeles Capital Management *	182,394	162,237	263,933	164,823	104,393
LSV Asset Management	158,764	131,769	105,431	87,269	70,004
State Street Global Advisors *	-	-	-	1,248	12,674
Westridge Capital Management, Inc.	-	-	-	-	94,488
Total Domestic Large Cap Equity	376,938	347,182	491,061	581,725	655,484
Domestic Small Cap Equity:					
The Clifton Group *	129,312	122,062	158,649	390,421	221,082
Research Affiliates	138,437	129,831	132,438	106,631	85,949
SEI Investments Management	-	-	-	-	58,418
Total Domestic Small Cap Equity	267,749	251,893	291,087	497,052	365,449

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2013	2012	2011	2010	2009
INVESTMENT MANAGERS (cont.)					
International Equity:					
Capital Guardian Trust Company	239,917	189,258	205,361	208,162	193,395
Dimensional Fund Advisors	70,574	69,190	78,546	83,070	55,616
LSV Asset Management	228,459	194,826	213,049	225,184	182,431
The Vanguard Group	45,054	37,739	48,043	50,785	29,127
Total International Equity	584,004	491,013	544,999	567,201	460,569
Domestic Fixed Income:					
Bank of North Dakota	56,395	65,084	60,984	58,340	58,375
Brookfield Investment Management	-	-	-	51,899	75,328
The Clifton Group *	-	-	-	-	516,425
Declaration Management & Research LLC	268,169	194,885	166,415	39,163	-
PIMCO *	4,806,203	1,836,119	-	-	-
Prudential Investment Management	204,186	190,576	174,060	180,577	161,549
State Street Global Advisors	2,309	-	-	-	-
Wells Capital Management, Inc.	613,148	583,784	538,689	500,223	419,769
Western Asset Management Company	376,703	398,326	446,627	414,506	384,219
Total Domestic Fixed Income	6,327,113	3,268,774	1,386,775	1,244,708	1,615,665
Inflation Protected Assets					
Credit Suisse *	221,884	720,652	-	-	-
J.P. Morgan Investment Management, Inc.*	717,674	782,238	883,330	839,066	512,663
Northern Trust Global Investments *	-	-	385	31,109	48,927
Timberland Investment Resources *	507,622	507,528	451,705	221,700	116,863
Western Asset Management Company *	335,329	314,239	312,798	590,444	9,124
Total Inflation Protected Assets	1,782,509	2,324,657	1,648,218	1,682,319	687,577
Real Estate:					
INVESCO Realty Advisors	124,733	-	-	-	-
J.P. Morgan Investment Management, Inc.	782,809	1,073,000	950,339	557,938	786,098
Total Real Estate	907,542	1,073,000	950,339	557,938	786,098
Short Term Fixed Income:					
Babson Capital Management LLC	758,881	292,383	-	-	-
J.P. Morgan Investment Management, Inc.	477,048	207,366	-	-	-
Prudential Investment Management*	-	64,534	217,963	218,275	99,805
Total Short Term Fixed Income	1,235,929	564,283	217,963	218,275	99,805
Total Investment Manager Fees	11,481,784	8,320,802	5,530,442	5,349,218	4,670,647

PAYMENTS TO INVESTMENT CONSULTANTS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2013	2012	2011	2010	2009
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	401,511	281,339	301,194	323,560	288,023
INVESTMENT CONSULTANTS					
Callan Associates	113,813	114,109	110,094	96,975	95,858
R.V. Kuhns & Associates, Inc.	70,000	-	-	-	-
Total Investment Consultants	183,813	114,109	110,094	96,975	95,858
SIB SERVICE FEES	9,656	7,078	10,408	7,881	6,099
SECURITIES LENDING FEES					
Rebates	-	(3,908)	(59,839)	7,052	1,244,805
Fees	-	1,973	32,546	56,356	199,028
Total Securities Lending Fees	-	(1,935)	(27,293)	63,408	1,443,833

INDIVIDUAL INVESTMENT ACCOUNT

	2013	2012	2011	2010	2009
INVESTMENT MANAGERS					
SEI Investments Management	$ 294,454	$ 249,704	$ 224,707	$ 174,464	$ -
State Street Global Advisors	-	-	-	-	73,830
INVESTMENT CUSTODIAN					
The Northern Trust Company, Inc	705	706	1,027	1,166	654
SIB SERVICE FEES	7,171	7,240	7,813	5,115	4,561

*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

	2013	2012	2011	2010	2009
Public Employees Retirement System					
Net position beginning of year	$ 1,772,254,556	$ 1,800,337,484	$ 1,510,006,420	$ 1,353,174,174	$ 1,810,756,057
Net increase/(decrease) in fair value of investments	200,819,548	(40,138,712)	288,857,273	153,004,660	(463,523,677)
Interest, dividends and other income	44,790,884	43,094,734	35,540,149	32,225,018	35,721,096
Expenses	6,911,611	6,550,593	6,904,640	6,413,077	6,636,715
Net securities lending income	-	11,643	188,282	115,645	157,919
Net incr/(decr) in net position resulting from unit transactions	(12,389,125)	(24,500,000)	(27,350,000)	(22,100,000)	(23,300,506)
Net position end of year	$ 1,998,564,252	$ 1,772,254,556	$ 1,800,337,484	$ 1,510,006,420	$ 1,353,174,174
City of Bismarck Employees Pension Plan					
Net position beginning of year	$ 61,115,742	$ 53,487,752	$ 44,536,966	$ 39,763,978	$ 49,652,732
Net increase/(decrease) in fair value of investments	6,237,415	176,642	7,976,275	3,838,691	(10,902,385)
Interest, dividends and other income	1,613,666	1,664,728	1,176,167	1,121,694	1,205,465
Expenses	228,569	213,743	206,459	190,180	196,099
Net securities lending income	-	363	4,803	2,783	4,265
Net incr/(decr) in net position resulting from unit transactions	-	6,000,000	-	-	-
Net position end of year	$ 68,738,254	$ 61,115,742	$ 53,487,752	$ 44,536,966	$ 39,763,978
City of Bismarck Police Pension Plan					
Net position beginning of year	$ 26,558,055	$ 24,487,442	$ 20,256,072	$ 17,958,666	$ 22,986,491
Net increase/(decrease) in fair value of investments	2,898,709	(10,241)	3,805,226	1,907,796	(5,454,384)
Interest, dividends and other income	680,528	673,595	517,733	476,013	513,627
Expenses	102,691	92,910	93,931	87,805	89,034
Net securities lending income	-	169	2,342	1,402	1,966
Net incr/(decr) in net position resulting from unit transactions	-	1,500,000	-	-	-
Net position end of year	$ 30,034,601	$ 26,558,055	$ 24,487,442	$ 20,256,072	$ 17,958,666
Job Service of North Dakota					
Net position beginning of year	$ 84,680,884	$ 85,717,233	$ 77,650,186	$ 72,147,891	$ 89,914,256
Net increase/(decrease) in fair value of investments	7,978,316	456,149	10,200,840	7,565,552	(15,799,734)
Interest, dividends and other income	2,248,708	2,908,939	2,068,491	2,042,786	1,998,050
Expenses	242,783	264,891	277,752	305,699	301,287
Net securities lending income	-	509	7,844	4,884	10,350
Net incr/(decr) in net position resulting from unit transactions	(4,305,267)	(4,137,055)	(3,932,376)	(3,805,228)	(3,673,744)
Net position end of year	$ 90,359,858	$ 84,680,884	$ 85,717,233	$ 77,650,186	$ 72,147,891
City of Fargo Employee Pension Plan					
Net position beginning of year	$ 29,522,766	$ 28,804,055	$ 24,534,685	$ 21,872,249	$ 29,620,050
Net increase/(decrease) in fair value of investments	3,464,908	(294,620)	4,700,965	2,756,456	(7,476,802)
Interest, dividends and other income	763,619	688,900	574,934	510,050	557,875
Expenses	112,375	100,760	109,591	106,028	106,556
Net securities lending income	-	191	3,062	1,958	2,682
Net incr/(decr) in net position resulting from unit transactions	454,000	425,000	(900,000)	(500,000)	(725,000)
Net position end of year	$ 34,092,918	$ 29,522,766	$ 28,804,055	$ 24,534,685	$ 21,872,249

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

PENSION INVESTMENT POOL (Continued)

	2013	2012	2011	2010	2009
City of Grand Forks Pension Plan					
Net position beginning of year	$ 43,890,145	$ 43,013,441	$ 34,915,157	$ 30,006,961	$ -
Net increase/(decrease) in fair value of investments	4,988,932	(429,165)	6,821,525	3,626,358	1,238,569
Interest, dividends and other income	1,104,377	1,003,146	818,617	674,685	122,529
Expenses	162,026	151,256	153,222	137,909	51,129
Net securities lending income	-	264	4,499	3,136	1,502
Net incr/(decr) in net position resulting from unit transactions	267,377	453,715	606,865	741,926	28,695,490
Net position end of year	$ 50,088,805	$ 43,890,145	$ 43,013,441	$ 34,915,157	$ 30,006,961
Grand Forks Park District Pension Plan					
Net position beginning of year	$ 4,490,835	$ 4,413,772	$ 3,570,354	$ -	$ -
Net increase/(decrease) in fair value of investments	561,321	(60,414)	685,078	(138,086)	-
Interest, dividends and other income	97,383	111,050	73,134	30,872	-
Expenses	14,622	14,575	16,348	11,082	-
Net securities lending income	-	34	621	185	-
Net incr/(decr) in net position resulting from unit transactions	(30,342)	40,968	100,933	3,688,465	-
Net position end of year	$ 5,104,575	$ 4,490,835	$ 4,413,772	$ 3,570,354	$ -
TOTAL PENSION INVESTMENT POOL					
Net position beginning of year	$ 2,022,512,983	$ 2,040,261,179	$ 1,715,469,840	$ 1,534,923,919	$ 2,002,929,586
Net increase/(decrease) in fair value of investments	226,949,149	(40,300,361)	323,047,182	172,561,427	(501,918,413)
Interest, dividends and other income	51,299,165	50,145,092	40,769,225	37,081,118	40,118,642
Expenses	7,774,677	7,388,728	7,761,943	7,251,780	7,380,820
Net securities lending income	-	13,173	211,453	129,993	178,684
Net incr/(decr) in net position resulting from unit transactions	(16,003,357)	(20,217,372)	(31,474,578)	(21,974,837)	996,240
Net position end of year	$ 2,276,983,263	$ 2,022,512,983	$ 2,040,261,179	$ 1,715,469,840	$ 1,534,923,919

INSURANCE INVESTMENT POOL

	2013	2012	2011	2010	2009
Workforce Safety & Insurance Fund					
Net position beginning of year	$ 1,433,799,144	$ 1,349,820,999	$ 1,211,055,668	$ 1,082,338,485	$ 1,257,695,472
Net increase/(decrease) in fair value of investments	75,120,636	39,444,727	119,651,617	86,825,301	(165,281,764)
Interest, dividends and other income	48,176,241	47,896,009	44,585,328	44,376,314	47,266,977
Expenses	4,871,275	4,869,959	5,091,768	5,098,648	4,616,101
Net securities lending income	-	7,368	120,154	214,216	773,901
Net incr/(decr) in net position resulting from unit transactions	4,500,000	1,500,000	(20,500,000)	2,400,000	(53,500,000)
Net position end of year	$ 1,556,724,746	$ 1,433,799,144	$ 1,349,820,999	$ 1,211,055,668	$ 1,082,338,485
Legacy Fund					
Net position beginning of year	$ 398,885,883	$ -	$ -	$ -	$ -
Net increase/(decrease) in fair value of investments	(12,331,605)	(50,393)	-	-	-
Interest, dividends and other income	17,696,018	2,594,368	-	-	-
Expenses	1,148,387	243,750	-	-	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position resulting from unit transactions	791,126,479	396,585,658	-	-	-
Net position end of year	$ 1,194,228,388	$ 398,885,883	$ -	$ -	$ -

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2013	2012	2011	2010	2009
State Fire & Tornado Fund					
Net position beginning of year	$ 24,503,500	$ 25,159,062	$ 26,360,103	$ 22,315,554	$ 25,660,561
Net increase/(decrease)					
in fair value of investments	1,873,759	387,069	2,819,526	2,554,316	(3,758,616)
Interest, dividends and other income	803,166	819,440	953,119	1,002,687	977,252
Expenses	66,007	62,242	77,003	91,987	97,685
Net securities lending income	-	171	3,317	4,533	9,042
Net incr/(decr) in net position					
resulting from unit transactions	(500,000)	(1,800,000)	(4,900,000)	575,000	(475,000)
Net position end of year	$ 26,614,418	$ 24,503,500	$ 25,159,062	$ 26,360,103	$ 22,315,554
State Bonding Fund					
Net position beginning of year	$ 3,056,345	$ 2,901,517	$ 2,763,321	$ 2,150,027	$ 2,541,528
Net increase/(decrease)					
in fair value of investments	16,248	80,255	59,619	137,116	(477,513)
Interest, dividends and other income	73,189	79,056	83,032	80,281	90,769
Expenses	4,565	4,493	4,578	4,322	5,513
Net securities lending income	-	10	123	219	756
Net incr/(decr) in net position					
resulting from unit transactions	-	-	-	400,000	-
Net position end of year	$ 3,141,217	$ 3,056,345	$ 2,901,517	$ 2,763,321	$ 2,150,027
Petroleum Tank Release Compensation Fund					
Net position beginning of year	$ 6,762,398	$ 6,447,257	$ 6,624,103	$ 6,298,834	$ 8,541,351
Net increase/(decrease)					
in fair value of investments	35,781	161,701	150,874	339,451	(1,549,239)
Interest, dividends and other income	148,726	161,523	181,494	194,448	268,874
Expenses	8,208	8,101	9,480	9,161	14,385
Net securities lending income	-	18	266	531	2,233
Net incr/(decr) in net position					
resulting from unit transactions	(100,000)	-	(500,000)	(200,000)	(950,000)
Net position end of year	$ 6,838,697	$ 6,762,398	$ 6,447,257	$ 6,624,103	$ 6,298,834
Insurance Regulatory Trust Fund					
Net position beginning of year	$ 962,611	$ 3,671,634	$ 4,115,864	$ 3,235,054	$ 4,083,147
Net increase/(decrease)					
in fair value of investments	61,472	(49,067)	205,758	133,302	(203,636)
Interest, dividends and other income	22,735	43,279	55,377	55,755	64,262
Expenses	2,883	3,255	5,621	8,575	9,247
Net securities lending income	-	20	256	328	528
Net incr/(decr) in net position					
resulting from unit transactions	-	(2,700,000)	(700,000)	700,000	(700,000)
Net position end of year	$ 1,043,935	$ 962,611	$ 3,671,634	$ 4,115,864	$ 3,235,054
Risk Management Fund					
Net position beginning of year	$ 5,163,495	$ 4,326,253	$ 3,783,457	$ 3,252,697	$ 3,597,393
Net increase/(decrease)					
in fair value of investments	352,442	188,985	395,152	391,534	(477,819)
Interest, dividends and other income	181,504	159,639	158,783	151,308	146,455
Expenses	13,353	11,399	11,543	12,687	14,680
Net securities lending income	-	17	404	605	1,348
Net incr/(decr) in net position					
resulting from unit transactions	500,000	500,000	-	-	-
Net position end of year	$ 6,184,088	$ 5,163,495	$ 4,326,253	$ 3,783,457	$ 3,252,697

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2013	2012	2011	2010	2009
Risk Management Workers Comp Fund					
Net position beginning of year	$ 5,011,391	$ 3,718,464	$ 3,198,090	$ 1,864,433	$ 3,057,338
Net increase/(decrease)					
in fair value of investments	349,656	167,998	398,292	242,300	(426,876)
Interest, dividends and other income	144,640	135,705	132,097	102,186	93,030
Expenses	11,084	10,790	10,390	11,250	9,931
Net securities lending income	-	14	375	421	872
Net incr/(decr) in net position					
resulting from unit transactions	(250,000)	1,000,000	-	1,000,000	(850,000)
Net position end of year	$ 5,244,603	$ 5,011,391	$ 3,718,464	$ 3,198,090	$ 1,864,433
Cultural Endowment Fund					
Net position beginning of year	$ 284,275	$ 272,058	$ 233,415	$ 204,223	$ 268,986
Net increase/(decrease)					
in fair value of investments	35,577	4,789	42,194	22,732	(63,711)
Interest, dividends and other income	9,320	8,718	8,608	7,822	8,338
Expenses	1,374	1,292	1,352	1,405	1,683
Net securities lending income	-	2	38	43	88
Net incr/(decr) in net position					
resulting from unit transactions	(4,000)	-	(10,845)	-	(7,795)
Net position end of year	$ 323,798	$ 284,275	$ 272,058	$ 233,415	$ 204,223
Budget Stabilization Fund					
Net position beginning of year	$ 394,954,806	$ 325,673,084	$ 325,116,846	$ 190,101,212	$ 198,837,270
Net increase/(decrease)					
in fair value of investments	(3,112,671)	(2,472,612)	1,701,753	11,710,253	(15,274,089)
Interest, dividends and other income	10,804,040	10,787,170	10,618,859	10,013,545	6,647,958
Expenses	451,981	447,398	289,511	259,540	109,927
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position					
resulting from unit transactions	(1,036,797)	61,414,562	(11,474,863)	113,551,376	-
Net position end of year	$ 401,157,397	$ 394,954,806	$ 325,673,084	$ 325,116,846	$ 190,101,212
ND Association of Counties Fund					
Net position beginning of year	$ 1,650,887	$ 1,623,441	$ 1,074,275	$ 929,491	$ 1,122,826
Net increase/(decrease)					
in fair value of investments	107,664	(21,216)	201,705	114,484	(223,010)
Interest, dividends and other income	63,052	53,400	56,013	35,633	35,516
Expenses	6,171	4,749	5,432	5,541	6,228
Net securities lending income	-	11	225	208	387
Net incr/(decr) in net position					
resulting from unit transactions	900,000	-	296,655	-	-
Net position end of year	$ 2,715,432	$ 1,650,887	$ 1,623,441	$ 1,074,275	$ 929,491
City of Bismarck Deferred Sick Leave Fund					
Net position beginning of year	$ 925,488	$ 876,390	$ 842,549	$ 729,156	$ 799,142
Net increase/(decrease)					
in fair value of investments	60,827	19,419	82,130	82,542	(99,854)
Interest, dividends and other income	32,997	32,907	35,011	34,359	33,397
Expenses	3,439	3,235	3,411	3,653	3,829
Net securities lending income	-	7	111	145	300
Net incr/(decr) in net position					
resulting from unit transactions	-	-	(80,000)	-	-
Net position end of year	$ 1,015,873	$ 925,488	$ 876,390	$ 842,549	$ 729,156

SUMMARY OF OPERATIONS
FOR FISCAL YEARS ENDED JUNE 30

INSURANCE INVESTMENT POOL (Continued)

	2013	2012	2011	2010	2009
PERS Group Insurance Fund					
Net position beginning of year	$ 6,899,554	$ 5,589,415	$ 4,034,326	$ 3,996,417	$ 4,390,870
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	129,167	34,885	32,357	38,909	106,547
Expenses	3,819	1,000	1,000	1,000	1,000
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position resulting from unit transactions	35,766,410	1,276,254	1,523,732	-	(500,000)
Net position end of year	$ 42,791,312	$ 6,899,554	$ 5,589,415	$ 4,034,326	$ 3,996,417
City of Fargo FargoDome Permanent Fund					
Net position beginning of year	$ 32,051,664	$ 33,406,678	$ 25,092,617	$ 17,578,204	$ 16,070,540
Net increase/(decrease) in fair value of investments	3,435,467	(25,951)	4,252,514	2,389,046	(3,002,920)
Interest, dividends and other income	997,950	972,310	961,003	823,931	603,865
Expenses	109,886	101,630	104,374	102,595	99,654
Net securities lending income	-	257	4,918	4,031	6,373
Net incr/(decr) in net position resulting from unit transactions	-	(2,200,000)	3,200,000	4,400,000	4,000,000
Net position end of year	$ 36,375,195	$ 32,051,664	$ 33,406,678	$ 25,092,617	$ 17,578,204
ND Health Care Trust Fund					
Net position beginning of year	$ -	$ 2,322,488	$ 2,316,101	$ 2,308,711	$ 2,285,114
Net increase/(decrease) in fair value of investments	-	-	-	-	-
Interest, dividends and other income	-	4,137	7,374	8,373	24,591
Expenses	-	742	987	983	994
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position resulting from unit transactions	-	(2,325,883)	-	-	-
Net position end of year	$ -	$ -	$ 2,322,488	$ 2,316,101	$ 2,308,711
DPI Board Certification Fund					
Net position 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 position resulting from unit transactions	-	(501,571)	-	-	-
Net position end of year	$ -	$ -	$ 501,704	$ 500,859	$ -
TOTAL INSURANCE INVESTMENT POOL					
Net position beginning of year	$ 2,314,911,441	$ 1,766,310,444	$ 1,617,908,249	$ 1,337,991,755	$ 1,529,753,733
Net increase/(decrease) in fair value of investments	66,005,253	37,835,704	129,961,134	105,024,870	(190,976,187)
Interest, dividends and other income	79,282,745	63,782,603	57,870,049	56,955,892	56,396,195
Expenses	6,702,432	5,774,225	5,617,199	5,616,069	4,995,303
Net securities lending income	-	7,895	130,187	225,425	796,112
Net incr/(decr) in net position resulting from unit transactions	830,902,092	452,749,020	(33,941,976)	123,326,376	(52,982,795)
Net position end of year	$ 3,284,399,099	$ 2,314,911,441	$ 1,766,310,444	$ 1,617,908,249	$ 1,337,991,755