

# 2014

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## *Comprehensive Annual Financial Report*

*For the years ended June 30, 2014 and 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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[www.nd.gov/rio](http://www.nd.gov/rio)*

**For the Fiscal Years Ended June 30, 2014 and 2013**

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



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# **INTRODUCTORY 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  
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[www.nd.gov/rio](http://www.nd.gov/rio)

December 5, 2014

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, 2014, 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 7,700 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 \$9.4 billion in assets for eight pension funds and 16 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, 2014:



	Fair Value in millions	% Of Pool	FY2014 Return		Fair Value in millions	% Of Pool	FY2014 Return
<b>PENSION POOL PARTICIPANTS</b>				<b>INSURANCE POOL PARTICIPANTS</b>			
Teachers' Fund for Retirement	\$2,061.68	44.2%	16.53%	Workforce Safety & Insurance Fund	\$1,703.99	36.7%	11.71%
Public Employees Retirement System	2,332.74	50.0%	16.38%	Legacy Fund	2,215.94	47.7%	6.64%
Bismarck City Employee Pension Fund	78.80	1.7%	14.56%	State Fire and Tornado Fund	29.22	0.6%	12.78%
Bismarck City Police Pension Fund	34.64	0.7%	15.27%	State Bonding Fund	3.27	0.1%	4.06%
Job Service of North Dakota	97.83	2.1%	13.54%	Petroleum Tank Release Fund	7.09	0.2%	3.68%
City of Fargo Pension Fund	0.01	0.0%	8.42%	Insurance Regulatory Trust Fund	1.15	0.0%	9.88%
City of Grand Forks Pension Fund	57.90	1.2%	16.33%	State Risk Management Fund	6.95	0.1%	12.29%
Grand Forks Park District Pension Fund	5.94	0.1%	16.44%	State Risk Management Workers Comp	5.97	0.1%	13.68%
Subtotal Pension Pool Participants	\$4,669.55	100.0%		Cultural Endowment Fund	0.36	0.0%	16.94%
				Budget Stabilization Fund	586.20	12.6%	1.94%
<b>INDIVIDUAL INVESTMENT ACCOUNT</b>				ND Assoc. of Counties (NDACo) Fund	3.45	0.1%	11.61%
Retiree Health Insurance Credit Fund	\$90.36		16.53%	City of Bismarck Deferred Sick Leave	0.85	0.0%	12.32%
				PERS Group Insurance	37.43	0.8%	0.00%
				State Board of Medical Examiners	1.89	0.0%	*
				City of Fargo FargoDome Permanent Fund	41.78	0.9%	16.34%
				Subtotal Insurance Pool Participants	4,645.53	100.0%	
<b>TOTAL ASSETS UNDER MANAGEMENT</b>					<b>\$9,405.43</b>		

Columns may not foot due to rounding.

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 City of Fargo Employees pension plan withdrew the bulk of their assets from the SIB in December 2013. Their balance at June 30, 2014, represents residual cash needed to pay final expenses.

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.
- 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 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.
- The State Board of Medical Examiners Fund joined the pool in April, 2014.

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 trustees, Rob Lech and Mel Olson, to the Board on July 1, 2013.
- Completed implementation of TFFR funding improvement legislation approved in 2011 which resulted in 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; updating forms, policies, and procedures, and communicating and counseling members and employers regarding the impact of legislative changes.
- Developed joint plan to implement new Government Accounting Standards Board (GASB) pension accounting and financial reporting standards (GASB 67 and 68) with NDTFFR, NDPERS, and ND State Auditor's Office. The implementation plan includes working with TFFR and PERS plan actuaries and auditors to develop necessary financial information and note disclosures, and coordinate census data audits. Additionally, the team is creating a communications and training program to assist participating employers and auditors implement the new pension reporting requirements.

### SIB Investment Program

- Investment details by trust fund can be found in the Investment Section.
- Initiatives completed by the SIB during the year included:
  - ✓ Completed review of Global Equity portfolio in Pension Pool resulting in consolidation of mandates and managers.
  - ✓ Began 18 month implementation plan for Legacy Fund asset allocation. Plan remains on track for full implementation in January 2015.
  - ✓ Hired David Hunter to the position of Executive Director/CIO effective December 2, 2013.
  - ✓ Assisted Workforce Safety & Insurance Fund with asset/liability study and accepted new asset allocation with implementation expected in first quarter of FY2015.
  - ✓ Successfully renegotiated investment management fees throughout the year resulting in a decrease in overall investment fees for FY2014.

**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, 2013. This was the sixteenth 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 2014 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, 2014.

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

<b>Pension Trust Fund (TFFR)</b>	<b>June 30, 2014</b>	<b>June 30, 2013</b>	<b>Incr/(Decr) \$</b>	<b>Incr/(Decr) %</b>
<b>Additions</b>	\$ 415,238,417	\$ 336,054,657	\$ 79,183,760	23.6%
<b>Deductions</b>	163,845,321	150,620,356	13,224,965	8.8%
<b>Net Change</b>	\$ 251,393,096	\$ 185,434,301	\$ 65,958,795	35.6%

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, 2014	June 30, 2013	Incr/(Decr) \$	Incr/(Decr) %
<b>Additions</b>	\$ 693,270,246	\$ 417,581,039	\$ 275,689,207	66.0%
<b>Deductions</b>	693,895	558,744	\$ 135,151	24.2%
<b>Net Change in Units</b>	1,009,598,872	818,478,735	\$ 191,120,137	23.4%
<b>Net Change</b>	\$ 1,702,175,223	\$ 1,235,501,030	\$ 466,674,193	37.8%

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 filling the Executive Director/CIO position that had been vacant for 18 months.

**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 is scheduled to increase from 9.75% to 11.75% effective July 1, 2014. The employer rate is scheduled to increase from 10.75% 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 29 years beginning July 1, 2014, although at any given time the statutory rates may be insufficient.

In order to determine the adequacy of the 12.75% statutory employer contribution rate, it is compared to the actuarially determined contribution (ADC). The ADC is equal to the sum of the employer normal cost rate, and the level percentage of pay required to amortize the UAAL over a closed 30-year period that began July 1, 2013 (29 years remaining as of July 1, 2014). As of July 1, 2014, the ADC is 11.57%, compared to 10.26% last year. This is less than the 12.75% rate currently required by law, so statutory contributions are sufficient.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at July 1, 2013, was 58.8%, while it is 61.8% as of July 1, 2014. Based on market values rather than actuarial values of assets, the funded ratio increased to 66.6 %, compared to 61.4% last year.

The plan had a net asset gain of \$151 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 FY2011, FY2013 and FY2014 offset by an asset loss in FY2012. 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, 2014 (in millions)	July 1, 2013 (in millions)
Actuarial value of assets	\$ 1,940.5	\$ 1,762.3
Unfunded actuarial accrued liability	1,198.3	1,234.8
Funded ratio	61.8%	58.8%

**FINANCIAL REPORTING FOR PENSIONS**

New Government Accounting Standards for accounting and financial reporting of pension liabilities became effective in FY 2014 (GASB 67). The new GASB rules only redefine pension liability and expense for financial reporting purposes, and do not apply to contribution amounts for actual pension funding purposes.

The following table summarizes the components of the net pension liability of TFFR. A detailed discussion is provided in the Financial Section of this report.

	July 1, 2014 (in millions)	July 1, 2013 (in millions)
Total pension liability (TPL)	\$ 3,138.8	\$ 2,997.1
Plan fiduciary net position (FNP)	2,091.0	1,839.6
Net pension liability (NPL)	1,047.8	1,157.5
Plan FNP as % of TPL	66.6%	61.4%

**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 fund’s policy is determined by the individual fund’s governing body 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,



DAVID HUNTER  
Executive Director/  
Chief Investment Officer



FAY KOPP  
Deputy Executive Director/  
Chief Retirement Officer



CONNIE L. FLANAGAN  
Fiscal & Investment Operations Mgr

## NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE As of June 30, 2014

### 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



**David Hunter**  
*Executive Director  
Chief Investment Officer*



**Fay Kopp**  
*Deputy Executive Director/  
Chief Retirement Officer*



**Darren Schulz, CFA**  
*Deputy CIO*

### Supervisory Staff

**Connie L. Flanagan**  
*Fiscal Management*

**Shelly Schumacher**  
*Retirement Services*

**Vacant**  
*Audit Services*

**Bonnie Heit**  
*Administrative Services*

**Richard Nagel**  
*Information Services*

## NORTH DAKOTA STATE INVESTMENT BOARD Board Members as of June 30, 2014

### Investment Program

#### *Investment Process*

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

Asset allocation targets:

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

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

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



**Drew Wrigley**  
*Chair*  
*Lt. Governor*



**Mike Sandal**  
*Vice Chair*  
*PERS Trustee*



**Kelly Schmidt**  
*State Treasurer*



**Adam Hamm**  
*State Insurance*  
*Commissioner*



**Cindy Ternes, CPA**  
*Workforce Safety &*  
*Insurance Designee*



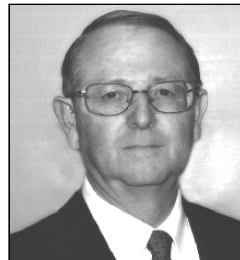
**Lance Gaebe**  
*University and*  
*School Land*  
*Commissioner*



**Rob Lech**  
*TFFR Trustee*



**Mike Gessner**  
*TFFR Trustee*



**Clarence Corneil**  
*TFFR Trustee*



**Howard Sage**  
*PERS Trustee*



**Tom Trenbeath**  
*PERS Trustee*

## NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT Board of Trustees as of June 30, 2014

### 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.



**Mike Gessner**  
*President*  
*(active teacher)*



**Clarence Corneil**  
*Vice President*  
*(retired member)*



**Kim Franz**  
*Trustee*  
*(active teacher)*



**Rob Lech**  
*Trustee*  
*(active administrator)*



**Mel Olson**  
*Trustee*  
*(retired member)*



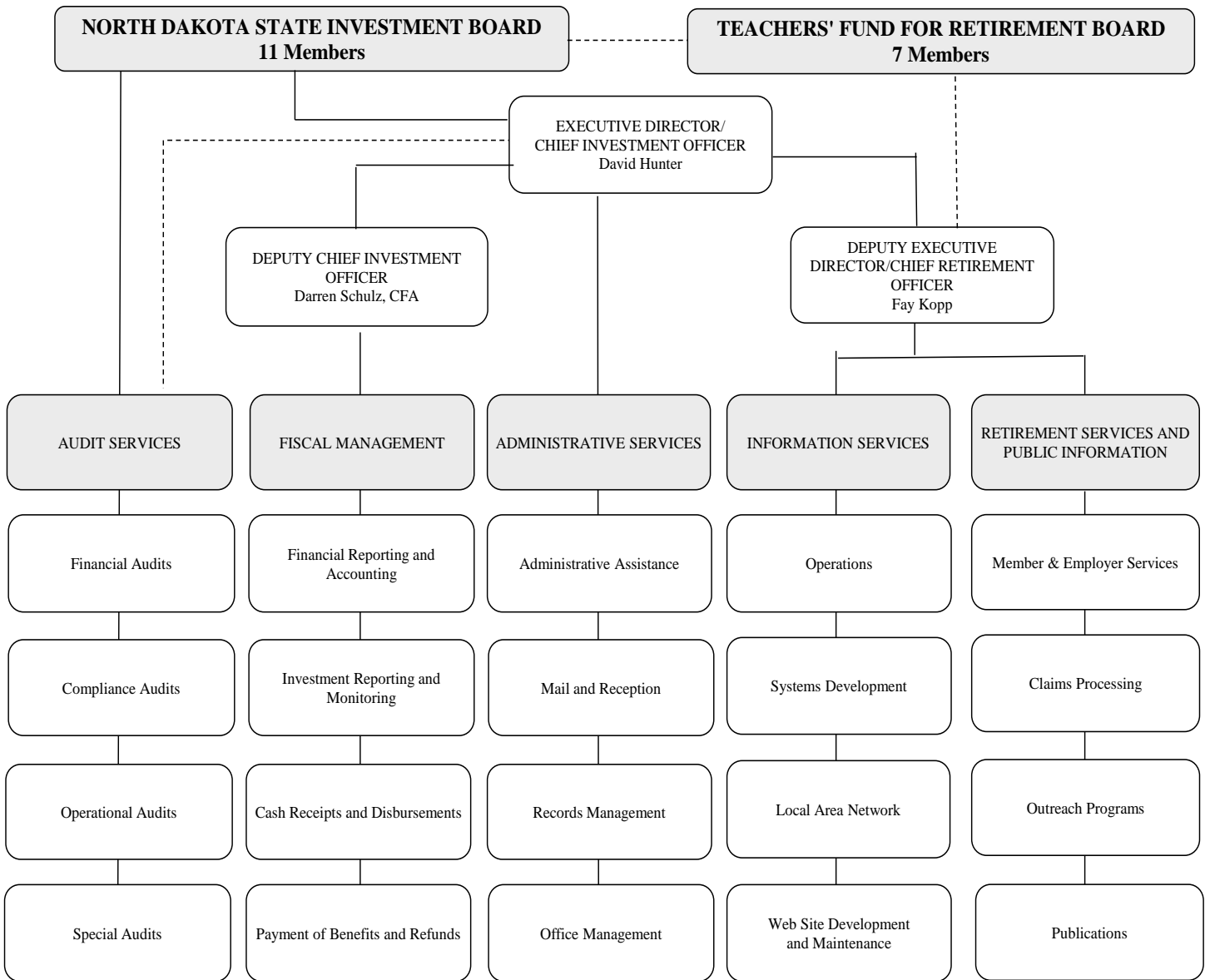
**Kelly Schmidt**  
*State Treasurer*



**Kirsten Baisler**  
*State Superintendent*  
*of Public Instruction*



**NORTH DAKOTA RETIREMENT AND INVESTMENT OFFICE**  
**ADMINISTRATIVE ORGANIZATION**  
**JUNE 30, 2014**



*See page 76 in the Investment Section for a summary of fees paid to investment professionals and pages 168-172 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, 2014**

**Actuary**

The Segal Company  
Chicago, Illinois

**Auditor**

CliftonLarsonAllen LLP  
Baltimore, Maryland

**Legal Counsel**

North Dakota Attorney General's  
Office  
Bismarck, North Dakota

K&L Gates  
Boston, Massachusetts

**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

Callan Associates  
San Francisco, California

Capital Guardian Trust Company  
Los Angeles, California

Coral Partners, Inc.  
Minneapolis, Minnesota

Corsair Capital  
New York, New York

**Investment Managers (cont.)**

Grosvenor  
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 Asset Management  
Chicago, Illinois

Parametric Portfolio Associates  
DBA The Clifton Group  
Minneapolis, Minnesota

PIMCO  
Newport Beach, California

Prudential Investment Management  
Newark, New Jersey

Quantum Energy Partners  
Houston, Texas

Quantum Resources Mgmt, LLC  
Denver, Colorado

**Investment Managers (cont.)**

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, 2013**

A handwritten signature in black ink, reading "Jeffrey R. Emer".

Executive Director/CEO



Public Pension Coordinating Council

**Public Pension Standards Award  
For Funding and Administration  
2014**

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)

A handwritten signature in cursive script that reads "Alan H. Winkle".

Alan H. Winkle  
Program Administrator



# **FINANCIAL SECTION**



CliftonLarsonAllen LLP  
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**Independent Auditors' Report**

Governor Jack Dalrymple  
The Legislative Assembly  
David Hunter, Executive Director/CIO  
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 statements of net position – fiduciary funds as of June 30, 2014 and 2013, and the related statements of changes in net position – fiduciary funds 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, 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.



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***Emphasis of Matter***

As discussed in Note 1, the financial statements of 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 RIO. They do not purport to, and do not, present fairly the financial position of State of North Dakota as of June 30, 2014 and 2013, 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 changes in net pension liability and related ratios, employer contributions and investment returns and related notes, as listed in 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 audit was 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 November 11, 2014, 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

Baltimore, Maryland  
November 11, 2014

North Dakota Retirement and Investment Office  
Management's Discussion and Analysis  
June 30, 2014 and 2013

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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, 2014. 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 24 investment clients in two investment pools and one individual investment account.

### **Financial Highlights**

Total net position increased in the fiduciary funds by \$1.95 billion or 26.1% 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 \$907.2 million during the fiscal year.

Additions in the fiduciary funds for the year increased \$354.9 million from the previous year. Net investment income increased by \$349.7 million and total contributions increased \$5.1 million.

Deductions in the fiduciary funds increased over the prior year by \$13.4 million or 8.8%. 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 on which the benefits of new retirees are based.

The TFFR funding objective is to achieve long-term full funding of the cost of benefits provided by TFFR. As of July 1, 2014, the TFFR pension plan had a Net Pension Liability (NPL) of \$1.0 billion and Plan Fiduciary Net Position as a percent of Total Pension Liability (TPL) of 66.6%.

### **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, 2014 and 2013

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**Financial Analysis**

RIO's fiduciary fund total assets as of June 30, 2014, were \$9.4 billion and were comprised mainly of investments. Total assets increased by nearly \$2 billion or 26.2% from the prior year primarily due to the growth of the Legacy Fund and strong financial markets.

Total liabilities as of June 30, 2014, were \$11 million and were comprised mostly of investment expenses payable. Total liabilities increased by \$3.2 million or 41.9% from the prior year due mainly to an increase in investment expenses payable at June 30, 2014, caused by the timing of the payment of those expenses.

RIO's fiduciary fund total net position was \$9.4 billion at the close of fiscal year 2014.

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

	<u>2014</u>	<u>2013</u>	<u>Total % Change</u>
<b>Assets</b>			
Investments	\$ 9,374	\$ 7,422	26.3%
Receivables	48	44	9.2%
Cash & Other	17	16	5.9%
<b>Total Assets</b>	<u>9,439</u>	<u>7,482</u>	26.2%
<b>Liabilities</b>			
Accounts Payable	11	7	41.9%
<b>Total Liabilities</b>	<u>11</u>	<u>7</u>	41.9%
<b>Total Net Position</b>	<u>\$ 9,428</u>	<u>\$ 7,475</u>	26.1%

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

North Dakota Retirement and Investment Office  
 Management's Discussion and Analysis  
 June 30, 2014 and 2013

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

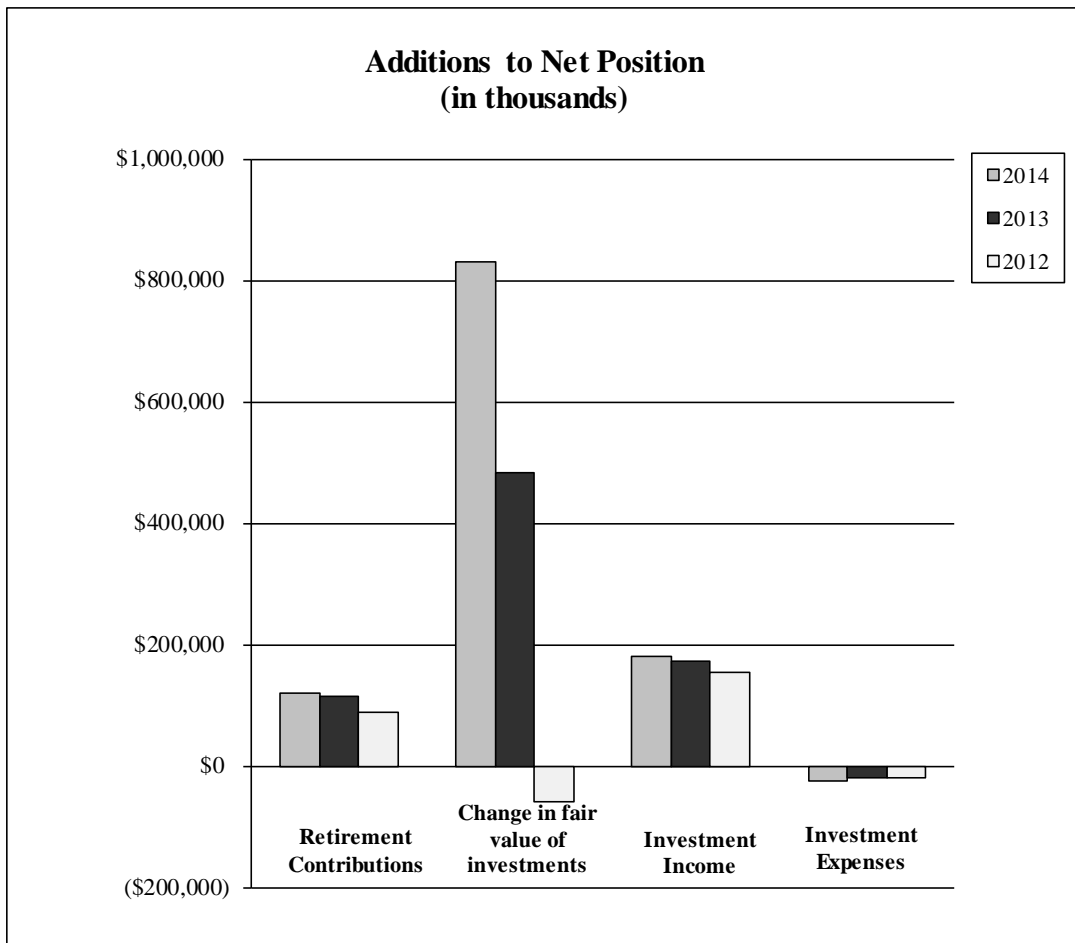
	<u>2014</u>	<u>2013</u>	<u>Total % Change</u>
<b>Additions:</b>			
Contributions	\$ 121	\$ 116	4.4%
Investment Income	988	638	54.8%
<b>Total Additions</b>	<u>1,109</u>	<u>754</u>	47.1%
<b>Deductions</b>	165	151	8.8%
<b>Net change from unit transactions</b>	<u>1,010</u>	<u>818</u>	23.4%
<b>Total change in net position</b>	<u><u>\$ 1,954</u></u>	<u><u>\$ 1,421</u></u>	37.5%

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

North Dakota Retirement and Investment Office  
 Management’s Discussion and Analysis  
 June 30, 2014 and 2013

**Statement of Changes in Net Position – Additions**

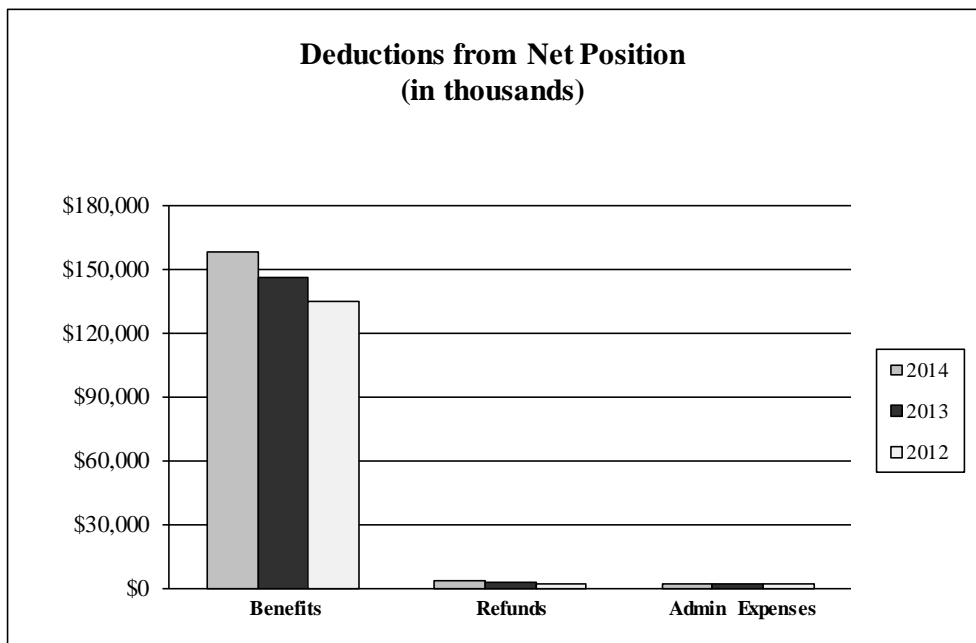
Contributions and net investment income are the two components of the fiduciary fund additions. Contributions collected by the pension trust fund increased by \$5.1 million or 4.4% over the previous fiscal year. There was no contribution rate increase in FY2014 so the increase is due solely to an increase in the salaries on which the contributions are collected. Net investment income (net of investment expenses) increased by \$349.7 million or 54.8% from last year. This was the result of strong 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 \$12.4 million or 8.5% during the fiscal year ended June 30, 2014. 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 in fiscal year 2014 by \$0.9 million or 28.0%.

Administrative expenses increased by \$97,558 or 4.5%. This increase over the previous year’s administrative expenses is due to the filling of the Executive Director/CIO position in December 2013. That position had been vacant since May 2012.



**Conclusion**

As consistent with the prior fiscal year, financial markets performed well. 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, 2014 and 2013

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To address TFFR's funding shortfall, the ND State Legislature took action in 2011 and approved legislation to increase 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. Benefit changes for non-grandfathered employees became effective July 1, 2013. The final phase of rate increases will go into effect on July 1, 2014 with 2% member and 2% employer contribution increases. Increased contribution rates will be in effect until TFFR reaches 100% funding on an actuarial basis. This comprehensive funding recovery plan, along with solid investment performance in the future, is expected to improve TFFR's funding level over the long term. As of July 1, 2014 TFFR's funding level was 61.8% on an actuarial basis, and is projected to reach 100% within 30 years. 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, 2014 and 2013

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Assets:				
Investments, at fair value				
Equities	\$ -	\$ -	\$ 55,112,752	\$ 43,854,432
Equity pool	1,089,067,377	951,272,867	2,787,747,097	1,543,210,098
Fixed income	-	-	533,078,401	1,611,285,649
Fixed income pool	478,677,486	392,807,091	3,083,559,151	1,692,041,813
Real assets pool	369,078,739	340,442,941	645,467,366	516,202,669
Private equity pool	97,357,862	94,185,760	114,064,794	111,364,820
Cash pool	20,045,640	24,369,601	100,251,550	100,765,983
Total investments	<u>2,054,227,104</u>	<u>1,803,078,260</u>	<u>7,319,281,111</u>	<u>5,618,725,464</u>
Receivables:				
Investment income	7,457,808	7,657,195	24,467,745	20,787,440
Contributions	16,233,852	15,648,020	-	-
Miscellaneous	4,362	5,172	11,316	12,752
Total receivables	<u>23,696,022</u>	<u>23,310,387</u>	<u>24,479,061</u>	<u>20,800,192</u>
Due from other state agency	-	616	-	-
Cash and cash equivalents	17,012,740	16,044,045	145,652	159,403
Total assets	<u>2,094,935,866</u>	<u>1,842,433,308</u>	<u>7,343,905,824</u>	<u>5,639,685,059</u>
Liabilities:				
Accounts payable	58,356	69,417	39,232	50,916
Investment expenses payable	3,262,454	2,113,717	6,599,159	4,549,821
Accrued expenses	631,740	658,494	70,572	60,040
Miscellaneous payable	-	-	14,804	17,382
Due to other state agencies	6,260	7,720	1,169	1,235
Total liabilities	<u>3,958,810</u>	<u>2,849,348</u>	<u>6,724,936</u>	<u>4,679,394</u>
Net position:				
Held in trust for pension benefits	2,090,977,056	1,839,583,960	-	-
Held in trust for external investment pool participants:				
Pension pool	-	-	2,603,764,672	2,276,983,263
Insurance pool	-	-	4,643,121,726	3,284,399,099
Held in trust for individual investment account	-	-	90,294,490	73,623,303
Total net position	<u>\$ 2,090,977,056</u>	<u>\$ 1,839,583,960</u>	<u>\$ 7,337,180,888</u>	<u>\$ 5,635,005,665</u>
Each participant unit is valued at \$1.00				
Participant units outstanding			7,337,180,888	5,635,005,665

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, 2014 and 2013**

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
<b>Additions:</b>				
<b>Contributions:</b>				
Employer contributions	\$ 62,355,146	\$ 59,300,720	\$ -	\$ -
Member contributions	56,554,767	53,784,461	-	-
Purchased service credit	2,034,289	2,641,019	-	-
Interest, penalties and other	47,766	123,148	-	-
Total contributions	<u>120,991,968</u>	<u>115,849,348</u>	<u>-</u>	<u>-</u>
<b>Investment income:</b>				
Net change in fair value of investments	264,759,565	185,196,374	567,151,376	299,338,412
Interest, dividends and other income	36,744,024	41,018,935	144,142,458	132,358,789
	<u>301,503,589</u>	<u>226,215,309</u>	<u>711,293,834</u>	<u>431,697,201</u>
Less investment expenses	7,257,140	6,010,000	18,023,588	14,116,162
Net investment income	<u>294,246,449</u>	<u>220,205,309</u>	<u>693,270,246</u>	<u>417,581,039</u>
Total additions	<u>415,238,417</u>	<u>336,054,657</u>	<u>693,270,246</u>	<u>417,581,039</u>
<b>Deductions:</b>				
Benefits paid to participants	157,529,892	145,079,333	-	-
Partial lump-sum distributions	820,463	863,990	-	-
Refunds	3,908,921	3,053,395	-	-
Administrative expenses	1,586,045	1,623,638	693,895	558,744
Total deductions	<u>163,845,321</u>	<u>150,620,356</u>	<u>693,895</u>	<u>558,744</u>
Net change in net position resulting from operations	<u>251,393,096</u>	<u>185,434,301</u>	<u>692,576,351</u>	<u>417,022,295</u>
<b>Unit transactions at net position value of \$1.00 per unit:</b>				
Purchase of units	-	-	1,360,499,546	1,053,337,604
Redemption of units	-	-	(350,900,674)	(234,858,869)
Net change in position and units resulting from unit transactions	<u>-</u>	<u>-</u>	<u>1,009,598,872</u>	<u>818,478,735</u>
Total change in net position	<u>251,393,096</u>	<u>185,434,301</u>	<u>1,702,175,223</u>	<u>1,235,501,030</u>
<b>Net position:</b>				
Beginning of year	<u>1,839,583,960</u>	<u>\$ 1,654,149,659</u>	<u>\$ 5,635,005,665</u>	<u>\$ 4,399,504,635</u>
End of Year	<u>\$ 2,090,977,056</u>	<u>\$ 1,839,583,960</u>	<u>\$ 7,337,180,888</u>	<u>\$ 5,635,005,665</u>

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

North Dakota Retirement and Investment Office  
Notes to Combined Financial Statements  
Years Ended June 30, 2014 and 2013

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**Note 1 - Summary of Significant Accounting Policies**

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 accounted for within the pension and investment trust funds and are shown, by fund, 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.

**Reclassification**

Certain 2013 amounts have been reclassified in conformity with the 2014 presentation. These reclassifications had no effect on net position or changes therein.

**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, ND State Board of Medical Examiners, 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.



## North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

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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.

North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

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**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:

	<u>Years</u>
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.

North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

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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 \$130,567 and \$147,115 at June 30, 2014 and 2013, respectively. The current portions of accrued leave amounted to \$80,686 and \$71,864 at June 30, 2014 and 2013, 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, 2014 and 2013 consisted of the following:

Balance, July 1, 2012	\$ 136,458
Additions	94,877
Deductions	<u>(84,220)</u>
Balance, June 30, 2013	147,115
Additions	91,844
Deductions	<u>(108,392)</u>
Balance, June 30, 2014	<u><u>\$ 130,567</u></u>

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Notes to Combined Financial Statements  
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**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, 2014 and 2013 were deposited in the Bank of North Dakota. At June 30, 2014 and 2013, the carrying amount of TFFR’s deposits was \$17,012,740 and \$16,044,045, respectively, and the bank balance was \$17,015,906 and \$16,055,352 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 (cash pool as of June 30, 2013 only) are recorded as investments and have a cost and carrying value of \$106,948,787 and \$188,293,365 at June 30, 2014 and 2013, respectively. In addition these funds carry cash and cash equivalents totaling \$145,652 and \$159,403 at June 30, 2014 and 2013, 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.

**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.

North Dakota Retirement and Investment Office  
Notes to Combined Financial Statements  
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At June 30, 2014 and 2013, the following tables show the investments by investment type and maturity (expressed in thousands).

2014	Total Fair Value	Less than 1 Year	1-6 Years	6-10 Years	More than 10 Years
Asset Backed Securities	\$ 176,669	\$ 284	\$ 70,094	\$ 20,166	\$ 86,125
Bank Loans	5,064	-	2,364	2,700	-
Collateralized Bonds	-	-	-	-	-
Commercial Mortgage-Backed	99,632	-	971	534	98,127
Commercial Paper	94,092	94,092	-	-	-
Corporate Bonds	1,091,736	48,549	543,307	254,173	245,707
Corporate Convertible Bonds	23,368	2,237	11,021	3,176	6,934
Government Agencies	114,149	7,696	92,328	3,027	11,098
Government Bonds	555,494	110,533	245,140	117,872	81,949
Gov't Mortgage Backed and CMB	555,576	-	6,919	12,327	536,330
Repurchase Agreements	21,700	21,700	-	-	-
Index Linked Government Bonds	7,854	1,663	-	5,109	1,082
Municipal/Provincial Bonds	25,393	1,813	1,795	2,002	19,783
Non-Government Backed CMOs	35,264	-	3,587	3,312	28,365
Other Fixed Income	13,191	1,926	11,265	-	-
Short Term Bills and Notes	58,075	58,075	-	-	-
Funds/Pooled Investments	1,312,173	4,223	228,429	689,626	389,895
<b>Total Debt Securities</b>	<b>\$ 4,189,430</b>	<b>\$ 352,791</b>	<b>\$ 1,217,220</b>	<b>\$ 1,114,024</b>	<b>\$ 1,505,395</b>

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
<b>Total Debt Securities</b>	<b>\$ 3,637,919</b>	<b>\$ 572,346</b>	<b>\$ 1,573,278</b>	<b>\$ 347,465</b>	<b>\$ 1,144,830</b>

North Dakota Retirement and Investment Office  
Notes to Combined Financial Statements  
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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 \$6.6 million and \$4.2 million, and POs valued at \$3.3 million and \$3.4 million at June 30, 2014 and 2013 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, 2014 and 2013 (expressed in thousands).

2014	Total Fair Value	Credit Rating*											
		A-1	A-2	AAA	AA	A	BBB	BB	B	CCC	CC	C	D
Asset Backed Securities	\$ 176,669	\$ -	\$ -	\$ 91,996	\$ 33,423	\$ 23,358	\$ 13,390	\$ 2,085	\$ 2,789	\$ 8,881	\$ 285	\$ -	\$ 462
Bank Loans	5,064	-	-	-	-	-	745	3,169	1,150	-	-	-	-
Commercial Mortgage Backed	82,222	-	-	45,984	13,950	5,659	8,276	1,890	5,949	302	-	-	212
Commercial Paper	94,092	-	55,026	-	-	11,372	27,694	-	-	-	-	-	-
Corporate Bonds	1,091,736	-	-	4,268	38,299	230,481	597,349	156,864	42,974	21,107	-	-	394
Corporate Convertible Bonds	23,368	-	-	-	-	1,634	3,017	10,451	7,565	701	-	-	-
Gov't Agencies	109,616	-	-	4,682	94,785	4,413	5,736	-	-	-	-	-	-
Gov't Bonds	110,146	-	-	-	14,875	33,686	47,799	13,089	697	-	-	-	-
Gov't Issued Commercial & Gov't Mortgage Backed	395,225	-	-	-	395,225	-	-	-	-	-	-	-	-
Index Linked Bonds	169	-	-	-	-	169	-	-	-	-	-	-	-
Municipal/Provincial Bonds	25,393	-	-	6,161	6,089	8,292	4,434	417	-	-	-	-	-
Non-Gov't Backed CMOs	34,576	-	-	3,224	6,513	6,912	8,193	560	2,772	3,108	182	-	3,112
Other Fixed Income	13,191	-	-	974	8,211	488	3,277	241	-	-	-	-	-
Repurchase Agreements	21,700	-	-	21,700	-	-	-	-	-	-	-	-	-
Short Term Bills & Notes	56,219	-	-	-	49,394	5,438	500	-	887	-	-	-	-
Funds/Pooled Investments	1,312,173	-	-	362,413	368,683	361,285	18,038	22,714	19,107	-	-	159,933	-
<b>Total Credit Risk of Debt Securities</b>	<b>3,551,559</b>	<b>\$ -</b>	<b>\$ 55,026</b>	<b>\$541,402</b>	<b>\$ 1,029,447</b>	<b>\$693,187</b>	<b>\$738,448</b>	<b>\$211,480</b>	<b>\$83,890</b>	<b>\$34,099</b>	<b>\$ 467</b>	<b>\$159,933</b>	<b>\$ 4,180</b>
US Gov't & Agencies **	637,871												
<b>Total Debt Securities</b>	<b>\$ 4,189,430</b>												

**North Dakota Retirement and Investment Office**  
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2013	Total Fair Value	Credit Rating*												
		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	-	-
<b>Total Credit Risk of Debt Securities</b>	<b>3,132,462</b>	<b>\$ 14,692</b>	<b>\$ 311,259</b>	<b>\$ 402,363</b>	<b>\$ 1,051,803</b>	<b>\$ 342,596</b>	<b>\$ 586,854</b>	<b>\$ 130,660</b>	<b>\$ 64,674</b>	<b>\$ 25,675</b>	<b>\$ 2,297</b>	<b>\$ 196,618</b>	<b>\$ 512</b>	<b>\$ 2,459</b>
US Gov't & Agencies **	505,457													
<b>Total Debt Securities</b>	<b>\$ 3,637,919</b>													

- \* 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.

### Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of an investment in a single issuer. As of June 30, 2014 and 2013, the SIB's portfolio has no single issuer exposure that comprises 5% or more of the overall portfolio, excluding investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments. Therefore, there is no concentration of credit risk.

### 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, 2014 and 2013 (expressed in thousands).

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2014

Currency	Short-Term	Debt	Equity	Total
Australian dollar	\$ (5,730)	\$ 13,470	\$ 33,756	\$ 41,496
Brazilian real	(300)	8,533	7,204	15,437
British pound sterling	(128)	7,322	161,777	168,971
Canadian dollar	568	-	27,981	28,549
Chilean peso	9,453	1,051	-	10,504
Chinese yuan renminbi	380	-	-	380
Columbian peso	1	-	-	1
Czech koruna	2	-	1,491	1,493
Israeli shekel	57	-	3,121	3,178
Danish krone	(435)	-	6,918	6,483
Euro	(22,927)	20,730	246,579	244,382
Hong Kong dollar	152	-	38,146	38,298
Hungarian forint	50	4,188	1,325	5,563
Iceland krona	34	-	-	34
Indian rupee	377	-	-	377
Indonesian Rupiah	-	4,155	198	4,353
Japanese yen	(5,479)	576	156,421	151,518
Malaysian Ringgit	310	2,375	-	2,685
Mexican peso	2,735	25,359	-	28,094
New Zealand dollar	(2,657)	3,339	923	1,605
Norwegian krone	142	-	12,972	13,114
Peruvian nuevo sol	(56)	-	-	(56)
Philippine peso	-	2,209	-	2,209
Polish zloty	(4,162)	4,987	2,853	3,678
Russian ruble	359	-	-	359
Singapore dollar	355	-	6,904	7,259
South African rand	345	3,734	3,967	8,046
South Korean won	33	5,052	12,814	17,899
Swedish krona	(233)	-	19,287	19,054
Swiss franc	222	54	63,763	64,039
Thai baht	103	-	1,997	2,100
Turkish lira	288	1,529	1,483	3,300
International commingled funds (various currencies)	-	115,294	697,197	812,491
Total international investment securities	\$ (26,141)	\$ 223,957	\$ 1,509,077	\$ 1,706,893

Negative amounts represent short positions.



## North Dakota Retirement and Investment Office

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Years Ended June 30, 2014 and 2013

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

Negative amounts represent short positions.

## North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

**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, 2014 and 2013, 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 \$101.2 million for fiscal year 2014 and \$90.1 million for fiscal year 2013. At June 30, 2014 and 2013, the SIB investment portfolio had the notional futures balances shown below (expressed in thousands).

<u>Futures</u>	Notional Value	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash & Cash Equivalent Derivative Futures		
Long	\$ 35,663	\$ 180,058
Short	(511,036)	(165,105)
Equity Derivative Futures		
Long	486,293	478,996
Short	-	-
Fixed Income Derivative Futures		
Long	27,888	3,124
Short	(61,524)	(64,623)
	<u>\$ (22,716)</u>	<u>\$ 432,450</u>

**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 \$801,500 for fiscal year 2014 and \$43,000 for fiscal year 2013. At June 30, 2014 and 2013, the SIB investment portfolio had the following option balances (expressed in thousands).

North Dakota Retirement and Investment Office  
Notes to Combined Financial Statements  
Years Ended June 30, 2014 and 2013

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<u>Options</u>	Fair Value	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash & Other Options		
Call	\$ 988	\$ -
Put	(39)	-
Fixed Income Options		
Call	(170)	-
Put	(11)	-
Total Options	<u>\$ 768</u>	<u>\$ -</u>

### 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.

Currency risk represents the exposure to fair value losses arising from the change in price of one currency against another. A currency swap is a foreign-exchange agreement between two parties to exchange principal and interest in one currency for the same in another currency.

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 \$17 thousand for fiscal year 2014 and \$(933) thousand for fiscal year 2013. The maximum loss that would be recognized at June 30, 2014 and 2013, if all counterparties failed to perform as contracted is \$3.25 million and \$4.25 million respectively. Swap fair values are determined by a third party pricing source. At June 30, 2014 and 2013, 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, 2014	June 30, 2013		June 30, 2014	June 30, 2013
Bank of America/A2	\$ -	\$ 1,560	12/20/2017	\$ -	\$ 6
Bank of America/A2	(500)	-	6/20/2019	(7)	-
Barclays/A2 (6 contracts)	(1,400)	-	6/20/2019	35	-
BNP Paribas/A2 (2 contracts)	(800)	-	6/20/2019	(25)	-
Citibank/A3	(100)	-	6/20/2016	(7)	-
Citibank/A3 (2 contracts)	(5,800)	-	12/20/2017	80	-
Citibank/A3	(400)	-	6/20/2019	(9)	-
Citigroup Global Markets/A1	(6,500)	-	12/20/2018	142	-
Credit Suisse First Boston/A1	(11,200)	-	12/20/2017	243	-
Credit Suisse First Boston/A1 (8 contracts)	(2,793)	-	6/20/2019	104	-
Credit Suisse International/A1	240	240	12/20/2016	(18)	(15)
Credit Suisse International/A1	(400)	-	9/20/2018	3	-
Credit Suisse International/A1	(400)	-	6/20/2019	11	-
Deutsche Bank/A2	-	120	9/20/2013	-	-
Deutsche Bank/A2 (3 contracts)	2,160	2,160	12/20/2016	(167)	(135)
Deutsche Bank/A2 (2 contracts)	2,400	3,120	6/20/2017	(62)	2
Deutsche Bank/A2 (3 contracts)	-	(1,690)	12/20/2017	-	40
Deutsche Bank/A2 (2 contracts)	(700)	-	6/20/2019	18	-
Goldman Sachs/A3 (5 contracts)	(4,900)	-	6/20/2019	30	-
HSBC Bank/A1 (3 contracts)	(4,000)	-	6/20/2019	49	-
HSBC Bank/A1	(450)	-	9/20/2019	(17)	-
JP Morgan Chase/Aa3	400	400	3/20/2017	-	-
JP Morgan Chase/Aa3 (4 contracts)	-	12,700	6/20/2017	-	(140)
JP Morgan Chase/Aa3 (2 contracts)	-	4,400	12/20/2017	-	(46)
JP Morgan Chase/Aa3	6,500	-	12/20/2018	(142)	-
JP Morgan Chase/Aa3	(600)	-	3/20/2019	117	-
JP Morgan Chase/Aa3 (5 contracts)	(2,100)	-	6/20/2019	103	-
JP Morgan Chase/Aa3 (4 contracts)	12	30	10/12/2052	-	1
<b>Total Credit Default Swaps</b>	<b>\$ (31,331)</b>	<b>\$ 23,040</b>		<b>\$ 481</b>	<b>\$ (287)</b>

The notional amount may be positive or negative, depending on whether the position is long or short, respectively.

**Currency Swaps**

Counterparty/Moody's Rating	Notional Amount		Expiration Date	Fair Value	
	June 30, 2014	June 30, 2013		June 30, 2014	June 30, 2013
Barclays/A2	\$ 310	\$ -	7/22/2018	\$ (7)	\$ -
Barclays/A2	330	-	7/23/2018	(8)	-
Citibank N.A. NY/A3	49	49	5/2/2015	2	-
Deutsche Bank London/A2	281	-	5/14/2017	(2)	-
HSBC Bank USA/A1	500	-	9/5/2015	11	-
<b>Total Currency Swaps</b>	<b>\$ 1,470</b>	<b>\$ 49</b>		<b>\$ (4)</b>	<b>\$ -</b>

The notional amount may be positive or negative, depending on whether the position is long or short, respectively.

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**Interest Rate Swaps**

Counterparty	Notional Amount		Rate Range	Counterparty Rate	Expiration Date Range	Counterparty Rating (Moody's)	Fair Value	
	June 30, 2014	June 30, 2013					June 30, 2014	June 30, 2013
Bank of Nova Scotia	\$ (315)	\$ -	1.888%		10/2/2019	Aa2	\$ 8	\$ -
Bank of Nova Scotia (4 contracts)	-	(493)	0.751 - 1.355%	Various	8/2013 - 10/2019	Aa2	-	34
Barclays (26 contracts)	2,029,119	-	0 - 7.42%	overnight bank	7/2014 - 12/2032	A2	(62)	-
Barclays (17 contracts)	-	5,986	0 - 7.42%	rates depending	7/2013 - 12/2032	A2	-	(125)
BNP Paribas	5,957	-	12.255%	on currency	1/2/2017	A2	103	-
Citibank (18 contracts)	3,626	-	0 - 4.845%		11/2014 - 5/2023	A3	317	-
Citibank (17 contracts)	-	(730)	0 - 4.42%		12/2014 - 12/2032	A3	-	(1)
Citigroup Global Markets (4 contracts)	(7,855)	-	0.56 - 2.49%		9/2015 - 8/2020	A1	(97)	-
Credit Suisse First Boston (26 contracts)	280,000	-	1.00 - 8.19%		9/2014 - 9/2044	A1	9	-
Credit Suisse First Boston (5 contracts)	-	1,785	0.689 - 7.25%		6/2018 - 5/2023	A1	-	(6)
Deutsche Bank (5 contracts)	268,701	-	0 - 6.54%		11/2018 - 10/2023	A2	37	-
Deutsche Bank (2 contracts)	-	670	1.96 - 3.12%		10/2013 - 1/2014	A2	-	(0)
Goldman Sachs (4 contracts)	(48,140)	-	1.755 - 6.3%		8/2018 - 4/2024	A3	(186)	-
Goldman Sachs (2 contracts)	-	233	0.52 - 1.4375%		4/19/2020	A3	-	3
HSBC Bank (6 contracts)	15,807	-	0 - 8.97%		6/2015 - 9/2033	A1	(218)	-
HSBC Bank (6 contracts)	-	2,277	0 - 2.965%		7/2013 - 1/2028	A1	-	54
JP Morgan Chase (22 contracts)	113,840	-	0.22 - 7.2%		9/2015 - 3/2044	Aa3	205	-
JP Morgan Chase (5 contracts)	-	206	0 - 4.74%		7/2013 - 8/2016	Aa3	-	(24)
Morgan Stanley (2 contracts)	7,400	-	5.08 - 6.37%		1/2015 - 5/2022	Baa1	18	-
Morgan Stanley (8 contracts)	-	(1,046)	0 - 6.37%		10/2013 - 5/2022	Baa1	-	(24)
<b>Total Interest Rate Swaps</b>	<b>\$ 2,668,140</b>	<b>\$ 8,888</b>					<b>\$ 135</b>	<b>\$ (89)</b>

The notional amount may be positive or negative, depending on whether the position is long (fixed rate payer) or short (floating rate payer), respectively.

## North Dakota Retirement and Investment Office

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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 (positive) or sell (negative) 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 \$2.2 million for fiscal year 2014 and \$0.2 million for fiscal year 2013. At June 30, 2014 and 2013, the SIB's investment portfolio included the currency forwards balances shown below (expressed in thousands).

Currency	Cost	Purchases	Sales	Fair Value	
				6/30/2014	6/30/2013
Australian dollar	\$ (6,188)	\$ 1,970	\$ (8,158)	\$ (6,290)	\$ (8,874)
Brazilian real	290	834	(544)	293	1,899
British pound sterling	(174)	933	(1,107)	(181)	8,074
Canadian dollar	637	1,895	(1,259)	643	98
Chilean peso	9,436	9,436	-	9,451	3,296
Chinese yuan renminbi	397	5,228	(4,830)	379	138
Colombian peso	(4)	460	(463)	-	101
Czech koruna	-	-	-	-	(2)
Euro	(23,914)	1,344	(25,258)	(23,813)	(23,087)
Hungarian forint	(49)	786	(835)	(55)	(35)
Indian rupee	380	380	-	377	4,605
Israeli shekel	(23)	-	(23)	(23)	-
Japanese yen	(5,855)	1,525	(7,380)	(5,890)	(345)
South Korean won	228	228	-	240	(4,225)
Malaysian ringgit	232	452	(220)	236	68
Mexican peso	(2,774)	3,404	(6,178)	(2,820)	317
New Zealand dollar	(2,633)	1,127	(3,761)	(2,653)	(2,694)
Norwegian krone	150	949	(799)	135	373
Peruvian nuevo sol	(55)	-	(56)	(56)	(61)
Polish zloty	(4,207)	873	(5,080)	(4,219)	66
Russian ruble	385	695	(311)	379	15
Singapore dollar	292	1,120	(827)	291	378
South African rand	77	956	(879)	80	-
Swedish krona	(4)	627	(631)	(6)	388
Swiss franc	(57)	-	(57)	(58)	-
Turkish lira	(267)	634	(901)	(287)	(395)
United States dollar	33,700	69,557	(35,857)	33,700	20,705
Total forwards subject to currency risk				\$ (147)	\$ 803

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**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, 2014 and 2013, the tables below show the SIB's derivative investments subject to interest rate risk (expressed in thousands).

**2014**

	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	<u>\$ (509,009)</u>	<u>\$ (454,788)</u>	<u>\$ (55,927)</u>	<u>\$ -</u>	<u>\$ 1,706</u>	<u>\$ -</u>

	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	\$ (166)	\$ (51)	\$ (115)	\$ -	\$ -	\$ -
Options - interest rate contracts	(15)	(15)	-	-	-	-
Swaps - interest rate contracts	135	27	18	10	(43)	123
Total	<u>\$ (46)</u>	<u>\$ (39)</u>	<u>\$ (97)</u>	<u>\$ 10</u>	<u>\$ (43)</u>	<u>\$ 123</u>

**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	<u>\$ (218,918)</u>	<u>\$ (38,025)</u>	<u>\$ (98,722)</u>	<u>\$ (89,857)</u>	<u>\$ 7,686</u>	<u>\$ -</u>

	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	<u>\$ (90)</u>	<u>\$ 22</u>	<u>\$ 10</u>	<u>\$ (31)</u>	<u>\$ (142)</u>	<u>\$ 51</u>

**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.

## North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

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**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.



## North Dakota Retirement and Investment Office

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**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.

**Note 4 - Capital Assets**

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2014</u>
Office equipment	\$19,321	\$ -	\$ -	\$19,321	\$ -	\$ -	\$19,321
Less accumulated depreciation on office equipment	(18,559)	(762)	-	(19,321)	-	-	(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)
	<u>\$762</u>			<u>\$0</u>			<u>\$0</u>

**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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Due To		
Information Technology Department	\$ 6,605	\$ 7,010
Office of Attorney General	468	1,035
Office of Management and Budget	281	910
University System	75	-
Total due to other state agencies	<u>\$ 7,429</u>	<u>\$ 8,955</u>
Due From		
Public Employees Retirement System	\$ -	\$ 616
Total due from other state agencies	<u>\$ -</u>	<u>\$ 616</u>

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.

North Dakota Retirement and Investment Office  
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**Note 6 - Operating Leases**

RIO leases office space under an operating lease effective July 1, 2013 through June 30, 2015. RIO also incurs rent expense at other locations on a temporary basis to sponsor retirement education for TFFR members. Rent expense totaled \$79,668 and \$77,948 for fiscal 2014 and 2013. Minimum payments under the lease for fiscal 2015 are \$78,467.

**Note 7 - Changes in Noncurrent Liabilities**

Changes in noncurrent liabilities for the years ended June 30, 2014 and 2013 are summarized as follows:

	Beginning Balance <u>7/1/2013</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>6/30/2014</u>	Amounts Due Within <u>One Year</u>
Accrued Leave	<u>\$147,115</u>	<u>\$91,844</u>	<u>(\$108,392)</u>	<u>\$130,567</u>	<u>\$80,686</u>
	Beginning Balance <u>7/1/2012</u>	<u>Additions</u>	<u>Reductions</u>	Ending Balance <u>6/30/2013</u>	Amounts Due Within <u>One Year</u>
Accrued Leave	<u>\$136,458</u>	<u>\$94,877</u>	<u>(\$84,220)</u>	<u>\$147,115</u>	<u>\$71,864</u>

Pension and Investment Trust Funds liquidate the accrued annual leave.

**Note 8 - North Dakota Teachers' Fund for Retirement**

**Administration**

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.

Responsibility for administration of the TFFR benefits program is assigned to a seven-member Board of Trustees (Board). The Board consists of the State Treasurer, the Superintendent of Public Instruction, and five members appointed by the Governor. The appointed members serve five-year terms which end on June 30 of alternate years. The appointed Board members must include two active teachers, one active school administrator, and two retired members. The TFFR Board submits any necessary or desirable changes in statutes relating to the administration of the fund, including benefit terms, to the Legislative Assembly for consideration. The Legislative Assembly has final authority for changes to benefit terms and contribution rates.

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**Membership**

As of June 30, 2014 and 2013, the number of participating employer units was 219 and 220, respectively, consisting of the following:

	2014	2013
Public School Districts	178	179
County Superintendents	7	7
Special Education Units	19	19
Vocational Education Units	5	5
Other	10	10
<b>Total</b>	<b>219</b>	<b>220</b>

TFFR’s membership consisted of the following:

	2014	2013
Retirees and beneficiaries currently receiving benefits	7,747	7,489
Terminated employees - vested	1,509	1,500
Terminated employees - nonvested	661	563
<b>Total</b>	<b>9,917</b>	<b>9,552</b>
Current employees		
Vested	7,406	7,465
Nonvested	2,899	2,673
<b>Total</b>	<b>10,305</b>	<b>10,138</b>

**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.

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**Pension Benefits**

For purposes of determining pension benefits, members are classified within one of three categories. Tier 1 grandfathered and Tier 1 non-grandfathered members are those with service credit on file as of July 1, 2008. Tier 2 members are those newly employed and returning refunded members on or after July 1, 2008.

***Tier 1 Grandfathered***

A Tier 1 grandfathered 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 1 Non-grandfathered***

A Tier 1 non-grandfathered 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 has reached age 60 and 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 8% per year from the earlier of age 60/Rule of 90 or age 65. 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 has reached age 60 and 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 8% per year from the earlier of age 60/Rule of 90 or age 65. In either case, benefits may not exceed the maximum benefits specified in Section 415 of the Internal Revenue Code.

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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 five years 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 uses the member's actual years of credited service. There is no actuarial reduction for reason of disability retirement.

### Investment Policy

The TFFR Board is responsible for establishing investment policy for the fund assets under NDCC 15-39.1-05.2. 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. The following was the TFFR Board's adopted asset allocation policy as of June 30, 2014 and 2013.

Asset Class	Target Allocation
Global Equity	57.0%
Global Fixed Income	22.0%
Global Real Assets	20.0%
Cash Equivalents	1.0%
Total	100.0%

Private equity is included in the Global Equity asset class.

### Investment Rate of Return

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 16.35% and 13.60% for the years ended June 30, 2014 and 2013, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

**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, 2014 and 2013, TFFR had net realized gains of \$129,815,358 and \$73,604,646 respectively.

**Net Pension Liability**

The components of the net pension liability of TFFR at June 30, 2014 and 2013, were as follows:

	June 30, 2014	June 30, 2013
Total pension liability	3,138,799,773	2,997,139,087
Plan fiduciary net position	<u>(2,090,977,056)</u>	<u>(1,839,583,960)</u>
Net pension liability (NPL)	<u>1,047,822,717</u>	<u>1,157,555,127</u>
Plan fiduciary net position as a percentage of the total pension liability	66.6%	61.4%

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of July 1, 2014 and 2013, using the following actuarial assumptions:

Valuation date	July 1, 2014	July 1, 2013
Inflation	3.00%	3.00%
Salary increases	4.50% to 14.75%; varying by service, including inflation and productivity	4.50% to 14.75%; varying by service, including inflation and productivity
Cost of living adjustments	None	None
Investment rate of return	8% net of pension plan investment expense	8% net of pension plan investment expense

**Mortality rates were based on the following:**

For active members, mortality rates were based on the post-retirement mortality rates multiplied by 60% for males and 40% for females. For inactive members and healthy retirees, mortality rates were based on 80% of GRS Table 378 and 75% of GRS Table 379. For disabled retirees, mortality rates were based on the RP-2000 Disabled-Life tables for Males and Females multiplied by 80% and 95% respectively.

The actuarial assumptions used in the July 1, 2014 and 2013 valuations were based on the results of an actuarial experience study dated January 21, 2010, for the period July 1, 2004 – June 30, 2009. An actuarial experience study is generally conducted every five years.

The long-term expected rate of return on TFFR investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the TFFR target asset allocation as of June 30, 2014 (see the discussion of TFFR investment policy) are summarized in the following table:

## North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	7.5%
Global Fixed Income	1.4%
Global Real Assets	5.4%
Cash Equivalents	0.0%

**Discount Rate**

The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that member and employer contributions will be made at rates equal to those based on the July 1, 2014 Actuarial Valuation Report. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, TFFR's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members as of July 1, 2014. Therefore, the long-term expected rate of return on TFFR investments was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

**Sensitivity of Net Pension Liability**

The following presents the net pension liability of the TFFR employers calculated using the discount rate of 8 percent, as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

2014	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	\$ 1,414,755,083	\$ 1,047,822,717	\$ 739,221,908
2013	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
Employers' net pension liability	\$ 1,511,142,356	\$ 1,157,555,127	\$ 860,669,595

## North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

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**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, 2014) is 11.12% of annual covered payroll as established by the NDCC. Prior to that date the contribution rate was 10.12% (as of January 1, 2013), 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, 2014, 2013, and 2012, were \$128,657, \$108,353 and \$102,664, 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, 2014, committed to fund certain alternative investment partnerships in the amount of \$982.4 million. Funding of \$741.7 million has been provided leaving an unfunded commitment of approximately \$240.7 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



## North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

Years Ended June 30, 2014 and 2013

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, which represents approximately 89% of its remaining cost basis with WGTC. 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. The receiver has also indicated that it intends to make a third distribution to the investors. While future additional distributions are possible, the amount of any additional distributions to the SIB will likely be small as compared to the initial 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	<u>\$ 63,931</u>	<u>\$ 3,138</u>	<u>\$ 75,270</u>	<u>\$ (8,201)</u>

North Dakota Retirement and Investment Office

Notes to Combined Financial Statements

June 30, 2014 and 2013

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*Tribune Company*

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.

On February 23, 2012, the MDL Court entered an order appointing co-interim liaison defense counsel and a subset of six lead liaison counsel representing the various groups of defendants (the “Defense Executive Committee”). On November 6, 2012, the Defense Executive Committee submitted a “Phase One” Motion to Dismiss on behalf of all defendants in the State Court Actions. On September 23, 2013, the MDL Court granted the motion, and dismissed the State Court Actions. Both the plaintiffs in the State Court Actions and the Defense Executive Committee have appealed the MDL Court order and judgment of dismissal to the United States Court of Appeals for the Second Circuit. The Second Circuit has consolidated these appeals with the appeal in another case, *Whyte v. Barclays Bank PLC, Barclays Capital, Inc.*, No. 13-2653 (2d Cir. 2013).

Following the dismissal of the State Court Actions, on May 23, 2014, Liaison Defense Counsel filed the Global Count One Motion to Dismiss. NDSIB, the Pension Trust, and the Investment Trust were automatically included in this Motion. The Litigation Trustees filed an opposition to the Motion to Dismiss on June 23, 2014. The Court postponed briefing on issues relating to service, jurisdiction, and dismissal based on sovereign immunity (and other theories that relate to a subset of shareholder defendants) pending resolution of the Global Count One Motion to Dismiss. Until further order of the MDL Court, individual defendants will not be required to file answers and no discovery shall proceed with the exception of discovery related to determining the amounts received in the Offering by certain entities that received subpoenas issued by the Litigation Trustee’s predecessor.

**Required Supplementary Information**

North Dakota Retirement and Investment Office  
Required Supplementary Information

**Schedule of Changes in Net Pension Liability and Related Ratios**  
**North Dakota Teachers' Fund for Retirement**  
**(Dollars in thousands)**

	2014
<b>Total pension liability</b>	
Service cost	\$ 56,752
Interest	237,821
Changes of benefit terms	-
Differences between expected and actual experience	9,347
Changes of assumptions	-
Benefit payments, including refunds of member contributions	(162,259)
<b>Net change in total pension liability</b>	<b>141,661</b>
<b>Total pension liability - beginning</b>	<b>2,997,139</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 3,138,800</b>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 62,355
Contributions - member	56,555
Contributions - purchased service credit	2,034
Contributions - other	48
Net investment income	294,246
Benefit payments, including refunds of member contributions	(162,259)
Administrative expenses	(1,586)
<b>Net change in plan fiduciary net position</b>	<b>251,393</b>
<b>Plan fiduciary net position - beginning</b>	<b>1,839,584</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 2,090,977</b>
<b>Plan's net pension liability - ending (a) - (b)</b>	<b>\$ 1,047,823</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>66.6%</b>
<b>Covered-employee payroll</b>	<b>\$ 580,053</b>
<b>Plan's net pension liability as a percentage of covered-employee payroll</b>	<b>180.6%</b>

**Notes to Schedule:**

*Complete data for this schedule is not available prior to 2014.*

North Dakota Retirement and Investment Office  
Required Supplementary Information

**Schedule of Employer Contributions**  
**North Dakota Teachers' Fund for Retirement**  
**(Dollars in thousands)**

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Actuarially determined contribution	59,513	52,396	69,374	65,113	52,053	41,986	44,115	50,532	48,747	44,472
Contributions in relation to the actuarially determined contribution	62,355	59,301	46,126	44,545	39,837	37,488	33,684	31,865	31,171	30,388
Contribution deficiency (excess)	(2,842)	(6,905)	23,248	20,568	12,216	4,498	10,431	18,667	17,576	14,084
Covered-employee payroll	580,053	551,656	527,156	509,091	482,868	454,396	434,626	411,167	402,204	392,107
Contributions as a percentage of covered-employee payroll	10.75%	10.75%	8.75%	8.75%	8.25%	8.25%	7.75%	7.75%	7.75%	7.75%

**Notes to Schedule**

*Valuation Date:* Actuarially determined contributions for each fiscal year are based on the actuarial valuation as of the beginning of the year in which contributions are reported.

*Methods and assumptions used to determine contribution rates:*

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	5-year smoothed market
Inflation	3.0%
Salary increases	4.50% - 14.75%, including inflation
Investment rate of return	8.0%, net of investment expenses, including inflation
Retirement age	Expected retirement ages of plan members were last adjusted in 2010 to more closely reflect actual experience.
Mortality	Assumed life expectancies were last adjusted in 2010 to more closely reflect actual experience.

**Schedule of Investment Returns**  
**North Dakota Teachers' Fund for Retirement**

	2014	2013
Annual money-weighted rate of return, net of investment expense	16.35%	13.60%

**Note:** Annual money-weighted rates of return not available prior to 2013.

ND Retirement and Investment Office – Financial Section

	Pension Pool Participants					Insurance Pool Participants					Petroleum Tank Release Comp. Fund	
	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		
<b>Assets:</b>												
<b>Investments</b>												
Equities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Equity pool	1,240,186,948	33,059,580	15,915,819	38,686,267	-	31,708,081	3,547,605	345,060,125	10,163,695	-	-	-
Fixed income	-	-	-	-	-	-	-	-	-	-	-	-
Fixed income pool	548,850,746	27,909,773	10,682,370	58,655,436	-	14,646,475	1,549,489	1,239,423,556	15,990,674	1,774,399	3,495,009	-
Real assets pool	407,588,841	14,271,144	6,159,738	-	-	7,951,362	534,099	101,294,503	-	-	-	-
Private equity pool	106,067,699	3,024,449	1,680,352	-	-	3,006,188	286,106	-	-	-	-	-
Cash pool	26,700,028	489,498	173,510	387,369	10,985	579,384	23,046	6,638,123	2,896,957	1,465,300	3,535,361	-
<b>Total investments</b>	<b>2,329,394,262</b>	<b>78,754,444</b>	<b>34,611,789</b>	<b>97,729,072</b>	<b>10,985</b>	<b>57,891,490</b>	<b>5,940,345</b>	<b>1,692,416,307</b>	<b>29,051,326</b>	<b>3,239,699</b>	<b>7,030,370</b>	<b>-</b>
Investment income receivable	3,349,776	49,882	31,415	96,697	(1,283)	5,121	(1,352)	11,571,673	172,381	29,292	62,628	-
Operating Cash	64,856	-	-	-	-	-	-	46,849	684	940	875	-
Miscellaneous receivable	3,920	-	-	-	-	-	-	2,901	50	6	12	-
<b>Total assets</b>	<b>2,332,812,814</b>	<b>78,804,326</b>	<b>34,643,204</b>	<b>97,825,769</b>	<b>9,702</b>	<b>57,896,611</b>	<b>5,938,993</b>	<b>1,704,037,730</b>	<b>29,224,441</b>	<b>3,269,937</b>	<b>7,093,885</b>	<b>-</b>
<b>Liabilities:</b>												
Investment expenses payable	3,693,696	126,248	56,233	140,392	1	89,373	8,087	825,816	14,559	699	1,388	-
Accounts payable	14,500	-	-	-	-	-	-	9,981	187	21	47	-
Accrued expenses	28,991	-	-	-	-	-	-	21,885	404	45	120	-
Miscellaneous payable	-	2,493	1,101	3,218	48	1,711	250	-	-	-	-	-
Due to other state agencies	405	-	-	-	-	-	-	300	5	-	1	-
<b>Total liabilities</b>	<b>3,737,592</b>	<b>128,741</b>	<b>57,334</b>	<b>143,610</b>	<b>49</b>	<b>91,084</b>	<b>8,337</b>	<b>857,982</b>	<b>15,155</b>	<b>765</b>	<b>1,556</b>	<b>-</b>
<b>Net position held in trust for external investment pool participants</b>	<b>\$2,329,075,222</b>	<b>\$ 78,675,585</b>	<b>\$ 34,585,870</b>	<b>\$97,682,159</b>	<b>\$ 9,653</b>	<b>\$ 57,805,527</b>	<b>\$ 5,930,656</b>	<b>\$ 1,703,179,748</b>	<b>\$29,209,286</b>	<b>\$3,269,172</b>	<b>\$ 7,092,329</b>	<b>-</b>
Each participant unit is valued at \$1.00												
Participant units outstanding	2,329,075,222	78,675,585	34,585,870	97,682,159	9,653	57,805,527	5,930,656	1,703,179,748	29,209,286	3,269,172	7,092,329	-

See Notes to Financial Statements

**North Dakota Retirement and Investment Office**  
**Combining Statement of Net Position – Investment Trust Funds – Fiduciary Funds**  
**June 30, 2014**  
**(With Comparative Totals for 2013)**

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	State Board of Medical Examiners	PERS Retiree Health Credit Fund	Totals	
												2014	2013
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 55,112,752	\$ 55,112,752	\$ 43,854,432
344,076	200,031	2,075,168	2,196,838	1,029,070	-	-	1,042,136,352	253,348	20,785,567	398,527	-	2,787,747,097	1,543,210,097
-	-	-	-	-	-	-	497,915,992	-	-	-	35,162,409	533,078,401	1,611,285,64
392,563	135,647	4,476,835	3,582,058	1,966,431	-	579,361,741	548,141,701	552,213	20,527,401	1,444,634	-	3,083,559,151	1,692,041,81
-	18,318	-	-	-	-	-	107,610,970	-	-	38,391	-	645,467,366	516,202,669
-	-	-	-	-	-	-	-	-	-	-	-	114,064,794	111,364,821
<u>399,306</u>	<u>10,163</u>	<u>338,346</u>	<u>172,488</u>	<u>443,593</u>	<u>37,425,118</u>	<u>3,987,057</u>	<u>14,138,522</u>	<u>41,433</u>	<u>387,637</u>	<u>8,326</u>	<u>-</u>	<u>100,251,550</u>	<u>100,765,983</u>
1,135,945	364,159	6,890,349	5,951,384	3,439,094	37,425,118	583,348,798	2,209,943,537	846,994	41,700,605	1,889,878	90,275,161	7,319,281,111	5,618,725,464
10,093	820	57,813	13,938	6,279	449	2,851,083	5,997,605	2,824	75,387	19	85,205	24,467,745	20,787,440
649	398	1,131	1,127	-	-	12,961	15,182	-	-	-	-	145,652	159,403
2	1	12	10	-	-	1,030	3,372	-	-	-	-	11,316	12,752
<u>1,146,689</u>	<u>365,378</u>	<u>6,949,305</u>	<u>5,966,459</u>	<u>3,445,373</u>	<u>37,425,567</u>	<u>586,213,872</u>	<u>2,215,959,696</u>	<u>849,818</u>	<u>41,775,992</u>	<u>1,889,897</u>	<u>90,360,366</u>	<u>7,343,905,824</u>	<u>5,639,685,059</u>
441	216	3,462	3,209	1,599	137	204,189	1,337,566	419	27,381	925	63,123	6,599,159	4,549,821
8	3	42	37	-	-	3,371	11,035	-	-	-	-	39,232	50,916
16	4	79	68	-	-	5,235	13,725	-	-	-	-	70,572	60,040
-	-	-	-	250	1,256	-	-	250	1,307	167	2,753	14,804	17,382
-	-	1	1	-	-	107	349	-	-	-	-	1,169	1,235
<u>465</u>	<u>223</u>	<u>3,584</u>	<u>3,315</u>	<u>1,849</u>	<u>1,393</u>	<u>212,902</u>	<u>1,362,675</u>	<u>669</u>	<u>28,688</u>	<u>1,092</u>	<u>65,876</u>	<u>6,724,936</u>	<u>4,679,394</u>
<u>\$ 1,146,224</u>	<u>\$ 365,155</u>	<u>\$ 6,945,721</u>	<u>\$ 5,963,144</u>	<u>\$ 3,443,524</u>	<u>\$ 37,424,174</u>	<u>\$ 586,000,970</u>	<u>\$ 2,214,597,021</u>	<u>\$ 849,149</u>	<u>\$ 41,747,304</u>	<u>\$ 1,888,805</u>	<u>\$ 90,294,490</u>	<u>\$ 7,337,180,888</u>	<u>\$ 5,635,005,665</u>
1,146,224	365,155	6,945,721	5,963,144	3,443,524	37,424,174	586,000,970	2,214,597,021	849,149	41,747,304	1,888,805	90,294,490	7,337,180,888	5,635,005,665

	Pension Pool Participants						Insurance Pool Participants				
	Public Employees Retirement System	Bismarck City Employee Pension Plan	Bismarck City Police Pension Plan	Job Service of North Dakota	City of Fargo Employee Pension Plan	City of Grand Forks Employee Pension Plan	City of Grand Forks Park District	Workforce Safety & Insurance	State Fire & Tornado	State Bonding	Petroleum Tank Release Comp. Fund
<b>Additions:</b>											
<b>Investment income:</b>											
Net change in fair value of investments	\$ 293,366,241	\$ 8,799,404	\$ 4,059,353	\$10,466,656	\$ 3,209,058	\$ 7,198,621	\$ 768,855	\$ 147,114,353	\$ 2,812,662	\$ 81,431	\$ 160,709
Interest, dividends and other income	<u>40,924,671</u>	<u>1,414,916</u>	<u>615,490</u>	<u>1,725,637</u>	<u>312,254</u>	<u>947,544</u>	<u>82,159</u>	<u>36,959,249</u>	<u>634,670</u>	<u>50,268</u>	<u>99,366</u>
334,290,912	10,214,320	4,674,843	12,192,293	3,521,312	8,146,165	851,014	184,073,602	3,447,332	131,699	260,075	
Less investment expenses	<u>8,155,526</u>	<u>276,989</u>	<u>123,574</u>	<u>304,454</u>	<u>50,674</u>	<u>198,607</u>	<u>18,886</u>	<u>3,940,613</u>	<u>49,301</u>	<u>2,761</u>	<u>5,481</u>
Net investment income	<u>326,135,386</u>	<u>9,937,331</u>	<u>4,551,269</u>	<u>11,887,839</u>	<u>3,470,638</u>	<u>7,947,558</u>	<u>832,128</u>	<u>180,132,989</u>	<u>3,398,031</u>	<u>128,938</u>	<u>254,594</u>
Total Additions	326,135,386	9,937,331	4,551,269	11,887,839	3,470,638	7,947,558	832,128	180,132,989	3,398,031	128,938	254,594
<b>Deductions:</b>											
Administrative Expenses	<u>274,416</u>	-	-	-	-	-	-	<u>177,987</u>	<u>3,163</u>	<u>983</u>	<u>962</u>
Net change in net position resulting from operations	<u>325,860,970</u>	<u>9,937,331</u>	<u>4,551,269</u>	<u>11,887,839</u>	<u>3,470,638</u>	<u>7,947,558</u>	<u>832,128</u>	<u>179,955,002</u>	<u>3,394,868</u>	<u>127,955</u>	<u>253,632</u>
<b>Unit transactions at net position value of \$1 per unit:</b>											
Purchase of units	7,250,000	-	-	-	-	4,111,083	293,605	4,000,000	-	-	-
Redemption of units	<u>(2,600,000)</u>	-	-	<u>(4,565,538)</u>	<u>(37,553,903)</u>	<u>(4,341,919)</u>	<u>(299,652)</u>	<u>(37,500,000)</u>	<u>(800,000)</u>	-	-
Net change in net position and units resulting from unit transactions	<u>4,650,000</u>	-	-	<u>(4,565,538)</u>	<u>(37,553,903)</u>	<u>(230,836)</u>	<u>(6,047)</u>	<u>(33,500,000)</u>	<u>(800,000)</u>	-	-
Total change in net position	330,510,970	9,937,331	4,551,269	7,322,301	(34,083,265)	7,716,722	826,081	146,455,002	2,594,868	127,955	253,632
<b>Net position:</b>											
Beginning of year	<u>1,998,564,252</u>	<u>68,738,254</u>	<u>30,034,601</u>	<u>90,359,858</u>	<u>34,092,918</u>	<u>50,088,805</u>	<u>5,104,575</u>	<u>1,556,724,746</u>	<u>26,614,418</u>	<u>3,141,217</u>	<u>6,838,697</u>
End of year	<u>\$2,329,075,222</u>	<u>\$ 78,675,585</u>	<u>\$ 34,585,870</u>	<u>\$97,682,159</u>	<u>\$ 9,653</u>	<u>\$ 57,805,527</u>	<u>\$ 5,930,656</u>	<u>\$ 1,703,179,748</u>	<u>\$29,209,286</u>	<u>\$3,269,172</u>	<u>\$ 7,092,329</u>
	2,329,075,222	78,675,585	34,585,870	97,682,159	9,653	57,805,527	5,930,656	1,703,179,748	29,209,286	3,269,172	7,092,329

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, 2014  
 (With Comparative Totals for 2013)

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	State Board of Medical Examiners	PERS Retiree Health Credit Fund	Totals	
												2014	2013
\$ 87,259	\$ 47,641	\$ 618,416	\$ 598,129	\$ 267,459	\$ -	\$ (2,296,687)	\$ 74,027,273	\$ 88,516	\$ 5,037,808	\$ 17,764	\$ 10,620,455	\$ 567,151,376	\$ 299,338,412
<u>17,515</u>	<u>8,031</u>	<u>154,962</u>	<u>131,002</u>	<u>66,825</u>	<u>5,659</u>	<u>13,897,151</u>	<u>43,256,691</u>	<u>22,312</u>	<u>823,378</u>	<u>8,273</u>	<u>1,984,435</u>	<u>144,142,458</u>	<u>132,358,789</u>
104,774	55,672	773,378	729,131	334,284	5,659	11,600,464	117,283,964	110,828	5,861,186	26,037	12,604,890	711,293,834	431,697,207
<u>1,491</u>	<u>796</u>	<u>10,776</u>	<u>9,613</u>	<u>6,192</u>	<u>4,539</u>	<u>574,726</u>	<u>3,956,722</u>	<u>2,552</u>	<u>89,077</u>	<u>1,535</u>	<u>238,703</u>	<u>18,023,588</u>	<u>14,116,166</u>
<u>103,283</u>	<u>54,876</u>	<u>762,602</u>	<u>719,518</u>	<u>328,092</u>	<u>1,120</u>	<u>11,025,738</u>	<u>113,327,242</u>	<u>108,276</u>	<u>5,772,109</u>	<u>24,502</u>	<u>12,366,187</u>	<u>693,270,246</u>	<u>417,581,035</u>
103,283	54,876	762,602	719,518	328,092	1,120	11,025,738	113,327,242	108,276	5,772,109	24,502	12,366,187	693,270,246	417,581,035
<u>994</u>	<u>519</u>	<u>969</u>	<u>977</u>	<u>-</u>	<u>-</u>	<u>59,345</u>	<u>173,580</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>693,895</u>	<u>558,744</u>
<u>102,289</u>	<u>54,357</u>	<u>761,633</u>	<u>718,541</u>	<u>328,092</u>	<u>1,120</u>	<u>10,966,393</u>	<u>113,153,662</u>	<u>108,276</u>	<u>5,772,109</u>	<u>24,502</u>	<u>12,366,187</u>	<u>692,576,351</u>	<u>417,022,295</u>
-	-	-	-	400,000	249,000,000	181,060,584	907,214,971	-	1,000,000	1,864,303	4,305,000	1,360,499,546	1,053,337,604
-	(13,000)	-	-	-	(254,368,258)	(7,183,404)	-	(275,000)	(1,400,000)	-	-	(350,900,674)	(234,858,869)
<u>-</u>	<u>(13,000)</u>	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>(5,368,258)</u>	<u>173,877,180</u>	<u>907,214,971</u>	<u>(275,000)</u>	<u>(400,000)</u>	<u>1,864,303</u>	<u>4,305,000</u>	<u>1,009,598,872</u>	<u>818,478,735</u>
102,289	41,357	761,633	718,541	728,092	(5,367,138)	184,843,573	1,020,368,633	(166,724)	5,372,109	1,888,805	16,671,187	1,702,175,223	1,235,501,031
<u>1,043,935</u>	<u>323,798</u>	<u>6,184,088</u>	<u>5,244,603</u>	<u>2,715,432</u>	<u>42,791,312</u>	<u>401,157,397</u>	<u>1,194,228,388</u>	<u>1,015,873</u>	<u>36,375,195</u>	<u>-</u>	<u>73,623,303</u>	<u>5,635,005,665</u>	<u>4,399,504,635</u>
<u>\$ 1,146,224</u>	<u>\$ 365,155</u>	<u>\$ 6,945,721</u>	<u>\$ 5,963,144</u>	<u>\$ 3,443,524</u>	<u>\$ 37,424,174</u>	<u>\$ 586,000,970</u>	<u>\$ 2,214,597,021</u>	<u>\$ 849,149</u>	<u>\$ 41,747,304</u>	<u>\$ 1,888,805</u>	<u>\$ 90,294,490</u>	<u>\$ 7,337,180,888</u>	<u>\$ 5,635,005,665</u>
1,146,224	365,155	6,945,721	5,963,144	3,443,524	37,424,174	586,000,970	2,214,597,021	849,149	41,747,304	1,888,805	90,294,490	7,337,180,888	5,635,005,665

**North Dakota Retirement and Investment Office**  
 Pension and Investment Trust Funds – Schedule of Administrative Expenses  
 Years Ended June 30, 2014 and 2013

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Salaries and wages:				
Salaries and wages	\$670,233	\$661,555	\$474,880	\$370,585
Fringe benefits	237,322	250,440	140,156	116,457
Total salaries and wages	<u>907,555</u>	<u>911,995</u>	<u>615,036</u>	<u>487,042</u>
Operating expenses:				
Information services	75,839	66,750	12,874	12,415
Intergovernmental services	5,374	5,558	2,529	2,616
Professional services	138,963	166,169	55,382	51,949
Rent of building space	53,314	52,299	26,353	25,649
Mailing services and postage	48,393	49,934	28,108	25,483
Travel and lodging	20,759	21,359	25,186	12,056
Printing	13,485	21,859	5,412	6,550
Supplies	2,879	3,446	1,671	1,674
Professional development	9,045	10,344	3,205	5,939
Outside services	10,832	8,033	64,927	51,005
Small office equipment expense	431	2,040	129	2,483
Miscellaneous fees	6,620	2,642	4,784	30,341
Resource and reference materials	601	427	342	1,270
IT contractual services	108,723	125,506	30,432	15,018
Repairs - office equipment	94	510	50	215
Insurance	417	709	196	334
Total operating expenses	<u>495,769</u>	<u>537,585</u>	<u>261,580</u>	<u>244,997</u>
Pension trust portion of investment program expenses	182,721	173,295	(182,721)	(173,295)
Depreciation	-	763	-	-
Total administrative expenses	<u>1,586,045</u>	<u>1,623,638</u>	<u>693,895</u>	<u>558,744</u>
Less - nonappropriated items:				
Professional fees	138,963	166,169	55,382	51,949
Other operating fees paid under continuing appropriation	28,224	20,607	73,573	47,831
Depreciation	-	763	-	-
Accrual adjustments to employee benefits	(14,644)	10,118	(1,902)	539
Total nonappropriated items	<u>152,542</u>	<u>197,657</u>	<u>127,053</u>	<u>100,319</u>
Total appropriated expenditures	<u>\$ 1,433,503</u>	<u>\$ 1,425,981</u>	<u>\$ 566,841</u>	<u>\$ 458,425</u>

North Dakota Retirement and Investment Office  
 Schedule of Appropriations – Budget Basis – Fiduciary Funds  
 July 1, 2013 to June 30, 2015 Biennium

All Fund Types:	Approved 2013-2015 Appropriation	2013-2015 Appropriation Adjustment	Adjusted 2013- 2015 Appropriation	Fiscal 2014 Expenses	Unexpended Appropriations
Salaries and wages	\$ 3,772,504	\$ -	\$ 3,772,504	\$ 1,501,994	\$ 2,270,510
Accrued Leave Payments	71,541		71,541	37,144	34,397
Operating expenses	973,324	-	973,324	399,219	574,105
Contingency	82,000	-	82,000	61,987	20,013
<b>Total</b>	<b>\$ 4,899,369</b>	<b>\$ -</b>	<b>\$ 4,899,369</b>	<b>\$ 2,000,344</b>	<b>\$ 2,899,025</b>

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

Reconciliation of Administrative Expenses  
 to Appropriated Expenditures

	2014
Administrative expenses as reflected in the financial statements	2,279,940
Less:	
Professional fees*	(194,345)
Other operating fees paid under continuing appropriations*	(101,797)
Changes in annual leave and FICA payments	16,546
<b>Total appropriated expenses</b>	<b>\$2,000,344</b>

\* 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, 2014 and 2013

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	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Actuary fees:				
Segal Company	\$ 71,264	\$ 94,848	\$ -	\$ -
Auditing fees:				
CliftonLarsonAllen LLC	45,942	45,385	28,423	26,290
Disability consulting fees:				
Dr. G.M. Lunn	375	775	-	-
Legal fees:				
K&L Gates LLP	11,474	9,073	15,585	10,692
Jenner & Block	-	2,337	-	3,644
ND Attorney General	9,908	13,751	11,374	11,323
Total legal fees:	21,381	25,161	26,959	25,659
Total consultant expenses	\$ 138,963	\$ 166,169	\$ 55,382	\$ 51,949

**North Dakota Retirement and Investment Office**  
**Pension and Investment Trust Funds – Schedule of Investment Expenses**  
**Years Ended June 30, 2014 and 2013**

	Pension Trust		Investment Trust	
	2014	2013	2014	2013
Investment managers' fees:				
Global equity managers	\$ 2,605,453	\$ 1,403,825	\$ 3,315,966	\$ 1,761,085
Domestic large cap equity managers	1,018,026	661,279	2,189,555	1,201,040
Domestic small cap equity managers	551,815	656,041	1,244,211	1,111,392
International equity managers	822,849	911,366	2,303,178	1,630,296
Emerging markets equity managers	258,679	378,684	374,705	559,955
Domestic fixed income managers	1,585,083	2,787,286	6,614,783	10,394,210
Below investment grade fixed income managers	747,407	1,604,541	958,784	2,108,519
Inflation protected assets managers	-	-	1,515,030	1,782,509
International fixed income managers	340,634	317,489	422,383	395,909
Real estate managers	1,899,944	1,863,035	3,468,358	3,090,481
Infrastructure managers	676,349	939,370	824,064	1,148,077
Timber managers	341,757	349,639	405,526	422,177
Private equity managers	2,433,316	1,850,618	2,850,600	2,148,730
Short term fixed income managers	-	-	1,562,163	1,235,929
Cash & equivalents managers	23,964	26,873	201,708	34,063
Balanced account managers	-	-	352,919	294,454
Total investment managers' fees	\$ 13,305,276	\$ 13,750,046	\$ 28,603,933	\$ 29,318,826
Custodian fees	293,776	257,367	850,504	717,989
Investment consultant fees	172,148	198,775	365,242	412,898
SIB Service Fees	-	-	48,498	47,331
Total investment expenses	\$ 13,771,200	\$ 14,206,188	\$ 29,868,177	\$ 30,497,044
Reconciliation of investment expenses to financial statements				
	2014	2013	2014	2013
Investment expenses as reflected in the financial statements	\$ 7,257,140	\$ 6,010,000	\$ 18,023,588	\$ 14,116,162
Plus investment management fees included in investment income				
Domestic large cap equity managers	260,958	61,579	481,686	103,667
Domestic small cap equity managers	363,661	365,861	470,141	468,421
International equity managers	225,470	177,806	568,360	318,745
Emerging markets equity managers	89,760	94,991	129,633	140,772
Domestic fixed income managers	1,322,680	2,595,308	4,388,520	8,593,171
Below investment grade fixed income managers	285,306	1,227,212	367,748	1,603,162
Inflation protected assets managers	-	-	488,078	729,506
Real estate managers	1,003,875	1,076,639	1,176,368	1,257,309
Infrastructure managers	225,341	466,573	273,692	571,119
Timber managers	341,757	349,639	405,526	422,177
Private equity managers	2,395,252	1,780,580	2,805,772	2,068,299
Cash equivalents managers	-	-	163,876	-
Balanced account managers	-	-	125,189	104,534
Investment expenses per schedule	\$ 13,771,200	\$ 14,206,188	\$ 29,868,177	\$ 30,497,044

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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  
[www.nd.gov/rio](http://www.nd.gov/rio)

December 5, 2014

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, 2014.

### ***Introduction***

For the fiscal year ended June 30, 2014, the \$4.7 billion North Dakota pension investment pool portfolio experienced a gross total return of 16.73%. The insurance investment pool, valued at \$4.6 billion on June 30, 2014, returned 8.53% (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.

The investment program's cost as measured by expense ratio is 70 basis points for the pension pool and 31 basis points for the insurance pool and includes investment office administrative expenses, consultant fees, money manager fees and master custodian fees. Allocation of monthly income and expenses to the participants in the pools is based on a time-weighted beginning balance. A "time factor" and "time-weighted amount" are calculated for each plan based on individual plan-related activities. The time-weighted amounts are added up for all plan-related activities to compose the time-weighted beginning balance used to allocate the activity of the pool. Five-year annualized risk for the period ended June 30, 2014, as measured by standard deviation has been 9.83% for the pension pool and 4.26% for the insurance pool. Risk exposure for each participating fund is also limited in accordance with the guidelines presented in the Investment Section.

### ***Economic Overview as of June 30, 2014***

Equity markets, especially in the U.S., soared in the last half of 2013 and continued to climb through the end of the fiscal year. The regime change at the Fed went smoothly as the new Chair, Janet Yellen, has continued the measured pace of tapering monthly bond purchases from \$85 billion at the start of the year to \$45 billion in June. The Fed has consistently reduced monthly purchases in increments of \$10 billion each meeting and the program is widely expected to be wound down by October. The Fed continues to maintain its zero-interest rate policy with expectations that the federal funds rate will be close to 0% until mid-2015.

The U.S. unemployment rate fell to 6.1% in June from the 7.6% mark at the start of the fiscal year. The job market started to heat up over the last half of the fiscal year with over 233,000 jobs, on average, being added to payrolls during that time. Although many feared high inflation due to quantitative easing, it remained benign through the fiscal year, never topping 2.1%.



U.S. GDP grew at a rate of 2.6% during the fiscal year, toward the top end of expectations. However, economic growth was anything but linear as GDP contracted 2.1% on an annualized basis during the first calendar quarter of 2014 then finished the fiscal year by expanding 4.6%. Many economists believe an unusually harsh winter pushed consumer and business purchases from the first quarter into the second, leading to uneven growth. The Eurozone economy has stagnated with annualized GDP growth increasing 0.8% and 0.2% in the first and second calendar quarters of 2014, respectively. Additionally, unemployment ended the fiscal year at 11.6% and consistently low inflation (+0.5%) fueled fears of deflation. Japan's economic growth for the first calendar quarter of 2014 came in at an annualized rate of 6.1%, but contracted in the following quarter by 6.8% as a significant consumption tax increase enacted on April 1 led to a rush of consumer spending before the hike went into effect.

#### ***Domestic Equity Overview***

The fiscal year ended June 30, 2014 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 +24.70%. 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), +25.54% to +24.61%. Growth stocks held up better than value stocks during fiscal year 2014. The Russell 3000 Value Index advanced 23.71% versus a gain of 26.75% for the Russell 3000 Growth Index.

#### ***International Equity Overview***

Developed International equity markets, as represented by the MSCI EAFE Index, rose in fiscal year 2014. The index returned +23.57% during the fiscal year, besting the +18.62% mark in fiscal year 2013. Value beat growth in the international developed equity space. For the trailing twelve-months ended June 30, 2014, the MSCI EAFE Growth Index gained 20.33% while the MSCI EAFE Value Index was rose 26.86%. Emerging market returns trailed developed market returns in fiscal year 2014 as the MSCI Emerging Markets Index gained 14.68%. Overall, it was a great year for international stock markets.

#### ***Private Equity***

The private equity market was healthy in fiscal year 2014 as institutional investors placed capital into new programs. According to the Buyouts newsletter, 1,352 transactions closed in the amount of \$115 billion during the 2014 fiscal year. This is a decrease in the total number of transactions from fiscal year 2013 (1,592) and decrease in dollar volume (\$183 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 returned 4.37%. The yield curve flattened during the year, boosting longer duration bond prices. The Barclays Capital Government Index rose 2.08% over the fiscal year. The falling yields of long duration bonds boosted the Barclays Capital Government Long Index up 6.44% during the fiscal year. The Barclays Capital Credit Index rose 7.44% for the trailing twelve-months as company balance sheets continued to improve. High yield bonds performed well as the Barclays Capital High Yield Index returned +11.72% for the year ended June 30, 2014.

#### ***International Fixed-Income Overview***

International fixed income markets performed well in fiscal year 2014. The Citi non-U.S. World Government Unhedged Index rose 8.88%. Decreasing sovereign yields in Europe pushed the Citi Euro Government Bond Index up 15.06%. The U.S. Dollar depreciated relative to most foreign currencies during the fiscal year, which helped U.S. investors' foreign bond returns. In U.S. Dollar-denominated returns, the Citi non-U.S. World Government Bond Index rose 8.88% for the year ended 6/30/14, but its local currency return – the currency where the investments are actually made – for the Citi

non-U.S. World Government Bond Index rose only +6.06%. Emerging Market countries experienced solid returns for fiscal year 2014; the JP Morgan Emerging Markets Bond Plus Index was up 10.73%.

***Real Estate Overview***

The NCREIF Property Index, a measure of the private real estate market, gained 11.21% during the 2014 fiscal year. The index was positive in each of the four quarters, extending its positive streak to eighteen (18) straight quarters. The FTSE NAREIT Equity Index, a measure of the public securities real estate market, gained 13.21% during the fiscal year.

***Timber***

The timber sector has dipped down in market size over the course of the last twelve months. As of June 30, 2014 the total size of the NCREIF Timberland Property Index was down to \$23 billion, representing a reduction of approximately 13.7 million acres of land. The index, however, was up year over year, returning 9.93% for the twelve months ending June 30, 2014, consisting of a +7.20% appreciation return and a +2.58% income return. The Pacific Northwest continued to be the best performing region by gaining 17.64% for the year ended June 30, 2014. The South remains the largest region, representing \$16 billion in market value and 9.7 million acres of land.

***Infrastructure***

By definition, infrastructure assets are essential to the economic health and productivity of civilized society. They include the basic facilities, services, and installations needed for the functioning of a community, such as transit and communications systems; both potable and sewage water lines; and electricity access. They also include such public entities as schools, post offices, and incarceration facilities. Most of these facilities have traditionally been owned and regulated by municipalities and states. The private sector’s participation has been limited, to varying degrees, to the areas of design, construction, and operation. Budget and fiscal pressures limit the ability of public authorities to maintain existing infrastructure, much less to build the new facilities required by a growing population. In response to these problems, many municipalities and states have sold or are contemplating the sale of their infrastructure assets to private investor. There is currently no widely-used benchmark for infrastructure investments.

***Summary***

Financial markets performed well in fiscal year 2014, 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, credit-related fixed income, private real estate and infrastructure.

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  
Deputy Chief Investment Officer



DAVID HUNTER  
Executive Director/Chief Investment Officer

## INVESTMENT PERFORMANCE SUMMARY JUNE 30, 2014

	Fair Value	% Of Pool	Rates of Return (net of fees)									
			For Fiscal Year Ended 6/30						Annualized			
			2014	2013	2012	2011	2010	3 Years	5 Years	10 Years	20 Years	30 Years
<b>PENSION POOL PARTICIPANTS</b>												
Teachers' Fund for Retirement	\$2,061,684,912	44.2%	16.53%	13.57%	-1.12%	24.05%	13.87%	9.38%	13.07%	6.84%	7.73%	9.11%
Public Employees Retirement System	2,332,744,037	50.0%	16.38%	13.44%	-0.12%	21.27%	13.67%	9.66%	12.70%	7.01%	8.18%	9.34%
Bismarck City Employee Pension Fund	\$78,804,326	1.7%	14.56%	12.41%	1.57%	20.32%	12.74%	9.36%	12.15%	6.99%	8.08%	*
Bismarck City Police Pension Fund	\$34,643,204	0.7%	15.27%	13.03%	1.31%	21.10%	13.30%	9.69%	12.61%	6.98%	7.96%	*
Job Service of North Dakota	\$97,825,769	2.1%	13.54%	11.71%	3.09%	16.39%	13.63%	9.35%	11.58%	7.28%	9.22%	*
City of Fargo Pension Fund <sup>1</sup>	\$9,702	0.0%	8.42%	13.90%	0.97%	21.58%	14.82%	7.63%	11.72%	*	*	*
City of Grand Forks Pension Fund	\$57,896,611	1.2%	16.33%	14.01%	1.09%	21.64%	13.91%	10.27%	13.19%	*	*	*
Grand Forks Park District Pension Fund	\$5,938,993	0.1%	16.44%	14.43%	0.86%	20.98%	*	*	*	*	*	*
Subtotal Pension Pool Participants	4,669,547,555	100.0%										
<b>INSURANCE POOL PARTICIPANTS</b>												
Workforce Safety & Insurance Fund	1,703,987,980	41.9%	11.71%	8.31%	6.17%	13.23%	11.94%	8.71%	10.24%	6.04%	7.58%	*
Legacy Fund	2,215,941,142	54.5%	6.64%	1.15%	*	*	*	*	*	*	*	*
State Fire and Tornado Fund	29,223,707	0.7%	12.78%	10.59%	4.93%	14.52%	14.52%	9.38%	11.41%	6.46%	6.92%	*
State Bonding Fund	3,268,991	0.1%	4.06%	2.96%	5.31%	5.01%	8.63%	4.11%	5.18%	2.77%	5.13%	*
Petroleum Tank Release Fund	7,092,998	0.2%	3.68%	2.47%	4.84%	4.97%	7.79%	3.66%	4.73%	2.58%	5.29%	*
Insurance Regulatory Trust Fund	1,146,038	0.0%	9.88%	8.49%	2.82%	11.61%	10.29%	7.02%	8.57%	5.37%	6.46%	*
State Risk Management Fund	6,948,162	0.2%	12.29%	10.19%	7.63%	14.36%	16.02%	10.02%	12.06%	6.55%	*	*
State Risk Management Workers Comp	5,965,322	0.1%	13.68%	11.61%	7.40%	16.23%	16.40%	10.87%	13.01%	6.76%	*	*
Cultural Endowment Fund	364,979	0.0%	16.94%	15.58%	4.65%	21.33%	14.89%	12.25%	14.54%	*	*	*
Budget Stabilization Fund	3,987,131	0.1%	1.94%	1.87%	2.03%	3.73%	7.38%	1.95%	3.37%	*	*	*
ND Assoc. of Counties (NDACo) Fund	3,445,373	0.1%	11.61%	9.46%	1.69%	17.73%	15.34%	7.50%	11.02%	5.53%	*	*
City of Bismarck Deferred Sick Leave	849,818	0.0%	12.32%	9.83%	5.69%	13.80%	21.28%	9.25%	12.47%	6.56%	*	*
PERS Group Insurance	37,425,567	0.9%	0.00%	0.11%	0.24%	0.31%	0.36%	0.12%	0.21%	1.79%	*	*
State Board of Medical Examiners	1,889,897	0.0%	*	*	*	*	*	*	*	*	*	*
City of Fargo FargoDome Permanent Fund	41,775,992	1.0%	16.34%	13.46%	3.14%	19.16%	16.78%	10.83%	13.63%	6.79%	*	*
Subtotal Insurance Pool Participants	4,063,313,099	100.0%										
<b>INDIVIDUAL INVESTMENT ACCOUNT</b>												
Retiree Health Insurance Credit Fund	90,360,366	100.0%	16.53%	14.80%	2.62%	21.65%	16.86%	11.14%	14.31%	6.68%	8.11%	*
<b>TOTAL</b>	<b>\$8,823,221,021</b>											
<b><u>BENCHMARKS</u></b>												
S&P 500			24.61%	20.60%	5.45%	30.69%	14.43%	16.59%	18.84%	7.78%	9.79%	11.53%
Barclays Aggregate			4.37%	-0.69%	7.47%	3.90%	9.50%	3.66%	4.85%	4.93%	6.15%	7.94%
90 Day T-Bills			0.05%	0.11%	0.06%	0.16%	0.16%	0.07%	0.11%	1.63%	2.94%	4.06%
Callan Public Plan Sponsors Database (Median)			16.11%	11.95%	1.22%	20.86%	12.91%	9.70%	12.54%	7.29%	8.58%	9.70%

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

<sup>1</sup> The City of Fargo Pension Fund withdrew its investments from the SIB in December 2013/January 2014. The balance as of 6/30/14 is residual cash for payment of final expenses.

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

Columns may not foot due to rounding.

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS  
PENSION INVESTMENT POOL  
FOR PERIODS ENDED JUNE 30, 2014**

	Style	Date Initiated	Fair Value	Annualized Rates of Return		
				1 Year	3 Years	5 Years
<b>GLOBAL EQUITY:</b>						
Epoch Investment Partners, Inc.	Core	01/2012	\$ 295,540,126	18.24%	*	*
LSV Asset Management	Core Value	03/2013	426,607,729	27.77%	*	*
<b>TOTAL GLOBAL EQUITY</b>			722,147,855	23.31%	*	*
<b>MSCI World Index</b>				24.05%	*	*
<b>DOMESTIC LARGE CAP EQUITY:</b>						
The Clifton Group	Enhanced S&P 500	06/2011	165,700,026	24.65%	16.95%	*
Los Angeles Capital Management	Structured Growth	08/2003	308,601,430	25.82%	16.89%	19.48%
Los Angeles Capital Management	Enhanced Russell 1000	08/2000	208,087,780	24.42%	17.20%	19.53%
Northern Trust Asset Management	Enhanced S&P 500	08/2000	118,554,341	26.83%	18.64%	20.16%
<b>TOTAL DOMESTIC LARGE CAP EQUITY</b>			800,943,576	25.32%	16.96%	19.98%
<b>Russell 1000 Index</b> <sup>(1)</sup>				25.35%	16.99%	19.08%
<b>DOMESTIC SMALL CAP EQUITY:</b>						
Callan Associates, Inc.	Mgr of Managers	05/2006	119,312,943	25.27%	15.73%	21.97%
The Clifton Group	Enhanced Russell 2000	11/2009	118,225,528	24.95%	15.88%	*
SEI Investments Management Co.	Mgr of Mgrs (liquidating)	06/2001	10,678	*	*	*
<b>TOTAL DOMESTIC SMALL CAP EQUITY</b>			237,549,149	25.16%	16.75%	24.15%
<b>Russell 2000 Index</b>				23.64%	14.57%	20.21%
<b>DEVELOPED INTERNATIONAL EQUITY:</b>						
Capital Guardian Trust Company	Core	03/1992	107,559,503	21.31%	9.29%	12.47%
Dimensional Fund Advisors	Small Cap Value	11/2007	81,964,961	36.64%	12.26%	16.48%
Northern Trust Asset Management	Core	12/2013	259,962,014	*	*	*
Wellington Trust Company, NA	Small Cap Growth	03/2002	90,419,925	29.23%	14.67%	18.76%
<b>TOTAL DEVELOPED INTERNATIONAL EQUITY</b>			539,906,402	26.40%	9.24%	14.06%
<b>MSCI EAFE (unhedged) Index</b> <sup>(2)</sup>				23.57%	8.10%	11.11%
<b>EMERGING MARKETS EQUITY:</b>						
Dimensional Fund Advisors	Small Cap	10/2005	37,109,342	16.64%	2.20%	14.16%
J.P. Morgan Investment Management, Inc.	Core	11/2005	25,817,147	11.04%	0.53%	9.58%
Northern Trust Global Investments	Passive Core	07/2012	92,486,950	14.40%	*	*
<b>TOTAL EMERGING MARKETS EQUITY</b>			155,413,440	12.79%	2.30%	11.03%
<b>MSCI Emerging Markets Index</b>				14.31%	-0.39%	9.24%
<b>PRIVATE EQUITY</b> <sup>(n)</sup> :						
Adams St. Partners (1998 Fund)	Diversified Private Equity	01/1998	121,622	1.90%	0.45%	2.56%
Adams St. Partners (1999 Fund)	Diversified Private Equity	01/1999	928,099	17.53%	6.67%	10.58%
Adams St. Partners (2000 Fund)	Diversified Private Equity	10/1999	2,726,985	8.14%	6.97%	11.24%
Adams St. Partners (2001 Fund)	Diversified Private Equity	12/2000	2,848,421	19.41%	12.09%	13.80%
Adams St. Partners (2002 Fund)	Diversified Private Equity	03/2002	1,307,304	19.24%	12.60%	18.49%
Adams St. Partners (2003 Fund)	Diversified Private Equity	04/2003	675,132	31.54%	9.56%	13.47%
Adams St. Partners (1999 Non-U.S. Fund)	Diversified Private Equity	01/1999	557,053	5.47%	10.35%	17.54%
Adams St. Partners (2000 Non-U.S. Fund)	Diversified Private Equity	01/2000	1,019,225	5.13%	0.11%	8.17%
Adams St. Partners (2001 Non-U.S. Fund)	Diversified Private Equity	02/2001	477,886	32.42%	7.55%	10.97%
Adams St. Partners (2002 Non-U.S. Fund)	Diversified Private Equity	05/2002	1,545,921	5.38%	3.61%	10.53%
Adams St. Partners (2003 Non-U.S. Fund)	Diversified Private Equity	04/2003	1,790,906	18.51%	11.64%	19.76%
Adams St. Partners (2004 Non-U.S. Fund)	Diversified Private Equity	04/2004	1,221,367	37.77%	11.11%	14.45%
Adams St. Partners (2008 Non-U.S. Fund)	Diversified Private Equity	01/2008	6,577,397	18.99%	8.91%	8.15%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS  
PENSION INVESTMENT POOL (CONTINUED)  
FOR PERIODS ENDED JUNE 30, 2014**

	Style	Date Initiated	Fair Value	Annualized Rates of Return		
				1 Year	3 Years	5 Years
<b>PRIVATE EQUITY (continued):</b>						
Adams St. Partners (2010 Direct Fund)	Direct Private Equity	04/2010	1,587,186	36.22%	19.44%	*
Adams St. Partners (2010 Non-U.S. Developed)	Diversified Private Equity	04/2010	1,927,907	13.58%	9.81%	*
Adams St. Partners (2010 Partnership Fund)	Diversified Private Equity	04/2010	3,963,374	16.95%	11.98%	*
Adams St. Partners (2010 Emerging Mkts Fund)	Diversified Private Equity	01/2011	686,463	3.92%	-8.27%	*
Adams St. Partners (B.V.C.F. IV)	Diversified Private Equity	05/1999	6,170,091	18.15%	37.12%	60.50%
Adams St. Partners (Direct Co-Investment)	Direct Private Equity	09/2006	17,675,365	18.68%	11.96%	14.68%
Capital International (Fund V)	EM Private Equity	08/2007	21,260,349	10.66%	-1.25%	8.17%
Capital International (Fund VI)	EM Private Equity	12/2011	14,088,859	-5.75%	*	*
Coral Partners, Inc. (Momentum Fund)	Direct Venture Capital	07/2002	599,294	-79.77%	-37.74%	-32.29%
EIG (formerly Trust Company of the West)	Mezz Debt - Energy	07/2007	24,485,840	-5.04%	0.71%	6.64%
Corsair Capital (Fund III)	Pvt Eq - Financial Svcs	02/2006	11,840,263	0.28%	-4.39%	-1.29%
Corsair Capital (ND Investors)	Pvt Eq - Financial Svcs	03/2008	11,560,996	-1.11%	3.97%	2.00%
Corsair Capital (Fund IV)	Pvt Eq - Financial Svcs	05/2010	11,960,258	15.69%	1.85%	*
Invest America (Lewis and Clark Fund)	Direct Venture Capital	02/2002	4,012,037	-19.26%	0.31%	4.03%
Invest America (L&C Fund II)	Direct Venture Capital	06/2009	10,111,995	-7.13%	-4.87%	-8.67%
Matlin Patterson Global Opportunities Fund I	Distressed Debt	07/2002	11,987	0.00%	2647.49%	908.90%
Matlin Patterson Global Opportunities Fund II	Distressed Debt	10/2004	1,267,305	-14.36%	-45.96%	-40.14%
Matlin Patterson Global Opportunities Fund III	Distressed Debt	06/2007	28,755,761	4.46%	43.22%	31.56%
Quantum Energy Partners	Pvt Equity - Energy	01/2007	9,841,586	31.13%	26.61%	19.94%
Quantum Resources	Pvt Equity - Energy	10/2006	7,667,986	-17.20%	3.89%	-5.80%
<b>TOTAL PRIVATE EQUITY <sup>(n)</sup></b>			211,422,655	4.10%	5.30%	9.84%
<b>INVESTMENT GRADE FIXED INCOME:</b>						
Declaration Management & Research <sup>(n)</sup>	Securitized	04/2012	71,963,350	6.71%	*	*
PIMCO <sup>(n)</sup>	Distressed Sr. Debt	10/2012	84,219,329	12.00%	*	*
PIMCO	Mortgage Backed	03/2012	175,424,984	4.06%	*	*
PIMCO	Unconstrained	03/2012	94,065,931	1.46%	*	*
State Street Global Advisors	Passive BC Long Treasury	06/2013	118,584,966	6.23%	*	*
Western Asset Management Co.	Mortgage Backed	02/1986	117,803,672	4.73%	3.38%	7.23%
<b>TOTAL INVESTMENT GRADE FIXED INCOME</b>			662,062,233	5.63%	5.67%	5.89%
<b>Barclays Aggregate Index</b>				4.37%	3.66%	4.85%
<b>BELOW INVESTMENT GRADE FIXED INCOME:</b>						
Goldman Sachs <sup>(n)</sup>	Mezzanine Debt-2006	04/2006	2,470,000	25.57%	5.86%	27.31%
Goldman Sachs <sup>(n)</sup>	Mezzanine Debt-Fund V	11/2007	9,360,000	10.04%	11.32%	18.65%
Loomis Sayles	High Yield Bonds	04/2004	226,108,304	13.27%	9.41%	15.21%
PIMCO <sup>(n)</sup>	Res. & Comm. Debt	10/2013	12,720,786	*	*	*
<b>TOTAL BELOW INVESTMENT GRADE FIXED INCOME</b>			250,659,090	13.52%	10.25%	15.86%
<b>Barclays High Yield Corp 2% Issuer Cap</b>				11.72%	9.46%	13.92%
<b>DEVELOPED INTERNATIONAL FIXED INCOME:</b>						
UBS Global Asset Management	Core Non-U.S.	03/1989	115,294,188	8.49%	1.27%	4.14%
Brandywine Asset Management	Core-Plus Non-U.S.	05/2003	117,749,288	8.78%	7.80%	10.72%
<b>TOTAL DEVELOPED INTERNATIONAL FIXED INCOME</b>			233,043,476	8.57%	4.62%	7.68%
<b>BC Global Aggregate ex-US Index <sup>(3)</sup></b>				9.42%	1.75%	4.15%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS  
PENSION INVESTMENT POOL (CONTINUED)  
FOR PERIODS ENDED JUNE 30, 2014**

	Style	Date Initiated	Fair Value	Annualized Rates of Return		
				1 Year	3 Years	5 Years
<b>GLOBAL REAL ESTATE:</b>						
INVESCO Realty Advisors	Core Commingled	08/1997	157,461,865	10.91%	11.07%	9.65%
INVESCO Realty Advisors <sup>(n)</sup>	Core Plus LP (Fund II)	11/2007	25,684,576	14.49%	22.06%	5.16%
INVESCO Realty Advisors <sup>(n)</sup>	Core Plus LP (Fund III)	05/2012	36,217,918	18.28%	*	*
INVESCO Realty Advisors <sup>(n)</sup>	Asian LP	11/2008	29,974,417	15.25%	3.22%	-12.99%
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	10/1987	145,809,463	15.10%	14.36%	10.96%
J. P. Morgan Investment Mgmt. Inc. <sup>(n)</sup>	Alternative Commingled	01/2006	3,482,836	4.18%	14.87%	5.28%
J. P. Morgan Investment Mgmt. Inc. <sup>(n)</sup>	European LP	09/2009	24,057,330	70.54%	-33.34%	*
J. P. Morgan Investment Mgmt. Inc. <sup>(n)</sup>	Asian LP	01/2008	10,200,009	66.58%	15.05%	12.05%
<b>TOTAL GLOBAL REAL ESTATE</b>			432,888,415	16.77%	13.57%	9.91%
<b>NCREIF Total Index</b>				11.21%	11.32%	9.67%
<b>TIMBER:</b>						
Timberland Investment Resources - Teredo <sup>(n)</sup>	Timberland	06/2001	76,412,745	6.64%	3.09%	5.33%
Timberland Investment Resources - Springbank <sup>(n)</sup>	Timberland	09/2004	120,260,529	0.22%	-2.60%	-5.35%
<b>TOTAL TIMBER</b>			196,673,274	2.62%	*	*
<b>NCREIF Timber Index</b>				9.92%	6.73%	3.33%
<b>INFRASTRUCTURE:</b>						
Grosvenor (formerly Credit Suisse) <sup>(n)</sup>	Infrastructure	12/2011	40,734,320	12.90%	*	*
J.P. Morgan Investment Management, Inc. <sup>(n)</sup>	Asian Infrastructure	07/2008	32,600,000	3.71%	7.17%	4.73%
J.P. Morgan Investment Management, Inc.	Infrastructure	05/2007	105,092,058	9.82%	8.29%	7.59%
<b>TOTAL INFRASTRUCTURE</b>			178,426,378	9.47%	*	*
<b>CPI-W</b>				2.04%	1.79%	2.15%
<b>CASH EQUIVALENTS:</b>						
Northern Trust Asset Management	STIF	07/1994	48,411,616	0.04%	0.09%	0.11%
<b>TOTAL CASH EQUIVALENTS</b>			48,411,616	0.04%	0.09%	0.14%
<b>90 Day T-Bills</b>				0.05%	0.07%	0.11%
<b>TOTAL PENSION INVESTMENT POOL</b>			\$ 4,669,547,558	16.73%	9.92%	13.23%
<b>Policy Target</b>				15.58%	9.18%	12.30%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS  
INSURANCE INVESTMENT POOL  
FOR PERIODS ENDED JUNE 30, 2014**

	Style	Date Initiated	Fair Value	Annualized Rates of Return		
				1 Year	3 Years	5 Years
<b>DOMESTIC LARGE CAP EQUITY:</b>						
The Clifton Group	Enhanced S&P 500	11/2008	\$ 129,463,256	24.75%	16.93%	19.96%
Los Angeles Capital Management	Structured Growth	08/2003	194,460,822	25.79%	17.16%	19.70%
Los Angeles Capital Management	Enhanced Russell 1000	04/2004	128,722,952	24.28%	17.14%	19.55%
LSV Asset Management	Structured Value	06/1998	195,194,430	28.33%	19.09%	21.33%
<b>TOTAL DOMESTIC LARGE CAP EQUITY</b>			647,841,460	26.07%	17.73%	19.57%
<b>Russell 1000 Index <sup>(1)</sup></b>				25.35%	16.99%	19.08%
<b>DOMESTIC SMALL CAP EQUITY:</b>						
The Clifton Group	Enhanced Russell 2000	11/2008	138,373,676	24.67%	15.76%	22.16%
Research Affiliates	Core	07/2007	90,785,271	24.68%	16.34%	22.98%
<b>TOTAL DOMESTIC SMALL CAP EQUITY</b>			229,158,947	24.79%	16.10%	22.49%
<b>Russell 2000 Index</b>				23.64%	14.57%	20.21%
<b>INTERNATIONAL EQUITY:</b>						
Capital Guardian Trust Company	Core	04/1997	218,401,315	20.70%	8.58%	12.11%
Dimensional Fund Advisors	Small Cap Value	11/2007	54,852,861	36.58%	12.25%	16.47%
LSV Asset Management	Core	11/2004	221,773,617	27.25%	9.54%	12.20%
The Vanguard Group	Small Cap Growth	06/2003	54,584,452	29.97%	9.31%	14.95%
<b>TOTAL INTERNATIONAL EQUITY</b>			549,612,245	25.76%	9.31%	12.94%
<b>MSCI EAFE (unhedged) Index <sup>(2)</sup></b>				23.57%	8.10%	11.11%
<b>DOMESTIC FIXED INCOME:</b>						
Declaration Mgmt & Research <sup>(n)</sup>	Securitized	12/2013	128,911,075	*	*	*
PIMCO <sup>(n)</sup>	Distressed Sr. Debt	10/2012	75,713,476	12.02%	*	*
PIMCO <sup>(n)</sup>	Res. & Comm. Debt	10/2013	12,720,786	*	*	*
Prudential	Core-Plus	08/2006	115,284,748	6.71%	6.06%	8.55%
State Street Global Advisors	Passive BC Govt/Credit	06/2013	205,745,183	4.26%	*	*
Wells Capital	Baa Average Bonds	04/2002	460,120,438	10.01%	7.70%	10.19%
Western Asset Management Co.	Core Bonds	07/1990	451,357,423	6.13%	5.69%	8.72%
<b>TOTAL DOMESTIC FIXED INCOME</b>			1,449,853,129	7.76%	7.48%	9.42%
<b>Barclays Aggregate Index</b>				4.37%	3.66%	4.85%
<b>INFLATION PROTECTED ASSETS:</b>						
Grosvenor (formerly Credit Suisse) <sup>(n)</sup>	Infrastructure	12/2011	20,367,151	12.90%	*	*
J. P. Morgan Investment Mgmt. Inc.	Infrastructure	11/2008	71,905,950	9.94%	8.32%	7.37%
Timberland Investment Resources <sup>(n)</sup>	Timberland	10/2008	63,725,267	9.89%	5.69%	4.00%
Western Asset Management Co.	Global TIPS	05/2004	243,829,454	10.09%	3.72%	5.09%
<b>TOTAL INFLATION PROTECTED ASSETS</b>			399,827,822	10.19%	5.22%	5.55%
<b>Barclays Global Inflation Linked Index <sup>(4)</sup></b>				10.42%	4.44%	5.81%
<b>REAL ESTATE:</b>						
INVESCO Realty Advisors	Core Commingled	10/2012	79,811,896	10.92%	*	*
J. P. Morgan Investment Mgmt. Inc.	Core Commingled	11/2005	132,860,965	10.12%	17.19%	13.24%
<b>TOTAL REAL ESTATE</b>			212,672,860	10.45%	15.96%	12.52%
<b>NCREIF Total Index</b>				11.21%	11.32%	9.67%
<b>CASH EQUIVALENTS:</b>						
Northern Trust Asset Management <sup>(n)</sup>	STIF	07/1989	71,888,654	0.01%	*	*
<b>TOTAL CASH EQUIVALENTS</b>			71,888,654	0.01%	0.17%	0.24%
<b>90 Day T-Bills</b>				0.05%	0.07%	0.11%

**SCHEDULE OF INVESTMENT CONSULTANTS AND RESULTS  
INSURANCE INVESTMENT POOL (CONTINUED)  
FOR PERIODS ENDED JUNE 30, 2014**

	Style	Date Initiated	Fair Value	Annualized Rates of Return		
				1 Year	3 Years	5 Years
<b>SHORT-TERM FIXED INCOME</b>						
Babson Capital Management	Short Term Bonds	09/2011	238,945,099	2.39%	*	*
Babson Capital Management (Legacy Fund Only)	Short Term Bonds	10/2011	255,376,231	2.82%	*	*
J.P. Morgan Investment Mgmt. Inc.	Short Term Bonds	09/2011	236,876,578	1.44%	*	*
J.P. Morgan Investment Mgmt. Inc. (Legacy Fund Only)	Short Term Bonds	10/2011	245,865,422	1.36%	*	*
<b>TOTAL SHORT-TERM FIXED INCOME</b>			977,063,330	2.04%	1.19%	3.79%
<b>Barclays Government 1-3 Year</b>				0.77%	0.66%	1.24%
<b>TOTAL INSURANCE INVESTMENT POOL</b>			<u>\$ 4,537,918,448</u>	8.53%	6.47%	8.70%
<b>Policy Target</b>				7.15%	4.70%	6.39%
<b>NON-POOLED INVESTMENTS:</b>						
Bank of North Dakota Match Loan CD's Held by Budget Stabilization Fund	Certificates of Deposit	various	107,607,396	2.81%	3.63%	3.91%

\* 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 those designated (n) net of fees.

*Columns may not foot due to rounding.*



**LARGEST HOLDINGS (By Fair Value)  
AT JUNE 30, 2014**

**PENSION INVESTMENT POOL**

<b>Shares</b>	<b>Stocks</b>	<b>Fair Value</b>
609,234	Microsoft Corporation	\$ 25,405,058
253,789	Apple Incorporated	23,584,612
248,135	CVS Caremark Corporation	18,701,935
425,436	Oracle Corporation	17,242,921
119,740	Boeing Company	15,234,520
173,736	Aetna Incorporated	14,086,515
131,156	Occidental Petroleum Corporation	13,460,540
157,310	United Health Group Incorporated	12,860,093
109,650	Anheuser-Busch	12,595,680
122,140	Exxon Mobil Corporation	12,297,055
<b>Par</b>	<b>Bonds</b>	<b>Fair Value</b>
34,000,000	FHLMC Pool #G1-8512 3% Due 05-01-2029	\$ 35,284,860
14,500,000	US Treasury Notes 2.5% Due 05-15-2024	14,479,613
12,327,695	FNMA Pool #AP8746 3% Due 10-01-2042	12,192,707
11,900,000	FNMA Single Family Mortgage 2.5% 15 Years July	12,087,794
9,900,000	GNMA II Jumbos 4% 30 Years July	10,594,544
8,400,000	FNMA Single Family Mortgage 3% 15 Years July	8,725,500
5,220,000	Republic of Italy 5% Bonds Due 01-08-2039	8,496,238
8,000,000	GNMA II Jumbos 3.5% 30 Years August	8,310,640
7,300,000	GNMA II Jumbos 3.5% 30 Years July	7,603,979
7,500,000	GNMA II Jumbos 3% 30 Years July	7,570,313

**INSURANCE INVESTMENT POOL**

<b>Shares</b>	<b>Stocks</b>	<b>Fair Value</b>
117,083	Apple Incorporated	\$ 10,880,523
193,347	Microsoft Corporation	8,062,570
270,528	Pfizer Incorporated	8,029,271
160,900	Royal Dutch Shell	6,994,796
51,319	Chevron Corporation	6,699,695
65,759	Exxon Mobil Corporation	6,620,616
21,828	Roche Holdings	6,510,494
103,160	Wells Fargo & Company	5,422,090
131,940	Oracle Corporation	5,347,528
91,456	JP Morgan Chase & Company	5,269,695
<b>Par</b>	<b>Bonds</b>	<b>Fair Value</b>
26,325,000	US Treasury Notes 4.25% Due 08-15-2015	\$ 27,531,212
26,100,000	US Treasury Notes 1.5% Due 12-31-2018	26,114,277
23,455,000	US Treasury Notes 2% Due 05-31-2021	23,279,088
21,000,000	US Treasury Notes 2.375% Due 02-28-2015	21,317,457
20,870,000	US Treasury Notes 1% Due 08-31-2016	21,085,211
19,100,000	US Treasury Bonds 3.625% Due 02-15-2044	20,156,459
19,600,000	US Treasury Notes 0.25% Due 08-15-2015	19,618,385
18,000,000	US Treasury Notes 2.125% Due 05-31-2015	18,326,250
16,700,000	US Treasury Notes 4% Due 02-15-2015	17,106,411
13,000,000	US Treasury Bonds 2.625% Due 04-30-2016	13,531,674

The individual investment account, PERS Retiree Health Credit Fund, is invested in various commingled funds, and therefore 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, 2014**

	Pension Investment Pool			Insurance Investment Pool & Individual Investment Account		
	Assets under management	Fees	Basis points	Assets under management	Fees	Basis points
	(Average)			(Average)		
Investment manager fees:						
Global equity managers	\$ 736,887,227	\$ 5,921,419	80	\$ 407,517,020	\$ 916,351	22
Domestic large cap equity managers	766,735,870	2,291,229	30	144,964,304	527,658	36
Domestic small cap equity managers	241,317,779	1,268,367	53	338,899,027	1,366,464	40
Developed international equity managers	517,567,503	1,759,562	34			
Emerging markets equity managers	140,542,806	633,384	45			
Private equity managers	207,122,992	5,283,916	255			
Investment grade fixed income managers	596,123,616	3,905,744	66	1,214,747,953	4,294,126	35
Inflation protected assets managers				367,982,546	1,515,030	41
Below investment grade fixed income managers	230,770,133	1,706,191	74			
Developed international fixed income managers	215,928,714	763,018	35			
Real estate managers	409,558,193	4,129,246	101	151,822,712	1,239,056	82
Timber managers	195,070,086	747,283	38			
Infrastructure managers	169,324,457	1,500,413	89			
Cash & equivalents managers	43,216,243	61,796	14	130,972,566	163,876	13
Short term fixed income managers				1,320,765,970	1,562,163	12
Balanced account managers (Individual Investment Acct.)				84,400,009	352,919	42
Total investment manager fees	<u>\$ 4,470,165,619</u>	<u>29,971,568</u>	<u>67</u>	<u>\$ 4,162,072,107</u>	<u>11,937,643</u>	<u>29</u>
Custodian fees		655,257	1		489,024	1
Investment consultant fees		386,514	1		150,876	0
SIB Service Fees		29,694	0		18,803	0
Total investment expenses *		<u>\$ 31,043,033</u>	<u>69</u>		<u>\$ 12,596,346</u>	<u>30</u>

**Reconciliation of Investment Expenses to Financial Statements**

Investment expenses as reflected in the financial statements	\$ 16,385,850	\$ 8,894,878
Plus investment management fees included in investment income		
Domestic large cap equity managers	585,720	156,924
Domestic small cap equity managers	833,802	-
Developed international equity managers	481,941	311,889
Emerging markets equity managers	219,393	-
Investment Grade domestic fixed income managers	3,255,689	2,455,512
Inflation protected assets managers	-	488,078
Below investment grade domestic fixed income managers	653,054	-
Timber managers	747,283	-
Infrastructure managers	499,033	-
Real estate managers	2,180,244	-
Private equity managers	5,201,025	-
Cash & equivalents managers	-	163,876
Short term fixed income managers	-	-
Balanced account managers (Individual Investment Acct.)	-	125,189
Investment expenses per schedule	<u>\$ 31,043,033</u>	<u>\$ 12,596,346</u>

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

**SCHEDULE OF COMMISSIONS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Brokers	Number of shares traded	Total commissions	Commissions per share
Merrill Lynch	23,166,343	\$ 99,426	\$0.004
Goldman Sachs	17,737,118	103,028	0.006
Sanford C. Bernstein and Co.	13,178,940	73,461	0.006
Morgan Stanley	12,176,591	70,896	0.006
J.P. Morgan	10,019,270	94,157	0.009
Deutsche Bank	9,190,242	47,555	0.005
UBS	7,618,897	39,807	0.005
MLV and Company	7,024,572	105,371	0.015
Credit Suisse	6,867,315	33,888	0.005
Citigroup Global Markets	6,762,502	48,619	0.007
Other 93 Brokers *	46,531,816	597,444	0.013
<b>Total commissions</b>	<b>160,273,606</b>	<b>\$ 1,313,653</b>	<b>\$0.008</b>

\* 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:

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

Employee and employer contributions will be reduced to 7.75% each when TFFR reaches 100% funded level on an actuarial 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 %
<b>Global Equity</b>	<b>57</b>	<b>46-65</b>
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
<b>Global Fixed Income</b>	<b>22</b>	<b>16-28</b>
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
<b>Global Real Assets</b>	<b>20</b>	<b>12-28</b>
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
<b>Global Alternatives</b>		<b>0-10</b>
<b>Cash</b>	<b>1</b>	<b>0-2</b>

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

Restrictions

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

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

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

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

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

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

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

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

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

Internal Controls

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

Evaluation and Review

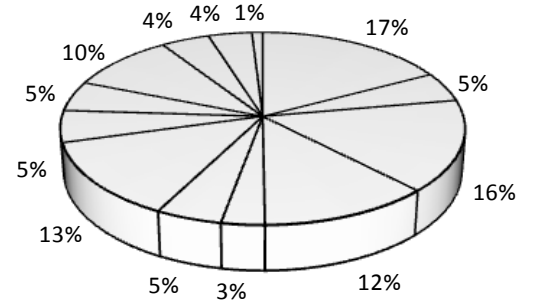
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Emphasis will be placed on three and five year results. Evaluation should include an assessment of the continued feasibility of achieving the investment objectives and the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

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

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

❖ **Teachers' Fund for Retirement**  
**Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 355,603,634	17%	24.96%
Domestic Small Cap Equity	102,851,665	5%	24.36%
Global Equity	317,489,390	16%	22.64%
Developed International Equity	251,746,289	12%	25.89%
Emerging Markets Equity	63,437,732	3%	12.12%
Private Equity	97,357,922	5%	4.02%
Investment Grade Fixed Income	268,496,162	13%	5.55%
Below Investment Grade Fixed Income	109,842,658	5%	13.01%
International Fixed Income	104,446,356	5%	8.25%
Global Real Estate	199,445,821	10%	16.24%
Timber	90,107,889	4%	2.62%
Infrastructure	80,817,784	4%	8.84%
Cash Equivalents	20,041,610	1%	0.04%
Total Fund	<u>\$ 2,061,684,912</u>		16.53%
Policy Benchmark			15.74%



Columns may not foot due to rounding.

## PUBLIC EMPLOYEES RETIREMENT SYSTEM

### ❖ Public Employees Retirement System Investment Objectives and Policy Guidelines

#### Plan Characteristics and Fund Constraints

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

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

The Highway Patrol plan is a single employer plan that provides retirement benefits, disability benefits, and survivor benefits in accordance with Chapter 39-03.1 of the North Dakota Century Code. Monthly retirement benefits are based 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 7% and the employer contribution is 7.12%, for the Judges Plan the employee contribution is 8% and employer contribution is 17.52%, for the National Guard Plan the employee contribution is 4.5% and employer contribution is 7%, for the Law Enforcement Plan with prior service the employee contribution is 5.5% and the employer contribution is 9.81% and for the Law Enforcement Plan without prior service the employee contribution rate is 5.5% and the employer rate is 7.93%.

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

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

#### Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

#### Delegation of Authority

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

Such procedures must provide for:



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

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

Investment Goals

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

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

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

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

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

These two secondary goals affect the Fund's investment strategies and often represent conflicting goals. That is, minimizing the long-term funding costs implies a less conservative investment program, whereas dampening the volatility of contributions and avoiding large swings in the funding status implies a more conservative investment

program. The Board places greater emphasis on the strategy of stabilizing the employee and employer contribution needed to fund the plan over the long term as it assists our participating employers by having a predictable contribution for budgeting.

Investment Performance Objective

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

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

Asset Allocation

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

Asset Class	Policy Target %	Rebalancing Range %
<b>Global Equity</b>	<b>57</b>	<b>46-65</b>
Domestic Equity	31	26-36
International Equity	21	16-26
Developed	16	
Emerging	5	
Private Equity	5	4-8
<b>Global Fixed Income</b>	<b>22</b>	<b>16-28</b>
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
<b>Global Real Assets</b>	<b>20</b>	<b>12-28</b>
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		
<b>Global Alternatives</b>		<b>0-10</b>
<b>Cash</b>	<b>1</b>	<b>0-2</b>

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.

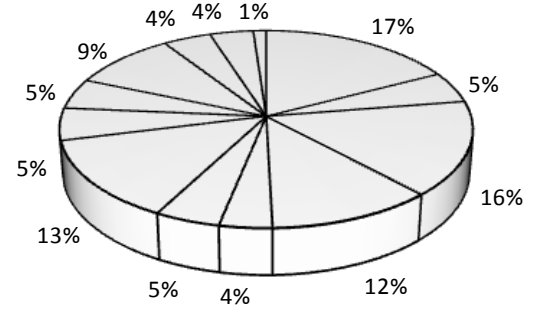
An annual performance report must be provided to the Board by the State Investment Officer at a regularly scheduled NDPERS Board meeting. The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining 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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 405,544,698	17%	24.96%
Domestic Small Cap Equity	119,500,824	5%	24.36%
Global Equity	361,745,569	16%	22.65%
Developed International Equity	269,490,328	12%	25.89%
Emerging Markets Equity	85,511,629	4%	12.13%
Private Equity	106,067,570	5%	4.02%
Investment Grade Fixed Income	310,441,343	13%	5.55%
Below Investment Grade Fixed Income	122,940,496	5%	13.01%
International Fixed Income	116,173,192	5%	8.25%
Global Real Estate	219,449,001	9%	16.24%
Timber	99,343,476	4%	2.62%
Infrastructure	89,833,689	4%	8.84%
Cash Equivalents	26,702,223	1%	0.04%
<b>Total Fund</b>	<b>\$ 2,332,744,038</b>		<b>16.38%</b>
<b>Policy Benchmark</b>			<b>15.67%</b>



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## 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.

Internal Controls

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

Evaluation and Review

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

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

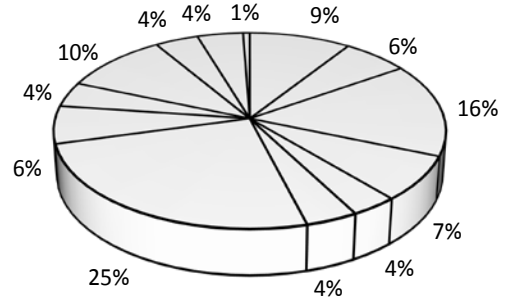
- Changes in asset class portfolio structures, tactical approaches and market values;
- All material legal or legislative proceedings affecting the SIB.

All major liability assumptions regarding number of participants, compensation, benefit levels, and actuarial assumptions will be subject to review by the BCEPP at

such frequency as that board deems appropriate. Any material changes will be reported to the SIB in writing.

**❖ Bismarck City Employee Pension Plan  
Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 7,419,052	9%	25.05%
Domestic Small Cap Equity	4,872,644	6%	24.40%
Global Equity	12,218,243	16%	22.69%
Developed International Equity	5,856,553	7%	25.98%
Emerging Markets Equity	2,715,771	4%	12.07%
Private Equity	3,024,478	4%	4.05%
Investment Grade Fixed Income	19,748,417	25%	5.54%
Below Investment Grade Fixed Income	4,899,469	6%	13.02%
International Fixed Income	3,242,048	4%	8.23%
Global Real Estate	7,798,131	10%	16.24%
Timber	3,174,413	4%	2.62%
Infrastructure	3,343,472	4%	8.84%
Cash Equivalents	491,634	1%	0.04%
Total Fund	<u>\$ 78,804,326</u>		14.56%
Policy Benchmark			13.73%



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

Internal Controls

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

Evaluation and Review

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

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

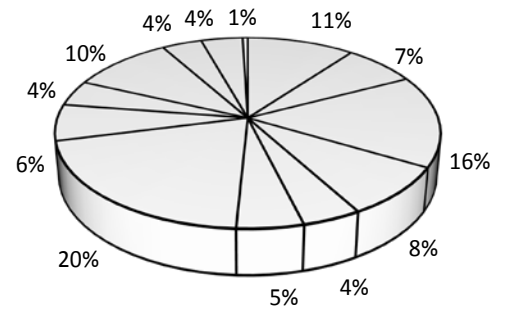
- Changes in asset class portfolio structures, tactical approaches and market values;
- All material legal or legislative proceedings affecting the SIB.



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

❖ **Bismarck City Police Pension Plan**  
**Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 3,626,613	11%	25.05%
Domestic Small Cap Equity	2,468,568	7%	24.40%
Global Equity	5,412,747	16%	22.69%
Developed International Equity	2,930,954	8%	25.98%
Emerging Markets Equity	1,488,628	4%	12.07%
Private Equity	1,680,392	5%	4.05%
Investment Grade Fixed Income	7,042,707	20%	5.54%
Below Investment Grade Fixed Income	2,132,324	6%	13.02%
International Fixed Income	1,509,549	4%	8.23%
Global Real Estate	3,424,524	10%	16.24%
Timber	1,349,410	4%	2.62%
Infrastructure	1,402,095	4%	8.84%
Cash Equivalents	174,694	1%	0.04%
Total Fund	<u>\$ 34,643,204</u>		15.27%
Policy Benchmark			14.45%



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## 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%.

#### Responsibilities and Discretion of the State Investment Board

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

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

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

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

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

#### Delegation of Authority

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

Such procedures must provide for:

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

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

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.

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.

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%

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

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

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.

Restrictions

Investment Performance Objective

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:

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.

- 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.

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.

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.”*

- 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

- 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.

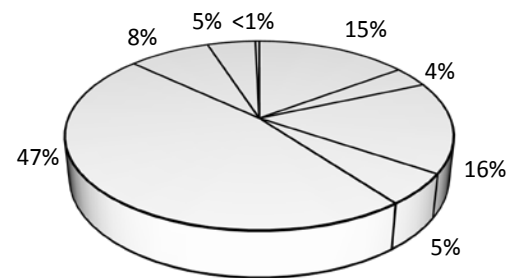
In addition, the State Investment Officer shall review with the Board the procedures and policies established by the SIB relating to this statement of investment goals, objectives, and policies.

**❖ Job Service ND**

**Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 14,662,123	15%	25.05%
Domestic Small Cap Equity	3,499,317	4%	24.40%
Global Equity	15,320,200	16%	22.69%
Developed International Equity	5,266,289	5%	25.98%
Investment Grade Fixed Income	46,113,453	47%	5.54%
Below Investment Grade Fixed Income	7,922,410	8%	13.02%
International Fixed Income	4,652,416	5%	8.23%
Cash Equivalents	389,562	0%	0.04%
<b>Total Fund</b>	<b>\$ 97,825,769</b>		<b>13.54%</b>
<b>Policy Benchmark</b>			<b>13.02%</b>

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## 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’s 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: 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 %
<b>Global Equity</b>	<b>60</b>
Domestic Equity	40
Large	30
Small	10
International Equity	15
Developed	10
Emerging	5
Private Equity	5
<b>Global Fixed Income</b>	<b>24</b>
Domestic Fixed	19
Investment Grade	14
Non-investment Grade	5
International Fixed	5
Developed	5
<b>Global Real Assets</b>	<b>15</b>
Global Real Estate	5
Infrastructure	5
Timber	5
<b>Cash</b>	<b>1</b>

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.

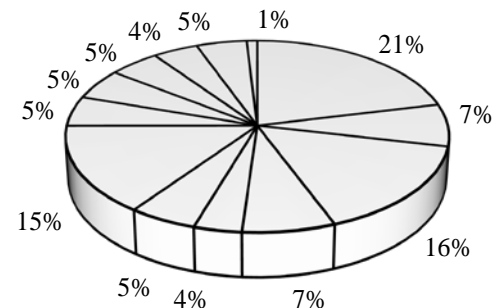
The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- 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.

❖ **City of Grand Forks Pension Plan  
Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 12,351,451	21%	25.05%
Domestic Small Cap Equity	4,134,621	7%	24.40%
Global Equity	9,032,227	16%	22.69%
Developed International Equity	4,094,860	7%	25.98%
Emerging Markets Equity	2,117,765	4%	12.07%
Private Equity	3,006,188	5%	4.05%
Investment Grade Fixed Income	8,674,589	15%	5.54%
Below Investment Grade Fixed Income	2,921,734	5%	13.02%
International Fixed Income	3,019,915	5%	8.23%
Global Real Estate	2,770,939	5%	16.24%
Timber	2,458,886	4%	2.62%
Infrastructure	2,734,286	5%	8.84%
Cash Equivalents	579,151	1%	0.04%
<b>Total Fund</b>	<b>\$ 57,896,611</b>		<b>16.33%</b>
<b>Policy Benchmark</b>			<b>15.97%</b>



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## 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 five 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’s 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: 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 %
<b>Global Equity</b>	<b>65</b>
Domestic Equity	45
Large	40
Small	5
International Equity	15
Developed	12
Emerging	3
Private Equity	5
<b>Global Fixed Income</b>	<b>25</b>
Domestic Fixed	25
Investment Grade	25
<b>Global Real Assets</b>	<b>10</b>
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.

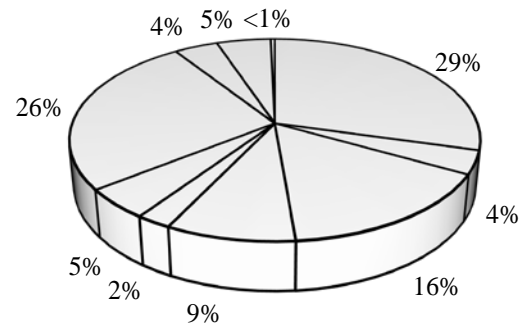
The annual performance report must include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the Fund, including:

- 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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 1,736,004	29%	25.05%
Domestic Small Cap Equity	221,510	4%	24.40%
Global Equity	929,478	16%	22.69%
Developed International Equity	521,129	9%	25.98%
Emerging Markets Equity	141,914	2%	12.07%
Private Equity	286,106	5%	4.05%
Investment Grade Fixed Income	1,545,563	26%	5.54%
Timber	239,199	4%	2.62%
Infrastructure	295,051	5%	8.84%
Cash Equivalents	23,039	0%	0.04%
<b>Total Fund</b>	<b>\$ 5,938,993</b>		<b>16.44%</b>
<b>Policy Benchmark</b>			<b>16.21%</b>



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## WORKFORCE SAFETY & INSURANCE FUND

### ❖ Workforce Safety & Insurance Fund Investment Objectives and Policy Guidelines

#### Introduction

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

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

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

#### Responsibilities of the North Dakota State Investment Board (SIB)

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

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

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

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

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

#### Investment Objectives

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

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

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

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

#### Standards of Investment Performance

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

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

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

Policy and Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

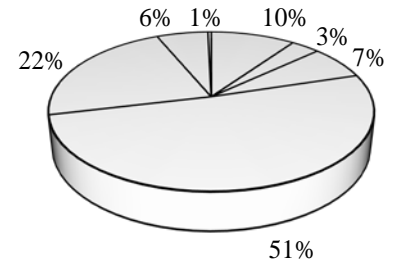
Evaluation and Review

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

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

❖ **Workforce Safety & Insurance Fund**  
**Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 169,991,424	10%	25.76%
Domestic Small Cap Equity	57,632,002	3%	24.37%
International Equity	118,714,771	7%	25.12%
Fixed Income	869,573,954	51%	7.63%
Inflation Protected	377,720,088	22%	9.87%
Real Estate	103,717,519	6%	9.38%
Cash Equivalents	<u>6,638,222</u>	1%	0.01%
Total Fund	\$ <u><u>1,703,987,980</u></u>		11.71%
Policy Benchmark			9.95%



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## 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 a gradual implementation strategy which began in August, 2013. The stated asset allocation is expected to be fully implemented in January 2015.)**

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:

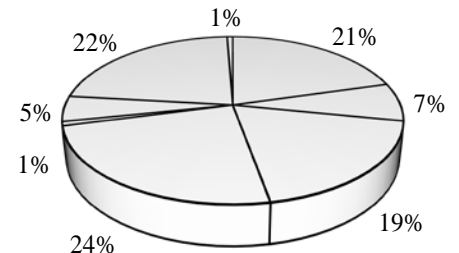
- Changes in asset class portfolio structures, tactical approaches, and market values.
- Loss of principal, if any.

- 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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 458,464,789	21%	*
Domestic Small Cap Equity	163,261,043	7%	*
International Equity	421,022,237	19%	*
Fixed Income	531,031,634	24%	*
Inflation Protected	17,883,247	1%	*
Real Estate	108,897,786	5%	*
Short-Term Fixed Income	501,241,653	22%	1.96%
Cash Equivalents	14,138,754	1%	0.02%
<b>Total Fund</b>	<b>\$ 2,215,941,142</b>		<b>6.64%</b>
<b>Policy Benchmark</b>			<b>5.54%</b>



\* These asset classes do not have a full year of performance history within the Legacy Fund.

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## STATE FIRE AND TORNADO FUND

### ❖ State Fire and Tornado Fund Investment Objectives and Policy Guidelines

#### Fund Characteristics and Constraints

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

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

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

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

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

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

Generally, there is a two week lead time to prepare for a claim payment. Large claim payments have a longer lead time and are spread out in multiple payments whenever possible. Total claim payments and transfers over the last three fiscal years have averaged \$2.2 million annually.

Operating expenses are paid from the Fund as incurred. These include Fund administration, boiler inspection program, anhydrous ammonia storage facility inspections, State Fire Marshall's Office, and North Dakota Firefighter's Association. For planning purposes over the 2009-2011 biennium, these appropriations were assumed to be \$967,080 annually.

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

#### Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

#### Investment Objectives

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

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

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

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

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

Standards of Investment Performance

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

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

Policy and Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

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

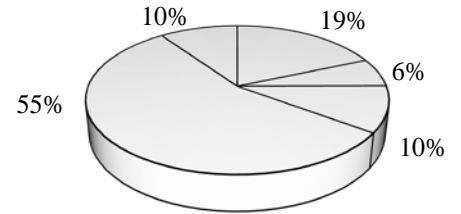
Evaluation and Review

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

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

❖ **State Fire and Tornado Fund**  
**Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 5,461,655	19%	25.85%
Domestic Small Cap Equity	1,823,400	6%	24.34%
International Equity	2,911,031	10%	25.26%
Fixed Income	16,130,645	55%	7.60%
Cash Equivalents	2,896,977	10%	0.01%
<b>Total Fund</b>	<b>\$ 29,223,707</b>		<b>12.78%</b>
Policy Benchmark			10.74%



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## STATE BONDING FUND

### ❖ State Bonding Fund

#### Investment Objectives and Policy Guidelines

##### Fund Characteristics and Constraints

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

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

Claims paid from the Fund are on an as-needed basis and are highly unpredictable. A judgment against the guilty party is required prior to the Fund making a claim payment. Generally, there is a 60-90 day lead time to prepare for a claim payment. Claims have averaged \$114,170 annually over the last three fiscal years.

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

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

##### Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring,

maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants and report formats and determining the frequency of meetings with managers.

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

##### Investment Objectives

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

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

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

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

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

##### Standards of Investment Performance

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

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

##### Policy and Guidelines

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

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

Fixed Income	55.00%
Cash Equivalents	45.00%

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

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

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

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

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

For the purpose of this document economically targeted investment is defined as an investment

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

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

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

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

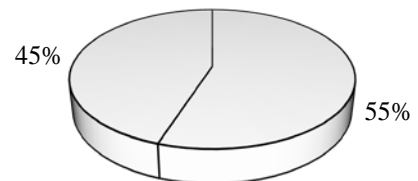
Evaluation and Review

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

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

❖ **State Bonding Fund**  
**Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Fixed Income	\$ 1,803,679	55%	7.60%
Cash Equivalents	1,465,312	45%	0.01%
Total Fund	<u>\$ 3,268,991</u>		4.06%
Policy Benchmark			2.42%



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## 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.

*effect other than a maximized return to the intended beneficiaries."*

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*

- 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.

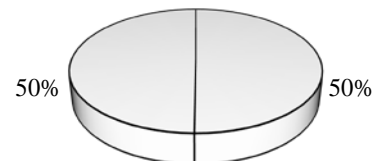
Evaluation and Review

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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Fixed Income	\$ 3,557,608	50%	7.60%
Cash Equivalents	3,535,390	50%	0.01%
Total Fund	\$ <u>7,092,998</u>		3.68%
Policy Benchmark			2.20%



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## 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.

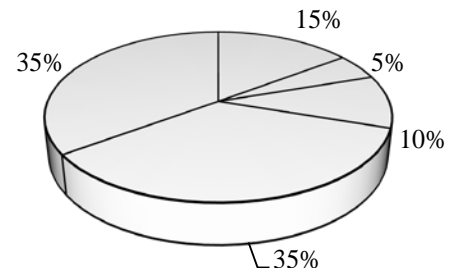
Evaluation and Review

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, 2014**

Asset Allocation	Fair Value	Percent of Total	One Year Return (net)
Domestic Large Cap Equity	\$ 171,478	15%	25.85%
Domestic Small Cap Equity	57,283	5%	24.34%
International Equity	114,971	10%	25.26%
Fixed Income	402,997	35%	7.60%
Cash Equivalents	399,310	35%	0.01%
Total Fund	\$ 1,146,038		9.88%
Policy Benchmark			8.59%



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## 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.

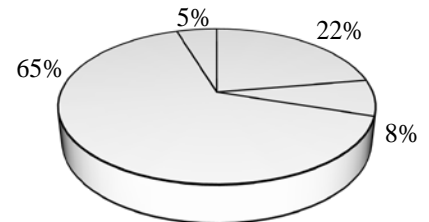
Evaluation and Review

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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 1,557,757	22%	25.85%
Domestic Small Cap Equity	519,746	8%	24.34%
Fixed Income	4,532,311	65%	7.60%
Cash Equivalents	338,349	5%	0.01%
Total Fund	<u>\$ 6,948,162</u>		12.29%
Policy Benchmark			10.09%



Columns may not foot due to rounding.

## STATE RISK MANAGEMENT WORKERS COMPENSATION FUND

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

#### Plan Characteristics and Fund Constraints

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

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

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

#### Responsibilities of the State Investment Board (SIB)

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

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

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

The SIB is responsible for establishing criteria and procedures and making decisions with respect to hiring,

maintaining, and terminating money managers. This responsibility includes selecting performance measurement services, consultants, and report formats and determining the frequency of meetings with managers.

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

#### Investment Objectives

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

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

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

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

#### Standards of Investment Performance

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

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

#### Policy and Guidelines

The asset allocation of the Fund is established by the SIB, with input from the OMB. Asset allocation is based upon the appraisal of projected liquidity and income requirements, and estimates of the investment returns likely

to be achieved by the various asset classes over the next five years.

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

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

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

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

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

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

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

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

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

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

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

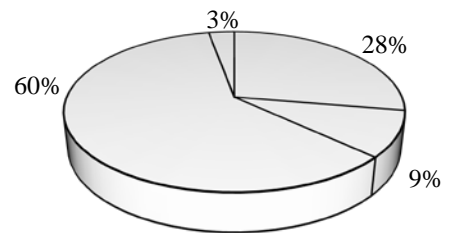
Evaluation and Review

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

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

**❖ State Risk Management WC Fund  
Actual Asset Allocation – June 30, 2014**

Asset Allocation	Fair Value	Percent of Total	One Year Return (net)
Domestic Large Cap Equity	\$ 1,649,868	28%	25.85%
Domestic Small Cap Equity	550,307	9%	24.34%
Fixed Income	3,592,658	60%	7.60%
Cash Equivalents	172,489	3%	0.01%
Total Fund	\$ 5,965,322		13.68%
Policy Benchmark			11.59%



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## 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.

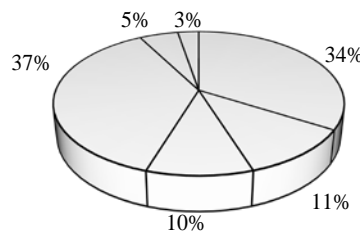
**Evaluation and Review**

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, 2014**

Asset Allocation	Fair Value	Percent of Total	One Year Return (net)
Domestic Large Cap Equity	\$ 122,899	34%	25.85%
Domestic Small Cap Equity	41,027	11%	24.34%
International Equity	36,507	10%	25.26%
Fixed Income	135,715	37%	7.60%
Real Estate	18,669	5%	9.39%
Cash Equivalents	10,163	3%	0.01%
Total Fund	<u>\$ 364,979</u>		16.94%
Policy Benchmark			15.52%



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## NORTH DAKOTA BUDGET STABILIZATION FUND

### ❖ ND Budget Stabilization Fund Investment Objectives and Policy Guidelines

#### Fund Characteristics and Constraints

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

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

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

#### Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

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

#### Investment Objectives

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

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

#### Standards of Investment Performance

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

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

#### Policy and Guidelines

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



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

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

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

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

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

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

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

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

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

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

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

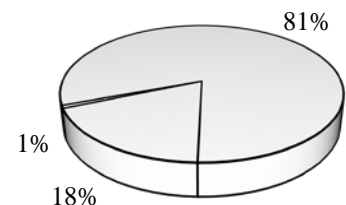
Evaluation and Review

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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Short-term Fixed Income	\$ 474,605,355	81%	1.79%
BND Match Loan CDs	107,607,396	18%	2.81%
Cash Equivalents	3,987,131	1%	0.01%
Total Fund	<u>\$ 586,199,881</u>		1.94%
Policy Benchmark			0.61%



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## NORTH DAKOTA ASSOCIATION OF COUNTIES

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

#### Introduction

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

#### Responsibilities and Discretion of the State Investment Board (SIB)

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

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

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

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

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

#### Investment Objectives

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

#### Standards of Investment Performance

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

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

#### Policy and Guidelines

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

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

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

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

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

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

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

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

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

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

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

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

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

Internal Controls

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

Evaluation and Review

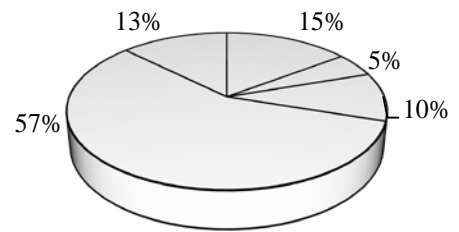
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

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

**❖ ND Association of Counties (NDACo) Fund  
Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 515,058	15%	25.85%
Domestic Small Cap Equity	171,912	5%	24.34%
International Equity	344,205	10%	25.26%
Fixed Income	1,970,601	57%	7.60%
Cash Equivalents	443,597	13%	0.01%
Total Fund	<u>\$ 3,445,373</u>		11.61%
Policy Benchmark			9.60%

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## 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

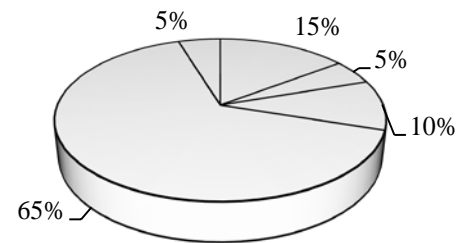
Investment management of the Fund will be evaluated against the Fund’s investment objectives and investment performance standards. Evaluation will be conducted quarterly by the SIB through its review of funds participating in the Insurance Trust.

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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 126,991	15%	25.85%
Domestic Small Cap Equity	42,424	5%	24.34%
International Equity	84,838	10%	25.26%
Fixed Income	554,132	65%	7.60%
Cash Equivalents	41,434	5%	0.01%
Total Fund	<u>\$ 849,818</u>		12.32%
Policy Benchmark			9.97%

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## 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 1<sup>st</sup> and 15<sup>th</sup> of each month. The premiums transferred into the investment account will be transferred back to PERS on approximately the 22<sup>nd</sup> 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:

### ❖NDPERS Group Insurance Account Actual Asset Allocation – June 30, 2014

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Cash Equivalents	<u>\$37,425,567</u>	100%	0.00%
Policy Benchmark			0.00%

- 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.

## 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.

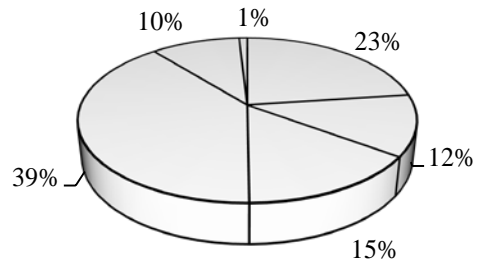
Evaluation and Review

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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 9,572,398	23%	25.85%
Domestic Small Cap Equity	5,000,577	12%	24.34%
International Equity	6,251,481	15%	25.26%
Fixed Income	16,339,410	39%	7.60%
Inflation Protected	4,224,487	10%	9.88%
Cash Equivalents	387,639	1%	0.01%
<b>Total Fund</b>	<b>\$ 41,775,992</b>		<b>16.34%</b>
Policy Benchmark			14.76%



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## ND STATE BOARD OF MEDICAL EXAMINERS FUND

### ❖ ND State Board of Medical Examiners Fund Investment Objectives and Policy Guidelines

#### Plan Characteristics and Fund Constraints

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

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

#### Fund Goals

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

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

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

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

#### Responsibilities and Discretion of the State Investment Board (SIB)

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

exclusively for the benefit of the members and their beneficiaries in accordance with this investment policy.

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

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

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

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

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

#### Risk Tolerance

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

#### Investment Objectives

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

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

Policy Asset Mix

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

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

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

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

Restrictions

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

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

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

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

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

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

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

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

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

Internal Controls

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

Evaluation and Review

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

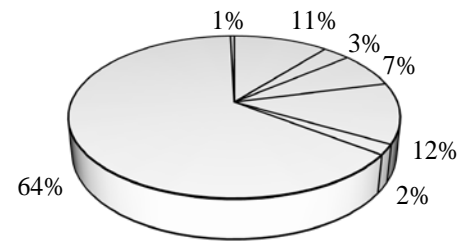
Performance reports will be provided to the BCEPP Board periodically, but not less than annually. Such reports will

include asset returns and allocation data as well as information regarding all significant and/or material matters and changes pertaining to the investment of the Fund, including, but not limited to:

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

**❖ND State Board of Medical Examiners Fund  
Actual Asset Allocation – June 30, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 207,143	11%	*
Domestic Small Cap Equity	59,227	3%	*
International Equity	132,205	7%	*
Fixed Income	227,787	12%	*
Real Estate	38,886	2%	*
Short-Term Fixed Income	1,216,322	64%	*
Cash Equivalents	8,326	1%	*
Total Fund	<u>\$ 1,889,897</u>		*
Policy Benchmark			*



\* These asset classes do not have a full year of performance history within the this fund.  
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## 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

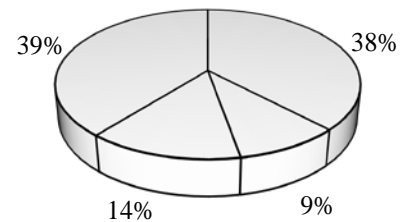
Investment management of the Fund will be evaluated against the Fund's investment objectives and investment performance standards.

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, 2014**

<u>Asset Allocation</u>	<u>Fair Value</u>	<u>Percent of Total</u>	<u>One Year Return (net)</u>
Domestic Large Cap Equity	\$ 33,989,037	38%	24.89%
Domestic Small Cap Equity	8,589,257	9%	23.77%
International Equity	12,534,457	14%	21.43%
Core Plus Fixed Income	<u>35,247,615</u>	39%	5.73%
Total Fund	<u><u>\$90,360,366</u></u>		16.53%
Policy Benchmark			16.33%



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# **ACTUARIAL SECTION**



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October 16, 2014

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, 2014**

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, 2014.

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 the Governmental Accounting Standards Board Statement No. 67 (GASB 67) 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 9.75% to 11.75% effective July 1, 2014. The employer rate was increased from 10.75% 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 16, 2014  
 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 29 years beginning July 1, 2014, although at any given time the statutory rates may be insufficient.

#### **PROGRESS TOWARD REALIZATION OF FINANCING OBJECTIVES**

In order to determine the adequacy of the 12.75% statutory employer contribution rate, it is compared to the actuarially determined contribution (ADC). The ADC 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 the 30-year closed period that began July 1, 2013 (29 years remaining as of July 1, 2014). For this calculation, payroll is assumed to increase 3.25% per year. As of July 1, 2014, the ADC is 11.57%, compared to 10.26% last year. This is less than the 12.75% rate currently required by law.

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) increased from last year. The funded ratio at July 1, 2013, was 58.8%, while it is 61.8% as of July 1, 2014. Based on the market value of assets rather than the actuarial value of assets, the funded ratio increased to 66.6%, compared to 61.4% last year.

The plan has a net asset gain of \$151 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 2011, FY 2013, and FY 2014 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 disclose certain actuarial information in its Comprehensive Annual Financial Report (CAFR), including the Net Pension Liability (NPL), the sensitivity of the NPL to changes in the discount rate, a schedule of changes in NPL, and a comparison of actual contributions to the ADC. The State and the school districts need to comply with GASB 68, which also requires disclosure of certain actuarial information in their financial statements. This information will be provided in a separate report.

#### **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. In our opinion, the assumptions as approved by the Board are reasonably related to the experience of the Plan.

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. The actuarially determined contribution is 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

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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, 2014, 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 Changes in Net Pension Liability and Related Ratios and the Schedule of Employer Contributions in the Financial Section.

Sincerely,



Kim Nicholl, FSA, MAAA, EA, FCA  
Senior Vice President and Consulting Actuary



Matthew A. Strom, FSA, MAAA, EA  
Vice President and Consulting Actuary

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**SUMMARY OF ACTUARIAL VALUATION RESULTS**

	2014	2013
Demographic Data for Plan Year Beginning July 1:		
• Number of		
- Retirees and Beneficiaries	7,747	7,489
- Inactive, Vested	1,509	1,500
- Inactive, Nonvested	661	563
- Active Members	10,305	10,138
• Payroll (annualized)	\$557.2 million	\$526.7 million
Statutory Contributions (% of Payroll) for Plan Year Beginning July 1:		
• Employer	12.75%	10.75%
• Member	11.75%	9.75%
• Actuarially determined contribution rate for year beginning July 1	11.57%	10.26%
• Margin/(Deficit)	1.18%	0.49% *
Assets:		
• Market value	\$2,091.0 million	\$1,839.6 million
• Actuarial value	1,940.5 million	1,762.3 million
• Return on market value (per actuary)	16.1%	13.4%
• Return on actuarial value	12.6%	2.7%
• Ratio - actuarial value to market value	92.8%	95.8%
• Net cash flow % relative to market value	-2.0%	-1.9%
Actuarial Information:		
• Normal cost %	10.63%	10.15%
• Normal cost	\$63.0 million	\$56.8 million
• Actuarial accrued liability	\$3,138.8 million	\$2,997.1 million
• Unfunded actuarial accrued liability (UAAL)	\$1,198.3 million	\$1,234.8 million
• Funded ratio	61.8%	58.8%
• Effective amortization period	24 years	28 years *
GASB Information:		
• Discount rate	8.00%	8.00%
• Total pension liability	\$3,138.8 million	\$2,997.1 million
• Plan fiduciary net position	\$2,091.0 million	\$1,839.6 million
• Net pension liability	\$1,047.8 million	\$1,157.6 million
• Plan fiduciary net position as % of total pension liability	66.6%	61.4%
Gains/(Losses):		
• Asset experience	\$80.1 million	\$(91.1) million
• Liability experience	(8.9) million	(4.3) million
• Benefit changes	0.0 million	0.0 million
• Assumption/method changes	0.0 million	11.1 million
• Total Gain/(Loss)	<u>\$71.2 million</u>	<u>\$(84.3) million</u>

\* Reflects increases in member and employer contribution rates effective July 1, 2014.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following actuarial assumptions and methods have been set by the TFFR Board, based upon recommendations made by the Plan’s actuary, for both funding and financial reporting purposes. However, the investment return rate used for funding is net of investment expenses and administrative expenses, whereas the rate used for financial reporting is net of investment expenses only (per GASB Statement 67). These actuarial assumptions and methods are based on the results of an experience study dated January 21, 2010, effective for the July 1, 2010 valuation.

### 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				
Age	Male Annuitants		Female Annuitants	
	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				
Age	Unreduced Retirement*		Reduced Retirement	
	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 entry age normal cost method establishes an accrual pattern such that normal costs are expected to be a level percentage of payroll, which is appropriate since contributions are collected as a percentage of payroll. 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. The actuarial cost method used is the same for funding and financial reporting.

**AMORTIZATION PERIOD AND METHOD**

The actuarial determined contribution (ADC) 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 the 30-year closed period that began July 1, 2013.



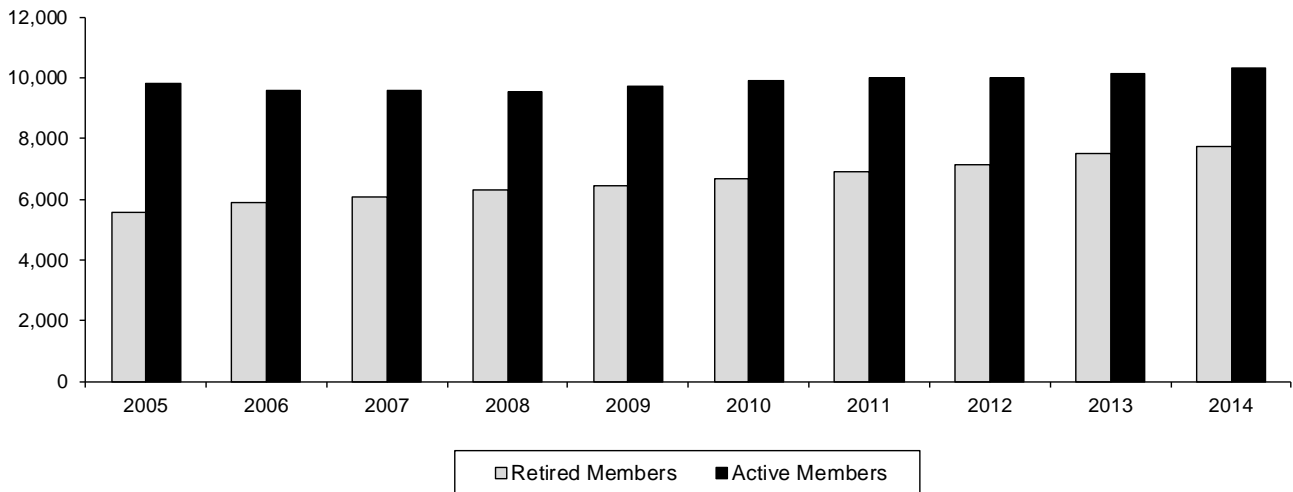
**SCHEDULE OF ACTIVE MEMBERS**

Valuation Year	Active Members		Covered Payroll (annualized)		Average Salary		Average Age	Average Service
	Number	Percent Increase	Amount in \$ Millions	Percent Increase	\$ Amount	Percent Increase		
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
2014	10,305	1.6	557.2	5.8	54,073	4.1	42.9	12.8

**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
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
2014	461	14.3	203	2.5	7,747	21,396	158.4	8.5

**ACTIVE MEMBERS VS RETIRED MEMBERS  
10-YEAR SUMMARY**



**ANALYSIS OF CHANGE IN  
ACTUARIALLY DETERMINED CONTRIBUTION (ADC)**

	<u>7/1/2014</u>	<u>7/1/2013</u>
Prior valuation	10.26 %	9.49 %
Increases/(decreases) due to:		
Change in remaining amortization period	0.00 %	(0.23)%
Change in covered payroll and normal cost	(0.27)%	(0.20)%
Employer contributions received at 10.75%; rather than 10.26% for FY2014 or 9.49% for FY2013	(0.05)%	(0.14)%
Liability experience	0.25 %	0.05 %
Investment experience	(0.62)%	1.02 %
Legislative changes	0.00 %	0.00 %
Actuarial cost method changes	0.00 %	0.27 %
Adjustment to remove PV of increased employer statutory contributions from amortization payment	2.00 %	0.00 %
Total	<u>1.31 %</u>	<u>0.77 %</u>
Current valuation	11.57 %	10.26 %
Statutory employer contribution rate	12.75 %	10.75 %
Margin available	<u>1.18 %</u>	<u>0.49 %</u>

**DEVELOPMENT OF UNFUNDED  
ACTUARIAL ACCRUED LIABILITY (UAAL)**

	(\$ in millions)	
	<u>7/1/2014</u>	<u>7/1/2013</u>
UAAL at beginning of year	\$ 1,234.8	\$ 1,123.8
Normal cost	56.8	52.7
Total contributions	(121.0)	(115.8)
Interest on:		
UAAL and normal cost	103.3	94.1
Total contributions	<u>(4.4)</u>	<u>(4.2)</u>
Expected UAAL	\$ 1,269.5	\$ 1,150.6
Changes due to (gain)/loss from:		
Investments	\$ (80.1)	\$ 91.1
Demographics	8.9	4.3
Change due to plan amendments	-	-
Change in actuarial cost method	<u>-</u>	<u>(11.2)</u>
UAAL at end of year	<u>\$ 1,198.3</u>	<u>\$ 1,234.8</u>

**SOLVENCY TEST**

Valuation Year	Actuarial Accrued Liability (AAL) (in millions)			Actuarial Value of Assets (\$ in millions)	Portion of AAL Covered by Valuation Assets		
	Active Member Contributions	Retirees and Beneficiaries	Active/Inactive Members (Employer Financed)		Active Member Contributions	Retirees and Beneficiaries	Active/Inactive Members (Employer Financed)
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
2014	698.2	1,661.6	779.0	1,940.5	100.0	74.8	0.0

**SCHEDULE OF FUNDING PROGRESS**

Actuarial Valuation Date July 1	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded/ Accrued Liability (UAAL)	Funded Ratio	Total Payroll (annualized)	UAAL as a % of Compensation
2005	\$1,469.7	\$1,965.2	\$ 495.5	74.8%	\$386.6	128.2%
2006	1,564.0	2,073.9	509.9	75.4	390.1	130.7
2007	1,750.1	2,209.3	459.2	79.2	401.3	114.4
2008	1,909.5	2,330.6	421.1	81.9	417.7	100.8
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
2014	1,940.5	3,138.8	1,198.3	61.8	557.2	215.1

Please also refer to the Schedule of Employer Contributions in the required supplementary information to the financial statements on page 55.

## 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 TFFR Board is also responsible for establishing and maintaining a funding 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 11.75% 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 was increased 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. Disability Retirement

- a. Eligibility: A member is eligible provided he/she has credit for at least one year of service. Effective July 1, 2013, a member is eligible provided he/she has credit for at least five years of service.
- b. Monthly Benefit: 2.00% of FAC (monthly) times years of service with a minimum 20 years of service. Effective July 1, 2013, 2.00% of FAC (monthly) times years of service.
- c. Payment Form: The disability benefit commences immediately upon the member's retirement. Benefits cease upon recovery or reemployment. Disability benefits are payable as a monthly life annuity with a guarantee that, at the member's death, the sum of the member's contributions plus interest as of the date of retirement that is in excess of the sum of payments already received will be paid in a lump-sum to the member's beneficiary.
- d. All alternative forms of payment other than level income and the partial lump-sum option are also permitted in the case of disability retirement. For basis recovery only, disability benefits are converted to normal retirement benefits when the member reaches normal retirement age or age 65, whichever is earlier.

15. Deferred Termination Benefit

- a. Eligibility: A Tier 1 member with at least three years of service, or a Tier 2 member with at least five years of service, who does not withdraw his/her contributions from the fund, is eligible for a deferred termination benefit.
- b. Monthly Benefit: 2.00% of FAC (monthly) times years of service. Both FAC and service are determined at the time the member leaves active employment. Benefits may commence unreduced at age 65 or when the member's age and service is 85 (Grandfathered Tier 1 members) or 90 with a minimum age of 60 (Non-grandfathered Tier 1 and Tier 2 members). Reduced benefits may commence at or after age 55 if the member is not eligible for an unreduced benefit. 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. Withdrawal (Refund) Benefit

- a. Eligibility: Tier 1 members leaving covered employment with less than three years of service, and Tier 2 members leaving covered employment with less than five years of service, are eligible. Optionally, vested members may withdraw their contributions plus interest in lieu of the deferred benefits otherwise due.

**Summary of Plan Provisions (continued)**

- b. Benefit: The member who withdraws receives a lump-sum payment of his/her employee contributions, plus the interest credited on these contributions. Interest is credited at 6% per year (0.5% per month).

17. Death Benefit

- a. Eligibility: Death must have occurred while an active or an inactive, non-retired member.
- b. Benefit: Upon the death of a nonvested member, a refund of the member's contributions and interest is paid. Upon the death of a vested member, the beneficiary may elect (i) the refund benefit above, or (ii) a life annuity of the normal retirement benefit, determined under Option One below, based on FAC and service as of the date of death, but without applying any reduction for the member's age at death. In determining the reduction for Option One, members not eligible for normal retirement benefits use the Fund's option tables for disabled members.

18. Optional Forms of Payment: There are optional forms of payment available on an actuarially equivalent basis, as follows:

- a. Option 1 - A life annuity payable while either the participant or his beneficiary is alive, "popping-up" to the original life annuity if the beneficiary predeceases the member.
- b. Option 2 - A life annuity payable to the member while both the member and beneficiary are alive, reducing to 50% of this amount if the member predeceases the beneficiary, and "popping-up" to the original life annuity if the beneficiary predeceases the member.
- c. Option 3a - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 60 payments (five years), the payments will be continued to a beneficiary for the balance of the five-year period. (This option has been replaced by Option 3b. It is not available to employees who retire on or after August 1, 2003. Retirees who elected this option prior to that date are unaffected.)
- d. Option 3b - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 240 payments (twenty years), the payments will be continued to a beneficiary for the balance of the twenty-year period. (This option replaced Option 3a effective August 1, 2003.)
- e. Option 4 - A life annuity payable to the member, with a guarantee that, should the member die prior to receiving 120 payments (ten years), the payments will be continued to a beneficiary for the balance of the ten-year period.
- f. Option 5 - A non-level annuity payable to the member, designed to provide a level total income when combined with the member's Social Security benefit. This option is not available to disabled retirees.

In addition, members may elect a partial lump-sum option (PLSO) at retirement. Under this option, a member receives an immediate lump-sum equal to 12 times the monthly life annuity benefit and a reduced annuity. The reduction is determined actuarially. The member can then elect to receive the annuity benefit in one of the other optional forms, except that members who receive a PLSO may not elect Option 5 – the level income option. The PLSO is not available to disabled retirees or retirees who are not eligible for an unreduced retirement benefit.

Actuarial equivalence is based on tables adopted by the Board of Trustees.

19. Cost-of-living Increase: From time to time, TFFR has been amended to grant certain post-retirement benefit increases. However, TFFR has no automatic cost-of-living increase features.

## SUMMARY OF PLAN CHANGES

### **1991 Legislative Session:**

1. Benefit multiplier increased from 1.275% to 1.39% for all future retirees.
2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1991. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:
  - a. \$3 per year of service for retirements before 1980.
  - b. \$2 per year of service for retirements between 1980 and 1983.
  - c. \$1 per year of service for retirements from 1984 through June 30, 1991.

Minimum increase is \$5 per month. Maximum increase is \$75 per month.

### **1993 Legislative Session:**

1. Benefit multiplier increased from 1.39% to 1.55% for all future retirees.
2. Provide a post-retirement benefit increase for all annuitants receiving a monthly benefit on June 30, 1993. The monthly increase is the greater of a 10% increase or a level increase based on years of service and retirement date:
  - a. \$3 per year of service for retirements before 1980.
  - b. \$2.50 per year of service for retirements between 1980 and 1983.
  - c. \$1 per year of service for retirements from 1984 through June 30, 1993.

Minimum increase is \$5 per month. Maximum increase is \$100 per month.

3. Minimum retirement benefit increased to \$10 times years of service up to 25, plus \$15 times years of service greater than 25. (Previously was \$6 up to 25 years of service plus \$7.50 over 25 years of service.)
4. Disability benefit changed to 1.55% of FAC times years of service using a minimum of 20 years of service.

### **1995 Legislative Session:**

There were no material changes made during the 1995 legislative session.

### **1997 Legislative Session:**

1. Benefit multiplier increased from 1.55% to 1.75% for all future retirees.
2. Member assessment rate and employer contribution rate increased from 6.75% to 7.75%.
3. A \$30.00/month benefit improvement was granted to all retirees and beneficiaries.



***Summary of Plan Changes (continued)***

**1999 Legislative Session:**

1. Active members will now be fully vested after three years (rather than five years) of service.
2. Early retirement benefits will be reduced 6% per year from the earlier of (i) age 65, or (ii) the date as of which age plus service equals 85 (rather than from age 65 in all cases).
3. An ad hoc COLA was provided for all retirees and beneficiaries. This increase is equal to an additional \$2 per month for each year of service plus \$1 per month for each year since the member's retirement.
4. The formula multiplier was increased from 1.75% to 1.88% effective July 1, 1999.

**2001 Legislative Session:**

1. An ad hoc COLA was provided for all retirees and beneficiaries. The ad hoc COLA increase is equal to an additional \$2.00 per month for each year of service plus \$1.00 per month for each year since the member's retirement. Retirees and beneficiaries will also receive two additional increases equal to 0.75% times the monthly benefit, payable July 1, 2001 and July 1, 2002. The two 0.75% increases are conditional. If the actuarial margin is a shortfall, i.e., is negative, by 60 basis points or more, or if the margin has been negative by 30 or more basis points for two years, the Board could elect to suspend the increase.
2. The formula multiplier was increased from 1.88% to 2.00% effective July 1, 2001.

**2003 Legislative Session:**

1. Partial lump-sum option adopted, equal to twelve times the monthly life annuity benefit. Not available if level-income option is elected. Not available for reduced retirement or disability retirement.
2. Five-year certain and life option replaced with 20-year certain and life. This does not impact retirees who retired under the five-year certain and life option.
3. Employer service purchase authorized.
4. Active members of the Department of Public Instruction are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY2004. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be based on the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance if larger.

**2005 Legislative Session:**

There were no material changes made during the 2005 legislative session.

**Summary of Plan Changes (continued)**

**2007 Legislative Session:**

1. For active members hired on or after July 1, 2008 (called Tier 2 members):
  - a. Members will be eligible for an unreduced retirement benefit when they reach age 65 with at least five years of service (rather than three years of service); or if earlier, when the sum of the member's age and service is at least 90 (rather than 85).
  - b. Members will be eligible for a reduced (early) retirement benefit when they reach age 55 with five years of service, rather than three years of service.
  - c. Members will be fully vested after five years of service (rather than three years of service).
  - d. The Final Average Compensation for Tier 2 members is the average of the member's highest five plan year salaries, rather than the average of the three highest salaries.
2. The employer contribution rate increases from 7.75% to 8.25% effective July 1, 2008, but this rate will reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of asset. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.25%.)
3. Employer contributions are required on the salary of reemployed retirees.
4. Active members of the Department of Career and Technical Education are permitted to make a one-time irrevocable election to transfer to the North Dakota Public Employees Retirement System in FY 2008. Both assets and liabilities for all TFFR service will be transferred for electing employees. Transferred assets will be the actuarial present value of the member's accrued TFFR benefit, or the member's contribution account balance, if larger.

**2009 Legislative Session:**

1. An individual who retired before January 1, 2009, and is receiving monthly benefits is entitled to receive a supplemental payment from the fund. The supplemental payment is equal to an amount determined by taking twenty dollars multiplied by the member's number of years of service credit plus fifteen dollars multiplied by the number of years since the member's retirement as of January 1, 2009. The supplemental payment may not exceed the greater of 10% of the member's annual annuity or \$750.00. TFFR will make the supplemental payment in December 2009.
2. The employer contribution rate increases from 8.25% to 8.75% effective July 1, 2010, but this rate will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets. (If the funded ratio later falls below 90% again, the contribution rate will not automatically return to 8.75%.)

**2011 Legislative Session:**

1. The employer contribution rate increases from 8.75% to 10.75% effective July 1, 2012, and increases thereafter to 12.75% effective July 1, 2014. The member contribution rate increases from 7.75% to 9.75% effective July 1, 2012, and increases thereafter to 11.75% effective July 1, 2014. Employer and member contributions will be reset to 7.75% once the Fund reaches a 90% funded ratio, measured using the actuarial value of assets.
2. Current Tier 1 members who, as of June 30, 2013, are vested (at least 3 years of service), and at least age 55, OR the sum of the member's age and service is at least 65, are considered a Tier 1 Grandfathered member. Current Tier 1 members, who do not meet this criteria as of June 30, 2013, are considered a Tier 1 Non-grandfathered member.

***Summary of Plan Changes (continued)***

3. Eligibility for normal/unreduced retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective June 30, 2013, unreduced retirement benefits start when the member reaches age 65 and is vested (3 years for Tier 1 Non-grandfathered, 5 years for Tier 2); or if earlier, when the sum of the member's age and service is at least 90, with a minimum age of 60.
4. Early retirement benefits do not change for Tier 1 Grandfathered members. For Tier 1 Non-grandfathered and Tier 2 members, effective after June 30, 2013, the normal retirement benefit will be reduced by 8% per year from the earlier of age 65 OR the age at which the sum of the member's age and service is at least 90, with the minimum age of 60.
5. Effective after June 30, 2013, all members may retire on disability after a period of at least five years of service (rather than one year of service). The amount of the benefit is based on a 2% multiplier and actual service (rather than a minimum of twenty years of service in the current calculation).
6. Effect July 1, 2012, re-employed retirees are required to pay member contributions.
7. Effective August 1, 2011, beneficiary and death benefit provisions were updated, and the 60-month death payment benefit was removed.

**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.

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# 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

### **Financial Trends**

**160**

These schedules contain trend information to help the reader understand how RIO's financial performance and well-being have changed over time.

### **Demographic Information**

**161**

These schedules offer demographic indicators to help the reader understand the environment within which RIO's financial activities take place.

### **Operating Information**

**165**

These schedules contain service data to help the reader understand how the information in RIO's financial report relates to the services RIO provides and the activities it performs.

*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
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
2014	56,554,767	62,355,146	10.75	294,294,215	2,034,289	415,238,417

**DEDUCTIONS:**

Fiscal Year	Benefits Paid to Participants	Refunds	Administrative Charges	Total Deductions	Change in Net Position
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
2014	158,350,355	3,908,921	1,586,045	163,845,321	251,393,096

## BENEFIT AND REFUND DEDUCTIONS BY TYPE

Fiscal Year	Annuity Payments					Refunds			Total Benefit Expenses
	Service Retirements	PLSO Distributions	Disability Retirements	Beneficiaries	Total Annuity Payments	Separation	Death	Total Refunds	
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
2014	147,286,889	820,463	1,960,290	8,282,713	158,350,355	3,109,595	799,326	3,908,921	162,259,276

**PRINCIPAL PARTICIPATING EMPLOYERS  
CURRENT YEAR AND NINE YEARS AGO**

<b>Participating Employer</b>	<b>2014</b>			<b>2005</b>		
	<b>Covered Employees</b>	<b>Rank</b>	<b>% of Total System</b>	<b>Covered Employees</b>	<b>Rank</b>	<b>% of Total System</b>
Fargo Public Schools	1,144	1	10.15%	992	1	9.57%
Bismarck Public Schools	1,110	2	9.85%	911	2	8.79%
West Fargo Schools	779	3	6.91%	420	5	4.05%
Grand Forks Schools	776	4	6.89%	769	3	7.42%
Minot Schools	680	5	6.03%	610	4	5.88%
Mandan Public Schools	304	6	2.70%	271	6	2.61%
Dickinson Schools	267	7	2.37%	239	7	2.30%
Williston Schools	247	8	2.19%	180	9	1.74%
Jamestown Schools	216	9	1.92%	227	8	2.19%
Devils Lake Schools	173	10	1.54%	162	10	1.56%
All Other <sup>1</sup>	5,573		49.45%	5,588		53.89%
Total (219 & 260 employers) <sup>2</sup>	11,269		100.00%	10,369		100.00%

<sup>1</sup> In 2014 "all other" consisted of:

<b>Type</b>	<b>Number</b>	<b>Employees</b>
School Districts	168	5,077
County Superintendents	7	7
Special Education Units	19	346
Vocational Centers	5	58
State Agencies/Institutions	6	75
Other	4	10
<b>Total</b>	<b>209</b>	<b>5,573</b>

<sup>2</sup> 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, 2014**

**School Districts**

Alexander	Grafton	Minot
Anamoose	Grand Forks	Minto
Apple Creek Elementary	Grenora	Mohall-Lansford-Sherwood
Ashley	Griggs County Central	Montpelier
Bakker Elementary	Halliday	Mott-Regent
Barnes County North	Hankinson	Mt. Pleasant
Beach	Harvey	Munich
Belcourt	Hatton	Napoleon
Belfield	Hazelton – Moffit	Naughton Rural
Beulah	Hazen	Nedrose
Billings County School	Hebron	Nesson
Bismarck	Hettinger	New Elementary
Bottineau	Hillsboro	New England
Bowbells	Hope	New Rockford-Sheyenne
Bowman	Horse Creek Elementary	New Salem-Almont
Burke Central	Jamestown	New Town
Carrington	Kenmare	Newburg United
Cavalier	Kensal	North Border School
Center-Stanton	Kidder County School	North Sargent
Central Cass	Killdeer	North Star
Central Elementary	Kindred	Northern Cass
Central Valley	Kulm	Northwood
Dakota Prairie	Lakota	Oakes
Devils Lake	LaMoure	Oberon Elementary
Dickinson	Langdon	Page
Divide	Larimore	Park River Area
Drake	Leeds	Parshall
Drayton	Lewis and Clark	Pingree – Buchanan
Dunseith	Lidgerwood	Pleasant Valley Elementary
Earl Elementary	Linton	Powers Lake
Edgeley	Lisbon	Richardton-Taylor
Edmore	Litchville-Marion	Richland
Eight Mile	Little Heart Elementary	Robinson
Elgin/New Leipzig	Lone Tree Elementary	Rolette
Ellendale	Maddock	Roosevelt
Emerado Elementary	Mandan	Rugby
Enderlin Area School	Mandaree	Sargent Central
Fairmount	Manning Elementary	Sawyer
Fargo	Manvel Elementary	Scranton
Fessenden-Bowdon	Maple Valley	Selfridge
Finley-Sharon	Mapleton Elementary	Solen-Cannonball
Flasher	Marmarth Elementary	South Heart
Fordville Lankin	Max	South Prairie Elementary
Fort Ransom Elementary	Mayville – Portland CG	St. John’s
Fort Totten	McClusky	St. Thomas
Fort Yates	McKenzie County School	Stanley
Gackle-Streeter	Medina	Starkweather
Garrison	Menoken Elementary	Sterling
Glen Ullin	Midkota	Strasburg
Glenburn	Midway	Surrey
Goodrich	Milnor	Sweet Briar Elementary
	Minnewauken	TGU



**SCHEDULE OF PARTICIPATING EMPLOYERS (Continued)**

**School Districts (cont.)**

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      178**

**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 Special 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 United  
 Roughrider Service Program

**Total Other                      5**

**Total Employers              219**

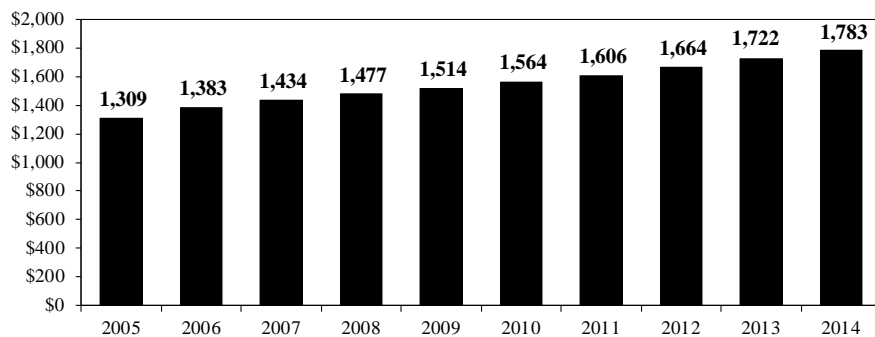
**SCHEDULE OF RETIREES RESIDING IN NORTH DAKOTA BY COUNTY  
AS OF JUNE 30, 2014**

<u>County</u>	<u>Number</u>	<u>Average Benefit</u>	<u>County</u>	<u>Number</u>	<u>Average Benefit</u>	<u>County</u>	<u>Number</u>	<u>Average Benefit</u>
Adams	23	\$ 1,666	Griggs	36	\$ 1,673	Richland	126	\$ 2,016
Barnes	153	1,943	Hettinger	25	1,763	Rolette	75	1,695
Benson	48	1,935	Kidder	35	1,603	Sargent	37	1,396
Billings	5	1,386	LaMoure	58	1,704	Sheridan	20	1,525
Bottineau	124	1,651	Logan	18	1,564	Sioux	4	750
Bowman	44	1,635	McHenry	68	1,823	Slope	5	924
Burke	39	1,498	McIntosh	41	1,640	Stark	215	1,859
Burleigh	806	1,988	McKenzie	58	2,097	Steele	14	1,515
Cass	998	2,029	McLean	115	1,662	Stutsman	197	1,794
Cavalier	69	1,454	Mercer	95	1,900	Towner	30	1,611
Dickey	63	1,562	Morton	257	1,778	Traill	94	1,704
Divide	30	1,976	Mountrail	74	1,552	Walsh	149	1,701
Dunn	34	1,904	Nelson	53	1,583	Ward	547	1,869
Eddy	35	1,944	Oliver	18	1,651	Wells	66	1,693
Emmons	31	1,603	Pembina	83	1,890	Williams	180	1,899
Foster	39	1,911	Pierce	63	1,650	Out of State	1,508	1,477
Golden Valley	17	1,400	Ramsey	136	1,618			
Grand Forks	561	1,991	Ransom	54	1,629	GRAND TOTALS:	7,747	\$ 1,783
Grant	34	1,437	Renville	40	1,907			

## SCHEDULE OF AVERAGE BENEFIT PAYMENTS

Valuation Year		Years of Service								TOTAL	
		< 5	5 - 9	< 10	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34		> 34
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	2.77	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
2014	Number of Retirees	111	351		498	507	835	1,618	2,400	1,427	7,747
	Average Monthly Benefit	232	333		512	837	1,340	1,770	2,169	2,667	1,783
	Average Final Average Salary	2,072	2,274		2,308	2,826	3,266	3,522	3,754	4,018	3,456
	Average Years of Service	3	7		12	17	23	28	32	38	27

Additional detail for service < 10 years is not available prior to 2006. Average Final Average Salary detail not available prior to 2009.



**SCHEDULE OF RETIREES  
BY BENEFIT AMOUNT**

<b>Monthly Benefit Amount</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Under \$200	228	224	215	215	199	193	185	177	171	157
200 to 399	462	464	464	471	466	475	470	461	460	465
400 to 599	443	454	473	489	500	517	539	552	590	619
600 to 799	402	417	418	436	446	469	506	527	563	593
800 to 999	408	410	409	410	410	417	419	420	423	432
1,000 to 1,199	522	533	518	515	527	529	538	540	542	528
1,200 to 1,399	532	535	525	524	514	505	498	493	492	478
1,400 to 1,599	587	591	573	574	556	550	534	519	498	474
1,600 to 1,799	615	607	592	568	550	525	510	483	449	422
1,800 to 1,999	599	586	570	557	526	513	499	474	438	382
2,000 to 2,199	537	522	501	474	445	412	377	338	310	270
2,200 to 2,399	462	435	409	394	381	353	329	287	258	227
2,400 to 2,599	377	349	325	313	287	267	250	228	190	157
2,600 to 2,799	320	303	281	267	237	208	185	160	150	119
2,800 to 2,999	301	261	227	200	178	155	144	126	102	86
3,000 & Over *							334	292	257	177
3,000 to 3,199	228	206	178	155	124	110				
3,200 to 3,399	178	147	124	91	84	70				
3,400 to 3,599	141	114	92	79	72	61				
3,600 to 3,799	101	83	72	55	46	41				
3,800 to 3,999	62	58	42	35	34	24				
4,000 & Over	242	190	143	111	90	72				
<b>TOTAL</b>	<b>7,747</b>	<b>7,489</b>	<b>7,151</b>	<b>6,933</b>	<b>6,672</b>	<b>6,466</b>	<b>6,317</b>	<b>6,077</b>	<b>5,893</b>	<b>5,586</b>

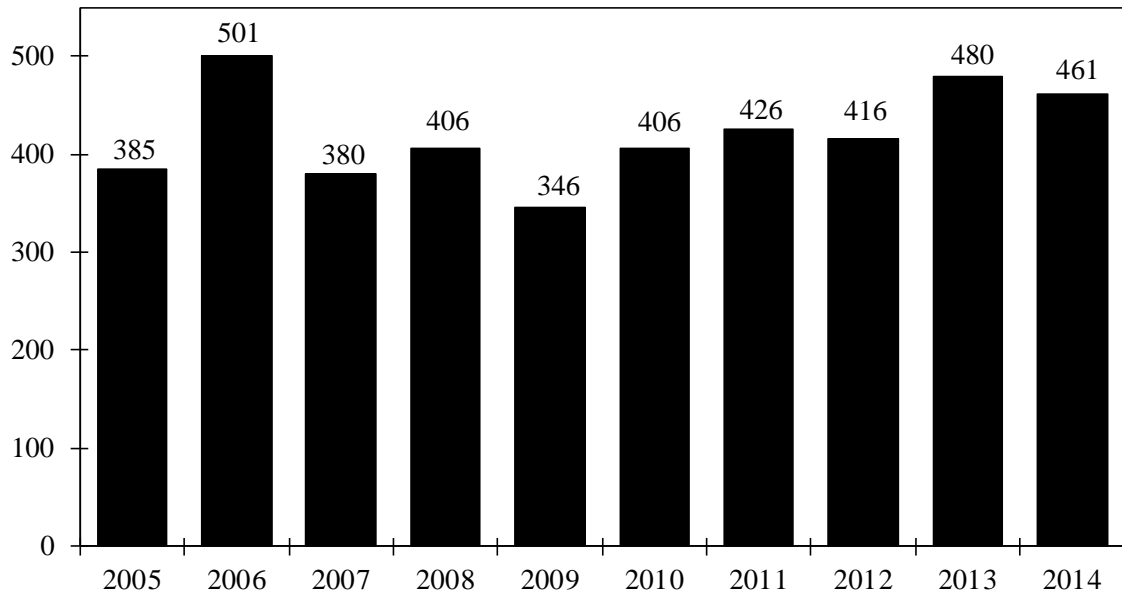
\* Breakdown of data for monthly benefits > \$3,000 is not available for years prior to 2009.

**SCHEDULE OF RETIREES  
BY BENEFIT TYPE**

<b>Form of Payment</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Service:</b>										
Straight Life	3,014	2,916	2,801	2,739	2,583	2,560	2,578	2,541	2,549	2,544
100% J&S	2,570	2,449	2,279	2,153	2,095	1,963	1,836	1,697	1,570	1,361
50% J&S	552	531	515	501	500	468	458	433	408	372
5 Years C&L	21	22	23	28	32	32	32	33	34	34
10 Years C&L	175	177	178	184	179	174	169	166	157	154
20 Years C&L	91	85	73	63	55	46	38	34	28	16
Level	568	574	579	584	585	590	584	580	567	539
Subtotal	6,991	6,754	6,448	6,252	6,029	5,833	5,695	5,484	5,313	5,020
<b>Disability:</b>										
Straight Life	105	103	96	97	88	85	81	73	66	61
100% J&S	13	12	13	11	11	13	12	12	11	9
50% J&S	7	6	8	8	7	6	5	4	4	5
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
20 Years C&L	2	1	1	1	1	1	1	1	1	1
Subtotal	129	124	120	120	111	108	102	93	85	79
<b>Beneficiaries:</b>										
Straight Life	612	599	571	545	522	513	506	482	475	466
5 Years Certain Only	2	2	2	6	6	6	9	11	8	9
10 Years Certain Only	9	9	9	9	3	5	5	7	12	12
20 Years Certain Only	4	1	1	1	1	1	0	0	0	0
Subtotal	627	611	583	561	532	525	520	500	495	487
<b>TOTAL</b>	<b>7,747</b>	<b>7,489</b>	<b>7,151</b>	<b>6,933</b>	<b>6,672</b>	<b>6,466</b>	<b>6,317</b>	<b>6,077</b>	<b>5,893</b>	<b>5,586</b>

**SCHEDULE OF NEW RETIREES BY TYPE**

<u>Valuation Year</u>	<u>Retirement</u>	<u>Disability</u>	<u>Beneficiary</u>	<u>Total</u>
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
2014	407	7	47	461



**PAYMENTS TO INVESTMENT CONSULTANTS  
FOR FISCAL YEARS ENDED JUNE 30**

**PENSION INVESTMENT POOL**

	2014	2013	2012	2011	2010
<b>INVESTMENT MANAGERS</b>					
<b>Global Equity:</b>					
Calamos Advisors LLC	\$ 191,300	386,180	189,743	-	-
Epoch Investment Partners	1,940,561	1,412,498	1,232,302	-	-
LSV Asset Management *	3,789,558	1,366,232	-	-	-
<b>Total Global Equity</b>	<b>5,921,419</b>	<b>3,164,910</b>	<b>1,422,045</b>	<b>-</b>	<b>-</b>
<b>Domestic Large Cap Equity:</b>					
AllianceBernstein Capital Management *	\$ -	\$ -	\$ -	\$ 48,771	\$ 252,829
The Clifton Group *	21,044	(139,667)	186,582	125,676	263,156
Declaration Management & Research LLC *	-	-	138,223	138,832	1,104,813
Epoch Investment Partners	-	-	565,569	2,493,467	2,253,844
European Credit Management *	-	-	-	229,619	258,751
Los Angeles Capital Management *	1,470,279	903,986	749,333	1,086,050	616,788
LSV Asset Management	-	441,745	628,401	633,088	544,008
Mellon Capital Management	-	-	-	-	75,117
Northern Trust Asset Management *	799,906	279,317	294,405	-	-
Prudential Investment Management *	-	-	66,984	91,728	73,997
State Street Global Advisors *	-	-	-	-	1,826
Wells Capital Management Co. *	-	-	-	-	135,313
Westridge Capital Management, Inc.	-	-	-	-	-
<b>Total Domestic Large Cap Equity</b>	<b>2,291,229</b>	<b>1,485,381</b>	<b>2,629,497</b>	<b>4,847,231</b>	<b>5,580,442</b>
<b>Domestic Small Cap Equity:</b>					
Callan Associates Inc.	833,802	834,282	984,147	1,168,384	735,212
The Clifton Group *	434,565	665,402	543,810	789,856	307,599
Corsair Capital *	-	-	-	676,944	1,140,081
SEI Investments Management Co. *	-	-	-	-	139,146
<b>Total Domestic Small Cap Equity</b>	<b>1,268,367</b>	<b>1,499,684</b>	<b>1,527,957</b>	<b>2,635,184</b>	<b>2,322,038</b>
<b>Developed International Equity:</b>					
Capital Guardian Trust Company	417,810	307,729	291,582	313,271	278,328
The Clifton Group	88,357	172,768	163,014	105,236	86,789
Dimensional Fund Advisors	481,941	380,923	354,025	383,099	331,117
LSV Asset Management	-	286,530	522,100	579,826	335,924
Northern Trust Asset Management	41,760	-	-	-	-
State Street Global Advisors	23,910	248,591	293,343	324,700	257,184
Wellington Trust Company, NA	705,784	561,117	498,023	505,226	426,370
<b>Total Developed International Equity</b>	<b>1,759,562</b>	<b>1,957,658</b>	<b>2,122,087</b>	<b>2,211,358</b>	<b>1,715,712</b>
<b>Emerging Markets Equity:</b>					
BlackFriars Asset Management	-	-	134,724	187,073	162,921
Capital International *	-	-	-	500,024	523,627
Dimensional Fund Advisors	219,392	235,763	238,500	297,930	254,114
J.P. Morgan Investment Management, Inc.	188,645	267,068	241,094	833,936	812,919
Northern Trust Asset Management	84,874	28,323	-	-	-
PanAgora Asset Management, Inc.	52,302	116,010	160,326	220,209	192,768
UBS Global Asset Management	88,171	291,475	244,015	230,871	320,092
<b>Total Emerging Markets Equity</b>	<b>633,384</b>	<b>938,639</b>	<b>1,018,659</b>	<b>2,270,043</b>	<b>2,266,441</b>

**PAYMENTS TO INVESTMENT CONSULTANTS  
FOR FISCAL YEARS ENDED JUNE 30**

**PENSION INVESTMENT POOL (Continued)**

	2014	2013	2012	2011	2010
<b>INVESTMENT MANAGERS (cont.)</b>					
<b>Private Equity:</b>					
Adams Street Partners *	1,905,053	991,683	1,164,226	782,707	812,239
Capital International *	692,462	768,528	807,471	-	-
Coral Partners, Inc. *	45,836	129,958	174,802	272,143	737,717
Corsair Capital *	699,007	736,919	735,968	-	-
EIG Global Energy Partners *	286,426	365,606	448,379	-	-
Hearthstone Homebuilding Investors, LLC *	-	566	22,020	83,633	232,757
InvestAmerica L&C, LLC *	506,227	536,928	540,063	521,797	558,215
Matlin Patterson Global Opportunities, LLC *	239,020	(427,781)	1,506,228	613,794	766,878
Quantum Energy Partners *	866,226	844,935	196,790	205,649	205,933
Quantum Resources Management *	43,659	52,006	123,099	133,663	150,000
<b>Total Private Equity</b>	<b>5,283,916</b>	<b>3,999,348</b>	<b>5,719,046</b>	<b>2,613,386</b>	<b>3,463,739</b>
<b>Investment Grade Fixed Income:</b>					
Bank of North Dakota	-	24,323	49,262	37,455	34,771
Calamos Advisors LLC	-	-	189,726	412,998	407,217
Declaration Management & Research LLC *	362,017	350,673	82,705	-	-
The Clifton Group*	-	-	-	-	15,544
J.P. Morgan Investment Management, Inc.	-	-	58,957	1,291,500	1,251,397
PIMCO *	3,340,986	6,296,078	600,343	2,399,875	5,232,458
Prudential Investment Management	-	-	133,059	169,688	197,085
SEI Investments Management Co.	-	-	58,459	50,081	39,460
State Street Global Advisors	23,979	992	-	-	-
Timberland Investment Resources *	-	-	-	803,522	2,688,409
Wells Capital Management, Inc.	-	-	97,351	122,662	163,106
Western Asset Management Company	178,762	182,317	159,487	101,609	101,490
<b>Total Investment Grade Fixed Income</b>	<b>3,905,744</b>	<b>6,854,383</b>	<b>1,429,349</b>	<b>5,389,390</b>	<b>10,130,937</b>
<b>Below Investment Grade Fixed Income:</b>					
Declaration Management & Research LLC *	-	-	-	-	787,851
Goldman Sachs Asset Management *	583,611	754,745	594,279	1,419,792	970,558
Loomis Sayles & Company	1,053,137	882,685	732,709	735,467	590,660
PIMCO *	69,443	2,075,630	927,600	1,715,456	372,285
EIG Global Energy Partners *	-	-	-	1,396,590	952,333
Wells Capital Management, Inc.	-	-	-	-	211,702
<b>Total Below Investment Grade Fixed Income</b>	<b>1,706,191</b>	<b>3,713,060</b>	<b>2,254,588</b>	<b>5,267,305</b>	<b>3,885,389</b>
<b>Developed International Fixed Income:</b>					
UBS Global Asset Management	315,675	285,673	260,945	246,055	262,573
Brandywine Asset Management	447,343	427,725	403,408	408,030	447,706
<b>Total Developed International Fixed Income</b>	<b>763,018</b>	<b>713,398</b>	<b>664,353</b>	<b>654,085</b>	<b>710,279</b>
<b>Real Estate:</b>					
INVESCO Realty Advisors *	2,394,225	2,104,737	1,312,204	1,174,449	1,157,461
J.P. Morgan Investment Management, Inc. *	1,735,021	1,941,237	2,027,278	2,052,612	1,898,305
<b>Total Real Estate</b>	<b>4,129,246</b>	<b>4,045,974</b>	<b>3,339,482</b>	<b>3,227,061</b>	<b>3,055,766</b>
<b>Timber:</b>					
Timberland Investment Resources *	747,283	771,816	1,036,397	-	-

**PAYMENTS TO INVESTMENT CONSULTANTS  
FOR FISCAL YEARS ENDED JUNE 30**

**PENSION INVESTMENT POOL (Continued)**

	2014	2013	2012	2011	2010
<b>INVESTMENT MANAGERS (cont.)</b>					
<b>Infrastructure:</b>					
Grosvenor (formerly Credit Suisse) *	(39,829)	443,767	472,826	-	-
J.P. Morgan Investment Management, Inc.*	1,540,242	1,643,680	1,679,799	-	-
<b>Total Infrastructure</b>	1,500,413	2,087,447	2,152,625	-	-
<b>Cash Equivalents:</b>					
The Northern Trust Company, Inc.	61,796	60,936	72,836	62,646	29,642
<b>Total Investment Manager Fees</b>	29,971,568	31,292,634	25,388,921	29,177,689	33,160,385
<b>INVESTMENT CUSTODIAN</b>					
The Northern Trust Company, Inc	655,257	573,140	518,376	625,684	570,972
<b>INVESTMENT CONSULTANTS</b>					
Adams Street Partners	149,210	221,839			
Callan Associates Inc.	237,304	206,020	215,043	270,183	190,879
<b>Total Investment Consultants</b>	386,514	427,859	215,043	270,183	190,879
<b>SIB SERVICE FEES</b>	29,694	30,505	31,573	52,758	33,123
<b>SECURITIES LENDING FEES</b>					
Rebates	-	-	(13,940)	(178,234)	(237,860)
Fees	-	-	6,821	100,629	63,250
<b>Total Securities Lending Fees</b>	-	-	(7,119)	(77,605)	(174,610)



**PAYMENTS TO INVESTMENT CONSULTANTS  
FOR FISCAL YEARS ENDED JUNE 30**

**INSURANCE INVESTMENT POOL**

	2014	2013	2012	2011	2010
<b>INVESTMENT MANAGERS</b>					
<b>Domestic Large Cap Equity:</b>					
The Clifton Group *	\$ 91,661	\$ 35,780	\$ 53,176	\$ 121,697	\$ 328,385
Los Angeles Capital Management *	502,980	182,394	162,237	263,933	164,823
LSV Asset Management	321,710	158,764	131,769	105,431	87,269
State Street Global Advisors *	-	-	-	-	1,248
Westridge Capital Management, Inc.	-	-	-	-	-
<b>Total Domestic Large Cap Equity</b>	<b>916,351</b>	<b>376,938</b>	<b>347,182</b>	<b>491,061</b>	<b>581,725</b>
<b>Domestic Small Cap Equity:</b>					
The Clifton Group *	307,732	129,312	122,062	158,649	390,421
Research Affiliates	219,926	138,437	129,831	132,438	106,631
SEI Investments Management	-	-	-	-	-
<b>Total Domestic Small Cap Equity</b>	<b>527,658</b>	<b>267,749</b>	<b>251,893</b>	<b>291,087</b>	<b>497,052</b>
<b>International Equity:</b>					
Capital Guardian Trust Company	505,274	239,917	189,258	205,361	208,162
Dimensional Fund Advisors	182,738	70,574	69,190	78,546	83,070
LSV Asset Management	549,302	228,459	194,826	213,049	225,184
The Vanguard Group	129,150	45,054	37,739	48,043	50,785
<b>Total International Equity</b>	<b>1,366,464</b>	<b>584,004</b>	<b>491,013</b>	<b>544,999</b>	<b>567,201</b>
<b>Domestic Fixed Income:</b>					
Bank of North Dakota	-	56,395	65,084	60,984	58,340
Brookfield Investment Management	-	-	-	-	51,899
The Clifton Group *	-	-	-	-	-
Declaration Management & Research LLC	382,078	268,169	194,885	166,415	39,163
PIMCO *	2,189,998	4,806,203	1,836,119	-	-
Prudential Investment Management	286,136	204,186	190,576	174,060	180,577
State Street Global Advisors	60,760	2,309	-	-	-
Wells Capital Management, Inc.	822,098	613,148	583,784	538,689	500,223
Western Asset Management Company	553,056	376,703	398,326	446,627	414,506
<b>Total Domestic Fixed Income</b>	<b>4,294,126</b>	<b>6,327,113</b>	<b>3,268,774</b>	<b>1,386,775</b>	<b>1,244,708</b>
<b>Inflation Protected Assets</b>					
Grosvenor (formerly Credit Suisse) *	(19,915)	221,884	720,652	-	-
J.P. Morgan Investment Management, Inc.	686,158	717,674	782,238	883,330	839,066
Northern Trust Asset Management *	-	-	-	385	31,109
Timberland Investment Resources *	507,992	507,622	507,528	451,705	221,700
Western Asset Management Company *	340,795	335,329	314,239	312,798	590,444
<b>Total Inflation Protected Assets</b>	<b>1,515,030</b>	<b>1,782,509</b>	<b>2,324,657</b>	<b>1,648,218</b>	<b>1,682,319</b>
<b>Real Estate:</b>					
INVESCO Realty Advisors	234,851	124,733	-	-	-
J.P. Morgan Investment Management, Inc.	1,004,205	782,809	1,073,000	950,339	557,938
<b>Total Real Estate</b>	<b>1,239,056</b>	<b>907,542</b>	<b>1,073,000</b>	<b>950,339</b>	<b>557,938</b>

**PAYMENTS TO INVESTMENT CONSULTANTS  
FOR FISCAL YEARS ENDED JUNE 30**

**INSURANCE INVESTMENT POOL (Continued)**

	2014	2013	2012	2011	2010
<b>INVESTMENT MANAGERS (cont.)</b>					
<b>Short Term Fixed Income:</b>					
Babson Capital Management LLC	984,722	758,881	292,383	-	-
J.P. Morgan Investment Management, Inc.	577,441	477,048	207,366	-	-
Prudential Investment Management*	-	-	64,534	217,963	218,275
<b>Total Short Term Fixed Income</b>	<b>1,562,163</b>	<b>1,235,929</b>	<b>564,283</b>	<b>217,963</b>	<b>218,275</b>
<b>Cash Equivalents:</b>					
The Northern Trust Company, Inc.	163,876	-	-	-	-
<b>Total Investment Manager Fees</b>	<b>11,584,724</b>	<b>11,481,784</b>	<b>8,320,802</b>	<b>5,530,442</b>	<b>5,349,218</b>
<b>INVESTMENT CUSTODIAN</b>					
The Northern Trust Company, Inc	486,404	401,511	281,339	301,194	323,560
<b>INVESTMENT CONSULTANTS</b>					
Callan Associates	148,256	113,813	114,109	110,094	96,975
R.V. Kuhns & Associates, Inc.	-	70,000	-	-	-
<b>Total Investment Consultants</b>	<b>148,256</b>	<b>183,813</b>	<b>114,109</b>	<b>110,094</b>	<b>96,975</b>
<b>SIB SERVICE FEES</b>	<b>10,450</b>	<b>9,656</b>	<b>7,078</b>	<b>10,408</b>	<b>7,881</b>
<b>SECURITIES LENDING FEES</b>					
Rebates	-	-	(3,908)	(59,839)	7,052
Fees	-	-	1,973	32,546	56,356
<b>Total Securities Lending Fees</b>	<b>-</b>	<b>-</b>	<b>(1,935)</b>	<b>(27,293)</b>	<b>63,408</b>

**INDIVIDUAL INVESTMENT ACCOUNT**

	2014	2013	2012	2011	2010
<b>INVESTMENT MANAGERS</b>					
SEI Investments Management	\$ 352,919	\$ 294,454	\$ 249,704	\$ 224,707	\$ 174,464
<b>INVESTMENT CUSTODIAN</b>					
The Northern Trust Company, Inc	2,620	705	706	1,027	1,166
<b>SIB SERVICE FEES</b>	<b>8,353</b>	<b>7,171</b>	<b>7,240</b>	<b>7,813</b>	<b>5,115</b>

\*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 63.

**SUMMARY OF OPERATIONS  
FOR FISCAL YEARS ENDED JUNE 30  
PENSION INVESTMENT POOL**

	2014	2013	2012	2011	2010
<b>Public Employees Retirement System</b>					
Net position beginning of year	\$ 1,998,564,252	\$ 1,772,254,556	\$ 1,800,337,484	\$ 1,510,006,420	\$ 1,353,174,174
Net increase/(decrease)					
in fair value of investments	293,366,241	200,819,548	(40,138,712)	288,857,273	153,004,660
Interest, dividends and other income	40,924,671	44,790,884	43,094,734	35,540,149	32,225,018
Expenses	8,429,942	6,911,611	6,550,593	6,904,640	6,413,077
Net securities lending income	-	-	11,643	188,282	115,645
Net incr/(decr) in net position					
resulting from unit transactions	4,650,000	(12,389,125)	(24,500,000)	(27,350,000)	(22,100,000)
Net position end of year	<u>\$ 2,329,075,222</u>	<u>\$ 1,998,564,252</u>	<u>\$ 1,772,254,556</u>	<u>\$ 1,800,337,484</u>	<u>\$ 1,510,006,420</u>
<b>City of Bismarck Employees Pension Plan</b>					
Net position beginning of year	\$ 68,738,254	\$ 61,115,742	\$ 53,487,752	\$ 44,536,966	\$ 39,763,978
Net increase/(decrease)					
in fair value of investments	8,799,404	6,237,415	176,642	7,976,275	3,838,691
Interest, dividends and other income	1,414,916	1,613,666	1,664,728	1,176,167	1,121,694
Expenses	276,989	228,569	213,743	206,459	190,180
Net securities lending income	-	-	363	4,803	2,783
Net incr/(decr) in net position					
resulting from unit transactions	-	-	6,000,000	-	-
Net position end of year	<u>\$ 78,675,585</u>	<u>\$ 68,738,254</u>	<u>\$ 61,115,742</u>	<u>\$ 53,487,752</u>	<u>\$ 44,536,966</u>
<b>City of Bismarck Police Pension Plan</b>					
Net position beginning of year	\$ 30,034,601	\$ 26,558,055	\$ 24,487,442	\$ 20,256,072	\$ 17,958,666
Net increase/(decrease)					
in fair value of investments	4,059,353	2,898,709	(10,241)	3,805,226	1,907,796
Interest, dividends and other income	615,490	680,528	673,595	517,733	476,013
Expenses	123,574	102,691	92,910	93,931	87,805
Net securities lending income	-	-	169	2,342	1,402
Net incr/(decr) in net position					
resulting from unit transactions	-	-	1,500,000	-	-
Net position end of year	<u>\$ 34,585,870</u>	<u>\$ 30,034,601</u>	<u>\$ 26,558,055</u>	<u>\$ 24,487,442</u>	<u>\$ 20,256,072</u>
<b>Job Service of North Dakota</b>					
Net position beginning of year	\$ 90,359,858	\$ 84,680,884	\$ 85,717,233	\$ 77,650,186	\$ 72,147,891
Net increase/(decrease)					
in fair value of investments	10,466,656	7,978,316	456,149	10,200,840	7,565,552
Interest, dividends and other income	1,725,637	2,248,708	2,908,939	2,068,491	2,042,786
Expenses	304,454	242,783	264,891	277,752	305,699
Net securities lending income	-	-	509	7,844	4,884
Net incr/(decr) in net position					
resulting from unit transactions	(4,565,538)	(4,305,267)	(4,137,055)	(3,932,376)	(3,805,228)
Net position end of year	<u>\$ 97,682,159</u>	<u>\$ 90,359,858</u>	<u>\$ 84,680,884</u>	<u>\$ 85,717,233</u>	<u>\$ 77,650,186</u>
<b>City of Fargo Employee Pension Plan</b>					
Net position beginning of year	\$ 34,092,918	\$ 29,522,766	\$ 28,804,055	\$ 24,534,685	\$ 21,872,249
Net increase/(decrease)					
in fair value of investments	3,209,058	3,464,908	(294,620)	4,700,965	2,756,456
Interest, dividends and other income	312,254	763,619	688,900	574,934	510,050
Expenses	50,674	112,375	100,760	109,591	106,028
Net securities lending income	-	-	191	3,062	1,958
Net incr/(decr) in net position					
resulting from unit transactions	(37,553,903)	454,000	425,000	(900,000)	(500,000)
Net position end of year	<u>\$ 9,653</u>	<u>\$ 34,092,918</u>	<u>\$ 29,522,766</u>	<u>\$ 28,804,055</u>	<u>\$ 24,534,685</u>

**SUMMARY OF OPERATIONS  
FOR FISCAL YEARS ENDED JUNE 30  
PENSION INVESTMENT POOL (Continued)**

	2014	2013	2012	2011	2010
<b>City of Grand Forks Pension Plan</b>					
Net position beginning of year	\$ 50,088,805	\$ 43,890,145	\$ 43,013,441	\$ 34,915,157	\$ 30,006,961
Net increase/(decrease)					
in fair value of investments	7,198,621	4,988,932	(429,165)	6,821,525	3,626,358
Interest, dividends and other income	947,544	1,104,377	1,003,146	818,617	674,685
Expenses	198,607	162,026	151,256	153,222	137,909
Net securities lending income	-	-	264	4,499	3,136
Net incr/(decr) in net position resulting from unit transactions	(230,836)	267,377	453,715	606,865	741,926
Net position end of year	<u>\$ 57,805,527</u>	<u>\$ 50,088,805</u>	<u>\$ 43,890,145</u>	<u>\$ 43,013,441</u>	<u>\$ 34,915,157</u>
<b>Grand Forks Park District Pension Plan</b>					
Net position beginning of year	\$ 5,104,575	\$ 4,490,835	\$ 4,413,772	\$ 3,570,354	\$ -
Net increase/(decrease)					
in fair value of investments	768,855	561,321	(60,414)	685,078	(138,086)
Interest, dividends and other income	82,159	97,383	111,050	73,134	30,872
Expenses	18,886	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	(6,047)	(30,342)	40,968	100,933	3,688,465
Net position end of year	<u>\$ 5,930,656</u>	<u>\$ 5,104,575</u>	<u>\$ 4,490,835</u>	<u>\$ 4,413,772</u>	<u>\$ 3,570,354</u>
<b>INSURANCE INVESTMENT POOL</b>					
<b>Workforce Safety &amp; Insurance Fund</b>					
Net position beginning of year	\$ 1,556,724,746	\$ 1,433,799,144	\$ 1,349,820,999	\$ 1,211,055,668	\$ 1,082,338,485
Net increase/(decrease)					
in fair value of investments	147,114,353	75,120,636	39,444,727	119,651,617	86,825,301
Interest, dividends and other income	36,959,249	48,176,241	47,896,009	44,585,328	44,376,314
Expenses	4,118,600	4,871,275	4,869,959	5,091,768	5,098,648
Net securities lending income	-	-	7,368	120,154	214,216
Net incr/(decr) in net position resulting from unit transactions	(33,500,000)	4,500,000	1,500,000	(20,500,000)	2,400,000
Net position end of year	<u>\$ 1,703,179,748</u>	<u>\$ 1,556,724,746</u>	<u>\$ 1,433,799,144</u>	<u>\$ 1,349,820,999</u>	<u>\$ 1,211,055,668</u>
<b>Legacy Fund</b>					
Net position beginning of year	\$ 1,194,228,388	\$ 398,885,883	\$ -	\$ -	\$ -
Net increase/(decrease)					
in fair value of investments	74,027,273	(12,331,605)	(50,393)	-	-
Interest, dividends and other income	43,256,691	17,696,018	2,594,368	-	-
Expenses	4,130,302	1,148,387	243,750	-	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position resulting from unit transactions	907,214,971	791,126,479	396,585,658	-	-
Net position end of year	<u>\$ 2,214,597,021</u>	<u>\$ 1,194,228,388</u>	<u>\$ 398,885,883</u>	<u>\$ -</u>	<u>\$ -</u>
<b>State Fire &amp; Tornado Fund</b>					
Net position beginning of year	\$ 26,614,418	\$ 24,503,500	\$ 25,159,062	\$ 26,360,103	\$ 22,315,554
Net increase/(decrease)					
in fair value of investments	2,812,662	1,873,759	387,069	2,819,526	2,554,316
Interest, dividends and other income	634,670	803,166	819,440	953,119	1,002,687
Expenses	52,464	66,007	62,242	77,003	91,987
Net securities lending income	-	-	171	3,317	4,533
Net incr/(decr) in net position resulting from unit transactions	(800,000)	(500,000)	(1,800,000)	(4,900,000)	575,000
Net position end of year	<u>\$ 29,209,286</u>	<u>\$ 26,614,418</u>	<u>\$ 24,503,500</u>	<u>\$ 25,159,062</u>	<u>\$ 26,360,103</u>

**SUMMARY OF OPERATIONS  
FOR FISCAL YEARS ENDED JUNE 30**

**INSURANCE INVESTMENT POOL (Continued)**

	2014	2013	2012	2011	2010
<b>State Bonding Fund</b>					
Net position beginning of year	\$ 3,141,217	\$ 3,056,345	\$ 2,901,517	\$ 2,763,321	\$ 2,150,027
Net increase/(decrease)					
in fair value of investments	81,431	16,248	80,255	59,619	137,116
Interest, dividends and other income	50,268	73,189	79,056	83,032	80,281
Expenses	3,744	4,565	4,493	4,578	4,322
Net securities lending income	-	-	10	123	219
Net incr/(decr) in net position resulting from unit transactions	-	-	-	-	400,000
Net position end of year	<u>\$ 3,269,172</u>	<u>\$ 3,141,217</u>	<u>\$ 3,056,345</u>	<u>\$ 2,901,517</u>	<u>\$ 2,763,321</u>
<b>Petroleum Tank Release Compensation Fund</b>					
Net position beginning of year	\$ 6,838,697	\$ 6,762,398	\$ 6,447,257	\$ 6,624,103	\$ 6,298,834
Net increase/(decrease)					
in fair value of investments	160,709	35,781	161,701	150,874	339,451
Interest, dividends and other income	99,366	148,726	161,523	181,494	194,448
Expenses	6,443	8,208	8,101	9,480	9,161
Net securities lending income	-	-	18	266	531
Net incr/(decr) in net position resulting from unit transactions	-	(100,000)	-	(500,000)	(200,000)
Net position end of year	<u>\$ 7,092,329</u>	<u>\$ 6,838,697</u>	<u>\$ 6,762,398</u>	<u>\$ 6,447,257</u>	<u>\$ 6,624,103</u>
<b>Insurance Regulatory Trust Fund</b>					
Net position beginning of year	\$ 1,043,935	\$ 962,611	\$ 3,671,634	\$ 4,115,864	\$ 3,235,054
Net increase/(decrease)					
in fair value of investments	87,259	61,472	(49,067)	205,758	133,302
Interest, dividends and other income	17,515	22,735	43,279	55,377	55,755
Expenses	2,485	2,883	3,255	5,621	8,575
Net securities lending income	-	-	20	256	328
Net incr/(decr) in net position resulting from unit transactions	-	-	(2,700,000)	(700,000)	700,000
Net position end of year	<u>\$ 1,146,224</u>	<u>\$ 1,043,935</u>	<u>\$ 962,611</u>	<u>\$ 3,671,634</u>	<u>\$ 4,115,864</u>
<b>Risk Management Fund</b>					
Net position beginning of year	\$ 6,184,088	\$ 5,163,495	\$ 4,326,253	\$ 3,783,457	\$ 3,252,697
Net increase/(decrease)					
in fair value of investments	618,416	352,442	188,985	395,152	391,534
Interest, dividends and other income	154,962	181,504	159,639	158,783	151,308
Expenses	11,745	13,353	11,399	11,543	12,687
Net securities lending income	-	-	17	404	605
Net incr/(decr) in net position resulting from unit transactions	-	500,000	500,000	-	-
Net position end of year	<u>\$ 6,945,721</u>	<u>\$ 6,184,088</u>	<u>\$ 5,163,495</u>	<u>\$ 4,326,253</u>	<u>\$ 3,783,457</u>
<b>Risk Management Workers Comp Fund</b>					
Net position beginning of year	\$ 5,244,603	\$ 5,011,391	\$ 3,718,464	\$ 3,198,090	\$ 1,864,433
Net increase/(decrease)					
in fair value of investments	598,129	349,656	167,998	398,292	242,300
Interest, dividends and other income	131,002	144,640	135,705	132,097	102,186
Expenses	10,590	11,084	10,790	10,390	11,250
Net securities lending income	-	-	14	375	421
Net incr/(decr) in net position resulting from unit transactions	-	(250,000)	1,000,000	-	1,000,000
Net position end of year	<u>\$ 5,963,144</u>	<u>\$ 5,244,603</u>	<u>\$ 5,011,391</u>	<u>\$ 3,718,464</u>	<u>\$ 3,198,090</u>

**SUMMARY OF OPERATIONS  
FOR FISCAL YEARS ENDED JUNE 30**

**INSURANCE INVESTMENT POOL (Continued)**

	2014	2013	2012	2011	2010
<b>Cultural Endowment Fund</b>					
Net position beginning of year	\$ 323,798	\$ 284,275	\$ 272,058	\$ 233,415	\$ 204,223
Net increase/(decrease)					
in fair value of investments	47,641	35,577	4,789	42,194	22,732
Interest, dividends and other income	8,031	9,320	8,718	8,608	7,822
Expenses	1,315	1,374	1,292	1,352	1,405
Net securities lending income	-	-	2	38	43
Net incr/(decr) in net position					
resulting from unit transactions	(13,000)	(4,000)	-	(10,845)	-
Net position end of year	<u>\$ 365,155</u>	<u>\$ 323,798</u>	<u>\$ 284,275</u>	<u>\$ 272,058</u>	<u>\$ 233,415</u>
<b>Budget Stabilization Fund</b>					
Net position beginning of year	\$ 401,157,397	\$ 394,954,806	\$ 325,673,084	\$ 325,116,846	\$ 190,101,212
Net increase/(decrease)					
in fair value of investments	(2,296,687)	(3,112,671)	(2,472,612)	1,701,753	11,710,253
Interest, dividends and other income	13,897,151	10,804,040	10,787,170	10,618,859	10,013,545
Expenses	634,071	451,981	447,398	289,511	259,540
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position					
resulting from unit transactions	173,877,180	(1,036,797)	61,414,562	(11,474,863)	113,551,376
Net position end of year	<u>\$ 586,000,970</u>	<u>\$ 401,157,397</u>	<u>\$ 394,954,806</u>	<u>\$ 325,673,084</u>	<u>\$ 325,116,846</u>
<b>ND Association of Counties Fund</b>					
Net position beginning of year	\$ 2,715,432	\$ 1,650,887	\$ 1,623,441	\$ 1,074,275	\$ 929,491
Net increase/(decrease)					
in fair value of investments	267,459	107,664	(21,216)	201,705	114,484
Interest, dividends and other income	66,825	63,052	53,400	56,013	35,633
Expenses	6,192	6,171	4,749	5,432	5,541
Net securities lending income	-	-	11	225	208
Net incr/(decr) in net position					
resulting from unit transactions	400,000	900,000	-	296,655	-
Net position end of year	<u>\$ 3,443,524</u>	<u>\$ 2,715,432</u>	<u>\$ 1,650,887</u>	<u>\$ 1,623,441</u>	<u>\$ 1,074,275</u>
<b>City of Bismarck Deferred Sick Leave Fund</b>					
Net position beginning of year	\$ 1,015,873	\$ 925,488	\$ 876,390	\$ 842,549	\$ 729,156
Net increase/(decrease)					
in fair value of investments	88,516	60,827	19,419	82,130	82,542
Interest, dividends and other income	22,312	32,997	32,907	35,011	34,359
Expenses	2,552	3,439	3,235	3,411	3,653
Net securities lending income	-	-	7	111	145
Net incr/(decr) in net position					
resulting from unit transactions	(275,000)	-	-	(80,000)	-
Net position end of year	<u>\$ 849,149</u>	<u>\$ 1,015,873</u>	<u>\$ 925,488</u>	<u>\$ 876,390</u>	<u>\$ 842,549</u>
<b>PERS Group Insurance Fund</b>					
Net position beginning of year	\$ 42,791,312	\$ 6,899,554	\$ 5,589,415	\$ 4,034,326	\$ 3,996,417
Net increase/(decrease)					
in fair value of investments	-	-	-	-	-
Interest, dividends and other income	5,659	129,167	34,885	32,357	38,909
Expenses	4,539	3,819	1,000	1,000	1,000
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position					
resulting from unit transactions	(5,368,258)	35,766,410	1,276,254	1,523,732	-
Net position end of year	<u>\$ 37,424,174</u>	<u>\$ 42,791,312</u>	<u>\$ 6,899,554</u>	<u>\$ 5,589,415</u>	<u>\$ 4,034,326</u>

**SUMMARY OF OPERATIONS  
FOR FISCAL YEARS ENDED JUNE 30  
INSURANCE INVESTMENT POOL (Continued)**

	2014	2013	2012	2011	2010
<b>City of Fargo FargoDome Permanent Fund</b>					
Net position beginning of year	\$ 36,375,195	\$ 32,051,664	\$ 33,406,678	\$ 25,092,617	\$ 17,578,204
Net increase/(decrease)					
in fair value of investments	5,037,808	3,435,467	(25,951)	4,252,514	2,389,046
Interest, dividends and other income	823,378	997,950	972,310	961,003	823,931
Expenses	89,077	109,886	101,630	104,374	102,595
Net securities lending income	-	-	257	4,918	4,031
Net incr/(decr) in net position					
resulting from unit transactions	(400,000)	-	(2,200,000)	3,200,000	4,400,000
Net position end of year	<u>\$ 41,747,304</u>	<u>\$ 36,375,195</u>	<u>\$ 32,051,664</u>	<u>\$ 33,406,678</u>	<u>\$ 25,092,617</u>
<b>ND State Board of Medical Examiners Fund</b>					
Net position beginning of year	\$ -	\$ -	\$ -	\$ -	\$ -
Net increase/(decrease)					
in fair value of investments	17,764	-	-	-	-
Interest, dividends and other income	8,273	-	-	-	-
Expenses	1,535	-	-	-	-
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position					
resulting from unit transactions	1,864,303	-	-	-	-
Net position end of year	<u>\$ 1,888,805</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>ND Health Care Trust Fund</b>					
Net position beginning of year	\$ -	\$ -	\$ 2,322,488	\$ 2,316,101	\$ 2,308,711
Net increase/(decrease)					
in fair value of investments	-	-	-	-	-
Interest, dividends and other income	-	-	4,137	7,374	8,373
Expenses	-	-	742	987	983
Net securities lending income	-	-	-	-	-
Net incr/(decr) in net position					
resulting from unit transactions	-	-	(2,325,883)	-	-
Net position end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,322,488</u>	<u>\$ 2,316,101</u>
<b>DPI Board Certification Fund</b>					
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)	-	500,000
Net position end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 501,704</u>	<u>\$ 500,859</u>