Legacy Fund Investment Update

Government Finance Committee

November 7, 2013

Darren Schulz
Interim Chief Investment Officer
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

Presentation Agenda

- Recruitment status of Executive Director/CIO position
- Investment history and returns of the Legacy Fund
- New policy asset allocation implementation for the Legacy Fund

State Investment Board (SIB) Update

- National executive search of a permanent Executive Director/Chief Investment Officer completed by State Investment Board
- Dave Hunter will join RIO on December 2nd
  - Dave Hunter has nearly 30 years of professional investment banking, management and accounting experience and joins RIO from HSBC where he held the position of Vice President - Pension Investments and Director of Asset Securitization. Dave was responsible for the oversight of the company's defined benefit, defined contribution and non-qualified plan assets approximating $7 billion and structured debt financings approximating $2.5 billion. Prior to joining HSBC, Dave was a Senior Vice President in structured finance with SMBC Securities and worked at Citibank and Arthur Andersen in Chicago. Dave received his Bachelor's degree in Accounting from Northern Illinois University, and a Masters of Business Administration in Finance from the University of Chicago.

Legacy Fund
Funding and Disbursement History

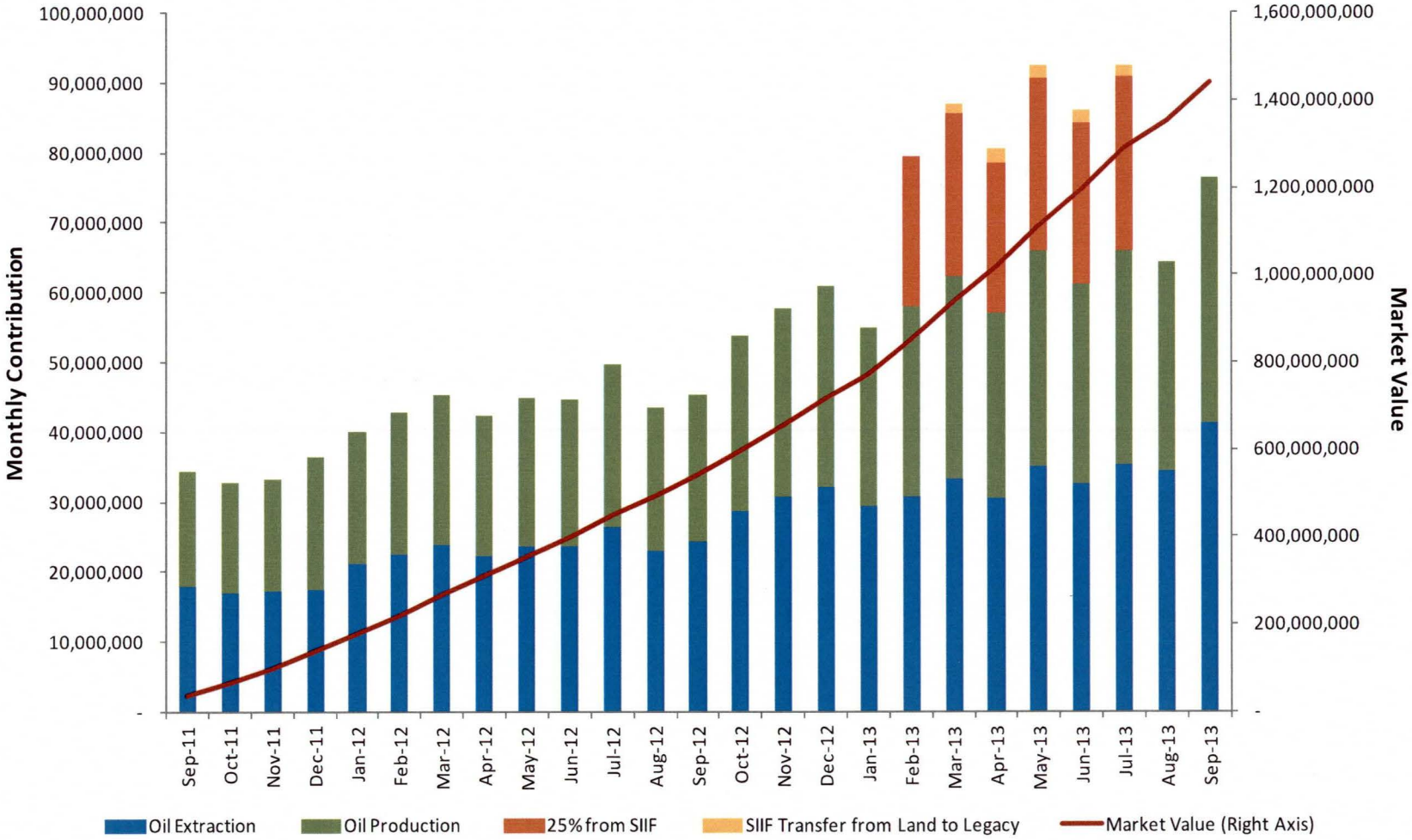
Legacy Fund

Through August 31, 2013

	New Money In	Net Increase	Income Distributions Out	Net Assets End of Period
FY2012 (Initial Funding - Sept. 2011)	396,585,658	2,300,225	-	398,885,883
FY2013	791,126,479	4,216,026	-	1,194,228,388
FY2014	156,761,574	2,235,212	-	1,353,225,174
	1,344,473,711	6,516,251	-	

Net Increase - Inception to Date	6,516,251
Income Distributions Taken	-
Income Retained in Fund	6,516,251
August 31, 2013 MV	1,353,794,675

Legacy Fund
Monthly Contributions and Total Market Value



Source: Office of North Dakota State Treasurer

Total Returns as of 9/30/13 (Net of Fees)

	1 Qtr	1 Year	2 Years
Total Legacy Fund	1.01%	1.33%	1.60%
Total Legacy Fund Policy[1]	0.29%	0.38%	0.41%

[1] As of 9/1/13, the Legacy Fund policy benchmark is an asset-weighted custom composite comprised of the Russell 1000, Russell 2000, MSCI EAFE , NCREIF Property, and the Barclays Capital 1-3 Year Government indices. From 10/1/11 to 8/31/13, the Legacy Fund policy benchmark was the Barclays Capital 1-3 Year Government Index.

Source: Callan Associates

Legacy Fund Policy Timeline

April 2013

- Following completion of an asset allocation and spending study by RV Kuhns, a new strategic asset allocation for the Legacy Fund was approved

June 2013

- SIB approved a transition plan to fully implement the new policy allocation over a period of 18 months

July 2013

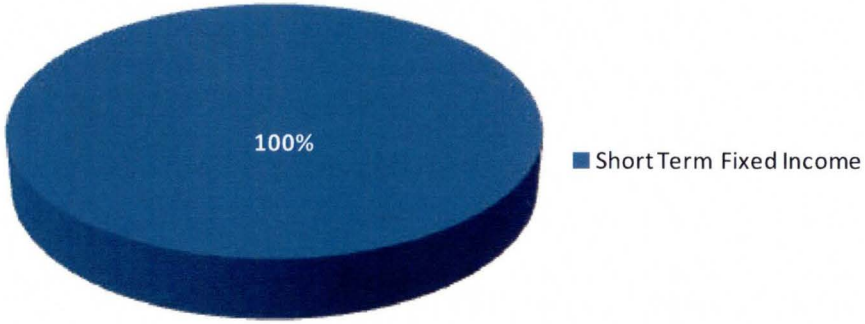
- SIB approved a plan to implement the new policy allocation through the use of existing managers within the Insurance Trust

August 2013

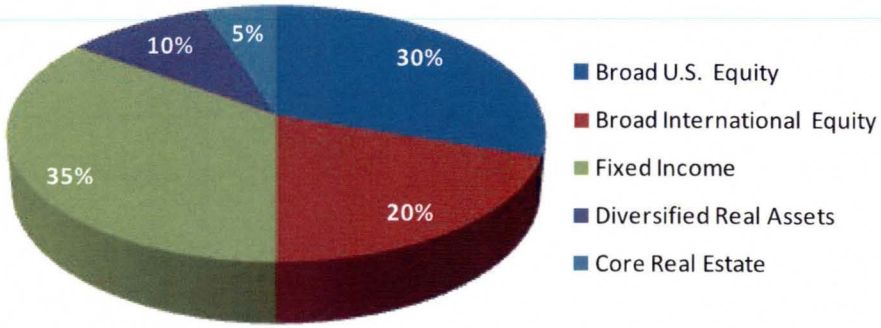
- RIO initiated the 18 month transition plan

Legacy Fund Strategic Asset Allocation

Former Policy Allocation



New Policy Allocation



Legacy Fund Transition Plan

Legacy Fund Asset Allocation Transition

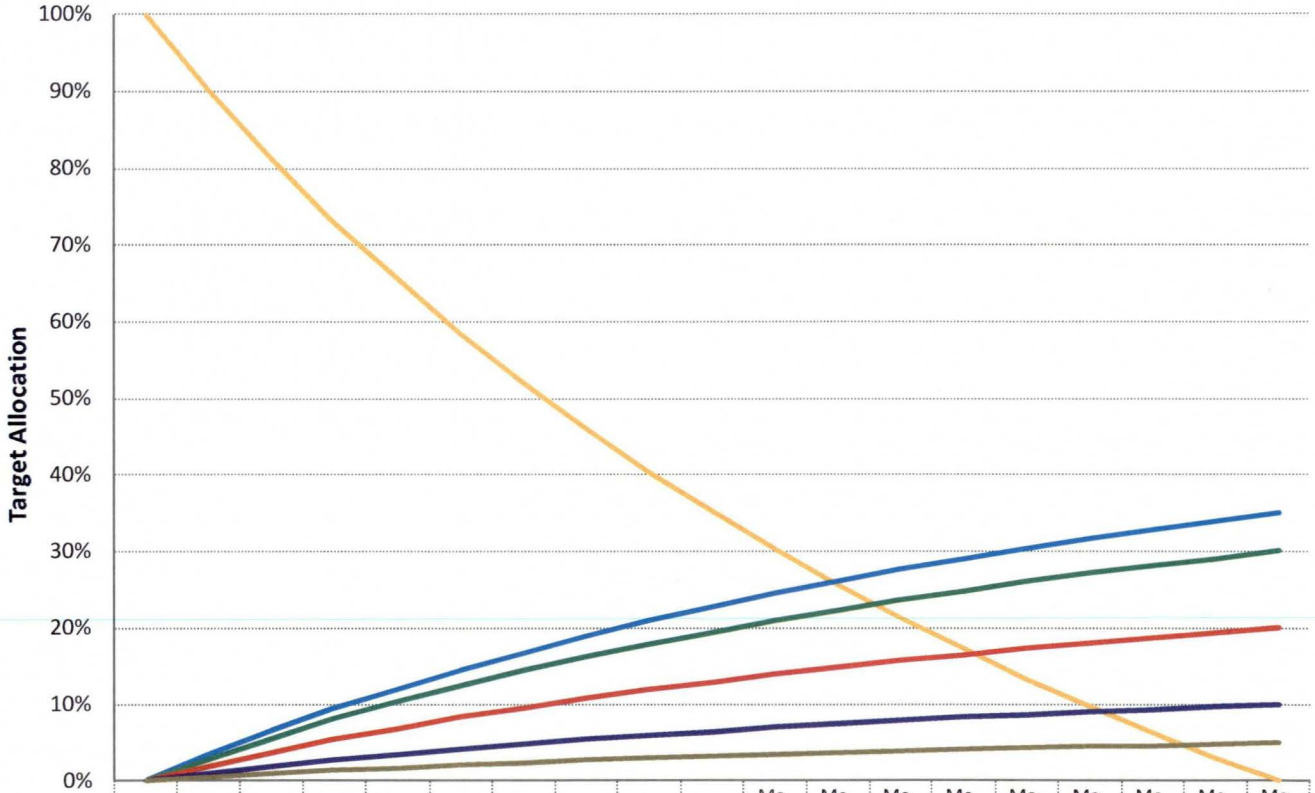
All New $ pro-rata to All New Asset Classes and Gradual ($71 M per month) Transition out of ST Fixed

Initial Balance (Est. July 2013) $1,275,000,000

Monthly Tx out of ST Fixed: $ 70,833,333

		Asset Allocation						
	Target	30%	20%	35%	10%	5%	0%	100%
	New Contributions	US Equity	Non-US Equity	Broad Fixed Income	Diversified Real Assets	Core Real Estate	Short-Term Fixed	Total
Current	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,275,000,000	$ 1,275,000,000
Month 1	$ 128,455,083	$ 38,536,525	$ 25,691,017	$ 44,959,279	$ 12,845,508	$ 6,422,754	$ 1,204,166,667	$ 1,332,621,750
Month 2	$ 130,453,308	$ 77,672,518	$ 51,781,678	$ 90,617,937	$ 25,890,839	$ 12,945,420	$ 1,133,333,333	$ 1,392,241,725
Month 3	$ 131,199,633	$117,032,408	$ 78,021,605	$136,537,809	$ 39,010,803	$ 19,505,401	$ 1,062,500,000	$ 1,452,608,025
Month 4	$ 129,177,333	$155,785,608	$103,857,072	$181,749,875	$ 51,928,536	$ 25,964,268	$ 991,666,667	$ 1,510,952,025
Month 5	$ 131,199,633	$195,145,498	$130,096,998	$227,669,747	$ 65,048,499	$ 32,524,250	$ 920,833,333	$ 1,571,318,325
Month 6	$ 129,899,583	$234,115,373	$156,076,915	$273,134,601	$ 78,038,458	$ 39,019,229	$ 850,000,000	$ 1,630,384,575
Month 7	$ 131,945,958	$273,699,160	$182,466,107	$319,315,687	$ 91,233,053	$ 45,616,527	$ 779,166,667	$ 1,691,497,200
Month 8	$ 131,945,958	$313,282,948	$208,855,298	$365,496,772	$104,427,649	$ 52,213,825	$ 708,333,333	$ 1,752,609,825
Month 9	$ 125,806,833	$351,024,998	$234,016,665	$409,529,164	$117,008,333	$ 58,504,166	$ 637,500,000	$ 1,807,583,325
Month 10	$ 131,945,958	$390,608,785	$260,405,857	$455,710,249	$130,202,928	$ 65,101,464	$ 566,666,667	$ 1,868,695,950
Month 11	$ 129,899,583	$429,578,660	$286,385,773	$501,175,103	$143,192,887	$ 71,596,443	$ 495,833,333	$ 1,927,762,200
Month 12	$ 131,945,958	$469,162,448	$312,774,965	$547,356,189	$156,387,483	$ 78,193,741	$ 425,000,000	$ 1,988,874,825
Month 13	$ 133,857,333	$509,319,648	$339,546,432	$594,206,255	$169,773,216	$ 84,886,608	$ 354,166,667	$ 2,051,898,825
Month 14	$ 136,040,133	$550,131,688	$366,754,458	$641,820,302	$183,377,229	$ 91,688,615	$ 283,333,333	$ 2,117,105,625
Month 15	$ 136,040,133	$590,943,728	$393,962,485	$689,434,349	$196,981,243	$ 98,490,621	$ 212,500,000	$ 2,182,312,425
Month 16	$ 133,857,333	$631,100,928	$420,733,952	$736,284,415	$210,366,976	$105,183,488	$ 141,666,667	$ 2,245,336,425
Month 17	$ 136,040,133	$671,912,968	$447,941,978	$783,898,462	$223,970,989	$111,985,495	$ 70,833,333	$ 2,310,543,225
Month 18	$ 133,857,333	$712,070,168	$474,713,445	$830,748,529	$237,356,723	$118,678,361	$ -	$ 2,373,567,225

Legacy Fund Transition Plan



	t=0	Mo. 1	Mo. 2	Mo. 3	Mo. 4	Mo. 5	Mo. 6	Mo. 7	Mo. 8	Mo. 9	Mo. 10	Mo. 11	Mo. 12	Mo. 13	Mo. 14	Mo. 15	Mo. 16	Mo. 17	Mo. 18
Short-Term Fixed	100%	90%	81%	73%	66%	59%	52%	46%	40%	35%	30%	26%	21%	17%	13%	10%	6%	3%	0%
Broad Fixed Income	0%	3%	7%	9%	12%	14%	17%	19%	21%	23%	24%	26%	28%	29%	30%	32%	33%	34%	35%
US Equity	0%	3%	6%	8%	10%	12%	14%	16%	18%	19%	21%	22%	24%	25%	26%	27%	28%	29%	30%
Non-US Equity	0%	2%	4%	5%	7%	8%	10%	11%	12%	13%	14%	15%	16%	17%	17%	18%	19%	19%	20%
Diversified Real Assets	0%	1%	2%	3%	3%	4%	5%	5%	6%	6%	7%	7%	8%	8%	9%	9%	9%	10%	10%
Core Real Estate	0%	0%	1%	1%	2%	2%	2%	3%	3%	3%	3%	4%	4%	4%	4%	5%	5%	5%	5%

Legacy Fund Implementation Benefits

The use of existing manager mandates provides numerous benefits:

- *Ease of implementation* – Manager accounts are already open and gaining asset class exposures can be accomplished promptly.
- *Investment costs* – Pooling with other insurance clients allows the Legacy Fund to benefit from lower management fees and trading costs.
- *Administrative efficiencies* – Efficiencies would be realized in such areas as manager due diligence, compliance, rebalancing, accounting, custody, fee invoicing, audit and legal.

Legacy Fund Manager Structure

	9/30/13 Market Value
TOTAL LEGACY FUND	**1,440,680,819**
LARGE CAP DOMESTIC EQUITY	
Los Angeles Capital	18,620,336
LSV	18,386,106
Los Angeles Capital	12,293,790
Clifton Group (moved from fixed 11/1/08)	12,135,858
TOTAL LARGE CAP DOMESTIC EQUITY	***61,436,091***
SMALL CAP DOMESTIC EQUITY	
Research Affiliates	11,526,412
Clifton	11,465,995
TOTAL SMALL CAP DOMESTIC EQUITY	***22,992,407***
INTERNATIONAL EQUITY	
Capital Guardian	23,169,380
LSV	23,495,000
DFA	5,859,750
Vanguard	5,715,676
TOTAL INTERNATIONAL EQUITY	***58,239,807***
FIXED INCOME	
Western Asset	
Prudential	
PIMCO (DiSCO)	
Declaration	
State Street	
Wells Capital (formerly Strong)	
TOTAL FIXED INCOME	

	9/30/13 Market Value
INFLATION PROTECTED ASSETS	
Western Global TIPS	
TIR - Eastern Timber Opps Fund	
JP Morgan (Infrastructure)	
Credit Suisse (Infrastructure)	
TOTAL INFLATION PROTECTED ASSETS	
REAL ESTATE	
JP Morgan	6,003,827
Invesco	4,079,660
TOTAL REAL ESTATE	***10,083,487***
CASH EQUIVALENTS	
Northern Trust	147,368,165
TOTAL CASH EQUIVALENTS	***147,368,165***
SHORT TERM FIXED INCOME	
Babson Capital - Short Term Bonds-Legacy Fund	572,418,022
JP Morgan-Legacy Fund	568,142,841
TOTAL SHORT TERM FIXED INCOME	***1,140,560,863***