

State Investment Board Update

Employee Benefits Programs Committee

August 29, 2013

Darren Schulz

Interim Chief Investment Officer

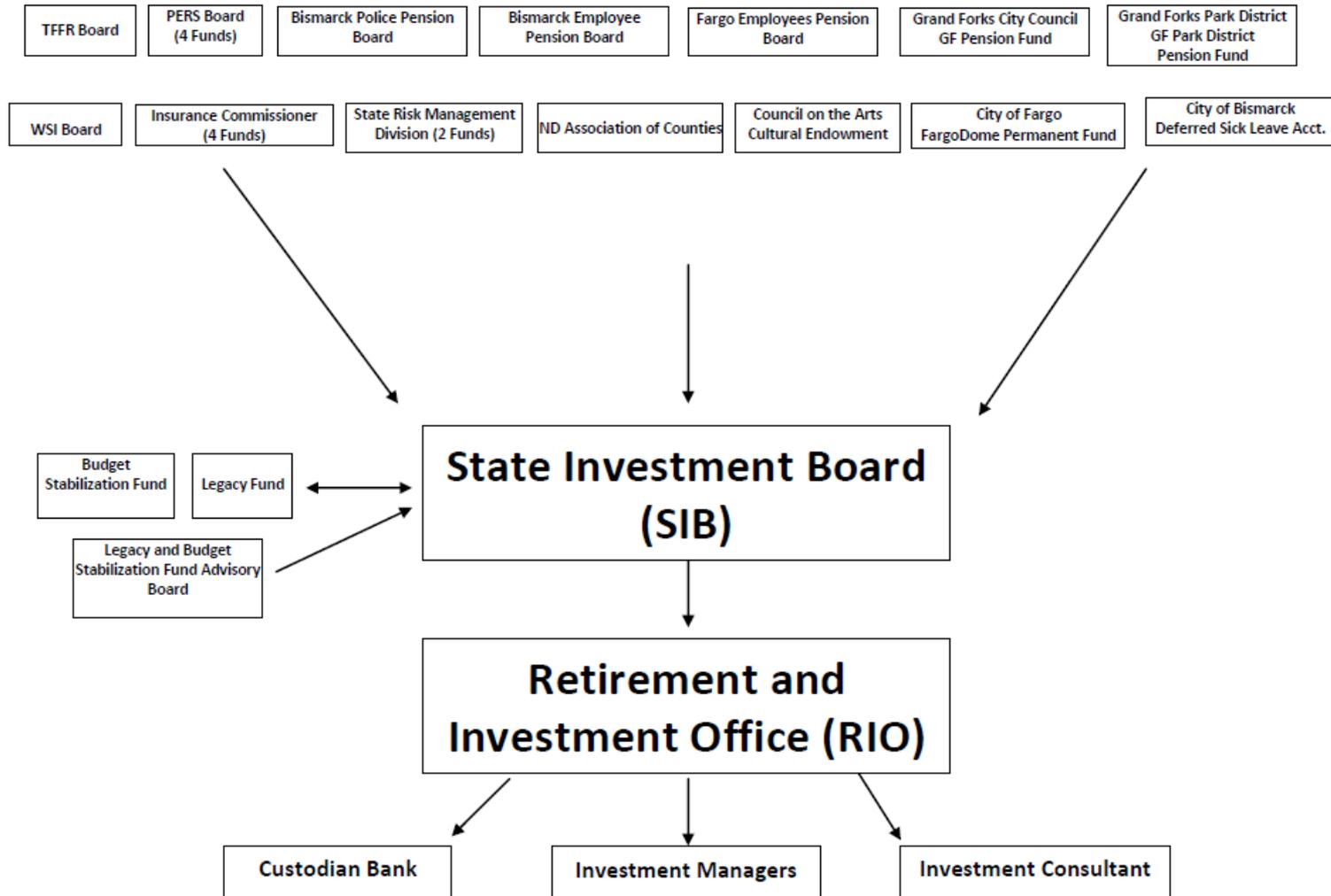
ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

Presentation Agenda

- ▷ Organizational overview
- ▷ State Investment Board process
- ▷ Assets under management
- ▷ Fiscal year economic and market highlights
- ▷ Pension investment performance
- ▷ Pension asset allocation
- ▷ Fiscal year activity

State Investment Board Process



State Investment Board Process

Client Responsibilities: (Per NDCC 21-10-02.1) The governing body of each fund (client) shall establish policies on investment goals and objectives and asset allocation that must include:

- Acceptable rates of return, liquidity and levels of risk
- Long-range asset allocation goals

State Investment Board Responsibilities: (Per NDCC 21-10):

- Implement client asset allocations
- Apply Prudent Investor Rule when investing for fund under its supervision
- Approve general types of securities for investment
- Set policies and procedures regulating securities transactions on behalf of the clients
- Select custodian servicer
- Select investment director and/or investment consulting service
- Create investment pools

State Investment Board Process

Retirement and Investment Office Staff Responsibilities (on behalf of SIB):

- Administer overall investment strategy
- Advise SIB on ways to maximize risk/return opportunities within each asset class
- Act as liaison between SIB and managers, consultant and custodian
- Monitor individual clients' investment guidelines and asset allocations
- Maintain separate accounting for client accounts

Investment Manager Responsibilities:

- Implement specific mandates or “investment missions”
- Make buy/sell decisions based on investment guidelines
- Report to RIO Staff on regular basis
- Provide education to SIB

State Investment Board Process

Custodian Bank Responsibilities:

- Safe-keep assets
- Settle trades
- Record-keeper

Investment Consultant Responsibilities:

- Performance measurement of investment managers
- Manager search assistance
- Provide education to SIB
- Special projects

State Investment Board Assets Under Management

<u>Fund Name</u>	<u>Market Values as of 6/30/13</u>
Pension Trust Fund	
Teachers' Fund for Retirement (TFFR)	1,810,735,455
Public Employees Retirement System (PERS)	2,000,899,336
City of Bismarck Employees Pension	68,822,847
City of Bismarck Police Pension	30,072,819
Job Service of North Dakota Pension	90,442,764
City of Fargo Employees Pension	34,133,671
City of Grand Forks Employees Pension	50,148,061
Grand Forks Park District	<u>5,109,311</u>
Subtotal Pension Trust Fund	4,090,364,264
Insurance Trust Fund	
Workforce Safety & Insurance (WSI)	1,557,719,286
State Fire and Tornado Fund	26,633,417
State Bonding Fund	3,141,218
Petroleum Tank Release Compensation Fund	6,839,483
Insurance Regulatory Trust Fund	1,043,647
State Risk Management Fund	6,187,298
State Risk Management Workers Comp Fund	5,247,448
Cultural Endowment Fund	323,914
Budget Stabilization Fund	401,353,181
ND Association of Counties (NDACo) Fund	2,717,444
Bismarck Deferred Sick Leave Account	1,016,834
City of Fargo FargoDome Permanent Fund	36,411,591
Legacy Fund	1,194,779,193
PERS Group Insurance Account	<u>42,792,878</u>
Subtotal Insurance Trust Fund	3,286,206,832
PERS Retiree Insurance Credit Fund	<u>73,677,263</u>
Total Assets Under SIB Management	<u><u>7,450,248,359</u></u>

Fiscal Year Highlights

Economic growth subdued globally

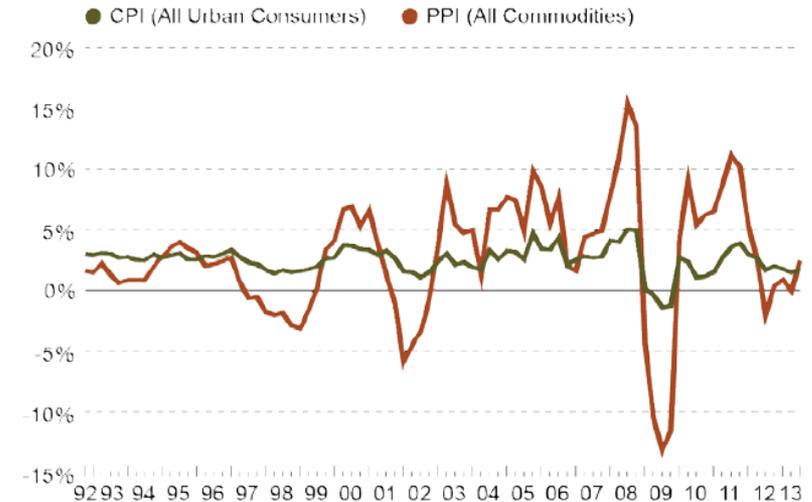
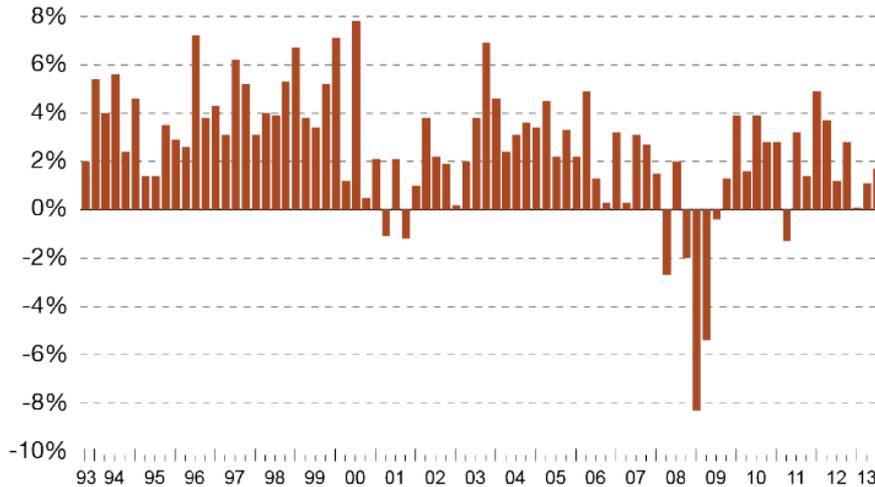
- ▶ U.S.: Growing at a slow rate
 - ▶ Accelerating growth in the private sector has been offsetting the fiscal drag created by tax increases and the impact of sequestration cuts on government spending
 - ▶ Massive stimulus by the Fed has led to only 1-3% economic growth and only modest improvement in employment
 - ▶ Uncertainty looms over what might happen if the stimulus were reduced (let alone if short-term interest rates were to rise)
- ▶ Elsewhere: Slow or no growth in most parts of Europe; slowing growth in emerging markets.

U.S Economy

Quarterly Real GDP Growth*

(20 Years)

Inflation Year-Over-Year

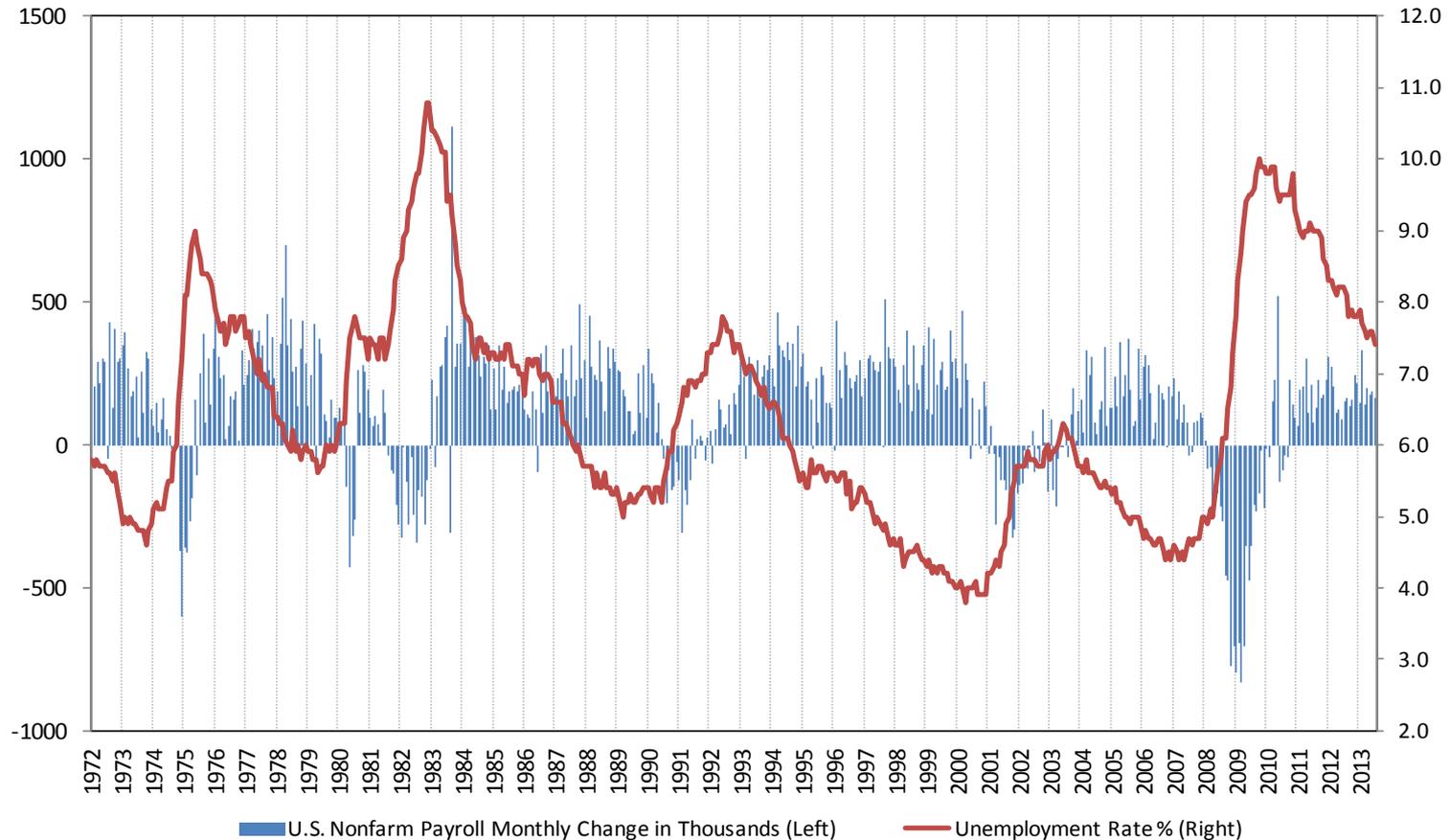


Source: U.S. Department of Labor: Bureau of Labor Statistics

- ▶ 2nd quarter GDP rose 1.7% following 1.1% in the 1st quarter
- ▶ CPI increased 1.8% over the trailing twelve-months (1.5% in the 1st quarter).

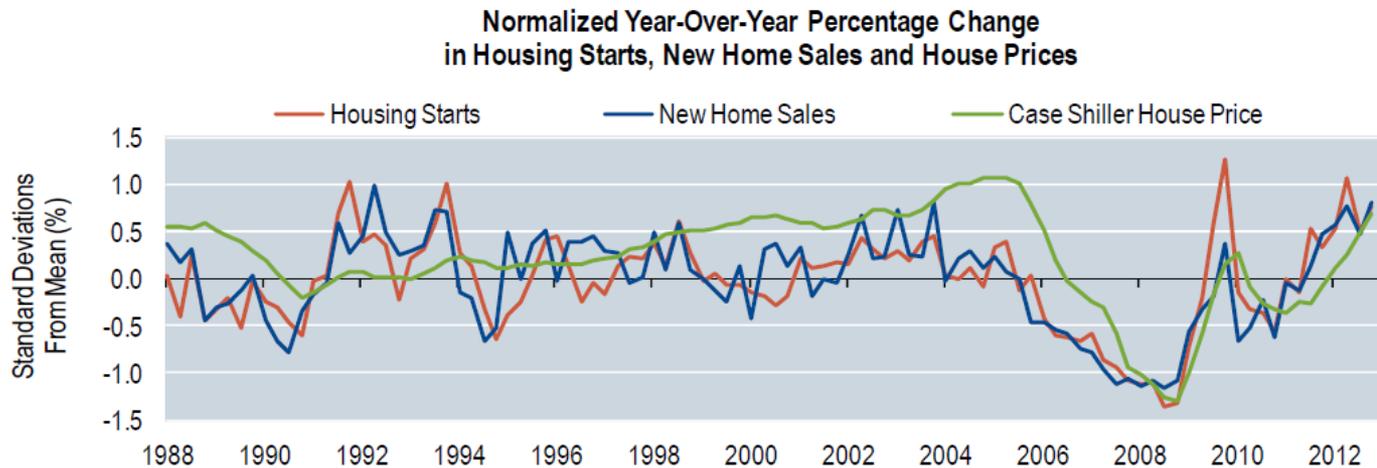
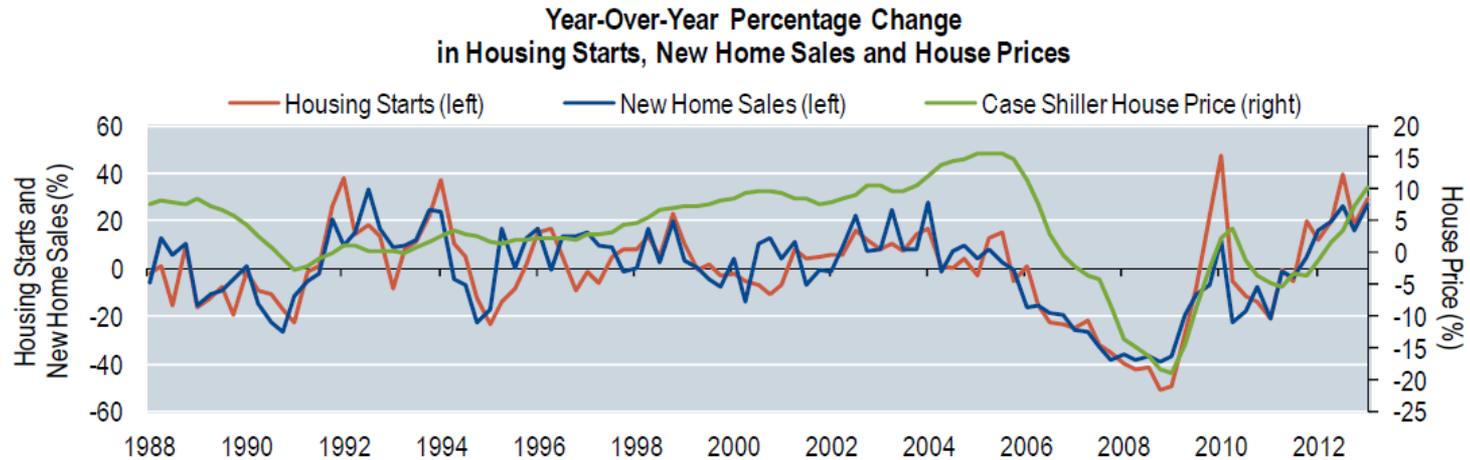
U.S Labor Market Conditions

U.S Nonfarm Payroll Growth & Unemployment Rate



Source: U.S. Department of Labor: Bureau of Labor Statistics

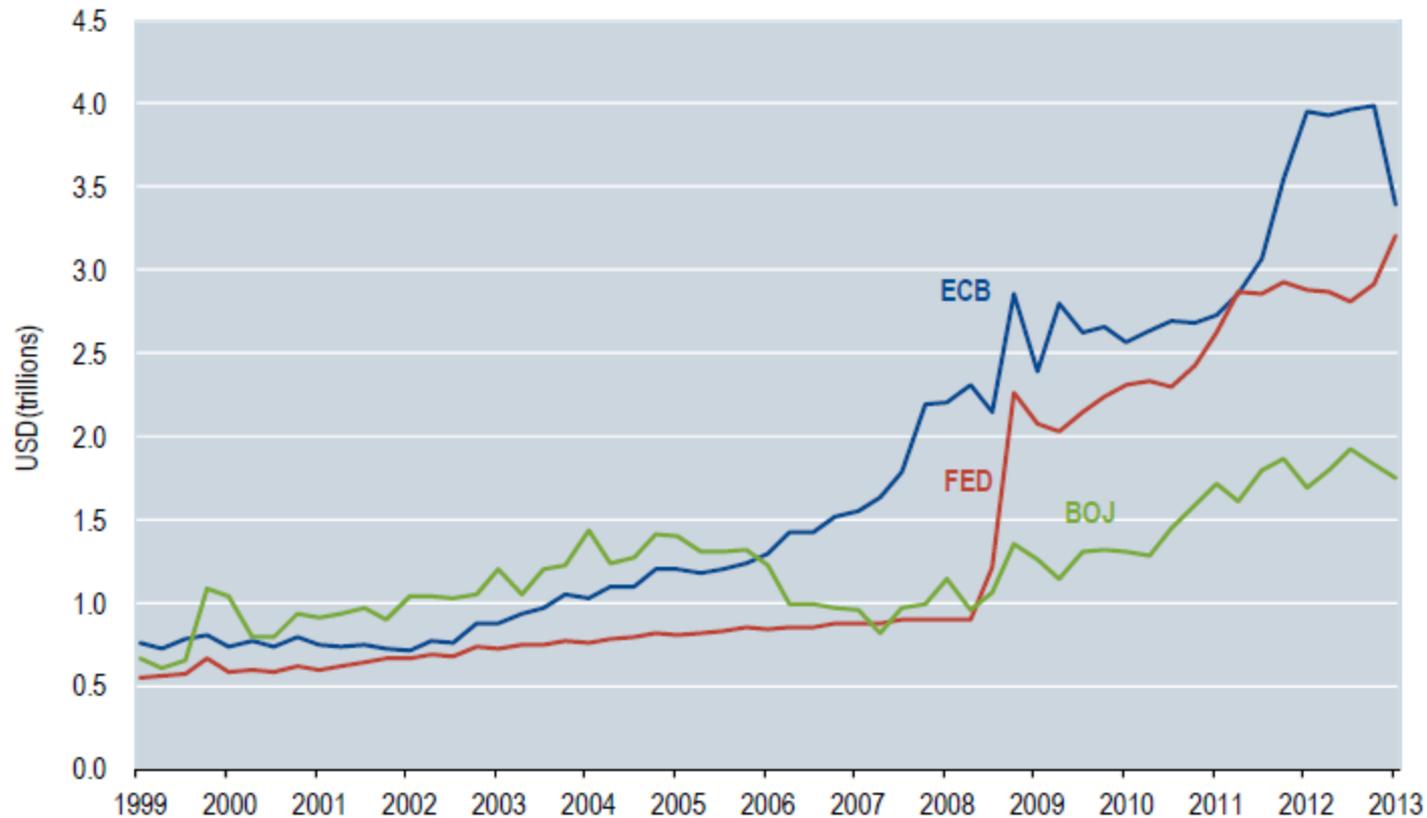
U.S Housing Trends Suggest Start of Recovery



Source: US Census Bureau, Case-Shiller, Bloomberg

Central Bank Balance Sheets

Unconventional monetary policy through quantitative easing by central banks continues to impact financial markets.



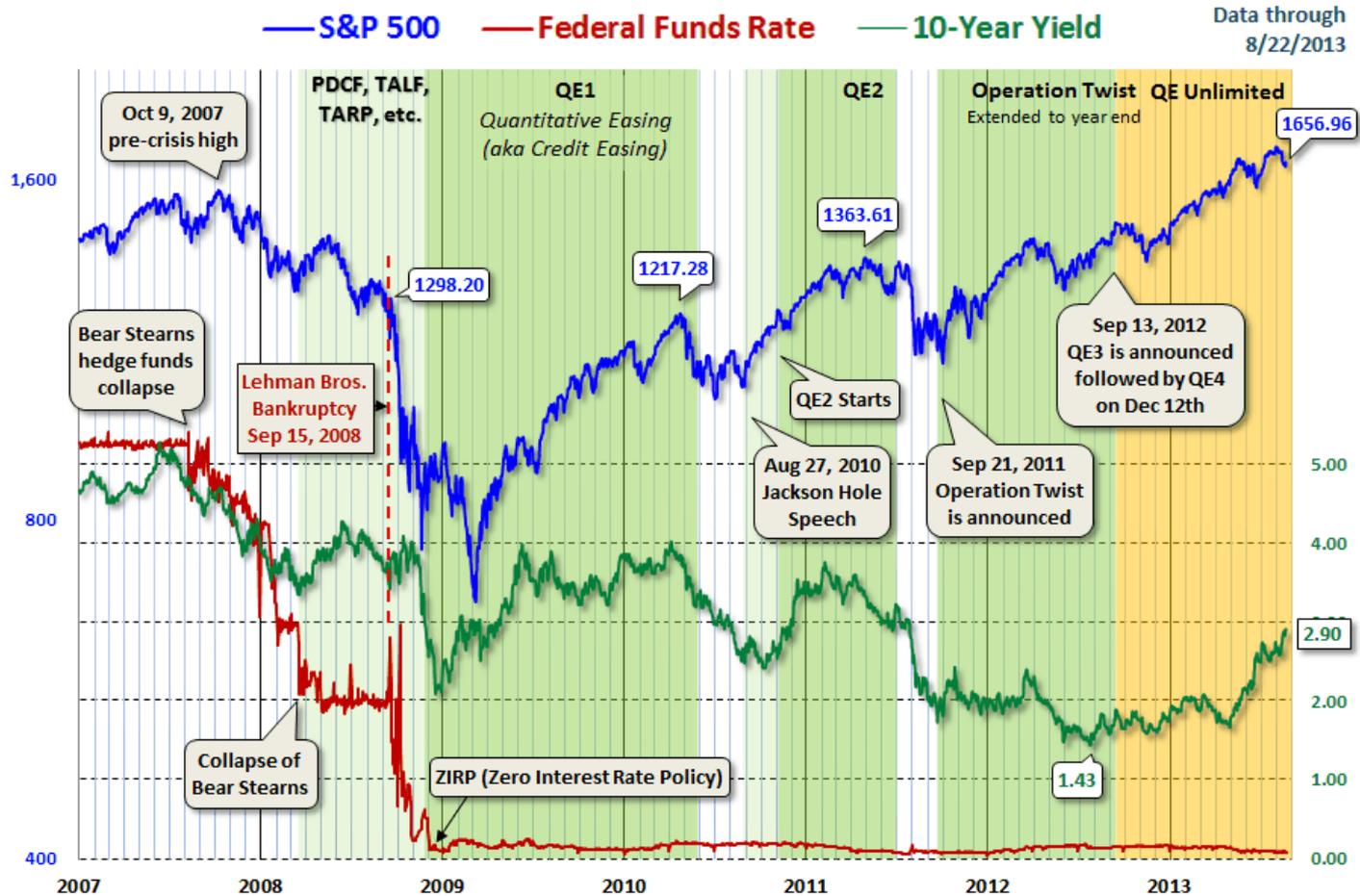
Source: Bloomberg. As of 31 Mar 13

Fiscal Year Highlights

Most equity markets advanced steadily; bonds were “mixed”; central banks’ words and actions provided support

- ▶ Nearly all developed country equity market indices hit “all-time highs,” including the U.S.’s S&P 500, which advanced 20%
- ▶ Most emerging country equity markets did not sustain strong rallies
- ▶ U.S. bond markets weakened as the interest rate on the 10-year U.S. Treasury rose from 1.6% in May to 2.5% at the end of June
- ▶ Credit-related fixed income performed well, particularly corporate bonds and loans
- ▶ Real assets, such as private real estate and infrastructure, also delivered positive returns

U.S. Equity Market Recovery Continues, While Treasury Yields “Normalize”



Source: Standard & Poor's, Federal Reserve

Asset Class & Total Fund Investment Performance

Fiscal Year Ended June 30, 2012

	Actual Return (Net)	Benchmark	Difference
<i>Global Equity</i>	22.92%	21.24%	1.68%
US Large Cap Equity	22.92%	21.24%	1.68%
US Small Cap Equity	26.22%	24.21%	2.01%
Developed International Equity	20.22%	18.62%	1.60%
Emerging Markets Equity	3.82%	2.87%	0.95%
Global Equity	16.32%	18.58%	-2.26%
Private Equity	6.69%	6.69%	0.00%
<i>Global Fixed Income</i>	5.72%	0.90%	4.82%
US Investment Grade Fixed Income	5.04%	-0.69%	5.73%
US High Yield	13.64%	9.50%	4.14%
International Fixed Income	0.48%	-3.40%	3.88%
<i>Global Real Assets</i>	7.84%	8.07%	-0.23%
Real Estate	10.55%	10.72%	-0.17%
Timber	0.58%	9.35%	-8.77%
Infrastructure	11.60%	1.75%	9.85%
<i>Total Fund</i>			
TFFR (net)	13.63%	11.95%	1.68%
PERS (net)	13.50%	11.84%	1.66%

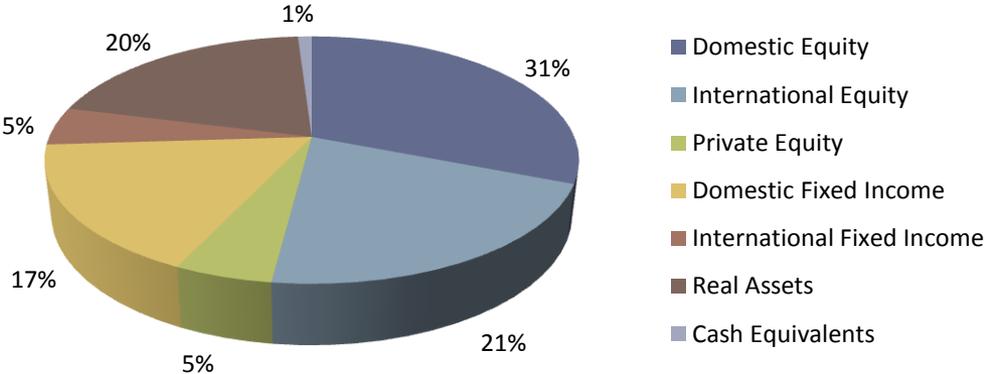
Historical Market Returns by Asset Class

Asset Class	Represented by	Periods Ended June 30, 2013						
		1 Year	3 Year	5 Years	10 Years	20 Years	25 Years	30 Years
Large Cap US Stocks	Russell 1000	21.24%	18.63%	7.12%	7.67%	8.80%	9.89%	10.50%
Small Cap US Stocks	Russell 2000	24.21%	18.67%	8.77%	9.53%	8.88%	9.34%	8.83%
Non-US Stocks (Developed)	MSCI EAFE	18.62%	10.04%	-0.63%	7.67%	5.20%	4.88%	9.20%
Non-US Stocks (Emerging)	MSCI Emerging Mkts	3.23%	3.72%	-0.11%	14.02%	7.56%		
US Bonds	BC Aggregate	-0.69%	3.51%	5.19%	4.52%	5.86%	6.92%	7.84%
High Yield Bonds	BC High Yield Credit	9.49%	10.74%	10.94%	8.91%	7.75%	8.62%	
Non-US Sovereign Debt	Citi World Gov't Bond ex US	-5.72%	2.57%	2.55%	4.78%	5.55%	6.42%	
Inflation Protected	BC Global Inflation Linked	-1.05%	5.88%	2.36%	5.67%			
Real Estate	NCREIF	10.72%	13.14%	2.79%	8.59%	9.11%	7.47%	8.01%
TFFR Total Fund (net of fees)		13.63%	11.81%	2.92%	7.12%	6.99%	7.93%	8.93%
PERS Total Fund (net of fees)		13.50%	11.31%	3.43%	7.07%	7.46%	8.14%	8.62%

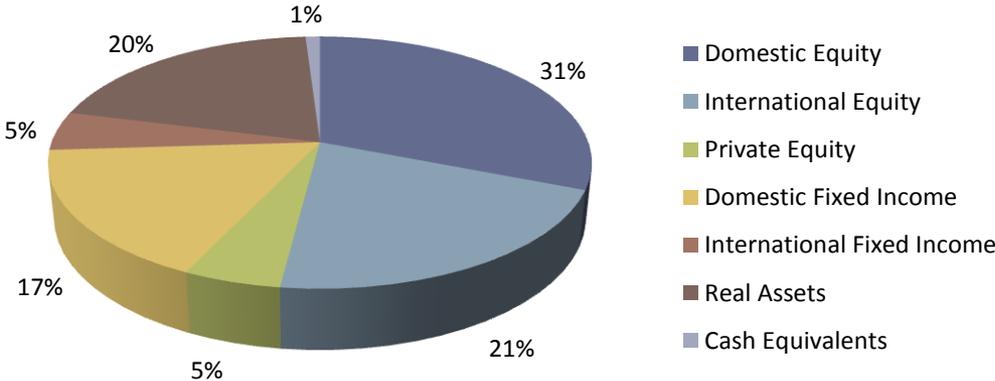
Source: Callan

Pension Asset Allocation

TFFR Target Allocation



PERS Target Allocation



Fiscal Year SIB Activity

- ▶ Asset-liability study conducted and new policy asset allocation adopted by City of Bismarck and Police
- ▶ Investment management fee study conducted by Callan
- ▶ Investments made in global equity and residential and commercial mortgage credit opportunities
- ▶ Asset allocation and spending study performed for the Legacy Fund and new policy asset allocation is being implemented over 18 month transition period
- ▶ Executive search firm retained to recruit candidates for the Executive Director/CIO opening and finalist interviews to be held at next SIB meeting

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