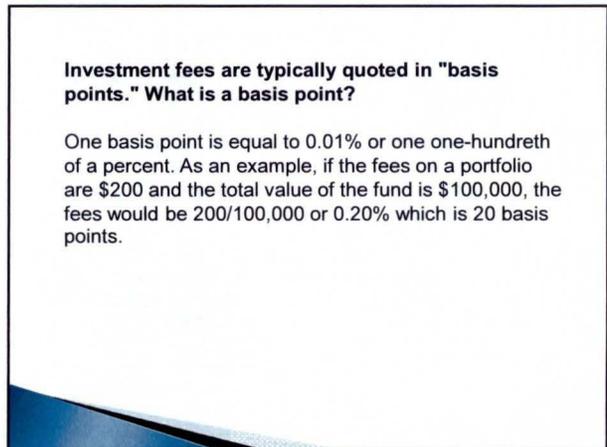
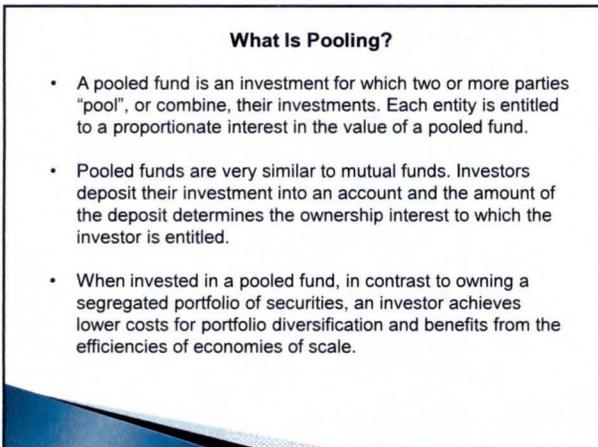


From the Legacy Fund Investment Policy Statement...

7. RESTRICTIONS

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

- a. It is the preference of the board that legacy fund assets not be pooled with any other fund assets managed by the SIB.



Tiered Fee Schedule Examples

0.60% on first \$25 million
0.50% on next \$25 million
0.40% on next \$50 million
0.30% on amounts over \$100 million

Fee Calculation for various portfolio values:

\$25m portfolio ($\$25m \times 0.60\%$) = \$150,000
effective rate 0.60% (150K/25M)

\$40m portfolio ($\$25m \times 0.60\%$) + ($\$15m \times 0.50\%$) = \$225,000
effective rate 0.563% (225K/40m)

\$80m portfolio ($\$25m \times 0.60\%$) + ($\$25m \times 0.50\%$) + ($\$30m \times 0.40\%$) = \$395,000
effective rate 0.494% (395K/80m)

\$150m portfolio ($\$25m \times 0.60\%$) + ($\$25m \times 0.50\%$) + ($\$50m \times 0.40\%$) + ($\$50m \times 0.30\%$) = \$625,000
effective rate 0.417% (625K/150m)

What Difference Does This Make?

Example #1 - Assume Legacy Fund is not pooled and has \$40 million invested with this manager.

Effective Fee Rate if not pooled would be
\$225,000 or 0.563%

Example #2 - Assume Legacy Fund has \$40 million invested in pool with this manager and pooled portfolio value is \$150 million.

Effective Fee Rate if pooled would be \$166,800 or
0.417%

Results in savings of \$58,200 per year for this sample manager.

Trading Cost Savings

- Segregated clients own each individual security directly. This results in many transactions and higher trade settlement fees.
- There are significant trading cost savings using pooled funds because the investment in a pooled fund constitutes one trade.
- Pooled funds provide for the possibility of purchasing and selling securities more efficiently. This may result in lower brokerage costs. In addition, a reduction in negative market impact costs may be realized when using pooled funds.

Administrative Efficiencies of Pooling

- Staff only has to conduct due diligence and compliance reviews on one portfolio relationship.
- Rebalancing may be accommodated without the need to sell/purchase securities which would result in lower trading costs (paper rebalancing).
- Because accounting is conducted at the pool level, there are less transactions to reconcile and record in the general ledger.
- Custodian bank fees include an account based fee of \$500-\$750 per account. If pooled, all funds split that fee pro rata, if not pooled, one fund pays all.
- Consultant performance measurement fees are generally based on number of portfolios being reviewed.
- Management fee invoices must be reconciled on a per account basis.
- Annual financial audit costs could increase based on additional portfolios required to be reviewed.
- Legal fees increase due to additional contracts that must be reviewed.
- In all instances, if assets are pooled, each fund pays their pro rata share of the actual expenses incurred.

Insurance Pool Participants

| <u>Fund</u> | <u>Total Fund Value 2/28/13</u> |
|---|---------------------------------|
| Workforce Safety & Insurance (WSI) | \$ 1,541,587,505 |
| State Fire & Tornado | 26,842,879 |
| State Bonding | 3,174,944 |
| Insurance Regulatory Trust | 1,033,268 |
| Petroleum Tank Release Compensation Fund | 7,003,335 |
| Risk Management Fund | 5,627,407 |
| Risk Management Workers Compensation Fund | 4,185,066 |
| ND Association of Counties (NDACo) Fund | 2,213,462 |
| PERS Group Insurance | 41,958,214 |
| City of Bismarck Deferred Sick Leave | 1,013,266 |
| City of Fargo FargoDome Permanent Fund | 35,713,050 |
| Cultural Endowment Fund | 312,691 |
| Budget Stabilization Fund | 401,633,055 |
| | <u>\$ 2,072,298,142</u> |

Insurance Pool Participants

| <u>Fund</u> | <u>Asset Class Pools</u> |
|---|--|
| Workforce Safety & Insurance (WSI) | Lg Cap, Sm Cap, Int'l Eq, FI, RE, RA, Cash |
| State Fire & Tornado | Lg Cap, Sm Cap, Int'l Eq, FI, Cash |
| State Bonding | FI, Cash |
| Insurance Regulatory Trust | Lg Cap, Sm Cap, Int'l Eq, FI, Cash |
| Petroleum Tank Release Compensation Fund | FI, Cash |
| Risk Management Fund | Lg Cap, Sm Cap, FI, Cash |
| Risk Management Workers Compensation Fund | Lg Cap, Sm Cap, FI, Cash |
| ND Association of Counties (NDACo) Fund | Lg Cap, Sm Cap, Int'l Eq, FI, Cash |
| PERS Group Insurance | Cash |
| City of Bismarck Deferred Sick Leave | Lg Cap, Sm Cap, Int'l Eq, FI, Cash |
| City of Fargo FargoDome Permanent Fund | Lg Cap, Sm Cap, Int'l Eq, FI, RA, Cash |
| Cultural Endowment Fund | Lg Cap, Sm Cap, Int'l Eq, FI, RE, Cash |
| Budget Stabilization Fund | STFI, Cash |

| <u>Insurance Asset Class Pools</u> | |
|------------------------------------|---------------------|
| <u>Asset Class</u> | <u>Abbreviation</u> |
| Large Cap Domestic Equity | Lg Cap |
| Small Cap Domestic Equity | Sm Cap |
| International Equity | Int'l Eq |
| Fixed Income | FI |
| Real Estate | RE |
| Real Assets | RA |
| Short Term Fixed Income | STFI |
| Cash | Cash |

Insurance Pool Investment Managers

| | | <u>Total Insurance Pool Values 2/28/13</u> | <u>Estimated Pooled Fees</u> |
|---|-----------------------|--|------------------------------|
| Large Cap Domestic Equity Pool | | | |
| Los Angeles Capital Management | Lg Cap Growth | 51,662,146 | |
| LSV Asset Management | Lg Cap Value | 54,246,025 | |
| Los Angeles Capital Management | Enhanced Russell 1000 | 33,993,370 | |
| The Clifton Group | Enhanced S&P 500 | 35,303,568 | |
| Total Large Cap Domestic Equity Pool | | 175,205,109 | 0.23% |
| Small Cap Domestic Equity Pool | | | |
| Research Affiliates | Core | 30,625,171 | |
| The Clifton Group | Enhanced Russell 2000 | 30,718,873 | |
| Total Small Cap Domestic Equity Pool | | 61,344,044 | 0.47% |
| International Equity Pool | | | |
| Capital Guardian | Core | 47,987,211 | |
| LSV Asset Management | Core | 50,774,625 | |
| Dimensional Fund Advisors (DFA) | Small Cap Value | 11,216,135 | |
| Vanguard | Small Cap Growth | 11,031,449 | |
| Total International Equity Pool | | 121,009,420 | 0.55% |
| Real Estate Pool | | | |
| JP Morgan | Core Commingled | 62,475,921 | |
| Invesco | Core Commingled | 40,442,611 | |
| Total Real Estate Pool | | 102,918,532 | 0.81% |

Insurance Pool Investment Managers

| | | <u>Total Insurance Pool Values 2/28/13</u> | <u>Estimated Pooled Fees</u> |
|-------------------------------------|-----------------------|--|------------------------------|
| Fixed Income Pool | | | |
| Western Asset Management | Core | 209,634,171 | |
| Prudential | Core Plus | 70,025,835 | |
| Declaration Management & Research | Mortgage Backed | 52,035,457 | |
| Bank of ND | Government/Credit | 112,592,631 | |
| Wells Capital Management | Baa Average Quality | 278,512,880 | |
| PIMCO | Distressed Sr. Debt | 80,691,024 | |
| Total Fixed Income Pool | | 813,491,998 | 0.41% |
| Short Term Fixed Income Pool | | | |
| Babson Capital | US Gov't & Bank Loans | 151,645,730 | |
| JP Morgan | US Gov't & Credit | 150,792,581 | |
| Total Short Term Fixed Pool | | 302,438,311 | 0.12% |
| Real Assets Pool | | | |
| Western Asset Management | Global TIPS | 184,952,700 | |
| Timberland Investment Resources | Timber | 60,751,511 | |
| JP Morgan | Infrastructure | 68,212,358 | |
| Credit Suisse | Infrastructure | 13,287,779 | |
| Total Real Assets Pool | | 327,204,348 | 0.75% |
| Cash Equivalents Pool | | | |
| Bank of ND | Enhanced Money Market | 77,084,406 | 0% |

Suggested Modifications to Investment Policy Statement

- New Strategic Asset Allocation (approved at April 2 meeting) – Page 3
- Pooling Language – Pages 2 & 3
- Other Miscellaneous Corrections and Clarifications – in Red