

# **State Investment Board Update**

**For the fiscal year ended June 30, 2015**

## **Employee Benefits Program Committee**

**October 23, 2015**

Dave Hunter, Executive Director / CIO

Darren Schulz / Deputy Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

# Presentation Agenda

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- ▶ State Investment Board members
- ▶ State Investment Board process
- ▶ Assets under management
- ▶ Fiscal year highlights and key economic indicators
- ▶ Pension investment performance and asset allocation
- ▶ Peer performance of returns and risk
- ▶ SIB Report – Asset and Investment Performance Overview
- ▶ SIB Report – Client Investment Fees and Expenses
- ▶ North Dakota Century Code 21-10 State Investment Board
- ▶ U.S. Public Pension Plan Investment Return Assumptions

# State Investment Board Members - October 23, 2015

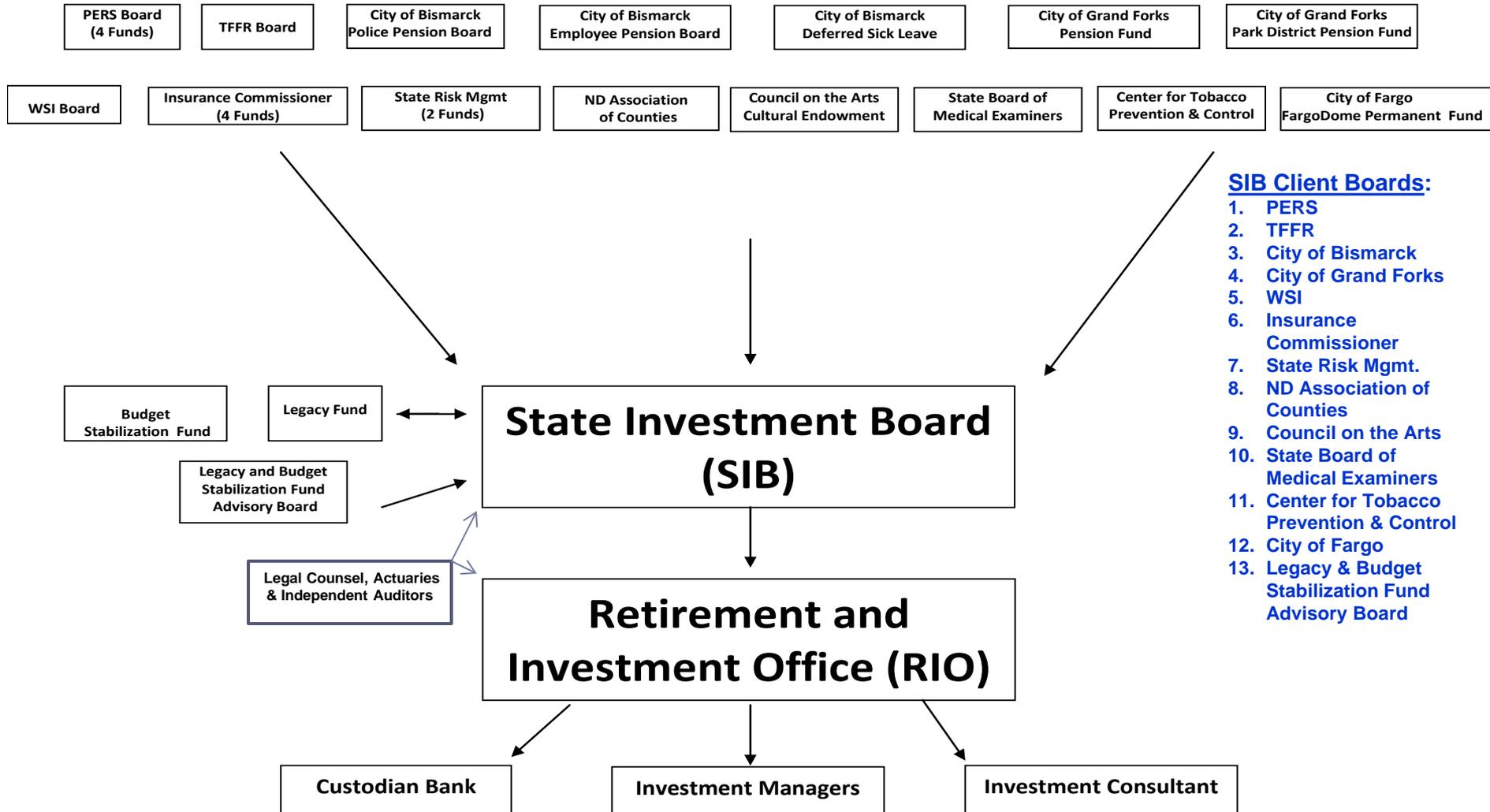
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The SIB includes 11 members with Lieutenant Governor Drew Wrigley serving as Chairman and includes State Treasurer Kelly Schmidt, the Commissioner of University and School Lands Lance Gaebe, the Director of Workforce Safety and Insurance designee Cindy Ternes, the Insurance Commissioner Adam Hamm, plus three TFFR board members and three PERS board members.

The TFFR representatives include Michael Gessner, Rob Lech and Mel Olson noting that Mr. Lech also serves as the board parliamentarian.

The PERS representatives include Mike Sandal, Tom Trenbeath and Yvonne Smith noting that Mr. Sandal also serves as *Vice Chairman* of the SIB.

# State Investment Board Process



# State Investment Board Process

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**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):

- Accept and 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

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## **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:**

- Accept and 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

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## **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

## **Others Experts:**

- Legal Counsel
- Independent Actuaries and Auditors
- Specialists in custody and fee reviews and/or transaction cost analyses

# State Investment Board – Client Assets Under Management

<b>Fund Name</b>	<b>Market Values as of 6/30/15 <sup>(1)</sup></b>	<b>Market Values as of 6/30/14 <sup>(2)</sup></b>	<b>Market Values as of 6/30/13 <sup>(2)</sup></b>
<b>Pension Trust Fund</b>			
Public Employees Retirement System (PERS)	2,422,579,596	2,332,744,037	2,000,899,336
Teachers' Fund for Retirement (TFFR)	2,103,807,352	2,061,684,912	1,810,735,455
Job Service of North Dakota Pension	96,392,560	97,825,769	90,442,764
City of Bismarck Employees Pension	81,745,818	78,804,326	68,822,847
City of Grand Forks Employees Pension	59,232,374	57,896,611	50,148,061
City of Bismarck Police Pension	35,889,943	34,643,204	30,072,819
Grand Forks Park District	6,035,137	5,938,993	5,109,311
City of Fargo Employees Pension	1,461	9,702	34,133,671
<b>Subtotal Pension Trust Fund</b>	<b>4,805,684,242</b>	<b>4,669,547,555</b>	<b>4,090,364,264</b>
<b>Insurance Trust Fund</b>			
Legacy Fund		2,215,941,142	1,194,779,193
Workforce Safety & Insurance (WSI)	1,762,659,137	1,703,987,980	1,557,719,286
Budget Stabilization Fund	574,011,150	586,199,881	401,353,181
City of Fargo FargoDome Permanent Fund	41,007,046	41,775,992	36,411,591
PERS Group Insurance Account	39,653,686	37,425,567	42,792,878
State Fire and Tornado Fund	23,416,231	29,223,707	26,633,417
Petroleum Tank Release Compensation Fund	7,162,837	7,092,998	6,839,483
State Risk Management Fund	6,849,216	6,948,162	6,187,298
State Risk Management Workers Comp Fund	6,224,541	5,965,322	5,247,448
ND Association of Counties (NDACo) Fund	3,833,499	3,445,373	2,717,444
State Bonding Fund	3,180,024	3,268,991	3,141,218
Insurance Regulatory Trust Fund	2,636,660	1,146,038	1,043,647
ND Board of Medical Examiners	2,174,702	1,889,897	
Bismarck Deferred Sick Leave Account	872,178	849,818	1,016,834
Cultural Endowment Fund	383,050	364,979	323,914
<b>Subtotal Insurance Trust Fund</b>	<b>2,474,063,957</b>	<b>4,645,525,847</b>	<b>3,286,206,833</b>
<b>Legacy Trust Fund</b>			
Legacy Fund	3,328,631,302		
PERS Retiree Insurance Credit Fund	97,671,059	90,360,366	73,677,263
<b>Total Assets Under SIB Management</b>	<b>10,706,050,560</b>	<b>9,405,433,768</b>	<b>7,450,248,360</b>

<sup>(1)</sup> 6/30/15 market values are unaudited and subject to change.

<sup>(2)</sup> 6/30/14 and 6/30/13 market values as stated in the Comprehensive Annual Financial Report.

- SIB Client Assets Under Management grew by approximately 44% or \$3.2 billion in the last biennium.
- The Pension Trust posted net investment return of 3.5% in fiscal 2015 and 16% return in fiscal 2014. As a result, Pension Trust assets increased by over 17% or \$700 million during the last two years.
- Legacy assets increased from less than \$1.2 billion at June 30, 2013, to over \$3.3 billion at June 30, 2015, primarily due to tax collections, although net returns were 3.3% for the year ended June 30, 2015.
- As of June 30, 2015, the market value of SIB client assets approximated \$10.7 billion based on unaudited valuations.

# Historical Asset Class Returns and Key Economic Indicators

Asset Class	Benchmark	Period Ended June 30, 2015			
		1-Year	3-Years	5-Years	10-Years
Large Cap US Stocks	Russell 1000	7.37%	17.73%	17.58%	8.13%
Small Cap US Stocks	Russell 2000	6.49%	17.81%	17.08%	8.40%
Non-US Stocks (Developed)	MSCI EAFE	-4.22%	11.97%	9.54%	5.12%
Non-US Stocks (Emerging)	MSCI Emerging Markets	-4.77%	4.08%	4.03%	8.46%
US Bonds	Barclays Aggregate	1.86%	1.83%	3.35%	4.44%
High Yield Bonds	Barclays Corporate High Yield	-0.40%	6.81%	8.61%	7.89%
Non-US Debt	Citi Non-US World Govt	-13.49%	-3.88%	0.33%	2.63%
Inflation Protected	Barclays Global Inflation Linked	-4.23%	1.52%	4.65%	4.32%
Real Estate	NCREIF	12.98%	11.63%	12.72%	8.16%

Recent Quarterly Indicators	2Q15	1Q15	4Q14	3Q14	2Q14	1Q14	4Q13	3Q13
GDP Growth	2.7%	0.6%	2.1%	4.3%	4.6%	-0.9%	3.8%	3.0%
Unemployment Rate	5.3%	5.6%	5.7%	6.1%	6.2%	6.6%	7.0%	7.3%
CPI	0.1%	-0.1%	0.8%	1.7%	2.1%	1.5%	1.5%	1.2%
Consumer Sentiment	96.1	93.0	93.6	84.6	82.5	80.0	82.5	77.5

**Overview:** The capital markets performed far better in fiscal 2014 than fiscal 2015. This was largely a result of economic growth slowing in the international markets (including China, the world's second largest economy) and continued fears over Greece exiting the European Union in mid-June. In the U.S., stocks generated returns of over 6% in fiscal 2015 versus 24% in fiscal 2014, while Non-U.S. stocks declined by over 4% during the past fiscal year versus gains of over 20% in fiscal 2014. Similarly, U.S. Bonds increased less than 2% in fiscal 2015 versus a 4% gain in fiscal 2014, while Non-U.S. Bonds fell sharply by over 13% in fiscal 2015 versus a 9% gain in fiscal 2014. Real Estate performed well throughout increasing by nearly 13% in fiscal 2015 and 11% in fiscal 2014.

# U.S Economy – GDP Growth Rates

UNITED STATES GDP GROWTH RATE



SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

Quarterly GDP Growth Rates (top chart) have been volatile as evidenced by low or negative growth rates in the 1<sup>st</sup> quarter of recent years largely attributed to poor weather conditions.

UNITED STATES GDP ANNUAL GROWTH RATE

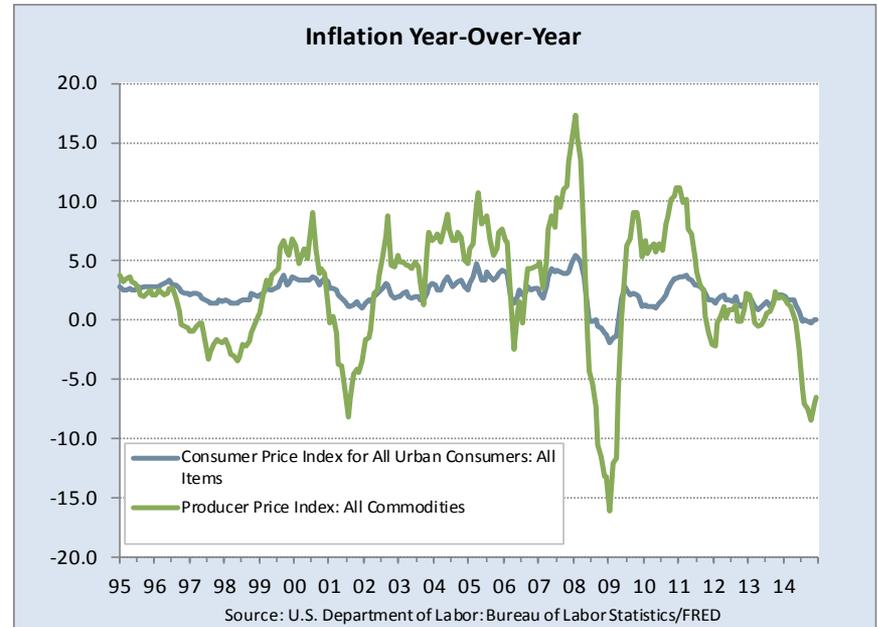
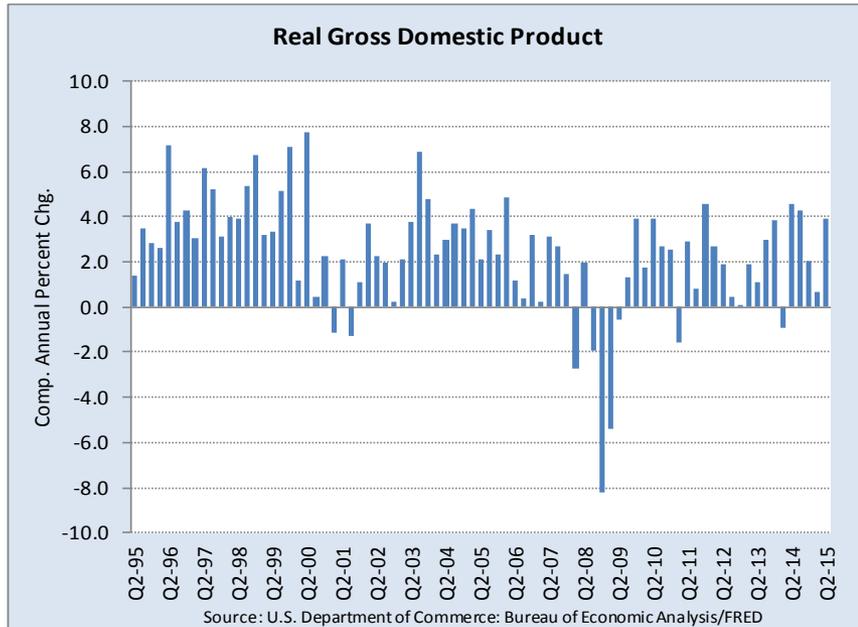


SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

Annual GDP Growth Rates (bottom chart) minimize the impact of seasonal weather conditions and display a more consistent and moderate growth rate of about 2.7% over the past year.

# U.S. Economy – GDP and Inflation

## Quarter Ending June 30, 2015



- ▶ The Federal Reserve ended the third round of its bond-buying program in October 2014, although it continues to reinvest principal payments from its holdings.
- ▶ 2<sup>nd</sup> quarter GDP was up 3.9%, a dramatic improvement from 0.6% in the first quarter.
- ▶ June headline and core CPI increased over the trailing year by 0.1% and 1.8%, respectively.
- ▶ The unemployment rate declined from 5.5% in March to 5.3% in June (and 5.1% in recent months).
- ▶ Labor market shows strength with the addition of 245,000 jobs in June.

Source: Callan.

# Global GDP Growth Rates

	ACTUAL 2010-2013	ACTUAL 2014	FORECAST 2015	PROJECTED 2015-2019	TREND 2020-2025
United States	2.2	2.4	2.9	2.4	1.9
Europe*	0.9	1.4	1.8	2.1	1.5
<i>of which: Euro Area</i>	0.6	0.8	1.4	1.9	1.2
Japan	1.8	0.2	0.6	1.4	1.1
Other mature**	3.5	3.1	3.0	2.9	2.5
<b>Mature Economies</b>	<b>1.8</b>	<b>1.9</b>	<b>2.3</b>	<b>2.3</b>	<b>1.8</b>
China	8.8	7.4	6.5	5.5	3.9
India	6.6	5.7	5.9	5.5	5.0
Other developing Asia	5.2	3.9	4.6	4.3	3.9
Latin America	3.6	1.0	1.6	2.8	2.9
<i>of which: Brazil</i>	3.4	0.2	0.5	3.1	3.1
<i>of which: Mexico</i>	3.5	2.3	3.5	2.8	2.8
Middle East & North Africa	3.4	2.9	3.4	3.4	3.2
Sub-Saharan Africa	4.6	3.7	4.4	5.0	5.3
Russia, Central Asia and Southeast Europe***	4.1	0.9	-1.5	2.1	1.7
<b>Emerging Market and Developing Economies</b>	<b>6.2</b>	<b>4.7</b>	<b>4.4</b>	<b>4.5</b>	<b>3.7</b>
<b>World Total</b>	<b>3.7</b>	<b>3.2</b>	<b>3.3</b>	<b>3.3</b>	<b>2.7</b>

▶ Global GDP Growth Rates have declined from:

- ▶ 3.7% in 2010-to-2013 to
- ▶ 3.2% in 2014 and are expected to reach
- ▶ 3.3% in 2015 through 2019.

▶ Global GDP Growth in the Emerging Market and Developing Economies is expected to trend downward over the next decade largely due to China's growth rate slowing from:

- ▶ 8.8% in 2010-to-2013 down to
- ▶ 3.9% in 2020-to-2025.

**Key Take-Away:** World GDP growth rates continue to show meaningfully positive trends albeit at slower rates than in the recent past.

# U.S Labor Market Conditions

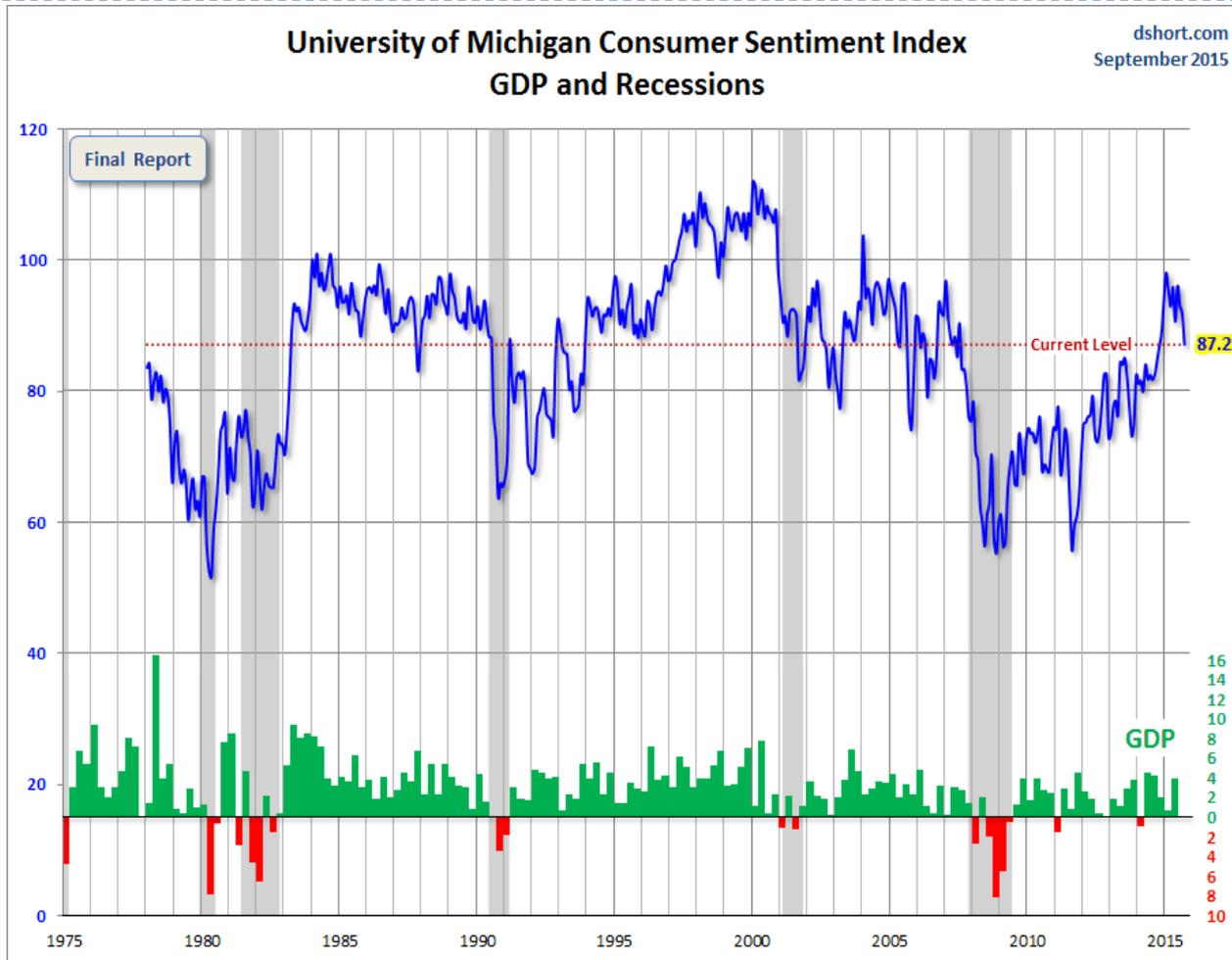


SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

**U.S. Labor Markets Continue to Improve: The U.S. Unemployment Rate has declined to 5.1% in August and September of 2015 after peaking at 10% in October of 2009.**

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

# U.S Consumer Sentiment is Impacted by Global Events



**Summary:** The decline in optimism continued to narrow in late September as consumers increasingly concluded that the stock market declines had more to do with international conditions than the domestic economy. While the September Sentiment Index was at the lowest level in eleven months, it was still higher than in any prior month since May 2007. To be sure, a raft of recent events have been viewed as negative economic indicators by consumers, including falling commodity prices, weakened Chinese and other economies as well as continued stresses on European countries. Although most believe the domestic economy is still largely insulated, they have lowered the pace of job and wage growth that they now anticipate. The true significance of these findings is not the diminished economic prospects, but that consumers now believe that global economic trends can directly influence their own job and wage prospects as well as indirectly via financial markets. While now small, the influence of the global economy is certain to rise in the future and prompt widespread adjustments by consumers and policy makers.

The **University of Michigan Consumer Sentiment Index** is a consumer confidence index published monthly by the University of Michigan and Thompson Reuters. The index is normalized to have a value of 100 in December 1964. Each month at least 500 telephone interviews involving fifty core questions are conducted within the U.S. These interviews are used to develop an index of consumer expectations, a subset of which are included in the Leading Indicator Composite Index published by the US Dept. of Commerce and Bureau of Economic Analysis.

# Asset Class Performance

## Periods Ending June 30, 2015

- ▶ Emerging markets ranked 1<sup>st</sup> for the last quarter, up 0.8%, but fell 4.8% in the year
- ▶ S&P 500 gained 0.3% for the quarter and 7.4% for the trailing year
- ▶ Barclays Aggregate fell 1.7% for the quarter and gained 1.9% for the trailing year
- ▶ International equities (EAFE and EM) lagged domestic equities over every time period shown except the last quarter

**Callan Periodic Table of Annualized Investment Returns**  
Periods Ending June 30, 2015

Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
MSCI:Emer Markets <b>0.8%</b>	S&P:500 <b>7.4%</b>	Russell:2000 Index <b>17.8%</b>	S&P:500 <b>17.3%</b>	MSCI:Emer Markets <b>8.5%</b>
MSCI:EAFE US\$ <b>0.6%</b>	Russell:2000 Index <b>6.5%</b>	S&P:500 <b>17.3%</b>	Russell:2000 Index <b>17.1%</b>	Russell:2000 Index <b>8.4%</b>
Russell:2000 Index <b>0.4%</b>	Barclays:Aggregate Index 1.9%	MSCI:EAFE US\$ <b>12.0%</b>	MSCI:EAFE US\$ <b>9.5%</b>	S&P:500 <b>7.9%</b>
S&P:500 <b>0.3%</b>	3 Month T-Bill <b>0.0%</b>	MSCI:Emer Markets <b>4.1%</b>	MSCI:Emer Markets <b>4.0%</b>	MSCI:EAFE US\$ <b>5.1%</b>
3 Month T-Bill <b>0.0%</b>	MSCI:EAFE US\$ <b>(4.2%)</b>	Barclays:Aggregate Index 1.8%	Barclays:Aggregate Index 3.3%	Barclays:Aggregate Index 4.4%
Barclays:Aggregate Index <b>(1.7%)</b>	MSCI:Emer Markets <b>(4.8%)</b>	3 Month T-Bill <b>0.1%</b>	3 Month T-Bill <b>0.1%</b>	3 Month T-Bill <b>1.4%</b>

As of 10/21/15	FYTD	YTD
S&P 500	-1.52%	-0.31%
Russell 2000	-8.33%	-3.97%
EAFE	-3.90%	1.41%
EM	-10.88%	-8.25%
BC Agg	1.86%	1.52%

Source: Callan.

**ND RETIREMENT AND INVESTMENT OFFICE  
ND STATE INVESTMENT BOARD  
INVESTMENT PERFORMANCE SUMMARY  
AS OF JUNE 30, 2015**

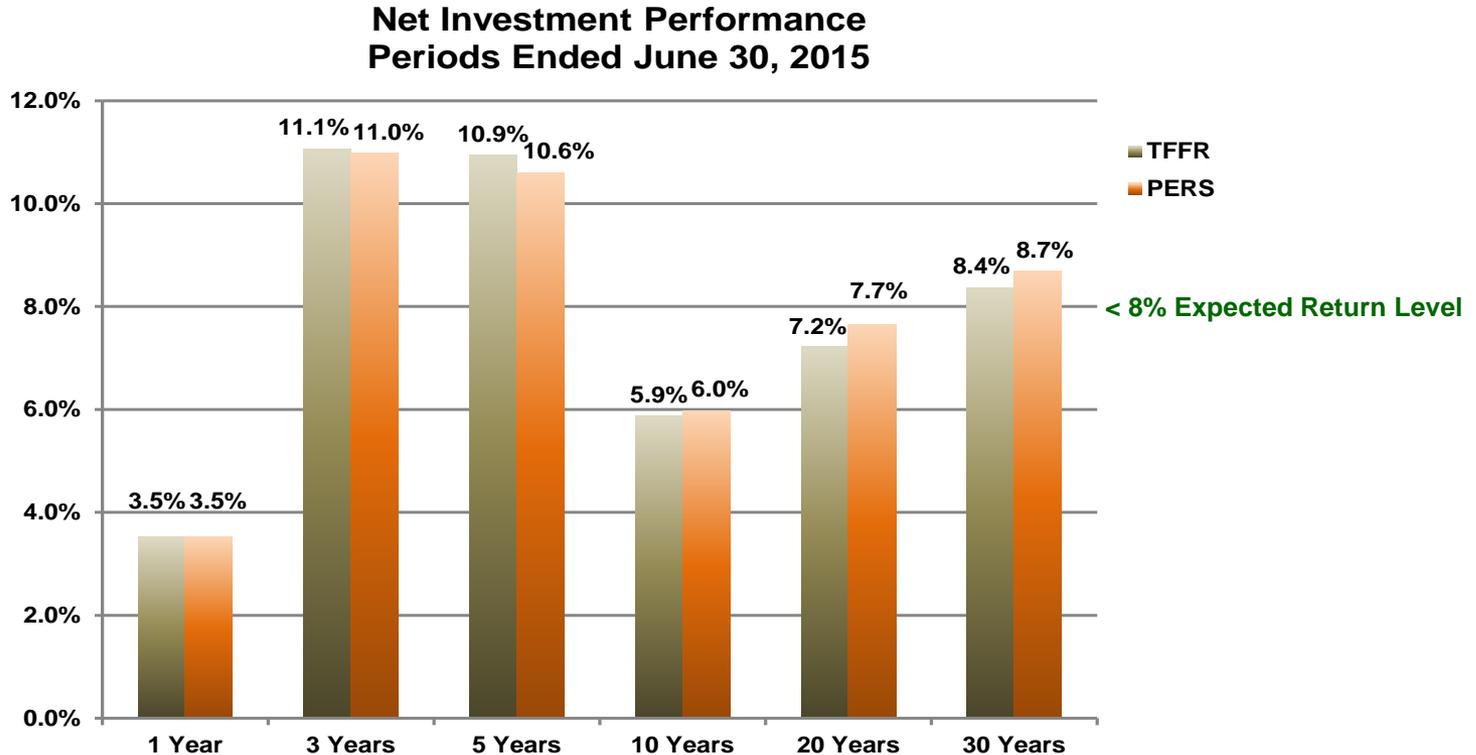
Investment Performance (net of fees)

Fund Name	Market Values as of 6/30/15	FYTD 2015	Fiscal Years ended June 30					Periods ended 6/30/15 (annualized)						
			2014	2013	2012	2011	2010	3 Years	5 Years	10 Years	15 Years	20 Years	25 Years	30 Years
<b>Pension Trust Fund</b>														
Teachers' Fund for Retirement (TFFR)	2,103,807,352	3.52%	16.53%	13.57%	-1.12%	24.05%	13.87%	11.06%	10.94%	5.87%	4.99%	7.23%	7.80%	8.37%
Public Employees Retirement System (PERS)	2,422,579,596	3.53%	16.38%	13.44%	-0.12%	21.27%	13.67%	10.98%	10.61%	5.98%	5.54%	7.65%	8.01%	8.68%
City of Bismarck Employees Pension	81,745,818	3.69%	14.56%	12.41%	1.57%	20.32%	12.74%	10.12%	10.29%	6.00%	5.65%	7.52%	8.38%	*
City of Bismarck Police Pension	35,889,943	3.56%	15.27%	13.03%	1.31%	21.10%	13.30%	10.50%	10.61%	6.01%	5.48%	7.40%	8.25%	*
Job Service of North Dakota Pension	96,392,560	3.30%	13.54%	11.71%	3.09%	16.39%	13.63%	9.42%	9.47%	6.16%	5.52%	8.47%	*	*
City of Fargo Employees Pension	1,461	0.06%	8.42%	13.90%	0.97%	21.58%	14.82%	7.31%	8.69%	*	*	*	*	*
City of Grand Forks Employees Pension	59,232,374	3.53%	16.33%	14.01%	1.09%	21.64%	13.91%	11.15%	11.04%	*	*	*	*	*
Grand Forks Park District	6,035,137	4.22%	16.44%	14.43%	0.86%	20.98%	*	11.57%	11.12%	*	*	*	*	*
Subtotal Pension Trust Fund	4,805,684,242													
<b>Insurance Trust Fund</b>														
Workforce Safety & Insurance (WSI)	1,762,659,137	3.26%	11.71%	8.31%	6.17%	13.23%	11.94%	7.71%	8.48%	5.65%	5.43%	7.08%	7.62%	*
State Fire and Tornado Fund	23,416,231	3.16%	12.78%	10.59%	4.93%	14.52%	14.52%	8.76%	9.11%	6.14%	5.49%	6.62%	6.91%	*
State Bonding Fund	3,180,024	1.25%	4.06%	2.96%	5.31%	5.01%	8.63%	2.75%	3.71%	2.25%	3.04%	4.77%	5.46%	*
Petroleum Tank Release Compensation Fund	7,162,837	1.13%	3.68%	2.47%	4.84%	4.97%	7.79%	2.42%	3.41%	2.06%	2.70%	4.71%	*	*
Insurance Regulatory Trust Fund	2,636,660	2.04%	9.88%	8.49%	2.82%	11.61%	10.29%	6.75%	6.90%	5.06%	4.69%	6.06%	6.01%	*
State Risk Management Fund	6,849,216	4.08%	12.29%	10.19%	7.63%	14.36%	16.02%	8.80%	9.65%	6.37%	5.57%	*	*	*
State Risk Management Workers Comp Fund	6,224,541	4.57%	13.68%	11.61%	7.40%	16.23%	16.40%	9.88%	10.62%	6.64%	*	*	*	*
Cultural Endowment Fund	383,050	5.22%	16.94%	15.58%	4.65%	21.33%	14.89%	12.46%	12.55%	6.75%	*	*	*	*
Budget Stabilization Fund	574,011,150	1.86%	1.94%	1.87%	2.03%	3.73%	7.38%	1.89%	2.29%	*	*	*	*	*
ND Association of Counties (NDACo) Fund	3,833,499	2.77%	11.61%	9.46%	1.69%	17.73%	15.34%	7.88%	8.49%	5.09%	4.61%	*	*	*
Bismarck Deferred Sick Leave Account	872,178	2.95%	12.32%	9.83%	5.69%	13.80%	15.30%	8.29%	8.84%	6.19%	5.76%	*	*	*
City of Fargo FargoDome Permanent Fund	41,007,046	3.38%	16.34%	13.46%	3.14%	19.16%	16.78%	10.92%	10.89%	6.41%	*	*	*	*
State Board of Medical Examiners Fund	2,174,702	2.70%	*	*	*	*	*	*	*	*	*	*	*	*
PERS Group Insurance Account	39,653,686	0.01%	0.06%	0.27%	0.24%	0.31%	0.36%	0.11%	0.18%	1.55%	1.92%	*	*	*
Subtotal Insurance Trust Fund	2,474,063,958													
<b>Legacy Fund</b>	3,328,631,302	3.31%	6.64%	1.15%	*	*	*	3.69%	*	*	*	*	*	*
<b>PERS Retiree Insurance Credit Fund</b>	97,671,059	3.06%	16.53%	14.80%	2.62%	21.65%	16.86%	11.30%	11.47%	6.11%	4.75%	7.27%	7.53%	*
<b>Total Assets Under SIB Management</b>	<u>10,706,050,561</u>													

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

Note: Asset allocation largely drives investment performance. Each fund has a unique allocation that takes into consideration return objectives, risk tolerance, liquidity constraints, and unique circumstances. Such considerations must be taken into account when comparing investment returns. **All figures are preliminary and subject to revision.**

# TFFR and PERS net investment returns have exceeded the key 8% actuarial rate of return assumption over the last 30 years.



**TFFR and PERS generated net returns of 10.9% and 10.6%, respectively, during the past five years.**

**TFFR and PERS net returns have approximated 8.4% and 8.7%, respectively, during the last 30 years.**

*Note: Investment returns are deemed to be materially accurate, but are unaudited and subject to change.*

# Executive Summary: TFFR and PERS Investment Overview

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**TFFR and PERS net investment returns for both Plans were 3.5% for the year ended June 30, 2015.**

- Asset allocation decisions are consistently the largest drivers of investment returns although active management is important and has produced \$60 million of incremental income for TFFR and PERS in the past fiscal year. Overall, SIB clients have received a \$3 return of every \$1 paid out for investment management fees in fiscal 2015 (e.g. \$148 million was returned on \$48 million of fees in fiscal 2015).
- The plans' private real estate investments posted the largest sector returns of over 15% during the last year, while domestic equity generated an 8.5% return followed by domestic fixed income (up 6.0%) and global equity (up 3.8%). The two weakest performing sectors were international fixed income (down 9.7%) and international equity (down 2.7%) due to dollar strength in the year.

**Portfolio volatility (or risk), as measured by standard deviation, has declined significantly in recent years.**

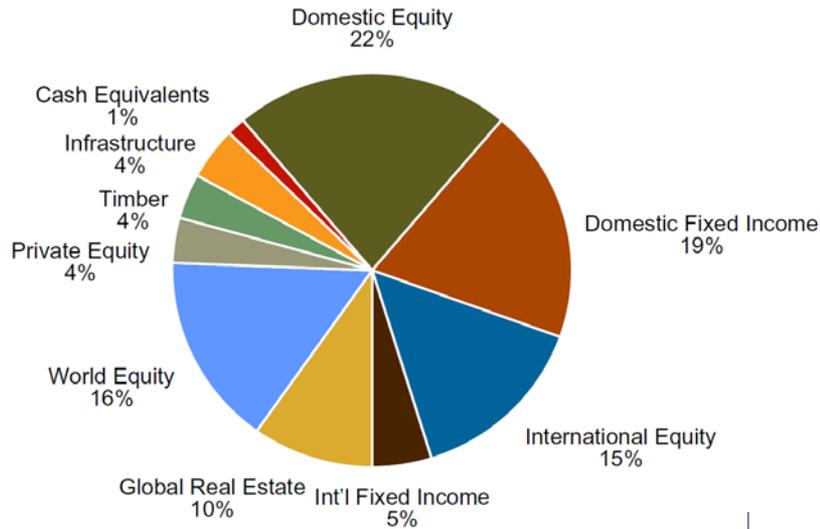
- The standard deviation of the TFFR and PERS portfolios has declined during the past decade and resides in the 3<sup>rd</sup> quartile as of June 30, 2015 (noting that a lower standard deviation is preferred). The plans ability to demonstrate above average returns while employing less risk than most other plans is noteworthy.

**The Retirement and Investment Office regularly meets with our investment advisors to ensure we obtain competent and prudent professional investment services at a competitive price.**

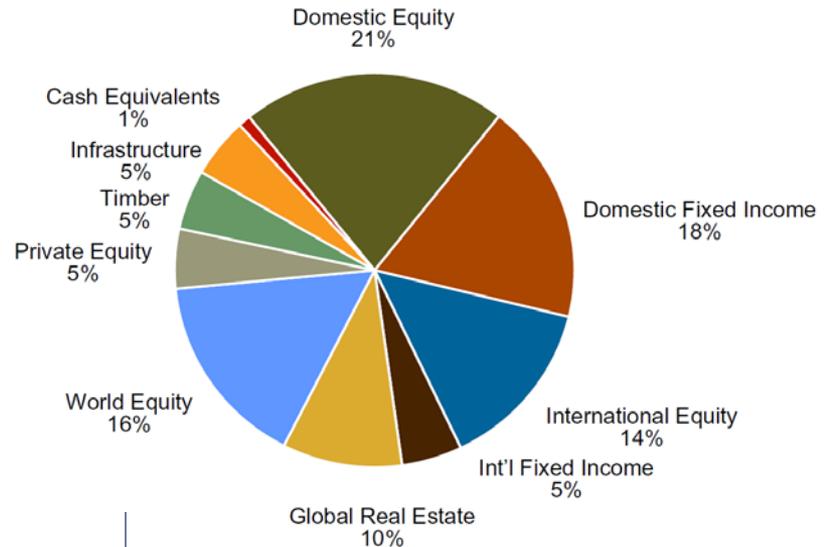
- Investment management fees as a percentage of assets under management declined by 10% within the Pension Trust and increased by 12% within the Insurance Trust during the last fiscal year. Insurance Trust fees increased due to the implementation of a new policy allocation for the Legacy Fund.

# Pension Trust - Actual and Target Asset Allocation

**Actual Asset Allocation**



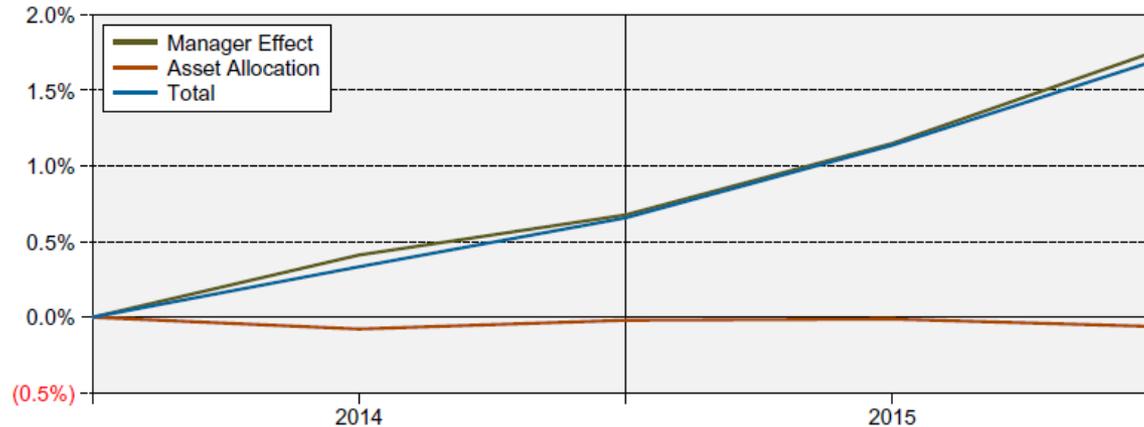
**Target Asset Allocation**



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	1,075,688	22.4%	21.5%	0.9%	42,464
Domestic Fixed Income	928,141	19.3%	18.1%	1.2%	58,310
International Equity	707,664	14.7%	14.1%	0.6%	30,061
Int'l Fixed Income	229,910	4.8%	4.9%	(0.1%)	(5,568)
Global Real Estate	468,650	9.8%	9.7%	0.1%	2,497
World Equity	760,650	15.8%	16.0%	(0.2%)	(8,261)
Private Equity	177,338	3.7%	4.9%	(1.2%)	(58,141)
Timber	177,399	3.7%	4.9%	(1.2%)	(58,080)
Infrastructure	208,262	4.3%	4.9%	(0.6%)	(27,217)
Cash Equivalents	71,991	1.5%	1.0%	0.5%	23,934
<b>Total</b>	<b>4,805,692</b>	<b>100.0%</b>	<b>100.0%</b>		

# Pension Trust– Callan “Actual Return” for 1-Year ended June 30, 2015

## Cumulative Relative Attribution Effects



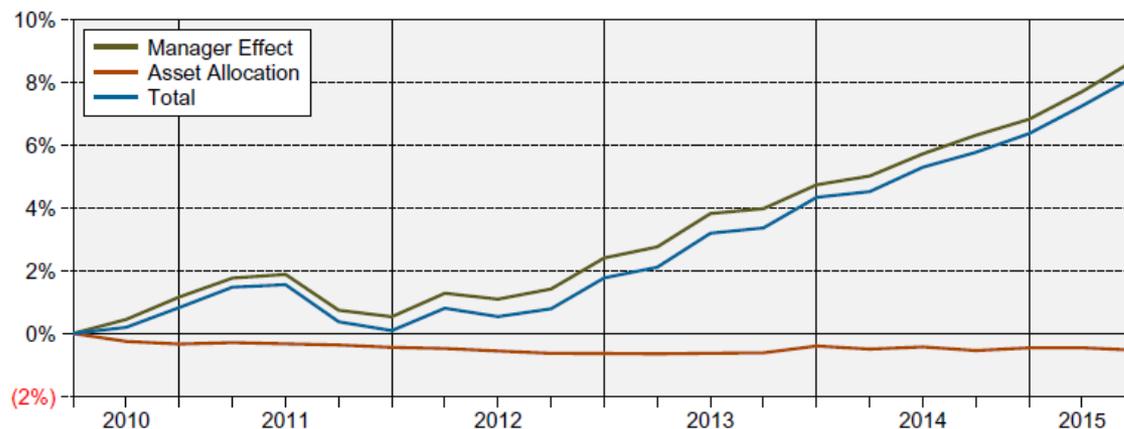
## One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	23%	21%	8.64%	7.26%	0.29%	0.05%	0.34%
Domestic Fixed Income	20%	18%	3.41%	1.25%	0.42%	(0.02%)	0.40%
Global Real Estate	9%	10%	15.63%	12.98%	0.23%	(0.05%)	0.18%
Infrastructure	4%	5%	1.23%	(0.38%)	0.05%	0.02%	0.07%
Timber	4%	5%	3.93%	10.02%	(0.24%)	(0.06%)	(0.30%)
International Equity	15%	14%	(2.53%)	(4.35%)	0.28%	(0.05%)	0.23%
International Fixed Inc.	5%	5%	(9.37%)	(13.19%)	0.21%	0.02%	0.23%
Private Equity	4%	5%	(5.37%)	(5.37%)	0.00%	0.06%	0.06%
World Equity	16%	16%	4.67%	1.43%	0.50%	(0.01%)	0.49%
Cash & Equivalents	1%	1%	0.06%	0.02%	0.00%	(0.01%)	(0.01%)
<b>Total</b>			<b>3.85%</b>	<b>2.15%</b>	<b>+ 1.76%</b>	<b>+ (0.06%)</b>	<b>1.70%</b>

\* Current Quarter Target = 16.6% Russell 1000 Index, 16.0% MSCI World Index, 13.2% Barclays Aggregate Index, 11.0% MSCI EAFE Index, 9.7% NCREIF Total Index, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% Barclays HY Corp 2% Issue, 4.9% Global Agg ex USD, 4.9% NCREIF Timberland Index, 3.1% MSCI Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

# Pension Trust – Callan “Actual Return” for 5-Years ended June 30, 2015

## Cumulative Relative Attribution Effects



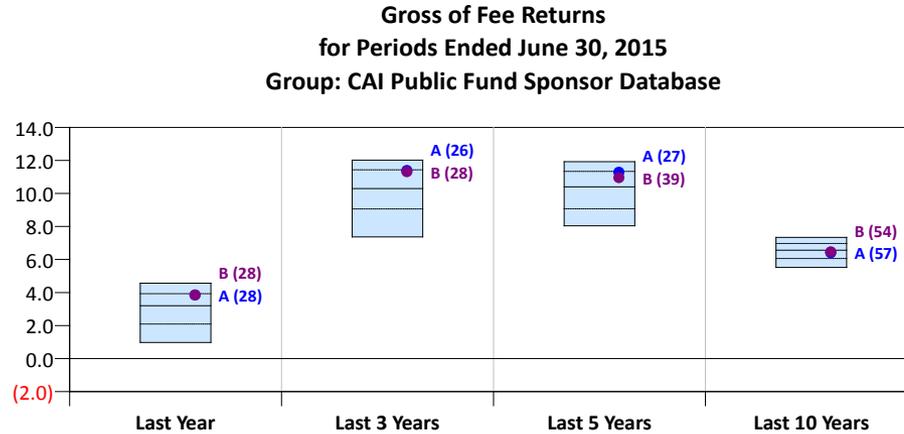
## Five Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	28%	28%	18.04%	17.50%	0.07%	0.04%	0.12%
Domestic Fixed Income	20%	20%	6.66%	4.78%	0.33%	(0.10%)	0.24%
Global Real Estate	9%	9%	16.03%	12.72%	0.27%	(0.00%)	0.26%
Timber	4%	4%	-	-	(0.29%)	0.00%	(0.28%)
Infrastructure	3%	4%	-	-	0.15%	0.09%	0.25%
International Equity	16%	16%	9.68%	7.41%	0.38%	(0.02%)	0.36%
International Fixed Inc.	5%	5%	3.74%	1.08%	0.15%	(0.01%)	0.14%
Private Equity	5%	5%	4.91%	4.91%	0.00%	(0.02%)	(0.02%)
World Equity	9%	9%	-	-	0.10%	(0.05%)	0.05%
Cash & Equivalents	1%	1%	0.10%	0.08%	0.00%	(0.01%)	(0.01%)
<b>Total</b>			<b>11.11%</b>	<b>10.01%</b>	<b>+ 1.17%</b>	<b>+ (0.07%)</b>	<b>1.10%</b>

\* Current Quarter Target = 16.6% Russell 1000 Index, 16.0% MSCI World Index, 13.2% Barclays Aggregate Index, 11.0% MSCI EAFE Index, 9.7% NCREIF Total Index, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% Barclays HY Corp 2% Issue, 4.9% Global Agg ex USD, 4.9% NCREIF Timberland Index, 3.1% MSCI Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

# TFFR and PERS Peer Return Ranking – June 30, 2015

The chart below displays the ranking of TFFR and PERS performance relative to that of the Callan Public Fund Sponsor Database for periods ended June 30, 2015, without any adjustment for the historical asset allocations (versus other public fund sponsors).



10th Percentile	4.6	12.0	11.9	7.3
25th Percentile	3.9	11.4	11.3	7.0
Median	3.2	10.3	10.4	6.6
75th Percentile	2.1	9.1	9.1	6.1
90th Percentile	1.0	7.4	8.0	5.5
Member Count	256	236	220	191
<b>Total Fund-TFFR</b> ● A	<b>3.9</b>	<b>11.4</b>	<b>11.3</b>	<b>6.4</b>
<b>Total Fund-PERS</b> ● B	<b>3.9</b>	<b>11.3</b>	<b>11.0</b>	<b>6.5</b>

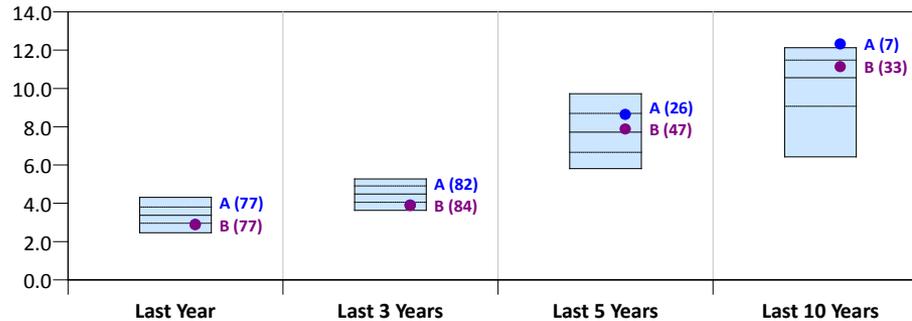
**Gross Returns: TFFR and PERS generated 2<sup>nd</sup> quartile returns for the 1-, 3-, and 5-year periods ended June 30, 2015 based on the Callan Associates Public Fund Sponsor Database (unadjusted basis).**

# TFFR and PERS Peer Risk Ranking – June 30, 2015

The chart below displays the ranking of TFFR and PERS risk relative to that of the Callan Public Fund Sponsor Database for periods ended June 30, 2015.

**Standard Deviation  
for Periods Ended June 30, 2015  
Group: CAI Public Fund Sponsor Database**

Standard deviation is used to measure investment (or portfolio) volatility whereas a lower standard deviation is generally preferred over a higher standard deviation.



10th Percentile	4.3	5.3	9.7	12.1
25th Percentile	3.8	4.9	8.7	11.5
Median	3.4	4.5	7.7	10.6
75th Percentile	3.0	4.1	6.7	9.1
90th Percentile	2.5	3.6	5.8	6.4
Member Count	256	236	220	191
Total Fund-TFFR ● A	2.9	3.9	8.7	12.3
Total Fund-PERS ● B	2.9	3.9	7.9	11.1

**Portfolio volatility, as measured by standard deviation, has declined significantly in recent years. The standard deviation rank of the TFFR and PERS plan declined from the 1<sup>st</sup> and 2<sup>nd</sup> quartile, respectively, for the last 10-year period and 2<sup>nd</sup> quartile for last five years to the 4<sup>th</sup> quartile for the past one and three years.**

# Relative Standard Deviation Relative to Policy Benchmark 10 Years Ended 6/30/2015

Relative Standard Deviation Relative to Policy Benchmarks  
10 Years Ended 6/30/2015



**TFFR and PERS standard deviation remains within investment guidelines of 1.15 (or 115% of the policy benchmark over the last 5 years).**

**TFFR and PERS standard deviation for the 5-years ended June 30, 2015 was 8.7% 7.9%, respectively, and slightly in excess of its policy benchmark.**



# State Investment Board

## Asset and Investment Performance Overview

October 27, 2015

Dave Hunter, Executive Director / CIO  
Darren Schulz, Deputy Chief Investment Officer  
ND Retirement & Investment Office (RIO)  
State Investment Board (SIB)

# State Investment Board – Client Assets Under Management

<u>Fund Name</u>	<u>Market Values as of 6/30/15 <sup>(1)</sup></u>	<u>Market Values as of 6/30/14 <sup>(2)</sup></u>
<b>Pension Trust Fund</b>		
Public Employees Retirement System (PERS)	2,422,579,596	2,332,744,037
Teachers' Fund for Retirement (TFFR)	2,103,807,352	2,061,684,912
Job Service of North Dakota Pension	96,392,560	97,825,769
City of Bismarck Employees Pension	81,745,818	78,804,326
City of Grand Forks Employees Pension	59,232,374	57,896,611
City of Bismarck Police Pension	35,889,943	34,643,204
Grand Forks Park District	6,035,137	5,938,993
City of Fargo Employees Pension	1,461	9,702
<b>Subtotal Pension Trust Fund</b>	<b>4,805,684,242</b>	<b>4,669,547,555</b>
<b>Insurance Trust Fund</b>		
Legacy Fund		2,215,941,142
Workforce Safety & Insurance (WSI)	1,762,659,137	1,703,987,980
Budget Stabilization Fund	574,011,150	586,199,881
City of Fargo FargoDome Permanent Fund	41,007,046	41,775,992
PERS Group Insurance Account	39,653,686	37,425,567
State Fire and Tornado Fund	23,416,231	29,223,707
Petroleum Tank Release Compensation Fund	7,162,837	7,092,998
State Risk Management Fund	6,849,216	6,948,162
State Risk Management Workers Comp Fund	6,224,541	5,965,322
ND Association of Counties (NDACo) Fund	3,833,499	3,445,373
State Bonding Fund	3,180,024	3,268,991
Insurance Regulatory Trust Fund	2,636,660	1,146,038
ND Board of Medical Examiners	2,174,702	1,889,897
Bismarck Deferred Sick Leave Account	872,178	849,818
Cultural Endowment Fund	383,050	364,979
<b>Subtotal Insurance Trust Fund</b>	<b>2,474,063,957</b>	<b>4,645,525,847</b>
<b>Legacy Trust Fund</b>		
Legacy Fund	3,328,631,302	
PERS Retiree Insurance Credit Fund	97,671,059	90,360,366
<b>Total Assets Under SIB Management</b>	<b>10,706,050,560</b>	<b>9,405,433,768</b>

<sup>(1)</sup> 6/30/15 market values are unaudited and subject to change.

<sup>(2)</sup> 6/30/14 market values as stated in the Comprehensive Annual Financial Report.

- ▶ SIB Client Assets Under Management grew by approximately 14% or \$1.3 billion in the last year.
- ▶ The Pension Trust posted a net return of 3.5%, while the Insurance Trust generated a 2.3% net return in the last year. Investments were responsible for gains of \$164 million for the Pension Trust and \$58 million for the Insurance Trust excluding Legacy Fund assets.
- ▶ Legacy assets increased by 50% (or \$1.1 billion) primarily due to tax collections, although net returns were 3.3% for the year ended June 30, 2015.
- ▶ SIB client assets exceeded \$10.7 billion based on unaudited valuations as of June 30, 2015.

# Client Level Return & Risk Summary – June 30, 2015

**Overview:** Pursuant to Section D.3 of the SIB Governance Manual, SIB clients should receive investment returns consistent with their investment policies and market variables. This “End” is evaluated based on comparison of each client’s actual net rate of return, standard deviation and risk adjusted excess return, to the client’s policy benchmark over a minimum period of 5 years. The following five pages summarizes actual client level returns (net of fees), for the 1-, 3- and 5-year periods ended June 30, 2015. In order to determine relative performance, actual returns (net of fees) are compared to the policy benchmark for each relevant period. Risk metrics (standard deviation and risk adjusted excess return) are also reported for each SIB client, if applicable, for the 5-year period ended June 30, 2015.

**Pension Trust:** All Pension Trust clients generated positive Excess Returns for the 1-, 3- and 5-year periods ended June 30, 2015, as summarized on the following two pages. Over the past year, PERS and TFFR generated a net return of approximately 3.5% which exceeded the policy benchmark by over 1.36%. Based on \$4.44 billion of total assets for PERS and TFFR, this translates into \$60 million of incremental income for the State’s two largest pension plans in the last year (e.g. \$4.44 billion x 1.36% = \$60 million). The main drivers of excess returns in the overall Pension Trust were World Equity (0.49%), Domestic Fixed Income (0.40%), U.S. Equity (0.34%), International Equity and Fixed Income (0.23%) and Real Estate (0.18%), with Timber (-0.30%) representing the largest detractor during the past year. Risk Adjusted Excess Returns for the five-years ended June 30, 2015 were positive for all current Pension Trust clients with one exception for the Grand Forks Park District Plan (which still generated a 11.1% return over the last along with 0.59% of excess return over the past five-years).

**Insurance Trust:** All Insurance Trust clients generated positive Excess Returns for the 1-, 3- and 5-year periods ended June 30, 2015, with two 1-year exceptions for PERS Retiree Heath and PERS Group Insurance. The PERS Retiree Health Insurance Credit Fund (\$96 million) and Group Insurance Fund (\$41 million) experienced negative excess returns of 0.51% and 0.01%, respectively, in the past year. Both funds had positive excess return for the 3- and 5-year periods ended June 30, 2015. RIO and PERS are reviewing the asset allocation for Group Insurance based on changing liquidity requirements. The top two drivers of excess returns in the Insurance Trust were Domestic Fixed Income (0.23%) and Real Estate (0.17%), while the top three drivers of excess return in the Legacy Fund were International Equity (0.45%), U.S. Large Cap Equity (0.36%) and Real Estate (0.15%), over the last year. Risk Adjusted Excess Returns were positive for all but one Insurance Trust client for the five-year period ended June 30, 2015.

Actual asset allocations are within Target ranges and guidelines as confirmed by Callan Associates as of June 30, 2015.

# Pension Trust Return & Risk Summary – June 30, 2015

**Returns and Risk:** Every single Pension Trust client portfolio generated positive “Excess Return” over the last 1-, 3- and 5-year periods ended June 30, 2015, while adhering to prescribed risk levels (i.e. < 115% of policy) with no exceptions.

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
<b>PERS (Main Plan)</b>					
\$ 2,401,309,136					
Total Fund Return - Net	3.53%	10.98%	10.61%	7.9%	0.22%
Policy Benchmark Return	2.16%	9.73%	10.00%	7.6%	
<b>EXCESS RETURN</b>	<b>1.38%</b>	<b>1.25%</b>	<b>0.61%</b>	<b>103.8%</b>	
<b>TEACHERS' FUND FOR RETIREMENT (TFFR)</b>					
\$ 2,090,299,471					
Total Fund Return - Net	3.52%	11.06%	10.94%	7.9%	0.57%
Policy Benchmark Return	2.16%	9.78%	9.97%	7.6%	
<b>EXCESS RETURN</b>	<b>1.36%</b>	<b>1.28%</b>	<b>0.97%</b>	<b>103.8%</b>	
<b>CITY OF BISMARCK EMPLOYEES PENSION</b>					
\$ 81,230,926					
Total Fund Return - Net	3.69%	10.12%	10.29%	6.9%	0.55%
Policy Benchmark Return	2.31%	8.59%	9.37%	6.6%	
<b>EXCESS RETURN</b>	<b>1.38%</b>	<b>1.53%</b>	<b>0.92%</b>	<b>103.8%</b>	

# Pension Trust Return & Risk Summary – June 30, 2015

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
<b>CITY OF BISMARCK POLICE PENSION</b>					
\$	35,631,338				
Total Fund Return - Net	3.56%	10.50%	10.61%	7.4%	0.54%
Policy Benchmark Return	2.23%	9.07%	9.81%	7.2%	
<b>EXCESS RETURN</b>	<b>1.33%</b>	<b>1.44%</b>	<b>0.80%</b>	<b>102.5%</b>	
<b>JOB SERVICE</b>					
Total Fund Return - Net	3.30%	9.43%	9.47%	6.0%	0.63%
Policy Benchmark Return	1.59%	7.38%	8.33%	5.7%	
<b>EXCESS RETURN</b>	<b>1.71%</b>	<b>2.05%</b>	<b>1.14%</b>	<b>105.7%</b>	
<b>CITY OF GRAND FORKS PENSION PLAN</b>					
\$	56,504,623				
Total Fund Return - Net	3.53%	11.15%	11.04%	7.98%	0.40%
Policy Benchmark Return	2.23%	9.90%	10.36%	7.78%	
<b>EXCESS RETURN</b>	<b>1.30%</b>	<b>1.25%</b>	<b>0.68%</b>	<b>102.6%</b>	
<b>GRAND FORKS PARK DISTRICT PENSION PLAN</b>					
\$	6,033,693				
Total Fund Return - Net	4.22%	11.57%	11.12%	8.18%	-0.15%
Policy Benchmark Return	2.89%	10.27%	10.54%	7.63%	
<b>EXCESS RETURN</b>	<b>1.33%</b>	<b>1.29%</b>	<b>0.59%</b>	<b>107.2%</b>	

**Risk Adjusted Excess Returns for the five-years ended June 30, 2015 were positive for all Pension Trust clients with one exception - the Grand Forks Park District Plan** (which still generated 0.59% of excess return over the past five-years).

**Risk Adjusted Excess Return** measures actual portfolio results versus a benchmark adjusted by its risk relative to a benchmark portfolio. This metric is positive if excess returns are due to “smart” investment decisions or negative if driven by excess risk.

# Insurance Trust Return & Risk Summary – June 30, 2015

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
<b>WORKFORCE SAFETY &amp; INSURANCE (WSI)</b>					
\$	1,770,406,238				
Total Fund Return - Net	3.27%	7.71%	8.48%	3.9%	1.24%
Policy Benchmark Return	2.65%	5.48%	6.69%	3.6%	
<b>EXCESS RETURN</b>	<b>0.61%</b>	<b>2.22%</b>	<b>1.78%</b>		
<b>LEGACY FUND</b>					
\$	3,194,769,809				
Total Fund Return - Net	3.31%	3.69%	N/A	N/A	N/A
Policy Benchmark Return	2.37%	2.73%	N/A	N/A	
<b>EXCESS RETURN</b>	<b>0.94%</b>	<b>0.96%</b>			
<b>BUDGET STABILIZATION FUND</b>					
\$	595,135,717				
Total Fund Return - Net	1.86%	1.89%	2.28%	0.7%	0.32%
Policy Benchmark Return	0.75%	0.55%	0.42%	0.2%	
<b>EXCESS RETURN</b>	<b>1.11%</b>	<b>1.34%</b>	<b>1.86%</b>		
<b>FIRE &amp; TORNADO FUND</b>					
\$	25,431,804				
Total Fund Return - Net	3.16%	8.76%	9.11%	5.3%	0.46%
Policy Benchmark Return	2.49%	6.57%	7.15%	4.4%	
<b>EXCESS RETURN</b>	<b>0.67%</b>	<b>2.19%</b>	<b>1.95%</b>		

**Returns and Risk:** Actual investment returns of every Insurance Trust client exceeded their performance benchmarks for the five-years ended June 30, 2015 (if applicable). These “Excess Returns” were achieved while adhering to reasonable risk levels which were generally within 100 bps of policy levels.

**Note:** Excess Return values for WSI and the Legacy Fund were impacted by asset allocation changes in the last year.

# Insurance Trust Return & Risk Summary – June 30, 2015

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
<b>STATE BONDING FUND</b>					
\$	3,339,532				
Total Fund Return - Net	1.25%	2.75%	3.71%	2.0%	1.31%
Policy Benchmark Return	1.04%	1.04%	1.88%	1.7%	
<b>EXCESS RETURN</b>	<b>0.21%</b>	<b>1.71%</b>	<b>1.83%</b>		
<b>INSURANCE REGULATORY TRUST FUND (IRTF)</b>					
\$	658,357				
Total Fund Return - Net	2.04%	6.75%	6.90%	4.5%	0.32%
Policy Benchmark Return	1.75%	5.33%	5.59%	3.8%	
<b>EXCESS RETURN</b>	<b>0.29%</b>	<b>1.42%</b>	<b>1.30%</b>		
<b>PETROLEUM TANK RELEASE COMPENSATION FUND</b>					
\$	7,232,124				
Total Fund Return - Net	1.13%	2.42%	3.41%	1.8%	1.23%
Policy Benchmark Return	0.94%	0.95%	1.71%	1.5%	
<b>EXCESS RETURN</b>	<b>0.19%</b>	<b>1.47%</b>	<b>1.69%</b>		
<b>STATE RISK MANAGEMENT FUND</b>					
\$	6,929,517				
Total Fund Return - Net	4.08%	8.80%	9.65%	4.8%	0.36%
Policy Benchmark Return	3.46%	6.41%	7.46%	3.9%	
<b>EXCESS RETURN</b>	<b>0.62%</b>	<b>2.39%</b>	<b>2.19%</b>		
<b>STATE RISK MANAGEMENT WORKERS COMP FUND</b>					
\$	6,290,439				
Total Fund Return - Net	4.57%	9.88%	10.62%	5.7%	0.39%
Policy Benchmark Return	3.88%	7.55%	8.53%	4.8%	
<b>EXCESS RETURN</b>	<b>0.69%</b>	<b>2.33%</b>	<b>2.09%</b>		
<b>ND ASSOCIATION OF COUNTIES FUND (NDACo)</b>					
\$	3,562,951				
Total Fund Return - Net	2.77%	7.88%	8.49%	6.1%	0.61%
Policy Benchmark Return	2.16%	5.73%	6.58%	5.1%	
<b>EXCESS RETURN</b>	<b>0.61%</b>	<b>2.15%</b>	<b>1.91%</b>		

**Risk Adjusted Excess Return** measures a portfolio's excess return adjusted by its risk relative to a benchmark portfolio. This metric is positive if returns are due to "smart" investment decisions or negative if driven by excess risk.

**Note:** Every Insurance Trust client generated positive Risk Adjusted Excess Return over the past 5-years, with one exception for PERS Retiree Health Insurance Credit Fund (on the next page).

# Insurance Trust Return & Risk Summary – June 30, 2015

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
<b>CITY OF BISMARCK DEFERRED SICK LEAVE ACCOUNT</b>					
\$	881,132				
Total Fund Return - Net	2.95%	8.29%	8.84%	4.8%	0.44%
Policy Benchmark Return	2.31%	5.88%	6.62%	3.8%	
<b>EXCESS RETURN</b>	<b>0.65%</b>	<b>2.42%</b>	<b>2.22%</b>		
<b>FARGODOME PERMANENT FUND</b>					
\$	41,752,458				
Total Fund Return - Net	3.38%	10.92%	10.89%	7.6%	0.54%
Policy Benchmark Return	2.57%	8.94%	9.34%	6.9%	
<b>EXCESS RETURN</b>	<b>0.81%</b>	<b>1.98%</b>	<b>1.55%</b>		
<b>CULTURAL ENDOWMENT FUND</b>					
\$	383,865				
Total Fund Return - Net	5.22%	12.46%	12.55%	8.0%	0.59%
Policy Benchmark Return	4.24%	10.38%	10.69%	7.2%	
<b>EXCESS RETURN</b>	<b>0.98%</b>	<b>2.08%</b>	<b>1.85%</b>		
<b>BOARD OF MEDICAL EXAMINERS</b>					
\$	2,168,964				
Total Fund Return - Net	2.70%				N/A
Policy Benchmark Return	1.84%				
<b>EXCESS RETURN</b>	<b>0.86%</b>				
<b>PERS RETIREE HEALTH</b>					
\$	96,499,236				
Total Fund Return - Net	3.06%	11.30%	11.47%	8.6%	-0.22%
Policy Benchmark Return	3.57%	10.51%	10.85%	8.0%	
<b>EXCESS RETURN</b>	<b>-0.51%</b>	<b>0.79%</b>	<b>0.62%</b>		
<b>PERS GROUP INSURANCE</b>					
\$	41,205,242				
Total Fund Return - Net	0.01%	0.10%	0.17%	0.1%	0.04%
Policy Benchmark Return	0.02%	0.06%	0.08%	0.0%	
<b>EXCESS RETURN</b>	<b>-0.01%</b>	<b>0.03%</b>	<b>0.09%</b>		

**PERS Retiree Health and PERS Group Insurance did not generate positive “Excess Return” over the past year, although 3- and 5-year performance was consistent with expectations.**

**Note:** Every Insurance Trust client generated positive Risk Adjusted Excess Return over the past 5-years (if applicable), excluding the PERS Retiree Health Insurance Credit Fund which still posted a net return of 11.47% and excess return of 0.62% over the last 5-years.

# **State Investment Board**

## **Client Investment Fees and Expenses**

October 27, 2015

Dave Hunter, Executive Director / CIO  
Darren Schulz, Deputy Chief Investment Officer  
ND Retirement & Investment Office (RIO)  
State Investment Board (SIB)

# Investment Fees and Expenses - Overview

**Summary:** During the last two-years, investment management fees and expenses as a % of average assets under management declined from **0.65%** (or 65 basis points) in fiscal 2013 to **0.51%** (or 51 basis points) in fiscal 2014 to **0.47%** (or 47 basis points) in fiscal 2015.

<u>All State Investment Board Clients</u>	<u>Average Assets Under Management</u>	<u>Investment Fees and Expenses</u>	<u>Basis Points</u>
Fiscal Year Ended June 30, 2013	\$ 6.9 billion	\$ 44.7 million	0.65%
Fiscal Year Ended June 30, 2014	\$ 8.6 billion	\$ 43.6 million	0.51%
Fiscal Year Ended June 30, 2015	\$ 10.1 billion	\$ 47.8 million	0.47%

- Based on \$10 billion of average assets under management, this decline of **14 bps** in fiscal 2014 and **3 bps** in fiscal 2015 translates into approximately \$17 million of annual incremental savings.
- RIO expects to realize additional savings in future years including approximately \$3 million (one-time adjustment) in reduced timber management incentive fees in late-2015 and over \$200,000 (per year) of incremental savings from the Novarca fee review initiative. SIB clients will also benefit from the recent implementation of a conservative securities lending program (estimated at \$500,000/year).

*A basis point (or "bp") is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points ("bps") is equivalent to 1%.*

# Active Management Incremental Returns Exceed Investment Fees

	1 Yr Ended 6/30/2015	3 Yrs Ended 6/30/2015	5 Yrs Ended 6/30/2015	Risk 5 Yrs Ended 6/30/2015	Risk Adj Excess Return 5 Yrs Ended 6/30/2015
<b>PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)</b>					115% Limit
Total Fund Return - Net	3.53%	10.98%	10.61%	7.9%	0.22%
Policy Benchmark Return	2.16%	9.73%	10.00%	7.6%	
<b>Total Relative Return</b>	<b>1.38%</b>	<b>1.25%</b>	<b>0.61%</b>	<b>104%</b>	
<b>TEACHERS' FUND FOR RETIREMENT (TFFR)</b>					115% Limit
Total Fund Return - Net	3.52%	11.06%	10.94%	7.9%	0.57%
Policy Benchmark Return	2.16%	9.78%	9.97%	7.6%	
<b>Total Relative Return</b>	<b>1.36%</b>	<b>1.28%</b>	<b>0.97%</b>	<b>104%</b>	

**Risk:** Investment performance has been achieved while adhering to prescribed risk management guidelines which limit portfolio risk (as measured by standard deviation) to 115% of policy, as the actual level of **105%** is within the approved limit.

**Five-Year Impact on Returns:** Active management has generated over \$130 million of incremental income for the Pension Trust for the 5-year period ended June 30, 2015.

## One-Year Impact on Returns:

- Active management has generated \$60 million of incremental income for PERS and TFFR in fiscal 2015 (\$4.44 billion x 1.37% = \$60 million).
- This \$60 million of incremental income is after \$28 million in fees (for TFFR and PERS), so we received \$3 back for every \$1 paid out for fees last year (\$60 million + \$28 million = \$88 million / \$28 million).
- PERS generated **1.38%** of excess return during the past year. Based on average invested assets of \$2.37 billion, this translates into over \$32 million of incremental plan income.
- TFFR generated **1.36%** of excess return in fiscal 2015. Based on \$2.06 billion on average assets, this translates into \$28 million of additional income.

• Overall, SIB clients received a 3:1 return on \$48 million of investment management fees in the last fiscal year.

Note: PERS/TFFR = \$60 million Legacy = \$24 million WSI = \$10 million BSF = \$6 million Total = \$100 million

# Investment expenses as a % of invested assets declined by 10% for the Pension Trust and 7% for SIB Clients overall in the last year

## Comparison of Investment Management Fees and Expenses for the fiscal years ended June 30, 2014 and 2015

	Pension Investment Pool			Insurance Investment Pool & Individual Investment Account			All State Investment Board Clients		
	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points	Assets under management (Average)	Fees	Basis points
<b>Fiscal Year Ended June 30, 2014:</b>									
Investment manager fees	\$ 4,470,165,619	\$ 29,971,568	67	\$ 4,162,072,107	\$ 11,937,643	29	\$ 8,632,237,726	\$ 41,909,211	49
Total investment expenses		\$ 1,071,465	2		\$ 658,703	2		\$ 1,730,168	2
	<b>\$ 4,470,165,619</b>	<b>\$ 31,043,033</b>	<b>69</b>	<b>\$ 4,162,072,107</b>	<b>\$ 12,596,346</b>	<b>30</b>	<b>\$ 8,632,237,726</b>	<b>\$ 43,639,379</b>	<b>51</b>
<b>Fiscal Year Ended June 30, 2015:</b>									
Investment manager fees	\$ 4,710,192,594	\$ 28,515,448	61	\$ 5,436,559,874	\$ 17,635,548	32	\$ 10,146,752,469	\$ 46,150,996	45
Total investment expenses		\$ 886,186	2		\$ 798,641	1		\$ 1,684,827	2
	<b>\$ 4,710,192,594</b>	<b>\$ 29,401,634</b>	<b>62</b>	<b>\$ 5,436,559,874</b>	<b>\$ 18,434,189</b>	<b>34</b>	<b>\$ 10,146,752,469</b>	<b>\$ 47,835,823</b>	<b>47</b>
<b>Decline (Increase) in Investment Manager Expenses during last year (basis points)</b>			<b>7</b>			<b>-4</b>			<b>3</b>
<b>Decline (Increase) in Investment Manager Expenses during last year (basis points)</b>			<b>10%</b>			<b>-12%</b>			<b>7%</b>

Notes: Preliminary data is deemed to be materially accurate, but unaudited and subject to change. Amounts in the table may not foot due to rounding.

## Summary:

Investment management fees and expenses as a % of total SIB client assets under management declined to approximately **47 bps** in fiscal 2015 (versus **51 bps** in fiscal 2014). This 7% reduction was driven by a significant decline in performance fees between years, an 18% increase in average assets under management and RIO's continuing efforts to secure structural fee savings with investment managers. From a basis point perspective, Pension Trust investment expenses declined by 10% (or 7 bps) in fiscal 2015.

*A basis point is equal to one one-hundredth of one percent (or 0.01%) such that 100 basis points is equivalent to 1%.*

# NDCC Chapter 21-10 State Investment Board

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## **21-10-01. State investment board - Membership - Term - Compensation – Advisory council.**

The North Dakota state investment board consists of the governor, the state treasurer, the commissioner of university and school lands, the director of workforce safety and insurance, the insurance commissioner, three members of the teachers' fund for retirement board or the board's designees who need not be members of the fund as selected by that board, two of the elected members of the public employees retirement system board as selected by that board, and one member of the public employees retirement system board as selected by that board. The director of workforce safety and insurance may appoint a designee, subject to approval by the workforce safety and insurance board of directors, to attend the meetings, participate, and vote when the director is unable to attend. The teachers' fund for retirement board may appoint an alternate designee with full voting privileges to attend meetings of the state investment board when a selected member is unable to attend. The public employees retirement system board may appoint an alternate designee with full voting privileges from the public employees retirement system board to attend meetings of the state investment board when a selected member is unable to attend. The members of the state investment board, except elected and appointed officials and the director of workforce safety and insurance or the director's designee, are entitled to receive as compensation one hundred forty-eight dollars per day and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09 for attending meetings of the state investment board.

The state investment board may establish an advisory council composed of individuals who are experienced and knowledgeable in the field of investments. The state investment board shall determine the responsibilities of the advisory council. Members of the advisory council are entitled to receive the same compensation as provided the members of the advisory board of the Bank of North Dakota and necessary mileage and travel expenses as provided in sections 44-08-04 and 54-06-09.

## **21-10-02. Board - Powers and duties.**

The board is charged with the investment of the funds enumerated in section 21-10-06. It shall approve general types of securities for investment by these funds and set policies and procedures regulating securities transactions on behalf of the various funds. Representatives of the funds enumerated in section 21-10-06 may make recommendations to the board in regard to investments. The board or its designated agents must be custodian of securities purchased on behalf of funds under the management of the board. The board may appoint an investment director or advisory service, or both, who must be experienced in, and hold considerable knowledge of, the field of investments. The investment director or advisory service shall serve at the pleasure of the board. The investment director or advisory service may be an individual, corporation, limited liability company, partnership, or any legal entity which meets the qualifications established herein. The board may authorize the investment director to lend securities held by the funds. These securities must be collateralized as directed by the board. The board may create investment fund pools in which the funds identified in section 21-10-06 may invest.

# NDCC Chapter 21-10 State Investment Board

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## **21-10-02.1. Board - Policies on investment goals and objectives and asset allocation.**

1. The governing body of each fund enumerated in section 21-10-06 shall establish policies on investment goals and objectives and asset allocation for each respective fund. The policies must provide for:
  - a. The definition and assignment of duties and responsibilities to advisory services and persons employed by the board.
  - b. Rate of return objectives, including liquidity requirements and acceptable levels of risk.
  - c. Long-range asset allocation goals.
  - d. Guidelines for the selection and redemption of investments.
  - e. Investment diversification, investment quality, qualification of advisory services, and amounts to be invested by advisory services.
  - f. The type of reports and procedures to be used in evaluating performance.
2. The asset allocation and any subsequent allocation changes for each fund must be approved by the governing body of that fund and the state investment board. The governing body of each fund shall use the staff and consultants of the retirement and investment office in developing asset allocation and investment policies.

## **21-10-03. Cooperation with Bank of North Dakota.**

Repealed by S.L. 1987, ch. 190, § 14.

## **21-10-04. Board - Meetings.**

The state investment board shall select one of its members to serve as chair, one to serve as vice chair, and shall meet at the call of the chair or upon written notice signed by two members of the board.

## **21-10-05. Investment director - Powers and duties.**

Subject to the limitations contained in the law or the policymaking regulations or resolutions adopted by the board, the investment director may sign and execute all contracts and agreements to make purchases, sales, exchanges, investments, and reinvestments relating to the funds under the management of the board. This section is a continuing appropriation of all moneys required for the making of investments of funds under the management of the board. The investment director shall see that moneys invested are at all times handled in the best interests of the funds. Securities or investments may be sold or exchanged for other securities or investments.

The investment director shall formulate and recommend to the investment board for approval investment regulations or resolutions pertaining to the kind or nature of investments and limitations, conditions, and restrictions upon the methods, practices, or procedures for investment, reinvestment, purchase, sale, or exchange transactions that should govern the investment of funds under this chapter.

# NDCC Chapter 21-10 State Investment Board

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## **21-10-06. Funds under management of board - Accounts.**

1. Subject to the provisions of section 21-10-02, the board shall invest the following funds:
  - a. State bonding fund.
  - b. Teachers' fund for retirement.
  - c. State fire and tornado fund.
  - d. Workforce safety and insurance fund.
  - e. Public employees retirement system.
  - f. Insurance regulatory trust fund.
  - g. State risk management fund.
  - h. Budget stabilization fund.
  - i. Health care trust fund.
  - j. Cultural endowment fund.
  - k. Petroleum tank release compensation fund.
  - l. Legacy fund.
  - m. A fund under contract with the board pursuant to subsection 3.
2. Separate accounting must be maintained for each of the funds listed in subsection 1. The moneys of the individual funds may be commingled for investment purposes when determined advantageous.
3. The state investment board may provide investment services to, and manage the money of, any agency, institution, or political subdivision of the state, subject to agreement with the industrial commission. The scope of services to be provided by the state investment board to the agency, institution, or political subdivision must be specified in a written contract. The state investment board may charge a fee for providing investment services and any revenue collected must be deposited in the state retirement and investment fund.

## **21-10-06.1. Board - Investment reports.**

The board shall annually prepare reports on the investment performance of each fund under its control. The reports must be uniform and must include:

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.

# NDCC Chapter 21-10 State Investment Board

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## **21-10-06.2. Investment costs.**

The amounts necessary to pay for investment costs, such as investment counseling fees, trustee fees, custodial fees, performance measurement fees, expenses associated with money manager searches, expenses associated with onsite audits and reviews of investment managers, and asset allocation expenses, incurred by the state investment board are hereby appropriated and must be paid directly out of the funds listed in section 21-10-06 by the fund incurring the expense.

## **21-10-07. Legal investments.**

The state investment board 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.

## **21-10-08. Reserves - Percentage limitations.**

In order to meet claims and liabilities, reserves must be established and maintained in each of the funds in accordance with the investment policy and asset allocation established for each fund.

## **21-10-09. Personal profit prohibited - Penalty.**

No member, officer, agent, or employee of the state investment board may profit in any manner from transactions on behalf of the funds. Any person violating any of the provisions of this section is guilty of a class A misdemeanor.

## **21-10-10. State investment board fund - Cost of operation of board.**

Repealed by S.L. 1989, ch. 667, § 13.

# NDCC Chapter 21-10 State Investment Board

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## **21-10-11. Legacy and budget stabilization fund advisory board.**

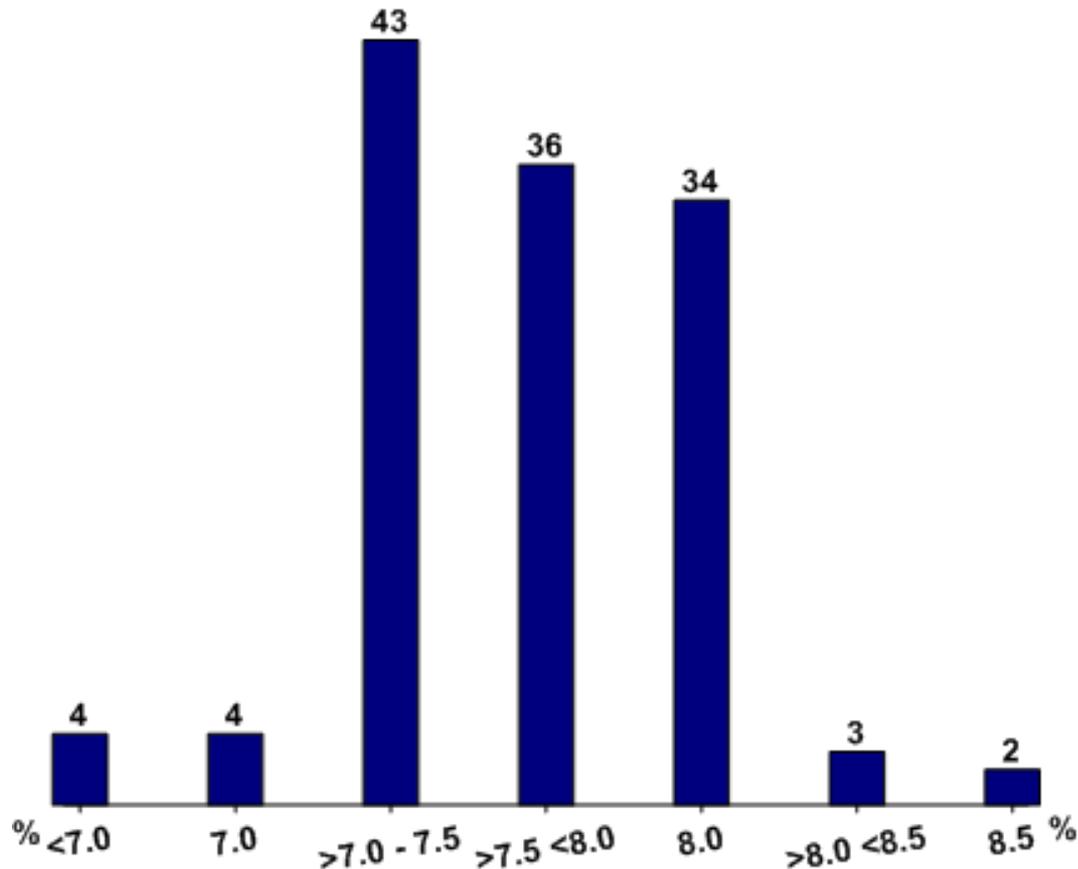
The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board. The goal of investment for the legacy fund is principal preservation while maximizing total return. The board consists of two members of the senate appointed by the senate majority leader, two members of the house of representatives appointed by the house majority leader, the director of the office of management and budget or designee, the president of the Bank of North Dakota or designee, and the tax commissioner or designee. The board shall select a chairman and must meet at the call of the chairman. The board shall report at least semiannually to the budget section. Legislative members are entitled to receive compensation and expense reimbursement as provided under section 54-03-20 and reimbursement for mileage as provided by law for state officers. The legislative council shall pay the compensation and expense reimbursement for the legislative members. The legislative council shall provide staff services to the legacy and budget stabilization fund advisory board. The staff and consultants of the state retirement and investment office shall advise the board in developing asset allocation and investment policies.

## **21-10-12. Legacy fund - Earnings defined.**

For the purposes of section 26 of article X of the Constitution of North Dakota, the term "earnings" means net income in accordance with generally accepted accounting principles, excluding any unrealized gains or losses.

# NASRA Issue Brief Excerpts: Public Pension Plan Return Assumptions (Updated May 2015)

## Distribution of investment return assumptions

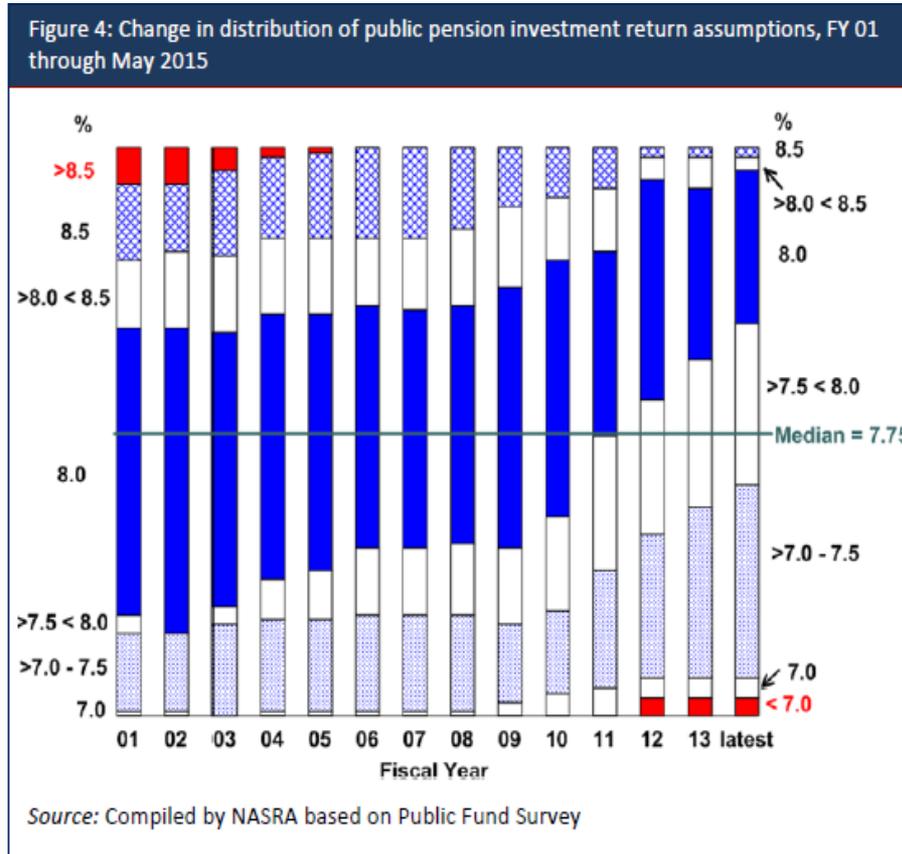


- The National Association of State Retirement Administrators conducted a Public Fund Survey in May of 2015 which revealed use of the following investment return assumptions.
- The vast majority of funds reported an investment return assumption between 7% and 8% with 90% of the respondents being in the > 7.0% to 8.0% range.

Source: Compiled by NASRA based on Public Fund Survey, May 2015

# NASRA Issue Brief Excerpts: Public Pension Plan Return Assumptions (Updated May 2015)

Change in distribution of public pension return assumptions, FY 01 to May 2015



Note: Investment return assumptions for public pension plans have been declining during the past decade with the average investment return being **7.75%** as of May 31, 2015. Source: Public Fund Survey

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