ND STATE INVESTMENT BOARD MEETING

Friday, March 24, 2017, 8:30 a.m.
Workforce Safety & Insurance
1600 E Century, Bismarck, ND

AGENDA

I. CALL TO ORDER AND ACCEPTANCE OF AGENDA

II. ACCEPTANCE OF MINUTES (February 24, 2017)

III. INVESTMENTS

A. Improving Risk Adjusted Returns - Mr. Hunter (15 minutes)
B. Fixed Income Manager Interview of Cerberus Capital - Mr. Dan Wolf and Mr. Keith Read (45 minutes)
C. Fixed Income Manager Recommendation - Mr. Schulz (15 minutes) **Board Action*** (to follow)
** Executive Session pursuant to NDCC §44-04-18.4(1), §44-04-19.1(9), & §44-04-19.2- to discuss confidential commercial and financial information and provide contract negotiating instructions to its attorney or negotiator.*

========================== Break from 10:00 to 10:15 a.m. ==============================

D. Investment Work Plan Update - Mr. Hunter (15 minutes)
E. FargoDome Investment Policy Statement - Mr. Hunter (10 minutes)

IV. ADMINISTRATION

A. Executive Review Committee - Mrs. Smith (10 minutes)
B. Legislative Update (including RIO Budget) - Mr. Hunter (15 minutes)
C. GFOA Award - Mr. Hunter (5 minutes)

V. BOARD EDUCATION

A. Callan College Onsite - Mr. Hunter (5 min)

VI. OTHER

Next Meetings:
SIB meeting - April 28, 2017, 8:30 a.m. - Workforce Safety & Insurance
SIB Audit Committee meeting - May 25, 2017, 3:00 pm - Peace Garden Room

VII. ADJOURNMENT

Any individual requiring an auxiliary aid or service, please contact the Retirement and Investment Office (701) 328-9885 at least three (3) days prior to the scheduled meeting.

NORTH DAKOTA STATE INVESTMENT BOARD
MINUTES OF THE
FEBRUARY 24, 2017, BOARD MEETING

MEMBERS PRESENT:	Mike Sandal, Vice Chair Lance Gaebe, Commissioner of Trust Lands Mike Gessner, TFFR Board Jon Godfread, Insurance Commissioner Rob Lech, TFFR Board Mel Olson, TFFR Board Kelly Schmidt, State Treasurer Troy Seibel, PERS Board Yvonne Smith, PERS Board Cindy Ternes, WSI Designee
BOARD MEMBER'S ABSENT:	Brent Sanford, Lt. Governor, Chair
STAFF PRESENT:	Eric Chin, Investment Officer Bonnie Heit, Assist to the SIB David Hunter, ED/CIO Fay Kopp, Dep. ED/CRO Terra Miller Bowley, Supvr Audit Services Cody Schmidt, Compliance Officer Darren Schulz, Dep CIO Susan Walcker, Invt Acct
OTHERS PRESENT:	Alex Browning, Callan Associates Levi Erdmann, Dept. of Trust Lands Paul Erlendson, Callan Associates Paul Michaels, Invesco Jan Murtha, Attorney General's Office Max Swango, Invesco

CALL TO ORDER:

Mr. Mike Sandal, Vice Chairman, called the State Investment Board (SIB) meeting to order at 8:30 a.m. on Friday, February 24, 2017, at Workforce Safety & Insurance, 1600 E Century Ave, Bismarck, ND.

AGENDA:

IT WAS MOVED BY MR. LECH AND SECONDED BY MR. GESSNER AND CARRIED ON A VOICE VOTE TO ACCEPT THE AGENDA FOR THE FEBRUARY 24, 2017, MEETING AS DISTRIBUTED.

AYES: MS. TERNES, MR. OLSON, COMMISSIONER GODFREAD, TREASURER SCHMIDT, COMMISSIONER GAEBE, MR. SEIBEL, MR. LECH, MS. SMITH, MR. GESSNER , AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR SANFORD

MINUTES:

IT WAS MOVED BY MR. OLSON AND SECONDED BY MS. TERNES AND CARRIED ON A VOICE VOTE TO APPROVE THE MINUTES OF THE JANUARY 27, 2017, MEETING AS DISTRIBUTED.

AYES: MS. TERNES, COMMISSIONER GODFREAD, MR. OLSON, TREASURER SCHMIDT, MR. GESSNER, MS. SMITH, COMMISSIONER GAEBE, MR. LECH, MR. SEIBEL, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR SANFORD

INVESTMENTS:

Asset and Performance Review – Mr. Hunter highlighted assets under management and performance for the period ending December 31, 2016.

The SIB's client assets grew by nearly $600 million or 5.5 percent in the last year due in most part to Legacy Fund tax deposits of $365 million plus Legacy Fund net investment earnings of $300 plus million. The SIB's client assets totaled approximately $11.4 billion as of December 31, 2016, based on unaudited valuations.

The Pension Trust posted a net return of 7.06 percent in the last year. During the last 5 years, the Pension Trust generated a net annualized return of 8.48 percent, exceeding the performance benchmark of 7.86 percent.

The Insurance Trust generated a net return of 6.05 percent in the last year. During the last 5 years, the Insurance Trust posted a net annualized return of 5.18 percent, exceeding the performance benchmark of 3.64 percent.

The Legacy Fund generated a net investment gain of 8.15 percent in the last year, exceeding its performance benchmark. Since inception, the Legacy Fund has generated a net annualized return of 3.43 percent (over the last 5 1/4 years) exceeding the performance benchmark of 2.52 percent.

Callan Associates – Callan representatives reviewed economic and market environments for the period ending December 31, 2016, as well as performance of the Pension Trust, Insurance Trust, and Legacy Fund.

Invesco Real Estate – Invesco representatives reviewed the performance of the three mandates they manage on behalf of the Pension Trust, Insurance Trust, and Legacy Fund; U.S. Core, U.S. Value Added, and Opportunistic/International for a total of $511 million in assets under management.

The Board recessed at 10:25 am and reconvened at 10:35 a.m.

Callan Private Credit – Callan representatives provided an educational segment on Private Credit specifically Middle Market Direct Lending in a Diversified Portfolio.

Callan Fee Study – Callan representatives were available for questions and answers on the fee study completed by Callan for the period ending June 30, 2016. The study was previously reviewed by RIO personnel at the November 18, 2016, SIB meeting. Discussion took place on the fees for the timber investments. After discussion,

IT WAS MOVED BY MR. GESSNER AND SECONDED BY COMMISSIONER GAEBE AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE CALLAN FEE STUDY RESULTS FOR THE FISCAL YEAR ENDING JUNE 30, 2016.

AYES: MR. LECH, TREASURER SCHMIDT, MR. OLSON, COMMISSIONER GAEBE, MR. SEIBEL, COMMISSIONER GODFREAD, MR. GESSNER, MS. SMITH, MS. TERNES, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR SANFORD

Workforce Safety & Insurance Investment Policy Statement – Mr. Hunter presented a revised Investment Policy Statement for Workforce Safety & Insurance. The Workforce Safety & Insurance Board approved the guidelines at their February 15, 2017, meeting. There were no changes to the asset allocation. Language was added regarding "standards of investment performance" and "internal controls" which has been adopted by most of the other SIB clients.

IT WAS MOVED BY MS. TERNES AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE WORKFORCE SAFETY AND INSURANCE BOARD'S RECOMMENDED CHANGES TO THE FUND'S INVESTMENT POLICY STATEMENT.

AYES: COMMISSIONER GODFREAD, MS. TERNES, COMMISSIONER GAEBE, MR. GESSNER, MS. SMITH, MR. SEIBEL, MR. LECH, MR. OLSON, TREASURER SCHMIDT, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR SANFORD

ADMINISTRATION:

SIB Audit Committee – Ms. Miller Bowley reviewed activities of the SIB Audit Committee as of February 23, 2017. The Audit Committee received the following from the Internal Audit Division - second quarter activities report for the period of October 1, 2016 – December 31, 2016, the Executive Limitations report for the period of January 1, 2016 – December 31, 2016, and GASB 68 Schedules audit for the period ending June 30, 2016. The Audit Committee also requested and received clarification of statute from Ms. Murtha regarding employer reporting to the Teachers' Fund for Retirement.

IT WAS MOVED BY TREASURER SCHMIDT AND SECONDED BY MS. SMITH AND CARRIED BY A ROLL CALL VOTE TO ACCEPT THE AUDIT REPORT.

AYES: MR. GESSNER, COMMISSIONER GAEBE, MS. SMITH, TREASURER SCHMIDT, MR. LECH, COMMISSIONER GODFREAD, MR. OLSON, MR. SEIBEL, MS. TERNES, AND MR. SANDAL
NAYS: NONE
MOTION CARRIED
ABSENT: LT. GOVERNOR SANFORD

Executive Review Committee – SIB Governance Manual C-4, Monitoring Executive Performance, states that "each March the Board will conduct a formal evaluation of the Executive Director/CIO. At the February board meeting, the Chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board regarding compensation for the Executive Director/CIO.

Mr. Sandal asked for volunteers. Ms. Ternes, Ms. Smith, and Mr. Sandal volunteered to serve on the committee with Ms. Smith serving as Chair.

Legislative Update – Mr. Hunter reviewed legislation which may affect RIO or the SIB: HB1022 & HB1082-RIO Budget, HB1175 – SIB Membership, HB1023 – PERS Budget, HB1088 – Data Breach Response/Remediation Costs, HB1154 – Budget Stabilization Fund, HB1155 – Transfer/Expenditures from Budget Stabilization Fund, HB1317 – Transfers of Legacy Fund Earnings – Intent, HB1408 – Transfer from Legacy Fund to Natural Gas Pipeline Infrastructure Loan Fund.

Callan College – Callan Associates will be conducting a "Callan College" July 28, 2017, at the Bismarck State College Energy Center. This Board Education session will also be available to the SIB's client boards.

OTHER:

The next meeting of the SIB is scheduled for March 24, 2017, at 8:30 a.m. at Workforce Safety & Insurance, 1600 E Century Ave., Bismarck, ND.

The next meeting of the SIB Audit Committee is scheduled for May 25, 2017, at 3:00 p.m. at the State Capitol, Peace Garden Room, Bismarck, ND.

ADJOURNMENT:

With no further business to come before the SIB, Mr. Sandal adjourned the meeting at 11:38 a.m.

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Mr. Mike Sandal, Vice Chair
State Investment Board

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Bonnie Heit
Assistant to the Board

AGENDA ITEM III.A.

TO: State Investment Board ("SIB")
FROM: RIO Investment Staff
DATE: March 17, 2017
SUBJECT: **Improving Risk Adjusted Returns by Increasing U.S. Centric Debt Mandates**

Background:

RIO has conducted extensive due diligence on over a dozen investment firms which specialize in providing senior, secured loans directly to middle market companies – a lending market which has become increasingly underserved following the 2008 recession largely due to government regulation. Middle market companies generally have a more difficult time accessing the public debt markets due to their smaller size making it unattractive to most major banks from a regulatory capital perspective. In short, the lack of competition from the major banking institutions has created an attractive risk adjusted return opportunity for those investors willing to accept a lack of liquidity in the private debt markets. During this same time frame, international debt has become increasingly less attractive due to unprecedented monetary policy by central banks (resulting in negative interest rates) and escalating foreign currency volatility due to uncertain geopolitical risks. **As a result, we recommend that our international fixed income investments be replaced with U.S. centric debt mandates.**

Given concern for a rising U.S. interest rate environment, we also recommend that our U.S. centric debt mandates be tilted towards floating rate exposure noting the direct lending sector is predominantly floating rate. These sector changes within fixed income were reviewed with Callan Associates without material concern while noting that Callan's Capital Market Assumptions support the reduction of our international fixed income mandates (as evidenced by a negative Sharpe Ratio in the table below). Callan's latest Capital Market Assumptions were used to demonstrate the impact of RIO's recommendation on Projected Return and Risk (see next page). RIO notes that JPMorgan's latest long-term capital market assumptions also support our recommendation to increase U.S. centric debt mandates using the Direct Lending sector.

2017 Capital Market Expectations—Return and Risk

Summary of Callan's Long-Term Capital Market Projections (2017 – 2026)

		PROJECTED RETURN			PROJECTED RISK		
Asset Class	Index	1-Year Arithmetic	10-Year Geometric*	Real	Standard Deviation	Sharpe Ratio	Projected Yield
Equities							
Broad Domestic Equity	Russell 3000	8.30%	6.85%	4.60%	18.25%	0.332	2.00%
Large Cap	S&P 500	8.05%	6.75%	4.50%	17.40%	0.333	2.10%
Small/Mid Cap	Russell 2500	9.30%	7.00%	4.75%	22.60%	0.312	1.55%
Global ex-U.S. Equity	MSCI ACWI ex USA	8.95%	7.00%	4.75%	21.00%	0.319	3.10%
International Equity	MSCI World ex USA	8.45%	6.75%	4.50%	19.70%	0.315	3.25%
Emerging Markets Equity	MSCI Emerging Markets	10.50%	7.00%	4.75%	27.45%	0.301	2.65%
Fixed Income							
Short Duration	Barclays G/C 1-3	2.60%	2.60%	0.35%	2.10%	0.167	2.85%
Domestic Fixed	Barclays Aggregate	3.05%	3.00%	0.75%	3.75%	0.213	3.50%
Long Duration	Barclays Long G/C	3.75%	3.20%	0.95%	10.90%	0.138	4.50%
TIPS	Barclays TIPS	3.10%	3.00%	0.75%	5.25%	0.162	3.35%
High Yield	Barclays High Yield	5.20%	4.75%	2.50%	10.35%	0.285	7.75%
Non-U.S. Fixed	Barclays Global Aggregate ex US	1.80%	1.40%	-0.85%	9.20%	-0.049	2.50%
Emerging Market Debt	EMBI Global Diversified	4.85%	4.50%	2.25%	9.60%	0.271	5.75%
Other							
Real Estate	Callan Real Estate	6.90%	5.75%	3.50%	16.35%	0.284	4.75%
Private Equity	TR Post Venture Cap	12.45%	7.35%	5.10%	32.90%	0.310	0.00%
Hedge Funds	Callan Hedge FOF Database	5.35%	5.25%	2.80%	9.15%	0.339	2.25%
Commodities	Bloomberg Commodity	4.25%	2.65%	0.40%	18.30%	0.109	2.25%
Cash Equivalents	90-Day T-Bill	2.25%	2.25%	0.00%	0.90%	0.000	2.25%
Inflation	CPI-U		2.25%		1.50%		

* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).

The Sharpe Ratio is a commonly used measure of risk-adjusted return. It is calculated by subtracting the risk-free return (usually the 3 month Treasury bill) from a portfolio's return and then dividing this excess return by the portfolio's standard deviation. The ratio thus represents the return gained per unit of risk taken with a higher positive number preferred over a smaller positive number or negative value. *Source: Callan College Glossary of Terms*

Overview of Proposed Asset Allocation Changes to Fixed Income Sectors:

The **PENSION TRUST – Fixed Income** table demonstrates how RIO's recommendation to **increase U.S. Investment Grade (IG) by 3.0% to 16.3% and Diversified Credit (DC) by 2.4% to 7.0% will improve Projected Returns for Fixed Income from 3.0% to 3.5% while reducing Projected Risk from 6.3% to 5.7%.** The 5.4% increase (3% for IG and 2.4% for DC or HY) will be funded by reducing International Fixed Income (down 5.4%) in a prudent, reasonable and timely manner.

(1) **Projected Return is 3.0%** in the **CURRENT** framework (top table in chart).
(2) **Projected Return is 3.5%** in the **PROPOSED** recommendation (bottom table).
(3) **Projected Risk is 6.3%** in the **CURRENT** framework (top table in chart).
(4) **Projected Risk is 5.7%** in the **PROPOSED** recommendation (bottom table).

PENSION TRUST - Fixed Income Only

Fixed Income Restructuring to Improve Returns and Reduce Risk

CURRENT	**Target**		**Projected**	**Projected**		
Pension Trust	**Allocation**		**Return**	**Risk**		
U.S. Investment Grade	13.3%		3.0%	3.8%		
U.S. High Yield Debt	4.6%		4.8%	10.4%		
International Debt	**5.4%**		1.4%	9.2%		
Fixed Income	23.3%	(1)	**3.0%**	**6.3%**	(3)	
						$4,834
PROPOSED	**Target**		**Projected**	**Projected**		**Pension $**
Pension Trust	**Allocation**		**Return**	**Risk**		**$4.8 billion**
U.S. Investment Grade	16.3%		3.0%	3.8%		**$788**
Diversified Credit	7.0%		4.8%	10.4%		**$339**
International Debt (a)	**0.0%**		1.4%	9.2%		**$0**
Fixed Income	23.3%	(2)	**3.5%**	**5.7%**	(4)	**$1,127**

RIO's Fixed Income Recommendation:

If International Debt (a) is eliminated while U.S. Investment Grade and Diversified Credit are increased by 3% and 2.4%, respectively, Projected Return would increase from 3.0% (1) to 3.5% (2), while Projected Risk would decline from 6.3% (3) to 5.7% (4).

Key Point: RIO's Recommendation Increases Projected Returns 0.5% and Decreases Projected Risk 0.6% of "Fixed Income" in the Pension Trust.

KEY POINT: The overall impact on the Pension Trust is a 0.1% increase in Projected Return and a 0.1% decrease in Projected Risk. The impact on the Pension Trust is less than shown above since Fixed Income only represents 23% of the Pension Trust (versus 58% Equity and 19% Real Assets).

Improving Risk Adjusted Returns

By Eliminating a Sector with Projected Return of 1.4% and Projected Risk of 9.2%

PENSION TRUST - Fixed Income Only

Fixed Income Restructuring to Improve Returns and Reduce Risk

CURRENT Pension Trust	Target Allocation		Projected Return	Projected Risk	
U.S. Investment Grade (IG)	13.3%		3.0%	3.8%	
U.S. High Yield Debt (HY)	4.6%		4.8%	10.4%	
International Debt	5.4%		1.4%	9.2%	
Fixed Income	23.3%	(1)	3.0%	6.3%	(3)

PROPOSED Pension Trust	Target Allocation		Projected Return	Projected Risk		$5,000 Pension $ $5 billion
U.S. Investment Grade (IG)	16.3%		3.0%	3.8%		$815
Diversified Credit (DC)	7.0%		4.8%	10.4%		$350
International Debt (a)	0.0%		1.4%	9.2%		$0
Fixed Income	23.3%	(2)	3.5%	5.7%	(4)	$1,165

RIO's Fixed Income Recommendation:

If International Debt (a) is eliminated while U.S. Investment Grade and Diversified Credit are increased by 3% and 2.4%, respectively, Projected Return would increase from 3.0% (1) to 3.5% (2), while Projected Risk would decline from 6.3% (3) to 5.7% (4).

Key Point: RIO's Recommendation Increases Projected Returns 0.5% and Decreases Projected Risk 0.6% of "Fixed Income" in the Pension Trust.

De-Risking Recommendation:

Step 1 - Cut Int'l. Debt -5.4%
Step 2 – Increase IG +3.0%
Step 3 – Increase DC +2.4%
No Change to Fixed Income %

The Projected Return of the Fixed Income portion of the Pension Trust will increase from 3.0% to 3.5% by replacing International Debt with U.S. Investment Grade (IG) Debt and Diversified Credit (DC) because International Debt has a Projected Return of 1.4% vs. 3% for IG and 4.8% for DC.

The Projected Risk of the Fixed Income portion of the Pension Trust will decrease from 6.3% to 5.7% by replacing International Debt with U.S. Investment Grade (IG) Debt and Diversified Credit (DC) because International Debt has Projected Risk of 9.2% vs. 3.8% for IG and 10.4% for DC.

2017 Capital Market Expectations—Return and Risk

Summary of Callan's Long-Term Capital Market Projections (2017 – 2026)

Non-U.S. Fixed has the lowest Projected Return of any Callan Asset Class and the only sector with a negative Real Return and Sharpe Ratio due to a low Projected Return (1.4%) and High Projected Risk (9.2%).

		PROJECTED RETURN			PROJECTED RISK		
Asset Class	Index	1-Year Arithmetic	10-Year Geometric*	Real	Standard Deviation	Sharpe Ratio	Projected Yield
Equities							
Broad Domestic Equity	Russell 3000	8.30%	6.85%	4.60%	18.25%	0.332	2.00%
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Cash Equivalents	90-Day T-Bill	2.25%	2.25%	0.00%	0.90%	0.000	2.25%
Inflation	CPI-U		2.25%		1.50%		

* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).

JPMorgan Long-Term Capital Market Assumptions - 2017

RIO notes that Callan does not offer Capital Market Assumptions for certain Alternative sectors such as Direct Lending. As such, RIO referenced JPMorgan's Long-Term Capital Market Assumptions for 2017 to gain assurance that U.S. High Yield and Direct Lending offer comparable return and risk characteristics. On a relative basis, JPM assumes that U.S. High Yield and Direct Lending are projected to generate a Compound Return of 5.75% and 6.75%, respectively, whereas the related Annualized Volatility is projected at 9.00% and 9.75%, respectively. In comparison, Callan has a lower Projected Return for High Yield of 4.8%, but a higher Projected Risk of 10.4%.

		Compound Return 2017 (%)	Arithmetic Return 2017 (%)	Annualized Volatility
FIXED INCOME	Inflation	2.25	2.26	1.25
	U.S. Cash	2.00	2.00	0.50
	U.S. Intermediate Treasuries	2.25	2.44	6.25
	U.S. Long Treasuries	2.00	2.81	13.00
	TIPS	3.50	3.66	5.75
	U.S. Aggregate Bonds	3.00	3.06	3.50
	U.S. Short Duration Government/Credit	3.25	3.26	1.75
	U.S. Long Duration Government/Credit	3.25	3.66	9.25
	U.S. Inv Grade Corporate Bonds	3.25	3.44	6.25
	U.S. Long Corporate Bonds	3.75	4.25	10.25
	U.S. High Yield Bonds	5.75	6.13	9.00
	U.S. Leveraged Loans	5.00	5.16	5.75
	World Government Bonds hedged	1.75	1.79	3.00
	World Government Bonds	2.00	2.21	6.50
	World ex-U.S. Government Bonds hedged	1.75	1.79	3.00
	World ex-U.S. Government Bonds	2.00	2.31	8.00
	Emerging Markets Sovereign Debt	5.50	5.95	9.75
	Emerging Markets Local Currency Debt	6.50	7.25	12.75
	Emerging Markets Corporate Bonds	5.50	5.84	8.50
	U.S. Muni 1-15-Yr Blend	2.50	2.54	3.00
	U.S. Muni High Yield	4.25	4.48	7.00
	Direct Lending	6.75	7.19	9.75

Source: J.P. Morgan Asset Management; data as of September 30, 2016, except hedge funds, private equity, real estate and infrastructure, as of June 30, 2016. Alternative asset index. The return estimates for these alternative asset classes and strategies are estimates of the industry average, net of manager fees. The dispersion of return among managers some of the alternative asset classes this year. U.S. Core Direct Real Estate is equivalent to U.S. Direct Real Estate last year. Similar changes are made across real estate assets. rounded to 2 significant figures, which may cause a loss of information. All returns are nominal. For reference index information, please visit our website.

Cerberus Capital Management, L.P.

Cerberus Business Finance
Presentation to North Dakota Retirement and Investment Office

PROPRIETARY AND CONFIDENTIAL. NOT FOR FURTHER DISTRIBUTION.

Cerberus Business Finance

March 2017

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No Offer or Solicitation. The information contained herein is not, and should not be construed as, an offer to sell or the solicitation of an offer to buy any securities (including, without limitation, an interest in the Funds). Any such offer or solicitation may be made only by means of a final Confidential Private Placement Memorandum (the "PPM"). Each Fund's PPM, which will be furnished upon request, contains important information about investing in a Fund, including risk factors associated with making such an investment. The PPM, if requested and furnished, should be read carefully by all investors.

Lending Platform; Other Funds and Accounts. The Firm advises multiple funds and accounts, which have varying investment objectives and strategies and limitations on investment. This document presents summary information with respect to the performance, activities and operating results of the lending related vehicles affiliated with and/or managed by the Firm. The Funds will be part of the Firm's lending platform. The Firm's lending platform (the "Cerberus Lending Platform" or "Cerberus Business Finance" or "CBF") consists of Cerberus Business Finance, LLC and other Cerberus affiliates, including certain Cerberus managed funds and accounts involved in the direct lending business. CBF currently pursues two strategies, the Cerberus Loan Opportunities Strategy and the Cerberus Senior Credit Strategy, but may in the future pursue additional strategies. The Cerberus Loan Opportunities Strategy generally provides secured financing primarily to leveraged middle-market companies in the form of secured debt assets, which may be senior or junior, and may be collateralized by a variety of assets. The Cerberus Senior Credit Strategy focuses on first priority, senior secured debt assets generally offered at lesser borrower leverage levels and commensurately reduced target yields than those that are the focus of the Cerberus Loan Opportunities Strategy. The Cerberus Senior Credit Strategy is actively pursued by the Cerberus PNC Senior Loan Fund, L.P. ("Cerberus PNC Fund"). The Cerberus Loan Opportunities Strategy consists of: (i) funds that are actively investing including: Cerberus Levered Loan Opportunities Fund III, L.P. ("Onshore Fund III"), Cerberus Offshore Levered Loan Opportunities Fund III, L.P. ("Offshore Fund III"), and several separate managed accounts structured as single or multiple limited partner funds ("Separate Managed Accounts," "SMA's," and together with Onshore Fund III and Offshore Fund III the "Active Loan Opportunities Funds" and together with Cerberus PNC Fund, the "Active Loan Funds"); and (ii) entities that are no longer actively investing and are in wind-down including: (a) Cerberus Levered Loan Opportunities Fund II, L.P., a Delaware limited partnership managed by the Firm ("Onshore Fund II"); (b) Cerberus Offshore Levered Loan Opportunities Fund II, Ltd., a Cayman Islands exempted company managed by the Firm ("Offshore Fund II"); (c) Cerberus Levered Loan Opportunities Fund I, L.P., a Delaware limited partnership managed by the Firm ("Onshore Fund I"); (d) Cerberus Offshore Levered Loan Opportunities Fund I, Ltd., a Cayman Islands exempted company managed by the Firm ("Offshore Fund I"); (e) Ableco, L.L.C., a Delaware limited liability company and a stand-alone lending company affiliated with and managed by the Firm ("Ableco"); (f) Styx International, Ltd., a Commonwealth of the Bahamas company managed by the Firm ("Styx International"); (g) Styx Partners, L.P., a Delaware

Disclosure

limited partnership managed by the Firm ("Styx Partners"); and (h) 299 Credit Finance Holdings, LLC, a Delaware limited liability company and a stand-alone company affiliated with and managed by the Firm ("299 Credit," and together with Onshore Fund II, Offshore Fund II, Onshore Fund I, Offshore Fund I, Ableco, Styx Partners and Styx International, the "Wind-Down Loan Vehicles," and together with the Active Loan Funds, the "Existing Loan Vehicles"). Long Horizon Fund, L.P. ("Long Horizon") and Long Horizon Overseas Fund, Ltd. ("Long Horizon Overseas") are affiliates of the Existing Loan Vehicles which were previously active and which were merged in 2006 into Styx Partners and Styx International, respectively. Certain other funds and accounts managed by the Firm may participate in lending related investments from time to time.

No Express or Implied Nexus between Cerberus Business Finance, LLC or any other Existing Loan Vehicles. Cerberus Business Finance, LLC and the other participants in the Cerberus Lending Platform may pursue different investment programs from one another. As a result, no conclusion should be drawn with respect to any specific nexus between Cerberus Business Finance, LLC, any Existing Loan Vehicles or any other participant in the Cerberus Lending Platform (including the Funds).

Confidentiality; Use. Any reproduction or distribution of this document or the PPM, as a whole or in part, or the disclosure of the contents hereof or of the PPM, or the use of this document for any other purposes other than those described above, without the prior written consent of the Firm, is prohibited.

Summary Information Only. The information contained herein does not purport to present a complete picture of the financial position, activities, results, actions and/or plans of the Existing Loan Vehicles, Cerberus Business Finance, LLC, the Funds or any other fund or account managed by the Firm. There are numerous factors related to the markets in general or to the implementation of any specific investment program which cannot be fully accounted for in the preparation of the summaries presented herein. Moreover, the investments described herein do not represent the complete portfolios of any fund or account as of the date of this document or at any other time. No conclusion of any type or kind should be drawn regarding the future performance of any Existing Loan Vehicle and/or the Funds based upon the information presented herein.

Past Performance Not Indicative of Future Results. It should not be assumed that any of the holdings, transactions or strategies discussed herein were or will be profitable, or that the investment decisions the Firm makes in the future will be profitable or will equal the investment performance of the Existing Loan Vehicles or any other fund or account managed by the Firm. Past performance is not indicative of and not a guarantee of future results. The performance information presented is not necessarily comparable to, indicative of, or a guarantee of future results of the Funds. No representation is being made that any Fund has, will or is likely to achieve profits or losses similar to those shown for the Existing Loan Vehicles, any other fund or account managed by the Firm, or any particular investment decision by the Firm.

Performance Information. The investment performance as it relates to the Existing Loan Vehicles summarized herein is historic and reflects an investment for a limited period of time. The performance results do not reflect an investment in the Funds. The performance data reflected in this document includes the reinvestment of dividends and other earnings, and the net figures reflect the deduction of all applicable expenses, including management fees and incentive allocations/fees. Results may not have been audited or realized, and should not be relied upon as such. The valuations of unrealized investments are determined on a fair value basis in accordance with the Firm's valuation policies and procedures. There can be no assurance that unrealized investments will be realized at the valuations used to calculate the performance information contained herein, as actual realized returns will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which the valuations used to calculate the performance information contained herein are based. The actual results of any particular investor will likely materially differ from the net performance figures herein due to a number of factors, including, without limitation, transaction dates of capital activity, individual investment limitations or opt outs, the inclusion of any late interest charges paid to early fund investors by subsequent investors (if any), target fund leverage, whether the investor invests in an onshore or offshore fund, and the actual management fees, performance compensation and other expenses payable in respect of such investor.

Forward-Looking Statements. This document contains certain "forward-looking statements," which may be identified by the use of such words as "believe," "expect," "anticipate," "should," "planned," "estimated," "potential," "outlook," "forecast," "plan" and other similar terms. Examples of forward-looking statements include, but are not limited to, estimates with respect to financial condition, results of operations, and success or lack of success of the Firm's investment strategy. All are subject to various factors, including but not limited to general and local economic conditions, changing levels of competition within certain industries and markets, changes in interest rates, changes in legislation or regulation, and other economic, competitive, governmental, regulatory and technological factors affecting the Firm's operations, and each Fund's operations, any or all of which could cause actual results to differ materially from projected results.

Disclosure

Ability to Alter Strategies Employed by Firm. Notwithstanding the information presented in this document, investors should understand that the Firm is not limited with respect to the types of investment strategies it may employ or the markets or instruments in which it may invest (subject to the terms of the offering and governance documents of any given fund or account, including the Funds). Over time, markets change and the Firm seeks to capitalize on attractive opportunities wherever they might exist. Depending on conditions and trends in the capital markets and the economy generally, the Firm may pursue objectives or employ techniques it considers appropriate and in the best interest of each of its funds (including the Funds), which may differ from the objectives, techniques or investments presented in this document. In addition, no strategy (or breadth of available resources) can guarantee future results.

Advisory Services of the Firm. The information contained herein does not constitute a complete description of the Firm's investments or investment strategies and is for informational purposes only. A copy of the Firm's current written disclosure statement regarding its advisory services and fees is available for review.

Risks of Investing. Different types of investments involve varying degrees of risk. Investors should clearly understand the significant degree of risk involved with investing in any alternative investment strategies, such as those employed (or expected to be employed) by the Firm on behalf of the Existing Loan Vehicles and the Funds. Alternative investment strategies are available only to qualified investors who have reviewed detailed information concerning investment terms and risks.

No Accounting, Tax or Legal Advice. The Firm does not provide accounting, tax or legal advice and all investors are strongly urged to consult with their own advisors regarding any investment in a Fund and/or the Existing Loan Vehicles.

Source of Information; No Obligation to Update. The performance and operating information set forth herein is based upon information reasonably available to the Firm as of the date of this presentation. Furthermore, the information set forth herein has been obtained from sources that the Firm believes to be reliable; however, these sources cannot be guaranteed as to their accuracy or completeness. The delivery of this presentation shall not, under any circumstances, create any implication that the information contained herein is correct, including as of any time subsequent to the date of this presentation and the Firm does not undertake an obligation to update such information at any time after such date.

Delineated Categories. The various categories and classifications noted herein were determined in the opinion of the Firm based upon the best information available to the Firm as of the time of this presentation. The categories and classifications represent the opinion of the Firm and could be materially different from other third-party classification systems.

Additional Information. For additional information with respect to performance, investment selection, and the investment objectives and strategies presented herein, please contact the Firm.

Selected Biographies

Daniel Wolf, Senior Managing Director, Lending, of Cerberus Capital Management and Chief Executive Officer of Cerberus Business Finance, LLC. Mr. Wolf joined Cerberus in 1997. Prior to joining Cerberus, Mr. Wolf was Senior Vice President for business development and a member of the credit committee at Congress Financial Corporation from 1990 to 1997, where he was active in loan origination. From 1986 to 1988, Mr. Wolf completed the executive training program and worked in the middle-market lending group at Irving Trust Company. From 1985 to 1986, he was an analyst at the Federal Reserve Bank of Boston. Mr. Wolf is a graduate of Drew University and received an MBA from Columbia University. Mr. Wolf is a member of the Cerberus Capital Management Credit/Lending Committee.

Keith Read, Senior Managing Director, Lending, of Cerberus Capital Management and President of Cerberus Business Finance, LLC. Mr. Read joined Cerberus in 2006. Prior to joining Cerberus, Mr. Read was a Managing Director at CIBC World Markets from 1995 to 2005, where he was responsible for the distribution of structured finance products including CLOs and CBOs, mezzanine financings, leveraged finance and direct fund raising. From 1993 to 1995, Mr. Read was an Executive Vice President at The Argosy Securities Group, a boutique high-yield advisory firm. From 1991 to 1993, he was a Managing Director at Barclays Bank. From 1989 to 1991, he served as a Vice President at Bankers Trust. Mr. Read is a graduate of the University of Utah and received a Master's Degree from the University of Utah. Mr. Read is a member of the Cerberus Capital Management Credit/Lending Committee.

Joseph Naccarato, Senior Managing Director, Lending, of Cerberus Capital Management and Chief Operating Officer and Chief Credit Officer of Cerberus Business Finance, LLC. Mr. Naccarato joined Cerberus in 2000. Prior to joining Cerberus, Mr. Naccarato was a Vice President and Senior Credit Officer at Bank of America Commercial Funding from 1997 to 2000, where he was responsible for managing all aspects of credit relating to a loan portfolio consisting of middle-market asset-backed credit facilities. From 1993 to 1997, he worked as an analyst, field examiner and assistant account executive at The CIT Group. Mr. Naccarato is a graduate of SUNY Oneonta and holds a CPA. Mr. Naccarato is a member of the Cerberus Capital Management Credit/Lending Committee.

Eric Miller, Senior Managing Director, Lending, of Cerberus Capital Management and Executive Vice President of Cerberus Business Finance, LLC. Mr. Miller joined Cerberus in 1998. Prior to joining Cerberus, Mr. Miller worked as a Vice President in The CIT Group/Business Credit, Inc. from 1986 to 1998, where he was responsible for origination, structuring and underwriting middle-market loans to distressed companies and companies undergoing restructuring and reorganization, and where he formerly served as the Marketing Manager of the credit finance division. Mr. Miller is a graduate of Syracuse University. Mr. Miller is a member of the Cerberus Capital Management Credit/Lending Committee.

Selected Biographies

Gerald Daniello, Senior Managing Director, Lending, of Cerberus Capital Management and Vice Chairman and Head of Sponsor Coverage of Cerberus Business Finance, LLC. Mr. Daniello joined Cerberus in 2003. Prior to joining Cerberus, Mr. Daniello was a Managing Director at GE Capital from 1996 to 2003, where he was responsible for a $2 billion portfolio of equity, distressed debt and leveraged debt. From 1990 to 1996, he ran the New England Corporate Finance Group at Chase Manhattan Bank, where he was responsible for a multi-billion dollar portfolio of leveraged and non-leveraged cash flow and asset-based loans to middle-market companies. Mr. Daniello is a graduate of Lafayette College and received an MBA from Temple University.

Kevin McLeod, Managing Director of Cerberus Capital Management and Head of Fund Development of Cerberus Business Finance, LLC. Mr. McLeod joined Cerberus in 2006. Prior to joining Cerberus, Mr. McLeod managed the leveraged finance origination and execution activities at CIBC World Markets from 1998 to 2006, where he originated, structured and executed transactions involving high yield debt securities, leveraged loans, privately placed mezzanine securities and merchant banking investments. From 1996 to 1998, Mr. McLeod was a member of the Investment Banking division of PaineWebber Group Inc. From 1986 to 1994, he worked as a mechanical and aerospace engineer for various organizations including the Pratt & Whitney Division of United Technologies Corp. Mr. McLeod is a graduate of Worcester Polytechnic Institute and received an MBA from the University of Chicago.

Table of Contents

1 Cerberus Capital Management Overview

Cerberus Capital Management, L.P.

Cerberus Capital Management, L.P.

Leading Global Distressed Investment Management Firm Founded in 1992

$34+ BILLION

~155 INVESTMENT PROFESSIONALS

55+ SENIOR EXECUTIVES

90+ OPERATIONS PROFESSIONALS

~575 EMPLOYEES WORLDWIDE

Over $34.6 Billion under management(1) in three complementary strategies:

- **Global Credit Opportunities** (direct lending, non-performing loans, corporate credit and distressed debt, and mortgage securities and assets)
  - **Direct Lending (a leading agent and direct secured lending platform for U.S. corporate middle-market companies across broad industry categories)**
- **Private Equity** (controlling and minority investments in operationally challenged companies, non-core/under-performing divisions or subsidiaries, and businesses undergoing restructuring)
- **Real Estate** (investments in distressed debt, high-yielding senior loans, direct equity and hybrid investments)

Large dedicated team focused on distressed investing and non-distressed corporate middle-market direct lending

- Seasoned and experienced senior executives and investment teams
- Multidisciplinary skill sets and deep knowledge of our three complementary strategies
- 58 Senior executives and Managing Directors have worked together at Cerberus for at least ten years(2)

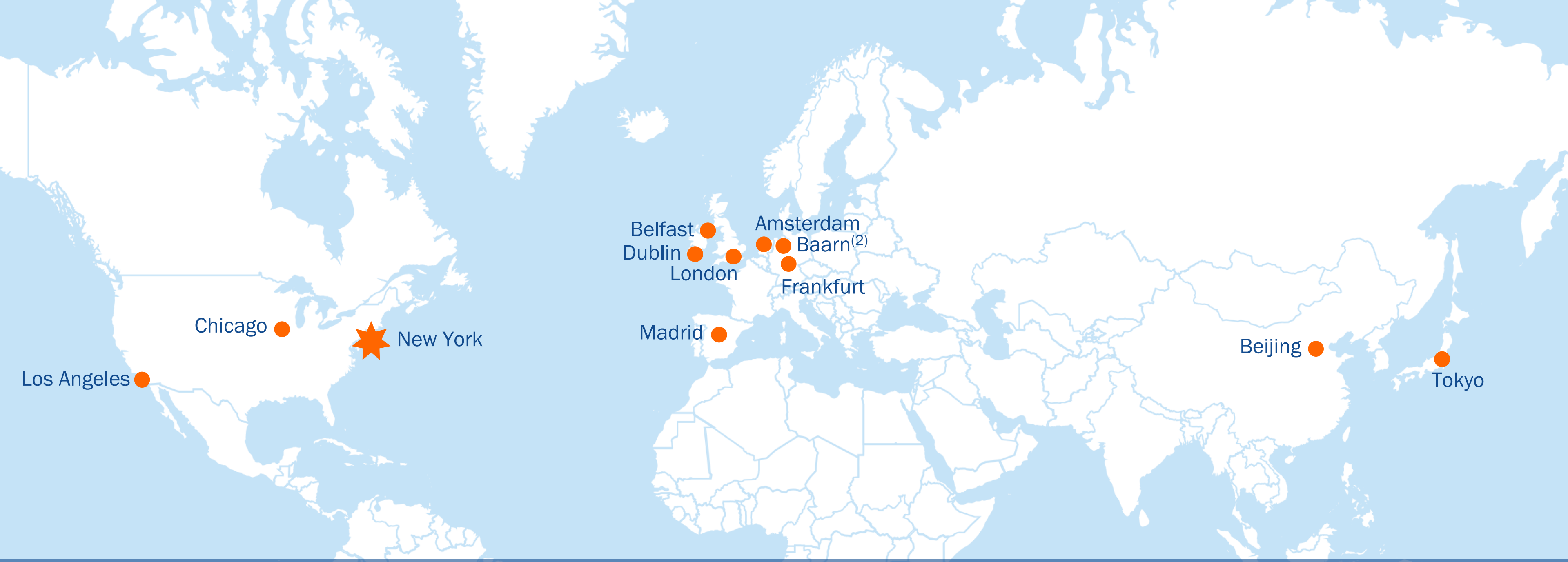
Cerberus Operations and Advisory Company, LLC ("COAC") is an exclusive global operations team, consisting of over 90 operations professionals on staff and employed by portfolio companies(2)

Substantial staff to support investment activities across all functional areas

- Accounting / Tax
- Legal and Compliance
- Finance
- Human Resources
- Information Technology
- Risk Management
- Investor Relations
- Operations
- Administrative Support

Note: The data for investment professionals, operations professionals and employees worldwide is as of March 1, 2017.
(1) As of January 1, 2017.
(2) As of March 1, 2017.

Our Global Platform



Cerberus Offices Worldwide

Headquartered in New York with eleven affiliate and advisory offices throughout the U.S., Europe and Asia; approximately 575 employees worldwide[1].

Approximately 155 investment professionals globally, leveraging core areas of expertise.

(1) As of March 1, 2017, including COAC employees.
(2) Cerberus established an office in Amsterdam in 2000, which moved to Baarn in 2006.

CERBERUS CAPITAL MANAGEMENT, L.P.

Cerberus Executive Leadership

Data as of March 1, 2017.

Senior Leadership

Stephen A. Feinberg
Co-Founder
Chief Executive Officer

William L. Richter
Co-Founder
Senior Managing Director

J. Danforth Quayle
Chairman
Cerberus Global Investments

John W. Snow
Chairman
Cerberus Capital Management

Seth P. Plattus
Chief Administrative Officer
Co-General Counsel
Senior Managing Director

Jeffrey L. Lomasky
Chief Financial Officer
Senior Managing Director

Mark A. Neporent
Chief Operating Officer
General Counsel
Senior Managing Director

Andrew I. Kandel
Chief Compliance Officer
Co-General Counsel
Senior Managing Director

Private Equity

Brett Ingersoll
Steven Mayer
Global Co-Heads of Private Equity

Lenard Tessler
Vice Chairman
Cerberus Capital Management, L.P.

Tarek Ajouz
Louis Bremer
Jonathan Gallen
Dev Kapadia
Paul Miller
Michael Sanford (1)
Scott Wille (1)

Distressed Securities and Assets

Corporate Debt

Robert Davenport
Head of Corporate Credit and Distressed Debt

Michael Hisler
Rickardo Francis
Marc Millman
Nicholas Robinson
Erik Wright

Commercial Mortgages

Scott Stelzer
Head of CMBS Securities and Trading

Glen Abbott
Kyle Schneider

Residential Mortgages

Josh Weintraub
Head of Residential Mortgage Securities and Trading

Brendan Garvey
Jeffrey Mayer
Daniel Choquette
Daniel Hoffman
Robert Richter
Jonathan Sebiri
Scott Yedid
Xingbin Zhang

Structured Products

Ross Feldman
Christopher Forrest

Global Advisory Services

Frank Bruno
President of Cerberus Global Investments

David Abrams
Senior Managing Director, Cerberus European Capital Advisors, LLP

Lee Millstein
Head of European and Asian Distressed / Real Estate

FRANKFURT

David Knower
Chief Operating Officer Cerberus Deutschland GmbH

Thomas Wiegand

MADRID

David Teitelbaum

TOKYO

Toshihiro Hagiwara
Shin Yoshikawa

BEIJING

Xinghong Hua

LONDON

David Teitelbaum
Head of European Advisory Offices

Ronald Rawald
Head of European Real Estate Advisory

Allen Ukritnukun
Head of European Credit

Brian Saunders (2)
Craig Brooks
Daniel Dejanovic
Jonathan Fadale
Domenico Lia
Emanuele Rosetti

*BAARN***

Pieter Korteweg*
Vice Chairman and Senior Advisor to Cerberus Global Investment Advisors

Roeland Brokking
Michiel Heijmeijer
Jos Kallen
Geert Schipper
John van Beek
Bastiaan Vliegenthart
Gerben Wardenier

AMSTERDAM

Stefan Walldorf

Real Estate

Ronald Kravit
Thomas Wagner
Co-Heads of U.S. Real Estate

Stephen Pozatek
Chris Schiermbock
Joseph Sciacca (3)

Lending

Daniel Wolf
Chief Executive Officer of U.S. Lending Business

Keith Read
President of U.S. Lending Business

Joseph Naccarato
Chief Operating Officer and Chief Credit Officer of U.S. Lending Business

Gerald Daniello
Vice Chairman and Head of Sponsor Coverage, U.S. Lending Business

Eric Miller
Kevin Cross
Peter Eschmann
Seth Fink
Timothy Fording
David Henneman
Ken Kohrs
Philip Lindenbaum (4)
Paul Lusardi
Kevin McLeod
Bob Paschalidis
Andrew Solomon
Joseph Spano

Other Senior Professionals

Europe Administration	Human Resources	Investor Relations	Legal	MBS Compliance and Valuations	Operations / Treasury	Tax	Technology
Lynda Funke	Roudi Pezeshkian	Catherine Brossard	Alexander Benjamin	Marc Toscano	Burke Malek	Risa Dorsky	Richard Alexander
		Greg Gordon	Sheila Peluso			Steven Kornstein	

1. Co-Head of North American Private Equity
2. Senior Managing Director, European Private Equity
3. Associate General Counsel – Real Estate
4. Associate General Counsel – Lending

* Mr. Korteweg provides consulting services to the Cerberus funds and accounts and their portfolio companies. As such, his time and expenses are allocated to specific portfolio companies, projects or strategies as appropriate.

** The costs of certain Cerberus employees working in the Netherlands who devote their time to the administration, operation, accounting and reporting of Dutch investment vehicles are borne by the Cerberus funds, as more fully described in each funds' organizational documents and / or Cerberus' Form ADV.

2 Cerberus Business Finance Overview

CERBERUS
BUSINESS FINANCE

Leading Agent, Direct Lender, and Originator of Secured Loans Since 1995

CERBERUS BUSINESS FINANCE

$8.9B

$8.9 Billion of Assets under Management ("AUM")(1) in two complementary strategies:

- Loan Opportunities Strategy
- Senior Credit Strategy
- Diversified portfolio of loan facilities to over 125 companies

$4B+

ANNUAL INVESTMENT RATE

Over $4 Billion annual investment rate(2)

- Over $2 Billion of capacity to address pipeline
- Primarily as lead agent for $50 to $500 Million of senior credit facilities
- Backfilling banks which are retreating from middle-market lending

50+

DEDICATED PROFESSIONALS

Substantial dedicated platform focused on the direct lending business

- Deeply seasoned senior executives managing large AUM through multiple credit cycles
- Broad based talent among over 50 investment and staff professionals in New York and Los Angeles(3)
- Investment professionals have worked together at Cerberus for an average of over 8 years(3)
- Robust pipeline of sourcing from private equity sponsors, corporations, lending partners, and placement agents

90+

ACCESS TO OPERATIONS PROFESSIONALS

The COAC team supports new loan investment due diligence and workout / exit processes

Note: The data for investment professionals and operations professionals is as of March 1, 2017.

(1) CBF AUM includes investment assets and cash held at the Existing Loan Vehicles and is as of December 31, 2016.

(2) Loan Opportunities Strategy. Based on the total amount of loans funded by CBF through December 31, 2016.

(3) As of March 1, 2017.

Cerberus Business Finance – Network of Loan Vehicles

As of December 31, 2016
($ in millions)

CERBERUS BUSINESS FINANCE

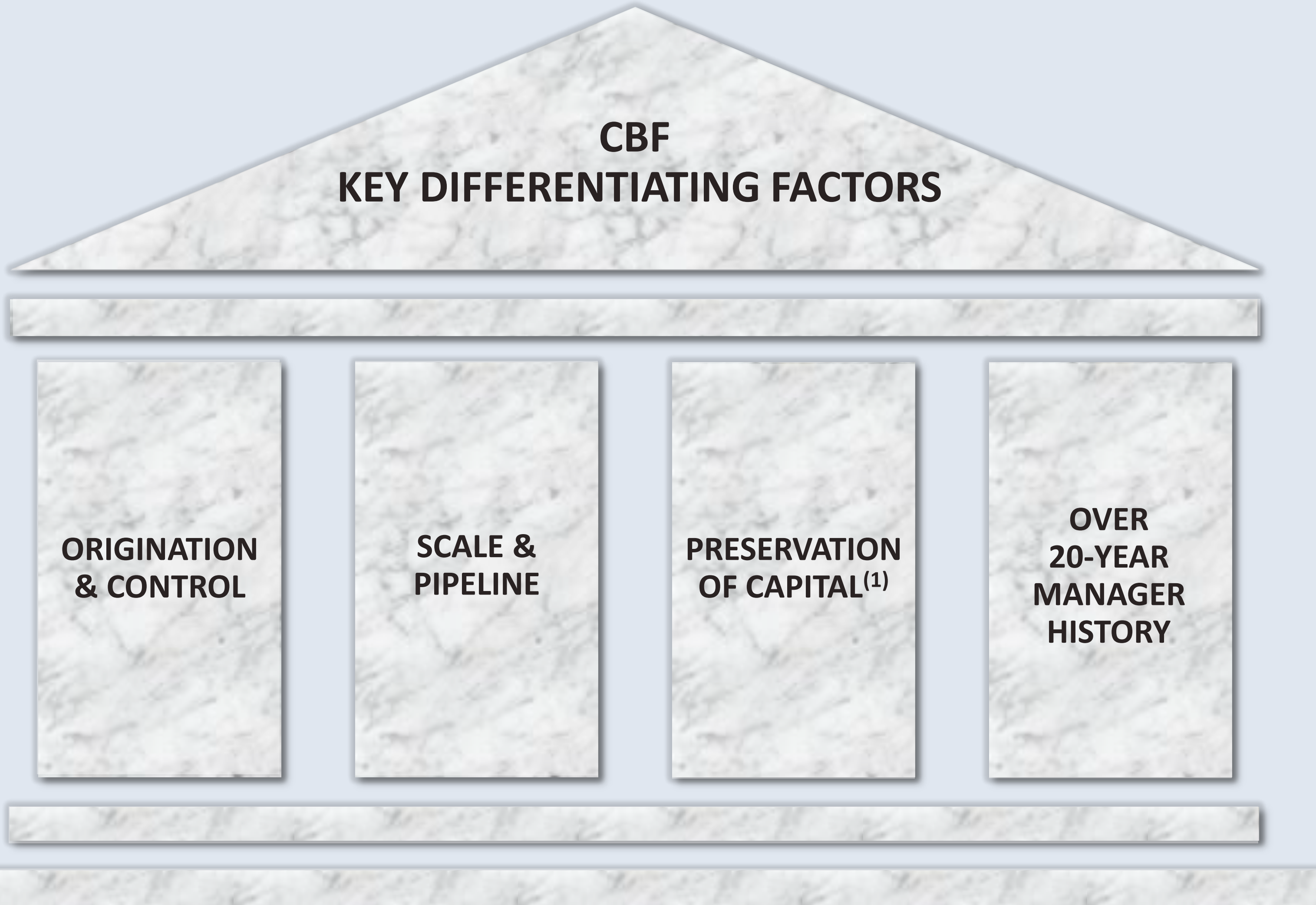
Active Loan Funds Consistently Originate[2] and Invest in Senior Secured Middle-Market Loans

Fund III (Onshore Fund / Offshore Fund) (2016)		**Separate Managed Accounts** (11 SMA Funds[4]) (2012 – 2016)	
GP/LP Commitments[3]:	$2,057	GP/LP Commitments[3]:	$4,088
AUM[1]:	$1,021	AUM[1]:	$5,265
Target Fund Leverage:	1:1 to 2:1	Target Fund Leverage:	0.5:1 to 2:1
Inv. Period Ending:	Feb / Aug 2019	Inv. Period Ending:	Various

Allocation Policy Governs Loan Assignments Across All Active Loan Vehicles

(1) CBF AUM includes investment assets and cash held at the Existing Loan Vehicles and is as of December 31, 2016. NAV is as of December 31, 2016.
(2) Note that certain of the Funds and SMAs are not origination vehicles, but rather invest in senior secured, middle-market loans.
(3) Includes capital commitments raised in the first quarter of 2017.
(4) One SMA entered its post-investment period in January 2017.

Cerberus Business Finance Key Differentiating Factors for Investors



(1) It should not be assumed that investment decisions will be profitable and there is no guarantee of future results. Investments are subject to risk and may lose value.

3 The Middle-Market Direct Lending Opportunity

Cerberus
Business Finance

The Middle-Market Opportunity

CBF Believes that the Demand for Middle-Market Capital Solutions Far Outstrips the Supply of Lenders of Scale

DEMAND IS HIGH

- Demand is High for Debt Capital Solutions[(1)] in the ~$6 Trillion U.S. Middle-Market ➔ 3rd Largest Global Economy[(2)]
- Overhang of Large Volume of Debt Maturities Continues to Put Liquidity and Refinancing Pressure on Companies
- Private Equity Sponsors have $564 Billion[(3)] of Dry Powder
- Middle-Market M&A Activity strong at over 6,500 transactions since 2013[(4)]

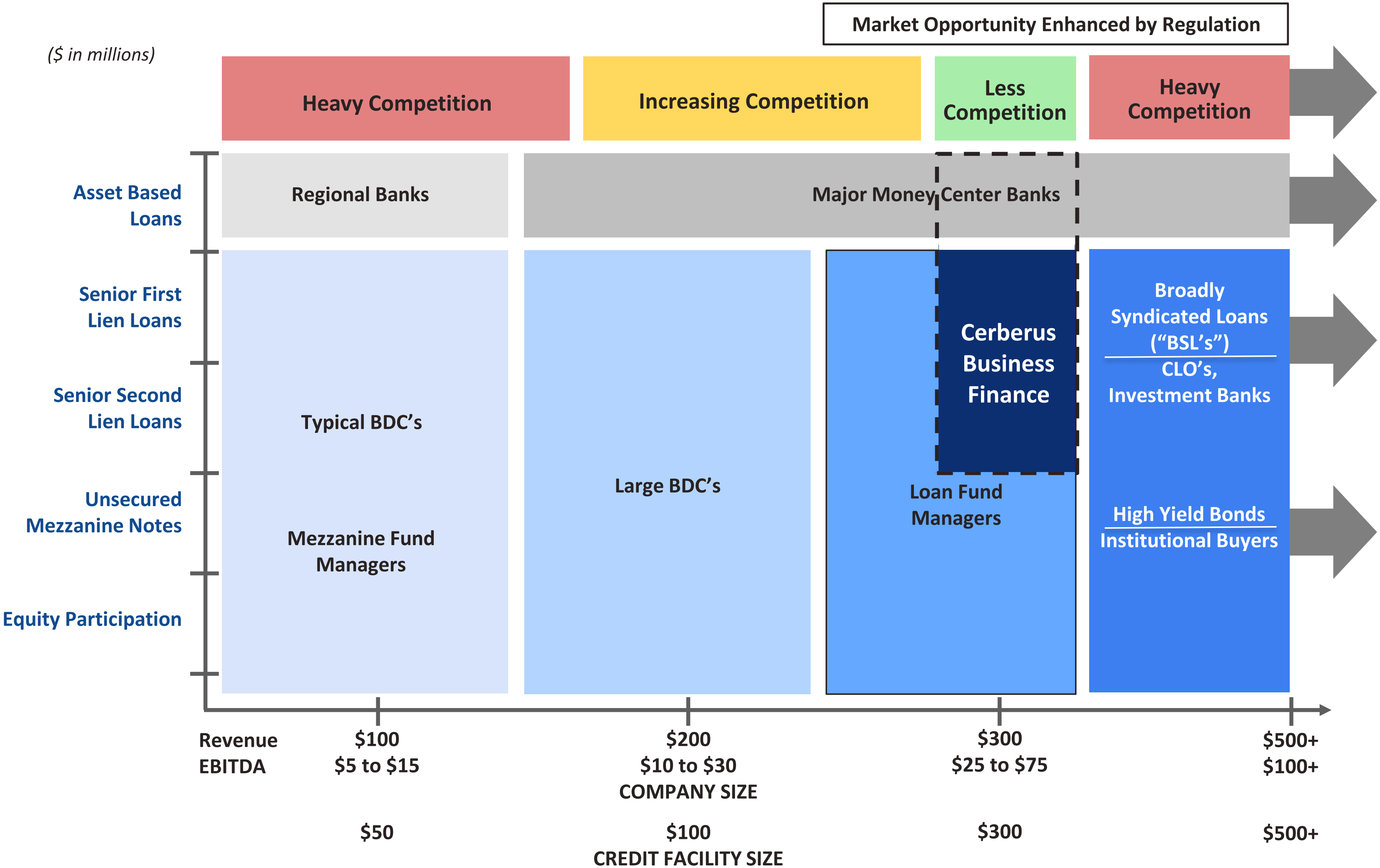
SUPPLY/DEMAND IMBALANCE IS MOST ACUTE IN THE MIDDLE-MARKET

SUPPLY IS LOW

- Decline in the Number of Middle-Market Lenders of Scale Since the Last Cycle[(5)]
- ***Money Center and Regional Banks***: Reduced Appetite Driven by Regulation (Basel III, Dodd-Frank / Volcker Rule, Leveraged Lending Guidelines / Shared National Credit Guidelines)[(6)]
- ***Business Development Companies ("BDC's"):*** Insufficient Capital to Provide Complete Solution Due to Thin BDC Investor Base, Restricted Share Issuance Below Book Value, and Quarterly Distribution Requirements
- ***Non-Bank Lenders (CLO's, Finance Companies, Funds)***: Limited Non-Bank Lenders of Size and Scope to Provide Complete Credit Solution to Unrated Companies

(1) Sources: e.g., S&P Capital IQ Leveraged Commentary & Data: "Middle Market: LBO Volume Picks Up as Pipeline Strengthens."
(2) Represents combined revenue; Source: National Center for the Middle Market: "4Q2016 Middle Market Indicator."
(3) Source: Pitchbook: "1Q 2016 North American PE Overhang."
(4) Source: Pitchbook: "Pitchbook 2Q 2016 U.S. PE Middle Market Report."
(5) Source: e.g., Forbes: "Leveraged Loans: Banks' Share Of Middle Market Pie Shrinks Further In 2013."
(6) Source: e.g., S&P Capital IQ Leveraged Commentary & Data: "Leveraged Lending Review – 2Q15."

The Middle-Market Opportunity



4 Fundamentals of Our Direct Lending Business

CERBERUS
BUSINESS FINANCE

Fundamentals of Our Direct Lending Business

Established Direct Lending Franchise

Origination & Control

- Sourcing
- Underwriting
- Monitoring
- Structuring
- Syndicating
- Exiting

Deep Credit Culture

Conservative Senior Secured Loans(1)

Prudent Use of Fund-Level Leverage(2)

(1) Investments are typically less than 60% loan-to-value in the Loan Opportunities Strategy and less than 40% loan-to-value in the Senior Credit Strategy.
(2) Target fund-level debt:equity ratio is typically up to 2:1 in the Loan Opportunities Strategy and 2:1 to 3:1 in the Senior Credit Strategy.

Origination & Control

CBF Generally Earns a Yield Premium Due to Origination, Scale, and Resulting Control of the Transaction

Corporate Borrower

Target Portfolio
Company of
Private Equity Sponsor

Value to Borrower

Confidence:	Surety of Closure
Simplicity:	One-Party Negotiation
Flexibility:	Structural and Situational
Economics:	Reasonable Cost

Cerberus Business Finance

Debt Financing Solution
"One Stop"
or
"Unitranche"

Value to CBF

- **Control** of Financing Creates Favorable Yield while Managing Risk:
  - Control of Relationship
  - Control of Terms
  - Control of Documentation
  - Control of Syndication Partners
  - Control of Economics
- **Result: Premium Asset Yield**[(1)] → α

(1) It should not be assumed that investment decisions will be profitable and there is no guarantee of future results. Investments are subject to risk and may lose value.

Scale & Pipeline – Loan Opportunities Strategy

CRITICAL SCALE

- $8.3 Billion of AUM in Loan Opportunities Strategy ($8.9 Billion including Senior Credit Strategy)(1)
- Scale is critical to meet the needs of middle-market PE sponsors and companies
  - Surety of closure
  - Speed and flexibility
  - Largest hold position
  - Facility expansion going forward (e.g. add-on acquisitions)

SOURCES OF ORIGINATION

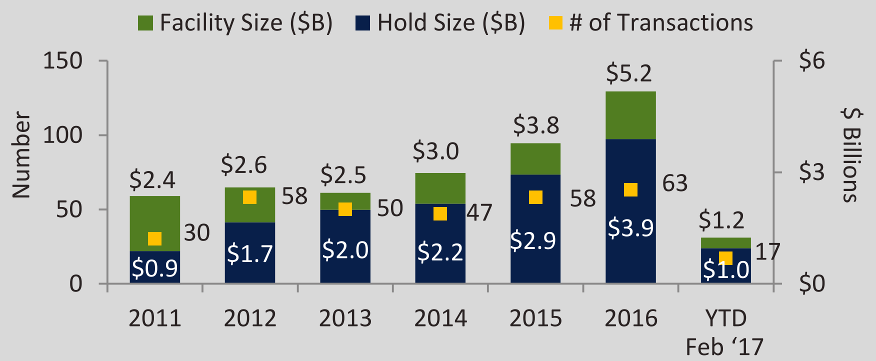
- Originate new loans through a direct marketing approach
  - PE sponsors: ~75% to 80%(2)
  - Boutique advisory firms
  - M&A and restructuring advisors
  - Lending partner relationships
  - Investment banks

ROBUST ORIGINATION PIPELINE

- Over 315 transactions since early 2011, totaling over $20.0 Billion in credit facilities, primarily as Agent

($ in millions)	Average	Typical Range
Revenue	$343	$100 to $2,000
EBITDA	$54	$15 to $150
Leverage	3.1x	1.0x to 4.0x

TRANSACTIONS



- Evaluating ongoing pipeline, generally 70 to 110 potential transactions

Note: All data represented is for the Loan Opportunities Strategy, except where otherwise specified.
(1) AUM includes investment assets and cash held at the Existing Loan Vehicles and is as of December 31, 2016.
(2) Statistics are since early 2011. Includes up-sizing and refinancing of existing loans. Excludes Senior Credit Strategy.

CERBERUS BUSINESS FINANCE

Selected PE Sponsor Clients

Over 215 Sponsor Clients, with Majority Repeat Clients

ACON

ae Industrial Partners

AmericanSecurities

A&M CAPITAL

Aterian INVESTMENT PARTNERS

brynwood partners

THE CARLYLE GROUP

Charlesbank CAPITAL PARTNERS LLC

COURT SQUARE

DUNES POINT CAPITAL

General Atlantic Global growth investors

H.I.G. CAPITAL

INSIGHT VENTURE PARTNERS

KELSO & COMPANY

KOHLBERG CAPITAL CORPORATION

Lincolnshire Management

LINDSAY GOLDBERG

MARLIN EQUITY PARTNERS

MILL ROAD CAPITAL

MONOMOY CAPITAL PARTNERS

One Equity Partners

PAMPLONA CAPITAL MANAGEMENT

PEGASUS CAPITAL ADVISORS

PRUDENTIAL CAPITAL GROUP

RANK GROUP LIMITED

THE RENCO GROUP, INC.

ROARK CAPITAL GROUP

SIRIS Capital Group, LLC

SK CAPITAL

SUN CAPITAL PARTNERS, INC.

TA Associates

TRIVE CAPITAL

VISTRIA

WARBURG PINCUS

WASSERSTEIN & CO.

Watermill Group

WELLSPRING CAPITAL MANAGEMENT LLC

WC WYNNCHURCH | CAPITAL

Diversified Portfolio – Loan Opportunities Strategy

Representative Loan Facility Parameters

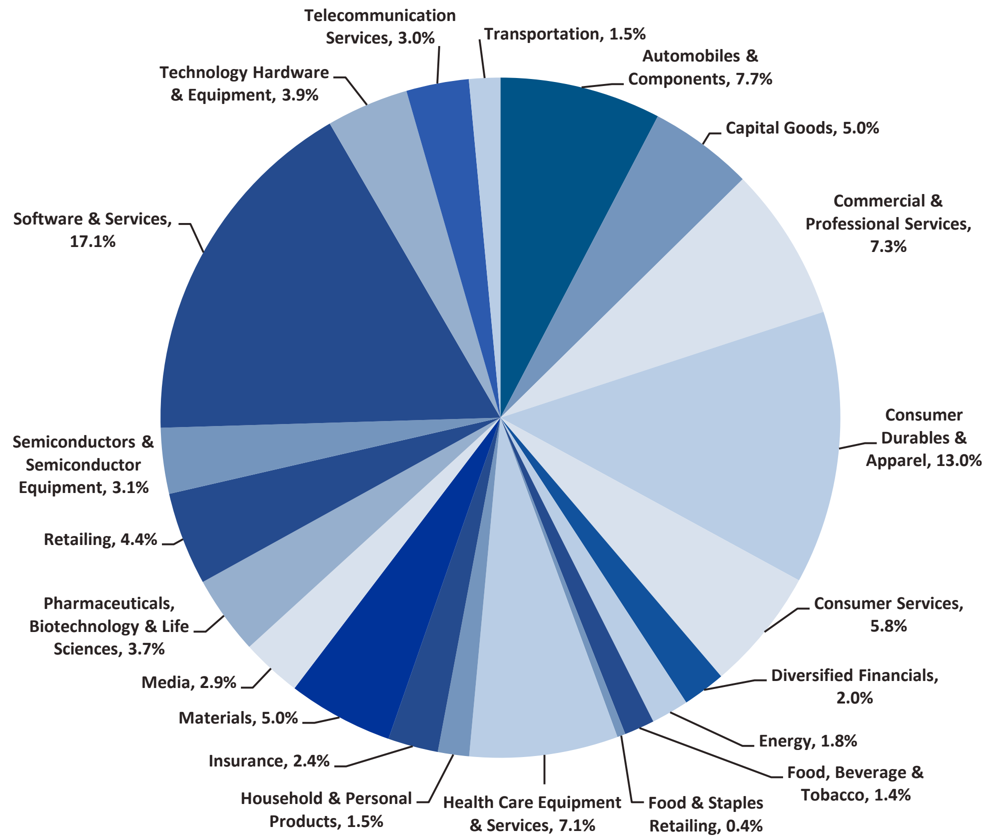
- CBF as lead agent / one or more club lender participants
- Unitranche or "One stop" and single tranche
- $50 to $500 Million facility size
- 5 to 7 Year maturity
- Amortizing
- LIBOR based interest (with floors)
- Up-front fees
- Maintenance covenants
- Highly-negotiated, well-structured, consistent legal documents

CBF Loan Investment

- $50 to $200 Million; $50 to $75 Million average
- Term loan and revolver: 1st lien / 2nd lien (~90% / ~10%)
- 40% to 60% Borrower loan-to-value
- ~2.0x to 3.5x (Debt / EBITDA)

Diversified Portfolio (December 31, 2016)(1)(2)

- $8.3 Billion of AUM(3)
- 121 Borrowers



Average Loan Investment: $65 Million (0.7% of AUM)(3)

(1) Data represented includes loans held in Existing Loan Vehicles. Excludes Senior Credit Strategy.
(2) Based on Global Industry Classification Standard (GICS) categories. There is no guarantee of any level of future diversification by industry.
(3) CBF Loan Opportunities Strategy AUM includes investment assets and cash held at the Existing Loan Vehicles and is as of December 31, 2016. Excludes Senior Credit Strategy.

Core Emphasis: Preservation of Capital(1)

CONSISTENT AND DISCIPLINED UNDERWRITING PRINCIPLES

- "Underwrite to Exit": Develop a strategy, at the time of underwriting, for possible exit alternatives to achieve maximum recovery of loan principal if the borrower defaults
- Avoid single-asset credits:
  - Risk is too concentrated
  - Too much volatility in downside recovery value
- Avoid real estate backed loans
- Require multi-year track record of operating performance and successful management: Borrower is proven vs. speculative (e.g. project finance, startups, etc.)
- Avoid industries / jurisdictions where perfection of security is at risk

INTENSIVE LOAN MONITORING

- Weekly all-hands credit review meeting for all loans to discuss:
  - Key metrics: liquidity, leverage, covenants, and operating results versus budgets and prior periods
  - Industry trends and potential impact on borrowers
  - Formulation of strategy to address challenged credits
- Weekly dialogue with Borrowers and their PE Sponsor / Owner
- Attend industry conferences, review industry materials, and contact industry experts to better assess industry trends

STRUCTURING AND EXECUTION

- CBF may syndicate a portion of the facility to other lenders to maintain optimal "hold" size of loan and diversity of loan portfolio
  - Dedicated team with broad capital markets expertise and distribution capabilities allows Cerberus to commit to and control larger deals
  - "Club" type syndication with small group of co-lenders
  - Allows consideration of larger, more complex transactions
- Enhances origination efforts through reciprocal deal flow
- Manages exposure to risk by limiting capital concentration and optimizing deal structure
- Facilitates control of loan documentation and covenant structure
- Enhances ability to optimize risk-adjusted yields
  - *The control of the structuring and execution of the transaction enables Cerberus to earn enhanced yields versus other transactions of comparable risk*

WORKOUT CAPABILITIES

- Senior Management has extensive workout and restructuring experience
- Broad-based knowledge of corporate restructuring, workouts, and the bankruptcy process facilitates best outcomes
- At origination stage, identify potential exit strategy for downside protection
- Actively managed, highly-focused workout strategy by experienced senior level credit officers
- COAC team available as valuable resource for initial underwriting and in the event that CBF must take control / manage an asset
- Significant and long-standing relationships with the restructuring and workout communities:
  - Restructuring firms
  - Legal advisors
  - Consultants
  - Accountants
  - Chief restructuring officers

(1) Notwithstanding the information presented on this slide, investors should understand that the Firm is not limited with respect to the specific principles and structuring and monitoring techniques it may employ in the aggregate or with respect to any one investment except as set forth in the offering and governance documents of any given fund or account. Depending on conditions and trends in the capital markets and the economy generally, the Firm may pursue objectives or employ techniques it considers appropriate and in the best interest of the funds and accounts, which may differ from the techniques presented on this slide. All investments are subject to risk and may lose value. Past performance is not indicative of future returns.

CBF Team of Over 50 Professionals

Investment Professionals: Over 8-Year Average Tenure at CBF

Stephen Feinberg*
Co-Founder, CEO and Sr. MD – Cerberus Capital Management
Sr. MD – Cerberus Business Finance

Daniel Wolf*
Chief Executive Officer – Cerberus Business Finance
Sr. MD – Cerberus Capital Management

Keith Read*
President – Cerberus Business Finance
Sr. MD – Cerberus Capital Management

Joseph Naccarato*
Chief Operating Officer – Cerberus Business Finance
Sr. MD – Cerberus Capital Management

Gerald Daniello
Vice Chairman & Head of Sponsor Coverage
Sr. MD – Cerberus Capital Management

Kevin McLeod
Head of Fund Development
MD – Cerberus Capital Management

Kevin Cross	Eric Miller*	Tim Fording
Seth Fink	Paul Lusardi	Ken Kohrs
Peter Eschmann	David Henneman	Bob Paschalidis
Andrew Solomon	Joseph Spano	Michael Johnson
John Schmidt	Peter Zipf	Adam Schacter
Alexander Berger	Alexander Guzinski	George Mavredakis
	Joshua Rivlin	

6 Administrative Staff

Legal/Compliance/Loan Servicing/Accounting/ Valuation/Financial Reporting/Investor Relations

Mark Neporent*
COO, General Counsel & Sr. MD – Cerberus Capital Management, Cerberus Business Finance

Seth Plattus
CAO, Co-General Counsel and Sr. MD – Cerberus Capital Management, Cerberus Business Finance

Jeffrey Lomasky
CFO and Sr. MD – Cerberus Capital Management, Cerberus Business Finance

Andrew Kandel*
Chief Compliance Officer, Co-General Counsel & Sr. MD – Cerberus Capital Management

Philip Lindenbaum*
Associate General Counsel & MD – Cerberus Capital Management, Sr. VP – Cerberus Business Finance

Steven Merritt
Associate General Counsel & AVP – Cerberus Capital Management

7 Loan Servicing/ Operations Professionals

5 Financial Reporting, Accounting & Control Professionals

4 Technology Professionals

5 CLO Operations Professionals

6 Additional Professionals

*Denotes Lending Credit Committee member.

The internal CBF team is bolstered by its fund administrator, J.P. Morgan Worldwide Securities Services, a division of J.P. Morgan Chase bank, N.A. ("J.P. Morgan"). As fund administrator, J.P. Morgan provides services, including but not limited to: (i) transaction processing, settlement, reconciliation, and confirmation, (ii) cash and collateral management, (iii) valuation and asset pricing validation and support, (iv) fund accounting (including the determination of gross asset values, net asset values, daily profit/loss statements, waterfall calculations, management fees and incentive allocations and transfer allocations), (v) financial reporting and audit support (including the preparation of an annual audit plan, preliminary fund financial statements, investor account statements and reports and audit assistance), and (vi) investor services (including management of subscriptions, redemptions, transfers, capital calls, account opening requirements, anti-money laundering and related compliance reviews and other fund and investor services).

Contact Information

For further information, please contact:

Keith Read
President, Cerberus Business Finance
Senior Managing Director, Cerberus Capital Management
(212) 739-1207
kread@cerberuscapital.com

Kevin McLeod
Head of Fund Development, Cerberus Business Finance
Managing Director, Cerberus Capital Management
(212) 739-1213
kmcleod@cerberuscapital.com

CERBERUS
BUSINESS FINANCE

Cerberus Capital Management, L.P.
875 Third Avenue
New York, NY 10022
www.cerberuscapital.com

Investment Work Plan Update
Informational Only

March 17, 2017

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

Investment Work Plan (Informational Update) – March 17, 2017

<u>Pension Trust</u>:

1. Conduct annual investment performance and policy statement reviews for all Pension Trust clients;
2. Implement asset allocation policy changes recently approved by the SIB client boards in a diligent, prudent and timely manner;
3. **Complete the review of our overall fixed income structure including our international debt, unconstrained bond and mortgage backed securities mandates in light of the long-anticipated raising interest rate environment;**
4. **Complete SIB approved equity manager transitions (e.g. Private Debt and Equity) while considering the merits of reverse inquiries relating to non-strategic, private strategies and implementing board approved litigation monitoring policies; and**
5. **Implement de-risking strategies as approved by the SIB and SIB client boards (e.g. Job Service).**

<u>Legacy and Insurance Trusts</u>:

1. Conduct annual investment performance and policy statement reviews (WSI, Legacy & Budget Stabilization have been scheduled);
2. **Assist the SIB and Legacy and Budget Stabilization Advisory Board prepare for the next biennium by recommending a new asset liability study be conducted after the completion of the current legislative session; and**
3. **Continue to monitor and review of our overall fixed income structure including our international debt and lower quality, investment grade debt mandates in light of the long-anticipated raising interest rate environment.**

<u>Strategic Investment Plan</u>:

1. **Remain steadfast in our commitment to continuing education (e.g. investment conferences and capital market updates) while raising awareness of our expanding board education efforts (e.g. Callan College Onsite on July 28, 2017);**
2. **Enhance transparency and understanding of our core goals and beliefs by easing public website access while promoting the benefits of active management ($250+ million for the 5-years ended December 31, 2016);**
3. **Heighten employee engagement by promoting an open and collaborative work environment while improving office communication methods and frequency of "monthly" office meetings (particularly during legislative session);**
4. **Strengthen professional relationships with existing SIB clients, local organizations and legislative leaders;**
5. **Enhance risk management by using proven institutional grade risk management tools (i.e. a robust risk management framework provides a foundation to understand downside risks and the ability to withstand market corrections); and**
6. **Expand the efficient use of technology within RIO to enhance overall effectiveness while becoming fully staffed within our IT team**.

Annual Board Planning Cycle – Biennial Agenda

Approved by the SIB on April 24, 2016

Annual Board Planning Cycle
Biennial Agenda

Fiscal 2015-16	July 2015	August	September	October	November	December	January 2016	February	March	April	May	June
	Gov. Offsite - Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda - Plan Board Education	**Annual Investment Performance Review** - Establish Investment Work Plan - Add Invest. Education	**Annual Review of Gov. Manual** *(Done)* - New Board Member Orientation Complete	**Annual Evaluation of RIO vs. *Ends* policies** - Annual Board Evaluation	**Investment Director Report on Investment Work Plan**	No Meeting Scheduled		**Investment Director Report on Investment Work Plan** - Executive Limitations Review	**Review Budget Guidelines for next Biennium**	**Review "Ends" Policies, Biennial Agenda, Strategic Plan and Budget Guidelines**	**Investment Director Report on Investment Work Plan** **ED/CIO Review** - Investment Guidelines	No Meeting Scheduled

Fiscal 2016-17	July 2016	August	September	October	November	December	January 2017	February	March	April	May	June
The SIB Meeting Agenda has not been establised for Fiscal 2016-17	**Gov. Offsite** - Election of Officers, - Appoint Audit Comm. - Plan Annual Agenda - Plan Board Education	**Annual Investment Performance Review** - Establish Investment Work Plan - Add Invest. Education	**Annual Review of Gov. Manual** - New Board Member Orientation Complete	**Annual Evaluation of RIO vs. *Ends* policies** - Annual Board Evaluation	**Investment Director Report on Investment Work Plan**	No Meeting Planned	- Legislative Update	**Investment Director Report on Investment Work Plan** - Executive Limitations Review	**Confirm Budget Guidelines** - Legislative Update	**Review Biennial Agenda, End Policies, Strategic Investment Plan and Budget Guidelines**	**Investment Director Report on Investment Work Plan** **ED/CIO Review** - Investment Guidelines	No Meeting Planned

1.) SIB Governance Policy B-7 on Governance Process states that "the Board will follow a biennial agenda which (a) completes a re-exploration of Ends policies annually (April) (which is also referred to as "RIO's Mission Statement") and (b) continually improves its performance through attention to board education and to enriched input and deliberation."

2.) "In the first three months of the new cycle, the Board will develop its agenda for the ensuing year. Scheduled monitoring will be used to evaluate and adjust the annual agenda as needed."

3.) "The Board will identify areas of education and input needed to increase the level of wisdom forethought it can give to subsequent choices. A board education plan will be developed during July and August of each year."

4.) Budget Guidelines: RIO will prepare and submit a biennial budget pursuant to OMB guidelines as established by the Governor which will not reduce the level of service provided by RIO. Expenditures for budget items will not exceed the appropriation without approval of the State Investment Board.

Date: April 14, 2016

Why is Good Governance Important?

"Good governance helps to ensure better organizational performance, fewer conflicts of interest, higher probability that goals and objectives will be attained, and less opportunity for misuse of corporate or fund assets."

The Stanford Institutional Investors' Forum
Peter Clapman, Chair, May 31, 2007

AON
Empower Results®

KEY: Good governance does not guarantee positive investment results, but good governance improves the probability of goals being achieved.

"Good Governance Adds Value" by Increasing Fiduciary Control, Reducing Risk and Building Stakeholder Confidence

- Good governance helps boards to meet their fiduciary responsibilities
- Good governance helps to prevent fiduciary breaches and minimize risk
- Good governance fosters stakeholder confidence

AON
Empower Results®

- Good governance adds tangible value*
  - Studies show that good governance is associated with increased returns

* "Good Governance Adds Value", a study published by Rotman International Journal of Pension Management, found that better governed pension funds outperformed poorly governed funds by 2.4% per annum during the 4-year period ending 12/2003. A similar study for the period 1993-1996 found a 1% annual good governance performance dividend. Capelle, Ronald, Lunn, Hubert and Ambachtsheer, Keith, "The Pension Governance Deficit: Still with Us" (October, 2008), Rotman International Journal of Pension management, Vol. 1, 2008, at SSRN: http://ssrn.com/abstract=1280907.

RIO Commentary: SIB client returns have benefitted from "good governance", including the prudent use of active management in recent years. RIO estimates that "good governance" has enhanced SIB client net returns by over 0.50% or $250 million for the 5-years ended Dec. 31, 2016.

“Fostering Stakeholder Confidence” by Increasing Public Awareness of SIB Activities

Increasing Investment Returns By Over $250 million in the Last Five-Years - The SIB has a fundamental investment belief that the prudent use of active investment management can help our clients achieve their long term goals (noting that asset allocation decisions are the primary driver of long-term investment success). For the five years ended December 31, 2016, SIB client investment returns have been increased by over $250 million (or 0.50%) as a result of selecting investment firms which outperformed passive benchmarks, after paying all investment fees.

Reducing Investment Fees by Over $20 million/year - SIB cost savings efforts have reduced investment management fees from 0.65% in fiscal 2013 to approximately 0.42% in fiscal 2016 – this translates into over $20 million of annual savings based on current asset levels.

Noteworthy Achievements - RIO has received the Certificate of Achievement for Excellence in Financial Reporting for 19 consecutive years from the Government Finance Officers Association. TFFR has also received the Public Pension Standards Award for Funding and/or Administration for eight consecutive years from the Public Pension Coordinating Council.

SIB Client Investment Income Exceeded $2 billion the Last Five-Years - SIB client assets have nearly doubled in less than 5-years from $6 billion at June 30, 2012, to exceed $11.5 billion as of January 31, 2017. This growth has resulted from over billion in client contributions and over $2 billion of investment income (including $250 million of excess return), while maintaining strong client satisfaction ratings.

Supporting North Dakota Business Development - The SIB approved the transfer of the $200 million BND Match Loan CD program from the Budget Stabilization Fund to the Legacy Fund, as recommended by the Advisory, in order to preserve this important program which raised a billion of financing to support businesses desiring to establish significant operations in North Dakota.

RIO's Mission Statement

RIO's "Mission" is defined in SIB Governance Policy D-1 on "Ends".

The Retirement and Investment Office serves the SIB and exists in order that:

1) 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. **D-3**
2) Potential SIB clients have access to information regarding SIB's investment services. **D-4**
3) TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner. **D-5**
4) TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement. **D-6**
5) SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff. **D-7**

Mission Accomplishments:

1) Every SIB client generated positive excess returns for the 5-years ended Dec. 31, 2016, with one exception (PERS Retiree Health) while adhering to approved investment guidelines and noting that management fees have declined from 0.65% to 0.42% in the last three fiscal years (2013 to 2016).
2) RIO implemented a transparency enhancement initiative in late-2015 which enhanced public access to our website by adding new hyperlinks for our governance manual, audit charter and meeting materials (including our quarterly investment performance reviews).
3) RIO's internal audit team conducted reviews which provide reasonable assurance that TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
4) TFFR member surveys support management's belief that members have access to information which will allow them to become knowledgeable about retirement issues and processes.
5) SIB and TFFR client surveys confirm that the boards and staff provide satisfactory services.

SIB Gov. Policy D-2 RIO clients are those which are statutorily defined and those which have been contracted for services under statutory authority.

NDRIO 2015-17 Strategic Investment Plan

Fundamental Investment Beliefs

Asset allocation decisions are the primary driver of investment returns, but the prudent use of active investment management is an important contributor towards ensuring our clients attain their stated investment objectives. SIB clients generated over $250 million of incremental income via the prudent use of active investment management over the past five years including over $150 million during the last three years (net of fees).

Strategic Investment Plan

1. Reaffirm the organizational commitment to our current governance structure including a persistent awareness to the importance of continuing board education.

2. Enhance transparency and understanding of our core goals and beliefs.
   a. Remain steadfast in our commitment to the prudent use of active investment management.
   b. Expand awareness to downside risk management which is essential to achieving our long term investment goals.
   c. Given actual and projected growth of SIB client assets and the heightened public awareness of the Legacy Fund, align our investment platforms to promote greater clarity and efficiency in reporting and implementing client investment policies.

3. Expand RIO's influence and ability to create positive and sustainable change by developing relationships with existing clients, organizations and legislative leaders.
   a. Enhance community outreach to build upon public awareness and confidence.
   b. Develop concise presentations which highlight our overall risk, return and cost control framework including our progress towards attaining our long-term goals.

4. Heighten employee engagement by promoting an open and collaborative work environment while encouraging employee participation in staff meetings, offer more opportunities to impact RIO's change initiatives and improve overall compensation levels.
   a. RIO's ability to continue to deliver strong results is dependent on the combined efforts of our highly valuable team members.

5. Enhance our existing risk management tools and processes by developing a more robust risk management framework utilizing proven risk management solutions with a focus on portfolio construction and downside risk management (or "stress test" scenarios).
   a. A robust risk management framework provides a foundation to understand downside risks and our ability to withstand market corrections in varying stress test scenarios.

6. Evaluate and expand the efficient use of technology in our investment program activities including risk management, compliance monitoring, client satisfaction surveys, website design and communications in order to increase overall efficiency and effectiveness.

AGENDA ITEM III.E.

BOARD ACTION REQUESTED

TO: State Investment Board

FROM: Dave Hunter and Darren Schulz

DATE: March 21, 2017

SUBJECT: **FargoDome Investment Policy** – Cover Memo

RIO routinely conducts annual reviews with our clients which includes a review of recent returns and the impact of any proposed organizational developments (such as changes in personnel, liquidity and/or risk/return expectations) on the existing investment policy statement. These reviews serve as the basis for Staff recommendations to modify asset allocation guidelines.

In connection with our last FargoDome annual review, the **FargoDome board approved the following changes to their investment policy statement:**

Section 4 – Standards of Investment Performance was revised in order to incorporate investment terminology and guidelines adopted by most other SIB clients in recent years. These changes will provide a consistent time frame for evaluating investment performance (of 5-years), introduce a new performance metric (risk adjusted excess return), and clarify that investment risk, as measured by standard deviation, is allowed to exceed the policy benchmark by an agreed upon margin.

These changes are similar to the revisions made to the investment policy statements of WSI last month and PERS, TFFR and the Legacy Fund over the last five-years

RIO's Recommendation:

RIO requests the SIB accept the following FargoDome board recommended Investment Policy Statement changes noting that no asset allocation changes are recommended at this time.

CITY OF FARGO - FARGODOME PERMANENT FUND
INVESTMENT POLICY STATEMENT

1. FUND CHARACTERISTICS AND CONSTRAINTS.

The City of Fargo has set aside excess sales tax collections intended for the operation and capital maintenance of the FargoDome in the FargoDome Permanent Fund (Fund). This fund is intended to provide financial resources necessary to for the ongoing upkeep of this large City owned facility over a long term time horizon.

2. RESPONSIBILITIES AND DISCRETION 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 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.

3. 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.

4. STANDARDS OF INVESTMENT PERFORMANCE.

The Fund'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 the 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.

5. 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.

6. 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.

7. 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.

Approved by:

CITY OF FARGO

____
Kent Costin
Director of Finance
Date: ____________________

STATE INVESTMENT BOARD

____
David Hunter
Executive Director
Date: ____________________

FARGODOME

____
David Suppes
President, Fargo Dome Authority
Date: ____________________

Approved by the City of Fargo: 2-28-17

Approved by the NDSIB:

AGENDA ITEM IV.A.

INFORMATIONAL

TO:	State Investment Board
FROM:	Dave Hunter (on behalf of SIB Executive Review Committee)
DATE:	March 21, 2017
SUBJECT:	**Executive Review Committee Update**

In accordance with SIB Governance Manual section C-4 on **Monitoring Executive Performance**, the SIB Chair appointed a three-member executive review committee for the annual performance review of the ED/CIO (at our February board meeting). The Executive Review Committee (ERC) includes Yvonne Smith, as Chair, along with Cindy Ternes and Mike Sandal.

In further accordance with section C-4 of the SIB Governance Manual, "Each March, the board will conduct a formal evaluation of the executive director/investment officer. This evaluation will be based on the *Ends* and Compliance with *Executive Limitations*". To support this evaluation, the ERC has slightly revised the ED/CIO survey used in prior years and intends to electronically distribute the revised survey to each SIB member on or before April 3, 2017. The Committee kindly requests board members to complete the 30-question survey by no later than (Good Friday) April 14, 2017.

Terra Miller Bowley, Supervisor of Audit Services, is administering the survey (using survey monkey) on behalf of the ERC. Terra will also be compiling survey results on April 17 in advance of our next Executive Review Committee meeting on April 18, 2017. Given this timeline and the desire to share the survey results with the SIB at our April 28 meeting, it is imperative that board members complete the survey by April 14, 2017.

At the end of ED/CIO survey, each board member will also be requested to complete a three question survey on the ED/CIO survey process. The ERC specifically requests input with regards to any questions which were difficult or additional questions which can be considered in the future.

The ERC and ED/CIO sincerely thank the SIB members for their thoughtful input and guidance on this important performance evaluation tool.

POLICY TYPE: BOARD-STAFF RELATIONSHIP

POLICY TITLE: *MONITORING EXECUTIVE PERFORMANCE*

Monitoring executive performance is synonymous with monitoring organizational performance against board policies on *Ends* and on *Executive Limitations*. Any evaluation of the executive director's performance, formal or informal, may be derived only from these monitoring data.

1. The purpose of monitoring is simply to determine the degree to which board policies are being fulfilled. Information which does not do this will not be considered to be monitoring. Only a minimum amount of board time as necessary will be devoted toward monitoring so that meetings can best be used to create the future rather than to review the past.

2. A given policy may be monitored in one or more of three ways:

   A. Internal report: Disclosure of compliance information to the board from the executive director.

   B. External report: Discovery of compliance information by a disinterested, external auditor, inspector or judge who is selected by and reports directly to the board. Such reports must assess executive performance only against policies of the board, not those of the external party unless the board has previously indicated that party's opinion to be the standard.

   C. Direct board inspection: Discovery of compliance information by a board member, a committee, or the board as a whole. This is a board inspection of documents, activities, or circumstances directed by the board which allows a "prudent person" test of policy compliance.

3. The board will monitor each *Ends* and *Executive Limitations* policy according to the following frequency and method:

   Quarterly internal reports for policies:

   A-2 Staff Relations
   A-4 Budgeting
   A-5 Financial Condition
   D-3 Investment Services
   D-4 Investment Performance

   Annual external reports for policies:

   A-2 Staff Relations
   A-4 Budgeting
   A-7 Asset Protection
   D-3 Investment Services
   D-4 Investment Performance

Annual internal reports for policies:

A-1 General Executive Constraint
A-3 Relating to Public and Government
A-8 Compensation and Benefits
A-9 Conflict of Interest

4. The Executive Director will submit required monitoring reports at regular meetings of the board. The board will act on those reports by voting on one of the following motions:

   A. A motion to accept the report.

   B. A motion to conditionally accept the report, with a statement of the revisions or additional information that is necessary for the report to be accepted without condition.

   The internal audit staff will be responsible for preparing an annual summary of the board's action concerning required reports submitted by the Executive Director, and the summary will be made available as a part of the formal evaluation of the Executive Director.

5. Each March the board will conduct a formal evaluation of the executive director/investment officer. This evaluation will be based on accomplishments of *Ends* and *Compliance with Executive Limitations.*

6. At the February board meeting, the chairperson will appoint a three-member committee to review the board's evaluation and make a recommendation to the full board concerning salary for the executive director/investment officer.

   In making its recommendation, the committee will consider job performance as evidenced by the annual summary of the periodic monitoring reports, the Retirement and Investment Office budget status, the annual Public Pension System's Compensation Survey, the annual National Association of State Investment Officer's survey, the legislature's approved salary increases for state employees, the North Dakota market compensation for comparable positions, and other data or information considered relevant by the committee.

   The committee's recommendation will be placed on the May board meeting agenda for possible action by the board. Final action by the board will be accomplished no later than the June board meeting.

Policy Implemented: June 23, 1995
Amended: November 21, 1997; June 25, 1999; November 19, 1999; January 28, 2000; February 25, 2000; February 23, 2001; September 26, 2014.

SIB Legislative Update
March 17, 2017

BILL NO.	**DESCRIPTION**	**INTRODUCED BY:**
HB 1022	**RIO Budget**	**Appropriations Committee**

HB 1022 contains the 2017-19 budget authority and continuing appropriations for the Retirement and Investment Office (RIO) administrative expenses for operating the retirement program for the TFFR Board and the investment program for the SIB.

The House amended RIO's budget and reduced it from $5.41 million to $5.27 million. Operating Expenses were cut by 20% or $200,000 and Contingencies were cut by 37% or $30,000. Salaries and Wages increased by 2% or $89,000 due to higher health care costs ($54,000) and cost to continue salary increases implemented in our current biennium. The House approved the amended bill by vote of 81-10.

The Senate Appropriations Committee conducted a hearing on Engrossed HB 1022 on 3/7 which was attended by Connie, Fay and Dave. Dave presented testimony (attached) which appeared to be well received by the Committee. RIO requested that the Senate add back $87,750 for temporary salaries ($8,541) and to support critical staff and board travel and professional development ($79,209). This request represents a 1% decrease to RIO's current 2015-17 budget, and a 1.7% increase to the House approved 2017-19 budget.

HB 1022 RIO Budget Request to Senate

	Current 2015-17 Base Level Biennium Budget	*House Approved Budget for 2017-19 HB 1022*	*RIO's Amend-ment Request to Senate*		*RIO Budget Request Amendment to Senate (c)*	% Change to House
Salaries and wages	4,340,551	**4,429,510**	**8,541**	**a**	**4,438,051**	**0.2%**
Operating expenses	990,874	**790,027**	**79,209**	**b**	**869,236**	**10.0%**
Capital assets	-	**-**	**-**		**-**	**-**
Contingencies	82,000	**52,000**	**-**		**52,000**	**-**
Total special funds	**5,413,425**	**5,271,537**	**87,750**		**5,359,287**	**1.7%**
FTE positions	*19*	*19*	*-*		*19*	**-**

Summary of Changes to House Approved Budget:

(a) Salary and wages increased by $8,541 for Temporary Salaries.

(b) Operating Expenses increased by $79,209 to maintain "critical" staff and board travel and professional development.

(c) RIO's request of $5,359,287 is a 1% decrease to our 2015-17 budget and a 1.7% increase to the House approved bill.

No action has been taken on the bill.

BILL NO.	DESCRIPTION	INTRODUCED BY:
HB 1175	**SIB Membership**	**Rep. Kreidt, Delzer, Devlin, Kempenich and Sen. Klein**

HB 1175 adds two members to the SIB, one selected by the House Majority Leader and one selected by the Senate Majority Leader, thereby increasing the number of SIB members to 13. The House approved the bill by a vote of 71-22.

The Senate Political Subdivisions Committee held a public hearing on HB 1175 on 3/3/17. Rep. Devlin introduced the bill and indicated the main reason for the bill was to involve legislators on the investment board due to the amount of state funds invested by the SIB, particularly the Legacy Fund. No others testified in favor of the bill. Testifying in opposition to the bill was RaeAnn Kelsch (on behalf of ND Council of Educational Leaders). Dave Hunter (SIB) testified in a neutral position and provided information about the SIB members, responsibilities, and process. Testimony is attached. Besides Dave and Fay, others in attendance included Insurance Commissioner Godfread, and representatives from NDCEL, ND United, and NDRTA.

On 3/10, the Senate Political Subdivisions Committee gave the bill a "do not pass" recommendation by a vote of 6-0. **On 3/13, HB 1175 failed in the Senate by a vote of 14-31.**

OTHER BILLS OF INTEREST:

BILL NO.	DESCRIPTION	INTRODUCED BY:
HB 1023	**PERS Budget**	**Appropriations Committee**

HB 1023 is the PERS appropriations bill. In addition to PERS budget items, the House approved amendments to the bill which would change the governance of PERS. These amendments make the PERS Retirement Board advisory and change its membership; create a state agency called the PERS Office; provide that the Governor appoint an Executive Director of the PERS Office; modify the membership on the SIB to include two members of the PERS advisory board and the PERS Office executive director or designee; and add three nonvoting members of the PERS advisory board to the interim Legislative Employee Benefits Programs Committee. The actuarial and technical analysis determined that there would be no actuarial impact on the PERS plan, however the amendments would have an impact on the governance of PERS, as well as affect the governance of the SIB and RIO. The House approved the amended bill by a vote of 76-15.

The Senate GVA Committee held a hearing on Engrossed HB 1023 on 3/2. House Majority Leader Al Carlson presented the House amendments to the PERS budget bill, and indicated the possibility of additional amendments to separate the insurance and retirement aspects of the bill due to fiduciary concerns brought forward. Rep. Kasper also testified in favor of the bill. Testifying in opposition (or no position) on various sections of the bill were NDPERS Executive Director Sparb Collins, ND United President Nick Archuleta, Senator Dever, and a retired public employee. Concerns brought up by those testifying in opposition to the bill was the process by which the amendments were added, lack of time to study the implications of the amendments, lack of member and employer input (including political subdivisions), and the need to study such significant changes relating to governance and fiduciary oversight of the PERS program from a multi-trustee to a sole trustee structure.

The Senate Appropriations Committee scheduled a hearing for HB 1023 on 3/20 at 9:00am.

BILL NO.	DESCRIPTION	INTRODUCED BY:
HB 1088	**Risk Management - Data Breach Response Costs**	**OMB**

HB 1088 would allow the State's Risk Management fund to cover state agencies for certain 1st party costs associated with a data breach including notification of affected parties, credit counseling, etc. A related OMB bill also includes special fund appropriation authority for self-insurance remediation costs, i.e. fixing the issues related to hardware and software. Please be reminded that RIO had originally included funds in an optional budget package for cyber insurance.

The House approved the bill by a vote of 91 – 1. The Senate has also approved the bill by a vote of 46-0. The Governor signed the bill on 3/2.

HB 1155 – Transfers and Expenditures from Budget Stabilization Fund
Introduced by: Representatives Delzer, Bellew, Carlson, Monson and Streyle

http://www.legis.nd.gov/assembly/65-2017/documents/17-0101-02000.pdf
http://www.legis.nd.gov/assembly/65-2017/bill-actions/ba1155.html

HB 1155 changes the rules which govern transfers and expenditures from the budget stabilization fund to the general fund and increases the Budget Stabilization Fund to 15% of the current biennial state general fund budget (versus 9.5% currently). *(HB 1154 was incorporated into HB 1155 such that HB 1154 failed to pass with a vote of 5-84 on 2/10.)*

The House Appropriations Committee scheduled a Committee hearing for HB 1155 on 1/18. On 2/7 the Committee gave a "do pass" recommendation to HB 1155 by a vote of 19-0. On 2/10, Engrossed HB 1155 passed the House with a vote of 89-2 (and the emergency clause was declared carried).

On 2/20, HB 1155 was read by the Senate and referred to its Appropriations Committee. **The Senate Appropriations Committee scheduled a hearing for HB 1155 on 3/22 at 8:30am.**

House Bill 1022

North Dakota Retirement and Investment Office (RIO)
Testimony to the Senate Appropriations Committee
David Hunter, Executive Director/CIO

March 7, 2017

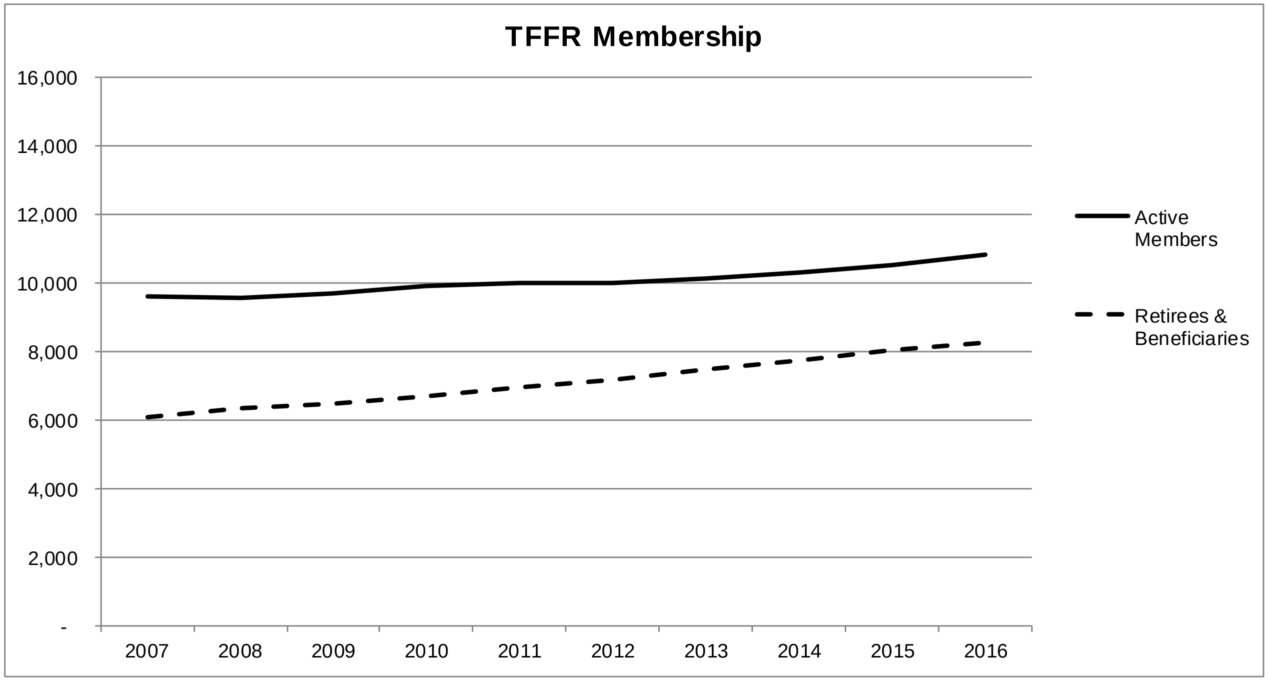
RIO Programs Overview

RIO was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of two long-standing state programs – the retirement program of the Teachers' Fund for Retirement (TFFR) and the investment program of the State Investment Board (SIB). Since 1989, RIO's client base has increased significantly as TFFR membership has increased by over 21% in the last decade (from 15,700 to 19,000), while the number of investment funds being managed by the SIB has grown from two to 24. **SIB client investments have grown sharply in recent years and nearly doubled from $6 billion at June 30, 2012, to over $11.5 billion as of January 31, 2017.** Despite this growth, SIB and TFFR customer satisfaction survey ratings remain strong ranging from 3.6 to 3.8 on a 4.0 scale (roughly equivalent to an A- letter grade). It is also important to note that the SIB and RIO have been diligent with regards to fees and expenses noting our overall investment fee ratio declined from 0.65% in fiscal 2013 to 0.42% in fiscal 2016. **Based on more than $10 billion of investments, this 0.23% expense reduction translates into over $23 million of annual fee savings.** Fee reduction initiatives have also improved investment returns. As such, **RIO is pleased to report that every single one of our SIB clients have beat their respective performance benchmarks for the 5-years ended December 31, 2016. This above benchmark performance increased the Legacy Funds' net investment income by $60 million, from $240 million to over $300 million, in 2016. During the last 5-years, RIO estimates that actual investment returns of our SIB clients have surpassed their respective performance expectations by over $250 million.** This strong return on investment is noteworthy given that all of RIO's fees and expenses are charged backed to their clients and have minimal impact, if any, on our general funds since **RIO is a Special Fund agency and receives no General Fund appropriation**. All appropriated expenditures for TFFR are paid from contributions collected from members and employers and from invested assets/earnings. All appropriated expenditures for SIB are allocated directly to the client funds and paid out of their invested assets/earnings.

- **Teachers' Fund for Retirement (TFFR)**

TFFR is a qualified defined benefit public pension plan. The program is managed by a seven member board of trustees which consists of the State Treasurer, State Superintendent, and five active and retired teachers and administrators appointed by the Governor.

The plan covers North Dakota public school teachers and administrators. Benefit funding comes from member and employer contributions and investment earnings. During the past decade, active membership has increased 12.6% from 9,600 to over 10,800 participants, while retirees and beneficiaries have increased 35.7% from less than 6,100 to over 8,200.



For Fiscal Year 2016 there were 214 participating TFFR employers comprised as follows:

School Districts	176
Special Ed Units	19
Vocational Centers	5
Counties	6
State Agencies/Institutions	5
Other – Closed groups	3
2015-16 Total Employers	**214**

The approximate $3 million requested in the RIO budget relating to the TFFR program includes salaries, benefits and administrative overhead costs for 12.05 Full Time Equivalents (FTEs) who manage the day-to-day operations of the fund and deliver high quality services and outreach programs to members and employers. Examples of activities included in the administration of the TFFR program are detailed in the following table, based on the fiscal year ended June 30, 2016.

Activity	# of Members
Monthly collection of contributions from 214 Employers	10,813
Maintenance of Membership Records	21,442
New Retirement & Disability Claims Processed	359
Deaths Processed	207
Refunds/Rollovers Processed	275
Service Purchase Inquiries Processed	232
New Member Enrollments Processed	1,148
Monthly Benefit Payments Processed	8,249
Educational Outreach Programs Attended	973

Additional administrative activities include periodic newsletters for both active and retired members, maintenance of the website, maintenance of the retirement administration software system that houses all of the TFFR member data, internal audits to verify accuracy of contributions and benefit payments, and staff training and education to ensure all necessary regulatory and financial reporting requirements are being met.

Benefit payments to retirees or their beneficiaries totaled $180.6 million in fiscal year 2016. Another $5.4 million was paid out in refunds of account values. These payments, in addition to amounts paid to actuarial, investment and other consultants, are included in a continuing appropriation under ND Century Code section 15-39.1-05.

State Investment Board (SIB)

The SIB oversees the investment management of over $11 billion in assets for 24 clients including seven pension funds and 17 other non-pension funds. The following table shows the fair market value of assets by fund as of December 31, 2016.

Fund Name	Market Values as of 12/31/16 [1]
Pension Trust Fund	
Public Employees Retirement System (PERS)	**2,563,018,948**
Teachers' Fund for Retirement (TFFR)	**2,147,574,445**
City of Bismarck Employees Pension	85,523,410
City of Grand Forks Employees Pension	58,008,561
City of Bismarck Police Pension	35,374,745
Grand Forks Park District	5,871,117
Subtotal Pension Trust Fund	**4,895,371,226**
Insurance Trust Fund	
Workforce Safety & Insurance (WSI)	**1,825,110,509**
Budget Stabilization Fund	103,537,937
PERS Group Insurance Account	36,834,347
City of Fargo FargoDome Permanent Fund	33,312,203
State Fire and Tornado Fund	22,545,969
Petroleum Tank Release Compensation Fund	6,842,054
State Risk Management Fund	6,246,768
State Risk Management Workers Comp Fund	5,748,688
ND Association of Counties (NDACo) Fund	4,164,771
State Bonding Fund	3,292,172
ND Board of Medicine	2,258,841
Insurance Regulatory Trust Fund	1,477,615
Bismarck Deferred Sick Leave Account	661,093
Cultural Endowment Fund	406,389
Subtotal Insurance Trust Fund	**2,052,439,356**
Legacy Fund	**4,189,334,992**
PERS Retiree Insurance Credit Fund	106,879,605
Job Service of North Dakota Pension	95,685,427
ND Tobacco Prevention and Control Trust Fund	50,509,542
Total Assets Under SIB Management	**11,390,220,148**

[1] *12/31/16 market values are unaudited and subject to change.*

- **SIB client assets totaled approximately $11.4 billion as of December 31, 2016, based on unaudited valuations.**
- **The Pension Trust posted a net return of 7.06% in the last year. During the last 5-years, the Pension Trust generated a net annualized return of 8.48%, exceeding the performance benchmark of 7.86%.**
- **The Insurance Trust generated a net return of 6.05% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.18%, exceeding the performance benchmark of 3.64%.**
- **The Legacy Fund generated a net investment gain of 8.15% for the year ended December 31, 2016, exceeding its performance benchmark. Since inception, the Legacy Fund has generated a net annualized return of 3.43% (over the last 5 ¼ years) exceeding the performance benchmark of 2.52%.**
- **SIB client assets grew by nearly $600 million (or 5.5%) in the last year** largely due to Legacy Fund tax deposits of $365 million plus Legacy Fund net investment earnings of $300+ million.

The 11-member State Investment Board includes the Lt. Governor, State Treasurer, State Insurance Commissioner, State Land Commissioner, Workforce Safety & Insurance designee, three PERS board members, and three TFFR board members. All the funds are invested in accordance with the "Prudent Investor Rule".

Investment guidelines and asset allocations are determined by the governing bodies of the individual funds (with assistance from consultants and/or RIO staff) and then turned over to the SIB for implementation. The SIB selects investment managers to manage different types of portfolios within each asset class with the goal of maximizing return within the clients' acceptable risk levels. Similar client funds are pooled together when possible to achieve efficiencies in staff monitoring and to receive lower fees from investment managers.

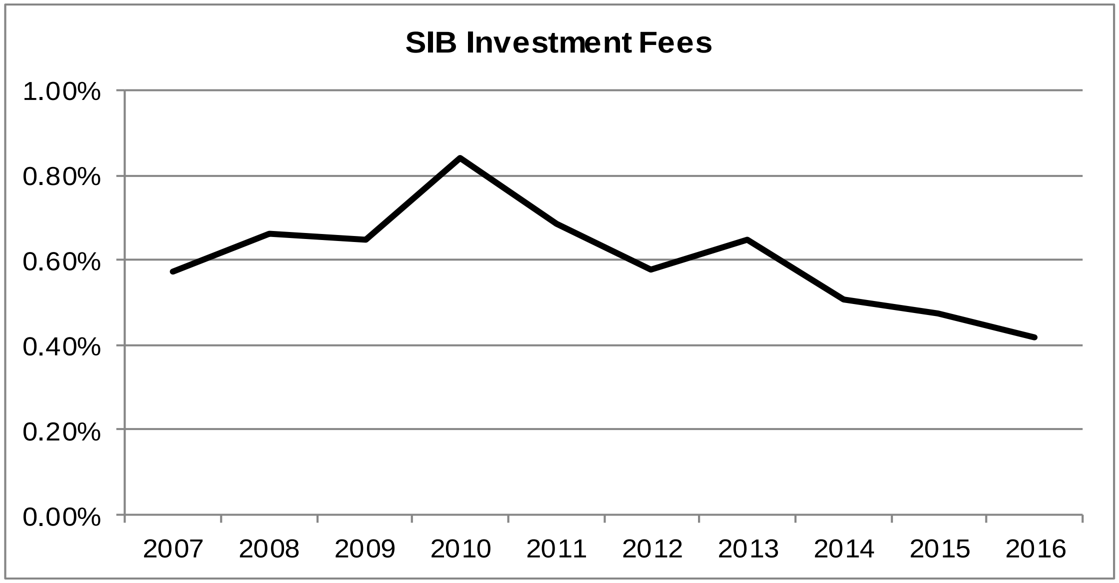
The approximate $2.3 million requested in the RIO budget relating to the SIB investment program includes salaries, benefits and administrative overhead for the 6.95 FTEs who are responsible for the day-to-day operations of the program.

The staff of RIO administers the day-to-day operations of the investment program by assisting client funds with asset/liability studies; conducting investment manager searches; monitoring guidelines and asset allocations of each client fund; managing the consultant, custodian and investment manager relationships; conducting initial and continuing due diligence on the investment managers; researching new investment and risk management options; and maintaining separate monthly accounting and investment performance data for all client funds. Statistics regarding the number of investment clients/managers/accounts, etc., are shown in the following table.

Client Funds	24
Asset Class Pools/Groups	31
Investment Manager Relationships	36
Investment Manager Accounts	103
Custodian Banks	2
Investment Consultants	3

The SIB has continuing appropriation authority under ND Century Code section 21-10-06.2 to pay for investment related costs of the program such as investment management fees, custodial fees, performance measurement fees, and fees associated with manager searches and onsite reviews of investment managers. These costs are allocated directly to the client funds affected by the expense and paid out of invested assets/earnings.

We are happy to report that investment fees have continued to decrease, from 0.47% (47 basis points) in fiscal 2015 to 0.42% (42 basis points) for the fiscal year ended June 30, 2016. This 5 basis point decrease in fees on $11 billion in assets equates to an annual savings of approximately $5.5 million. The following chart shows the downward trend in investment fees over the past few years.



RIO Budget Request for HB 1082: Executive Budget

A comparison of RIO's Original Budget Request as presented in House Bill 1082 is shown below in comparison to RIO's 2015-17 Base Level budget.

	TFFR	SIB	TOTAL REQUEST	BASE LEVEL	CHANGE
Salaries and Wages	$2,368,977	$2,136,450	$4,505,427	$4,340,551	$164,876
Operating Expenses	706,192	193,887	900,079	990,874	(90,795)
Capital Assets	9,000	0	9,000	0	9,000
Contingency	40,000	40,000	80,000	82,000	(2,000)
Totals	$3,124,169	$2,370,337	$5,494,506	$5,413,425	$81,081
FTEs	12.05	6.95	19	19	0

As you can see, the major component of RIO's base level budget is salaries and wages. That component makes up 80.2% of our entire base level budget. Within the operating expenses line, the major components are data processing from ITD, lease of office space and IT contractual services (mainly for the retirement administration software system for the TFFR program). Those three line items make up over 50% of the operating expenses request.

We were asked to compare RIO's Current 2015-17 Base Level Budget to the Executive Recommendation Budget (HB 1082) and highlight the changes versus the Original RIO Budget Request as shown below.

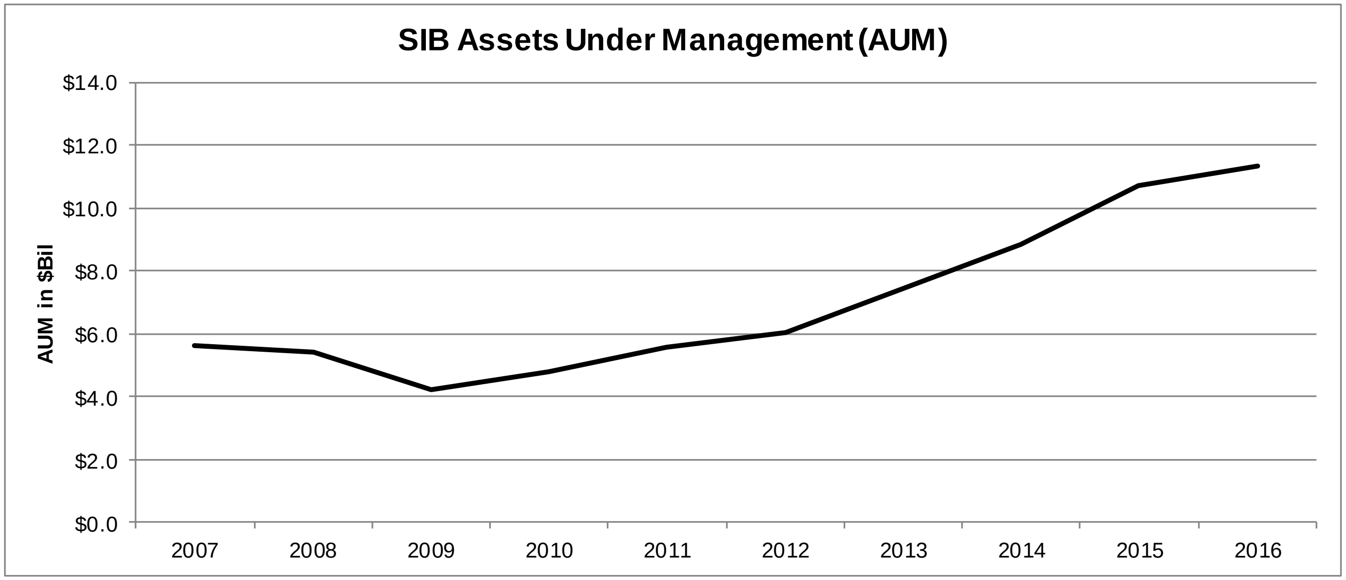
HB 1082 - RIO Budget		Adjustments		
HB 1082 Summary: Salaries up 4% Operating cut 9% Contingency cut 2%	**Current 2015-17 Base Level Biennium Budget**	Original RIO Request	1st Executive Budget	**HB 1082 RIO Budget Request to House**
Salaries and wages	4,340,551	91,409	73,467	4,505,427
Operating expenses	990,874	(90,795)	-	900,079
Capital assets	-	9,000	-	9,000
Contingencies	82,000	(2,000)	-	80,000
Total special funds	**5,413,425**	7,614	73,467	**5,494,506**
FTE positions	*19*	-	-	*19*

The budget request, as originally submitted, was essentially a hold even budget (slight increase of **$7,614**). After including the salary and benefit increases from the Executive Budget, RIO's original request represented a modest 1.5% increase or **$81,081** (the sum of **$7,614** and **$73,467**).

Salaries and Wages

In preparing this Special Fund budget request, RIO reviewed both programs to determine if there were any areas that could be reduced or discontinued. After careful consideration of the growth and importance of each program, it was determined that current staffing levels were needed. It was only recently (2011 and 2013 sessions) that the Legislature approved an increase to RIO investment staff; and the retirement program has not had an increase in staff in 15 years. RIO has worked hard to utilize technology and identify operational efficiencies in an effort to continue to increase the level of services without increasing staffing levels. The addition of two FTEs in the investment program and a **$50,000** salary equity increase package approved last session are the only major ongoing funding increases recently approved by the Legislator.

With the continued growth of the Legacy Fund and the addition of new client funds, assets under management (AUM) have grown significantly, and with it the need for quality investment staff to effectively manage the program. The following chart shows the growth in AUM the decade. Overall, assets have increased by $5.7 billion (over 100%) in 10 years, with the Legacy Fund contributing nearly $4.1 billion of that increase.



The Executive Budget recommended an increase of **$73,467** to the salaries and wages for continued full funding of health insurance premiums plus a 1% salary increase for the second year of the biennium. RIO is also requesting additional funding in salaries and wages that includes **$50,080** in costs to continue the salary increases from the second year of the current biennium and **$18,000** to fund a temporary intern position for both years of the biennium. RIO began an intern program during the summer of 2016 and found it to be very successful.

Operating Expenses

RIO staff next went line by line through the operating expenses for each program and was able to reduce the request for that category by nearly **$91,000** or 9.2%. That decrease is slightly offset by the request for $9,000 in the Capital Assets line for a new printer/copier machine. The current machine was purchased in 2007 and has produced more than one million copies.

The largest contributors to the decrease in the Operating line were Travel, IT Contractual Services, IT Equipment Under $5,000, and Professional Development.

Travel - It was determined that based on actual travel costs over the past few biennia, the travel line could be reduced by **$44,500** (32.5%). Travel costs include travel reimbursement for the following areas:

- Retirement Program Staff traveling around the state to provide retirement benefits counseling and training to TFFR members and employers.

- TFFR and SIB board members traveling from outside of Bismarck-Mandan to attend board meetings (approximately 12 TFFR meetings, 20 SIB meetings and 8 SIB Audit Committee meetings per biennium).

- TFFR and SIB board member travel to national conferences and/or other training opportunities to enhance their knowledge in retirement and investment related topics to better prepare them for their responsibilities on the boards.

- RIO staff travel to national conferences and/or other training opportunities related to their job duties within the agency.

In our effort to comply with the Former Governor Dalrymple's request to decrease spending, we looked carefully at the travel line item, which has been one of the larger line items within our operating expenses. Although RIO finds tremendous value in providing training/education opportunities to board members and staff in order to ensure they are fulfilling their fiduciary duties to their members and clients, we also understand that we need to be as frugal as possible during these challenging years for the state. Therefore we feel we can reduce spending for travel at this time while continuing to provide the necessary education to our board members and staff.

IT Contractual Services - The IT Contractual Services line is decreasing by **$21,708** or 12.0%. The majority of this decrease is in the maintenance contract for the retirement administration software system. Although RIO has chosen to decrease this line in light of current budget circumstances, it may need to be increased again in the future in order to continue to make the necessary updates needed to provide the services expected by our TFFR members and employers.

IT Equipment Under $5,000 - The IT Equipment Under $5,000 line is decreasing by 51.6% or **$21,290**. In the 2015-17 biennium RIO requested $11,290 in additional funding for video conferencing hardware and related items with the intention of investigating the use of this technology for board meetings and possibly virtual benefits counseling sessions. Due to a vacancy in our IT Division during the first year of the biennium, this initiative was pushed back in favor of higher priority projects. These funds were not used and are not being requested in the 2017-19 biennium in light of budget constraints. We hope to reinstate this initiative in the future as budgets allow. The remaining decrease of $10,000 relates to laptop computers, monitors and desktop printers that were replaced in the 2015-17 biennium according to replacement schedules and will not be needed in the 2017-19 biennium.

Professional Development - The Professional Development line is decreasing by **$12,940** or 23.3%. This decrease is related to the decrease in the travel line as we will not be sending board members and staff to as many national conferences and/or other training opportunities.

It is also important to note that RIO did recognize the need for, and requested funds in an optional package relating to, cyber risk insurance that was not included in the Executive Budget recommendation. We understand that funding for this type of insurance for all state agencies will be considered in another bill and therefore we are not asking for that funding to be reinstated in our request at this time. We fully support the idea of funding for this type of insurance to protect our members, our agency and the State of North Dakota against the rising threat of cyber theft.

Other items requested by the Committee

In the letter that was sent out with the agenda for this meeting, the Chairman asked that a few other items be addressed within this testimony. Most of those items are not directly applicable as RIO receives neither General Funds nor Federal Funds. I would like to point out, however, that RIO has not had any financial audit findings in the most recent audit (June 30, 2016) nor in any financial audits going back to 2010.

Budget presentations should include:

1. **RIO's 2015-17 budget and the effects of budget reductions approved during the August 2016 special legislative session on the 2015-17 budget.** Answer: RIO routinely seeks to control costs noting that we expect to be at least $150,000 below budget for 2015-17. In the last three fiscal years, RIO has reduced investment fees as a % of assets under management by 0.23% (from 0.65% in fiscal 2013 to 0.42% in fiscal 2016) thereby savings SIB clients over $23 million per year (assuming SIB client assets exceed $10 billion). Please note that RIO is a Special Fund agency. RIO's 2015-17 budget is compared to 2017-19 on page 12.

2. **RIO's estimated 2015-17 spending and the status of one-time funding items.** Answer: RIO estimates that actual spending will be at least $150,000 below budget due to various cost reduction initiatives (mostly relating to travel) and staff vacancies which were not filled until February of 2016. RIO did not have any one-time funding items.

3. **RIO's 2017-19 budget changes are compared to the current (adjusted) 2015-17 biennium appropriation level and 2017-19 one-time funding needs.** Answer: <u>RIO's 2017-19 budget is compared to our current 2015-17 budget on the next page</u>. RIO did not have any one-time funding needs for 2017-19.

4. **Please identify any changes in the level of federal funding to be received by RIO.** Answer: RIO does not receive federal funding.

5. **Please address each of the following four items:**
   a. **A listing of the proposed budget reductions identified by RIO to meet the Governor's 90% budget request deadline.** Answer: See response to item 1 on the prior page. Please note that RIO is a Special Fund agency.
   b. **A comparison of the optional adjustment requests made by RIO to those included in the executive recommendation.** Answer: Please refer to page 7.
   c. **A summary of changes recommended by Governor Burgum and those made by the House.** Answer: Governor Burgum's budget eliminated a 1% pay raise in year 2 ($22,000) and required staff to pay 5% of insurance premiums ($28,000). In order to meet additional budget cuts by OMB (on behalf of Governor Burgum), RIO eliminated our internship program ($18,000), reduced non-critical travel ($53,000), further reduced contingencies ($28,000) and removed a copier purchase ($9,000). Additional House reductions included temporary salaries ($8,500) and nearly all remaining travel and professional development ($57,000).
   d. **An itemized list of any changes that RIO is asking the committee to make to our budget. Answer:** Answer: Please refer to page 12.

<u>Conclusion</u>

In summary, the RIO budget request of $5.36 million for the 2017-19 biennium represents an approximate $54,000 (or 1%) decrease compared to our current 2015-17 base level budget. Although RIO receives no General Fund dollars, we understand the importance of joining with the rest of ND State government in doing more with less and providing the best services we can in the most efficient manner possible. We feel this budget will allow us to continue to provide the services our clients expect. Thank you for your time and consideration.

RIO’s Budget Request to Senate Appropriations Committee

HB 1022 RIO Budget Request to Senate

	Current 2015-17 Base Level Biennium Budget	House Approved Budget for 2017-19 HB 1022	RIO's Amend-ment Request to Senate		RIO Budget Request Amendment to Senate (c)	% Change to House
Salaries and wages	4,340,551	**4,429,510**	**8,541**	**a**	**4,438,051**	**0.2%**
Operating expenses	990,874	**790,027**	**79,209**	**b**	**869,236**	**10.0%**
Capital assets	-	**-**	**-**		**-**	**-**
Contingencies	82,000	**52,000**	**-**		**52,000**	**-**
Total special funds	**5,413,425**	**5,271,537**	**87,750**		**5,359,287**	**1.7%**
FTE positions	*19*	*19*	*-*		*19*	**-**

Summary of Changes to House Approved Budget:

(a) Salary and wages increased by $8,541 for Temporary Salaries.

(b) Operating Expenses increased by $79,209 to maintain "critical" staff and board travel and professional development.

(c) RIO's request of $5,359,287 is a 1% decrease to our 2015-17 budget and a 1.7% increase to the House approved bill.

HB 1082 - RIO Budget

Key Expense Cuts: Operating cut 12% Contingency cut 37%	Current 2015-17 Base Level Biennium Budget	Adjustments: Original RIO Request	Adjustments: 1st Executive Budget	HB 1082 RIO Budget Request to House	Adjustments: 2nd Executive Budget	Adjustments: Additional Cuts approved by the House (1)	House Approved Budget for 2017-19 HB 1022	RIO's Amend-ment Request to Senate		RIO Budget Request Amendment to Senate (c)	% Change to House
Salaries and wages	4,340,551	91,409	73,467	4,505,427	(67,376)	(8,541)	**4,429,510**	**8,541**	**a**	**4,438,051**	**0.2%**
Operating expenses	990,874	(90,795)	-	900,079	(53,090)	(56,962)	**790,027**	**79,209**	**b**	**869,236**	**10.0%**
Capital assets	-	9,000	-	9,000	(9,000)	-	**-**	**-**		**-**	**-**
Contingencies	82,000	(2,000)	-	80,000	(28,000)	-	**52,000**	**-**		**52,000**	**-**
Total special funds	**5,413,425**	7,614	73,467	**5,494,506**	(157,466)	(65,503)	**5,271,537**	**87,750**	**c**	**5,359,287**	**1.7%**
FTE positions	*19*	-	-	*19*	-	-	*19*	*-*		*19*	**-**

Original RIO Request of $7,614 included a $91,409 increase for costs to continue ($54,000), temporary salaries ($18,000) and Other ($20,000). Operating Expenses were cut by $90,795 due to decreased in travel ($45,000), IT ($43,000) and professional development ($12,940). Capital assets increased $9,000 for a new copier.

1st Executive Budget of $73,467 included pay raises and continued full funding of health insurance premiums.

2nd Executive Budget of ($157,466) eliminated pay raises and increased health care ($67,376), eliminated non-critical travel and professional development ($53,090). Capital assets were reduced ($9,000) by removing a copier purchase in 2017-19. Contingencies were reduced by $28,000 to approx. averages of the last 4 biennia.

Additional Cuts approved by the House of $65,503 included $8,541 for a further reduction of Temporary Salaries and a $56,962 elimination of all travel and professional development for RIO staff and SIB / TFFR board members.

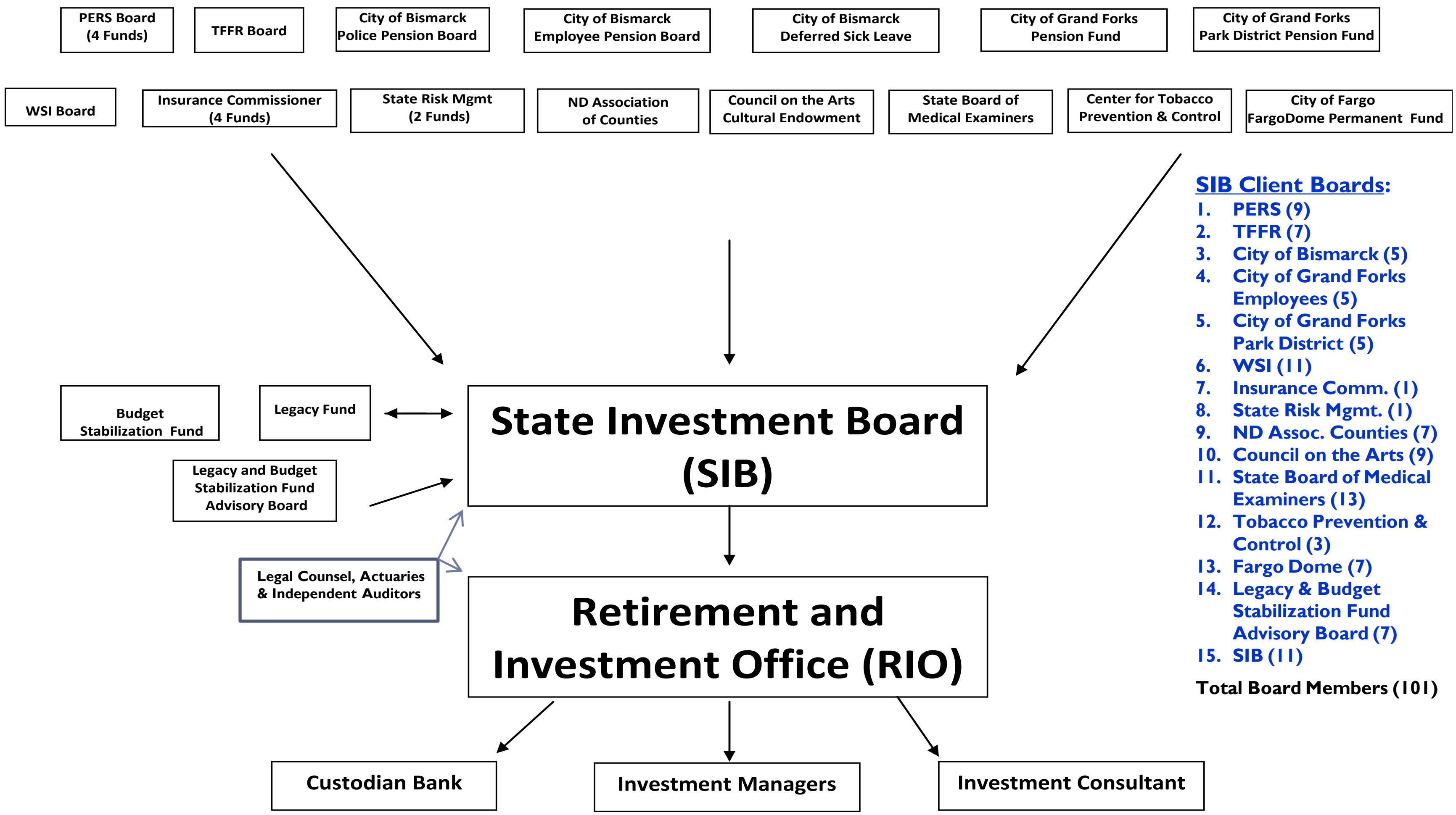
(1) Assumes state will continue to pay 100% of health insurance premiums. If not, an additional $28,485 could be reduced from salaries/wages.

(a) Salary and wages increased by $8,541 to properly reflect "costs to continue" after eliminating internship program (for Temporary Salaries).

(b) Operating Expenses increased by $79,209 to maintain "critical" staff and board travel and professional development.

(c) RIO's Budget Request of $5,359,287 represents a 1% decrease from RIO's current 2015-17 Budget and 1.7% increae to the House approved budget.

Overview of State Investment Board Process



SIB Client Boards:

1. PERS (9)
2. TFFR (7)
3. City of Bismarck (5)
4. City of Grand Forks Employees (5)
5. City of Grand Forks Park District (5)
6. WSI (11)
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15. SIB (11)

Total Board Members (101)

Legacy Fund – Actual vs Expected Results

Net Returns Exceed Policy Benchmark - December 31, 2016

LEGACY FUND	1 Yr Ended 12/31/2016	5 Yrs Ended 12/31/2016	1 Yr Ended 12/31/2016	Since Inception
	%	%	$	$
Actual Net Return	8.1%	3.6%	$300 million	$450 million
Expected Policy Benchmark Return	6.4%	2.6%	$240 million	$325 million
Excess Return (Actual > Expected)	1.7%	1.0%	$60 million	$125 million

Legacy Fund Policy Benchmark (Asset Allocation): 50% Equity (30% U.S./20% International), **15% Real Assets** (TIPS, Real Estate and Infrastructure) and **35% Bonds** noting the **Equity and Real Asset benchmarks were up 8.5% and Bonds were up 2.5% in 2016.**

Legacy Fund's Actual Net Return was 8.1% in 2016 exceeding the Expected Policy Benchmark of 6.4% by 1.7%. Net Investment Income (on a $ basis) was $300 million in 2016 including $240 million from asset allocation and Excess Return of $60 million from active management.

For the 5-Years Ended 12/31/16, Legacy earned a Net Return of 3.6% exceeding the Policy Benchmark of 2.6% and creating Excess Return of 1.0%. Legacy has earned $450 million since inception including $325 million based on asset allocation and Excess Return of $125 million.

Note: Interim returns as of December 31, 2016 are unaudited and subject to change.

Pension Trust Return & Risk Summary – **Dec. 31, 2016**

Returns: Every Pension client generated positive Excess Return for the 5-years ended 12/31/16.

Risk: Excess Return was achieved while adhering to prescribed risk metrics (e.g. within 115% of the Policy Benchmark the last 5-years) and with positive Risk Adjusted Excess Returns.

	Current FYTD 12/31/2016	1 Yr Ended 12/31/2016	3 Yrs Ended 12/31/2016	5 Yrs Ended 12/31/2016	Risk 5 Yrs Ended 12/31/2016	Risk Adj Excess Return 5 Yrs Ended 12/31/2016
PERS - $2.56 billion						
Total Fund Return - Net	4.19%	7.13%	4.50%	8.57%	5.6%	0.26%
Policy Benchmark Return	4.39%	7.19%	4.09%	7.90%	5.3%	
Excess Return	-0.19%	-0.06%	0.41%	0.67%	105%	
TFFR - $2.15 billion						
Total Fund Return - Net	4.14%	6.99%	4.48%	8.61%	5.6%	0.32%
Policy Benchmark Return	4.17%	6.95%	4.04%	7.90%	5.3%	
Excess Return	-0.04%	0.04%	0.44%	0.71%	105%	

1. **PERS & TFFR Returns approximated 7% for 1-year and 8.6% for the 5-years ended 12/31/16.**
2. **Active management enhanced PERS and TFFR income by over $100 million for the 5-years ended 12/31/2016. This is based on average invested assets of $4 billion x 0.50% of annual excess return = $20 million/year x 5 years = $100 million.**

Note: Current year returns are unaudited and subject to change.

The Policy Benchmark is approximately 57% Equity, 23% Bonds, 19% Real Assets and 1% Cash.

Non-Pension Trust Return & Risk Summary – **Dec. 31, 2016**

Note: Current year returns are unaudited and subject to change.

	Current FYTD 12/31/2016	1 Yr Ended 12/31/2016	3 Yrs Ended 12/31/2016	5 Yrs Ended 12/31/2016	Risk 5 Yrs Ended 12/31/2016	Risk Adj Excess Return 5 Yrs Ended 12/31/2016
WSI - $1.8 billion						
Net Investment Return	**2.51%**	**7.00%**	**5.06%**	**6.88%**	**3.5%**	**1.3%**
Policy Benchmark Return	**0.97%**	**4.84%**	**4.01%**	**4.86%**	**3.1%**	
Excess Return	**1.54%**	**2.15%**	**1.06%**	**2.02%**	**OK**	
Estimated Incremental Income: Last 1-Year =	***$35 million***	***Last 5-Years = $150 million***				
Budget Stabilization - $103 million						
Net Investment Return	**0.47%**	**2.36%**	**1.72%**	**1.90%**	**0.69%**	**0.8%**
Policy Benchmark Return	**-0.18%**	**1.20%**	**0.80%**	**0.62%**	**0.50%**	
Excess Return	**0.65%**	**1.16%**	**0.92%**	**1.28%**	**OK**	
Estimated Incremental Income: Last 1-Year =	***$5 million***	***Last 5-Years = $25 million***				

WSI = $1.5 billion x 2% = $30 million/year x 5 years = $150 million. Budget Stabilization = $400 million x 1.25% = $5 million/year x 5 years = $25 million.

Returns and Risk: Every Non-Pension Trust client generated positive "Excess Return" for the 5-years ended 12/31/16. These returns were achieved while adhering to reasonable risk levels which were within 1% of policy levels.

WSI's Policy Benchmark is approximately 53% Bonds, 25% Equities, 21% Diversified Real Assets and 1% Cash.

The Policy Benchmark for the Budget Stabilization Fund is 100% Short Term Fixed Income (High Quality S/T Bonds).

Client and SIB Responsibilities

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

RIO, Manager and Custodian Bank Responsibilities

Retirement and Investment Office (RIO) 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

Custodian Bank Responsibilities:

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

Other Important Responsibilities

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

RIO's Public Website

Investment performance for all SIB clients, including manager level returns and balances, are generally posted to RIO's website within 30 to 45 days after month-end. In addition, the following website links provide additional information relating to SIB governance, meeting materials and our audit committee.

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State Investment Board

Overview of SIB Members, Clients, Process and Responsibilities

HB 1175 - Informational Testimony

March 3, 2017

Dave Hunter, Executive Director/CIO

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

State Investment Board Member Update

The State Investment Board welcomed three new board members on December 15, 2016, including Lt. Governor Brent Sanford, Chief Deputy Attorney General Troy Seibel (PERS) and Insurance Commissioner Jon Godfread. The continuing board members include Mike Sandal (PERS) as Vice Chair, State Treasurer Kelly Schmidt, Rob Lech (TFFR) as Parliamentarian, Land Commissioner Lance Gaebe, Cindy Ternes (WSI designee), Mike Gessner (TFFR), Mel Olson (TFFR), Yvonne Smith (PERS). The SIB voted Lt. Governor Brent Sanford as SIB Chairman on January 27, 2017.

Overview of SIB Client Assets Under Management

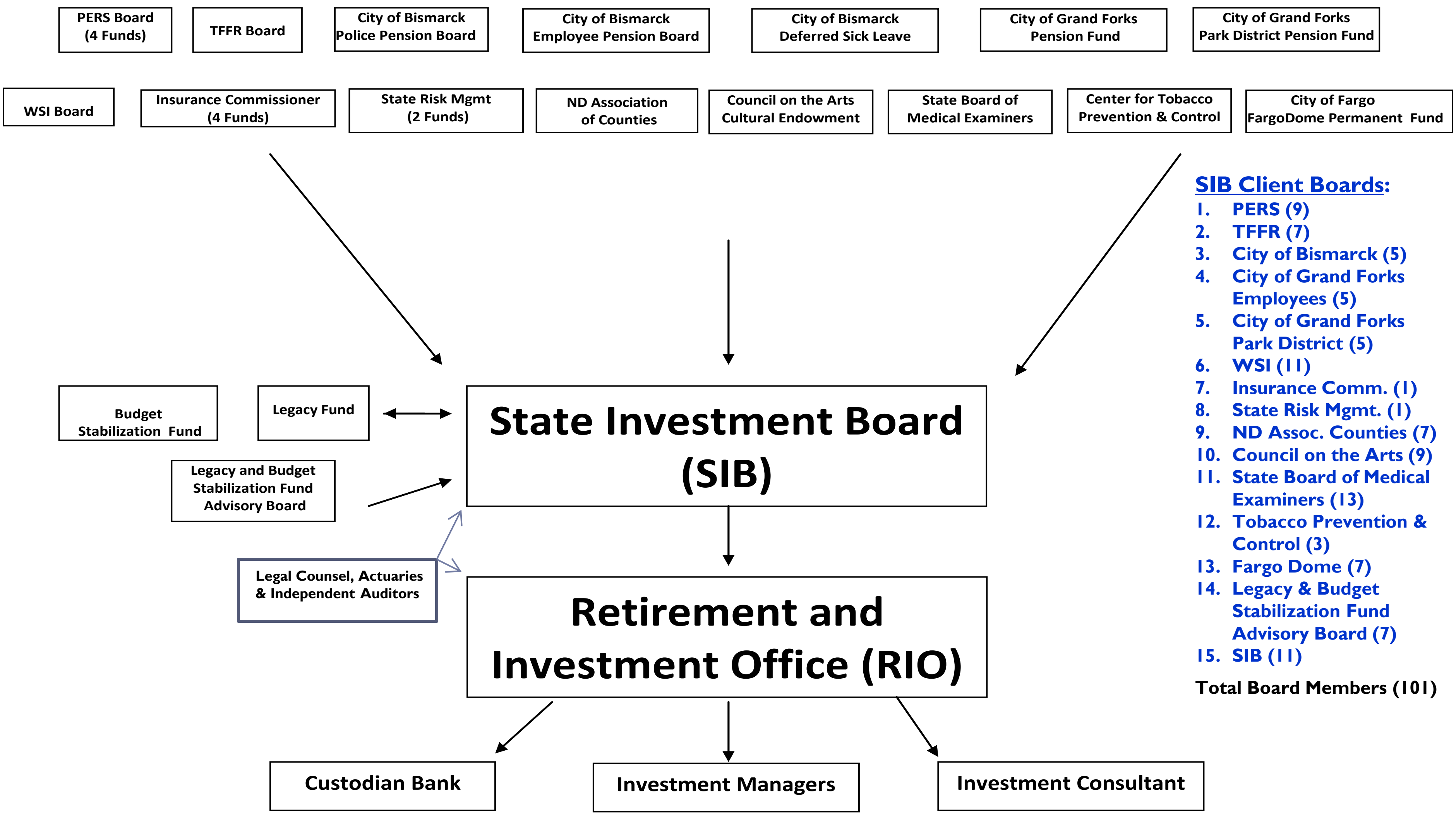
Fund Name	Market Values as of 12/31/16 [1]	Market Values as of 6/30/16 [2]	Market Values as of 12/30/15 [1]
Pension Trust Fund			
Public Employees Retirement System (PERS)	2,563,018,948	2,459,388,086	2,371,419,312
Teachers' Fund for Retirement (TFFR)	2,147,574,445	2,082,183,640	2,036,260,471
Job Service of North Dakota Pension			93,985,042
City of Bismarck Employees Pension	85,523,410	82,441,003	79,987,495
City of Grand Forks Employees Pension	58,008,561	57,975,758	55,321,141
City of Bismarck Police Pension	35,374,745	33,983,598	33,013,643
Grand Forks Park District	5,871,117	5,720,245	5,770,147
City of Fargo Employees Pension			1,512
Subtotal Pension Trust Fund	**4,895,371,226**	**4,721,692,330**	**4,675,758,763**
Insurance Trust Fund			
Workforce Safety & Insurance (WSI)	1,825,110,509	1,832,104,203	1,746,807,452
Budget Stabilization Fund	103,537,937	575,918,381	573,743,813
PERS Group Insurance Account	36,834,347	37,715,356	38,411,033
City of Fargo FargoDome Permanent Fund	33,312,203	38,782,721	38,489,674
State Fire and Tornado Fund	22,545,969	24,091,203	23,169,406
Petroleum Tank Release Compensation Fund	6,842,054	7,149,512	6,931,840
State Risk Management Fund	6,246,768	6,534,801	6,213,232
State Risk Management Workers Comp Fund	5,748,688	5,516,177	5,723,481
ND Association of Counties (NDACo) Fund	4,164,771	4,048,863	3,895,582
State Bonding Fund	3,292,172	3,296,372	3,187,067
ND Board of Medicine	2,258,841	2,208,667	2,156,260
Insurance Regulatory Trust Fund	1,477,615	1,085,836	1,057,824
Bismarck Deferred Sick Leave Account	661,093	642,265	615,610
Cultural Endowment Fund	406,389	386,452	372,713
Subtotal Insurance Trust Fund	**2,052,439,356**	**2,539,480,809**	**2,450,774,987**
Legacy Trust Fund			
Legacy Fund	4,189,334,992	3,809,485,177	3,522,475,430
PERS Retiree Insurance Credit Fund	106,879,605	101,623,224	96,046,927
Job Service of North Dakota Pension	95,685,427	96,588,333	
ND Tobacco Prevention and Control Trust Fund	50,509,542	54,366,538	46,438,466
Total Assets Under SIB Management	**11,390,220,148**	**11,323,236,410**	**10,791,494,573**

[1] *12/31/16 and 12/31/15 market values are unaudited and subject to change.*

[2] *6/30/16 market values as stated in the Comprehensive Annual Financial Report.*

- **SIB client assets totaled approximately $11.4 billion as of December 31, 2016, based on unaudited valuations.**
- **The Pension Trust posted a net return of 7.06% in the last year. During the last 5-years, the Pension Trust generated a net annualized return of 8.48%, exceeding the performance benchmark of 7.86%.**
- **The Insurance Trust generated a net return of 6.05% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.18%, exceeding the performance benchmark of 3.64%.**
- **The Legacy Fund generated a net investment gain of 8.15% for the year ended December 31, 2016, exceeding its performance benchmark. Since inception, the Legacy Fund has generated a net annualized return of 3.43% (over the last 5 ¼ years) exceeding the performance benchmark of 2.52%.**
- **SIB client assets grew by nearly $600 million (or 5.5%) in the last year** largely due to Legacy Fund tax deposits of $365 million plus Legacy Fund net investment earnings of $300+ million.

Overview of State Investment Board Process



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Legacy Fund – Actual vs Expected Results

Net Returns Exceed Policy Benchmark - December 31, 2016

SIB's Governance Manual states "SIB clients should receive investment returns consistent with their written investment policies and market variables. **This End is evaluated based on comparing each client's actual return to expected returns (based on its' board approved asset allocation policy) over 5 years."**

LEGACY FUND	1 Yr Ended 12/31/2016	5 Yrs Ended 12/31/2016	1 Yr Ended 12/31/2016	Since Inception
	%	%	$	$
Actual Net Return	8.1%	3.6%	$300 million	$450 million
Expected Policy Benchmark Return	6.4%	2.6%	$240 million	$325 million
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Note: Current Fiscal Year To Date and all returns as of December 31, 2016 are unaudited and subject to change.

AGENDA ITEM V.A.

INFORMATIONAL

To: State Investment Board

From: Dave Hunter, Executive Director / CIO

Date: March 17, 2017

Subject: Callan College Onsite – July 28, 2017

On behalf of the SIB, RIO has begun to extend invitations to attend our Callan College Onsite at the Bismarck State College Energy Center on July 28, 2017. Senior Callan professionals will be offering investment education on asset allocation, capital markets theory, investment policy statements and fiduciary responsibilities. This important Board Education should be interesting for most board trustees. The meeting will be divided into three 1.5 hour segments to allow attendees to select the educational topics they deem to be most worthwhile. The sessions are scheduled to commence at 8:30 am and conclude by 2:00 pm (with two 15 minutes breaks and 1 hour for lunch). The SIB intends to offer this educational opportunity to each of our 14 client boards in addition to the Legacy and Budget Stabilization Fund Advisory Board.