



From the Director's Chair

David Hunter
Executive Director/CIO

Investment Returns Decline 12% in Early-2020 after Gaining 18% in 2019

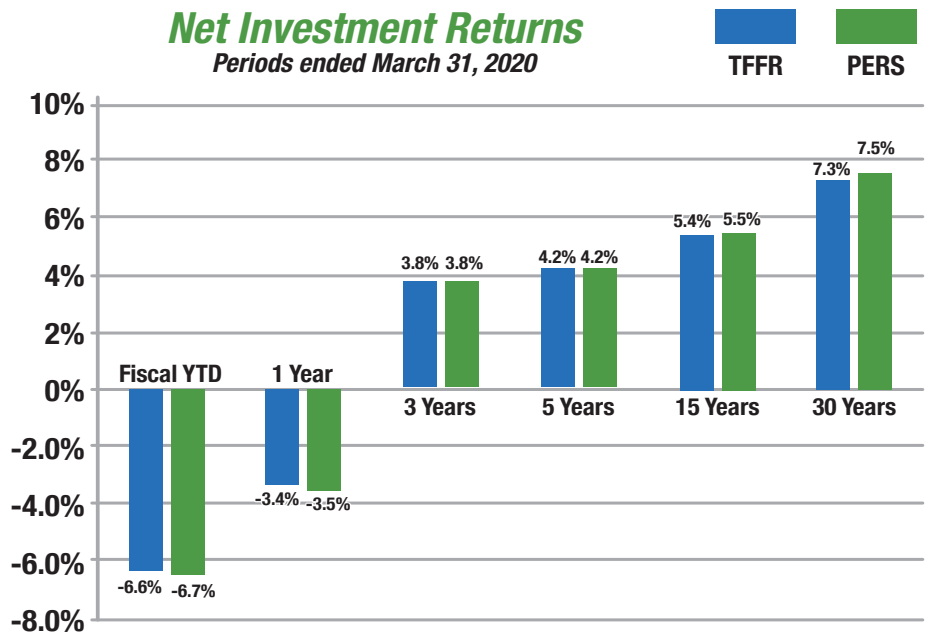
TFFR and PERS investment returns declined 12% in the first quarter of 2020 after gaining 18% in 2019. The double “black swan” events of the coronavirus pandemic and freefall in oil prices caused investment volatility to hit an all-time high during the first quarter of 2020 as the longest bull market in history (11+ years) was immediately followed by the fastest bear market correction on record (one month). As further evidence of this historic volatility, U.S. and global equities declined by 20% in the first quarter of 2020 after increasing by 30% in 2019.

In order to dampen the return volatility of public equities, TFFR and PERS maintain a diversified portfolio of investments including dedicated allocations to fixed income and real assets, such as real estate and infrastructure. As a result of this diversified approach, TFFR and PERS returns approximated roughly 60% of the global equity market returns in 2019 and early-2020. As example, this 60% ratio translated into a positive 18% net investment return for TFFR and PERS in 2019 noting the public equity markets were up approximately 30% last year (e.g. 60% x 30% = 18%). During the first quarter of 2020, this same 60% ratio translated into 12% of negative earnings for TFFR and PERS when the public equity markets were down 20% (e.g. 60% x -20% = -12%).

RIO is clearly disappointed with current year returns, but understands we are long-term investors and sharp equity market downturns are often followed by strong equity market recoveries. As such, we remain steadfast in our commitment to approved long-term strategic asset allocations and will remain fully invested during periods when actual returns far exceed expectations or fall far below expectations.

Net Investment Returns

Periods ended March 31, 2020



Note: Over the last 30-years, TFFR and PERS pension investments have earned approximately 7.3% and 7.5%, respectively, approximating their expected long-term return assumptions.

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Teachers' Fund for Retirement
State Investment Board

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Asset allocation is the primary driver of returns but active management is important

Successful active management occurs when the SIB selects a team of investment managers which outperform an underlying benchmark index. For the 5-years ended March 31, 2020, active management improved TFFR and PERS returns by an estimated 0.30% per annum. Based on \$5 billion of combined TFFR and PERS investments, this translates into \$75 million of incremental income for the two retirement plans in the last five years (e.g. \$5 billion times 0.30% = \$15 million x 5 years = \$75 million). TFFR and PERS plans have earned over \$1 billion of combined net investment income the last 5-years including an incremental \$75 million from the prudent use of active investment management.

	TFFR	PERS
Global Equity	58%	58%
-Public	52%	51%
-Private	6%	7%
Global Debt	23%	23%
-Investment Grade	16%	16%
-Other	7%	7%
Global Real Assets	18%	19%
-Real Estate	10%	11%
-Infrastructure/Timber	8%	8%
Cash	1%	0%
TOTAL	100%	100%



Annual Audit Completed

The 2019 financial statements of the North Dakota Retirement and Investment Office received an unqualified audit opinion from the independent audit firm of CliftonLarsonAllen, LLP. There were no exceptions, recommendations, or findings in the report. The final [2019 Audit Report](#) can be viewed from our website, www.nd.gov/rio.

2019 Annual Financial Report Available

The North Dakota Retirement and Investment Office [Comprehensive Annual Financial Report \(CAFR\)](#) has been published and may be viewed from our website, www.nd.gov/rio. This report is a complete review of the financial, investment and actuarial conditions of the Teachers' Fund for Retirement and State Investment Board.



Thank You, Fay!

After serving the State for 32 years including 20 years as our Deputy Executive Director/Chief Retirement Officer, Fay Kopp retired from RIO on April 30. We are incredibly grateful for the outstanding service, commitment and dedication Fay has provided to our agency and valued clients for over three decades.

