



From the Director's Chair

David Hunter
Executive Director/CIO

TFFR and PERS Investments Return 5.5% in Fiscal 2019

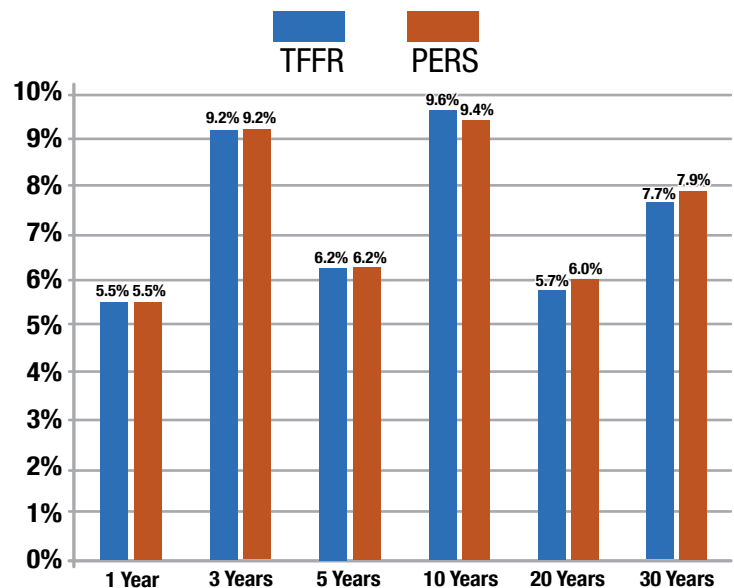
TFFR and PERS pension investments each earned 5.5% for the year ended June 30, 2019.

Strong U.S. equity and fixed income

returns were the primary performance drivers returning 8%, while international stocks were a drag on earnings in fiscal 2019. Investments in real assets performed in line with market expectations with real estate earning 6%, infrastructure up 5%, and timber gaining 4% over the last year. World equities up 3% and international stocks down 0.5% failed to meet market expectations in fiscal 2019.

TFFR and PERS each earned 6.2% per annum for the 5-years ended June 30, 2019. U.S. equities and real estate were the top performing sectors each gaining 10% per annum over the last 5-years followed by world equities up 6%, infrastructure up 5%, fixed income up 4%, and international equities up 3.5%. Timber and private equity returns were the worst performing sectors with timber down 0.1% per annum and private equity only returning 2% per annum over the last 5-years.

Net Investment Returns Periods ended June 30, 2019



Note: Over the last 30 years, TFFR and PERS pension investments have earned approximately 7.7% and 7.9% per year, approximating their expected long-term return assumptions.



State Investment Board Member Update

The SIB welcomed Representative Keith Kempenich (Legacy Fund) in July. Representative Kempenich is a non-voting member of the SIB. Voting members of the Board include Lt. Governor Brent Sanford, State Treasurer Kelly Schmidt, Insurance Commissioner Jon Godfread, Land Commissioner Jodi Smith, WSI Director Bryan Klipfel, Dr. Rob Lech (TFFR), Adam Miller, (PERS), Mel Olson (TFFR), Troy Seibel (PERS), and Yvonne Smith (PERS).

State Investment Board (SIB)

Lt. Governor Brent Sanford, Chair
Dr. Rob Lech, TFFR Trustee, Vice Chair
Jon Godfread, State Insurance Commissioner
Toni Gumeringer, TFFR Trustee
Adam Miller, PERS Trustee
Mel Olson, TFFR Trustee
Kelly Schmidt, State Treasurer
Troy Seibel, PERS Trustee
Jodi Smith, Land Commissioner
Yvonne Smith, PERS Trustee
Bryan Klipfel, Director, WSI
Rep. Keith Kempenich, Legacy Fund

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Asset allocation Primary Driver of Returns

Successful active management occurs when the SIB selects a team of investment managers which outperform an underlying benchmark index. For the 5-years ended June 30, 2019, active management improved TFFR and PERS returns by over 0.50% per annum. Based on \$5 billion of combined TFFR and PERS investments, this translates into over \$125 million of incremental income for the two retirement plans in the last five years (e.g. \$5 billion times 0.50% = \$25 million x 5 years = \$125 million).

TFFR and PERS plans have **earned over \$1.5 billion** of combined net investment income the last five years including an incremental \$125 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%

SIB Officers Elected

The State Investment Board (SIB) recently held its annual election of officers. The SIB chose the following members to continue to hold leadership positions for the 2019-20 fiscal year.



Lt. Governor Brent Sanford – Chairman



Dr. Rob Lech – Vice Chairman



Chief Deputy Attorney General Troy Seibel – Parliamentarian

SIB Audit Committee

The Audit Committee is created to fulfill fiduciary oversight responsibility of the North Dakota Retirement and Investment Office (RIO) and to serve as a communication link among the State Investment Board (SIB), RIO's management and Audit Services staff, independent auditors, and others.

The Audit Committee meets regularly to conduct essential business and contributes to the overall sense of fiscal security that RIO strives to maintain in its role as administrator of the SIB and Teachers' Fund for Retirement (TFFR) programs.



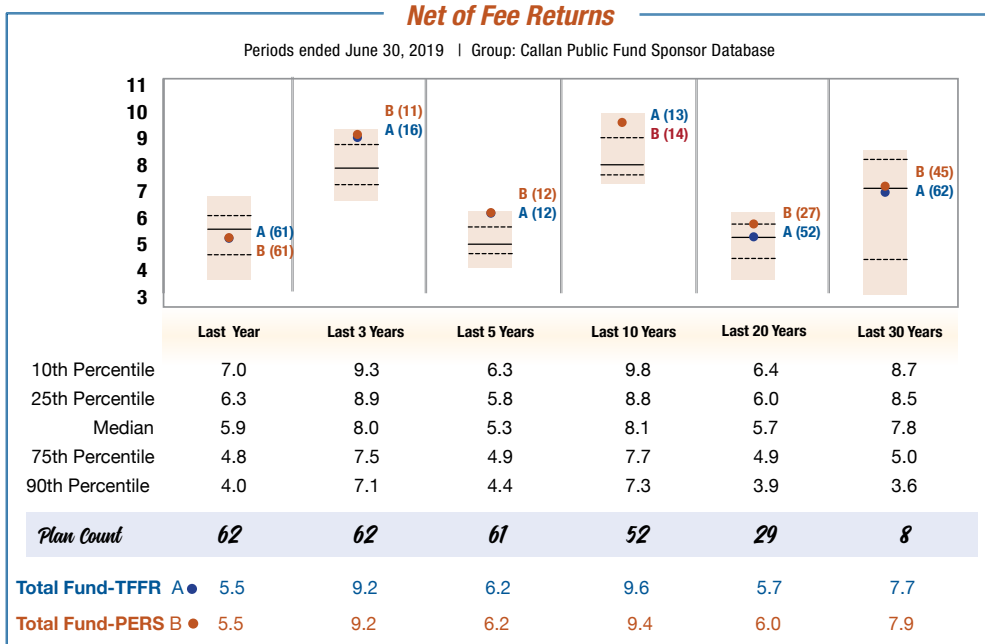
The SIB Audit Committee consists of five members – three from the SIB and two independent participants. Current members include Jody Smith, Land Commissioner, Yvonne Smith, representing PERS, and Dr. Rob Lech, representing TFFR. Jon Griffin, MBA, BBA, employed as Chief Operations and Risk Officer at Capital Credit Union, and Julie Dahle, MBA, CIA, CCBIA, employed as Senior Vice President and Chief Audit Officer at Choice Financial Group, serve as independent participants on the Committee. Yvonne Smith serves as Chair of the Audit Committee and Dr. Rob Lech serves as Vice Chair.

The SIB and RIO express their sincere gratitude to Mr. Joshua Wiens, CPA, who previously served three years on the Audit Committee. The SIB and RIO congratulate Ms. Julie Dahle on being newly appointed to the Audit Committee in July 2019.

Legacy Fund Transfers \$455 Million in 2019 (headline revised 10-28-19)

The Retirement and Investment Office transferred \$455 million of Legacy Fund earnings (as defined by North Dakota Century Code) to the General Fund in mid-2019. Since inception, the Legacy Fund has earned over \$1.4 billion of net investment income noting the portfolio was not fully invested in its current asset allocation of 50% equity, 35% debt and 15% real assets until 2015.

TFFR and PERS Returns Ranked in Top 25% of U.S. Plans over Last 5 Years



TFFR's gross investment return peer ranking is labeled A in the chart with the parenthetical number indicating its percentile ranking. PERS gross return percentile ranking is labeled B.

TFFR and PERS net returns of 5.5% last year were disappointing and below the median of 5.9%. However, TFFR and PERS net returns outperformed most other U.S. public pension plans for the 3, 5, and 10 year periods ended June 30, 2019. This peer group comparison is based on Callan's U.S. Public Pension Database for plans which report net investment returns. **The bar chart highlights investment returns of 50+ peers over the last decade noting that TFFR (A) and PERS (B) were both ranked in the 12th percentile, for the Last 5 Years.**

The SIB has historically placed greater emphasis on five year performance metrics as shorter time periods may be overly impacted by one or two quarters of abnormal returns which are not

reflective of long-term expectations. The count of pension plans of 29 and 8 for the rankings in the Last 20 and 30 Years are less meaningful than periods in which the pension plan count is larger. The above chart is based on unaudited valuations which are deemed to be materially accurate. RIO's financial results are audited annually with a June 30 fiscal year end.

SIB Client Investments June 30, 2019

**SIB clients earned over
\$780 million of net investment income
in the fiscal year ended
June 30, 2019.**

<u>Fund Name</u>	<u>Market Values as of 6/30/19⁽¹⁾</u>	<u>Market Values as of 6/30/18⁽²⁾</u>
Pension Trust Fund		
Public Employees Retirement System (PERS)	3,152,930,087	3,024,222,995
Teachers' Fund for Retirement (TFFR)	2,573,622,554	2,485,835,306
City of Bismarck Employees Pension	104,517,247	99,177,507
City of Grand Forks Employees Pension	68,419,301	63,633,206
City of Bismarck Police Pension	41,862,976	40,106,249
Grand Forks Park District	7,176,427	6,772,657
Subtotal Pension Trust Fund	5,948,528,592	5,719,747,919
Insurance Trust Fund		
Workforce Safety & Insurance (WSI)	2,065,400,398	1,923,117,660
Budget Stabilization Fund	118,707,130	113,603,777
City of Fargo FargoDome Permanent Fund	44,840,633	44,629,288
PERS Group Insurance Account	31,067,120	31,610,707
State Fire and Tornado Fund	22,761,457	23,066,784
ND Association of Counties (NDACo) Fund	6,333,052	5,910,661
Insurance Regulatory Trust Fund	6,218,781	5,637,791
Petroleum Tank Release Compensation Fund	5,994,235	6,167,272
State Risk Management Workers Comp Fund	5,187,879	5,356,549
State Risk Management Fund	4,909,623	4,956,217
State Bonding Fund	3,609,422	3,411,215
ND Board of Medicine	2,362,384	2,251,119
Bismarck Deferred Sick Leave Account	779,596	730,026
Lewis & Clark Interpretive Center Endowment Fund	751,763	703,284
Cultural Endowment Fund	475,311	448,825
Subtotal Insurance Trust Fund	2,319,398,784	2,171,601,175
Legacy Trust Fund		
Legacy Fund	6,580,759,920	5,577,319,109
PERS Retiree Insurance Credit Fund	135,962,521	126,605,207
Job Service of North Dakota Pension	97,285,279	95,690,469
ND Tobacco Prevention and Control Trust Fund	9,300,127	54,365,162
Total Assets Under SIB Management	15,091,235,223	13,745,329,041

⁽¹⁾ Market values are unaudited and subject to change.

⁽²⁾ 6/30/18 market values as stated in the Comprehensive Annual Financial Report.

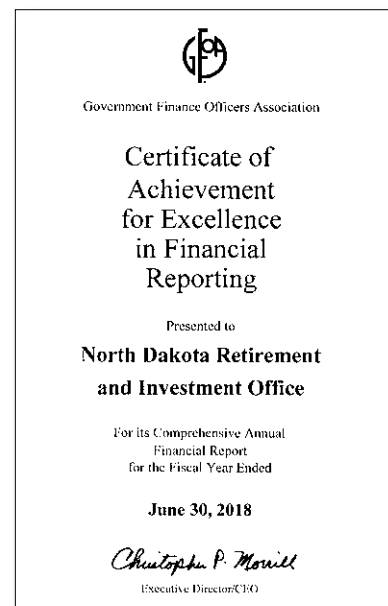


SIB Securities Litigation Committee

The Securities Litigation Committee was established in 2018 to assist the SIB in fulfilling its oversight responsibility to monitor securities litigation. The Committee helps to determine when an active role should be pursued regarding securities litigation affecting SIB investments. This Committee also serves as a communication link for the SIB, RIO's management team and staff, third party securities litigation firms, and others.

The Securities Litigation Committee consists of five members including two SIB members and RIO's legal counsel, Chief Financial Officer, and Executive Director. Chief Deputy Attorney General Troy Seibel serves as the Securities Litigation Committee Chair and Land Commissioner Jodi Smith serves as Vice Chair. The SIB and RIO express their sincere gratitude to State Treasurer Kelly Schmidt who previously served on this Committee as Vice Chair since its inception.

Achievement Award Received



The ND Retirement and Investment Office (RIO) is pleased to announce that for the 21st consecutive year its [Comprehensive Annual Financial Report \(CAFR\)](#) was recognized for achieving the highest standards in state and local government

accounting and financial reporting. The Government Finance Officers Association (GFOA) awarded its Certificate of Achievement for Excellence in Financial Reporting to ND RIO for its 2018 CAFR.