

2015 HOUSE INDUSTRY, BUSINESS AND LABOR

HCR 3041

2015 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee
Peace Garden Room, State Capitol

HCR 3041
2/23/2015
24247

- Subcommittee
 Conference Committee

Ellen Letang

Explanation or reason for introduction of bill/resolution:

A study consisting of a comprehensive review & analysis of the investment practices by the state & State Investment Board.

Minutes:

No Attachments

Chairman Keiser: Opens the hearing on HCR 3041.

2:45

Representative Kretschmar~District 28: We need to conduct a study for state investment practices. With billions of dollars in our funds, legislature should do a good comprehensive study of the investment practices of our state.

Representative Laning: How do you see the study being conducted, will we have to hire a consultant to oversee or do we have qualified personal amongst the legislatures?

Representative Kretschmar: I would hope we have qualified persons in our legislative assembly to conduct the study. We may need some outside help that would be one of the responsibilities for the committee it's assigned to determine.

Chairman Keiser: There is in our legislative interim a budget set aside for the study to hire a consultants.

Rick Clayburgh~President & CEO of the North Dakota Bankers Association: We support this study to have the legislature look at how we invest and investment opportunities for our dollars.

Representative Kasper: Has you association done any comparisons on investment results between outside money managers and the trust companies here in North Dakota?

Clayburgh: I want to make clear that we are not suggesting that dollars be turned over to our trust companies. The North Dakota bankers have not studied it to your specification but where the saving will be is on the fees because we are not sending them out.

Chairman Keiser: Anyone else here to testify in support of HB 3041, opposition, neutral, closes the hearing. What are the wishes of the committee?

Representative Lefor: Moves a Do Pass and be placed on the consent calendar.

Representative Laning: Second.

Roll call was taken on HCR for a Do Pass with 13 yes, 0 no, 2 absent and Representative Hanson is the carrier.

Date: Feb 23, 2015

Roll Call Vote: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HCR 3041

House Industry, Business & Labor Committee

Subcommittee Conference Committee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations

Other Actions: Reconsider place on the consent calendar

Motion Made By Rep Lefor Seconded By Rep Laning

Representatives	Yes	No	Representatives	Yes	No
Chairman Keiser	X		Representative Lefor	X	
Vice Chairman Sukut	X		Representative Louser	X	
Representative Beadle	X		Representative Ruby	X	
Representative Becker	X		Representative Amerman	X	
Representative Devlin	X		Representative Boschee	X	
Representative Frantsvog	Ab		Representative Hanson	X	
Representative Kasper	X		Representative M Nelson	Ab	
Representative Laning	X				

Total (Yes) 13 No 0

Absent 2

Floor Assignment Rep Hanson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HCR 3041: Industry, Business and Labor Committee (Rep. Keiser, Chairman)
recommends **DO PASS** and **BE PLACED ON THE CONSENT CALENDAR**
(13 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HCR 3041 was placed on the
Tenth order on the calendar.

2015 SENATE INDUSTRY, BUSINESS AND LABOR

HCR 3041

2015 SENATE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee

Roosevelt Park Room, State Capitol

HCR 3041

3/18/2015

Job Number 25055

Subcommittee

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

To provide for Legislative Management study consisting of a comprehensive review and analysis of the investment practices by the state and the State Investment Board

Minutes:

Attachments

Chairman Klein: Called the committee to order.

Representative Kretschmar: This is to study the investment policies of our state funds. (:05-1:31)

Senator Campbell: Isn't this very similar to the other bill that came from the House that was referencing puts and options and hedging?

Representative Kretschmar: I think it probably would be but the basic thrust of 3041 is to study the whole gamut of our states investment practices.

Senator Campbell: What is your opinion of North Dakota Banks having a piece of the investment, in essence keeping our brokerage fees in North Dakota?

Representative Kretschmar: I would agree with that if our banks could furnish a basic rate of interest.

Senator Sinner: Who sets the policy and is it available to the legislature to review?

Representative Kretschmar: The state investment board sets those policies. I am not aware where they are written down.

Chairman Klein: As a member of the legacy committee, we set the policy and we brought in some folks who helped strategize where we wanted to be.

Dave Hunter, Executive Director/CIO of the North Dakota Retirement & Investment Office: Neutral on the bill. He is here to provide the committee with a brief update of the

State Investment Board client performance, Written Testimony Attached (1) and (2). (7:16-14:02)

Senator Murphy: How is the legacy trust fund an insurance fund?

Dave Hunter: It has specific qualifications from a tax standpoint that you have to invest it in a certain manner. Probably a better way to describe it is there are pension clients and there is everything else. He continues going over his report, (14:57-22:48).

Chairman Klein: Thanks for the update but we are going to go back to the resolution and my question would be if we set aside a study doesn't that draw away from the resources of your own group?

Dave Hunter: I think it is great to have the dialogue and discussions but at the end of the day it pulls us away from what we are doing from an investment aspect. I am more than happy to answer any questions or go through any type of review because I feel very confident in what we are doing. Everything is going very well, having said that, you are absolutely right Chairman. It is a situation where it would pull resources that are fully employed at this time into address something that I think we have done a pretty good job addressing already. (23:19-23:55)

Chairman Klein: It seems to me back in the decline we did work this over pretty much. They were a few investments that were a little bit out there but I don't know that we totally lost our money but we didn't get any rate of return. In general our fund did pretty good. They continued with discussion of who sits on the investment board.

Senator Campbell: Do we need this study because it sounds like you guys obviously should be doing what you're doing, it's your job.

Dave Hunter: I just want to clarify one point when I said we generated excess return of sixty basis points or point 6% that is on top of a benchmark return. If you look at the pension trust for the fiscal year ended June 30, 2014 it actually generated a return of 16%. A part of that 16% was our desire to use active management to do better than an investment in a benchmark index.

Chairman Klein: Closed the hearing.

Senator Murphy: Moved a do not pass.

Senator Burckhard: Seconded the motion.

Roll Call Vote: Yes-4 No-2 Absent-1

Senator Murphy will carry the bill.

**2015 SENATE STANDING COMMITTEE
 ROLL CALL VOTES
 HCR 3041**

Senate Industry, Business and Labor Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Senator Murphy Seconded By Senator Burckhard

Senators	Yes	No	Senators	Yes	No
Chairman Klein	x		Senator Murphy	x	
Vice Chairman Campbell		x	Senator Sinner		x
Senator Burckhard	x				
Senator Miller	x				
Senator Poolman	-				

Total (Yes) 4 No 2

Absent 1

Floor Assignment Senator Murphy

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HCR 3041: Industry, Business and Labor Committee (Sen. Klein, Chairman)
recommends **DO NOT PASS** (4 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING).
HCR 3041 was placed on the Fourteenth order on the calendar.

2015 TESTIMONY

HCR 3041

House Concurrent Resolution No. 3041

**North Dakota Retirement and Investment Office ("RIO")
Testimony to the Senate Industry, Business and Labor Committee
David Hunter, Executive Director/CIO**

March 18, 2015

In light of House Concurrent Resolution No. 3041 which proposes a Legislative Management study of the state investment practices, I am here to provide the Committee with a brief update of State Investment Board ("SIB") client performance.

The attached presentation provides an overview of:

1. SIB and RIO goals and objectives;
2. SIB client assets under management as of December 31, 2014;
3. Pension and Insurance Trust investment performance over the last 5-years;
4. Recent investment management fee saving initiatives; and
5. Recent investment policy, governance, service and staffing updates.

I sincerely thank the Committee for allowing me the opportunity to provide this informational testimony and would be happy to address any questions.

Legislative Update

SIB Client Performance – Executive Summary

March 18, 2015

Dave Hunter, Executive Director / CIO
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

HCR 3041 #2

SIB and RIO are achieving stated goals and objectives

- The SIB believes an investment program must be built and managed like any good enterprise with a clear mission statement and objectives, well defined roles and responsibilities, and appropriate policies and guidelines.
- Major issues include: 1) setting appropriate benchmarks; 2) finding the right managers; 3) monitoring the program; and 4) searching for appropriate new opportunities.
- To ensure rigorous attention to all of the aspects of the investment program, the SIB follows an established investment process. This process involves three phases:
 1. investment policy development/modification (annually);
 2. implementation/monitoring (daily); and
 3. evaluation (quarterly).
- RIO serves the SIB and exists in order that:
 - 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.
 - Potential SIB clients have access to information regarding the investment services provided by the SIB.
 - TFFR benefit recipients receive their retirement benefits in a cost effective and timely manner.
 - TFFR members have access to information which will allow them to become knowledgeable about the issues and process of retirement.
 - SIB clients and TFFR benefit recipients receive satisfactory services from the boards and staff of the office.

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State Investment Board – Client Assets Under Management

Fund Name	Market Values as of 12/31/14 ⁽¹⁾	Market Values as of 6/30/14 ⁽²⁾	Market Values as of 12/31/13 ⁽¹⁾
Pension Trust Fund			
Public Employees Retirement System (PERS)	2,345,979,927	2,332,744,037	2,204,819,633
Teachers' Fund for Retirement (TFFR)	2,046,439,456	2,061,684,912	1,970,377,031
Job Service of North Dakota Pension	96,920,165	97,825,769	95,276,201
City of Bismarck Employees Pension	79,421,743	78,804,326	74,832,971
City of Grand Forks Employees Pension	56,347,332	57,896,611	53,459,799
City of Bismarck Police Pension	34,834,996	34,643,204	32,887,889
Grand Forks Park District	5,893,072	5,938,993	5,653,023
City of Fargo Employees Pension	9,656	9,702	4,742,525
Subtotal Pension Trust Fund	4,665,846,347	4,669,547,555	4,442,049,072
Insurance Trust Fund			
Legacy Fund	2,900,880,837	2,215,941,142	1,695,950,111
Workforce Safety & Insurance (WSI)	1,710,647,794	1,703,987,980	1,627,545,930
Budget Stabilization Fund	589,598,047	586,199,881	588,744,084
PERS Group Insurance Account	42,705,101	37,425,567	39,626,348
City of Fargo FargoDome Permanent Fund	40,651,973	41,775,992	38,668,924
State Fire and Tornado Fund	25,065,765	29,223,707	28,625,262
Petroleum Tank Release Compensation Fund	7,152,822	7,092,998	6,899,622
State Risk Management Fund	6,771,080	6,948,162	6,593,046
State Risk Management Workers Comp Fund	6,141,008	5,965,322	5,654,121
ND Association of Counties (NDACo) Fund	3,481,321	3,445,373	2,894,408
State Bonding Fund	3,299,303	3,268,991	3,171,622
ND Board of Medical Examiners	2,131,999	1,889,897	
Bismarck Deferred Sick Leave Account	859,648	849,818	807,624
Insurance Regulatory Trust Fund	646,335	1,146,038	1,107,837
Cultural Endowment Fund	373,276	364,979	359,577
Subtotal Insurance Trust Fund	5,340,406,309	4,645,525,847	4,046,648,516
PERS Retiree Insurance Credit Fund	93,282,939	90,360,366	83,492,581
Total Assets Under SIB Management	10,099,535,595	9,405,433,768	8,572,190,169

⁽¹⁾ 12/31/14 and 12/31/13 market values are unaudited and subject to change.

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

- ▶ SIB Client Assets Under Management grew by approximately 18.5% or \$1.53 billion in the last year.
- ▶ The Pension Trust posted a net return of approximately 6%, while the Insurance Trust generated a 5.1% net return in the last year. Investments were responsible for gains of \$265 million for the Pension Trust and \$204 million for the Insurance Trust.
- ▶ Legacy assets increased by 71% (or \$1.2 billion) primarily due to tax collections, while net returns were 4.2% for the year ended December 31, 2014.
- ▶ SIB client assets approximated \$10.1 billion based on preliminary valuations as of December 31, 2014.

Pension Trust – December 2014 Performance Update

	1 Yr Ended 12/31/2014	3 Yrs Ended 12/31/2014	5 Yrs Ended 12/31/2014	Risk 5 Yrs Ended 12/31/2014
PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)				
Total Fund Return - Net	5.95%	11.89%	9.35%	8.7%
Policy Benchmark Return	5.15%	10.90%	9.18%	8.3%
Excess Return	0.80%	0.99%	0.17%	104.0%
TEACHERS' FUND FOR RETIREMENT (TFFR)				
Total Fund Return - Net	5.92%	11.96%	9.55%	9.6%
Policy Benchmark Return	5.13%	10.94%	8.91%	9.2%
Excess Return	0.79%	1.02%	0.65%	103.9%
CITY OF BISMARCK EMPLOYEES PENSION				
Total Fund Return - Net	6.16%	11.03%	9.36%	7.4%
Policy Benchmark Return	5.22%	9.65%	8.76%	7.1%
Excess Return	0.94%	1.38%	0.60%	102.9%
CITY OF BISMARCK POLICE PENSION				
Total Fund Return - Net	5.94%	11.49%	9.55%	8.0%
Policy Benchmark Return	5.09%	10.22%	9.06%	7.9%
Excess Return	0.85%	1.27%	0.48%	101.9%
JOB SERVICE PENSION PLAN				
Total Fund Return - Net	6.69%	10.94%	8.77%	6.4%
Policy Benchmark Return	5.55%	8.70%	8.11%	6.0%
Excess Return	1.14%	2.24%	0.66%	106.0%
CITY OF GRAND FORKS PENSION PLAN				
Total Fund Return - Net	6.28%	12.48%	9.98%	8.7%
Policy Benchmark Return	5.64%	11.32%	9.61%	8.5%
Excess Return	0.64%	1.16%	0.37%	102.9%
GRAND FORKS PARK DISTRICT PENSION PLAN				
Total Fund Return - Net	6.90%	12.94%	10.06%	9.1%
Policy Benchmark Return	6.56%	11.78%	9.75%	8.4%
Excess Return	0.34%	1.16%	0.31%	107.9%

Pension Trust:

- Every SIB client within the Pension Trust generated positive **“Excess Return”** for the 1-, 3- and 5-year periods ended December 31, 2014.
- **“Excess Return”** is defined as the actual investment return (after deducting investment fees) over the expected return of the underlying investment policy or benchmark (i.e. a passive index).
- SIB’s use of active management generated over **\$30 million of net incremental income** (after fees) in the last year for PERS & TFFR in total. This is based on \$4 billion of managed assets and **Excess Return of 0.79%** (\$4 billion x 0.79% = \$31.6 million/year).
- These strong returns have been achieved while **reducing overall investment risk**, as measured by standard deviation, during the past 10 years. Standard deviation measures the amount of variation or dispersion from the average.

Note: Data as of 12/31/2014 is unaudited and subject to change.

Insurance Trust – December 2014 Performance Update

	1 Yr Ended 12/31/2014	3 Yrs Ended 12/31/2014	5 Yrs Ended 12/31/2014
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WORKFORCE SAFETY & INSURANCE (WSI)

\$ 1,710,647,794

Total Fund Return - Net	7.26%	8.86%	8.39%
Policy Benchmark Return	6.28%	6.20%	6.58%
Excess Return	0.98%	2.66%	1.82%

LEGACY FUND

\$ 2,900,880,837

Total Fund Return - Net	4.23%	3.01%	N/A
Policy Benchmark Return	3.62%	2.01%	N/A
Excess Return	0.61%	1.00%	

BUDGET STABILIZATION FUND

\$ 589,598,047

Total Fund Return - Net	1.56%	1.96%	2.47%
Policy Benchmark Return	0.53%	0.41%	0.32%
Excess Return	1.04%	1.55%	2.14%

Note: The 3 largest clients in the Insurance Trust are:

- 1.) WSI - \$1.7 billion;
- 2.) Legacy Fund - \$2.9 billion; and
- 3.) Budget Stabilization Fund - \$590 million.

Insurance Trust:

- Every SIB client within the Insurance Trust generated positive “**Excess Return**” for the 3- and 5-year periods ended December 31, 2014, while 13 out of our 15 Insurance Trust clients generated positive “**Excess Return**” for the 1-year ended 12/31/2014.
- “**Excess return**” is defined as the actual investment return (after deducting management fees) over the expected investment return of the underlying investment policy benchmark (or passive index).
- Based on WSI plan assets of \$1.7 billion and “**Excess Return**” of 0.98% in 2014, SIB’s use of active management generated over \$16 million of incremental income (after fees) for WSI (\$1.7 billion x 0.98% = \$16.66 million) in the last year.
- These returns were achieved in a risk controlled framework as each Insurance Trust client (with a 5-year track record) generated positive “**Risk Adjusted Excess Return**” for the 5-years ended 12/31/2014.

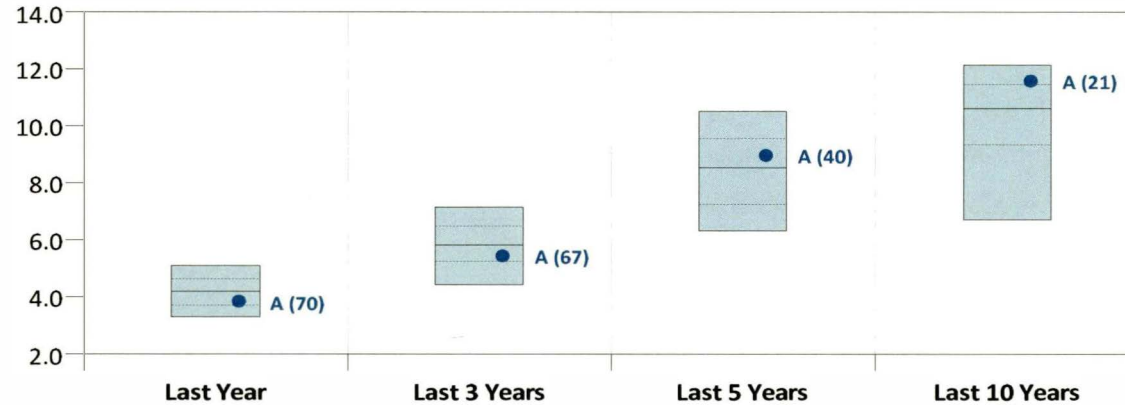
Risk Adjusted Excess Return measures a portfolio’s excess return adjusted by its risk relative to a benchmark portfolio. This metric is positive if returns are due to smart investment decisions or negative if driven by excess risk.

Note: Data as of 12/31/2014 is unaudited and subject to change.

Pension “Risk” has declined as measured by Standard Deviation

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

Standard Deviation
for Periods Ended December 31, 2014
Group: CAI Public Fund Sponsor Database



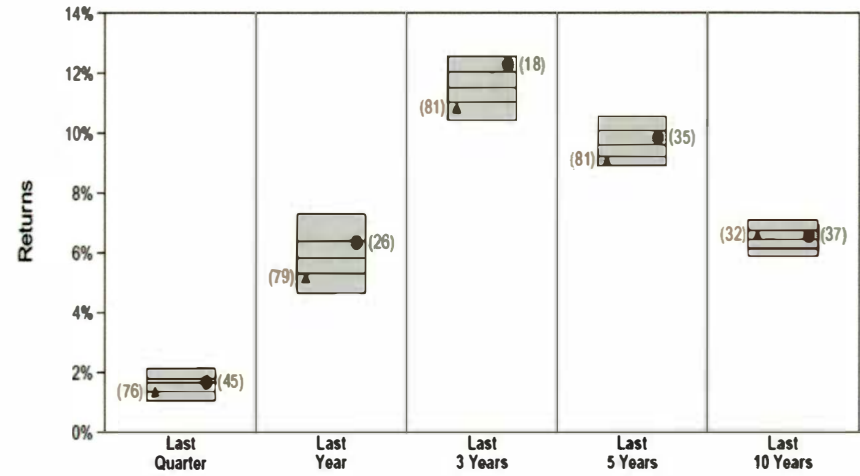
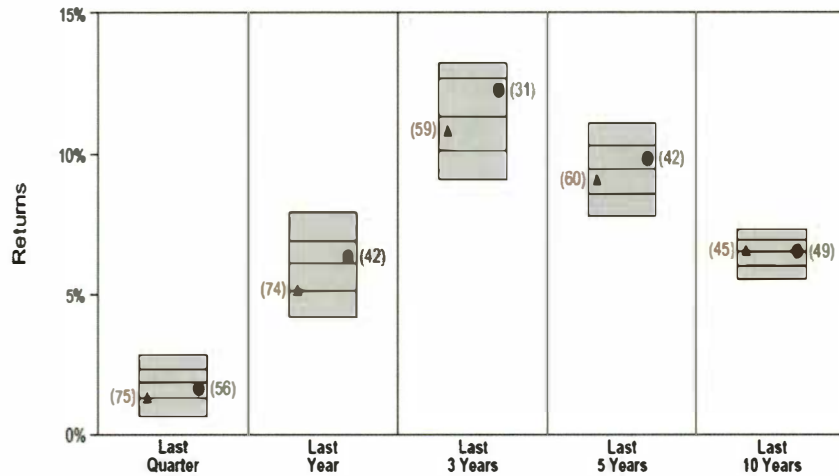
10th Percentile	5.1	7.2	10.5	12.1
25th Percentile	4.6	6.5	9.6	11.5
Median	4.2	5.8	8.5	10.6
75th Percentile	3.7	5.3	7.3	9.4
90th Percentile	3.3	4.4	6.3	6.7
Member Count	265	258	243	208
ND Pen-Total Fund ● A	3.9	5.4	9.0	11.6

Portfolio volatility, as measured by Standard Deviation, has declined significantly and currently resides in the 3rd quartile for 3-year period ended December 31, 2014 versus the upper two quartiles for the 5- and 10-year periods ended December 31, 2014.

Peer Performance - Pension Trust Total Fund Ranking

The charts display the ranking of the Total Pension Fund's performance relative to the Public Fund Sponsor Database for periods ended December 31, 2014. The left chart does not make any adjustment for the historical asset allocations of the Total Pension Fund, while the right chart adjusts for our asset allocation.

Callan Public Fund Sponsor Database



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	2.86	7.91	13.27	11.10	7.34
25th Percentile	2.32	6.92	12.68	10.29	6.96
Median	1.86	6.09	11.31	9.49	6.52
75th Percentile	1.31	5.15	10.10	8.58	6.00
90th Percentile	0.65	4.20	9.09	7.81	5.56
Total Fund ●	1.65	6.33	12.28	9.83	6.54
Policy Target ▲	1.33	5.16	10.84	9.10	6.59

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
10th Percentile	2.11	7.29	12.56	10.56	7.08
25th Percentile	1.77	6.37	12.05	10.06	6.71
Median	1.62	5.80	11.51	9.60	6.41
75th Percentile	1.33	5.30	11.05	9.19	6.13
90th Percentile	1.00	4.63	10.42	8.91	5.86
Total Fund ●	1.65	6.33	12.28	9.83	6.54
Policy Target ▲	1.33	5.16	10.84	9.10	6.59

* Current Quarter Target = 16.5% Russell 1000 Index, 16.0% MSCI World Index, 13.0% Barclays Aggregate Index, 11.1% MSCI EAFE Index, 9.7% NCREIF Total Index, 5.0% Barclays HY Corp 2% Issue, 5.0% Global Agg ex USD, 4.9% CPI-W, 4.9% Russell 2000 Index, 4.9% NDSIB PEN - Private Equity, 4.9% NCREIF Timberland Index, 3.1% MSCI Emerging Mkts - Net and 1.0% 3-month Treasury Bill.

Gross Returns: The Pension Trust generated 2nd quartile returns for the 1-, 3-, 5-, and 10-year periods ended December 31, 2014 based on the Callan Associates Public Fund Sponsor Database (unadjusted basis). On an asset allocation adjusted basis (right chart), the Pension Trust performed at the 26th percentile during the last year, the 18th percentile over the last 3 years and the 35th percentile for the last 5 years.

Focus on Fees – Generated Savings of 22% in Fiscal 2014

- The SIB and RIO regularly meet with investment advisors to ensure we obtain competent and prudent investment services at a competitive price.
- During the past year, investment management fees as a % of average assets under management declined from **0.65%** to less than **0.51%**.

Annual Savings Generated:

		2013	2014		
		Fiscal Year End	Fiscal Year End	Increase or	Change
		June 30, 2013	June 30, 2014	(Decrease)	
COMPARISON OF FISCAL 2013 and 2014 ACTUAL RESULTS:					
Investment Management Fees and Expenses	a	\$ 44,703,232	\$ 43,639,379	\$ (1,063,853)	-2%
Average Assets Under Management ("AUM") for all SIB Clients	b	\$ 6,905,312,561	\$ 8,632,237,726	\$ 1,726,925,165	25%
Investment Manager Fees & Expenses as a % of Average AUM	a / b	0.65%	0.51%	-0.14%	-22%
Current Year Fee Reduction (of 14.2 basis points)				0.14%	
Current Year Average AUM (of approximately \$8.6 billion)				\$ 8,632,237,726	
Extrapolated Impact of Current Year Fee Reductions				\$ 12,243,526	

- Based on average total assets under management of approximately **\$8.6 billion**, this translates into **over \$12 million of reduced fees** for the year ended June 30, 2014.
- **Current Initiatives:** The SIB and RIO have negotiated additional fee savings in recent months and will continue to work towards further fee reductions in upcoming years.

Annual savings of \$12 million may be repeated in future years

<u>Annual Savings Generated:</u>		2013	2014		
<u>COMPARISON OF FISCAL 2013 and 2014 ACTUAL RESULTS:</u>		Fiscal Year End June 30, 2013	Fiscal Year End June 30, 2014	Increase or (Decrease)	Change
Investment Management Fees and Expenses	a	\$ 44,703,232	\$ 43,639,379	\$ (1,063,853)	-2%
Average Assets Under Management ("AUM") for all SIB Clients	b	\$ 6,905,312,561	\$ 8,632,237,726	\$ 1,726,925,165	25%
Investment Manager Fees & Expenses as a % of Average AUM	a / b	0.65%	0.51%	-0.14%	-22%
Current Year Fee Reduction (of 14.2 basis points)				0.14%	
Current Year Average AUM (of approximately \$8.6 billion)				\$ 8,632,237,726	
Extrapolated Impact of Current Year Fee Reductions				\$ 12,243,526	

<u>TABLE 2</u>	(i)	(ii)	(i) x (ii)
<u>SCENARIO ASSUMPTIONS:</u>	<u>Future AUM</u>	<u>2014 Fee Reduction</u>	<u>Projected Savings</u>
Projected Future Savings assuming Average AUM declines to \$8 billion >>	\$ 8,000,000,000	0.14%	\$ 11,200,000
Projected Future Savings assuming Average AUM increases to \$9 billion >	\$ 9,000,000,000	0.14%	\$ 12,600,000
Projected Future Savings assuming Average AUM increase to \$10 billion >	\$ 10,000,000,000	0.14%	\$ 14,000,000

<u>TABLE 3</u>	<u>Future AUM</u>	<u>2014 Fee Reduction</u>	<u>Projected Savings</u>
Performance Fee Reductions (Non-Structural)	\$ 10,000,000,000	0.10%	\$ 10,000,000
Structural Fee Reductions (Negotiated and economies of scale)	\$ 10,000,000,000	0.04%	\$ 4,000,000
TOTAL FEE REDUCTIONS (based on \$10 billion in average AUM)	\$ 10,000,000,000	0.14%	\$ 14,000,000

SUMMARY:

- 1) SIB Client Fees declined by over 14 basis points from 0.65% (or 65 bps) to 0.51% (or 51 bps) during the last two fiscal years.
- 2) Performance fees represented about 71% of the fee reductions whereas structural reductions accounted for 29% of savings.
- 3) Based on average assets under management of \$8.6 billion for fiscal 2014, this translates into over **\$12.2 million** of fee savings during the most recent fiscal year end (or \$8.6 billion x 0.142% = \$12.2 million).

Investment Policy, Governance, Service and Staffing Update

- **Investment Policy Statement Review** – RIO reviewed the investment policy statements of all SIB clients with assets in excess of \$10 million in 2014 and intends to review the statements of clients with assets less than \$10 million in 2015.
- **Fee and Custody Review** - Callan completed a fee review of our investment managers and custodians in 2014 so as to confirm the reasonableness of overall performance standards and fee levels.
- **Governance and Board Education** – The SIB Governance manual was reviewed in 2014. During the past year, the SIB engaged in over 10 hours of board education. This trend continues in 2015 and will include a governance day offsite in late-July.
- **Satisfaction Survey** – SIB clients assigned an “Excellent” or “Above Average” satisfaction rating based on 2014 survey results.

SUMMARY of SIB Client Satisfaction Survey Ratings:

	Excellent	Above Average	Average	Poor	N/A
Totals	63	25	0	0	8
Grade	4	3	2	1	0
Percent	66%	26%	0%	0%	8%
Average	3.7				

- **Government Finance Officers Association (“GFOA”) Award** – The North Dakota Retirement and Investment Office received a Certificate of Achievement for Excellence in Financial Reporting from the GFOA for its Comprehensive Annual Financial Report (“CAFR”) for the year ended June 30, 2014. This marks the 17th consecutive year that RIO been awarded this honor. RIO’s CAFR was judged by an impartial panel to meet the high standards of the program including demonstrating a constructive “spirit of full disclosure” to clearly communicate its financial story. “The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management.”
- **Investment Staffing** – In order to be properly staffed based on expected asset levels, RIO filled legislatively approved positions during the past year including *an audit supervisor, compliance officer, information technology specialist and two investment professionals*. This staffing level will help to ensure that SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective manner.

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