



State Investment Board Update

Legislative Employee Benefits Programs Committee

July 21, 2010

LeRoy “Gil” Gilbertson

Interim Executive Director – Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

State Investment Board (SIB) Update



- SIB Search Committee
 - ▣ Search for permanent Exec Dir - CIO
 - ▣ RFP for Executive Search Firm
 - ▣ Search Firm selection complete
 - ▣ EFL Associates selected
 - ▣ Search firm has begun process for recruiting for permanent replacement.
 - ▣ Targeting late fall for completion.

State Investment Board (SIB) Update

□ SIB Audit Committee

- Hire independent audit firm to conduct Audit of RIO Performance
- Determine scope of audit
- RFP for external auditor
- Selection process completed
- Clifton Gunderson selected
- Audit work has begun
- Target performance audit report date: August 2010

□ Annual financial audit is also being conducted by separate external auditor (Eide Bailly) under contract with State Auditor's Office.

- Financial audit report due October 2010

Other SIB Projects



- Special study of investment fees paid to money managers.
 - ▣ Conducted by SIB investment consultant, Callan Associates.
 - ▣ Target due date: July 2010

SIB Investment Program

Asset Liability Analysis

- Individual board/client contracts with consultant to conduct asset liability study.
- With input from CIO, various optimal portfolios are developed by consultant , and considered by board.

Investment Policy Statement

- With input from CIO and RIO staff, investment policy statement is developed.
- Preferred target allocation is integrated into investment policy statement.

Board Approval and Acceptance

- Individual board/client approves investment policy statement.
- Investment policy statement is presented to SIB for acceptance and implementation.

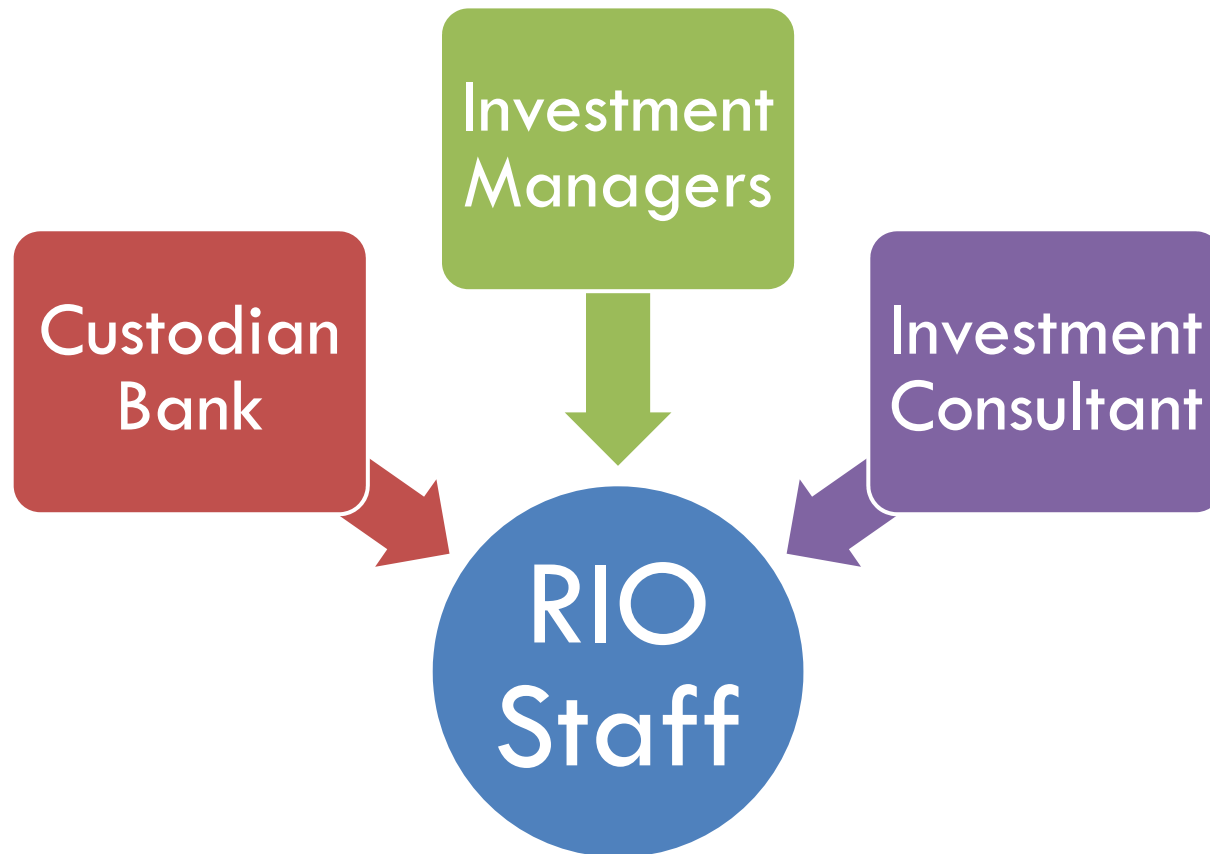
SIB Implementation

- CIO provides research and recommendations to SIB regarding investment strategies and managers to best maximize returns for stated levels of risk based on investment policies.
- SIB makes investment hiring decisions.

RIO administration

- RIO administers investment strategy approved by SIB.
- RIO is “manager of managers” and is liaison between SIB and custodian bank, investment managers, and investment consultant.

RIO - Manager of Managers



RIO Administration



Executive Director - Chief Investment Officer and
RIO staff (4.65 FTEs)

Administer overall
investment
strategy.

Maximize
risk/return
opportunities within
each asset class.

Liaison between SIB
and Managers,
Consultant, and
Custodian.

Monitor individual
funds' investment
guidelines and
asset allocations.

Maintain separate
accounting for
individual funds.

Custodian Bank



The Northern Trust Company

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

Investment Managers

41 Investment Managers

- ❑ Implement specific mandates or “investment strategies.”
- ❑ 112 different investment strategies within 10 asset classes.
- ❑ Make buy/sell decisions based on investment guidelines.
- ❑ Report to RIO staff on regular basis.
- ❑ Provide SIB education.

Investment Consultant



Callan Associates

- ☐ Performance measurement
- ☐ Manager searches
- ☐ Provide education
- ☐ Special projects

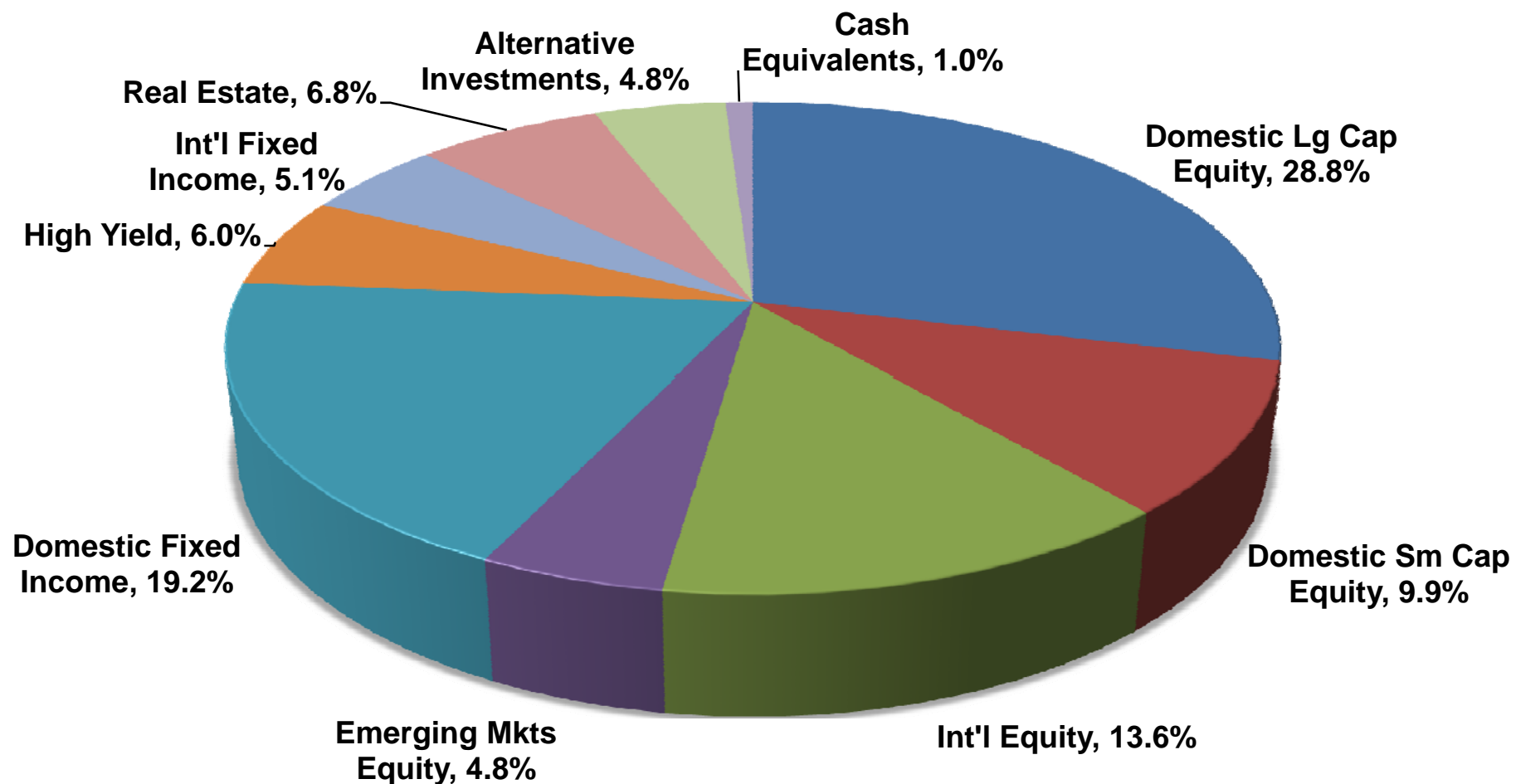
SIB Risk Controls

- 
- ❑ Diversifying the Portfolio
 - ❑ Hiring Professional Money Managers
 - ❑ Establishing Investment Guidelines and Policies

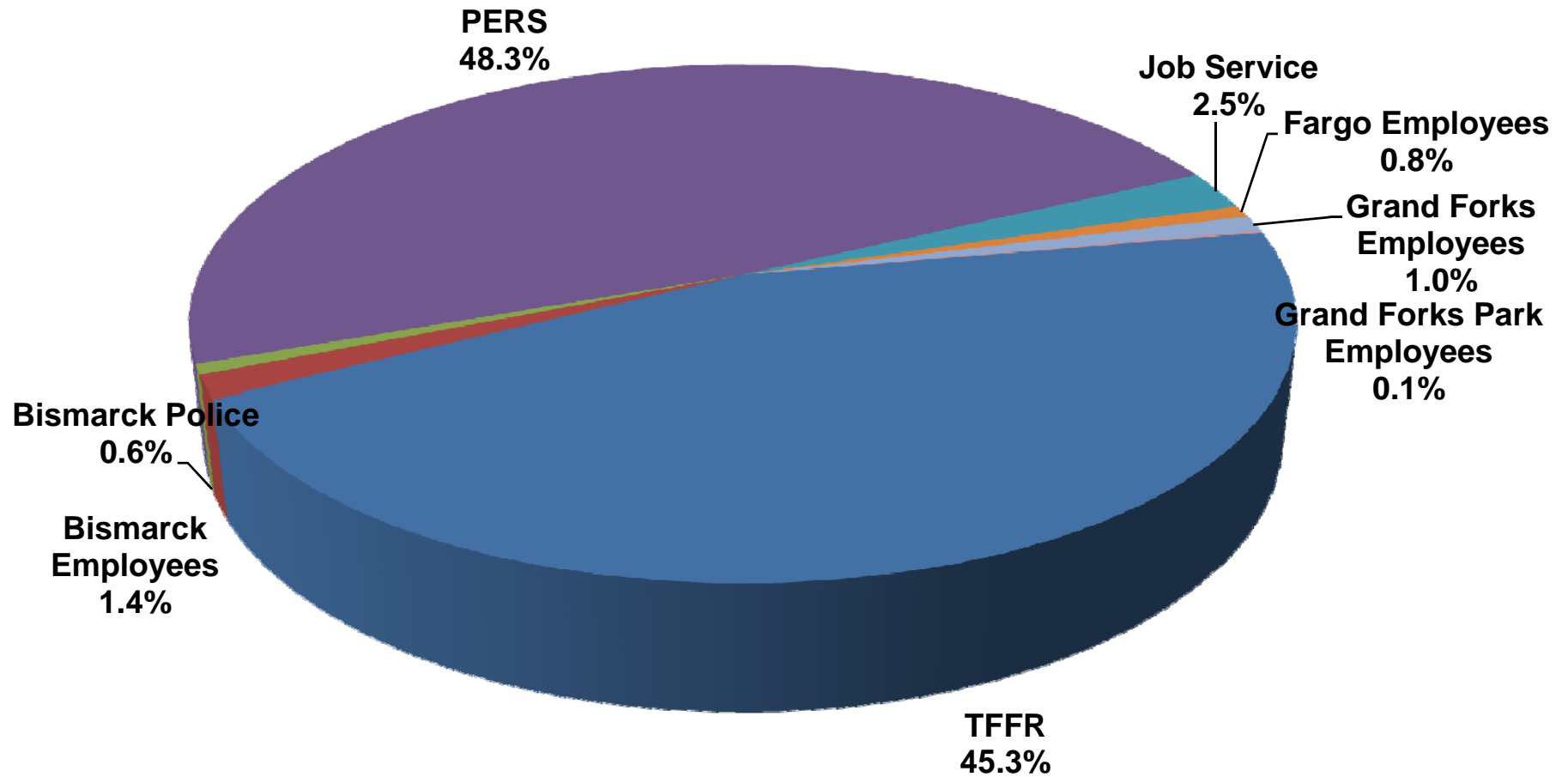
Asset Allocation

- Individual Fund Boards determine asset allocation and investment guidelines.
 - ▣ Asset-Liability Studies are conducted approximately every 5 years for TFFR and PERS to consider appropriate asset mix for funding pension liabilities. 2010 studies are in process.
- Investment program is implemented by State Investment Board (SIB) in a professionally managed portfolio.
- Pension investments are well diversified in a strategic asset allocation mix that helps to moderate the effects that one particular investment or one particular company may have on investment performance.

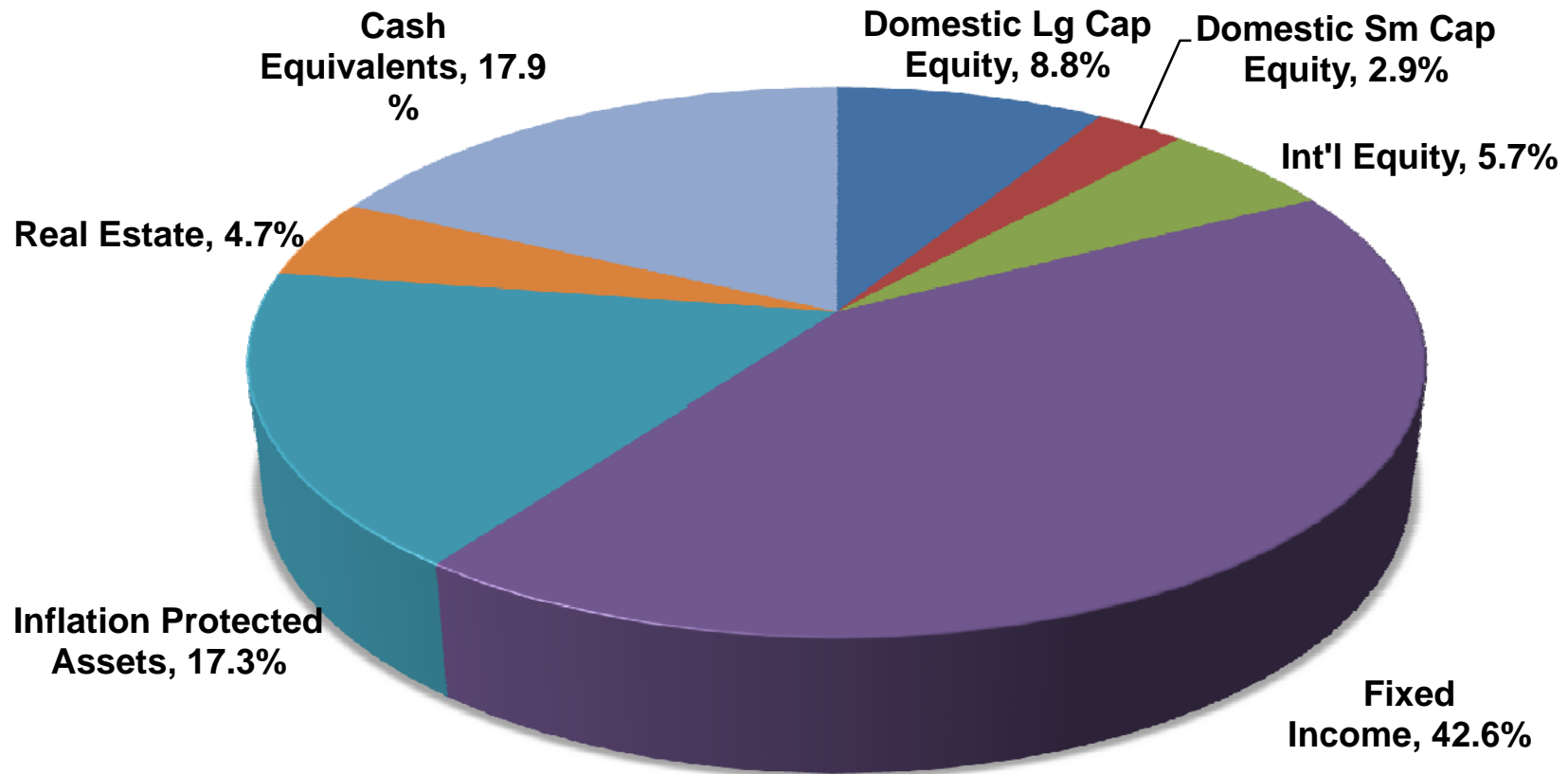
Pension Trust Asset Allocation



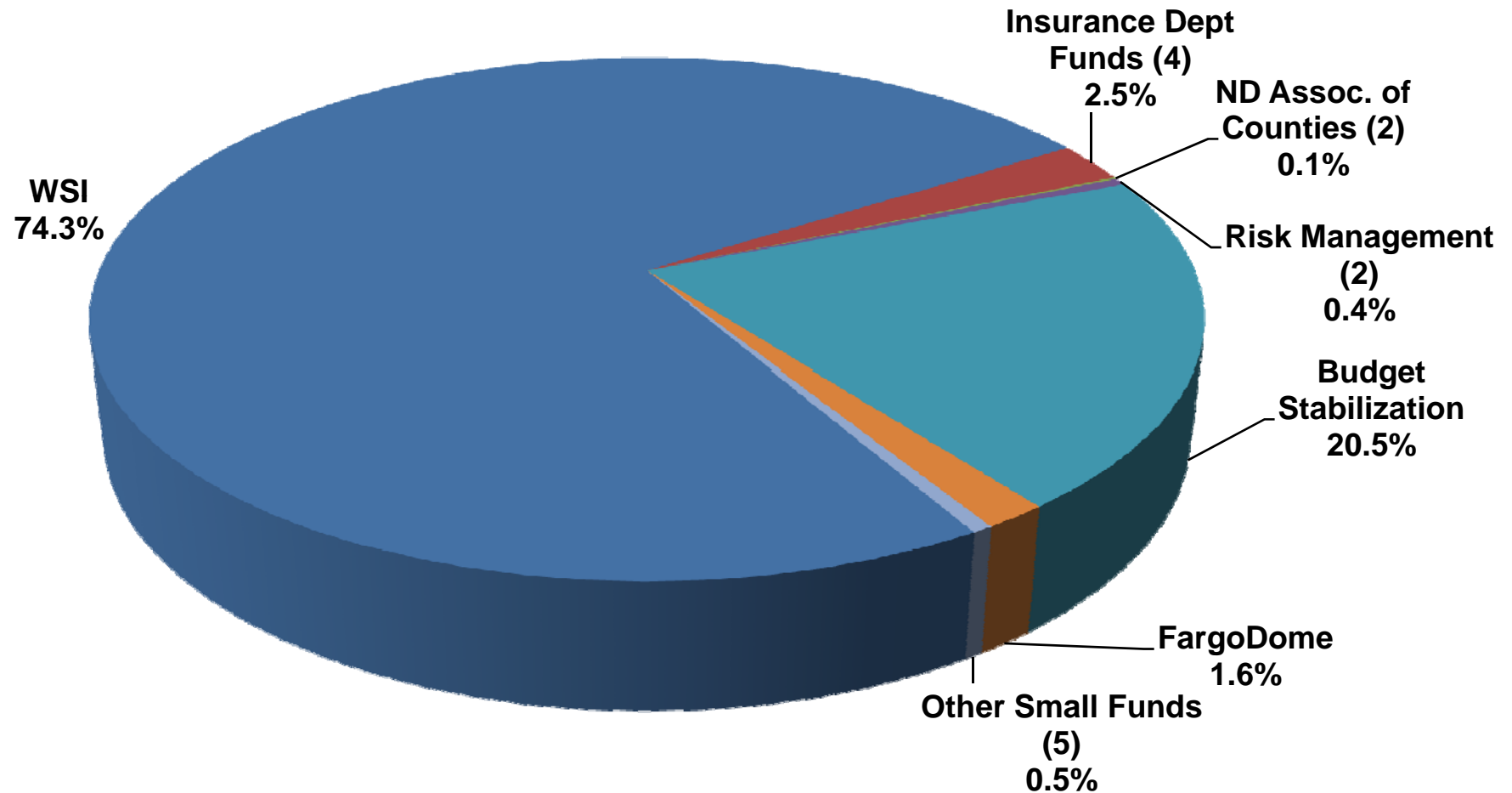
Pension Trust Participants



Insurance Trust Asset Allocation



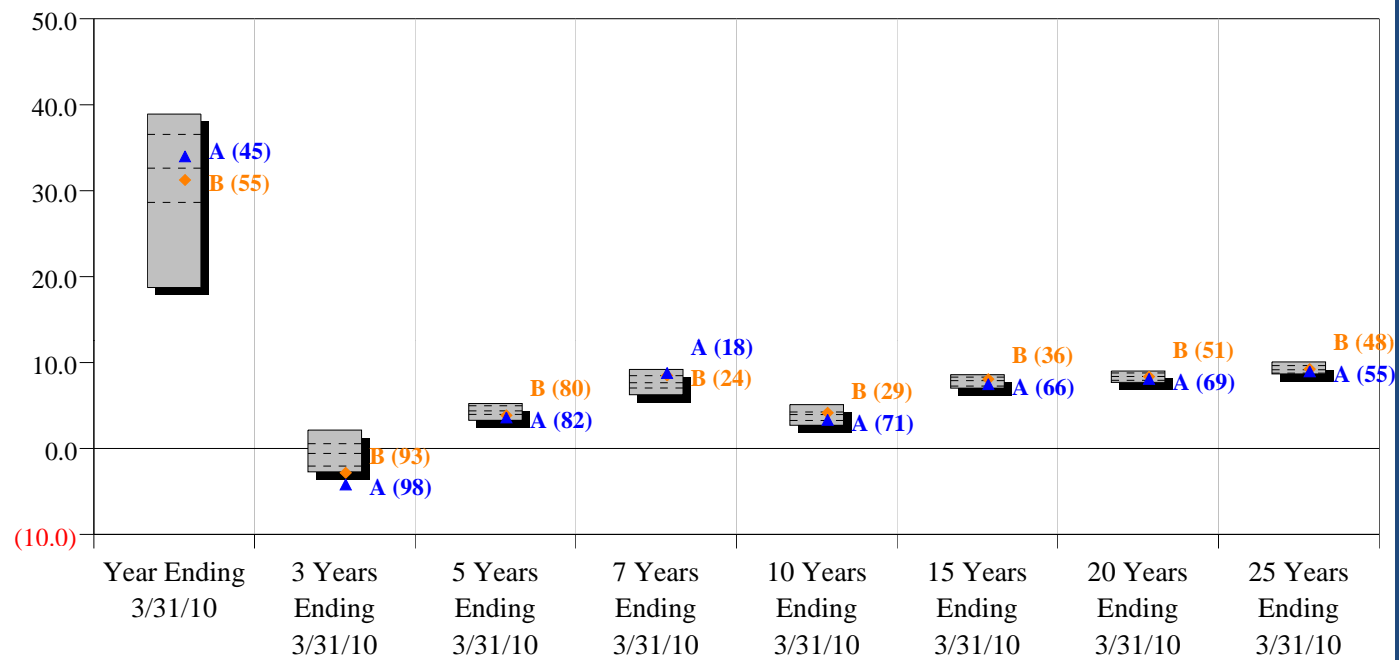
Insurance Trust Participants



Comparison With Other Public Pension Plans

- ND pension portfolios have performed better, relative to a broad universe of pension funds, in periods when equities did better than bonds.
- Over the short term (most recent year ended 3/31/10), and over the long term (25 years), TFFR & PERS pension performance has been about average.
- During mid term and depending upon market cycle, TFFR & PERS may have performed better than, or worse than, the average public plan. In the last decade, for example:
 - ▣ During up markets (2003, 04, 05, 06, 07), TFFR & PERS performed better than average.
 - ▣ During down markets (2001, 02, 08, 09), TFFR & PERS performed lower than average. (Note: 2008-09 worst since Great Depression)
- In reviewing pension fund rankings, consider range of returns (spread) between high and low. Actual returns may not be drastically different from the median, however, rankings may show exceptionally high or low.

Returns
for Periods Ended March 31, 2010
Group: CAI Public Fund Sponsor Database



	Year Ending 3/31/10	3 Years Ending 3/31/10	5 Years Ending 3/31/10	7 Years Ending 3/31/10	10 Years Ending 3/31/10	15 Years Ending 3/31/10	20 Years Ending 3/31/10	25 Years Ending 3/31/10
10th Percentile	38.92	2.16	5.25	9.21	5.10	8.59	9.03	10.08
25th Percentile	36.55	0.56	4.99	8.50	4.26	8.30	8.81	9.66
Median	32.63	(0.57)	4.39	7.65	3.95	7.90	8.39	9.18
75th Percentile	28.64	(2.03)	4.00	7.04	3.26	7.27	7.95	8.78
90th Percentile	18.74	(2.71)	3.28	6.26	2.72	7.02	7.69	8.68
Member Count	114	110	103	97	81	68	46	24

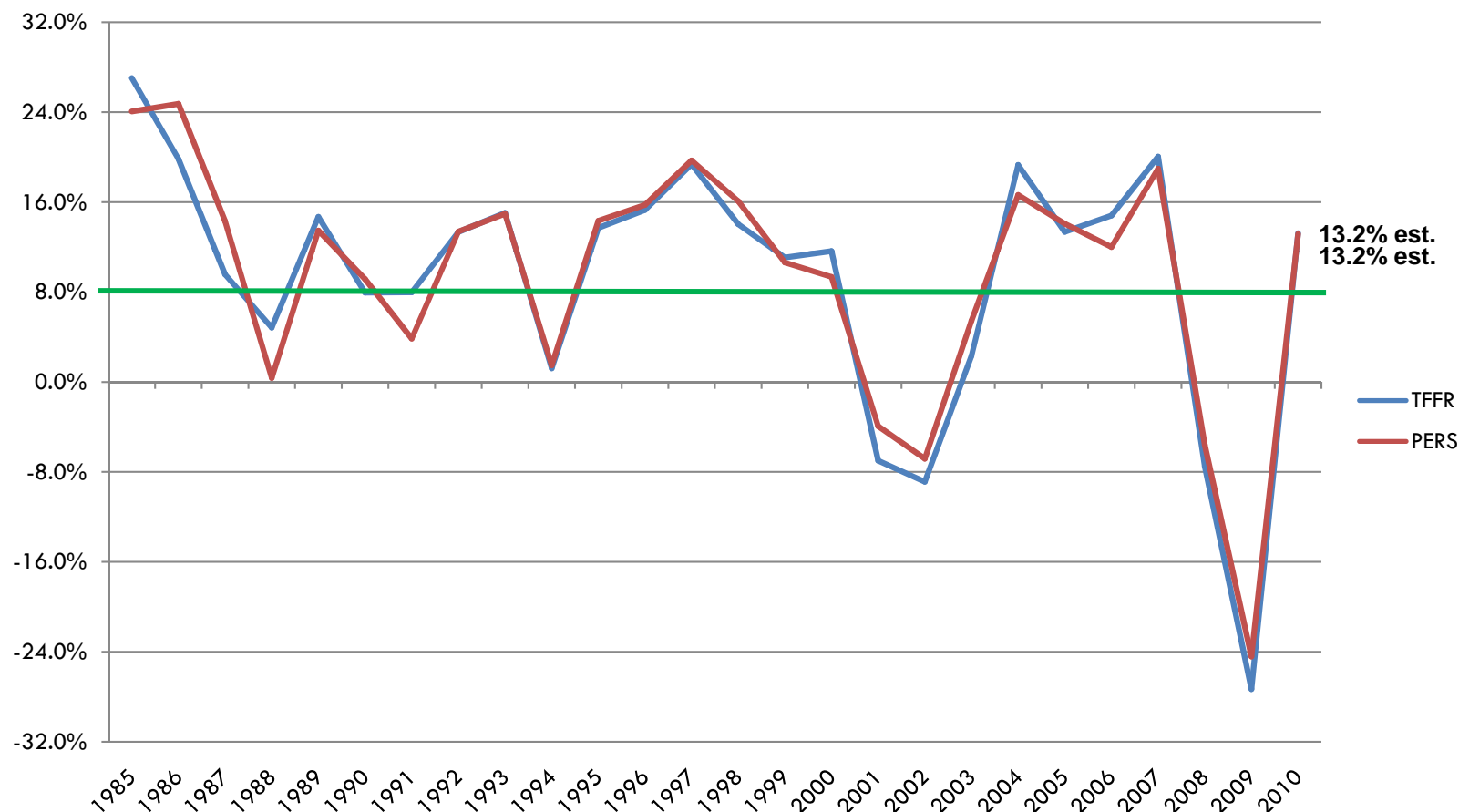
TFFR Total Fund-Gross	▲ A	34.01	(4.16)	3.63	8.80	3.36	7.50	8.11	8.98
PERS Total Fund-Gross	◆ B	31.25	(2.81)	3.87	8.52	4.18	8.07	8.36	9.25

Estimated Returns – Net

July 1, 2009 – June 30, 2010

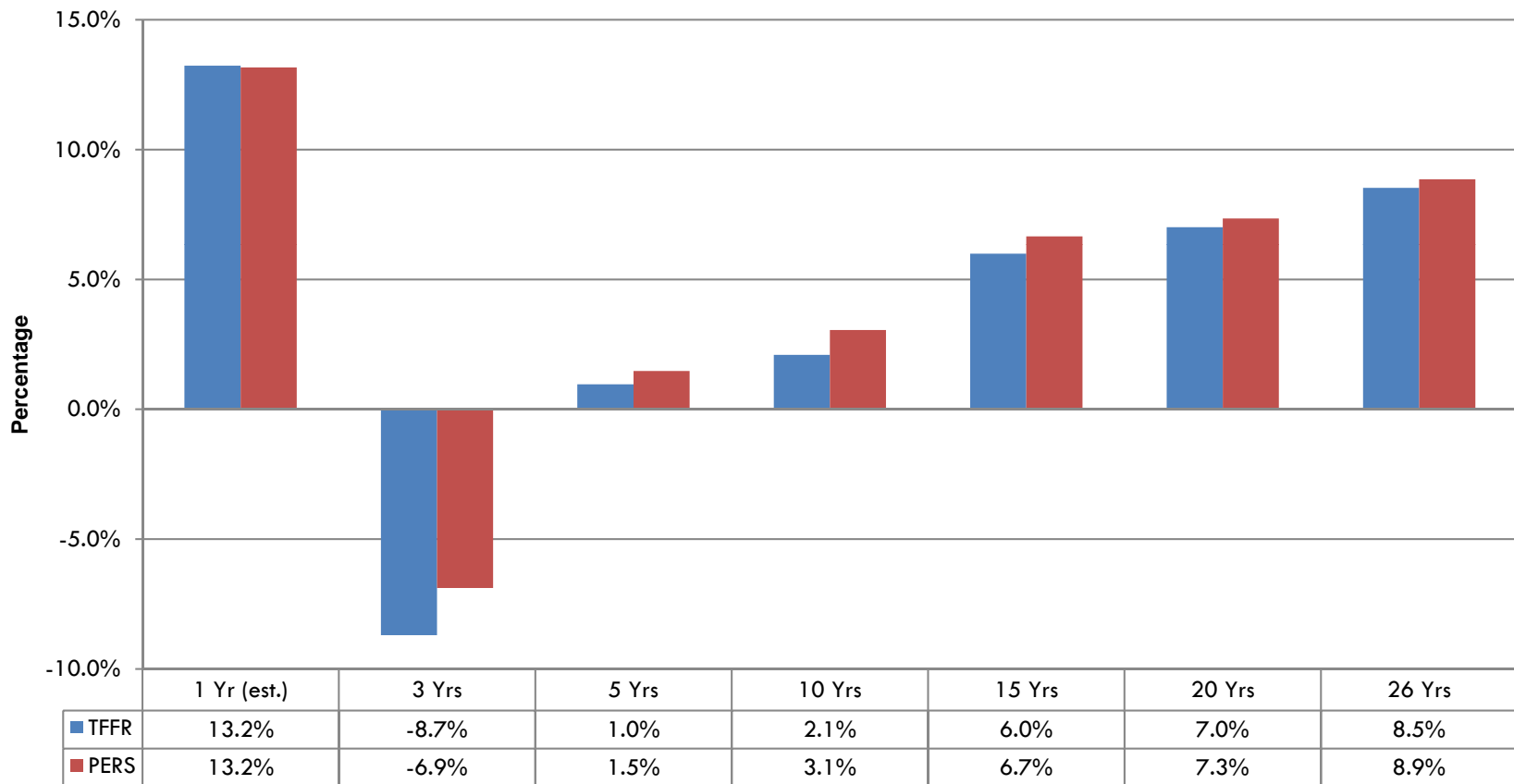
Fund	Return
Pension Trust	13.2%
TFFR	13.2%
PERS	13.2%
Insurance Trust	11.9%
WSI	12.6%

Investment Performance – Annual 1985-2010 (estimated)



Note: The investment returns shown were calculated by the SIB investment consultant. This calculation uses daily time-weighted cash flows in compliance with Global Investment Performance Standards (GIPS). These returns differ from the returns calculated by the actuary. The actuary calculation uses a very simplified approach with annual income and valuation data obtained by the actuary at the end of each fiscal year.

Net Investment Performance – Annualized Fiscal Years Ended June 30, 2010 (estimated)



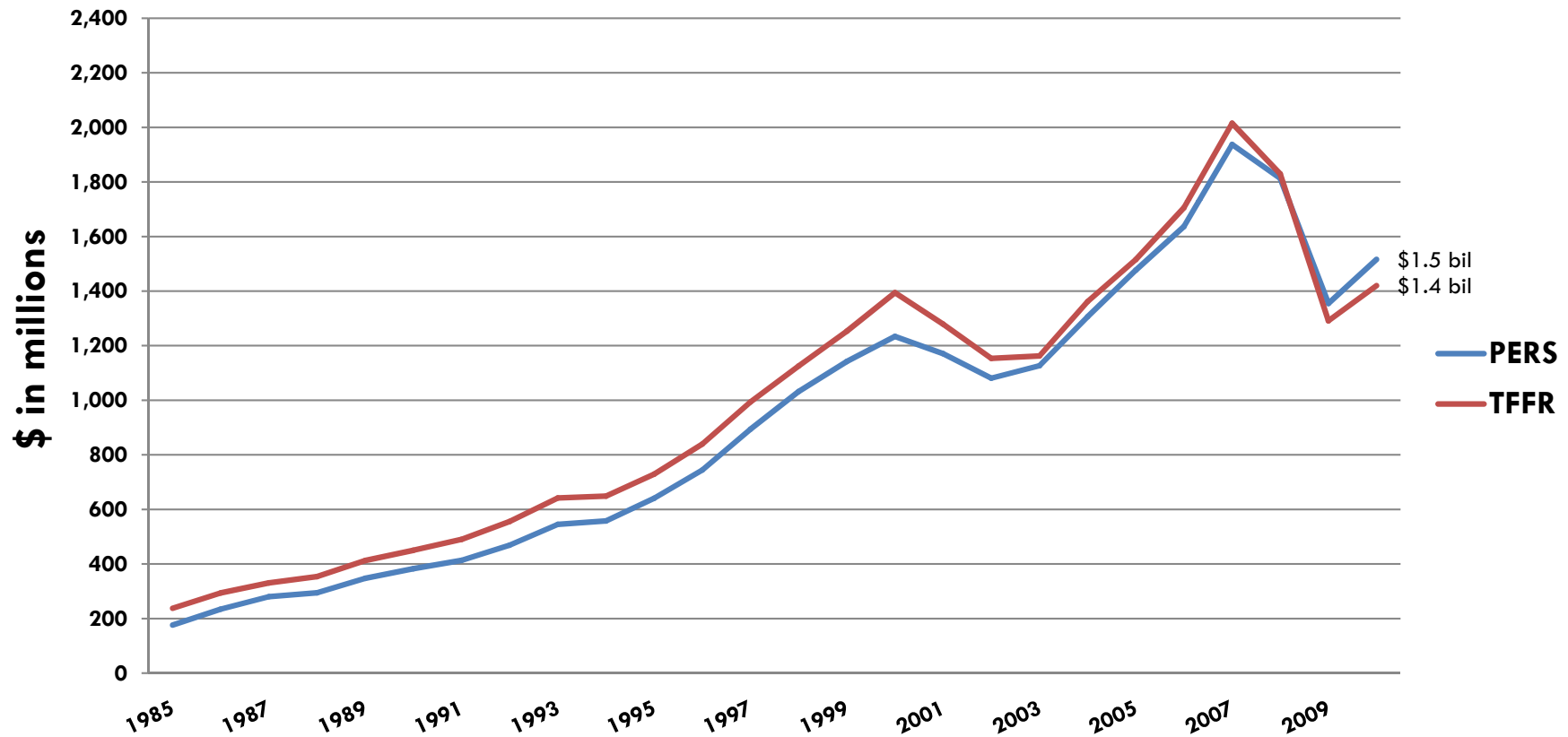
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8% Investment Assumption



- Current investment return assumption is 8%.
 - ▣ Reflects historical rates of return
 - ▣ Current and projected rates of inflation
 - ▣ Projected returns for individual asset classes
- Actual net pension returns have averaged about 8.5% over past 26 years.
- 8% is median investment return assumption used by public pension plans.

Market Value Growth Since 1985



Market values as of 6/30/10 are estimated.

SIB Program

- ❑ SIB long term investment strategy is sound, portfolio is professionally managed, and assets are well diversified.
- ❑ Long term historical returns have been about 8.5%.
- ❑ Current market recovery is good news (2009-10 estimated performance is about 13.2) but still will not change pension funds' long term funding projections much.
- ❑ Doubtful we can expect much excess return (over 8% assumption) in future to assist with addressing funding shortfall.
- ❑ The SIB website now has FAQs related to the investment program.
- ❑ Current information is also available in a Special Edition newsletter that will be mailed soon and can also be accessed on the website.

Westridge/WG Trading Fraud

	Total SIB Exposure	TFFR	PERS	WSI
February 2009-Fraud Uncovered by US Regulatory Agencies	\$161.3m	\$59.6m	\$67.5m	\$23.7m
Amount recovered immediately	\$24.3m	\$9.0m	\$10.1m	\$3.6m
Receiver Estimate of Assets Available for Settlement	\$82.2m	\$30.4m	\$34.4m	\$12.0m
40% write-down taken in May 2009 (unrealized loss until settlement)	\$(54.8m)	\$(20.3m)	\$(22.9m)	\$(8.0m)
Effect of 40% write-down on FY09 total return of funds		-1.6%	-1.7%	-0.7%

The SIB, its co-claimants, and representatives of a number of other investor-victims are in communication in an effort to develop and propose to the Receiver a mutually agreeable plan for the distribution of the Westridge entity assets currently held by the Receiver.

Contact Information



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RIO Web Page

North Dakota nd.gov Official Portal for
North Dakota State Government



North Dakota Retirement and Investment Office

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Teachers' Fund for Retirement



State Investment Board



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