

State Investment Board Update

Legislative Employee Benefits Programs Committee

January 12, 2012

John Geissinger

Executive Director – Chief Investment Officer

ND Retirement & Investment Office (RIO)

State Investment Board (SIB)

**Annualized Rates of Return
Net of Fees
For Periods Ended June 30, 2011**

	TFFR	PERS
One Year	24.21%	21.43%
5 Years	2.65%	3.19%
10 Years	5.13%	5.53%
15 Years	6.54%	7.02%
20 Years	7.78%	8.21%
25 Years	8.02%	8.18%

The Callan Periodic Table of Investment Returns

Fiscal Year Returns (1992-2011) Ranked in Order of Performance

Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year
Ending 6/30/92	Ending 6/30/93	Ending 6/30/94	Ending 6/30/95	Ending 6/30/96	Ending 6/30/97	Ending 6/30/98	Ending 6/30/99	Ending 6/30/00	Ending 6/30/01	Ending 6/30/02	Ending 6/30/03	Ending 6/30/04	Ending 6/30/05	Ending 6/30/06	Ending 6/30/07	Ending 6/30/08	Ending 6/30/09	Ending 6/30/10	Ending 6/30/11
Russell 2000 Index	Russell 2000 Index	MSCI:EAFE US\$	S&P 500	S&P 500	S&P 500	S&P 500	S&P 500	MSCI:EAFE US\$	NCREIF:Total Index	BC:Aggr Bd	BC:Aggr Bd	Russell 2000 Index	NCREIF:Total Index	MSCI:EAFE US\$	MSCI:EAFE US\$	NCREIF:Total Index	BC:Aggr Bd	Russell 2000 Index	Russell 2000 Index
14.5%	26.0%	17.0%	26.1%	28.0%	34.7%	30.2%	22.8%	17.2%	11.6%	8.6%	10.4%	33.4%	18.0%	26.6%	27.0%	9.2%	6.0%	21.5%	37.4%
BC:Aggr Bd	MSCI:EAFE US\$	Russell 2000 Index	Russell 2000 Index	Russell 2000 Index	Total Fund-PERS Net	NCREIF:Total Index	NCREIF:Total Index	Russell 2000 Index	BC:Aggr Bd	NCREIF:Total Index	NCREIF:Total Index	MSCI:EAFE US\$	Total Fund-PERS Net	NCREIF:Total Index	S&P 500	BC:Aggr Bd	NCREIF:Total Index	S&P 500	S&P 500
14.0%	20.3%	4.3%	20.1%	23.9%	19.7%	17.5%	12.8%	14.3%	11.2%	5.5%	7.6%	32.4%	14.1%	18.7%	20.8%	7.1%	(19.6%)	14.4%	30.7%
S&P 500	Total Fund-TFFR Net	NCREIF:Total Index	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-TFFR Net	Russell 2000 Index	Total Fund-TFFR Net	Total Fund-TFFR Net	Russell 2000 Index	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-TFFR Net	MSCI:EAFE US\$	Total Fund-TFFR Net	Total Fund-TFFR Net	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-TFFR Net	MSCI:EAFE US\$
13.4%	15.0%	3.7%	14.3%	15.8%	19.3%	16.5%	11.1%	11.6%	0.6%	(6.8%)	5.5%	19.3%	13.7%	14.8%	20.0%	(5.6%)	(24.5%)	13.8%	30.4%
Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-TFFR Net	Total Fund-TFFR Net	Russell 2000 Index	Total Fund-PERS Net	Total Fund-PERS Net	NCREIF:Total Index	Total Fund-PERS Net	Russell 2000 Index	Total Fund-TFFR Net	S&P 500	Total Fund-TFFR Net	Russell 2000 Index	Total Fund-PERS Net	Total Fund-TFFR Net	Russell 2000 Index	Total Fund-PERS Net	Total Fund-TFFR Net
13.4%	15.0%	1.5%	13.7%	15.3%	16.3%	16.1%	10.6%	11.6%	(3.9%)	(8.6%)	2.3%	19.1%	13.3%	14.6%	19.0%	(7.5%)	(25.0%)	13.7%	24.2%
Total Fund-TFFR Net	S&P 500	S&P 500	BC:Aggr Bd	MSCI:EAFE US\$	MSCI:EAFE US\$	Total Fund-TFFR Net	MSCI:EAFE US\$	Total Fund-PERS Net	Total Fund-TFFR Net	Total Fund-TFFR Net	S&P 500	Total Fund-PERS Net	Russell 2000 Index	Total Fund-PERS Net	NCREIF:Total Index	MSCI:EAFE US\$	S&P 500	BC:Aggr Bd	Total Fund-PERS Net
13.3%	13.6%	1.4%	12.5%	13.3%	12.8%	14.0%	7.6%	9.3%	(7.0%)	(8.9%)	8.3%	16.6%	9.4%	12.0%	17.2%	(10.6%)	(26.2%)	9.5%	21.4%
MSCI:EAFE US\$	BC:Aggr Bd	Total Fund-TFFR Net	NCREIF:Total Index	NCREIF:Total Index	NCREIF:Total Index	BC:Aggr Bd	BC:Aggr Bd	S&P 500	S&P 500	MSCI:EAFE US\$	Russell 2000 Index	NCREIF:Total Index	BC:Aggr Bd	S&P 500	Russell 2000 Index	S&P 500	Total Fund-TFFR Net	MSCI:EAFE US\$	NCREIF:Total Index
(0.6%)	11.8%	1.2%	7.8%	8.1%	10.8%	10.5%	3.1%	7.2%	(14.8%)	(9.5%)	(1.6%)	10.8%	6.8%	8.6%	16.4%	(13.1%)	(27.4%)	5.9%	16.7%
NCREIF:Total Index	NCREIF:Total Index	BC:Aggr Bd	MSCI:EAFE US\$	BC:Aggr Bd	BC:Aggr Bd	MSCI:EAFE US\$	Russell 2000 Index	BC:Aggr Bd	MSCI:EAFE US\$	S&P 500	MSCI:EAFE US\$	BC:Aggr Bd	S&P 500	BC:Aggr Bd	BC:Aggr Bd	Russell 2000 Index	MSCI:EAFE US\$	NCREIF:Total Index	BC:Aggr Bd
(6.6%)	(2.7%)	(1.3%)	1.7%	5.0%	8.1%	6.1%	1.5%	4.6%	(23.6%)	(18.0%)	(6.5%)	0.3%	6.3%	(0.8%)	6.1%	(16.2%)	(31.4%)	(1.5%)	3.9%

S&P 500 Index measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the index performance directly proportional to the company's market value.

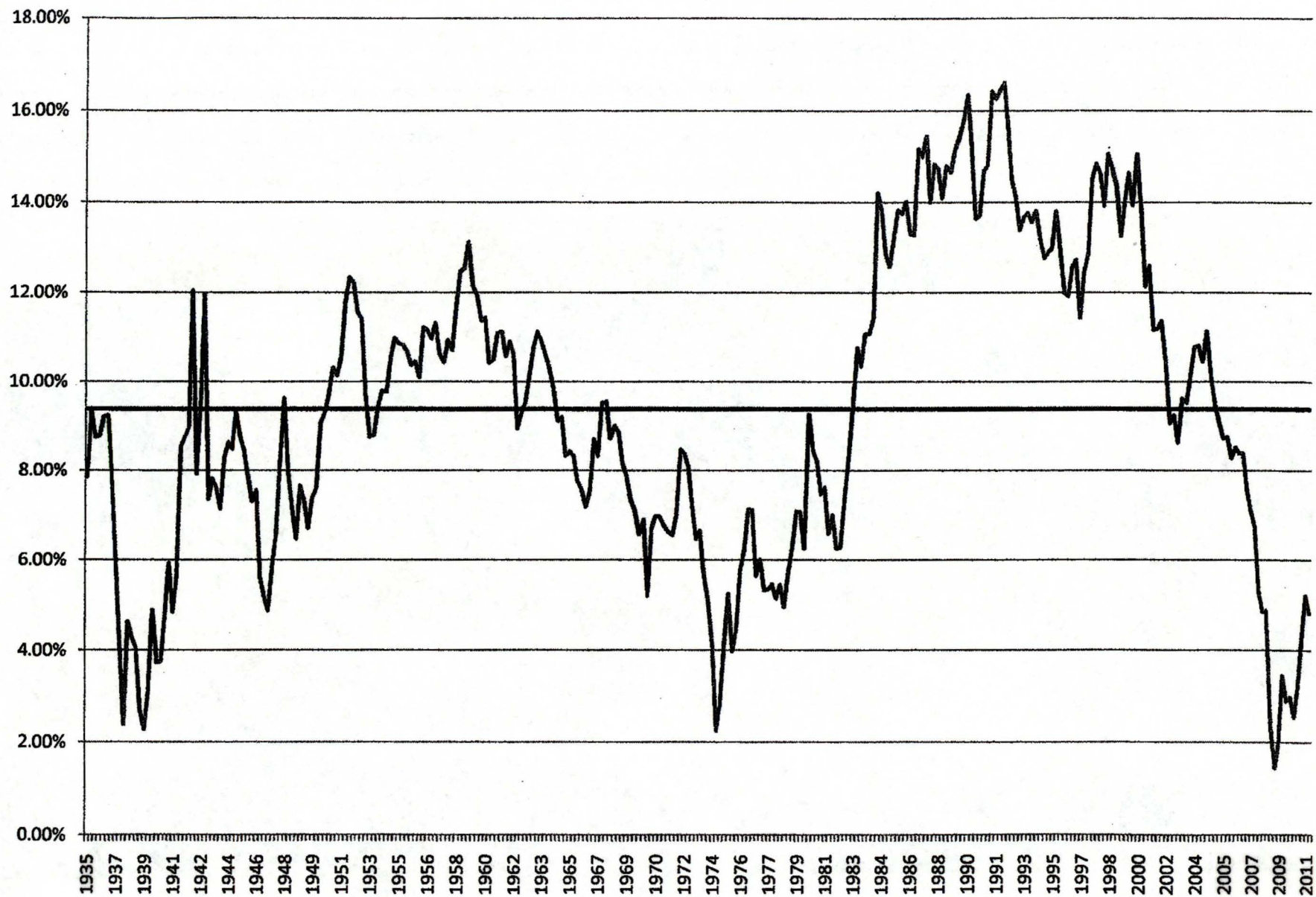
Russell 2000 Index measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2000 smallest stocks in the broad-market Russell 3000 index.

MSCI EAFE is a Morgan Stanley Capital International index that is designed to measure the performance of the developed stock markets of Europe, Australasia and the Far East.

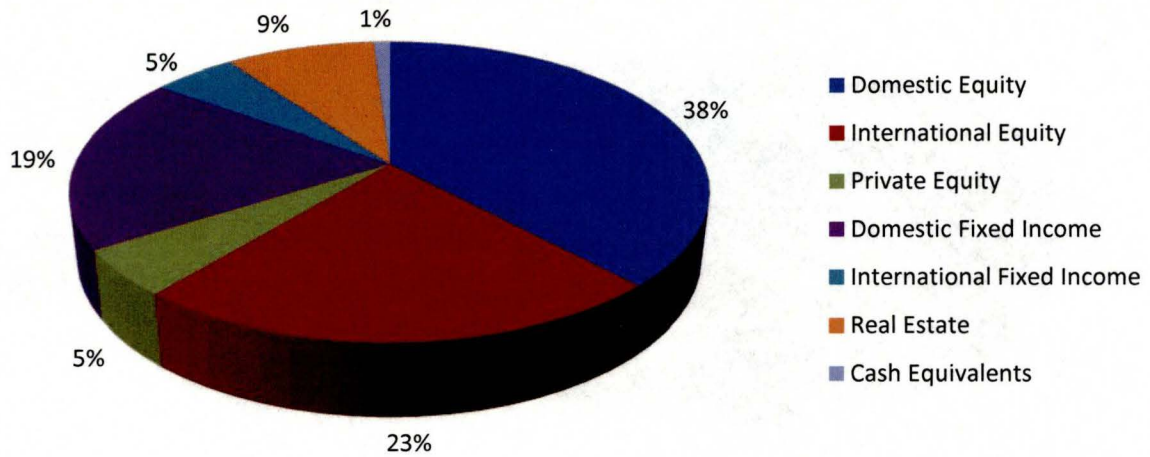
BC Agg is the Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index). The index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.

NCREIF Total Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment.

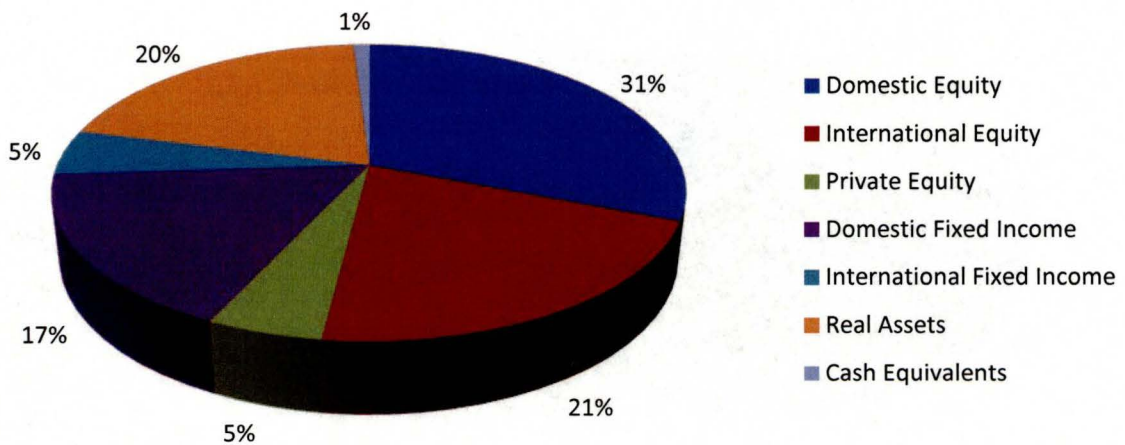
10 Year Nominal Returns - 60/40 Portfolio



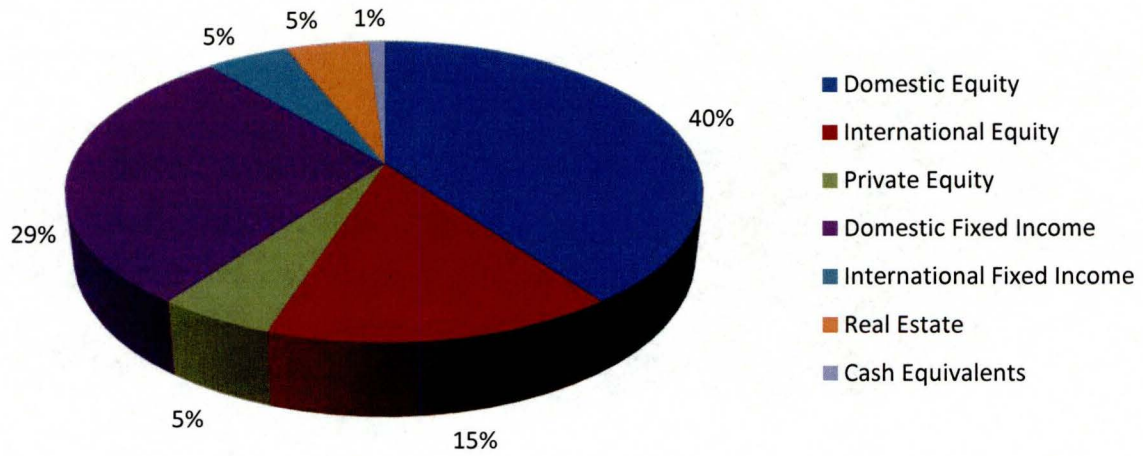
TFFR Target Asset Allocation - Old



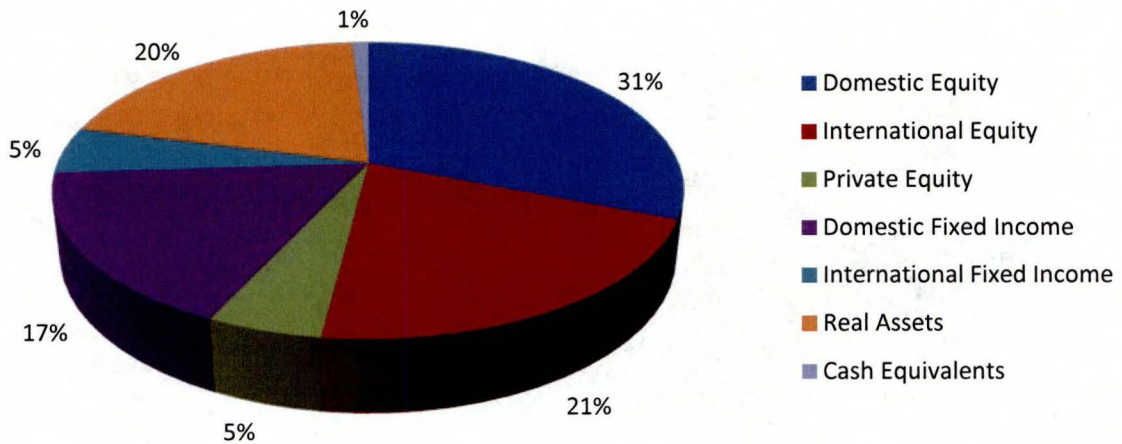
TFFR Target Asset Allocation - New



PERS Target Asset Allocation - Old



PERS Target Asset Allocation - New



The Callan Periodic Table of Investment Returns

Calendar Year Returns (1992-2011) Ranked in Order of Performance (Preliminary)

Year Ending 12/31/92	Year Ending 12/31/93	Year Ending 12/31/94	Year Ending 12/31/95	Year Ending 12/31/96	Year Ending 12/31/97	Year Ending 12/31/98	Year Ending 12/31/99	Year Ending 12/31/00	Year Ending 12/31/01	Year Ending 12/31/02	Year Ending 12/31/03	Year Ending 12/31/04	Year Ending 12/31/05	Year Ending 12/31/06	Year Ending 12/31/07	Year Ending 12/31/08	Year Ending 12/31/09	Year Ending 12/31/10	Year Ending 12/31/11
Russell 2000 Index	MSCI:EAFE US\$	MSCI:EAFE US\$	S&P 500	S&P 500	S&P 500	S&P 500	MSCI:EAFE US\$	NCREIF:Total Index	BC:Aggr Bd	BC:Aggr Bd	Russell 2000 Index	MSCI:EAFE US\$	NCREIF:Total Index	MSCI:EAFE US\$	NCREIF:Total Index	BC:Aggr Bd	MSCI:EAFE US\$	Russell 2000 Index	NCREIF:Total Index
18.4%	32.6%	7.8%	37.8%	23.0%	33.4%	28.8%	27.0%	12.2%	8.4%	10.3%	47.3%	20.2%	20.1%	26.3%	15.8%	5.2%	31.8%	26.9%	14.6%
S&P 500	Russell 2000 Index	NCREIF:Total Index	Russell 2000 Index	Russell 2000 Index	Russell 2000 Index	MSCI:EAFE US\$	Russell 2000 Index	BC:Aggr Bd	NCREIF:Total Index	NCREIF:Total Index	MSCI:EAFE US\$	Russell 2000 Index	MSCI:EAFE US\$	Russell 2000 Index	MSCI:EAFE US\$	NCREIF:Total Index	Russell 2000 Index	S&P 500	BC:Aggr Bd
7.8%	18.9%	6.4%	28.5%	16.5%	22.4%	20.0%	21.3%	11.6%	7.3%	6.7%	38.6%	18.3%	13.5%	18.4%	11.2%	(6.5%)	27.2%	18.1%	7.8%
BC:Aggr Bd	Total Fund-TFFR Net	S&P 500	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-PERS Net	NCREIF:Total Index	S&P 500	Total Fund-PERS Net	Russell 2000 Index	Total Fund-PERS Net	S&P 500	NCREIF:Total Index	Total Fund-TFFR Net	Total Fund-TFFR Net	Total Fund-PERS Net	Total Fund-PERS Net	S&P 500	Total Fund-TFFR Net	S&P 500
7.4%	13.1%	1.3%	24.3%	13.0%	17.8%	16.2%	21.0%	(0.9%)	2.5%	(9.1%)	28.7%	14.5%	12.6%	16.6%	8.6%	(28.0%)	28.5%	13.9%	2.1%
Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-PERS Net	Total Fund-TFFR Net	Total Fund-TFFR Net	Total Fund-TFFR Net	Total Fund-PERS Net	Total Fund-TFFR Net	Russell 2000 Index	Total Fund-PERS Net	Total Fund-TFFR Net	Total Fund-TFFR Net	Total Fund-TFFR Net	Total Fund-PERS Net	NCREIF:Total Index	Total Fund-TFFR Net	Total Fund-TFFR Net	Total Fund-PERS Net	NCREIF:Total Index	Total Fund-PERS Net
7.2%	13.1%	(1.3%)	23.8%	11.6%	16.4%	13.4%	19.0%	(3.0%)	(2.9%)	(12.8%)	27.4%	13.1%	12.1%	16.6%	8.0%	(30.9%)	15.6%	13.1%	(0.4%)
Total Fund-TFFR Net	S&P 500	Total Fund-TFFR Net	BC:Aggr Bd	NCREIF:Total Index	NCREIF:Total Index	Total Fund-TFFR Net	Total Fund-PERS Net	Total Fund-TFFR Net	Total Fund-TFFR Net	MSCI:EAFE US\$	Total Fund-PERS Net	Total Fund-PERS Net	S&P 500	S&P 500	BC:Aggr Bd	Russell 2000 Index	Total Fund-TFFR Net	Total Fund-PERS Net	Total Fund-TFFR Net
7.1%	10.1%	(1.6%)	18.5%	10.3%	13.9%	11.8%	13.9%	(3.5%)	(5.1%)	(15.9%)	24.9%	12.0%	4.9%	15.8%	7.0%	(33.8%)	14.9%	12.6%	(0.8%)
NCREIF:Total Index	BC:Aggr Bd	Russell 2000 Index	MSCI:EAFE US\$	MSCI:EAFE US\$	BC:Aggr Bd	BC:Aggr Bd	NCREIF:Total Index	S&P 500	S&P 500	Russell 2000 Index	NCREIF:Total Index	S&P 500	Russell 2000 Index	Total Fund-PERS Net	S&P 500	S&P 500	BC:Aggr Bd	MSCI:EAFE US\$	Russell 2000 Index
(4.3%)	9.7%	(1.8%)	11.2%	6.0%	9.6%	8.7%	11.4%	(9.1%)	(11.9%)	(20.5%)	9.0%	10.9%	4.6%	14.9%	5.5%	(37.8%)	5.9%	7.8%	(4.2%)
MSCI:EAFE US\$	NCREIF:Total Index	BC:Aggr Bd	NCREIF:Total Index	BC:Aggr Bd	MSCI:EAFE US\$	Russell 2000 Index	BC:Aggr Bd	MSCI:EAFE US\$	MSCI:EAFE US\$	S&P 500	BC:Aggr Bd	BC:Aggr Bd	BC:Aggr Bd	BC:Aggr Bd	Russell 2000 Index	MSCI:EAFE US\$	NCREIF:Total Index	BC:Aggr Bd	MSCI:EAFE US\$
(12.2%)	1.4%	(2.9%)	7.5%	3.6%	1.8%	(2.5%)	(0.8%)	(14.2%)	(21.4%)	(22.1%)	4.1%	4.3%	2.4%	4.3%	(1.6%)	(43.4%)	(16.9%)	6.5%	(12.1%)

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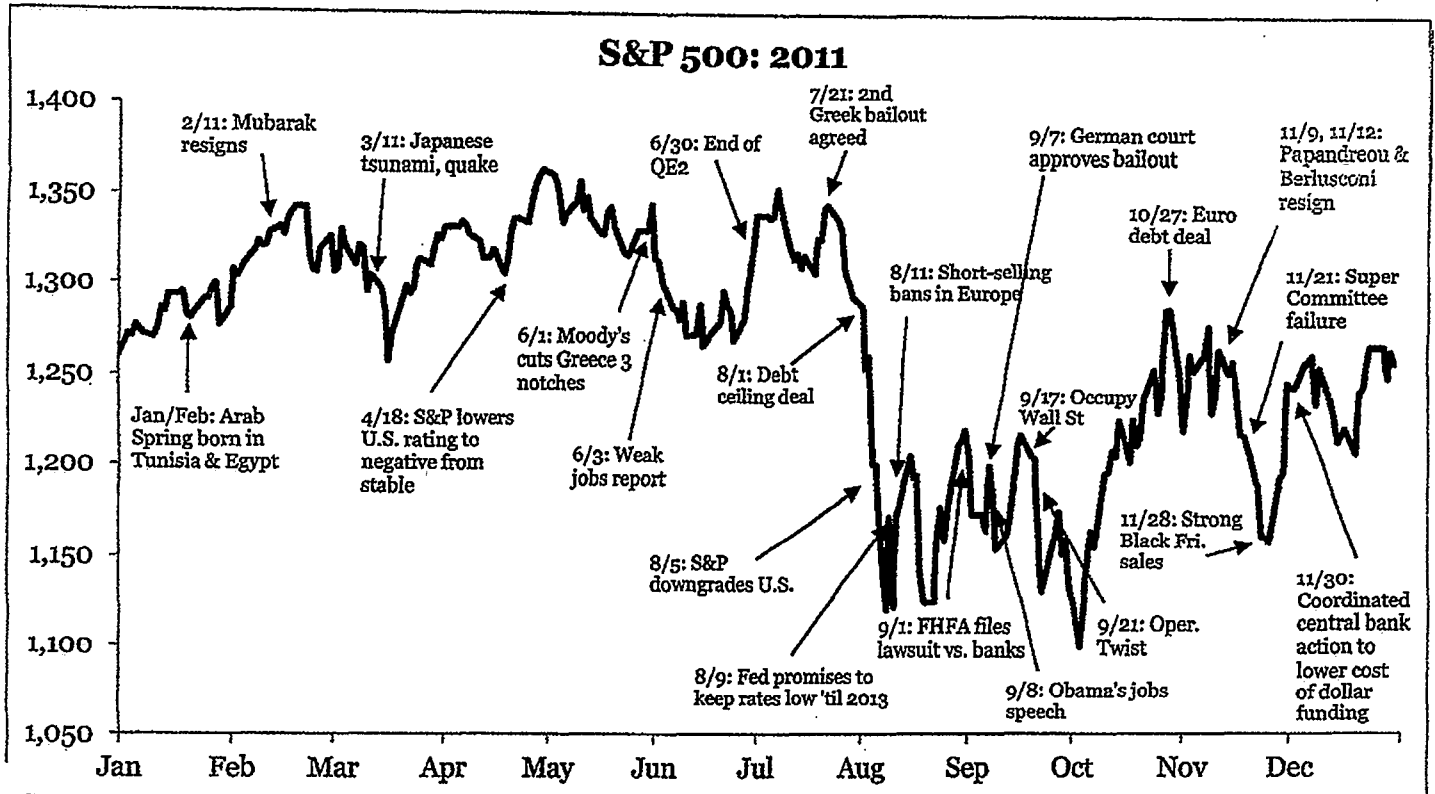
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**Estimated Fiscal Year 2012 Returns
Net of Fees
Through December 31, 2011**

	TFFR	PERS
Total Fund	-6.11%	-5.14%
Policy Benchmark	-5.73%	-3.53%

S&P 500	-3.69%
MSCI EAFE	-16.31%
MSCI Emerging Markets	-19.01%
BC Aggregate	4.98%

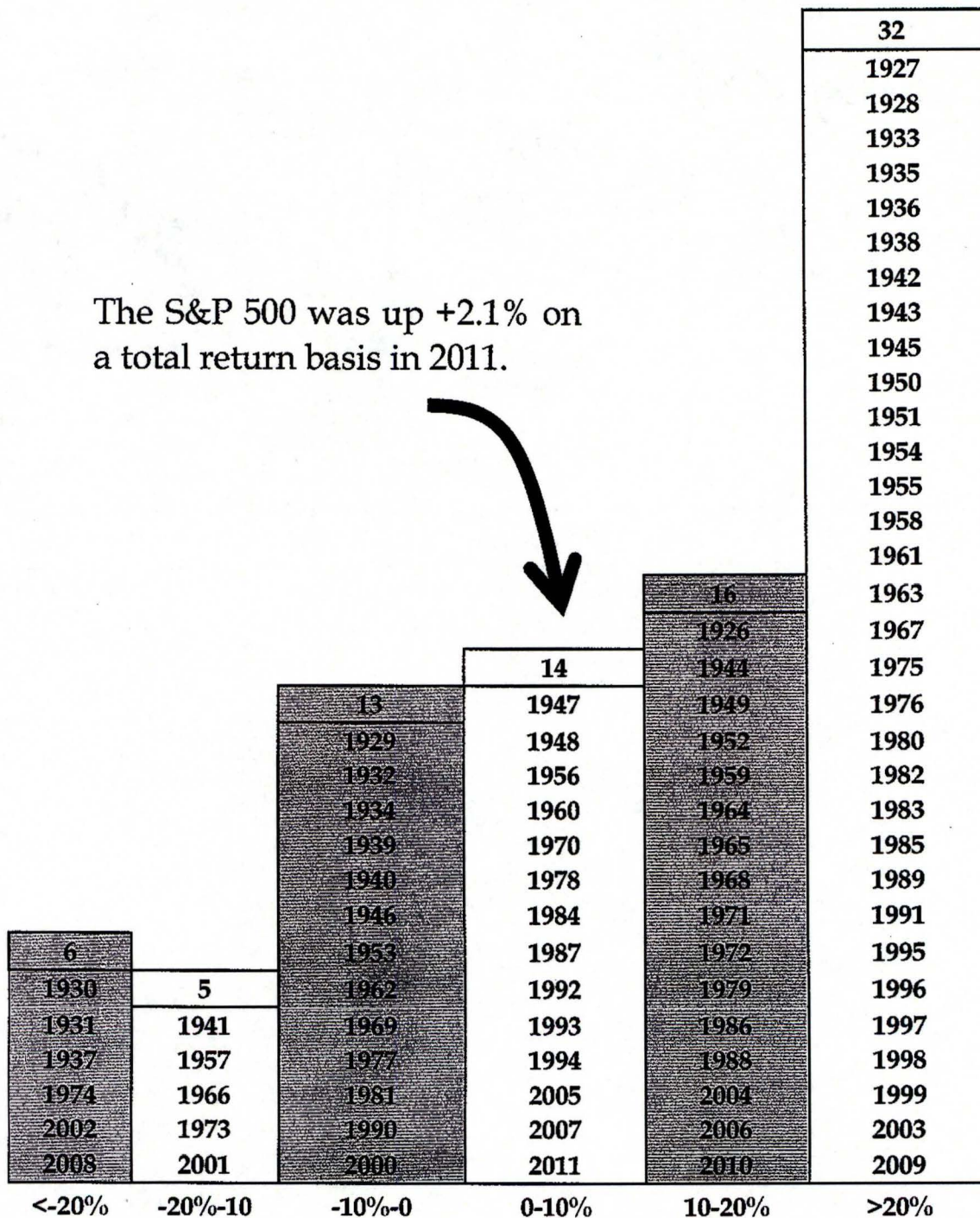
2011 – A YEAR OF LIVING DANGEROUSLY



2011 WAS A SINGLE-DIGIT RETURN YEAR (NOT VERY COMMON)

Distribution of S&P 500 Total Returns Since 1926

The S&P 500 was up +2.1% on a total return basis in 2011.



S&P 500 Annual Total Return Ranges

LARGE-CAP 10-YEAR RETURNS RECENTLY TURNED UP FROM SECULAR LOW

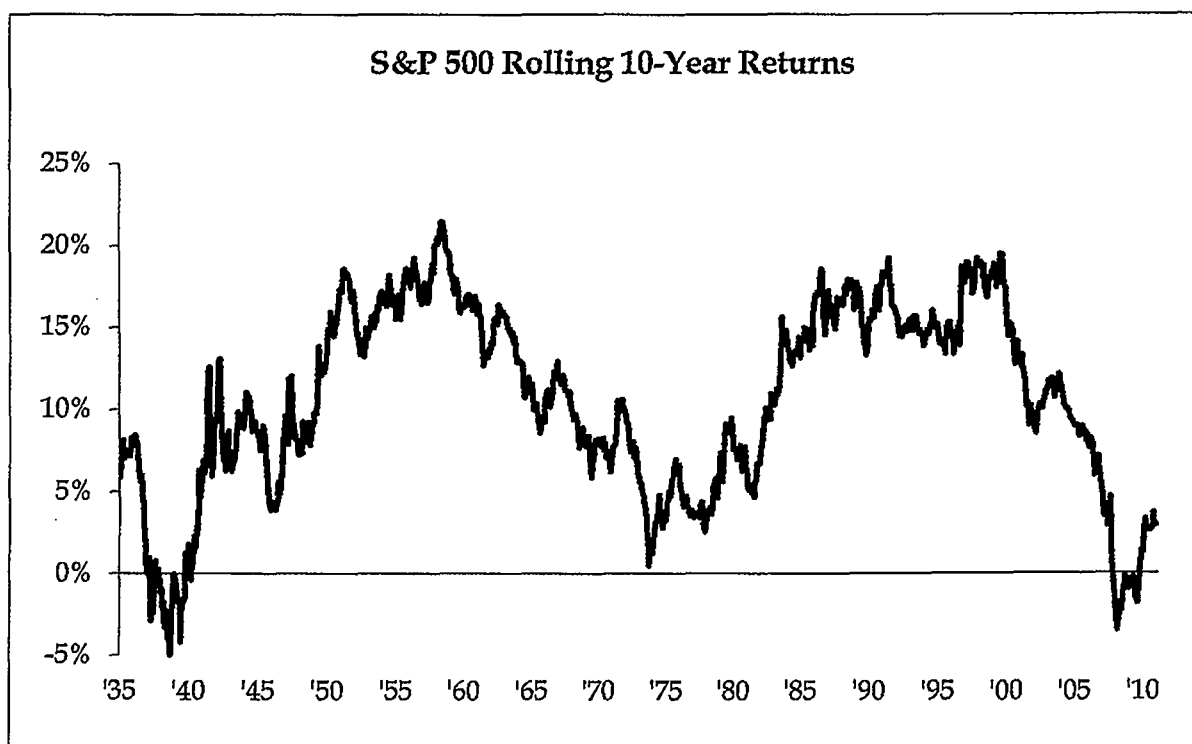
Compound Annual Rates of Return by Decade

<u>Asset Class</u>	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s	2001-2010
Long-Term Government	4.9	3.2	-0.1	1.4	5.5	12.6	8.8	7.7	6.6
Long-Term Corporate	6.9	2.7	1.0	1.7	6.2	13.0	8.4	7.6	7.6
Small-Cap Stocks	1.4	20.7	16.9	15.5	11.5	15.8	15.1	6.3	9.6
Intermediate-Term Gov't	4.3	1.8	1.3	3.5	7.0	11.9	7.2	6.2	5.6
Treasury Bills	0.6	0.4	1.9	3.9	6.3	8.9	4.9	2.8	2.2
Gold	5.3	-0.8	1.0	0.0	30.7	-2.4	-3.2	14.3	17.9
Inflation	-2.0	5.4	2.2	2.5	7.4	5.1	2.9	2.5	2.3
Large-Cap Stocks	-0.1	9.2	19.4	7.8	5.9	17.6	18.2	-0.9	1.4

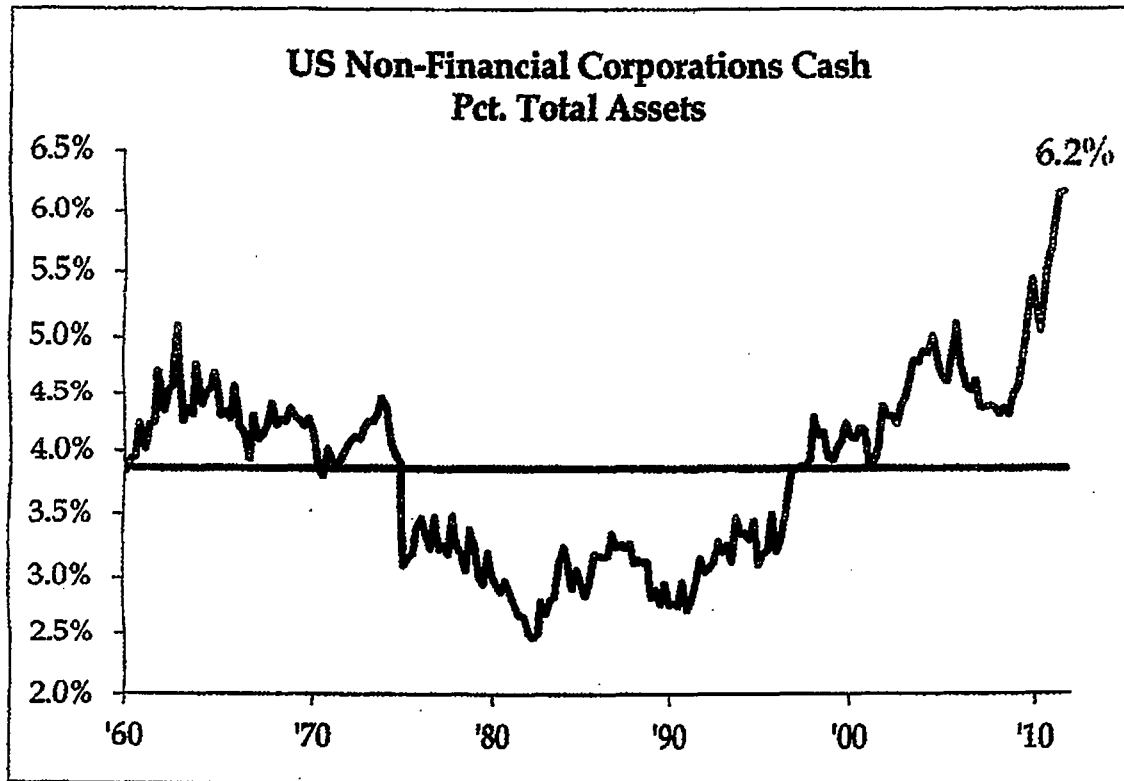
Style

	1930s	1940s	1950s	1960s	1970s	1980s	1990s	2000s	2001-2010
Small-Cap Value	-0.3	21	20	15.4	15.0	21.1	14.5	10.6	13.9
Large-Cap Value	-5.5	17.2	22.2	10.7	12.2	20.2	13.9	0.3	1.9
Small-Cap Growth	7.4	11.6	17.7	10.7	5.8	10.8	15.0	-1.1	4.2
Large-Cap Growth	1.5	7.3	17.6	7.9	3.4	15.8	19.9	-1.8	1.1

S&P 500 Rolling 10-Year Returns

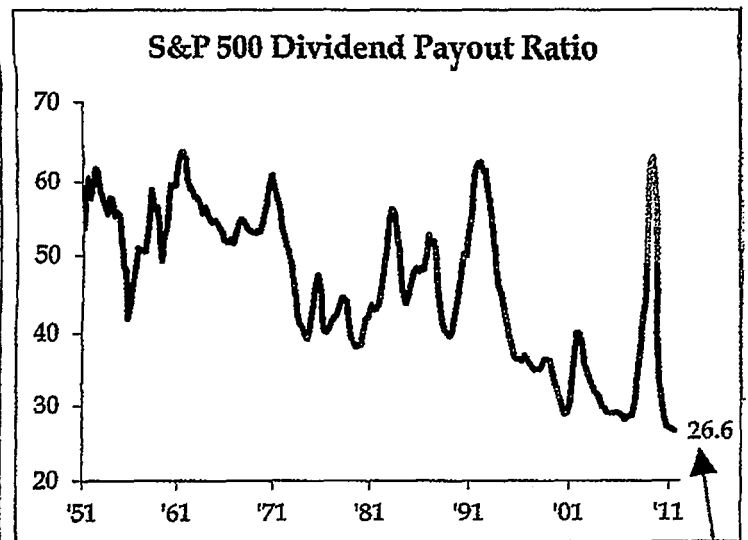
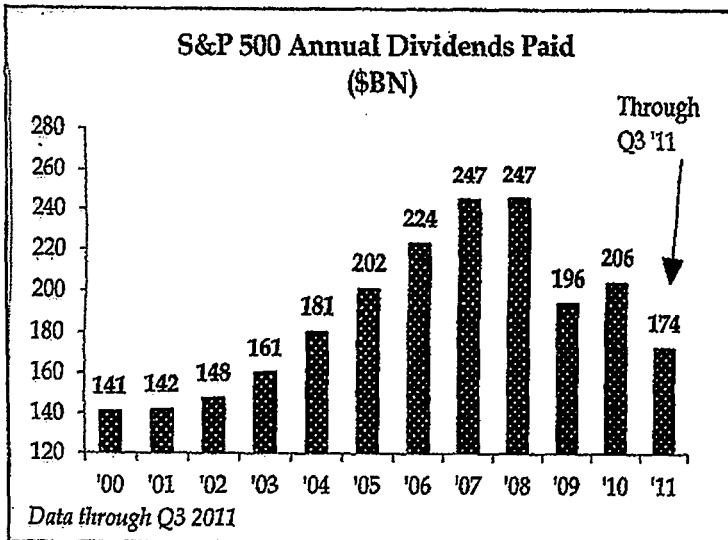


CHECKING IN ON THE USES OF CORPORATE CASH: SUBOPTIMAL DECISIONS ABOUND



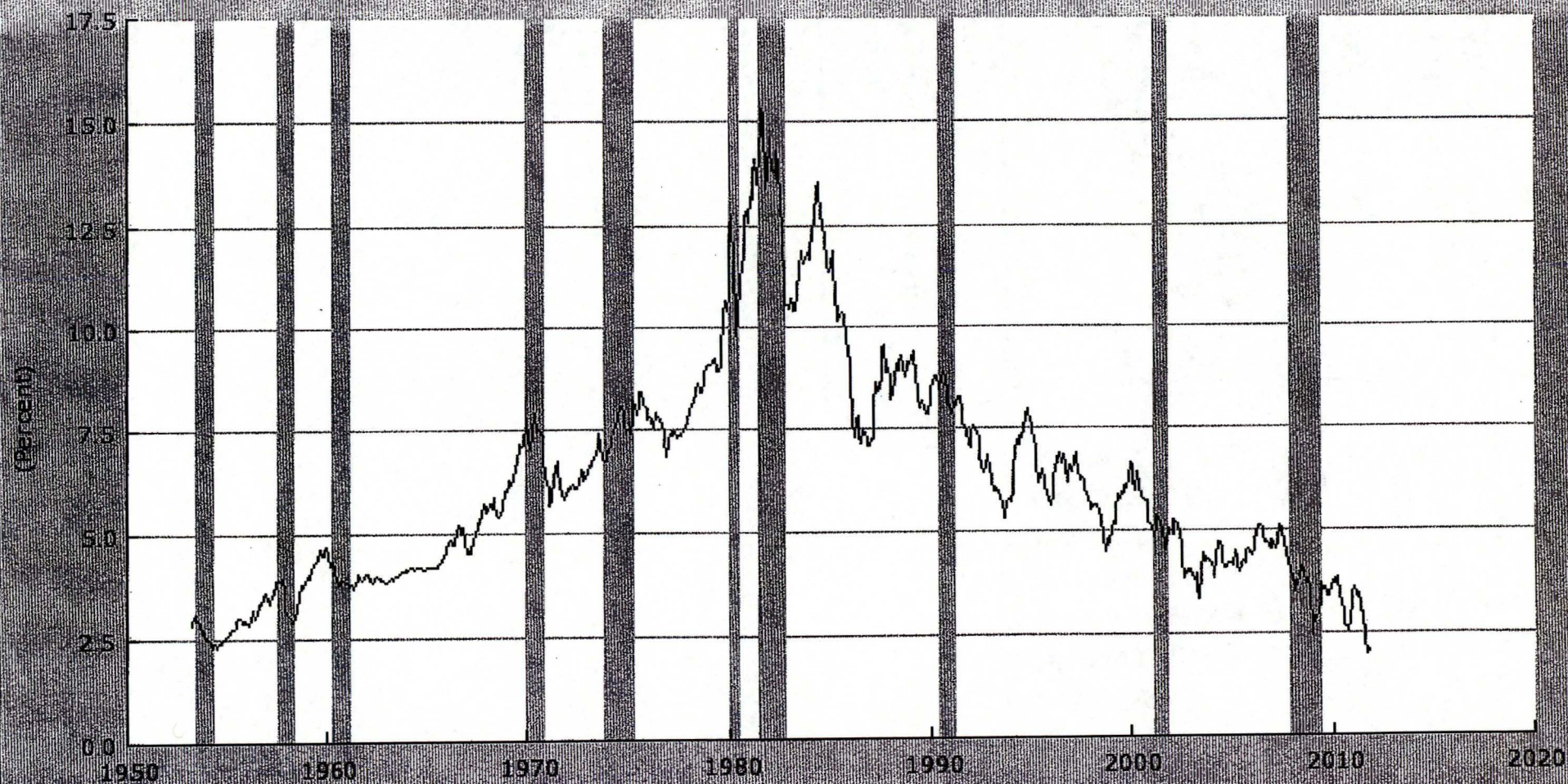
Unfortunately, the only two uses of corporate cash that appear to be in a discernible uptrend are those that appear to be most destructive to shareholder value - share repurchases and hiding it under the mattress. *The market's volatility has turned most corporate treasurers seeking to repurchase stock into terrible market timers.*

CASH ON CORPORATE BALANCE SHEETS STILL AT RECORD HIGH – PAYOUT RATIOS AT RECORD LOWS



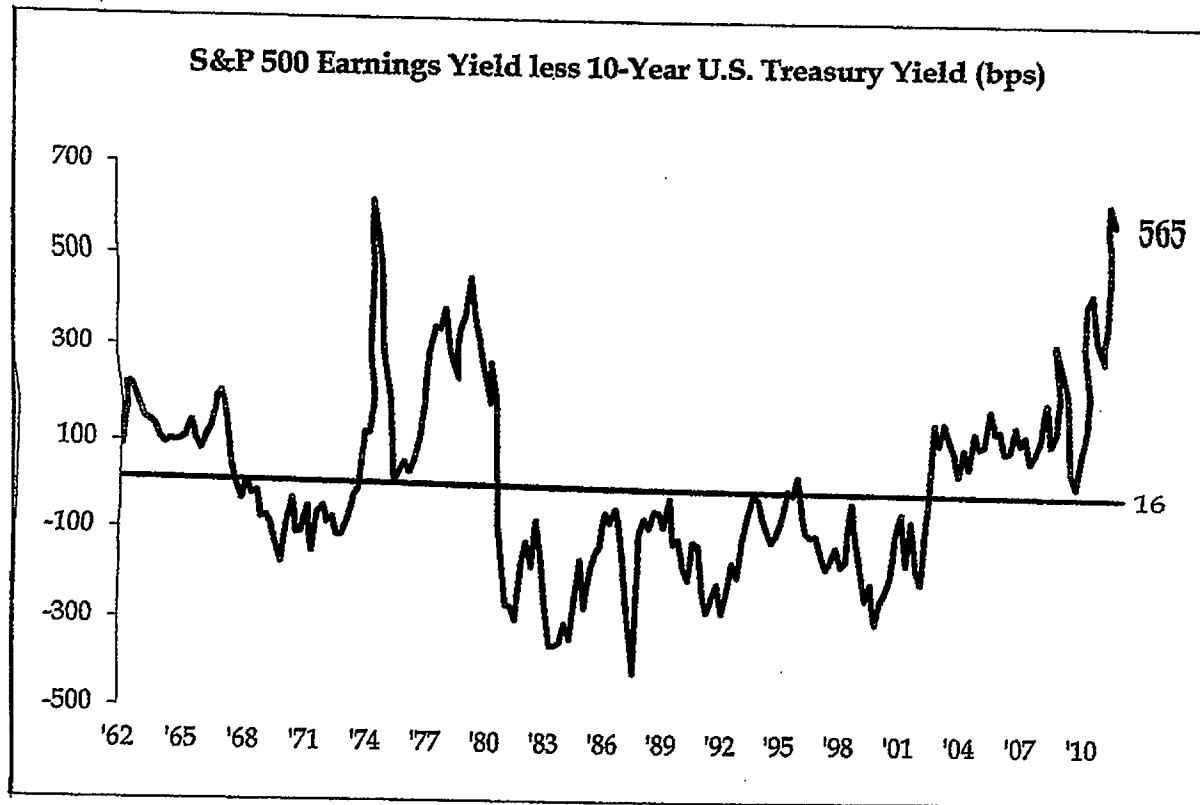
One wonders when some company might take a chance on boosting its multiple by boosting its payout ratio.

10-Year Treasury Constant Maturity Rate (GS10)
Source: Board of Governors of the Federal Reserve System

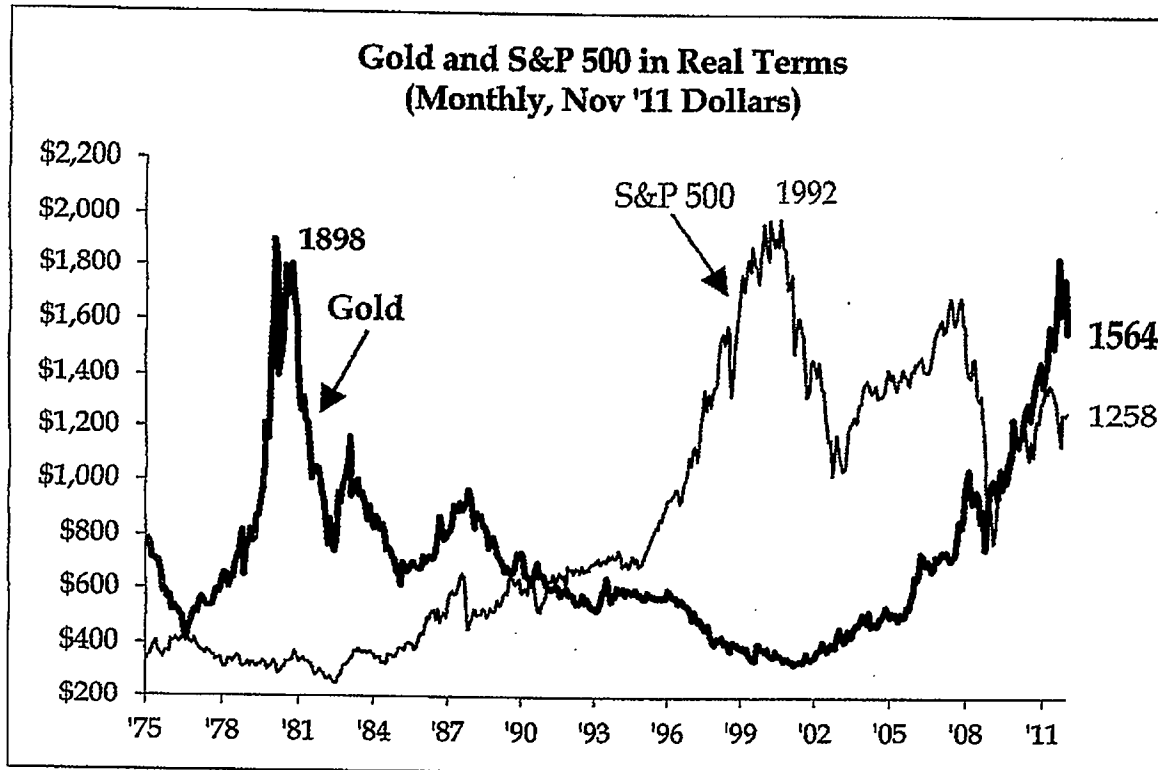


Shaded areas indicate US recessions
2012 research.stlouisfed.org

FOR THE LONG-TERM INVESTOR, GREAT VALUE IN EQUITIES RELATIVE TO FIXED INCOME



GOLD NEAR ALL-TIME HIGH IN REAL TERMS; STOCKS NOT EVEN CLOSE



STOCKS FOR THE LONG-RUN

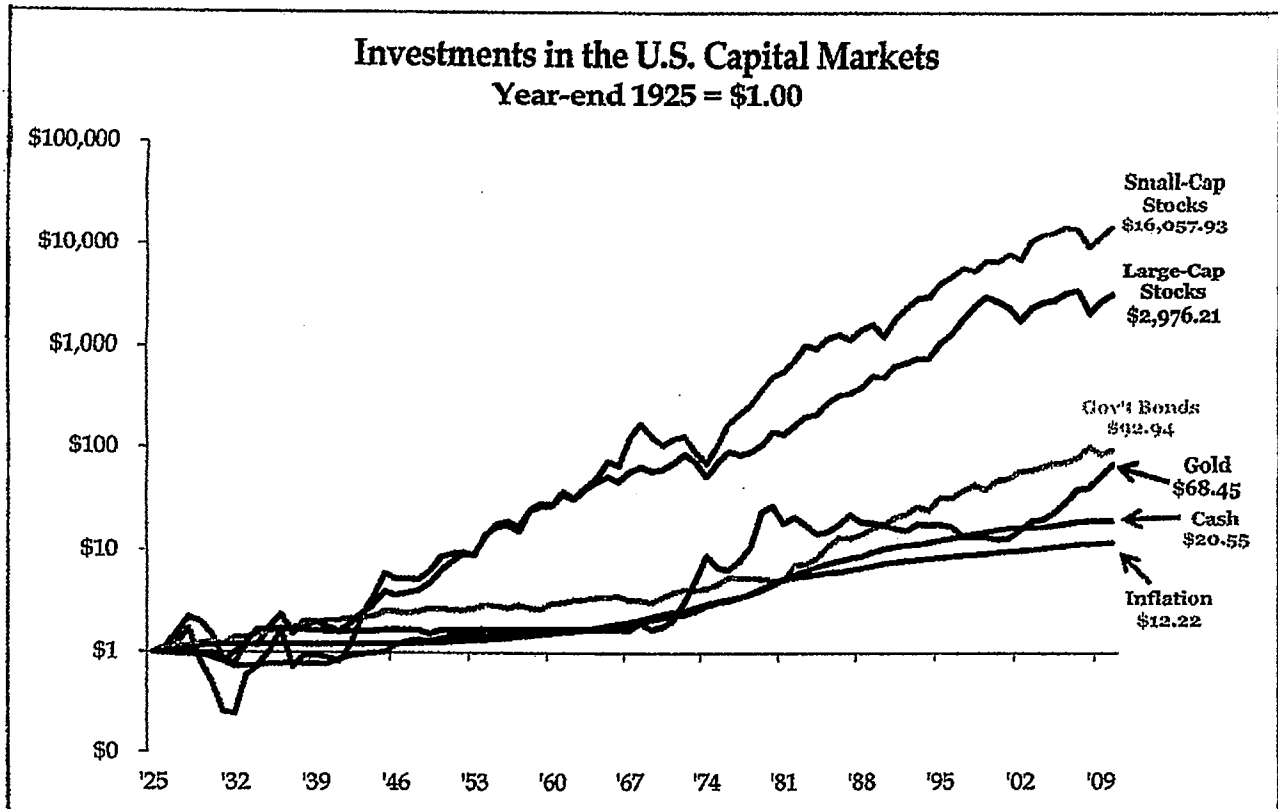
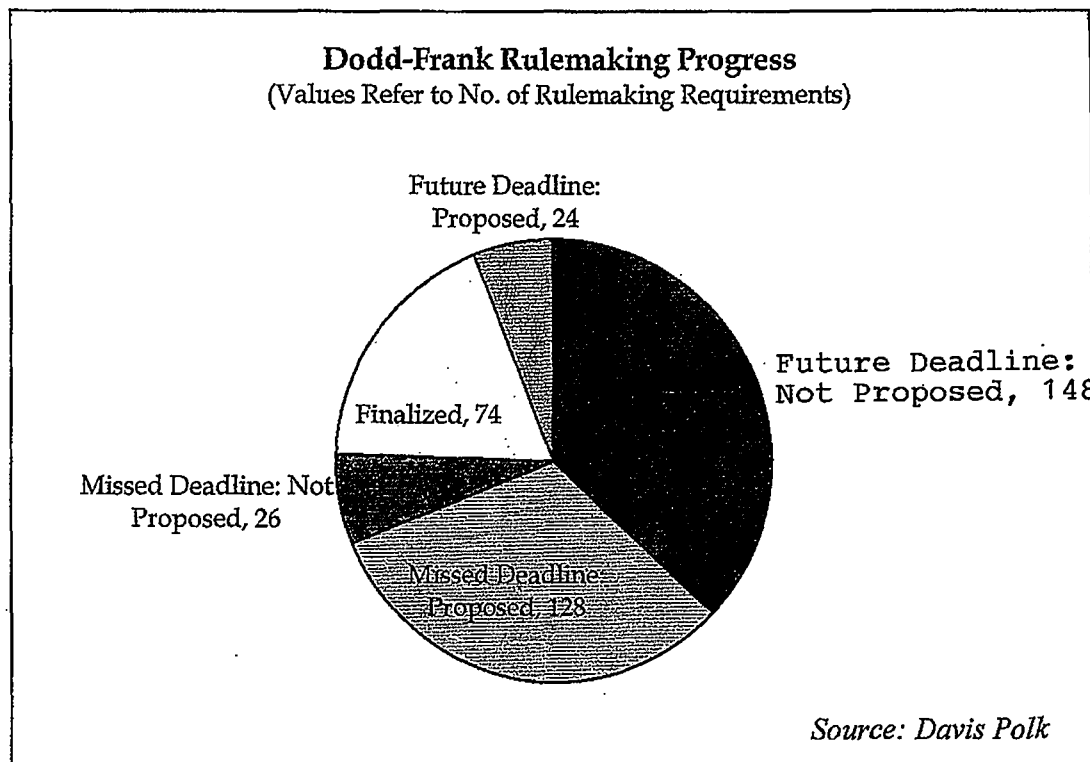
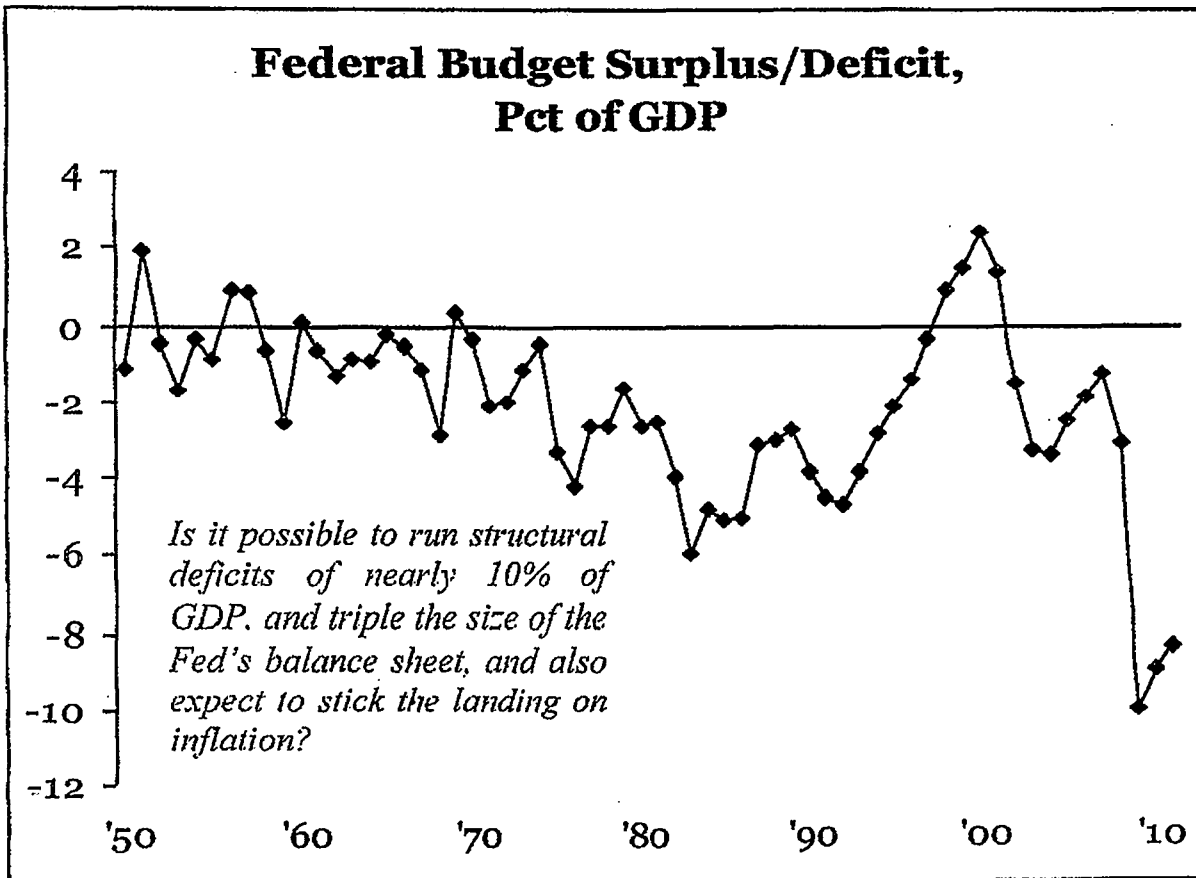


Chart through 12/31/10

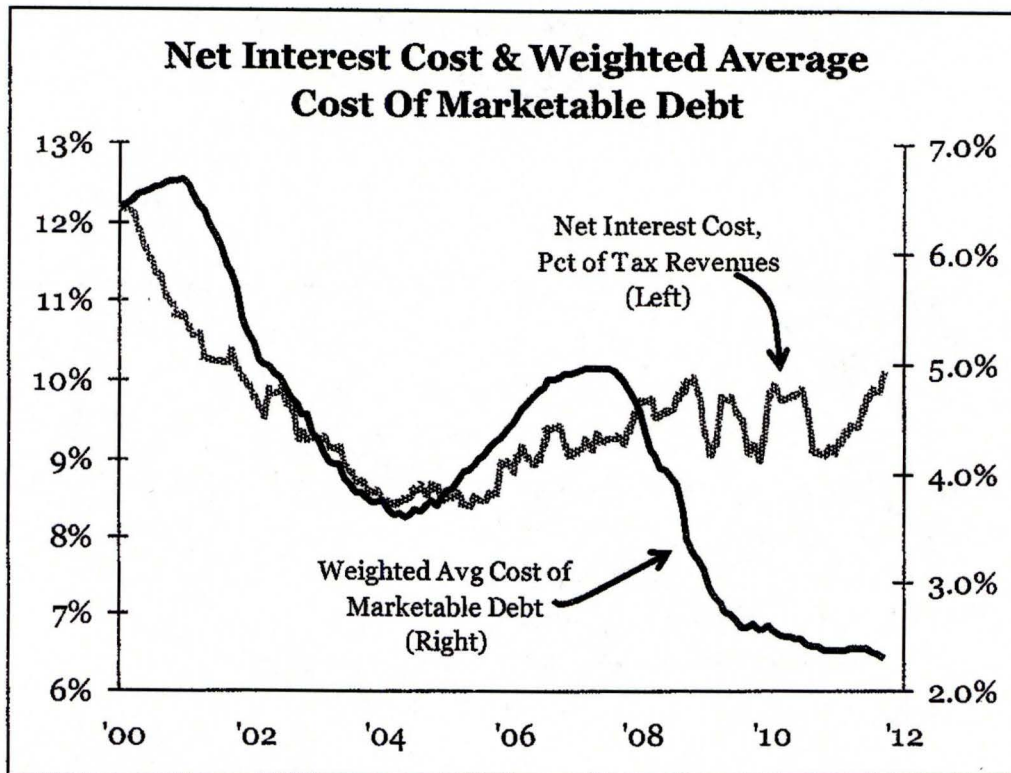
OCCUPY WALL STREET, THE VOLCKER RULE, AND THE VALUE TRAP THAT REPRESENTS FINANCIALS



EASY FISCAL & MONETARY POLICIES MAKE PRICE STABILITY A LONG SHOT



EVEN WITH LOW INTEREST RATES, NET INTEREST COST IS THE FASTEST GROWING COMPONENT OF THE BUDGET



Federal Outlays Ex-Tarp, \$BN				
Category	Actual FY 2010	Estimate FY 2011	\$ Amount	% Change
Net Interest	228	266	38	16.7%
Medicare	450	483	33	7.3%
Other Activities	1048	1088	40	3.8%
Social Security	696	720	24	3.4%
Defense	667	679	12	1.8%
Medicaid	273	275	2	0.7%
UI Benefits	162	123	-39	-24.1%
GSEs	40	5	-35	-87.5%
Total	3564	3639	75	2.1%

Source: Congressional Budget Office

CONGRESS STILL NEEDS TO COME UP WITH AN ADDITIONAL \$2 TN OF SAVINGS TO STABILIZE US DEBT

