NORTH DAKOTA BOARD OF UNIVERSITY AND SCHOOL LANDS

INVESTMENT PERFORMANCE REPORT

For periods ended September 30, 2012
PERMANENT EDUCATIONAL TRUST ASSETS

TOTAL TRUST ASSETS

The first section of this report shows combined data for the 13 permanent educational trust funds managed by the Board. Most assets of the trusts are invested in a pool. Each trust owns a share of the investments in the pool and each trust shares proportionately in the profits, losses and income generated by those investments.

For the schedule below and for all other schedules, tables and charts that follow in this report, all loans, warrants, loan portfolios and certificate of deposits are valued at cost. All other investments in marketable securities, such as stocks, bonds, mutual funds and cash equivalents are valued at market value.

<table>
<thead>
<tr>
<th>Date</th>
<th>Total Assets</th>
<th>Large Cap Equities</th>
<th>Sm/Mid Cap Equities</th>
<th>REITS</th>
<th>Convertible Securities</th>
<th>International Equities</th>
<th>Fixed Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/12</td>
<td>$2,016,161,000</td>
<td>$302,424,000</td>
<td>15.0%</td>
<td>$201,616,000</td>
<td>$120,970,000</td>
<td>120,970,000</td>
<td>$987,919,000</td>
</tr>
<tr>
<td></td>
<td>Rebalanced</td>
<td></td>
<td></td>
<td>10.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>49.0%</td>
</tr>
<tr>
<td>9/30/12</td>
<td>$2,161,446,000</td>
<td>$329,120,000</td>
<td>15.2%</td>
<td>$221,336,000</td>
<td>$126,595,000</td>
<td>201,616,000</td>
<td>$1,065,602,000</td>
</tr>
<tr>
<td>Actual</td>
<td></td>
<td></td>
<td></td>
<td>10.2%</td>
<td>5.9%</td>
<td>9.4%</td>
<td>49.3%</td>
</tr>
<tr>
<td>9/30/12</td>
<td>$2,161,446,000</td>
<td>$324,217,000</td>
<td>15.0%</td>
<td>$216,145,000</td>
<td>$129,686,000</td>
<td>216,145,000</td>
<td>$1,059,108,000</td>
</tr>
<tr>
<td>Target</td>
<td></td>
<td></td>
<td></td>
<td>10.0%</td>
<td>6.0%</td>
<td>10.0%</td>
<td>49.0%</td>
</tr>
</tbody>
</table>

♦ Total trust financial assets stood at $2.161 billion on September 30, 2012, an increase of $145.29 million over the value of trust assets at the end of June 2012.

♦ The 3.77% return earned by the combined investment portfolio during the quarter was responsible for just over $76.4 million of trust growth. Oil and gas royalties ($35.8 million) and oil extraction taxes ($26.51 million) were responsible for the majority of the remaining growth experienced by the permanent trusts during the quarter.

♦ $8.8 million was distributed from the Common Schools Trust Fund to K-12 education in North Dakota during the quarter; a total of $46.26 million will be distributed to K-12 education during fiscal year 2013.

♦ Total trust assets continue to grow at a remarkable rate. As a result, total trust distributions will increase to $138.68 million during the 2013-15 biennium, up more than 40% over the current biennium.
The actual asset allocation of the portfolio on September 30, 2012 was once again very close to the target allocation for the portfolio on that date, with equities being slightly underweight and fixed income slightly overweight.

The large overweight position to cash equivalents at the end of the quarter is primarily new cash received by the trust funds during October 2012 that is applied back to September for asset allocation purposes. This cash was used to rebalance the portfolio in late-October, 2012.

The Commissioner continued to deliberately keep the size of the convertible securities portfolio at less than the full target weight for convertible securities. The Board took action in late-September to relieve TCW of their portfolio management responsibilities and reallocate those funds.

The permanent trusts continue to fund all rebalancing activities with cash flows, primarily from oil and gas activities. The large cash flows being generated by trust lands continue to help keep rebalancing costs far lower than most plan sponsors experience.

**ACTUAL ALLOCATION VS. TARGET ALLOCATION AS OF SEPTEMBER 30, 2012**

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Actual $ million</th>
<th>Actual %</th>
<th>Target $ million</th>
<th>Target %</th>
<th>Difference $ million</th>
<th>% Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Large Cap Equities</td>
<td>$ 329.12</td>
<td>15.2%</td>
<td>$ 324.21</td>
<td>15.0%</td>
<td>$ 4.91</td>
<td>0.2%</td>
</tr>
<tr>
<td>US Sm/Mid Cap Equities</td>
<td>221.34</td>
<td>10.2%</td>
<td>216.15</td>
<td>10.0%</td>
<td>5.19</td>
<td>0.2%</td>
</tr>
<tr>
<td>REITS</td>
<td>126.59</td>
<td>5.9%</td>
<td>129.68</td>
<td>6.0%</td>
<td>(3.09)</td>
<td>(0.1%)</td>
</tr>
<tr>
<td>Convertible Securities</td>
<td>202.54</td>
<td>9.4%</td>
<td>216.15</td>
<td>10.0%</td>
<td>(13.61)</td>
<td>(0.6%)</td>
</tr>
<tr>
<td>International Equities</td>
<td>216.25</td>
<td>10.0%</td>
<td>216.15</td>
<td>10.0%</td>
<td>0.10</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Equities</strong></td>
<td>$ 1,095.84</td>
<td>50.7%</td>
<td>$ 1,102.34</td>
<td>51.0%</td>
<td>($ 6.50)</td>
<td>(0.3%)</td>
</tr>
<tr>
<td>US Invest. Grade Fixed-Income</td>
<td>679.13</td>
<td>31.4%</td>
<td>699.10</td>
<td>32.3%</td>
<td>(19.97)</td>
<td>(0.9%)</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>32.98</td>
<td>1.5%</td>
<td>0.00</td>
<td>0.0%</td>
<td>32.98</td>
<td>1.5%</td>
</tr>
<tr>
<td>Loans</td>
<td>35.80</td>
<td>1.7%</td>
<td>35.80</td>
<td>1.7%</td>
<td>0.0</td>
<td>0.0%</td>
</tr>
<tr>
<td>High Yield Fixed-Income</td>
<td>211.47</td>
<td>9.8%</td>
<td>216.14</td>
<td>10.0%</td>
<td>(4.67)</td>
<td>(0.2%)</td>
</tr>
<tr>
<td>International Fixed-Income</td>
<td>106.23</td>
<td>4.9%</td>
<td>108.07</td>
<td>5.0%</td>
<td>(1.84)</td>
<td>(0.1%)</td>
</tr>
<tr>
<td><strong>Total Fixed-Income</strong></td>
<td>$ 1,065.61</td>
<td>49.3%</td>
<td>$ 1,059.11</td>
<td>49.0%</td>
<td>$ 6.50</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>Total Portfolio</strong></td>
<td>$ 2,161.45</td>
<td>100.0%</td>
<td>$ 2,161.45</td>
<td>100.0%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FINANACIAL MARKET OVERVIEW

FIXED INCOME MARKETS
♦ The Treasury curve was little changed during the quarter ended September 30, 2012, but was flatter than one year ago as short-term rates rose slightly and long-term rates fell.

♦ The Fed once again informed market participants that they would keep interest rates low for the foreseeable future.

♦ The long end of the curve was at or near historic lows on September 30, 2012. 10-year Treasury bonds were yielding 1.65% at quarter’s end, down 2 basis points from June 30, 2012, while 30-year Treasuries were yielding 2.82% at quarter’s end, up 6 basis points for the quarter.

♦ Tightening credit spreads were responsible for the strong returns posted by both high yield bonds and investment grade corporate bonds for the quarter and year ended September 30, 2012. Over the past year, high yield spreads tightened by more than 100 basis points, while investment grade corporate spreads tightened by more than 500 basis points.

EQUITY MARKETS
♦ Every equity asset class in the portfolio posted a positive return during the quarter ended September 30, 2012.

♦ Although every equity asset class posted double-digit returns for the trailing year, domestic stocks of all types and sizes were clearly the strongest performers by far.

♦ During the quarter, domestic large cap stocks outperformed smaller cap stocks by a small margin. Cyclical stocks were the strongest performers during the quarter, including the Energy (+10.2%), Telecomm (+8.0%) and Consumer Discretionary (+7.5%) sectors. Defensive stocks, such as utility companies were the weakest performers during the quarter.
## MANAGER AND PORTFOLIO RETURNS

### RETURNS FOR PERIODS ENDED SEPTEMBER 30, 2012

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Manager/Advisor</th>
<th>9/30/12 Allocation ($ mil.)</th>
<th>% of Total Portfolio</th>
<th>Last Qtr.</th>
<th>Last 1 Year</th>
<th>Last 3 Years</th>
<th>Last 5 Years</th>
<th>Last 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Large Cap US Equity</strong></td>
<td>STATE STREET - S&amp;P 500 Index</td>
<td>$329.12</td>
<td>15.2%</td>
<td>6.33</td>
<td>30.14</td>
<td>13.20</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>S&amp;P 500 Index</td>
<td></td>
<td></td>
<td>6.35</td>
<td>30.18</td>
<td>13.20</td>
<td>1.05</td>
<td>8.01</td>
</tr>
<tr>
<td></td>
<td>Small/Mid Cap US Equities</td>
<td>$221.34</td>
<td>10.2%</td>
<td>5.58</td>
<td>28.60</td>
<td>12.76</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>NORTHERN TRUST</td>
<td>$107.38</td>
<td>4.9%</td>
<td>5.67</td>
<td>27.62</td>
<td>12.09</td>
<td>0.71</td>
<td>8.92</td>
</tr>
<tr>
<td></td>
<td>STATE STREET - Small/Mid Index</td>
<td>$113.96</td>
<td>5.3%</td>
<td>5.50</td>
<td>29.82</td>
<td>13.80</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>60% R2000/40% Russell Mid Cap</td>
<td></td>
<td></td>
<td>5.38</td>
<td>30.68</td>
<td>13.58</td>
<td>2.91</td>
<td>10.46</td>
</tr>
<tr>
<td></td>
<td>Russell Completeness Index</td>
<td></td>
<td></td>
<td>5.51</td>
<td>29.72</td>
<td>13.67</td>
<td>2.42</td>
<td>10.70</td>
</tr>
<tr>
<td><strong>Real Estate Investment Trusts (REITs)</strong></td>
<td>DELAWARE INVESTMENT ADVISORS</td>
<td>$126.59</td>
<td>5.9%</td>
<td>(0.21)</td>
<td>31.69</td>
<td>20.51</td>
<td>2.62</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>NAREIT Equity REIT Index</td>
<td></td>
<td></td>
<td>0.16</td>
<td>32.61</td>
<td>20.38</td>
<td>2.11</td>
<td>11.39</td>
</tr>
<tr>
<td><strong>Convertible Securities</strong></td>
<td>TRUST COMPANY OF THE WEST</td>
<td>$202.54</td>
<td>9.4%</td>
<td>4.13</td>
<td>10.06</td>
<td>6.09</td>
<td>(1.45)</td>
<td>5.07</td>
</tr>
<tr>
<td></td>
<td>Merrill Lynch All US Convertibles Index</td>
<td></td>
<td></td>
<td>4.92</td>
<td>16.63</td>
<td>9.48</td>
<td>2.80</td>
<td>7.93</td>
</tr>
<tr>
<td></td>
<td>Merrill Lynch All US Investment Grade Index</td>
<td></td>
<td></td>
<td>5.15</td>
<td>14.02</td>
<td>6.52</td>
<td>(0.52)</td>
<td>4.14</td>
</tr>
<tr>
<td><strong>Total Domestic Equities</strong></td>
<td></td>
<td>$879.59</td>
<td>40.7%</td>
<td>4.67</td>
<td>25.04</td>
<td>12.53</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>International Equities</strong></td>
<td>STATE STREET - International Alpha</td>
<td>$216.25</td>
<td>10.0%</td>
<td>7.10</td>
<td>12.23</td>
<td>0.20</td>
<td>(7.55)</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>MSCI EAFE Index</td>
<td></td>
<td></td>
<td>6.92</td>
<td>13.75</td>
<td>2.12</td>
<td>(5.24)</td>
<td>8.20</td>
</tr>
<tr>
<td><strong>Total Equities</strong></td>
<td></td>
<td>$1,095.84</td>
<td>50.7%</td>
<td>5.14</td>
<td>22.52</td>
<td>10.13</td>
<td>(1.74)</td>
<td>7.51</td>
</tr>
<tr>
<td><strong>US Investment Grade Fixed Income</strong></td>
<td></td>
<td>$712.11</td>
<td>32.9%</td>
<td>2.06</td>
<td>6.79</td>
<td>6.89</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>PAYDEN &amp; RYGEL - Aggregate</td>
<td>$218.37</td>
<td>10.1%</td>
<td>3.43</td>
<td>9.15</td>
<td>8.04</td>
<td>7.30</td>
<td>6.07</td>
</tr>
<tr>
<td></td>
<td>JP MORGAN - Intermediate</td>
<td>$217.07</td>
<td>10.0%</td>
<td>1.07</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>BND - Project Notes</td>
<td>$2.84</td>
<td>0.1%</td>
<td>0.29</td>
<td>3.13</td>
<td>5.02</td>
<td>6.27</td>
<td>5.04</td>
</tr>
<tr>
<td></td>
<td>PAYDEN &amp; RYGEL - GNMA/Short Bond</td>
<td>$85.40</td>
<td>4.0%</td>
<td>1.72</td>
<td>5.15</td>
<td>4.91</td>
<td>5.51</td>
<td>4.37</td>
</tr>
<tr>
<td></td>
<td>NORTHERN TRUST - TIPS</td>
<td>$155.45</td>
<td>7.2%</td>
<td>2.21</td>
<td>9.01</td>
<td>9.72</td>
<td>8.07</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>PAYDEN &amp; RYGEL - Cash</td>
<td>$32.98</td>
<td>1.5%</td>
<td>0.01</td>
<td>(0.01)</td>
<td>0.04</td>
<td>0.77</td>
<td>1.88</td>
</tr>
<tr>
<td></td>
<td>Barclay's Capital US Aggregate Index</td>
<td></td>
<td></td>
<td>1.59</td>
<td>5.16</td>
<td>6.20</td>
<td>6.54</td>
<td>5.33</td>
</tr>
<tr>
<td></td>
<td>Barclay's Capital TIPS</td>
<td></td>
<td></td>
<td>2.12</td>
<td>9.09</td>
<td>9.28</td>
<td>7.93</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>6 Month T-Bill</td>
<td></td>
<td></td>
<td>0.04</td>
<td>0.09</td>
<td>0.17</td>
<td>1.02</td>
<td>1.93</td>
</tr>
<tr>
<td><strong>Loans</strong></td>
<td></td>
<td>$35.80</td>
<td>1.7%</td>
<td>1.47</td>
<td>6.08</td>
<td>6.37</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>BND - Farm Loan Pool</td>
<td>$33.52</td>
<td>1.6%</td>
<td>1.47</td>
<td>6.09</td>
<td>6.35</td>
<td>6.70</td>
<td>7.19</td>
</tr>
<tr>
<td></td>
<td>BND – Energy Construction Loans</td>
<td>$2.28</td>
<td>0.1%</td>
<td>1.38</td>
<td>5.72</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>US High Yield Fixed Income</strong></td>
<td>LAZARD ASSET MANAGEMENT</td>
<td>$211.47</td>
<td>9.8%</td>
<td>3.35</td>
<td>15.13</td>
<td>10.16</td>
<td>7.57</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Merrill Lynch US High Yield Cash Pay Index</td>
<td></td>
<td></td>
<td>4.58</td>
<td>18.82</td>
<td>12.57</td>
<td>8.97</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Merrill Lynch BB/B Index</td>
<td></td>
<td></td>
<td>4.45</td>
<td>17.82</td>
<td>12.04</td>
<td>8.31</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Domestic Fixed Income</strong></td>
<td></td>
<td>$959.38</td>
<td>44.4%</td>
<td>2.33</td>
<td>8.59</td>
<td>7.65</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>International Inv. Grade Fixed Income</strong></td>
<td>FIRST INT'L ADVISORS</td>
<td>$106.23</td>
<td>4.9%</td>
<td>2.56</td>
<td>6.16</td>
<td>5.70</td>
<td>6.00</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Merrill Lynch Broad Global (Ex-US) Index - Hedged</td>
<td></td>
<td></td>
<td>2.23</td>
<td>5.99</td>
<td>4.28</td>
<td>4.87</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Fixed Income</strong></td>
<td></td>
<td>$1,065.61</td>
<td>49.3%</td>
<td>2.35</td>
<td>8.32</td>
<td>7.44</td>
<td>6.89</td>
<td>5.95</td>
</tr>
<tr>
<td><strong>Total Portfolio</strong></td>
<td></td>
<td>$2,161.45</td>
<td>100.0%</td>
<td>3.77</td>
<td>15.32</td>
<td>9.09</td>
<td>3.09</td>
<td>6.98</td>
</tr>
</tbody>
</table>

All return figures for periods of 1 year or greater have been annualized. All returns are net of fees.
EQUITY PORTFOLIO REVIEW

- The combined equity and convertible securities portfolio posted a total return of 5.14% during the quarter ended September 30, 2012; the portfolio returned 22.52% and 10.13% over the trailing one and three-year periods there ended. The return of the equity portfolio is still negative over the trailing five-year period.

- For the first time in a very long time the ten-year return of the combined equity portfolio (7.51%) is greater than the ten-year return of the combined fixed income portfolio (5.95%)

- Both Northern Trust (Small/Mid) and State Street (International) outperformed their benchmarks for the quarter ended September 30, 2012 while TCW (converts) and Delaware (REITs) underperformed. All active equity managers underperformed for the trailing year there ended.

- In September 2012 the Board terminated Trust Company of the West as its convertible securities manager and reallocated the assets to other existing equity mandates. The revised asset allocation will be reflected in the 4th quarter 2012 Investment Performance Report.

Northern Trust – Small/Mid Cap

- Northern Trust outperformed the benchmark for this account for the quarter ended September 30, 2012. They have underperformed the benchmark by a small margin since the benchmark and manager lineup were adjusted in late 2011 to better reflect the actual way managers invest in mid and small cap markets.

- During the quarter, stock and sector selection added most to the relative performance to the portfolio; stock selection in the technology, consumer discretionary and energy sectors added the most value.

Delaware Investment Advisors

- Delaware underperformed the benchmark for this portfolio by relatively small margins for both the quarter and trailing one-year period ended September 30, 2012; they have outperformed the index by a small margin for the trailing three and five-year periods there ended.

- Delaware’s focus on quality office REITs added to performance during the quarter as did the portfolio’s underweight position to data centers. Investments in apartment and self-storage REITs hurt performance, as did an underweight position to Prologis (a distribution facilities developer/owner), which advanced more than 6% for the quarter.

Trust Company of the West (TCW)

- TCW underperformed versus the broad Merrill Lynch All US Convertibles Index for all periods shown in the table on page 4; they underperformed the investment grade convertibles index for all periods shown except for the ten-year period ended September 30, 2012.

- There were a number of reasons for TCW’s termination, including the August 2012 announcement that TCW was going to be purchased by the Carlyle Group, recent substantial underperformance, and a lack of communications related to personnel/investment strategy changes.

State Street Global Advisors (SSGA) – International Alpha

- Although SSGA outperformed the benchmark for this account for the quarter ended September 30, 2012, they have underperformed versus the benchmark for all other periods shown in the table on page 4.

- Representatives of SSGA met with the Commissioner and staff in Bismarck in late June to discuss the portfolio and significant changes made by SSGA to the computer model that is used to run this portfolio. The Commissioner and staff continue to monitor and evaluate the performance attribution of this portfolio.; the Commissioner expects to have a recommendation for the Board in January 2013.

- In the meantime, no new money will be added to this portfolio. Instead, any new funds that are to be invested in international equities will be added to the new EAFE Index account opened with Northern Trust as a result of Board action in August 2012.
FIXED INCOME PORTFOLIO REVIEW

♦ The combined fixed income portfolio posted a total return of 2.35% during the quarter ended September 30, 2012 and 8.35% for the trailing year there ended. Over the past 10 years the combined fixed income portfolio has returned an average of just under 6% per year.

♦ Every fixed income portfolio posted a positive return for the quarter ended September 30, 2012; with short term rates at historic lows, the Payden & Rygel Cash portfolio is the only portfolio to post a negative return, after fees, for the trailing year there ended.

♦ On March 29, 2012, the Board approved a 10% allocation to J.P. Morgan for an intermediate bond portfolio and a 10% allocation to an Aggregate bond portfolio to be managed by Payden & Rygel. Both of these portfolios were funded out of GNMA/Short Bond Account and the funding of both portfolios was completed during the 3rd quarter of 2012.

Payden & Rygel – Aggregate
♦ This portfolio outperformed its Barclay’s Capital Aggregate Index benchmark for all periods shown in the table on page 4. An overweight to corporate credit coupled with contracting credit spreads was the primary driver of outperformance over the past year.

♦ The transition of this portfolio to an actively managed aggregate bond portfolio was completed in August with the transfer of $60 million to bring it up to the 10% target weight established by the Board.

J.P Morgan – Intermediate
♦ The funding of this portfolio was completed in July 2012 with three $50 million transfers, each a week apart. Initial funding of the account with $50 million occurred in late-June. Performance monitoring of this portfolio will begin effective August 1, 2012.

♦ This portfolio earned 1.07% for the quarter ended September 30, 2012, although official performance monitoring will not start until August 1, 2012. Performance of the portfolio will be measured versus the Barclay Capital Government/Corporate Intermediate Index.

Payden & Rygel - Cash
♦ If interest rates continue as low as they have been over the past few years we may have to rethink having an actively managed cash portfolio. With the huge cash flows currently going thru this account it is almost impossible for Payden & Rygel to earn any income or add any value over the index used to monitor this account.

Bank of North Dakota (BND) – Farm Loan Pool
♦ Since April 2012 no new loans have been funded in this portfolio. With long-term rates at or near historic lows, the Commissioner has not wanted to add new loans to the portfolio at this time. BND has agreed to fund these loans until such time that rates rise to a level more in line with the permanent trusts objectives.

♦ The Commissioner will try to maintain a minimal amount of cash in the portfolio as loan principal is paid down in the portfolio.

Lazard
♦ Lazard underperformed both the broad “Cash Pay index and the higher quality “BB/B” by various amounts for all periods shown in the table on page 4 of this report.

♦ The high quality nature of this portfolio will result in underperformance during periods when high yield bonds post strong returns due to tightening credit spreads. Spreads have tightened by 1200 basis points since the credit crisis in late 2008.

♦ The portfolio’s quarterly performance was hurt by overweight positions in the metals and gaming sectors and a material underweighting of the bank and finance sectors; the portfolio’s shorter than index duration was also a drag on performance.
OTHER TRUSTS MANAGED BY THE LAND BOARD

The Capitol Building Trust was created for the construction and maintenance of “public buildings at the capital”. The Strategic Investment and Improvements Fund (SIIF) was created effective July 1, 2011, by way of House Bill 1451, which merged the roles of the former Budget Stabilization Fund and the former Lands and Minerals Trust Fund. Because the entire balance of both of these trusts can be appropriated by the legislature each biennium, trust assets are invested in conservative, short-term fixed income securities, such as short-term investment funds, U.S. T-Bills, U.S. T-Bonds, and BND CDs, all of which tend to have maturities of 2 years or less.

<table>
<thead>
<tr>
<th>9/30/12 Asset Balances</th>
<th>Current Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitol Building Trust</td>
<td>$2,662,000</td>
</tr>
<tr>
<td>Strategic Investment and Improvements Fund</td>
<td>$442,699,000</td>
</tr>
</tbody>
</table>

♦ During the quarter $67.9 million of gross production and oil extraction taxes were deposited into the SIIF. An estimated $688.18 million of oil taxes will be deposited into the SIIF before the end of the biennium.

♦ All new revenue coming into these two funds continues to be invested in Treasury securities that are held in custody at BND. As the size of the SIIF continues to grow far beyond initial expectations, the Commissioner is exploring other options for investing this fund.

The Coal Development Trust Fund is a permanent fund, from which the Land Board issues loans to energy impacted counties, cities and school districts as provided in NDCC Section 57-62-03, and loans to school districts pursuant to NDCC Chapter 15-60. The Land Board is responsible for investing all funds that have not been loaned to political subdivisions. Because these funds can be loaned at any time, they are invested in a conservative short-term fixed income portfolio managed by Payden & Rygel. The income earned by this fund is transferred to the General Fund each year.

<table>
<thead>
<tr>
<th>9/30/12 Asset Balances</th>
<th>Current Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal Development Trust Fund</td>
<td>$8,383,000</td>
</tr>
<tr>
<td>School Construction Loans</td>
<td>$25,413,000</td>
</tr>
<tr>
<td>Marketable Securities</td>
<td>$30,746,000</td>
</tr>
<tr>
<td>Total</td>
<td>$64,542,000</td>
</tr>
</tbody>
</table>

♦ During August of 2012, two new school construction loans were funded; a $2.1 million loan to Stanley PSD and a $1.875 million loan to the Nesson PSD. In addition, a coal impact loan to the City of Golden Valley for $75,000 was funded during the quarter.

Payden and Rygel – Coal

♦ Payden & Rygel outperformed the benchmark Merrill Lynch 1-3 Year Treasury Index by 50 basis points during the quarter ended September 30, 2012; the portfolio also outperformed handily for the trailing one and three-year periods there ended. Payden has essentially matched the index for longer time periods.

♦ After underperforming the benchmark index by a substantial amount during the 2008 financial crisis, this portfolio has steadily recovered versus the index as tightening credit spreads have allowed the portfolio’s corporate exposure to add value over Treasury based index.

<table>
<thead>
<tr>
<th>9/30/12 Asset Balance</th>
<th>Last Qtr.</th>
<th>Last 1 Year</th>
<th>Last 3 Years</th>
<th>Last 5 Years</th>
<th>Last 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payden &amp; Rygel Coal Dev.</td>
<td>$30.75</td>
<td>0.76</td>
<td>2.15</td>
<td>2.03</td>
<td>2.75</td>
</tr>
<tr>
<td>ML 1-3 Year Treasury Index</td>
<td>0.26</td>
<td>0.55</td>
<td>1.43</td>
<td>2.78</td>
<td>2.80</td>
</tr>
</tbody>
</table>

All return figures for periods of 1 year or greater have been annualized. Returns are net of fees