

**NORTH DAKOTA
BOARD OF UNIVERSITY AND SCHOOL LANDS**

INVESTMENT PERFORMANCE REPORT

For periods ended March 31, 2012



PERMANENT EDUCATIONAL TRUST ASSETS

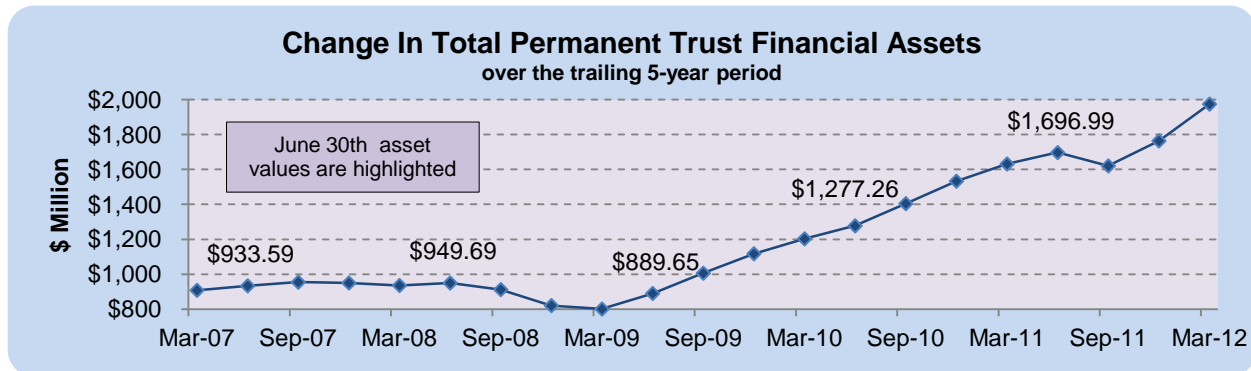
TOTAL TRUST ASSETS

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.

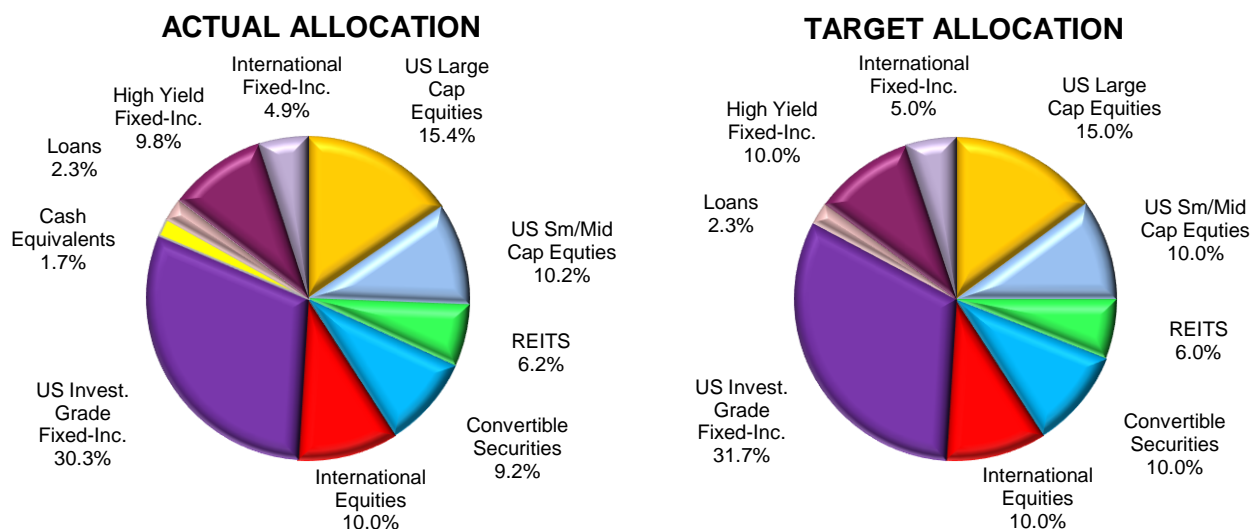
For the schedule below and for all other schedules, tables and charts that follow in this report, all loans, warrants, loan portfolios and certificate of deposits are valued at cost. All other investments in marketable securities, such as stocks, bonds, mutual funds and cash equivalents are valued at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

COMPARATIVE ASSET ALLOCATION SCHEDULE							
Date	Total Assets	Large Cap Equities	Sm/Mid Cap Equities	REITS	Convertible Securities	International Equities	Fixed Income
6/30/11 Rebalanced	\$1,696,986,000	\$254,548,000 15.0%	\$169,699,000 10.0%	\$101,819,000 6.0%	\$169,699,000 10.0%	\$169,699,000 10.0%	\$831,522,000 49.0%
3/31/12 Actual	\$1,974,798,000	\$305,082,000 15.4%	\$200,610,000 10.2%	\$122,400,000 6.2%	\$182,203,000 9.2%	\$196,605,000 10.0%	\$967,898,000 49.0%
3/31/12 Target	\$1,974,798,000	\$296,219,000 15.0%	\$197,480,000 10.0%	\$118,488,000 6.0%	\$197,480,000 10.0%	\$197,480,000 10.0%	\$967,651,000 49.0%

- ◆ Total permanent trust financial assets grew by \$210.85 million during the quarter ended March 31, 2012; total trust assets have increased by \$277.81 million during the first 9 months of fiscal year 2012.
- ◆ The combined investment portfolio posted a total return of 6.48% during the quarter ended March 31, 2012 and was responsible for approximately \$114.48 million of trust growth. Other large contributors to trust growth during the quarter include oil and gas royalties (\$41.79 million), mineral bonuses (\$42.01 million) and oil extraction taxes (\$14.55 million).
- ◆ During the quarter, \$18.0 million was distributed from the Common Schools Trust Fund to K-12 education in North Dakota. An additional \$1.48 million was paid out to the beneficiaries of the other 12 permanent trust funds in January 2012.
- ◆ The permanent trusts have grown by more than \$1.17 billion during the 3 years since equity markets hit their "Great Recession" low in March of 2009.



ACTUAL ALLOCATION VS. TARGET ALLOCATION AS OF MARCH 31, 2012



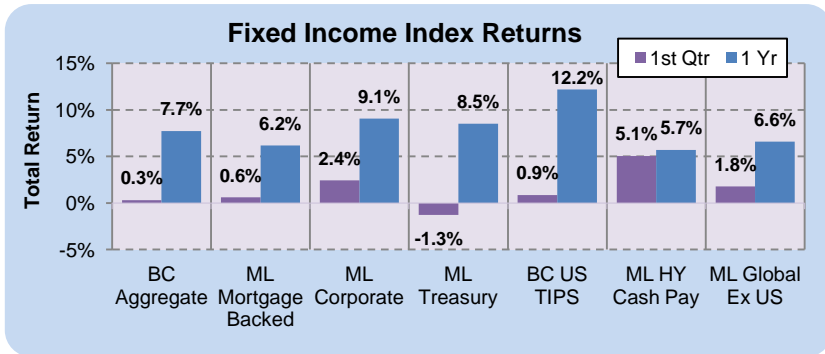
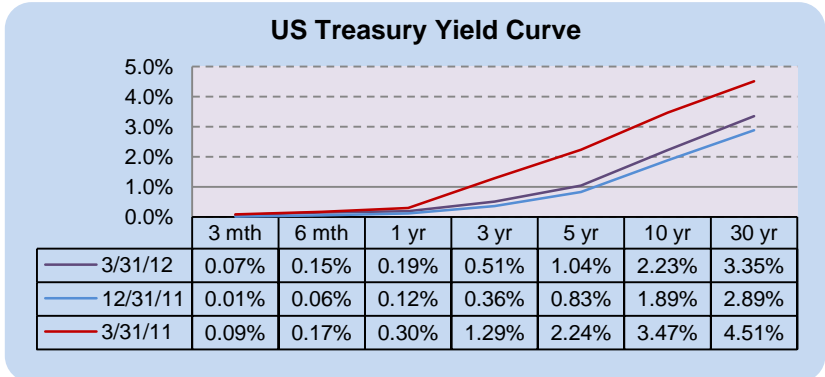
Asset Class	Actual \$ million	Actual %	Target \$ million	Target %	Difference \$ million	% Diff.
US Large Cap Equities	\$ 305.08	15.4%	\$ 296.22	15.0%	\$ 8.86	0.4%
US Sm/Mid Cap Equities	200.61	10.2%	197.48	10.0%	3.13	0.2%
REITS	122.40	6.2%	118.49	6.0%	3.91	0.2%
Convertible Securities	182.20	9.2%	197.48	10.0%	(15.28)	(0.8%)
International Equities	196.61	10.0%	197.48	10.0%	(0.87)	(0.0%)
Total Equities	\$ 1,006.90	51.0%	\$ 1,007.15	51.0%	(\$ 0.25)	(0.0%)
US Invest. Grade Fixed-Income	598.78	30.3%	626.87	31.7%	(28.10)	(1.4%)
Cash Equivalents	34.59	1.7%	0.00	0.0%	34.59	1.7%
Loans	44.56	2.3%	44.56	2.3%	0.00	0.0%
High Yield Fixed-Income	193.14	9.8%	197.48	10.0%	(4.34)	(0.2%)
International Fixed-Income	96.83	4.9%	98.74	5.0%	(1.91)	(0.1%)
Total Fixed-Income	\$ 967.90	49.0%	\$ 967.65	49.0%	\$ 0.25	0.0%
Total Portfolio	\$ 1,974.80	100.0%	\$ 1,974.80	100.0%		

- ◆ On March 30, 2012, the actual portfolio was essentially in balance with the target allocation, with a 51% allocation to equities and a 49% allocation to fixed income.
- ◆ The convertible securities portfolio was underweight at quarter's end, while domestic equity portfolios were slightly overweight. The primary reason for this is the recent underperformance of convertibles versus domestic equities and the Commissioner reluctance to incur the costs of rebalancing within the equity portfolio when the overall portfolio is in balance.
- ◆ The overweight position of cash equivalents at quarter's end is actually the result of \$31 million of new money received in April, but allocated back to March month end. This money was used to make the final distribution to K-12 education for fiscal year 2012 and to bring the other fixed income portfolios back into balance, both at the end of April.
- ◆ Cash flows once again funded all rebalancing activity for the quarter. This low cost approach to rebalancing continues to benefit the trusts.

FINANACIAL MARKET OVERVIEW

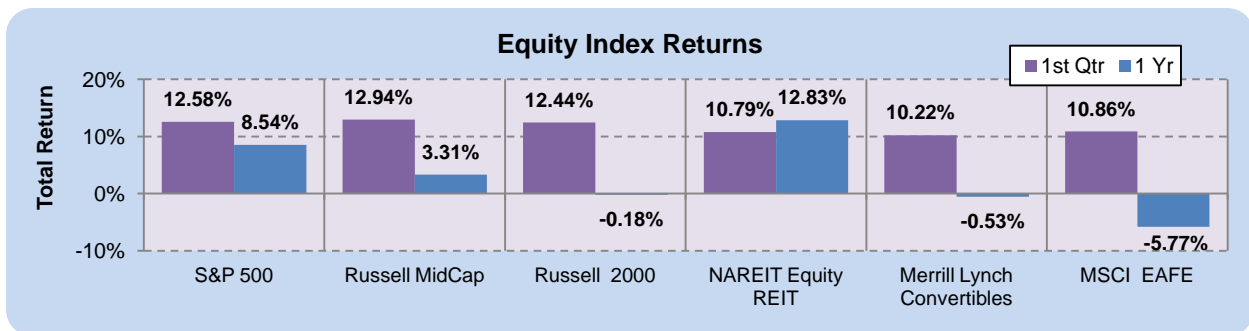
FIXED INCOME MARKETS

- ◆ Treasury rates climbed across all maturities on the yield curve during the quarter ended March 31, 2012. The yield curve steepened as long-term rates climbed more than short-term rates.
- ◆ The target fed funds rate stayed at a range of 0% - 0.25%; the Fed has pledged to keep interest rates low until at least 2014.
- ◆ Although interest rates are higher than they were at the end of 2011, most rates are substantially lower than they were 12 months ago. The 10-year Treasury was yield 2.23% on March 31, 2012, 1.24% less than it was yielding 12 months earlier. The 30-year Treasury was yielding 3.35% at quarter's end, 1.16% less than on March 31, 2011.
- ◆ High yield bonds were the best performing fixed income asset class during the quarter, driven by tightening spreads. TIPS performed best over the trailing year, as the fear of overstimulation by the Fed and geopolitical uncertainty around the world increased demand for these bonds.



EQUITY MARKETS

- ◆ All equity asset classes in the portfolio posted double-digit positive returns for the quarter ended March 31, 2012. This is the 2nd quarter in a row that domestic equities have posted double-digit returns.
- ◆ Although quarterly returns were strong, only REITs, as measured by the NAREIT Equity REIT Index, posted double digit returns for the trailing year ended March 31, 2012.
- ◆ Foreign equities, as measured by the MSCI EAFE Index, were the worst performing asset class over the trailing 1-year period. Although foreign stocks have posted positive return over the past 2 quarters, those returns were not enough to offset the large losses experienced by foreign stocks last summer/fall during the heart of the European debt crisis.



MANAGER AND PORTFOLIO RETURNS

RETURNS FOR PERIODS ENDED MARCH 31, 2012								
Asset Class MANAGER Benchmark/Index	3/31/12 Allocation (\$ mil.)	% of Total Portfolio	Last Qtr.	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years	
Large Cap US Equity								
STATE STREET - S&P 500 Index	\$305.08	15.4%	12.58	8.51	23.41	-	-	
S&P 500 Index			12.58	8.54	23.42	2.01	4.12	
Small/Mid Cap US Equities								
NORTHERN TRUST	\$200.61	10.2%	13.57	0.45	-	-	-	
STATE STREET - Small/Mid Index	\$106.90	5.4%	13.11	(0.56)	25.61	2.04	5.57	
STATE STREET - Small/Mid Index	\$93.71	4.8%	14.12	1.77	28.85	-	-	
60% R2000/40% Russell Mid Cap			12.64	0.50	27.50	3.18	6.97	
Russell Completeness Index			14.16	1.57	28.71	3.28	7.34	
Real Estate Investment Trusts (REITS)								
DELAWARE INVESTMENT ADVISORS	\$122.40	6.2%	10.75	15.19	40.11	0.55	-	
NAREIT Equity REIT Index			10.80	12.81	42.35	(0.05)	10.46	
Convertible Securities								
TRUST COMPANY OF THE WEST	\$182.20	9.2%	5.76	(3.14)	14.85	0.32	2.50	
Merrill Lynch All US Convertibles Index			10.22	(0.53)	20.97	3.59	5.88	
Merrill Lynch All US Investment Grade Index			8.85	1.10	13.85	0.31	2.60	
TOTAL DOMESTIC EQUITIES	\$810.29	41.0%	10.99	4.54	-	-	-	
International Equities								
STATE STREET - International Alpha	\$196.61	10.0%	11.15	(9.56)	15.88	(5.64)	-	
MSCI EAFE Index			10.86	(5.76)	17.13	(3.51)	5.70	
TOTAL EQUITIES	\$1,006.90	51.0%	9.35	(3.00)	13.69	(2.38)	3.49	
US Investment Grade Fixed Income								
BND - Project Notes	\$633.37	32.0%	1.28	7.41	-	-	-	
BND - Project Notes	\$3.33	0.2%	1.53	5.36	6.35	6.67	5.56	
PAYDEN & RYGEL - Long Term	\$137.18	7.0%	2.58	6.62	9.59	6.51	6.38	
PAYDEN & RYGEL - Long Term	\$310.79	15.7%	0.88	5.58	5.29	5.31	4.73	
NORTHERN TRUST - TIPS	\$147.48	7.4%	0.77	12.37	9.08	7.74	-	
NORTHERN TRUST - TIPS	\$34.59	1.7%	(0.01)	0.00	0.12	1.30	2.02	
PAYDEN & RYGEL - Cash	\$34.59	1.7%	(0.01)	0.00	0.12	1.30	2.02	
Barclay's Capital US Aggregate Index			0.31	7.73	6.85	6.26	5.80	
Barclay's Capital TIPS			0.86	12.19	8.73	7.60	-	
6 Month T-Bill			(0.01)	0.13	0.23	1.58	2.04	
Loans								
BND - Farm Loan Pool	\$44.56	2.3%	1.47	6.30	-	-	-	
BND - Farm Loan Pool	\$42.20	2.2%	1.48	6.30	6.50	6.88	7.30	
BND - Energy Construction Loans	\$2.36	0.1%	1.40	5.88	-	-	-	
US High Yield Fixed Income								
LAZARD ASSET MANAGEMENT	\$193.14	9.8%	4.14	7.01	16.37	6.90	-	
Merrill Lynch US High Yield Cash Pay Index			5.05	5.70	23.38	7.74	-	
Merrill Lynch BB/B Index			4.42	6.26	20.03	7.15	-	
TOTAL DOMESTIC FIXED INCOME	\$871.07	44.1%	1.94	7.32	-	-	-	
International Invest. Grade Fixed Income								
FIRST INT'L ADVISORS (Evergreen)	\$96.83	4.9%	1.18	7.34	5.73	5.34	-	
Merrill Lynch Broad Global (Ex-US) Index - Hedged			1.79	6.58	4.64	4.50	-	
TOTAL FIXED INCOME	\$967.90	49.0%	1.86	7.31	9.00	6.51	6.11	
TOTAL PORTFOLIO	\$1,974.80	100.0%	6.48	4.81	15.38	3.38	5.72	

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 earned a total return of 11.00% during the quarter ended March 31, 2012. It earned 1.70% for the trailing year ended March 31, 2012 and has earned annualized rate of 22.65% for the trailing 3-year period there ended.
- ◆ TCW was the only equity manager to post a return of less than 10% during the quarter ended March 31, 2012. Although most active managers earned benchmark like returns for the quarter, TCW lagged their benchmark by more than 427 basis points.
- ◆ For the trailing year, only the Delaware REIT portfolio outperformed its' benchmark, as Northern Trust (mid/small cap), Trust Company of the West (convertible securities) and SSGA (international equities) all lagged their respective benchmarks.

Northern Trust – Small/Mid Cap

- ◆ Northern Trust outperformed the new benchmark for this account for the quarter ended March 31, 2012; they underperformed the (old) benchmark for all other periods shown in the table on page 4.
- ◆ The benchmark was changed effective January 1, 2012, at the recommendation of Northern Trust, so that it would better reflect the actual way managers invest in mid and small cap markets. Northern also adjusted the manager lineup of the portfolio slightly at the beginning of January to better reflect the characteristics of the new benchmark.

Delaware Investment Advisors

- ◆ Delaware continues to post strong returns versus the benchmark for the account, essentially matching the benchmark for the quarter, while outperforming it for the trailing one and five-year periods ended March 31, 2012.
- ◆ Strong stock selection in the office, industrial and shopping center sectors helped performance during the quarter, as did underweight positions in the poor performing health care and self storage sectors.

Trust Company of the West (TCW)

- ◆ TCW has underperformed versus the broad Merrill Lynch All US Convertibles Index for all periods shown in the table on page 4. Although TCW has essentially matched the investment grade portion of the index for longer periods of time, they have struggled versus investment grade convertible securities over the past year.
- ◆ During the current quarter, an overweight to the metals industry and an underweight to financial and technology companies all detracted from performance.
- ◆ The Commissioner intends to keep the TCW portfolio at or below target weight until such time as the investment study is complete. One thing the study will look at is whether or not it still makes sense for the permanent trusts to invest in convertible securities, now that the income needs of the trusts have changed.

State Street Global Advisors (SSGA) – International Alpha

- ◆ Although SSGA outperformed the benchmark for this account by a small margin for the quarter, they have underperformed the benchmark for all other periods shown in the table on page 4.
- ◆ This portfolio has now experienced two fear driven market downturns since it was established in 2006. Quantitative model driven portfolios like this one generally perform poorly when fear drives returns.
- ◆ Representatives of SSGA will be flying to Bismarck on June 21st to discuss the Commissioner's concerns about this portfolio's performance and expectations for this portfolio, and quantitative portfolios as a whole, going forward.

FIXED INCOME PORTFOLIO REVIEW

- ◆ The combined fixed income portfolio posted a total return of 1.86% for the quarter ended March 31, 2012. It earned 7.31% for the trailing year there ended and has earned an average of 9.00% per year for the past three years.
- ◆ The high yield portfolio managed by Lazard posted the highest absolute return of all fixed income portfolios during the quarter at 4.14%. For the trailing year ended March 31, 2012, the TIPS portfolio managed by Northern Trust was best performing fixed income portfolio, earning 12.37%.
- ◆ On March 29, 2012, the Board approved a relatively small change to the permanent trusts fixed income allocation and also approved the hiring of JP Morgan. These changes will not only help diversify assets between managers, but will also provide the diversification between the core assets managed by Payden & Rygel and the new intermediate bond strategy to be run by J.P. Morgan.

Payden & Rygel – Long-Term

- ◆ This portfolio continues to perform well versus the Barclay's Capital Aggregate Index. Tightening spreads were responsible for most of Payden's outperformance during the quarter.
- ◆ Discussions have been held with Payden about making this portfolio a full blown active core fixed income portfolio. As part of this process, the portfolio will absorb \$3.3 million of mortgage securities currently held in the BND project notes portfolio. It is expected that this transition will be completed during the 2nd quarter of 2012.

Payden & Rygel – GNMA/Short Bond

- ◆ This portfolio continues to post solid returns. The GNMA Fund continues to be rated 5 stars by Morningstar while the newly renamed Low Duration Fund is just one of the reasons Payden was recently named "Cash Management and Short-Term Fixed Income" Manager of the Year for 2011 by Institutional Investor magazine.

Bank of North Dakota (BND) – Farm Loan Pool

- ◆ During the quarter, the size of the farm loan pool declined by almost \$3.5 million, as historic low interest rates drove borrowers to the shorter-term rates offered by BND. \$3.0 million of cash was transferred out of this account in March; if rates stay low, the size of this portfolio will most likely continue to shrink.
- ◆ Most of the Richland County property that was foreclosed on in 2011 was sold at auction in March 2012. The sale generated bids totaling \$680,000 more than the amount of principal and interest owed on the property at the time of the foreclosure.

Lazard

- ◆ Although the Lazard high yield bond portfolio outperformed the benchmark Merrill Lynch High Yield Cash Pay Index for the trailing year ended March 31, 2012, it has underperformed versus this broad benchmark for all other periods noted in the table on page 4.
- ◆ The high quality of the portfolio was the primary driver of the underperformance for the quarter, as tightening spreads caused lower quality bonds to rally more than the higher quality bonds held in this portfolio.

First International Advisors

- ◆ This portfolio underperformed versus the benchmark for the second quarter in a row during the quarter ended March 31, 2012; however, it has outperformed the index for all other periods shown.
- ◆ Country weightings had a major impact on quarterly performance. The portfolio's underweighting to Italy and Spain hurt performance, as did the portfolio's exposure to Australia, Denmark, Hungary and New Zealand. Underweighting of UK issues and overweight positions in Brazil, the Czech Republic, Mexico and Poland all contributed to performance during the quarter.

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 functions 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.

	3/31/12 Asset Balances	Current Yield
Capitol Building Trust	\$3,528,000	0.46%
Strategic Investment and Improvements Fund	\$ 331,661,000	0.28%

- ◆ Historically BND has offered BND CDs to these two trusts with T-Bill/T-Bond equivalent rates; however, that option is no longer available. So instead, money in these two trusts is being invested in actual Treasury securities that are being held in custody at BND.
- ◆ Although the yield of both of these funds remained relatively stable during the quarter, it is expected that yields will continue to drop as royalty and bonus revenues are received and have to be invested at rates of 20 basis points or less.

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.

	3/31/12 Asset Balances	Current Yield
Coal Development Trust Fund		
Coal Warrants	\$ 8,578,000	3.91%
School Construction Loans	\$ 24,811,000	1.92%
Marketable Securities	\$ 30,995,000	N/A - see returns below
Total	\$ 64,384,000	

- ◆ During the quarter two school construction loans, totaling approximately \$2.3 million, were paid off ahead of schedule. School loan commitments totaling almost \$12 million were outstanding at quarter's end.

Payden and Rygel – Coal

- ◆ Payden & Rygel outperformed the benchmark by more than 80 basis points during the quarter ended March 31, 2012 and has also outperformed the benchmark for the trailing one and three-year periods there ended. They underperformed versus the benchmark by relatively small margins for the 5 and 10-year periods ended March 31, 2012.
- ◆ Spreads tightening in the corporate sector and lower mortgage rates were the primary reasons for portfolio outperformance during the quarter.

	3/31/12 Asset Balance	Last Qtr.	Last 1 Year	Last 3 Years	Last 5 Years	Last 10 Years
Payden & Rygel Coal Dev.	\$31.0	0.72	1.87	2.86	3.05	3.20
ML 1-3 Year Treasury Index		(0.09)	1.44	1.50	3.38	3.24
All return figures for periods of 1 year or greater have been annualized. Returns are net of fees						