



LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Friday, January 29, 2021
Brynild Haugland Room, State Capitol
Bismarck, North Dakota

Representative Keith Kempenich, Chairman, called the meeting to order at 8:00 a.m.

Members present: Representatives Keith Kempenich, Gary Kreidt; Senators Kathy Hogan, Jerry Klein; Citizen Members Eric Hardmeyer, Joe Morrissette, Ryan Rauschenberger

Members absent: None

Others present: See [Appendix A](#)

It was moved by Senator Klein, seconded by Mr. Rauschenberger, and carried on a voice vote that the minutes of the November 20, 2020, meeting be approved as distributed.

STATUS OF THE BUDGET STABILIZATION FUND

At the request of Chairman Kempenich, Mr. David J. Hunter, Executive Director and Chief Investment Officer, Retirement and Investment Office, presented information ([Appendix B](#)) regarding the status of the budget stabilization fund, including fund balance, investment performance, and fund allocation. Mr. Hunter said as of December 31, 2020, the balance of the fund was \$747 million and the asset allocation of the budget stabilization fund was 99 percent short-term fixed income and 1 percent cash and equivalents. He said the budget stabilization fund had a net gain of 2.80 percent compared to a policy benchmark gain of 0.44 percent for the 6 months ended December 31, 2020. He said the fund had a net gain of 2.35 percent compared to a policy benchmark gain of 4.17 percent for the fiscal year ended June 30, 2020. He said investment fees and expenses declined from 0.16 percent in fiscal year 2019 to 0.13 percent in fiscal year 2020.

In response to a question from Chairman Kempenich, Mr. Morrissette said if the market value of the budget stabilization fund exceeds the statutory limit as of May 31, 2021, the Office of Management and Budget will coordinate with the Retirement and Investment Office to transfer the excess balance to the general fund before the end of the biennium.

STATUS OF THE LEGACY FUND

At the request of Chairman Kempenich, Mr. Hunter presented information ([Appendix C](#)) regarding the status of the legacy fund, including investment allocation, fund balance, investment performance, and investment management fees. Mr. Hunter said the market value of the legacy fund was \$8.2 billion as of December 31, 2020. He said asset allocations of the legacy fund were within 2 percent of target allocations reflecting the investment policy benchmark of 50 percent equity investments, 35 percent fixed income, and 15 percent real assets. He said the legacy fund gained 14.4 percent compared to a policy benchmark gain of 13.3 percent for the 6 months ended December 31, 2020. He said the fund had a net gain of 4.23 percent compared to a policy benchmark gain of 4.38 percent for the fiscal year ended June 30, 2020. He said the fund had a net gain of 5.91 percent compared to a policy benchmark gain of 5.55 percent for the 5-year period ended June 30, 2020. He said investment fees and expenses declined from 0.38 percent in fiscal year 2019 to 0.37 percent in fiscal year 2020. He said legacy fund earnings have totaled \$2.469 billion since inception. He said earnings, as defined in North Dakota Century Code Section 21-10-12, have totaled \$1.389 billion since inception, of which \$436.8 million was added to the principal of the fund. He said from June 2019 through November 2020, earnings, as defined in Section 21-10-12, have totaled \$497 million.

Mr. Hunter said the legacy fund has supported state investment opportunities since its inception. He said the advisory board and the State Investment Board have approved a \$400 million commitment to the Bank of North Dakota certificate of deposit (CD) match program, which supports cost-efficient financing for businesses starting or

expanding operations in the state. He said this commitment to in-state investment represents approximately 5 percent of the balance in the fund. He said if the advisory board decides to review whether the legacy fund should expand in-state investments to include private market investments, the advisory board could consider retaining a qualified consultant to conduct an asset allocation study to evaluate the potential addition of private equity to the legacy fund's strategic asset allocation policy. He said an allocation study would determine the impact of a new private equity program on the legacy fund's long-term expected returns, risk profile, and need for liquidity. He said Phase 1 of the study would take 1 to 2 weeks and would review asset class projections only and measure the impact of adding private equity to the legacy fund's expected return and risk levels. He said Phase 2 of the study would integrate projections of assets, expected contributions, and targeted spending to measure the range of the legacy fund's future financial position. He said Phase 2 would use the asset mixes identified in Phase 1, but would add dollar-measured outcomes that incorporate expected contributions based on oil tax revenues and spending based on projected principal and earnings of the legacy fund. He said Phase 2 of the study would take 6 to 7 weeks.

In response to a question from Mr. Morrisette, Mr. Hunter said the cost for Phase 1 of the study would be covered by the retainer paid to Callan LLC. He said Phase 2 of the study is more involved and would cost \$65,000.

It was moved by Representative Kreidt, seconded by Senator Klein, and carried on a roll call vote that the Legacy and Budget Stabilization Fund Advisory Board approve the State Investment Board engagement of Callan LLC to conduct an asset allocation study with the purpose of evaluating the potential impacts of adding private equity to the legacy fund's strategic asset allocation policy. Representatives Kempenich and Kreidt, Senators Hogan and Klein, and Citizen Members Hardmeyer, Morrisette, and Rauschenberger voted "aye." No negative votes were cast.

In response to a question from Chairman Kempenich, Mr. Hunter said the Retirement and Investment Office anticipates presenting the results of Callan's Phase 1 asset allocation study and revised asset allocation proposals to the advisory board for approval in mid-February. He said the Retirement and Investment Office and Callan anticipate advancing at least one investment management firm with experience in implementing a new in-state investment program for advisory board approval in March.

Chairman Kempenich said the committee will plan to meet again in February to review the results of Phase 1 of the study and review proposed revisions to the legacy fund's strategic asset allocation policy.

No further business appearing, Chairman Kempenich adjourned the meeting at 8:25 a.m.

Sheila M. Sandness
Senior Fiscal Analyst

ATTACH:3