



LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Wednesday, June 16, 2021
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Keith Kempenich, Chairman, called the meeting to order at 1:00 p.m.

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

Member absent: Citizen Member Eric Hardmeyer

Others present: Senator Rich Wardner, Dickinson; Representative Chet Pollert*, Carrington, members of the Legislative Management

See [Appendix A](#) for additional persons present.

**Attended remotely*

It was moved by Senator Hogan, seconded by Senator Klein, and carried on a voice vote that the minutes of the March 23, 2021, meeting be approved as distributed.

It was moved by Senator Hogan, seconded by Representative Kreidt, and carried on a roll call vote that Representative Kempenich continue to serve as Chairman and Senator Klein continue to serve as Vice Chairman of the Legacy and Budget Stabilization Fund Advisory Board pursuant to North Dakota Century Code Section 21-10-11(3). Representatives Kempenich and Kreidt, Senators Hogan and Klein, and Citizen Members Morrissette and Rauschenberger voted "aye." No negative votes were cast.

It was moved by Citizen Member Morrissette, seconded by Representative Kreidt, and carried on a roll call vote that the Chairman serve as a nonvoting member on the State Investment Board with other advisory board members designated by the Chairman to attend State Investment Board meetings on a rotating basis pursuant to Section 21-10-11(8). Representatives Kempenich and Kreidt, Senators Hogan and Klein, and Citizen Members Morrissette and Rauschenberger voted "aye." No negative votes were cast.

STATUS OF FUNDS

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 and the legacy fund. He noted the budget stabilization fund had a balance of \$753.3 million as of April 30, 2021, and returned 2.6 percent for the 5-year period ended March 31, 2021, which exceeded the benchmark by 0.63 percent; and the legacy fund had a market value of \$8.7 billion as of April 30, 2021, and returned 9.56 percent for the 5-year period ended March 31, 2021, which exceeded the benchmark by 0.8 percent.

In response to board member questions, Mr. Hunter noted Alaska's sovereign wealth fund has 60 percent allocated to equity investments and New Mexico's fund has less than 50 percent allocated to equity investments while the legacy fund has 50 percent allocated to equity investments; comparisons between sovereign wealth funds can be challenging, but the legacy fund has performed well in the past 5 years and exceeded its benchmark returns; and South Dakota has approximately 28 employees to manage investments internally while North Dakota relies on third-party investment managers and performs due diligence reviews of the managers.

In response to a board member question, Mr. Darren Schulz, Deputy Chief Investment Officer, Retirement and Investment Office, responded the Retirement and Investment Office has used consulting services from Callan LLC for the past 30 years with both the Retirement and Investment Office staff and Callan staff performing extensive due diligence reviews related to investment managers.

Ms. Janilyn Murtha, Deputy Executive Director, Retirement and Investment Office, noted the selection of investment managers and consultants is exempt from procurement laws because selecting the lowest bidder may not be in the state's best interest.

IN-STATE INVESTMENT PROGRAM

Ms. Ann C. DeLuce, Executive Vice President and Chief Compliance Officer, Callan LLC, presented information ([Appendix C](#)) regarding management of potential conflicts of interest. She commented that Callan maintains separate internal divisions within the company to mitigate the risk of conflicts of interest between clients, adheres to a code of ethics, and is subject to regulatory disclosures as a firm registered with the federal Securities and Exchange Commission.

Mr. Hunter presented information ([Appendix D](#)) regarding an overview of the legacy fund in-state investment program. He noted House Bill No. 1425 (2021) directs the Legacy and Budget Stabilization Fund Advisory Board and the State Investment Board to invest a portion of the legacy fund through an in-state investment program and he reported the State Investment Board selected 50 South Capital Advisors to develop and manage in-state equity investments for the legacy fund.

Mr. Bob Morgan, Managing Director, 50 South Capital Advisors, presented information ([Appendix E](#)) regarding the status of the legacy fund in-state investment program. He commented that the in-state investment program, known as the 1889 growth fund, is in the early stages of development. He noted representatives of 50 South Capital Advisors recently toured the state to meet with entrepreneurs, financial institutions, and state agencies to identify existing investment programs and the need for capital investments. He indicated 50 South Capital Advisors will establish an office in North Dakota to help facilitate communication between local entrepreneurs and capital markets.

In response to a board member question, Mr. Morgan noted an in-state investment program is an illiquid investment that usually requires 3 to 5 years before it produces returns and needs a higher rate of return because of the higher risk, illiquidity, and delay in returns.

Chairman Kempenich requested the Legislative Council staff work with the Retirement and Investment Office to gather information on in-state investment programs in other states.

No further business appearing, Chairman Kempenich adjourned the meeting at 3:00 p.m.

Adam Mathiak
Senior Fiscal Analyst

ATTACH:5