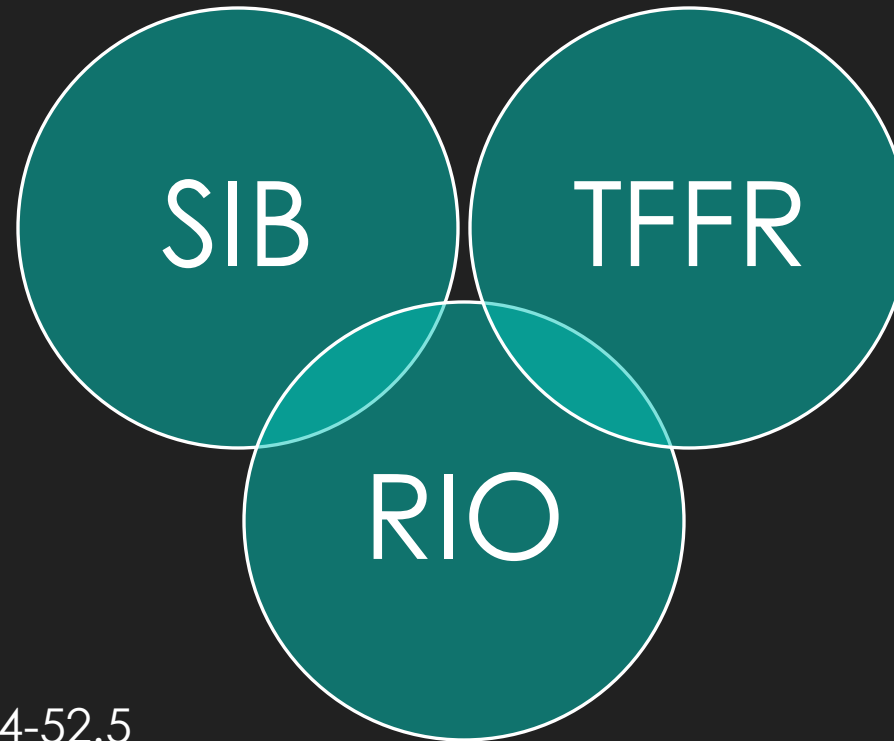


**House Bill 1022**  
**House Appropriations Government Operations Committee**  
**January 12, 2021**  
**North Dakota Retirement and Investment Office Testimony**

# NDRIO supports 2 “Special Fund” Programs

SIB - Investment Program  
NDCC Ch. 21-10  
\$18 Billion in Assets  
27 Government Funds



TFFR – Retirement Program  
NDCC Ch. 15-39.1  
\$2.8 Billion in Assets  
23,230 Active, Retired, &  
Deferred Members and  
Beneficiaries.

RIO Agency  
NDCC Ch. 54-52.5  
2021-23 Budget Request - \$6,489,543  
+ PAS Project Carryover

# SIB – Investment Program

## 2019-21 Accomplishments

- SIB investments rise 34% from \$13.4 billion in 2019 to \$18 billion in late-2020.
- Active Management has generated over \$300 million in incremental income over last 5 years.
- Decrease in Investment Expenses over last seven years saving clients approximately 24 million per year.

## 2021-23 Goals &

- Exceed Policy Benchmark Returns.
- Prudently pursue active management opportunities to generate increased investment income.
- Continue to monitor and decrease investment expenses when possible.

# TFFR – Retirement Program

## 2019-21 Accomplishments

- Successfully transitioned predominantly paper processes to electronic processes as a result of challenges created by the pandemic.
- Successfully transitioned from predominantly in-person outreach efforts to virtual efforts as a result of challenges created by the pandemic.
- Successfully initiated Phase 1 of the PAS (Pension Administration System) Project.

## 2021-23 Goals

- Complete Phase 1 and 2 of the PAS Project; initiate Phase 3.
- Create and implement a strategic communication plan that provides for both in person and virtual outreach opportunities.
- Leverage state and agency level initiatives to modernize our processes and increase engagement with members and stakeholders.

## RIO Budget Goals & Initiatives

# 1 Agency Budget Goal =  
Maintain Current staff level.

Needed to achieve:

- (1) fiduciary obligations,
- (2) performance expectations and
- (3) agency initiatives.



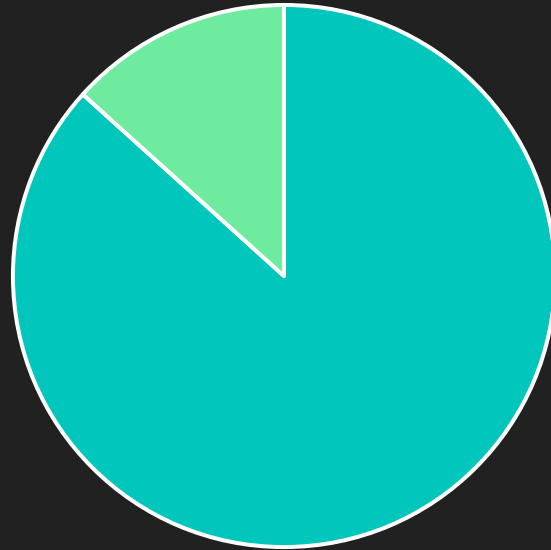
PAS Project

ITD Unification

Strategic  
Communication

# 2021-2023 RIO Budget Request

Base Budget



■ SALARIES & BENEFITS ■ OPERATING  
■ CONTINGENCY ■ CAPITAL ASSETS

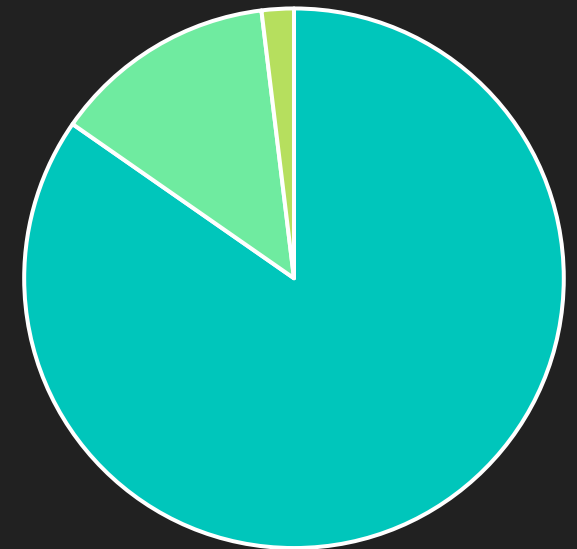
Pros - Meets Executive Directive.

Cons - Reduces staff level, eliminates contingency funds, doesn't support achievement of agency initiatives.

Pros – Supports agency initiatives, maintains staff level (+ 1 FTE), provides contingency funds, general fund neutral.

Cons – Exceeds Executive Directive.

Optional Package w/  
Amendments



■ SALARIES & BENEFITS ■ OPERATING  
■ CONTINGENCY ■ CAPITAL ASSETS

# Requested Amendments

	Salaries & Benefits	Operating	Contingency	Total	FTE
<b>Base Budget Changes</b>	<b>159,934</b>	<b>(107,934)</b>	<b>(52,000)</b>	<b>-</b>	
<b>Governor's Recommendations</b>					
Restore full funding for 20 current FTEs (optional request #1)	25,000			25,000	
Governor's 2% salary increases and benefit funding	161,031			161,031	
NDIT desktop support (optional request #2)		70,920		70,920	
Additional MS 365 costs added by Governor		2,203		2,203	
Restore current contingency line funding (optional request #3-partial)			52,000	52,000	
<b>Total included in Governor's recommendation</b>	<b>186,031</b>	<b>73,123</b>	<b>52,000</b>	<b>311,154</b>	
<b>Additional Agency Requests</b>					
Correction for incorrect salary in original budget request	11,225			11,225	
Additional FTE for Public Information Officer	210,000			210,000	1
Additional operating expenses for new FTE		15,000		15,000	
Remove 2 FTE for IT Unification (move to operating)	(440,540)	440,540		(0)	(2)
Increase contingency line funding			73,000	73,000	
<b>Total additional agency request</b>	<b>(219,315)</b>	<b>455,540</b>	<b>73,000</b>	<b>309,225</b>	<b>(1)</b>
<b>Total Amendment Request</b>	<b>126,650</b>	<b>420,729</b>	<b>73,000</b>	<b>620,379</b>	<b>(1)</b>

**Respectfully  
Submitted on behalf  
of NDRIO**

**Presented By:**

**David Hunter, Executive Director/CIO**

**Janilyn Murtha, Deputy Executive  
Director/Chief Retirement Officer**

**Darren Schulz, Deputy Chief Investment  
Officer**



# SIB Mission Statement and Fast Facts

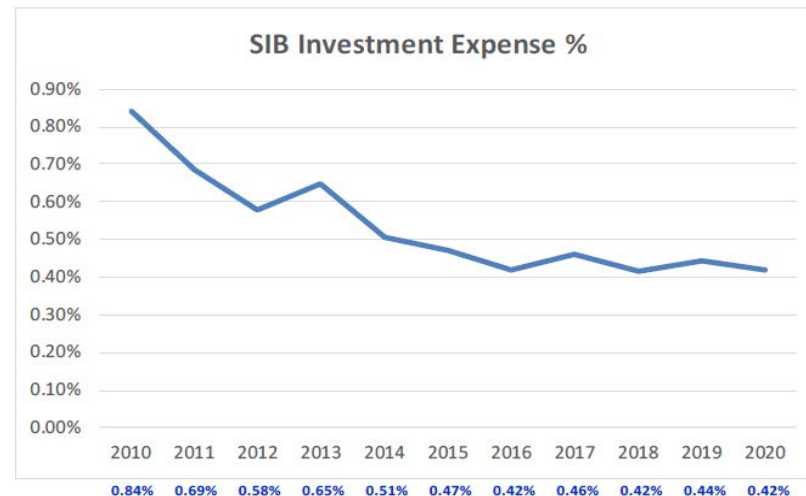
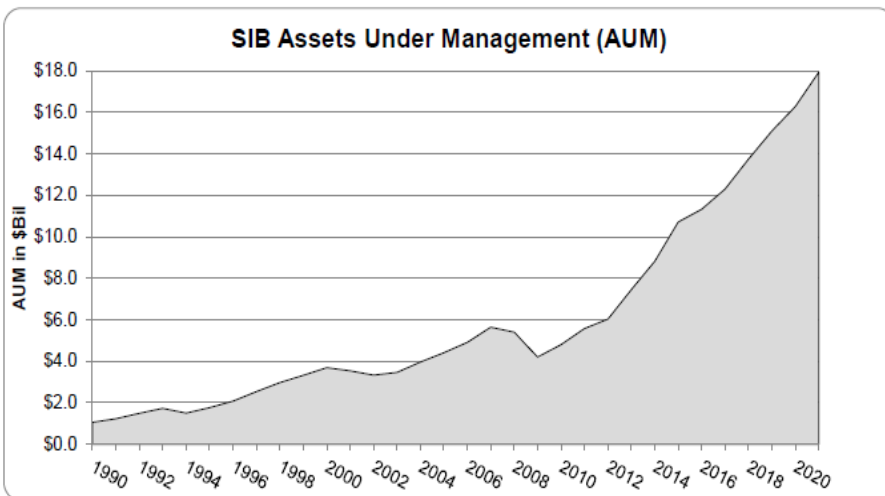
As of November 30, 2020

**Mission Statement:** The Retirement and Investment Office (RIO) serves the State Investment Board (SIB) and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule (as defined in NDCC 21-10-07 "Legal Investments").
- 2) Potential SIB clients have access to information regarding the services provided by the SIB.
- 3) SIB clients receive satisfactory services from our Board & RIO staff including the TFFR, PERS, WSI and Legacy & Budget Stabilization Funds.

## Top Ten SIB Fast Facts:

- SIB client assets under management have more than tripled from \$5 billion in 2010 to \$18 billion in 2020.
- SIB investment fees have significantly declined from 0.84% in 2010 to less than 0.45% in 2020.
- The SIB's keen focus on fees is saving our clients over \$20 million per year in lower costs which increases our SIB client net investment returns.
- The SIB prudent use of active investment management has generated over \$300 million of incremental income for our clients in the last 5-years.
- SIB client investment performance compares favorably with our peers including U.S. public pension plans and larger sovereign wealth funds.
- The SIB pension investment pool, which includes TFFR and PERS, returns are ranked in the top 25% of U.S. public funds in the last 10-years.
- North Dakota Legacy Fund returns are comparable to other Sovereign Wealth Funds since 2015 and favorable in more recent periods (see below).
- Actual net investment returns for 99% of our SIB clients have exceeded approved performance benchmarks for the 5-years ended Sep. 30, 2020.
- The SIB regularly accepts new investment clients such as the Office of the Attorney General and Veterans' Cemetery Trust Fund in recent years.
- SIB client satisfaction scores range from 3.4 to 3.7 in recent years (on 4.0 scale with 4 = Excellent, 3 = Above Average, 2 = Average and 1 = Poor).



## Sovereign Wealth Fund Returns

### Fund Name / Fund Size at Nov. 30, 2020

**Alaska Permanent Fund (Largest U.S. SWF)**

Source: <https://apfc.org/report-archive/>

**North Dakota Legacy Fund**

Source: <https://www.rio.nd.gov/legacy-fund>

**Norway Government Pension Fund (#1 Global)**

Source: <https://www.nbim.no/en/the-fund/returns/>

Fund Size (billions)	Fiscal Year Ended June 30, 2020			Date of Inception	Fiscal YTD Nov. 30, 2020
	1-year	5-years	Inception		
\$ 71.9	2.01%	6.44%	8.60%	7/1/1980	10.78%
\$ 7.9	4.23%	5.91%	4.76%	9/7/2011	11.06%
\$ 1,078.0	3.17%	5.41%	5.79%	1/1/1998	n/a

Note: The Legacy Fund was invested in 100% short-term fixed income prior to August 1, 2013. Since inception returns were 5.19% as of 9/30/2020.

# Overview of Prudent Investor Rule

## NDCC 21-10-07 Legal Investments - Prudent Investor Rule:

The **state investment board** shall apply **the prudent investor rule** in investing for funds under its supervision. The "**prudent investor rule**" means that in making investments **the fiduciaries** shall exercise the **judgment and care**, under the **circumstances then prevailing**, that an institutional investor of ordinary **prudence, discretion, and intelligence** exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, **considering probable safety of capital as well as probable income**. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

**The SIB does not make individual investments in securities as all client portfolios are externally managed by approved investment firms using SIB client board approved investment policies and asset allocations.**

**Economically targeted investing is prohibited unless the investment meets the "exclusive benefit rule" and the following four conditions are satisfied:**

- 1) The cost does not exceed the fair market value at time of investment;
- 2) **The investment provides the fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and expected risk;**
- 3) Sufficient liquidity is maintained in the fund to permit distributions in accordance with plan terms; and
- 4) The safeguards or diversity that a **prudent investor would adhere to are present.**

RIO's website was recently updated to improve overall transparency and reporting access for our users and clients noting the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its CAFR for the fiscal year ended June 30, 2019 (for the 22<sup>nd</sup> consecutive year). →



Government Finance Officers Association

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

**North Dakota Retirement  
and Investment Office**

For its Comprehensive Annual  
Financial Report  
For the Fiscal Year Ended

June 30, 2019

*Christopher P. Morrell*

Executive Director/CEO