

North Dakota In-State Investment Program Overview

Neutral Factual Testimony

The State Investment Board (SIB) has supported Bank of North Dakota's (BND) Match Loan CD Program, which provides cost-efficient funding to businesses looking to grow existing operations or establish a new business in North Dakota, for over 30 years.

In 2019 and 2020, the Legacy Fund Advisory Board (Advisory Board) and SIB doubled the size of its commitment to the BND Match Loan CD Program from \$200 million in 2019 to \$400 million in 2020 (and represents an approximate 5% target asset allocation).

In 2020 and 2021, the Advisory Board and SIB conducted a study to determine the most efficient and prudent manner to expand the in-state investment program. After reviewing the study, the Advisory Board approved a new 3% Private Capital allocation with a preference for in-state investments. The SIB approved this recommendation to increase Legacy in-state investment targets to 8%.

As a result, the Legacy Fund asset allocation policy now includes a 5% target for the BND Match Loan CD Program as a Fixed Income sector allocation in addition to a target 3% Private Capital allocation (+/- 3%) with a preference for in-state investments at a competitive rate (which reduced Legacy's asset allocation to Global Equities from 50% to 47%).

Private market investments take a significant length of time to prudently deploy capital as it commonly takes many years to hit investment targets.

Legacy Fund earned a net investment return of 9.25% per annum for the 5-years ended Dec. 31, 2020. In the last half of 2020, Legacy's net investment return was 14.3% (or \$1 billion) which exceeded the policy benchmark return by 1% (or \$70 million) after all fees and expenses.

As of January 31, 2021, the Legacy Fund balance exceeded \$8.1 billion including nearly \$2.7 billion of net investment income (since inception) with current biennium to date earnings of \$636 million (as defined by NDCC 21-10-12). Legacy Fund earnings were \$455,263,216 in the 2017-19 biennium (as defined by NDCC 21-10-12) and were transferred to the General Fund in mid-2019.

Note: Reported amounts post June 30, 2020, are unaudited and subject to change.



SIB Raises In-State Investment Targets up to 8% as Recommended by Legacy Fund Advisory Board

During the past 18 months, the SIB has doubled the size of the Legacy Fund In-State Investment Program by increasing its long-standing commitment to the Bank of North Dakota Match Loan Program – from a \$200 million commitment in August of 2019 to a \$400 million in November 2020. In 2021, the Advisory Board and SIB seeks to further expand its commitment to the Legacy Fund In-State Investment Program by adding a new private capital allocation with a preference to target in-state investments in private equity and private credit. The SIB approved these Advisory Board recommendations in February and is working towards identifying a new In-State Investment Program management firm.

Legacy Fund Gains Over \$1 billion in Last Half of 2020

The Legacy Fund balance exceeded \$8 billion at year-end 2020 and has earned over \$2.7 billion of net investment income since inception.

Legacy Fund net investment returns exceeded 14.3% in the last half of 2020 and 9.25% per annum for the 5-years ended 12/31/2020. Month-end valuations and investment results are reported on RIO's website.

Legacy Fund Balance (\$ in billions)

