



LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Wednesday, June 21, 2023
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Glenn Bosch, Chairman, called the meeting to order at 10:00 a.m.

Members present: Representatives Glenn Bosch, Keith Kempenich, Jonathan Warrey; Senators Kathy Hogan, Jerry Klein, Scott Meyer*; Citizen Members Thomas Beadle, Todd Steinwand

Members absent: Citizen Members Jon Godfread, Brian Kroshus

Others present: See [Appendix A](#)

**Attended Remotely*

It was moved by Senator Klein, seconded by Citizen Member Beadle, and carried on a voice vote that the minutes of the December 6, 2022, meeting be approved as distributed.

It was moved by Senator Hogan, seconded by Senator Meyer, and carried on a roll call vote that Representative Bosch and Senator Klein serve on the State Investment Board pursuant to North Dakota Century Code Section 21-10-01(1)(i) as amended by House Bill No. 1088 (2023). Representatives Bosch and Warrey; Senators Hogan, Klein, and Meyer; and Citizen Members Beadle and Steinwand voted "aye." No negative votes were cast.

STATUS OF FUNDS AND PROGRAMS

Fund Performance

Mr. Scott Anderson, Chief Investment Officer, Retirement and Investment Office, presented information ([Appendix B](#)) regarding the asset allocation, basis points charged by investment advisors, fund balance, and investment returns of the budget stabilization fund and legacy fund. He noted:

- The budget stabilization fund had a balance of \$732 million as of March 31, 2023; returned 0.3 percent for the 1-year period ended March 31, 2023, which was the same as the benchmark; and had investment fees of 0.13 percent for fiscal year 2022.
- The legacy fund had a balance of \$9 billion as of March 31, 2023; returned (3.9) percent for the 1-year period ended March 31, 2023, which exceeded the benchmark by 1.8 percent; and had investment fees of 0.52 percent for fiscal year 2022.

In response to a question from an advisory board member, Mr. Ryan Skor, Chief Financial Officer and Chief Operating Officer, Retirement and Investment Office, noted the transfer of legacy fund earnings at the end of the 2021-23 biennium is based on 7 percent of the average balance of the legacy fund for the 5-year period ended June 30, 2022, pursuant to the definition change for the legacy fund earnings during the 2023 legislative session.

Internal Investment Management Program

Mr. Anderson presented information ([Appendix C](#)) regarding the status of the development of an internal investment management program, including plans for incentive compensation and staffing changes. He noted:

- The cost of the internal investment management program is estimated to be 0.07 percent of assets compared to current costs of 0.28 percent for domestic equity assets and 0.35 percent for investment grade fixed income assets.
- The program will be based on best practices from other states with implementation of the program anticipated to start in July 2024.

Legacy Fund Legislation and Investment Policy

Ms. Janilyn Murtha, Executive Director, Retirement and Investment Office, presented information ([Appendix D](#)) regarding a review of the legacy fund investment policy and bills approved during the 2023 legislative session affecting the legacy fund. She noted:

- The Legacy and Budget Stabilization Fund Advisory Board revised the investment policy in October 2022 to reflect changes to the in-state investment program approved during the 2021 legislative session.
- Major legislation from the 2023 legislative session affecting the legacy fund included House Bill No. 1088, which changes the membership of the State Investment Board; Senate Bill No. 2330, which defines legacy fund earnings as a percent of market value calculation; and House Concurrent Resolution No. 3033, which provides a constitutional amendment to clarify the process for biennial distributions from the legacy fund and to decrease the amount of principal that can be spent from the fund.

ASSET ALLOCATION STUDY

Study Overview

Mr. Anderson presented information ([Appendix E](#)) regarding a review of the legacy fund asset allocation study, including the amounts paid to RVK, Inc., for the study. He noted the cost of the study is \$295,000 of which \$104,287 has been billed to the Retirement and Investment Office through June 2023.

Study Recommendations

Mr. Joshua R. Kevan, Senior Consultant, and Ms. Oksana Rencher, Associate Consultant, RVK, Inc., presented information ([Appendix F](#)) regarding the asset allocation study of the legacy fund, including recommendations for changes to the asset allocation of legacy fund investments.

Mr. Kevan noted:

- The legacy fund needs to achieve a certain level of returns to preserve the real, inflation-adjusted purchasing power for future generations and to meet the spending requirements of the percent of market value earnings distribution.
- RVK, Inc., recommends, for the advisory board's consideration, the asset allocations in alternative investment portfolios nos. 7 and 8 based on the estimated increase in returns relative to the increase in risk.

Ms. Rencher noted:

- Various asset allocation scenarios were modeled and tested to calculate the possible return and risk outcomes in comparison to the current asset allocation of the legacy fund.
- The modeling for the asset allocation scenarios included estimated oil and gas tax revenue deposits which were based on oil price and production forecasts provided by the Tax Department.

In response to a question from an advisory board member, Mr. Kevan noted transitioning the investments of the legacy fund from the current asset allocation plan to one of the new alternative investment portfolios could range from a few months to a few years depending on the type of investments.

In response to a question from an advisory board member, Mr. Anderson noted alternative investment portfolio no. 8 may be easier to implement due to its similarity to the asset allocation plans for other funds invested by the State Investment Board.

It was moved by Citizen Member Steinwand, seconded by Senator Hogan, and carried on a roll call vote that the Legacy and Budget Stabilization Fund Advisory Board revise the legacy fund investment policy based on the recommendation of alternative investment portfolio no. 8 from RVK, Inc., which decreases the allocations to core fixed income investments, treasury inflation-protected securities, domestic equities, and international equities and increases the allocations to the Bank of North Dakota's CD match program, private credit, high yield fixed income, private equity, and in-state private equity compared to the current asset allocation of legacy fund investments. Representatives Bosch, Kempenich, and Warrey; Senators Hogan, Klein, and Meyer; and Citizen Members Beadle and Steinwand voted "aye." No negative votes were cast.

No further business appearing, Chairman Bosch adjourned the meeting at 2:35 p.m.

Adam Mathiak
Senior Fiscal Analyst

ATTACH:6