

## MEMORANDUM

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**TO:** Rep. Jeff Delzer, Chairman House Appropriations Committee  
**FROM:** Jan Murtha, Interim Executive Director  
**DATE:** November 8, 2021  
**RE:** Testimony in Support of H.B. 1506 Section 15 regarding RIO resource needs.

Thank you for the opportunity to appear before you with this appropriation request. The Retirement and Investment Office is responsible for the administration of two programs. The State Investment Board program, which is the focus of this request and which serves 26 government client funds, and the Teachers' Fund for Retirement Program which serves over 20,000 members. The State Investment Board program currently has approximately 19.7 billion dollars in assets under management (AUM) as of August 31, 2021; compared with 4.8 billion AUM in fiscal year 2010. RIO's investment program, has more than quadrupled in just over a decade.

In order to prudently manage, monitor, and rebalance complex investment programs for our clients, in an increasingly risk prone market, and based on comparisons with other public sector investment programs, we seek to dedicate 1 investment professional per 2 to 2.5 billion dollars in AUM. Currently we have 19 allotted FTE's across these two programs, in 2010 we had 17 allotted FTE's. Only 4 of our 19 FTE's are dedicated investment professionals. Of the 4 dedicated investment professionals only 2 of the investment professional positions are filled. The two unfilled investment positions are the Chief Risk Officer and Chief Investment Officer. Initial interviews have been conducted for the Chief Risk Officer, and RIO hopes to complete final interviews in November, 2021 for this position. The SIB is scheduled to conduct final interviews for the Chief Investment Officer(CIO) in December 2021. The final position to fill is that of the Executive Director (ED), and the SIB will undertake filling the ED position subsequent to filling the CIO position. Approval of the agency request during the upcoming special legislative session would provide the new CIO the opportunity to build their investment team at the same time they are asked to build the in-state program.

As the assets under management have increased so too has the complexity of the program, and the need for additional resources will continue to increase so long as the AUM and program complexity increase. Additional investment professionals will be invaluable for managing the larger asset base and navigating the ever challenging markets, which in turn is key to generating excess returns net of fees above the benchmark. The benchmark rate is the returns you expect to receive; excess returns represent the additional dollars earned over what you expected. The 5-year excess returns, so returns above and beyond what was expected from client investments and net of fees, exceeded 500 million dollars.

The implementation of H.B. 1425 introduced substantial additional complexity and demands on resources to the investment program. H.B. 1425 contained three major mandates, developing a

preference program for in-state managers and directing the in state investment of 10% fixed income and 10% equity. The majority if not all of the 10% will be invested in private markets which requires far greater due diligence and monitoring than public equities because of the private long term nature of the investment. To develop the manager preference program, we have reached out and received feedback from our state financial institution associations on how to effectively incorporate in-state managers into the search process. For this preference program to be implemented by the agency and not contracted out to a consultant we require additional resources to dedicate to outreach efforts with stakeholders and staff to perform the review. The positions being requested and how they would be used are outlined in the attached Exhibit. The agency is seeking an appropriation to spend special fund dollars equal to approximately 1% of the average excess returns generated on an annual basis.

Without the ability to add additional staff members to assist with developing the in-state investment program and maintain and grow the current investment portfolios prior to the next biennium, the agency and the State Investment Board will be in the unenviable position of: determining what realistically can be accomplished now, what priorities must wait, what must be simplified, and what can be contracted out to consultants. Staff will endeavor to continue to provide excellent service and diligent care for government client investments, however, without additional resources to support this growing program we are concerned that the agency will fall short of meeting the expectations of our clients, our stakeholders, and the people of North Dakota.

Thank you in advance for your support of this important state program and for your service to the people of North Dakota.

**RETIREMENT AND INVESTMENT OFFICE  
ADDITIONAL APPROPRIATION REQUEST  
2021 SPECIAL LEGISLATIVE SESSION**

- I. Agency Background:** The Retirement and Investment Office (RIO) is responsible for the administration of two programs: the State Investment Board (SIB) program, which is the focus of this request and which serves 26 government client funds, and the Teachers' Fund for Retirement (TFFR) Program which serves over 20,000 members. The SIB program has approximately \$19.7 billion in assets under management (AUM) as of August 31, 2021; compared with \$4.8 billion AUM as of June 30, 2010. RIO's investment program has more than quadrupled in just over a decade.

As the assets under management have increased so too has the complexity of the program, and the need for additional resources will continue to increase as long as the AUM and program complexity increase. The implementation of H.B. 1425, passed in the 2021 regular legislative session, introduced substantial additional complexity and demands on resources to the investment program. H.B. 1425 contained three major mandates, developing a preference program for in-state managers and directing the in state investment of 10% fixed income and 10% equity. The majority if not all of the 10% equity will be invested in private markets which requires far greater due diligence and monitoring than public equities because of the private long term nature of the investment. Additional investment professionals will be invaluable for managing the larger asset base and navigating the ever challenging markets, which in turn is key to generating excess returns net of fees above the benchmark. An additional investment accountant is needed to keep the growing portfolios in compliance with target allocations. An outreach coordinator is essential to facilitate rollout of the in-state manager preference process required by H.B. 1425.

- II. Agency Special Funds Appropriation Request:** In order to accomplish the current goals of the SIB program, including the implementation of H.B. 1425, RIO estimates the agency will need four (4) additional investment professionals, one (1) additional investment accountant, and one (1) position designated as a Program Outreach and Education Coordinator.

**A. Four (4) Investment Professionals:** The four investment professionals will be responsible for monitoring the various existing asset classes of the program including oversight for the In-State Investment Program (IIP) development and monitoring. The estimated cost for those four positions is broken down below.

	Salaries	Benefits	Total Salaries & Benefits	Operating Expenses	Total
Three (3) Senior Level Investment Professionals	\$ 706,500	\$218,801	\$ 925,301	\$ 37,500	\$ 962,801
One (1) Junior Level Investment Professional	191,232	64,120	255,352	12,500	267,852
Total Cost of Four (4) Investment Professionals	897,732	282,920	1,180,652	50,000	1,230,652

Operating expenses include approximately \$5,000 for NDIT fees and expenses, \$4,000 for education and training and \$3,500 for furniture and supplies per position.

**B. Investment Accountant:** The additional investment accounting position is necessary for the Fiscal Team to continue to provide accurate and timely accounting reports and to

keep the portfolios in compliance with their stated asset allocation targets. Delays in these areas increase the risk that client portfolios will underperform and that RIO financial statements will receive other than unmodified audit opinions. The estimated cost for an additional accounting position is broken down below.

	Salaries	Benefits	Total Salaries & Benefits	Operating Expenses	Total
One (1) Investment Accountant	\$ 108,336	\$ 47,615	\$ 155,951	\$ 12,500	\$ 168,451

**C. Program Outreach and Education Coordinator:** The Program Outreach and Education Coordinator position is essential for the coordination of the IIP process development, manager preference program and stakeholder engagement. Without this position and with no current resources to dedicate to these efforts, RIO anticipates that the implementation of the manager preference piece of the IIP will not be accomplished, or significantly delayed, in the current biennium. The estimated cost for this position is broken down below.

	Salaries	Benefits	Total Salaries & Benefits	Operating Expenses	Total
One (1) Program Outreach and Education Coordinator	\$ 131,880	\$ 52,303	\$ 184,183	\$ 12,500	\$ 196,683

**D. Additional Budget Adjustments:** RIO also requests additional funding within the Salaries and Benefits line to address a budget deficiency resulting from the separation of the combined Executive Director and Chief Investment Officer position into two positions in August, 2021; the inability to fill the currently open Chief Risk Officer position within its current classification; and the impact these vacancies have had on the previously appropriated budget. Subsequent to the vacancy of the Executive Director/Chief Investment Officer position in June, the SIB made the decision to split the position. A search is currently underway for a dedicated Chief Investment Officer (CIO). RIO will use the salary funding from the previously combined position, and the investment FTE authorized in the 2021 regular session, to staff the CIO position. It is expected that the Executive Director salary will be within a range of similar director positions within the state, however, the budget must be adjusted to accommodate this salary range. All other positions will be compensated at rates below the ED salary.

The Deputy CIO position was also vacated in August, 2021. That position was filled with an internal promotion, leaving the position of Chief Risk Officer (CRO) vacant. The CRO position has been posted and received a large number of applicants. Upon reviewing the applicant pool and conducting first round interviews, it became clear that the position salary range, as currently classified within the state system, falls well below the market rate for similar positions in peer public funds, even with a pay-grade exception granted by Human Resource Management Services (HRMS).

Prior to the splitting of the ED/CIO position, RIO had three approved non-classified positions (ED/CIO, Deputy ED/Chief Retirement Officer, and Deputy CIO). As a result of the ED/CIO split, the limits on unclassified positions within the agency, and the concern surrounding the ability to staff the Chief Risk Officer position, RIO requested and the State Personnel Board approved both the Deputy CIO and Chief Risk Officer positions as non-classified positions.

As a result of the restructuring of positions within the agency, subsequent budget adjustments are necessary to properly address the previously mentioned changes and vacancies. The estimated cost of those adjustments is broken down below.

	Salaries	Benefits	Total Salaries & Benefits	Operating Expenses	Total
Additional funding for current positions	\$ 176,028	\$ 35,047	\$ 211,075	\$ -	\$ 211,075

**III. Summary:** Over the five years ended June 30, 2021, the SIB Investment Program generated an average excess return over its passive market benchmark of over \$100 million per year (over \$500 million for the five-year average). This amount is after the payment of all fees and expenses. The additional amount of appropriation requested for the remainder of the 2021-23 biennium equates to less than 1.2% per year of that net annual excess return amount. RIO's total appropriation request for the 2021 Special Legislative Session is as follows:

	Salaries	Benefits	Total Salaries & Benefits	Operating Expenses	Total
Three (3) Senior Level Investment Professionals	\$ 706,500	\$218,801	\$ 925,301	\$ 37,500	\$ 962,801
One (1) Junior Level Investment Professional	191,232	64,120	255,352	12,500	267,852
Total Cost of Four (4) Investment Professionals	897,732	282,920	1,180,652	50,000	1,230,652
One (1) Investment Accountant	108,336	47,615	155,951	12,500	168,451
One (1) Program Outreach and Education Coordinator	131,880	52,303	184,183	12,500	196,683
Additional funding for current positions	176,028	35,047	211,075	-	211,075
Total additional Special Fund appropriation request for remainder of 2021-23 Biennium	\$1,313,976	\$417,885	\$ 1,731,861	\$ 75,000	\$1,806,861