

House Bill 1088
North Dakota Retirement and Investment Office (RIO)
Testimony in support of HB 1088 before the House Government and Veterans
Affairs Committee
Representative Austen Schauer, Chair
Representative Bernie Satrom, Vice Chair

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I. Introduction

The Retirement and Investment Office (hereinafter “RIO”) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers’ Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

During this past biennium RIO underwent a strategic review and plan initiative to evolve both programs and the agency to better serve the needs of our clients, members, stakeholders, and the State of North Dakota. This review has resulted in changes to our board and agency governance, identifying and implementing improvements to our infrastructure, and a concerted focus on the development of our workforce.

The RIO team worked closely with the SIB and TFFR Boards to evolve the governance structure of both Boards and Board staff relations to establish a foundation of governance that supported program growth. During this past biennium the State Investment Board established two new committees to support this growth including a Governance and Policy Review Committee as well as an Investment Committee to better support the needs of the program. These changes in particular occurred over the course of many meetings as through board discussion the SIB recognized the need to evolve its own governance to provide the agility and ability needed to manage a growing amount of assets in complex investment strategies.

Review of SIB membership was referred to the Governance and Policy Review Committee and recommendations were brought forward to the full SIB. The SIB discussion focused on whether the current membership appropriately represented the funds under management and included fiduciaries with sufficient expertise in institutional investing given the complexity of the program. HB 1088 is submitted as a result of the review and discussion conducted by the State Investment Board.

II. State Investment Board (SIB) Member Composition

The State Investment Board has the statutory responsibility to administer the investment program for 27 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 19 other non-pension funds for a total of 27 separate client funds with an overall fund value of roughly \$18 billion as of October 31, 2022.

These assets under management have grown from about \$4 billion in 2010 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered. Throughout this program growth the composition of the SIB has remained largely unchanged.

Currently the following members comprise the SIB:

The Lt. Governor, in place of the Governor, the State Treasurer, the Commissioner of University and School Lands, the Director of Workforce Safety and Insurance (WSI), the Insurance Commissioner, three representatives of the TFFR Board, three representatives of the Public Employees Retirement System (PERS) Board, and one member of the Legacy and Budget Stabilization Fund Advisory Board as a nonvoting member.

At the time the RIO agency was established in 1989, the SIB composition appropriately reflected the governance needed to serve the assets under management in many ways. For example, fiduciary boards comprised of lay persons, as opposed to professionals within the investment industry, are common when the AUM is relatively small. In addition, having much of the board comprised of pension trustees reflects that pension funds, up until recently, have been the largest type of funds under management by the board. As the program complexity, AUM, and type of funds evolved the board membership has not. H.B. 1088 reflects the SIB's desire to evolve board membership in a manner consistent with the needs of the investment program as it is today.

The changes proposed in H.B. 1088 accomplish two goals: 1) to introduce experienced industry professionals onto the Board in order to address program growth and complexity; and 2) to adjust current board member composition to reflect a change in the type of assets under management.

H.B. 1088 proposed the addition of two members to the SIB that are appointed by the Governor and have experience with institutional investments. This board archetype reflects not only the growth but the evolving complexity of the investment program and the need for fiduciaries with a specific type of industry experience to participate in discussions and decisions.

H.B. 1088 further adjusts board membership by reducing the number of pension trustees from three TFFR and PERS representatives to two, respectively. This adjustment is intended to reflect

the change in the type of assets under management as pension funds are now the second largest type of funds under management.

Finally, HB 1088 replaces the Insurance Commissioner with the Director of the Office of Management and Budget (OMB). The Insurance Commissioner has been a vocal advocate for this change indicating that Insurance fund interests are adequately represented by the WSI Director. The addition of the OMB Director reflects the fact that until November 2021 the OMB Director had served on the Legacy and Budget Stabilization Fund Advisory Board and offers representation and coordination in administration of those funds.

III. Summary

The changes proposed in H.B. 1088 reflect a critical self-assessment by the current members of the SIB and a desire to support investment program growth by enhancing the SIB governance structure. The SIB believes the proposed changes to the SIB membership will enhance the program by including industry experts and rebalancing fiduciary representatives across client funds to better reflect the type of assets under management.