

House Bill 1330
North Dakota Retirement and Investment Office (RIO)
Testimony before Senate Government Operations Division
Senator Terry Wanzek, Chair

Jodi Smith – Interim Executive Director
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I. RIO Statutory Authority and Responsibilities

The Retirement and Investment Office (RIO) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the State Investment Board (SIB) and Teachers' Fund for Retirement (TFFR) programs. RIO's statutory authority is found in North Dakota Century Code (NDCC) chapter 54-52.5.

The SIB was created by the 1963 Legislative Assembly to invest five funds: State bonding fund; Teachers' insurance and retirement fund; State fire and tornado fund; Workmen's compensation fund; and Highway patrolmen's retirement fund. The SIB's statutory authority is found in NDCC chapter 21-10.

The TFFR was created in 1913 to provide retirement income to North Dakota public school educators. It is a qualified defined benefit public pension plan covered under Section 401(a) of the Internal Revenue Code. NDCC Chapter 15-39-1 contains the statutory language governing TFFR. It is supplemented by Title 82 of the North Dakota Administrative Code.

II. IN-STATE INVESTMENT PROGRAM

In 2021, state legislation established an In-State Investment program requiring a portion of Legacy Fund assets be invested in North Dakota and empowering the SIB, as advised by the Advisory Board, to administer the program. Since the program's inception, more than **\$450 million** has been committed to 40 North Dakota businesses and communities. (See attached document for an illustration these in-state investments.)

Among the fixed-income investments reported, more than \$311 million has been committed through Bank of North Dakota's Match Loan Program funding 9 loans used to attract and retain companies with investment-grade ratings by offering financing at below-prime interest rates. An additional \$50 million is invested through the bank's Infrastructure Revolving Loan Fund supporting 11 loans to political subdivisions by

providing affordable financing for infrastructure projects, most frequently road improvements.

Through the North Dakota Growth Fund, which is managed by 50 South Capital, the Legacy Fund supports the development of the state's entrepreneurial ecosystem by making private equity and venture capital investments with a strong risk-adjusted return potential. Twenty North Dakota businesses are reported to have received \$89 million in funding commitments.

To tap additional in-state opportunities, the SIB will add another investment manager to the program's roster later this year.

The proposed amendment will be added to the following portion of the century code:

21-10-11. Legacy and budget stabilization fund advisory board.

1. The legacy and budget stabilization fund advisory board is created to develop recommendations for the investment of funds in the legacy fund and the budget stabilization fund to present to the state investment board.

2. The goal of investment for the legacy fund is principal preservation and growth while maximizing total return for an appropriate level of risk and to provide a direct benefit to the state by investing a portion of the principal in the state. Preference must be given to qualified investment firms and financial institutions with a presence in the state for investment of the legacy fund.

3. The board shall determine the asset allocation for the investment of the principal of the legacy fund including:

a. A target allocation of seven hundred million dollars to fixed income investments within the state, including:

(1) Up to one hundred fifty million dollars for infrastructure loans to political subdivisions under section 6-09-49.1. The net return to the legacy fund under this paragraph must be fixed at a target rate of one and one-half percent;

(2) A minimum of four hundred million dollars for the Bank of North Dakota's certificate of deposit match program with an interest rate fixed at the equivalent yield of United States treasury bonds having the same term, up to a maximum term of twenty years; and

(3) Other qualified fixed income investments within the state based on guidelines developed by the legacy and budget stabilization fund advisory board.

b. A target allocation of six hundred million dollars to equity investments in the state, including:

(1) Investments in one or more equity funds, venture capital funds, or alternative investment funds with a primary strategy of investing in emerging or expanding companies in the state. Equity investments under this paragraph must:

(a) Be managed by qualified investment firms, financial institutions, or equity funds which have a strategy to invest in qualified companies operating or seeking to operate in the state and which have a direct connection to the state; and

(b) Have a benchmark investment return equal to the five-year average net return for the legacy fund, excluding in-state investments; and

(2) Other eligible investments under this subdivision based on guidelines developed by the legacy and budget stabilization fund advisory board. The legacy fund may be invested in large-scale infrastructure projects under paragraph 2 of subdivision b of subsection 3 underwritten and managed by a qualified investment management firm or financial institution when deemed beneficial to the state. The legacy fund advisory board and state investment board shall prudently diversify the investments of the legacy fund per the legacy fund investment policy unless the boards reasonably determine that, because of special circumstances, the purposes of the state are better served with a more concentrated strategy for the in-state infrastructure funds without diversification of the legacy fund investments.

III. Summary

In summary, RIO stands in a neutral position on HB 1330, which proposes amendments to section 21-10-11 of the North Dakota Century Code under paragraph 2 of subdivision b of subsection 3.