NORTH Dakota | Retirement & Investment
Be Legendary.

House Bill 1330
North Dakota Retirement and Investment Office (RIO)
Testimony before Senate Industry & Business
Senator Jeff Barta, Chair

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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. LEGACY FUND OVERVIEW

The **North Dakota Legacy Fund** was established in 2010 following the passage of a constitutional amendment approved by North Dakota voters. The fund was created to ensure that a portion of the state's tax revenues from oil and gas production would be set aside for the long-term benefit of North Dakotans, securing financial stability for future generations.

The Legacy Fund operates as a sovereign wealth fund, receiving 30% of all oil and gas tax revenues collected in the state. It serves as a strategic financial resource for the state, generating investment earnings that can be utilized for various purposes including legislative appropriations, infrastructure investments, economic diversification initiatives, and maintaining financial reserves to mitigate economic downturns.

The Legacy Fund is overseen by the Legacy and Budget Stabilization Fund Advisory Board (Advisory Board) whose duty is to recommend for the investment of funds to present to the SIB. The SIB governs investment decisions regarding the fund, ensuring that assets are allocated prudently across diverse asset classes to maximize long-term returns while managing risk.

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.

International Investments

The SIB's international benchmark, the MSCI All Country World Index IMI, is widely recognized and used by investors globally. This benchmark includes over 6,000 constituents. As index holders, the SIB maintains exposure to all companies in the index. If any company becomes subject to federal sanctions by the U.S. Department of the Treasury's Office of Foreign Asset Control (OFAC), it is promptly removed from the index and from the SIB's portfolio.

The Legacy Fund's investment practices align with those of other major sovereign wealth funds including Alaska's Permanent Fund and Norway's Government Pension Fund Global. For the Legacy Fund, this approach currently includes a careful 2.1% allocation to China, the world's second-largest economy. (Norway invests about 3% of its fund in China.) By comparison, 8% of the Legacy Fund's assets are allocated to investment in North Dakota ($700 million to in-state fixed income and $600 million to in-state equity).

State Initiatives with Carveouts for Commingled Funds or Indirect Investments such as Private Equity Funds

State	Legal Direction Provided	Divestment Strategy
Indiana	Law Passed	Divest from direct holdings. Indirect holdings only re-directed if similar fund is consistent with prudent investing standards.
Missouri	Investment Board Direction	Divestment specifics unavailable.
Florida	Law Passed	Divest from direct holdings. Comingled funds not subject to the law.
Oklahoma	Executive Order	Develop divestment plan and submit to Governor's office.
Kansas	Law Passed	Divestment of direct holdings.
Texas	Governor Order	Divestment of current holding at first available opportunity.

The Legacy Fund is one of many institutional investors (i.e., an organization that invests money on behalf of others) in each of these commingled funds. The funds have a range of geographies from domestic, to international, to global. The total China direct and indirect exposure in the Legacy Fund is $245 Million or 2.1% while the benchmark exposure is about 2.07%. Note that the date of exposures is 11/30/2024.

consultants, not investing in China reduces the expected overall return per risk of a fully diversified portfolio. The Chinese market offers significant diversification benefits. Investment managers consider the directives from OFAC, political risks and economic prospects of Chinese companies when investing.

After the Russian invasion of Ukraine, RIO's investment team developed a country risk framework and tool for the SIB to monitor and manage country risk. In addition to the development of the country risk assessment tools, RIO has begun to structure the international portfolios in its care to be more flexible to international events by creating a structure with Ex-China and China indexes and pursuing authorization to trade securities in emerging market countries so that more flexible Ex-China or Ex-any country separately managed funds can be created. The flexibility would allow exiting China and other countries if there were OFAC requirements to do so.

Pursuant to NDCC Section 54-03-35, any bill which potentially affects the Legacy Fund, the advisory board shall request the state RIO to arrange for the preparation and submission of a cost-benefit analysis (CBA). The investment consultancy RVK has been retained to provide CBAs for this purpose.

The CBA provided by RVK estimates that the cost of divesting of the direct China investments of the Legacy Fund to be between $100 thousand and $1.9 million over the biennium beginning in 2025 and between $100 thousand and $2.3 million for the biennium beginning in 2027. The cost is primarily driven by the higher cost of investment estimated to maintain the strategic asset allocation of the Legacy Fund.

III. SUMMARY

The SIB is neutral in its current version based on the CBA outlining the cost per biennium and impact the ability to invest in developed market companies in an agile way.