

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

**LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD**

Monday, December 1, 2014  
Medora Room, State Capitol  
Bismarck, North Dakota

Representative Keith Kempenich, Chairman, called the meeting to order at 3:20 p.m.

**Members present:** Representatives Keith Kempenich, Gary Kreidt; Senators Jerry Klein, Carolyn C. Nelson; Citizen Members Ryan Rauschenberger, Pam Sharp

**Members absent:** Eric Hardmeyer

**Others present:** See [Appendix A](#)

**It was moved by Representative Kreidt, seconded by Senator Klein, and carried on a voice vote that the minutes of the October 28, 2014, meeting be approved as distributed.**

**BUDGET STABILIZATION FUND INVESTMENT POLICY STATEMENT**

At the request of Chairman Kempenich, Mr. David J. Hunter, Executive Director and Chief Investment Officer, Retirement and Investment Office, provided information ([Appendix B](#)) regarding proposed changes to the investment policy statement of the budget stabilization fund.

Mr. Hunter said the Retirement and Investment Office (RIO) provided an update to the State Investment Board (SIB) in November 2014, regarding proposed changes to the investment policy statement of the budget stabilization fund and the advisory board's recommendation to increase the fund's investment in the the Bank of North Dakota Match Loan CD Program. He said based on discussion with SIB and as a result of the advisory board's recommendation, RIO recommends the investment policy statement for the budget stabilization fund be revised to include a 35 percent asset allocation limit for the Match Loan CD Program. He said based on the Office of Management and Budget preliminary revenue forecast and a preliminary 2015-17 biennium budget outlook prepared by the Legislative Council ([Appendix C](#)), an estimated \$134 million may be deposited into the budget stabilization fund at the end of the 2013-15 biennium. He said if the additional funds are deposited into the fund, the balance in the fund will total approximately \$714 million and the recommendation to allocate 35 percent of the fund's assets to the Match Loan CD Program will be consistent with the advisory board's recommendation, approved in October 2014, to increase the funding allocated to the Match Loan CD Program from \$200 million to \$250 million.

Mr. Hunter said RIO recommends the following changes to the investment policy statement of the budget stabilization fund:

- **Section 1. Fund Characteristics and Constraints** - The first paragraph is revised to incorporate recent contributions into the budget stabilization fund.
- **Section 4. Standards of Investment Performance** - The first paragraph is revised to incorporate current performance standards and restated to be consistent with current terminology.
- **Section 5. Policy and Guidelines** - The first paragraph is revised to provide the asset allocation of the budget stabilization fund is established with input from the Legacy and Budget Stabilization Advisory Board rather than the Office of Management and Budget and a statement is added to provide a 35 percent asset allocation limit for the Match Loan CD Program. The guidelines are also revised to incorporate current investment restrictions and restated to be consistent with terminology adopted by other investment clients of SIB.

Mr. Hunter said RIO's legal counsel indicated that if the advisory board approves the 35 percent asset allocation limit on the Match Loan CD Program investment, the proposed change regarding economically targeted investing would not be necessary.

Representative Kreidt said the 35 percent asset allocation limit on the Match Loan CD Program investment seems appropriate.

**It was moved by Representative Kreidt, seconded by Senator Klein, and carried on a roll call vote that the Legacy and Budget Stabilization Fund Advisory Board adopt for incorporation into the budget stabilization fund investment policy statement the changes, excluding the proposed change related to economically targeted investing, recommended by the Retirement and Investment Office relating to fund characteristics and constraints, standards of investment performance, and policy and guidelines.** Representatives Kempenich and Kreidt, Senators Klein and Nelson, Mr. Rauschenberger and Ms. Sharp voted "aye." No negative votes were cast.

### **LEGACY FUND INVESTMENT POLICY STATEMENT**

At the request of Chairman Kempenich, Mr. Hunter reviewed proposed changes to the investment policy statement of the legacy fund ([Appendix D](#)). He said RIO recommends the following changes to the investment policy statement of the legacy fund:

- **Section 6. Policy Asset Mix** - A provision is added to recognize the 18-month implementation strategy for the asset allocation policy approved by the State Investment Board.

**It was moved by Senator Nelson, seconded by Senator Klein, and carried on a roll call vote that the Legacy and Budget Stabilization Fund Advisory Board adopt for incorporation into the legacy fund investment policy statement the changes recommended by the Retirement and Investment Office relating to policy asset mix.** Representatives Kempenich and Kreidt, Senators Klein and Nelson, Mr. Rauschenberger and Ms. Sharp voted "aye." No negative votes were cast.

### **STATUS OF THE BUDGET STABILIZATION FUND AND LEGACY FUND**

At the request of Chairman Kempenich, Mr. Hunter provided information ([Appendix E](#)) regarding the market value of the budget stabilization fund and the legacy fund. He said market value of the budget stabilization fund as of September 30, 2014, was \$587.1 million, of which \$8.4 million (1.4 percent) is invested in cash equivalents, \$104.2 million (17.7 percent) is invested in certificates of deposit at the Bank of North Dakota, and \$474.5 million (80.8 percent) is invested in short-term fixed income securities with Babson Capital and JP Morgan. He said as of September 30, 2014, market value of the legacy fund totaled \$2.52 billion.

### **ADVISORY BOARD DISCUSSION AND STAFF DIRECTIVES**

Chairman Kempenich said in November 2014, a group of public and private leaders and citizens convened by the Great Plains Institute issued policy recommendations regarding future uses of legacy fund assets.

Senator Nelson suggested the advisory board receive a copy of the report. Chairman Kempenich asked the Legislative Council staff to email the report to the advisory board.

In response to a question from Senator Klein, the Legislative Budget Analyst and Auditor said the interim Government Finance Committee has recommended the earnings of the legacy fund continue to accumulate as part of the principal of the fund until certain criteria are met.

**It was moved by Senator Klein, seconded by Representative Kreidt, and carried on a voice vote that the meeting be adjourned, subject to the call of the chair.**

No further business appearing, Chairman Kempenich adjourned the meeting at 3:40 p.m.

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Sheila M. Sandness  
Senior Fiscal Analyst

ATTACH:5