

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Monday, June 15, 2015
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Keith Kempenich, Chairman, called the meeting to order at 10:00 a.m.

Members present: Representative Keith Kempenich, Gary Kreidt; Senator Jerry Klein; Citizen Members Eric Hardmeyer, Joe Morrissette, Pam Sharp

Members absent: Senator Carolyn C. Nelson

Others present: See [Appendix A](#)

It was moved by Senator Klein, seconded by Representative Kreidt, and carried on a voice vote that the minutes of the December 1, 2014, meeting be approved as distributed.

CONSIDERATION OF BOARD CHAIRMAN

The advisory board discussed selection of the chairman and vice chairman of the board.

It was moved by Representative Kreidt, seconded by Mr. Hardmeyer, and carried on a roll call vote that Representative Kempenich continue to serve as chairman of the Legacy and Budget Stabilization Fund Advisory Board. Representatives Kempenich and Kreidt, Senator Klein, Mr. Hardmeyer, Mr. Morrissette, and Ms. Sharp voted "aye." No negative votes were cast.

It was moved by Mr. Hardmeyer, seconded by Representative Kreidt, and carried on a roll call vote that Senator Klein continue to serve as vice-chairman of the Legacy and Budget Stabilization Fund Advisory Board. Representatives Kempenich and Kreidt, Senator Klein, Mr. Hardmeyer, Mr. Morrissette, and Ms. Sharp voted "aye." No negative votes were cast.

STATUS OF THE BUDGET STABILIZATION FUND

At the request of Chairman Kempenich, Mr. David J. Hunter, Executive Director and Chief Investment Officer, Retirement and Investment Office, presented information ([Appendix B](#)) regarding the status and asset allocation of the budget stabilization fund. Mr. Hunter said in August 2013 approximately \$181 million was transferred from the general fund to the budget stabilization fund. He said since its inception, \$567.4 million has been deposited into the budget stabilization fund; investment income has totaled \$68.5 million; and distributions from the fund have totaled \$41 million, resulting in net assets of \$595.1 million as of March 31, 2015. He said because the budget stabilization fund is a reserve fund, assets are invested in short-term (1-year to 3-year) fixed income securities to protect the fund from long-term interest rate risk. He said the asset allocation of the fund is 100 percent short-term fixed income and Bank of North Dakota certificates of deposit (CDs).

Mr. Hunter presented information ([Appendix C](#)) regarding the market value of budget stabilization fund assets. He said market value of the fund as of March 31, 2015, was \$595.1 million, of which \$7.3 million (1.2 percent) is invested in cash equivalents, \$102.8 million (17.3 percent) is invested in CDs at the Bank of North Dakota, and \$485 million (81.5 percent) is invested in short-term fixed income securities with Babson Capital and JP Morgan.

Mr. Hunter provided information ([Appendix D](#)) regarding the 2015-17 budget stabilization fund statutory cap. He said the statutory cap will be set at 9.5 percent of the 2015-17 legislative appropriation of \$6.026 billion or \$572.5 million. He said the Retirement and Investment Office recommends the asset allocation percentage for the Bank of North Dakota Match Loan CD program not to exceed \$200 million or 35 percent of the budget stabilization fund statutory cap.

Chairman Kempenich asked the Retirement and Investment Office to provide additional information regarding the liquidity and liquidity options for each of the asset allocation groups for the budget stabilization fund. Mr. Hunter said the short-term fixed income funds, which includes Babson Capital and JP Morgan, are highly liquid and cash

from the short-term fixed income funds could be available within 5 to 10 business days. He said he will provide additional information on liquidity to the board at its next meeting.

In response to a question from Senator Klein, Mr. Hardmeyer said the Bank of North Dakota's Match Loan CD program is anticipated to exceed \$200 million within the next six to nine months. He said the Bank of North Dakota is considering options internally to generate additional funds for the Bank's Match Loan CD program when it reaches the maximum funds available from the budget stabilization fund.

Representative Kreidt suggested information be presented to the Budget Section during the 2015-16 interim regarding the potential additional investment of budget stabilization fund money in the Bank of North Dakota's Match Loan CD program.

Mr. Hunter presented information ([Appendix E](#)) regarding the returns of the budget stabilization fund. Since the fund's inception, he said, unaudited investment returns, net of fees, have averaged 2.36 percent compared to a policy benchmark of 1.57 percent. He said unaudited fund performance for one year as of March 31, 2015, net of fees, was 2.04 percent compared to a policy benchmark of .82 percent.

Mr. Hunter provided information ([Appendix F](#)) regarding investment management fees paid by the budget stabilization fund. He said investment management fees, as a percent of average assets under management, have remained stable at .13 and .12 percent in 2013 and 2014, respectively.

STATUS OF THE LEGACY FUND

At the request of Chairman Kempenich, Mr. Hunter presented information ([Appendix G](#)) regarding the status of the legacy fund. He said from inception through March 31, 2015, \$2.979 billion has been deposited into the legacy fund. He said income retained in the fund totaled \$214.3 million, and net assets of the fund as of March 31, 2015, totaled \$3.195 billion.

In response to a question from Mr. Hardmeyer, Mr. Darren Schulz, Deputy Chief Information Officer, Retirement and Investment Office, said the State Street fixed income fund invests assets in United State Treasury bills with a maturity period of between 10 and 20 years.

Mr. Hunter provided information ([Appendix H](#)) regarding monthly deposits to the fund from September 2011 through March 2015, the legacy fund strategic asset allocation, and the legacy fund transition plan. He said the new policy allocation plan approved by the State Investment Board for the legacy fund was fully implemented in January 2015.

Mr. Hunter presented information ([Appendix I](#)) regarding the returns of the legacy fund. Since its inception, he said, unaudited investment returns of the legacy fund, net of fees, have averaged 3.42 percent compared to a policy benchmark of 2.55 percent. He said unaudited fund performance for one year as of March 31, 2015, net of fees, was 5.72 percent compared to a policy benchmark of 5.39 percent.

Mr. Hunter provided information ([Appendix J](#)) regarding investment fees by asset class. He said from fiscal year 2013 to fiscal year 2014, investment management fees increased from 13 to 27 basis points, based on unaudited fund performance. He said the increase in investment fees is related to the transition from a short-term fixed income investment policy to the new asset allocation strategy and the increase in fees has been accompanied by increased returns.

Mr. Hardmeyer asked for information on investment returns by asset class and investment manager. Mr. Hunter reviewed current return data and said the information is also available on the Retirement and Investment Office website.

Chairman Kempenich asked the Retirement and Investment Office to provide the advisory board with information regarding the investment returns by asset class and by investment manager as part of future presentations to the board.

Chairman Kempenich announced the next advisory board meeting will likely be scheduled for November 2015.

No further business appearing, Chairman Kempenich adjourned the meeting at 11:00 a.m.

Michael C. Johnson
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:10