NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Monday, June 19, 2017
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Keith Kempenich, Chairman, called the meeting to order at 10:30 a.m.

Members present: Representatives Keith Kempenich, Gary Kreidt; Senators Jim Dotzenrod, Jerry Klein; Citizen Members Ryan Rauschenberger, Pam Sharp

Member absent: Citizen Member Eric Hardmeyer

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 April 20, 2017, meeting be approved as distributed.

CONSIDERATION OF BOARD CHAIRMAN
The advisory board discussed the selection of the Chairman and Vice Chairman of the board.

It was moved by Representative Kreidt, seconded by Senator Dotzenrod, and carried on a voice vote that Representative Kempenich continue to serve as Chairman of the Legacy and Budget Stabilization Fund Advisory Board.

It was moved by Representative Kreidt, seconded by Senator Dotzenrod, and carried on a voice vote that Senator Klein continue to serve as Vice Chairman of the Legacy and Budget Stabilization Fund Advisory Board.

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 of the budget stabilization fund, including investment performance, the fund balance, and the investment policy statement. He said the budget stabilization fund had a net return of 1.33 percent compared to a policy benchmark return of 0.64 percent for the 1-year period ended March 31, 2017. He said the fund had a net return of 1.72 percent compared to a policy benchmark return of 0.68 percent for the 5-year period ended March 31, 2017. He said the market value of the fund was $6.1 million on April 30, 2017, which reflects investment earnings retained in the fund after the transfer of $572.5 million to the general fund. He said the asset allocation of the budget stabilization fund is 100 percent short-term fixed income and cash. He suggested the committee amend the budget stabilization fund investment policy statement to acknowledge the transfer of Bank of North Dakota Match Loan CD Program investments from the budget stabilization fund to the legacy fund.

It was moved by Senator Klein, seconded by Representative Kreidt, and carried on a roll call vote that the advisory board recommends the investment policy statement for the budget stabilization fund be amended to recognize the transfer of the investments of the Bank of North Dakota Match Loan CD Program from the budget stabilization fund to the legacy fund. Representatives Kempenich and Kreidt, Senators Dotzenrod and Klein, and Mr. Rauschenberger and Ms. Sharp voted "aye." No negative votes were cast.

STATUS OF THE LEGACY FUND
At the request of Chairman Kempenich, Mr. Hunter presented information (Appendix C) regarding the status of the legacy fund, including investment performance, the fund balance, and investment management fees. He said the legacy fund had an overall net return of 10.0 percent compared to a policy benchmark return of 8.3 percent for the fiscal year to date through April 30, 2017. He said net earnings for the fiscal year to date through April 30, 2017, totaled $395.1 million, including $172.4 million of realized earnings pursuant to the definition of earnings in North Dakota Century Code Section 21-10-12 and $222.7 million of unrealized gains. He said the market value of the fund was $4.53 billion on April 30, 2017. He said the actual asset allocations of the legacy fund are within 1 to

2 percent of the target allocations reflecting the investment policy benchmark of 50 percent equity investments, 35 percent fixed income, and 15 percent real assets. He said investment management fees for the legacy fund totaled $12.8 million in fiscal year 2016, or 0.36 percent of the average market value of the fund's assets. He said investment management fees for the legacy fund for fiscal year 2017 are anticipated to be less than 0.45 percent of the average market value of the fund's assets.

In response to a question from Chairman Kempenich, Mr. Hunter said the long-term targeted overall net return of the legacy fund is 6 percent based on the investment policy.

In response to a question from Senator Dotzenrod, Mr. Hunter said earnings pursuant to Section 21-10-12 include interest, dividends, and realized earnings from the sale of investments. He said total net earnings include the earnings as defined in Section 21-10-12 as well as the unrealized gains or losses related to fluctuations in the value of investments that have not yet been sold.

Mr. Hunter suggested the committee amend the legacy fund investment policy statement to acknowledge the transfer of Bank of North Dakota Match Loan CD Program investments from the budget stabilization fund to the legacy fund.

It was moved by Senator Klein, seconded by Senator Dotzenrod, and carried on a roll call vote that the advisory board recommends that the investment policy statement for the legacy fund be amended to recognize the transfer of the investments of the Bank of North Dakota Match Loan CD Program from the budget stabilization fund to the legacy fund. Representatives Kempenich and Kreidt, Senators Dotzenrod and Klein, and Mr. Rauschenberger and Ms. Sharp voted "aye." No negative votes were cast.

Mr. Hunter also provided information (Appendix D) regarding other State Investment Board activities. He said the market value of the assets under State Investment Board management totaled $11.8 billion, as of March 31, 2017. He said the increasing value of the investments allows the state to negotiate better investment management fees, which benefits all the funds under the board's management, including the legacy fund.

Chairman Kempenich said he anticipates the next meeting of the Legacy and Budget Stabilization Fund Advisory Board to be in November or December 2017.

No further business appearing, Chairman Kempenich adjourned the meeting at 11:15 a.m.

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Adam Mathiak
Fiscal Analyst

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