

## LEGACY FUND INVESTMENT POLICY STATEMENT - DRAFT

### 1. FUND MISSION

The legacy fund was created, in part, due to the recognition that state revenue from the oil and gas industry will be derived over a finite timeframe.

The legacy fund defers the recognition of 30 percent of this revenue for the benefit of future generations. The primary mission of the legacy fund is principal preservation while maximizing total return.

### 2. PLAN STRATEGY

The North Dakota legacy fund was created in 2010 when the voters of North Dakota approved a constitutional amendment--Article X, Section 26, of the Constitution of North Dakota--to provide that:

- Thirty percent of total revenue derived from taxes on oil and gas production or extraction must be transferred by the State Treasurer to a special fund in the state treasury known as the legacy fund. The Legislative Assembly may transfer funds from any source into the legacy fund and such transfers become part of the principal of the legacy fund.
- The principal and earnings of the legacy fund may not be expended until after June 30, 2017, and an expenditure of principal after that date requires a vote of at least two-thirds of the members elected to each house of the Legislative Assembly. Not more than 15 percent of the principal of the legacy fund may be expended during a biennium.
- Statutory programs in existence as a result of legislation enacted through 2009 providing for impact grants, direct revenue allocations to political subdivisions, and deposits in the oil and gas research fund must remain in effect but the Legislative Assembly may adjust statutory allocations for those purposes.
- The State Investment Board (SIB) shall invest the principal of the North Dakota legacy fund. The State Treasurer shall transfer earnings of the North Dakota legacy fund accruing after June 30, 2017, to the state general fund at the end of each biennium.

### 3. RESPONSIBILITIES AND DISCRETION OF THE STATE INVESTMENT BOARD

The Legacy and Budget Stabilization Fund Advisory Board is charged by law under North Dakota Century Code Section 21-10-02.1 with the responsibility of developing recommendations for the investment of funds in the legacy fund to present to SIB. The SIB is charged with implementing these recommendations and investing the assets of the fund in the manner provided in Section 21-10-07--the prudent institutional investor rule.

### 4. RISK TOLERANCE

The advisory board's risk tolerance with respect to the primary aspect of the fund's mission is low. The advisory board is unwilling to undertake investment strategies that might jeopardize the ability of the fund to maintain principal value over time. The advisory board recognizes that the plan will evolve as the fund matures and economic conditions and opportunities change.

### 5. POLICY ASSET MIX

Legacy fund assets will not be pooled with other funds.

Create two funds:

**Fund A** - Legacy "income" fund

**Fund B** - Legacy "growth" fund

**Fund A - Legacy "income" fund**

This fund will consist of fixed maturity bonds and cash equivalents. Bonds will be purchased to provide a "ladder" of maturities over five years. Legacy fund money collected in 2011 and 2012 and invested in the "income" fund will be used for bonds with 2017 maturity dates. Collections in 2013 will be used for bonds with 2018 maturity dates. Future years' collections will follow a similar "ladder" pattern.

Only investment grade bonds will be purchased. Bonds downgraded below investment grade will be liquidated immediately. North Dakota offices of qualified broker/dealers will be solicited to bid Fund A purchases.

**Fund B - Legacy "growth" fund**

Plans for this fund will be finalized by the board in the coming months. A set percentage of revenues will be assigned to this fund.

**6. INTERNAL CONTROLS**

A system of internal controls must be in place by SIB to prevent losses of public funds arising from fraud or employee error. The annual financial audit must include a comprehensive review of the portfolio, accounting procedures for security transactions, and compliance with the investment policy.

**7. EVALUATION AND REVIEW**

Performance reports will be provided to the Legacy and Budget Stabilization Fund Advisory Board quarterly or at the call of the board. The reports will include asset returns and allocation data as well as information regarding all significant or material matters and changes pertaining to the investment of the fund, including:

- Changes in asset class portfolio structures, tactical approaches, and market values.
- Loss of principal, if any.
- Costs associated with various types of investments.
- All material legal or legislative proceedings affecting SIB.
- Compliance with this investment policy statement.
- An evaluation of the national economic climate.
- A forecast of the expected economic opportunities and dangers.
- Management of risk by SIB.