

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Monday, June 18, 2012
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Randel Christmann, Chairman, called the meeting to order at 1:00 p.m.

Members present: Senators Randel Christmann, Jim Dotzenrod; Representatives Keith Kempenich, Dave Weiler; Bank of North Dakota President - Eric Hardmeyer; Office of Management and Budget Director - Pam Sharp; Representative of Tax Commissioner - Kathy Strombeck

Others present: See [Appendix A](#)

It was moved by Representative Kempenich, seconded by Representative Weiler, and carried on a voice vote that the minutes of the December 9, 2011, meeting be approved as distributed.

CHIEF INVESTMENT OFFICER POSITION - RETIREMENT AND INVESTMENT OFFICE

Chairman Christmann said Mr. John Geissinger resigned from the position of Chief Investment Officer with the State Investment Board and Executive Director of the Retirement and Investment Office effective May 31, 2012. He called on a representative of the State Investment Board to provide a status update regarding the recruitment of a new Chief Investment Officer.

Mr. Darren Schulz said the board named him the Interim Chief Investment Officer of the State Investment Board and Ms. Fay Kopp the Interim Executive Director of the Retirement and Investment Office effective June 1, 2012. Mr. Schulz said he was hired as Deputy Chief Investment Officer in December 2011--a position created by the Legislative Assembly in 2011. He said the State Investment Board has created a committee to conduct a search to fill the Chief Investment Officer and Executive Director positions. He said members of the search committee include:

- Lieutenant Governor Drew Wrigley (Chairman);
- State Treasurer Kelly Schmidt;
- State Land Commissioner Lance Gaebe;
- Public Employees Retirement System Trustee Mike Sandal; and
- Teachers' Fund for Retirement Trustee Bob Toso.

Mr. Schulz said a professional recruitment organization is being utilized by the search committee to fill the position, and the search is being conducted in state as well as out of state to find a qualified candidate. He said a timetable has not yet been set for when the position will be filled.

STATUS OF THE LEGACY FUND AND BUDGET STABILIZATION FUND

Mr. Schulz provided a status update on the legacy and budget stabilization funds ([Appendix B](#)).

Mr. Schulz said the asset allocation for the legacy fund provides that 100 percent of assets be invested in bonds or fixed income instruments with preference that investment grade bonds be purchased to provide a range of laddered maturities not to exceed 10 years with an effective duration not to exceed 3.5 years ([Appendix C](#)). He said the May 2012 preliminary market value of the legacy fund was \$353.1 million. He said the investment policy statement notes that plans for including stocks and equities as part of the asset class mix will be finalized by the Legacy and Budget Stabilization Fund Advisory Board in the future. He said the legacy fund has experienced the following asset returns:

| Date | Net Assets End of Period | Net Return |
|-------------------|-----------------------------|--------------------|
| December 31, 2011 | \$136,772,586 | Not applicable |
| March 31, 2012 | \$266,003,638 | 0.56% ¹ |
| April 30, 2012 | \$309,051,074 | 0.28% ² |

¹Net return is stated for the quarter--January 2012 to March 2012.
²Net return is stated for the month of April 2012.

Mr. Schulz said the asset allocation for the budget stabilization fund provides for a minimum of 90 percent of assets to be invested in short-term fixed income and Bank of North Dakota CDs, a maximum of 5 percent of assets to be invested in bank loans with floating yield, and a maximum of 5 percent of assets to be invested in absolute return strategies ([Appendix D](#)). He said the May 2012 preliminary market value of the budget stabilization fund was \$393.7 million. He said the budget stabilization fund has experienced an average annualized return of 2.79 percent during the most recent six years and provided the following asset return data by fiscal year:

| Fiscal Yearend | Net Assets End of Period | Net Return |
|---|-----------------------------|---------------------------------|
| June 30, 2006 (initial funding - September 2005) | \$99,876,516 | Not applicable, partial year |
| June 30, 2007 | \$99,876,003 | 5.12% |
| June 30, 2008 | \$198,837,270 | 0.01% |
| June 30, 2009 | \$190,101,212 | (4.23%) |
| June 30, 2010 | \$325,116,846 | 7.38% |
| June 30, 2011 | \$336,956,221 | 3.83% |
| June 30, 2012 - To date through April 2012 | \$394,036,424 | 1.37% |

Mr. Schulz said financial statements and performance reports for the legacy and budget stabilization funds are available on the Retirement and Investment Office website (legacy fund - [Financial Statements](#) and [Performance Report](#)) and (budget stabilization fund - [Financial Statements](#) and [Performance Report](#)).

INVESTMENT POLICY DISCUSSION

Chairman Christmann said the investment policy statement developed by the advisory board at the December 9, 2011, meeting was accepted by the State Investment Board, and the policy asset mix became effective in December 2011. He asked if the advisory board members had any suggestions for including stocks and equities as a part of the asset class mix of the legacy fund investment policy statement ([Appendix E](#)) and whether the advisory board members had any suggested changes to be made to the current budget stabilization fund investment policy ([Appendix F](#)).

Representative Kempenich said the focus of the advisory board has been focusing on an investment strategy that will preserve the balance of the legacy fund. He said a larger representation of the Legislative Assembly may be required to determine whether legacy fund assets should include stocks and equities as part of the asset class mix.

Senator Dotzenrod said the advisory board has implemented a conservative low-risk investment policy for the legacy fund, and he hopes within the next two years 10 to 20 percent of the fund would be invested in stocks and equities.

Representative Weiler said the Legislative Assembly should not plan to spend 15 percent of the principal balance of the legacy fund each biennium after 2017. He said the intent of the constitutional provision allowing 15 percent of the principal to be used is for emergency situations. He expressed concern that spending the principal balance of the fund would have a negative impact on future interest earnings potential of the fund.

Mr. Hardmeyer suggested the advisory board members review the investment policy of Norway's Government Pension Fund Global ([Appendix G](#)). He said Norway's Government Pension Fund Global is

similar to the legacy fund, collecting revenue from oil taxes and established for the benefit of future generations. He said Norway's Government Pension Fund Global has produced profitable returns using an asset class mix with 60 percent equities, 35 to 40 percent fixed income, and zero to 5 percent real estate. He said the advisory board may consider at future meetings adjusting the asset class mix for the legacy fund.

ADVISORY BOARD DISCUSSION AND STAFF DIRECTIVES

Chairman Christmann requested Mr. Schulz to provide information at the next meeting regarding budget stabilization short-term bond investments managed by Prudential, including whether the investments have been closed out and final investment returns.

Chairman Christmann requested Mr. Schulz to provide suggestions at the next meeting regarding an appropriate asset mix for the legacy and budget stabilization funds.

Representative Weiler requested the Legislative Council staff determine whether the advisory board can recommend a bill draft for consideration by the Legislative Assembly in 2013.

Chairman Christmann requested that the advisory board members continue to consider changes to be made to the legacy or budget stabilization fund investment policy statements for discussion at the next meeting.

No further business appearing, Chairman Christmann adjourned the meeting at 2:30 p.m.

Sara E. Pahlke
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:6