

# NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

### LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Tuesday, September 6, 2011  
Harvest Room, State Capitol  
Bismarck, North Dakota

Senator Randel Christmann, Chairman, called the meeting to order at 12:30 p.m.

**Members present:** Senators Randel Christmann, Jim Dotzenrod; Office of Management and Budget Director - Pam Sharp; Bank of North Dakota President - Eric Hardmeyer; Representative of Tax Commissioner - Emily Thompson

**Members absent:** Representatives Keith Kempenich, Dave Weiler

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

**It was moved by Ms. Sharp, seconded by Mr. Hardmeyer, and carried on a voice vote that the minutes of the August 11, 2011, meeting be approved as distributed.**

#### LEGACY FUND TEMPORARY INTERIM INVESTMENT POLICY STATEMENT

Chairman Christmann said that the State Treasurer's office anticipates the first deposit into the legacy fund on September 8, 2011. He said that the deposit will be approximately \$34.3 million, an increase of \$9.8 million from the original projection of \$24.5 million. Ms. Sharp said this increase is due to increased production and oil prices being more than anticipated.

Chairman Christmann said the Legacy and Budget Stabilization Fund Advisory Board was created to provide recommendations to the State Investment Board regarding the investment policy for the legacy fund. He said because of the upcoming legacy fund deposit, the advisory board should provide direction to the State Investment Board either by approving an interim investment policy statement or by agreeing to deposit the funds with the Bank of North Dakota until an investment policy statement is developed.

Chairman Christmann reviewed advisory board member comments submitted to the Legislative Council ([Appendix B](#)) relating to the investment policy statement template ([Appendix C](#)) provided by Mr. John Geissinger, Chief Investment Officer, Retirement and Investment Office. Chairman Christmann said the goal of the legacy fund, as provided in North Dakota Century Code Chapter 21-10, is principal preservation while maximizing total return.

In response to a question from Senator Christmann, Mr. Geissinger said generally, \$34 million may be invested within two days if an investment policy statement is in place and investment managers are selected.

Chairman Christmann asked for board member comments and suggestions regarding the creation of an investment policy statement for the legacy fund. The following items were discussed by board members for each section of the investment policy statement proposed by Mr. Geissinger:

#### 1. Plan Characteristics and Fund Constraints

Senator Christmann suggested updating the section with exact language from Article X of the Constitution of North Dakota.

#### 2. Fund Mission

Senator Christmann suggested updating the fund mission to the goal of the legacy fund as provided in Chapter 21-10--principal preservation while maximizing total return.

Ms. Thompson said Tax Commissioner Cory Fong's survey response indicated he would support a more aggressive stance than just "preserving" the purchasing power of money and suggested language be changed to "grow" the purchasing power of money.

Senator Dotzenrod suggested a primary mission of investing to attain sizeable returns while not risking principal.

#### 3. Responsibilities and Discretion of the State Investment Board

Senator Christmann suggested updating the term "prudent institutional investor rule" to "prudent investor rule" to match references made throughout statute.

Mr. Geissinger informed the board that the term "fiduciaries" encompasses the State Investment Board members, investment managers, and the advisory board. He clarified that the State Investment Board's role in relation to the investment manager in determining investment strategy and security selection is supervisory not advisory. He said buy or sell decisionmaking is the responsibility of the investment managers.

#### 4. Risk Tolerance

The board discussed the appropriateness of assessing risk tolerance as "extremely low."

It was noted that Representative Kempenich's survey response suggested changing the language from "extremely low" to "low."

It was noted that Representative Weiler's survey response suggested changing the language from "extremely low" to somewhere in the low to moderate range and that the risk tolerance should be established giving consideration to the current unstable market conditions.

Ms. Thompson said Tax Commissioner Fong's survey response indicated he would support a more aggressive stance than just "preserving" the purchasing power of money and suggested the risk tolerance be greater than the level established for the budget stabilization fund.

#### 5. Investment Objective

Senator Christmann questioned the need for this section. Mr. Geissinger said stating investment objectives allows measures for performance assessment. He said the State Investment Board determines the most appropriate benchmark for each asset class and may include benchmarks established by Standard and Poor's, Lehman Brothers, Merrill Lynch, Barclays, or other well-established financial management or advisory entities.

#### 6. Policy Asset Mix

Mr. Geissinger said the asset mix within the proposed investment policy statement for the legacy fund simplified the asset mix of the budget stabilization fund for the prerequisites of the legacy fund.

The board discussed whether to temporarily invest assets in the same asset mix as the budget stabilization fund. Mr. Geissinger said the budget stabilization fund asset mix is structured to attain desired returns over a one-year time period. He said the asset mix would not be appropriate for only a two-month to three-month time period.

In response to a question from Senator Dotzenrod, Mr. Geissinger said municipal bonds are not currently held in the budget stabilization fund and would not be recommended because higher returns at the same level of risk could be found in other types of investments.

Ms. Thompson said Tax Commissioner Fong's survey response indicated he would support a revised asset mix based on a more aggressive mission statement to grow the fund and corresponding risk tolerance.

It was noted that Representative Kempenich's survey response suggested changing the asset mix to a longer-term mix, providing cash at 10 percent, short-term bonds at 35 percent, long-term bonds at 35 percent, and dividend-paying equities at 20 percent.

In response to a question from Mr. Hardmeyer, Mr. Geissinger said the proposed asset mix is based on a risk tolerance level of "extremely low"; therefore, equities would not be a part of the asset mix.

Mr. Geissinger distributed a handout ([Appendix D](#)) providing information on credit ratings of investments.

#### 7. Restrictions

Senator Christmann questioned the need for this section. Mr. Geissinger said the restriction section puts in place practiced safeguards and limitations to protect investments.

#### 8. Internal Controls

No changes were discussed.

#### 9. Evaluation and Review

Senator Christmann suggested performance reports be provided to the advisory board quarterly or at the call of the board.

Senator Christmann suggested adding the following items as requirements in the performance report content:

- Report on loss of principal if any occurs;

- Report on costs associated with various types of investments;

- An evaluation of the national economic climate;

- A forecast of the expected economic opportunities and dangers; and

- A report on how the State Investment Board is managing risk.

Mr. Geissinger said the investment policy statement should be reviewed and adjusted as necessary. However, he said, only significant changes should result in adjustments. He said that it is difficult to adjust the investment policy statement for short-term changes having broad market implications.

Advisory board members reached a consensus that the board should further discuss the development of an appropriate investment policy statement for the legacy fund. **It was moved by Senator Dotzenrod, seconded by Ms. Sharp, and carried on a voice vote that the Legacy and Budget Stabilization Fund Advisory Board recommends the State Investment Board invest money in the legacy fund with the Bank of North Dakota on a short-term basis until the Legacy and Budget Stabilization Fund Advisory Board develops the investment policy statement for the legacy fund.**

**ADVISORY BOARD DISCUSSION  
AND STAFF DIRECTIVES**

Chairman Christmann asked the advisory board members to continue reviewing and considering changes to be made to the current budget stabilization fund investment policy and to consider discussions from this meeting regarding the investment policy development for the legacy fund for discussion at the next meeting. He said the next meeting would be in October 2011.

No further business appearing, Chairman Christmann adjourned the meeting at 2:45 p.m.

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Sara E. Chamberlin  
Fiscal Analyst

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Allen H. Knudson  
Legislative Budget Analyst and Auditor

ATTACH:4