

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Thursday, March 20, 2019
Medora Room, State Capitol
Bismarck, North Dakota

Representative Keith Kempenich, Chairman, called the meeting to order at 4:15 p.m.

Members present: Representatives Keith Kempenich, Gary Kreidt; Senator Jerry Klein; Citizen Members Eric Hardmeyer, Joe Morrissette, Ryan Rauschenberger

Member absent: Senator Jim Dotzenrod

Others present: See [Appendix A](#)

It was moved by Representative Kreidt, seconded by Senator Klein, and carried on a voice vote that the minutes of the December 3, 2018, meeting be approved as distributed.

STATUS OF THE BUDGET STABILIZATION FUND

At the request of Chairman Kempenich, Mr. David J. Hunter, Executive Director/CIO, 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. Mr. Hunter said the budget stabilization fund had a net return of 1.56 percent compared to a policy benchmark return of 1.63 percent for the 1-year period ended December 31, 2018. He said the fund had a net return of 1.46 percent compared to a policy benchmark return of 0.94 percent for the 5-year period ended December 31, 2018. He said as of December 31, 2018, the balance of the fund was \$115 million. He said the asset allocation of the budget stabilization fund is 97.7 percent short-term fixed income and 2.3 percent cash and equivalents.

In response to a question from Chairman Kempenich, Mr. Hunter said an asset is considered short term if held 1 to 2 years.

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. Mr. Hunter said the legacy fund had an overall net return for a loss of 5.29 percent compared to a policy benchmark return loss of 4.42 percent for the 1-year period ended December 31, 2018. He said net earnings for the fiscal year to date through December 31, 2018, totaled a loss of \$51.6 million. For the biennium, he said, the fund has generated \$381.2 million of earnings pursuant to the definition of earnings in North Dakota Century Code Section 21-10-12. He said the market value of the fund was \$5.64 billion on December 31, 2018. He said the actual asset allocations of the legacy fund are within 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 \$16.6 million in fiscal year 2018, or 0.31 percent of the average market value of the fund's assets.

In response to a question from Chairman Kempenich, Mr. Hunter said the large cap exposure is set up so the managers share in profits when the active managers are exceeding market expectations and the state receives a credit with the managers when the funds do not. He said over \$80 million in income is the direct result of active management. He said with a larger amount of funds available to invest, the state has greater leverage with investment managers.

In response to a question from Chairman Kempenich, Mr. Hunter said during fiscal year 2018, the Retirement and Investment Office's travel expenses relating to due diligence meetings with investment managers totaled \$26,661 compared to average assets under management during the same period of \$13,388,707,450.

In response to a question from Senator Klein, Mr. Hunter provided information ([Appendix D](#)) relating to returns and excess returns for the 5 fiscal years ended June 30, 2018. He said historically investment managers have been exceeding the benchmarks established, providing for earnings in excess of the benchmarks of \$198 million.

Chairman Kempenich said the next Legacy and Budget Stabilization Fund Advisory Board meeting is anticipated to be in June 2019.

No further business appearing, Chairman Kempenich adjourned the meeting at 5:07 p.m.

Chris Kadmas
Fiscal Analyst

ATTACH:4