



LEGACY AND BUDGET STABILIZATION FUND ADVISORY BOARD

Thursday, June 30, 2022
Harvest Room, State Capitol
Bismarck, North Dakota

Senator Jerry Klein, Chairman, called the meeting to order at 8:00 a.m.

Members present: Senators Jerry Klein, Kathy Hogan, Scott Meyer; Representatives Glenn Bosch, Keith Kempenich, Gary Kreidt; Citizen Members Thomas Beadle, Jon Godfread, Brian Kroshus, Todd Steinwand

Members absent: None

Others present: See [Appendix A](#)

It was moved by Representative Bosch, seconded by Mr. Beadle, and carried on a voice vote that the minutes of the April 8, 2022, meeting be approved as distributed.

It was moved by Representative Kreidt, seconded by Senator Meyer, and carried on a roll call vote that Senator Klein continue to serve as Chairman and Representative Kempenich continue to serve as Vice Chairman of the Legacy and Budget Stabilization Fund Advisory Board through December 2022 pursuant to North Dakota Century Code Section 21-10-14(4). Senators Klein, Hogan, and Meyer, Representatives Bosch, Kempenich, and Kreidt, and Citizen Members Beadle, Godfread, Kroshus, and Steinwand voted "aye." No negative votes were cast.

LEGACY FUND ASSET ALLOCATION STUDY

RVK, Inc.

Mr. Jim Voytko, President, Director of Research, and Senior Consultant, and Ms. Oksana Rencher, Associate Consultant, RVK, Inc., presented information ([Appendix B](#)) regarding the asset allocation study of the legacy fund and the development of policies and guidelines for an in-state equity investment program under the legacy fund.

Mr. Voytko noted:

- RVK, Inc., conducted interviews with the advisory board members, Retirement and Investment Office staff, economic development personnel in the state, and staff from investment boards in other states;
- The in-state investment program may cause a conflict with the legacy fund's objective to maximize investment returns if the primary objective of the in-state investment program is economic development; and
- The successful implementation of an in-state investment program depends on clear policy guidelines and a mechanism to efficiently select investments, review investment performance, and reinvest the gains from in-state investments.

Senator Hogan noted the state has various economic development programs through the Department of Commerce to help grow and diversify the state's economy.

Ms. Rencher noted:

- RVK, Inc., analyzed three scenarios related to future legacy fund returns, including a scenario based on the current provisions allocating 20 percent of legacy fund principal to in-state investments, a scenario based on partially separating the in-state investment program, and a scenario fully separating the in-state investment program from the legacy fund; and

- The scenario fully separating the in-state investment program from the legacy fund had the highest forecasted long-term returns compared to the other two scenarios.

Representative Kempenich noted the allocation to illiquid in-state investments could create a challenge for the legacy fund if the Legislative Assembly approved an expenditure of 15 percent of principal, but he does not anticipate an expenditure of 15 percent of the principal because the budget stabilization fund along with other resources are available to address short-term budget shortfalls during periods of significant economic decline in the state.

50 South Capital

Mr. Trey Hart, Managing Director, 50 South Capital, presented an update ([Appendix C](#)) regarding the 50 South Capital in-state investment program, including a brief overview of the process used to evaluate and select qualified investments. He noted:

- 50 South Capital created the North Dakota growth fund to manage private equity investments in the state under the legacy fund;
- The selection of investments includes a comprehensive review process to identify the best opportunities for in-state investments;
- 50 South Capital plans to deploy \$250 million of legacy fund principal over 5 years to support in-state equity investments; and
- 50 South Capital works with four private equity firms to invest in private equity opportunities in North Dakota with each of the private equity firms focusing on different private equity investments, including early stage venture capital strategies and later stage venture capital strategies.

In response to an advisory board member question, Mr. Hart noted the North Dakota growth fund invests in other funds, which make direct investments in the private equity opportunities in North Dakota.

In response to an advisory board member question, Mr. Hart noted 50 South Capital anticipates the North Dakota growth fund can provide economic development benefits and achieve the required investment return benchmark. He expressed concern that creating another in-state equity investment program under the legacy fund would compete against the North Dakota growth fund.

STATUS OF FUNDS

Mr. Scott Anderson, Chief Investment Officer, Retirement and Investment Office, presented information ([Appendix D](#)) regarding the status of the budget stabilization fund and legacy fund. He noted:

- The budget stabilization fund had a balance of \$724.4 million as of April 30, 2022, and returned 1.3 percent for the 5-year period ended April 30, 2022, which exceeded the benchmark by 0.2 percent.
- The legacy fund had a market value of \$8.1 billion as of April 30, 2022, and returned 6.6 percent for the 5-year period ended April 30, 2022, which exceeded the benchmark by 0.4 percent.

HOUSE BILL NOS. 1425 AND 1512 - LEGACY FUND ASSET ALLOCATION PLAN

Mr. Adam Mathiak, Senior Fiscal Analyst, Legislative Council, distributed and reviewed House Bill Nos. 1425 (2021) and 1512 (2021), including the provisions related to the asset allocation plan for the legacy fund.

Mr. Mathiak noted an email ([Appendix E](#)) was distributed to the advisory board members prior to the meeting regarding responses from RVK, Inc., related to questions from Senator Hogan.

Mr. Steinwand noted the advisory board could consider recommending the creation of a separate fund distinct from the legacy fund to support economic development initiatives.

Mr. Anderson noted the Retirement and Investment Office would support the concept to create a separate fund for economic development so the goal of the legacy fund can be focused on investment returns.

Ms. Janilyn Murtha, Executive Director, Retirement and Investment Office, noted the Retirement and Investment Office does not anticipate introducing an agency bill for the 2023 legislative session relating to the legacy fund's in-state investment program or asset allocation.

Chairman Klein noted Representative Bosch, Mr. Godfread, and Mr. Steinwand may develop options for the advisory board to consider at a future meeting relating to potential changes to the legacy fund in-state investment program.

No further business appearing, Chairman Klein adjourned the meeting at 12:10 p.m.

Adam Mathiak
Senior Fiscal Analyst

ATTACH:5