

MEMORANDUM

TO: Rep. Jeff Delzer, Chairman Interim House Appropriations Committee
FROM: Jan Murtha, Interim Executive Director
DATE: October 20, 2021
RE: Testimony regarding RIO resource needs.

Thank you for the opportunity to appear before you with this appropriation request. The Retirement and Investment Office is responsible for the administration of two programs. The State Investment Board program, which is the focus of this request and which serves 26 government client funds, and the Teachers' Fund for Retirement Program which serves over 20,000 members. The State Investment Board program currently has approximately 19.7 billion dollars in assets under management (AUM) as of August 31, 2021; compared with 4.8 billion AUM in fiscal year 2010. RIO's investment program, has more than quadrupled in just over a decade.

In order to prudently manage, monitor, and rebalance complex investment programs for our clients, in an increasingly risk prone market, and based on comparisons with other public sector investment programs, we seek to dedicate 1 investment professional per 2 to 2.5 billion dollars in AUM. Currently we have 19 allotted FTE's across these two programs, in 2010 we had 17 allotted FTE's. Only 4 of our 19 FTE's are dedicated investment professionals. Of the 4 dedicated investment professionals only 2 of the investment professional positions are filled. As of last week only 13 of our 19 allotted FTE's were filled, however, we had new staff begin this week in support positions. Interviews for additional support positions have been conducted and the agency hopes to extend offers yet this month. The two unfilled investment positions are the Chief Risk Officer and Chief Investment Officer. Initial interviews have been conducted for the Chief Risk Officer and the SIB hopes to conduct final interviews for the Chief Investment Officer(CIO) in November and fill the position by December 2021 or January 2022. The final position to fill is that of the Executive Director (ED), and the SIB will undertake filling the ED position subsequent to filling the CIO position. Approval of the agency request during the upcoming special legislative session would provide the new CIO the opportunity to build their investment team at the same time they are asked to build the in-state program.

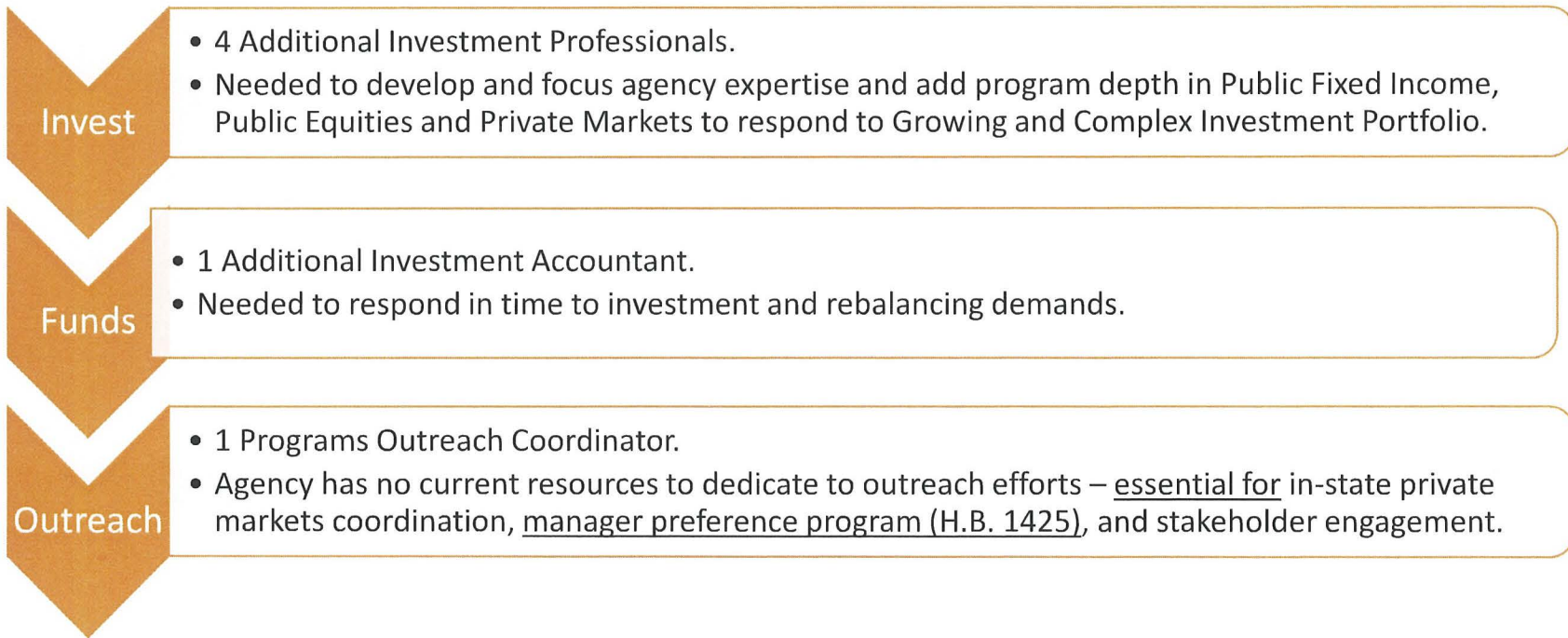
As the assets under management have increased so too has the complexity of the program, and the need for additional resources will continue to increase so long as the AUM and program complexity increase. Additional investment professionals will be invaluable for managing the larger asset base and navigating the ever challenging markets, which in turn is key to generating excess returns net of fees above the benchmark. The benchmark rate is the returns you expect to receive; excess returns represent the additional dollars earned over what you expected. The 5-year excess returns, so returns above and beyond what was expected from client investments and net of fees, exceeded 500 million dollars.

The implementation of H.B. 1425 introduced substantial additional complexity and demands on resources to the investment program. H.B. 1425 contained three major mandates, developing a preference program for in-state managers and directing the in state investment of 10% fixed income and 10% equity. The majority if not all of the 10% will be invested in private markets which requires far greater due diligence and monitoring than public equities because of the private long term nature of the investment. To develop the manager preference program, we have reached out and received feedback from our state financial institution associations on how to effectively incorporate in-state managers into the search process. For this preference program to be implemented by the agency and not contracted out to a consultant we require additional resources to dedicate to outreach efforts with stakeholders and staff to perform the review. The positions being requested and how they would be used are outlined in the handout you received. The agency is seeking an appropriation to spend special fund dollars equal to approximately 1% of the average excess returns generated on an annual basis.

Without the ability to add additional staff members to assist with developing the in-state investment program and maintain and grow the current investment portfolios prior to the next biennium, the agency and the State Investment Board will be in the unenviable position of: determining what realistically can be accomplished now, what priorities must wait, what must be simplified, and what can be contracted out to consultants. Staff will endeavor to continue to provide excellent service and diligent care for government client investments, however, without additional resources to support this growing program we are concerned that the agency will fall short of meeting the expectations of our clients, our stakeholders, and the people of North Dakota.

Thank you in advance for your support of this important state program and for your service to the people of North Dakota.

RIO Resource Needs – Staffing to Meet Expectations



6 New FTE's Needed to meet the Expectations of Today.

NOT a request for General Fund dollars or Federal funds; rather a request for permission to spend Special Funds.