

Summary of Objectives

"The Legacy Fund was created, in part, due to the recognition that state revenue from the oil and gas industry will be derived over a finite timeframe. The Legacy Fund defers the recognition of 30 percent of this revenue for the benefit of future generations. The primary mission of the Legacy Fund is to preserve the real, inflation-adjusted purchasing power of the monies deposited into the Fund."¹

- This policy excerpt introduces two key concepts used in our analysis:
 - Focus on building a corpus for future generations
 - Focus on preserving purchasing power
- Implications for asset allocation policy include:
 - Current income is not a primary focus – the Legacy Fund is a mechanism to defer income recognition.
 - The Legacy Fund is intended to help create generational equality – emphasis on growth and a very long-term investment horizon.

1. Source: North Dakota Legacy Fund Investment Policy Statement.

Preserving Real Return

- Preservation of real, inflation-adjusted purchasing power implies the need for assets to grow by a rate that exceeds the combination of the rate of inflation, the spending rate, and expenses.
- Required Rate of Return > Expected Rate of Inflation + Expected Rate of Spending + Expenses

- **Example:**

- 2.5% Inflation
 - 3.5% Spending
 - 0.6% Expenses

$2.5\% + 3.5\% + 0.6\% = 6.6\%$ or higher Required Rate of Return

- The Required Rate of Return is a function of these variables.