

FISCAL NOTE
Requested by Legislative Council
01/08/2017

Bill/Resolution No.: HB 1175

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$22,023	\$0	\$22,023
Appropriations	\$0	\$0	\$0	\$22,023	\$0	\$22,023

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties	\$0	\$0	\$0
Cities	\$0	\$0	\$0
School Districts	\$0	\$0	\$0
Townships	\$0	\$0	\$0

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1175 would add two legislative members to the State Investment Board (SIB).

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

HB 1175 would add two legislative members to the State Investment Board (SIB). The SIB has 10 regular meetings per year and members are paid \$148 per meeting (per NDCC 21-10-01) plus related travel reimbursement as provided in 44-08-04 and 54-06-09 and are allotted one out of state trip for educational purposes per biennium.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

N/A

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

Expenditures for the Retirement and Investment Office (RIO) Fund 207 to pay for two additional SIB board members would be as follows:

20 meetings at \$148/meeting + FICA 6,373
Travel reimbursement to/from meetings \$285/mtg/person 11,420
Professional Development Travel 3,730
Professional Development Fees 500
Total 22,023

Travel reimbursement assumes both new members do not reside in Bismarck and is based on one night lodging at \$90, one day of meals at \$35 and mileage of \$160 (assuming 300 miles round trip)

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation or a part of the appropriation is included in the executive budget or relates to a continuing appropriation.*

Total appropriation for RIO Fund 207 as detailed in 2B above:

Salaries and Wages 6,373
Operating 15,650
Total 22,023

No appropriation is currently included in the executive budget or under continuing appropriation for these expenditures.

Name: Connie Flanagan

Agency: RIO

Telephone: 328-9892

Date Prepared: 01/09/2017

2017 HOUSE POLITICAL SUBDIVISIONS

HB 1175

2017 HOUSE STANDING COMMITTEE MINUTES

Political Subdivisions Committee Prairie Room, State Capitol

HB 1175
1/19/2017
Job # 27120

- ☐ Subcommittee
☐ Conference Committee

Carmer Hickle

Explanation or reason for introduction of bill/resolution:

Relating to the membership of the state investment board

Minutes:

Chairman Klemin: Opened the hearing on HB 1175. There is a fiscal note on this bill which shows expenditures of \$22,023 there is no appropriation in the bill itself.

This one does not meet the \$50,000 threshold to be re-referred to Appropriations.

I will recess the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Political Subdivisions Committee Prairie Room, State Capitol

HB 1175
1/20/2017
Job # 27190

☐ Subcommittee
☐ Conference Committee

Carmen Hickle

Explanation or reason for introduction of bill/resolution:

Relating to the membership of the state investment board

Minutes:

Chairman Klemin: Reopened bill HB 1175

Rep. Kreidt: Introduced the bill. He said HB 1175 would add two new members to the State Investment Board. Those members would be appointed by the Majority Leader in the House and Majority Leader in the Senate. The reason this bill has come forward for a number of biennium's is because of the Legacy Fund. With the Legacy Fund 30% of the oil extraction tax and gas tax goes into the fund. At the present time there are about \$4 billion. It looks like at the end of biennium there will probably will be about \$5 billion and this is based on the price of oil. The Legacy Fund has a Legacy committee that oversees the fund. There are two Senators, two Representatives that serve on the board along with the State Treasure, Office of OMB, and the Bank of North Dakota, it's an advisory board. We can advise the State Investment Board how we want that money invested but they make the final decisions. We have become the largest player moneywise in regards to the State Investment Board. We feel we should have input when it comes to investing of these dollars. We would hope the committee would give this a do pass and get it on the House floor.

Rep. Hanson: My understanding is the State Investment Board is a function of the Executive Branch. Has the Executive Branch, and the new Governor and Lt. Governor, being new, provided any feedback on these proposed changes?

Rep. Kreidt: Not that I am aware of.

Rep. Hanson: Are they aware of the proposed changes?

Rep. Kreidt: I would assume they are.

Rep. Beadle: The concern Lt. Governor Wrigley brought up last session was due to the

separation of powers and constitutionality. He said they had this set up as an Executive Agency and we shouldn't be going into it. What would your response be to separation of power constitutionality?

Rep. Kreidt: Last session we did appoint two members onto the PERS board and that has never happened before. By passing that Legislation we opened the door.

Rep. Hanson: As a member of the minority party why is there only a member of the majority leader of both members and no representation of the minority party?

Rep. Kreidt: We do have a representative from the minority party on the Advisory committee. Sen. Sinner presented the minority party and he is no longer here so the Senate would be making an appoint to the Advisory committee.

Chairman Klemin: Are you talking about the State Investment Board establishing an Advisory Council?

Rep. Kriedt: I was assuming Rep. Hanson was referring to the Advisory Board of the Legacy fund, is that correct?

Rep. Hanson: My question is on the insertion on line 9 and 10. It is proposing that the State Investment Board include one member from the majority party from the Senate and one from the majority party of the House. If we are going to have representation from the Legislative Branch into this executive function should we have a well-rounded perspective and include the minority party?

Rep. Kreidt: There is representative on the Advisory committee from the minority party but when it comes to the membership on the State Investment Board the majority of these are from the majority party.

Rep. Kempenich: This bill is fairly self-explanatory in what it's doing. There are 11 members on the State Investment Board there is also a State Advisory committee. The feeling was the Legacy funds is a public fund, the way the Constitution reads the Legislature is the ones that are in charge of investing and expending the monies out of that fund. It's been the feeling that since the fund has grown that presentation from the Legislature should be on there. This isn't a constitutional issue and was created by the Legislature. Chapter 21.10 says it was created by the Legislature so they could dispend this as well. The Investment Board has done what the Advisory Board has asked them to do. The issue is that the major funds are represented within that Investment Board itself. I do support this that Legislatures be involved since they are the ones that are basically responsible for where that fund is.

Rep. Hanson: Is our current Governor and current Lt. Governor aware of this and if so what is there opinion on it?

Rep. Kempenich: I don't know about the bill itself.

Chairman Klemin: Closed the hearing on HB 1175.

2017 HOUSE STANDING COMMITTEE MINUTES

Political Subdivision Committee Prairie Room, State Capitol

HB 1175
1/26/2017
Job # 27496

- ☐ Subcommittee
☐ Conference Committee

Caamen Hicklo

Explanation or reason for introduction of bill/resolution:

Relating to the membership of the state investment board

Minutes:

Chairman Klemin: HB 1175 expands the ND State Investment Board to include a member appointed by majority leader of the Senate and one member appointed by the majority leader of the House.

Rep. Maragos: Made a do pass motion.

Rep. Zubke: Second the motion.

Chairman Klemin: The fiscal note would increase appropriations by \$22,023.

Rep. Johnson: Where does this stop? Why does the Legislature need to be in on every single board? I don't understand it.

Chairman Klemin: The fiscal note is for additional expenses and per diem.

Rep. Johnson: It seems like we are getting on every board, why? What is wrong with the Investment Board that we need Legislative oversight of inclusion?

Rep K. Koppelman: I think separation of powers is important. Whether it is executive rules or others, anything the Legislature tasks the Executive Branch with suddenly their views becomes the property of the Executive Branch. The Legislative Branch is forbidden from intruding. We are not a full time Legislature so we delegate a lot to the Executive Branch but then to say you can't tread here because this is an Executive Branch function, no it's not. It's function the Legislature has clear Constitutional authority over an interest in. So to have a couple of people on the board helping to make those decisions, I see as a healthy check and balance not a seizure of power. We have an obligation with the tax payer's money to make sure it's getting a fair return, that's what this board oversees, I think having a Legislative presence makes sense.

Rep. Johnson: Now it sounds Governor specific and a Governor that's gone. I just don't understand what anyone would bring to the table. They do their reports, you know who they are investing with, you oversighted in that way, but to actually be on the board, and be on this board and be on that board seems overwhelming.

Rep K. Koppelman: It wasn't Governor specific and I didn't mean to imply that. It was when the bill came before, and Rep. Kreidt is that one to introduce it, the former Lt. Governor came to oppose the bill. Not because of anything particular about this idea, but he had a real passion that this is an Executive Branch issue and it shouldn't be intruded upon by the Legislature. But the Legislature created the State Investment Board, the Legislature can do away with it if we choose to do that. The makeup is the Governor, State Treasurer, Commissioner of the University of School Lands, and the Director of Workforce Safety and Insurance, Insurance Commissioner, 3 members of the Teachers Fund for Retirement Board or Board Designees. You already have a lot of stake holders here and so it's obviously missing, if anything you can say why in the world do the retired teachers have a right to be this board? We have a lot of special funds that affect those folks and so they are there to advocate for wise investing for those funds. Then to say the Legislature has no business there, we are the ones elected by the people to represent them, none of those folks other than the State Treasurer and Governor are elected.

Rep. Ertelt: Rep. Johnson could you state your reservation with Legislative members or appointees being on the board.

Rep. Johnson: It just seems to me we get a little disgruntled with some board and boom we put Legislatures on it. I don't know that's the right answer, we create a lot of boards. I just don't know where this stops. We were upset with health care last session and we got Legislatures on that board.

Rep. Ertelt: I don't think you answered my question, what is your reservation with having Legislative members or appointees on the board?

Rep. Guggisberg: I can tell you why I have reservations about it. We come out here every two years to make laws and pass budgets and then we let the executive branch run the government. It will be representatives who necessarily don't have particular knowledge about how investments should work and they are going to be in the vast minority of votes. Basically they might be a thorn in the side with a couple of votes but mostly they are just going to be getting reports that are available to any of us on line at any time. Now we are going to spend \$22,00 to do it. We are really struggling trying to figure out how to balance the budget.

Rep. Beadle: Currently three members of the PERS Board are on the State Investment Board. Nothing currently would preclude the two Legislators on the PERS Board from being 2 of those 3 representatives of PERS on the Investment Board. Currently there is avenues in which the Legislators could be serving on this Investment Board. There is nine members on the PERS Board. In terms of the arguments brought previously was when you have Legislators on boards like this it can serve the image of politicizing a board. In some of these boards we are putting ourselves on we look at ourselves at having a stake on it because we manage the finances of the state and deal with the budgeting of the state. The reason TFFR and PERS are so well represented is because these are their benefits plans, retirement

plans, their money that goes straight towards them and impacting them. Versus us who, outside of a budgeting cycle, doesn't have that same financial impact straight towards us.

Rep. Maragos: I don't know that the Investment Board makes any investment decisions, I think that is in the realm of the RIO. They are an advisory council, so why shouldn't Legislatures be able to join in the advising aspect of it?

Rep. Beadle: Currently the State Investment Board handles some of the contracting work in terms of who handles the investments for it. We also have the State Investment Advisory Council that the board has established.

Rep. Ertelt: The language in the bill doesn't designate from what body that member is chosen, meaning it could mean nearly anyone. I do have reservation with that if the intent is in fact to have a member of each of those houses appointed. We can assume that is the case but the law doesn't actually specify that.

Chairman Klemin: So are you saying the majority leader in the Senate could appoint his neighbor?

Rep. Ertelt: Wouldn't you agree?

Chairman Klemin: Not to likely.

Rep. Ertelt: I don't think it's likely either, but the bill as written I think you would agree.

Do pass motion passed 11 yes, 3 no, 1 absent.

Carrier will be Rep. Zubke.

Date: 1-26-17
Roll Call Vote: 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. HB 1175

House Political Subdivisions Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation: ☐ Adopt Amendment
☒ Do Pass ☐ Do Not Pass ☐ Without Committee Recommendation
☐ As Amended ☐ Rerefer to Appropriations
☐ Place on Consent Calendar
Other Actions: ☐ Reconsider ☐ _____

Motion Made By Rep. Maragos Seconded By Rep. Zubke

Representatives	Yes	No	Representatives	Yes	No
Chairman Klemin	/		Rep. Guggisberg		/
Vice Chairman Hatlestad	//		Rep. Hanson	/	
Rep. Beadle	/				
Rep. Becker	/				
Rep. Ertelt	/				
Rep. Johnson		/			
Rep. Koppelman	/				
Rep. Longmuir	/				
Rep. Maragos	/				
Rep. Pyle	/				
Rep. Simons	/				
Rep. Toman		/			
Rep. Zubke	/				

Total (Yes) 11 No 3

Absent 1

Floor Assignment Rep. Zubke

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1175: Political Subdivisions Committee (Rep. Klemin, Chairman) recommends **DO PASS** (11 YEAS, 3 NAYS, 1 ABSENT AND NOT VOTING). HB 1175 was placed on the Eleventh order on the calendar.

2017 SENATE POLITICAL SUBDIVISIONS

HB 1175

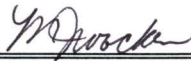
2017 SENATE STANDING COMMITTEE MINUTES

Political Subdivisions Committee Red River Room, State Capitol

HB 1175
3/3/2017
Job # 28673

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to the membership of the state investment board.

Minutes:

Written testimony #1 Dave Hunter pgs1-8
Written testimony #2 Rae Ann Kelsch

Chairman Burckhard opened the hearing for HB1175. All senators are present.

Sen. Judy Lee: I am not in favor or opposed to it, but Rep. Devlin came to talk to me yesterday and I asked him about the legislative membership on the State Investment Board. The point of what Rep. Devlin said was the point of the bill was that there are a lot of dollars involved that are state dollars and they thought there should be representation on the State Investment Board. I am absolutely not taking a position on this, I am just telling you about the bill.

(3.47-7.48) Dave Hunter, Executive Director and Chief Investment Officer for the Retirement Investment Office, provided informational testimony on HB1175. Written testimony #1. Page 2, listed the members of the State Investment Board, page 3, big high level summary of all the clients that the State Investment Board and their financial statements; page 4 a schematic diagram of the State Investment Board process; page 5 is most important page that I want you to emphasize is their clients and SIB responsibilities.

(8.23-9.20) Rep. Bill Devlin, District 23, I signed on at his request to introduce the bill as the prime sponsor is unavailable today. Essentially when the prime sponsor talked to me about this there was feeling among some of the members of the Legislature that a lot of the funds invested by the State Investment Board were generated by Legislative type authority and they felt that they should have seats at the table so to speak on the investment board. That was the purpose of the bill. They felt the majority leader of each chamber should appoint a member, and that can certainly change at some point, but that was the feeling that the way it should be when it came out of the House.

Opposition Testimony

(10.21- 16.41) Rae Ann Kelsch: representing the ND Council of Education Leaders. Written testimony # 2, asked for a Do Not Pass HB1175.

Sen. Diane Larson: Rae Ann, this does though from what I am just learning from the information that David handed out was that there are Legislators already on this board as part of the TFFR. Is that not right? Are they not on this board just on the things that they represent?

Mrs. Rae Ann Kelsch: Right, they are not on those two boards. We have an Advisory Committee. What you have there, made up of Legislators.

(18.22-21.47) Dave Hunter continued with his informational presentation. Legacy Fund and Budget Stabilization Advisory Board is a 7- member board and it does have 4 legislators on it in addition to the 3 individuals as well. Referring back to his testimony, page 5 client responsibilities again, so each one of our clients set their own risk and return parameters. Page 8, refers to the Legacy Fund and the benchmarks they made.

Chairman Burckhard: So how often do they consider changing the allocation?

Mr. Dave Hunter: On an average we do it about every 5 years. It can be more frequent if we had a major change in the markets. The common practice is to do it every 5 years.

Sen. Anderson: One of the things that I think when we listen to the actuaries on the retirement funds particularly the PERS retirement and the Teachers Fund for Retirement, we used to talk about an 8% return and that is substantially higher than what you're talking about here. So how does that relate to what your strategy is once you start managing the money?

(22.45- 24.07) Mr. Dave Hunter: It is a good discussion point. So, we sit down and work with our client boards TFFR and PERS we look at a long term asset allocation policy. PERS has a 8% expected return assumption; TFFR has a 7.75 % expected return assumption. You need to have no risk in order to achieve those goals, but I am over joyed to say that for the 5 years ended December 31, 2016, both of those plans have achieved those targets. The ability to do that going forward, no one can tell you. It is very challenging. It is a much more challenging market today, even though of late it's been great to be to have this incredibly strong returns. But we sit down with our consultants and do an asset allocations study every 5 years, with TFFR and PERS. We did that last year with both TFF and PERS and basically reaffirmed our 8% return assumption for PERS, for TFFR we reduced it down to 7.75%. When we sit down and look at what do we think the markets are going to earn over the long term, 20-30 years we still have a reasonably comfortable belief that we have a good shot at being able to attain those long term return target.

Sen. Jim Dotzenrod: On page 2 of the bill this is existing law, nothing to do with any changes but, it says on line 5, page 2 ' The state investment board may establish an advisory council'. Has the State Investment Board done that?

Mr. Dave Hunter: They have not. So we have an 11-member board that quite candidly we work with on 10 times a year. Once a year we actually conduct board education. In fact, interestingly enough, earlier this month we extended an invitation to the Legacy Fund and Budget Stabilization Advisory Board. We will extend it all of our clients boards and of course our State Investment Board to conduct a day of training and board education. We do it in July and it is well received, but it helps to make sure that we have very well informed board

members and client board members. The short answer, is no we do not have an Investment Advisory Council.

Sen. Jim Dotzenrod: It sounds like based on your work with all these other clients, you sort of feel that the sounding board or the ability to get some outside suggestions and oversight whatever the proper term is, there is really not a purpose or function that you're going to gain if you have all these other people that you're working with anyway.

Mr. Dave Hunter: That is correct. I feel that the fact that in the last 5 years ended every single one of our clients have beat their expected returns. We have annual meeting are more frequent with our major clients. WSI would meet 2x a year; PERS and TIFFR we met on a quarterly basis. Some of the smaller funds we only meet with once a year. All the interaction we have with our boards are investment managers including 10 board meetings a year seems to work out pretty well.

Chairman Randy Burckhard: Mike Gessner on your board is he from Minot, a teacher from Minot?

Mr. Dave Hunter: Yes, he is. He is one of our more longing serving.

Chairman Burckhard closed the hearing on HB1175.

2017 SENATE STANDING COMMITTEE MINUTES

Political Subdivisions Committee Red River Room, State Capitol

HB 1175
3/9/2017
Job # 28959

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

Relating to the membership of the state investment board.

Minutes:

Chairman Burckhard opened the committee for discussion on HB 1175.

Sen. Judy Lee: If I thought that the State Investment Board was irresponsible and know it was managing these funds, I might have a very different attitude. But all the information that was provided to us, indicates not only our good members as a Legislature, on some of those boards that are under the big umbrella. But they are getting a really fine return on investments. Obviously, there are different risks but I am pretty comfortable with what they're doing. I just don't think we are going to make that state investment policy any better, so I would move a **Do not pass on 1175**.

2nd Sen. Anderson

Discussion:

Sen. Anderson: If I thought that the State Investment Board would be any better with these two appointees I might be able to support it. But I really don't think they are going to any significant improvement. The Majority leader doesn't need any more work. I am in favor of saving the \$22,000 in other funds that we are talking about here. We can find a better place to spend it.

Sen. Larson: I would agree. Just because we're legislators doesn't mean that we are smart enough to know how to handle investments and other things that these guys would be having to make decisions on. So, I think by putting a legislator on the board just adds politics but not any content. So I would agree with that.

Sen. Dotzenrod: Just how many boards, how many operating agencies and the activities that the legislature has to approve and fund by just about everything. To what degree do we feel that it's important for us to have to have one of our members there. I think there is a question, would there be any reason not to approve more of these and just have every commission

and agency and board have to have legislators on. I think there is really a question if you had a specific problem that you felt you needed to solve, and this was going to be part of the solution, then maybe you could make some argument, but this looks like it is sort of a general sort of view that each one of our organs of state government has got have legislators in there even if they are fairly small and functioning very well. There doesn't seem to be any reason to do that.

Sen. Judy Lee: I am on the Legislative Audit and Fiscal Review Board and a whole bunch of other people are as well, and that really is the opportunity for legislators to see those audits that are done every two years by the Auditor's department for everything that is done in the state. So there are all available online if you want to read them.

**Chairman Burckhard asked for a roll call vote for a do not pass on HB1175.
6-0-0**

Carrier: Senator Anderson

Date: 3.9.2017
Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. H.B. 1175

Senate Political Subdivisions

Committee

☐ Subcommittee

Amendment LC# or Description: _____

Recommendation:

☐ Adopt Amendment

☐ Do Pass

☒ Do Not Pass

☐ Without Committee Recommendation

☐ As Amended

☐ Rerefer to Appropriations

☐ Place on Consent Calendar

Other Actions:

☐ Reconsider

☐ _____

Motion Made By

Sen. Judy Lee

Seconded By

Sen. H. Anderson

Senators	Yes	No	Senators	Yes	No
Chairman Randy Burckhard	✓		Senator Jim Dotzenrod	✓	
Vice-Chairman Howard Anderson	✓				
Senator Jordan Kannianen	✓				
Senator Diane Larson	✓				
Senator Judy Lee	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Sen. Anderson

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE

HB 1175: Political Subdivisions Committee (Sen. Burckhard, Chairman) recommends **DO NOT PASS** (6 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1175 was placed on the Fourteenth order on the calendar.

2017 TESTIMONY

HB 1175

State Investment Board

Overview of SIB Members, Clients, Process and Responsibilities
HB 1175 - Informational Testimony

March 3, 2017

Dave Hunter, Executive Director/CIO
ND Retirement & Investment Office (RIO)
State Investment Board (SIB)

*HB 1175
3.3.2017
Written Testimony #1
Pg. 1-8*

State Investment Board Member Update

The State Investment Board welcomed three new board members on December 15, 2016, including Lt. Governor Brent Sanford, Chief Deputy Attorney General Troy Seibel (PERS) and Insurance Commissioner Jon Godfread. The continuing board members include Mike Sandal (PERS) as Vice Chair, State Treasurer Kelly Schmidt, Rob Lech (TFFR) as Parliamentarian, Land Commissioner Lance Gaebe, Cindy Ternes (WSI designee), Mike Gessner (TFFR), Mel Olson (TFFR), Yvonne Smith (PERS). The SIB voted Lt. Governor Brent Sanford as SIB Chairman on January 27, 2017.

Overview of SIB Client Assets Under Management

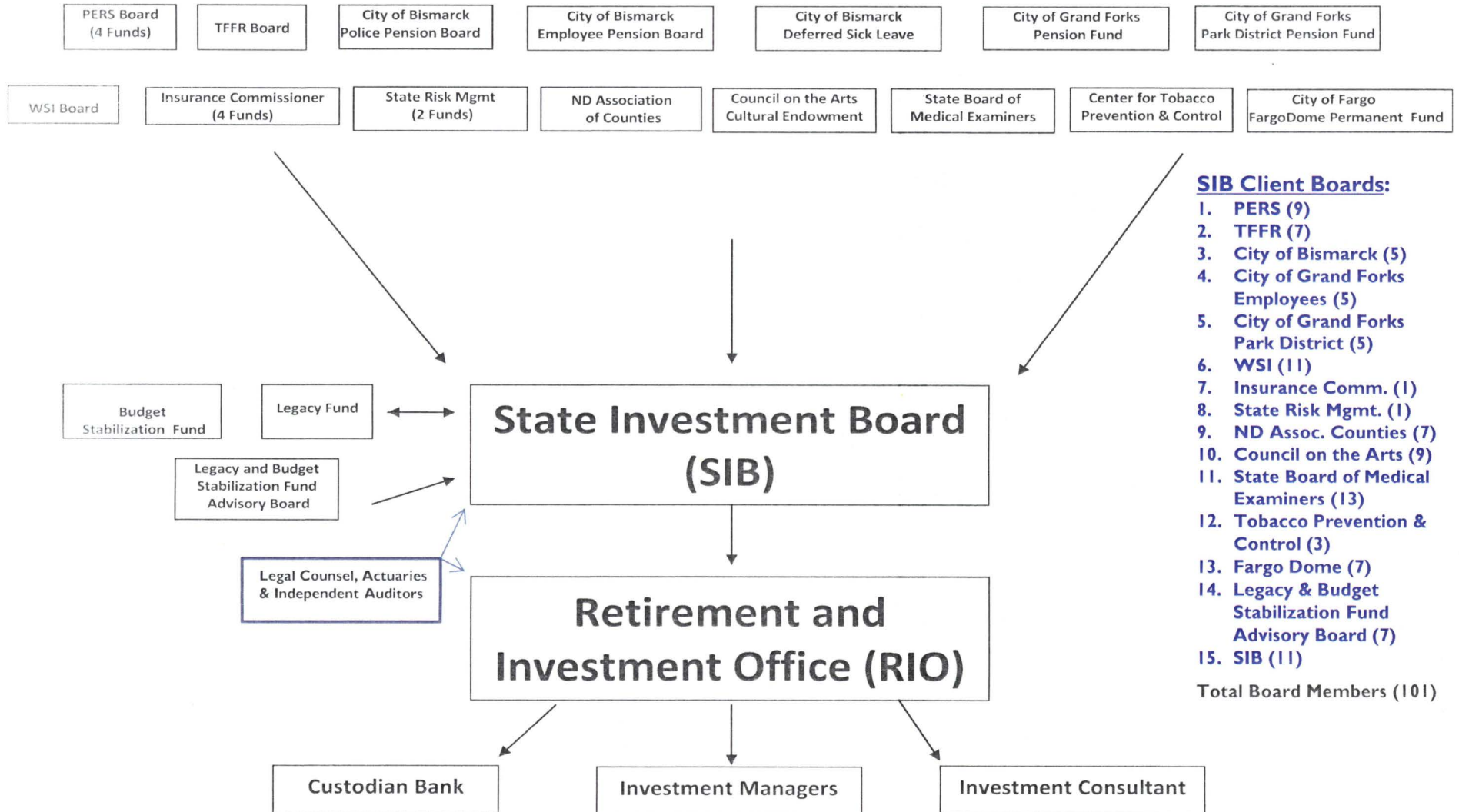
Fund Name	Market Values as of 12/31/16 ⁽¹⁾	Market Values as of 6/30/16 ⁽²⁾	Market Values as of 12/30/15 ⁽¹⁾
Pension Trust Fund			
Public Employees Retirement System (PERS)	2,563,018,948	2,459,388,086	2,371,419,312
Teachers' Fund for Retirement (TFFR)	2,147,574,445	2,082,183,640	2,036,260,471
Job Service of North Dakota Pension			93,985,042
City of Bismarck Employees Pension	85,523,410	82,441,003	79,987,495
City of Grand Forks Employees Pension	58,008,561	57,975,758	55,321,141
City of Bismarck Police Pension	35,374,745	33,983,598	33,013,643
Grand Forks Park District	5,871,117	5,720,245	5,770,147
City of Fargo Employees Pension			1,512
Subtotal Pension Trust Fund	4,895,371,226	4,721,692,330	4,675,758,763
Insurance Trust Fund			
Workforce Safety & Insurance (WSI)	1,825,110,509	1,832,104,203	1,746,807,452
Budget Stabilization Fund	103,537,937	575,918,381	573,743,813
PERS Group Insurance Account	36,834,347	37,715,356	38,411,033
City of Fargo FargoDome Permanent Fund	33,312,203	38,782,721	38,489,674
State Fire and Tornado Fund	22,545,969	24,091,203	23,169,406
Petroleum Tank Release Compensation Fund	6,842,054	7,149,512	6,931,840
State Risk Management Fund	6,246,768	6,534,801	6,213,232
State Risk Management Workers Comp Fund	5,748,688	5,516,177	5,723,481
ND Association of Counties (NDACo) Fund	4,164,771	4,048,863	3,895,582
State Bonding Fund	3,292,172	3,296,372	3,187,067
ND Board of Medicine	2,258,841	2,208,667	2,156,260
Insurance Regulatory Trust Fund	1,477,615	1,085,836	1,057,824
Bismarck Deferred Sick Leave Account	661,093	642,265	615,610
Cultural Endowment Fund	406,389	386,452	372,713
Subtotal Insurance Trust Fund	2,052,439,356	2,539,480,809	2,450,774,987
Legacy Trust Fund			
Legacy Fund	4,189,334,992	3,809,485,177	3,522,475,430
PERS Retiree Insurance Credit Fund	106,879,605	101,623,224	96,046,927
Job Service of North Dakota Pension	95,685,427	96,588,333	
ND Tobacco Prevention and Control Trust Fund	50,509,542	54,366,538	46,438,466
Total Assets Under SIB Management	11,390,220,148	11,323,236,410	10,791,494,573

⁽¹⁾ 12/31/16 and 12/31/15 market values are unaudited and subject to change.

⁽²⁾ 6/30/16 market values as stated in the Comprehensive Annual Financial Report.

- ▶ SIB client assets totaled approximately \$11.4 billion as of December 31, 2016, based on unaudited valuations.
- ▶ The Pension Trust posted a net return of 7.06% in the last year. During the last 5-years, the Pension Trust generated a net annualized return of 8.48%, exceeding the performance benchmark of 7.86%.
- ▶ The Insurance Trust generated a net return of 6.05% in the last year. During the last 5-years, the Insurance Trust posted a net annualized return of 5.18%, exceeding the performance benchmark of 3.64%.
- ▶ The Legacy Fund generated a net investment gain of 8.15% for the year ended December 31, 2016, exceeding its performance benchmark. Since inception, the Legacy Fund has generated a net annualized return of 3.43% (over the last 5 ¼ years) exceeding the performance benchmark of 2.52%.
- ▶ SIB client assets grew by nearly \$600 million (or 5.5%) in the last year largely due to Legacy Fund tax deposits of \$365 million plus Legacy Fund net investment earnings of \$300+ million.

Overview of State Investment Board Process



Client and SIB Responsibilities

Client Responsibilities: (Per NDCC 21-10-02.1) The governing body of each fund (client) shall establish policies on investment goals and objectives and asset allocation that must include:

- Acceptable rates of return, liquidity and levels of risk
- Long-range asset allocation goals

State Investment Board Responsibilities: (Per NDCC 21-10):

- Accept and implement client asset allocations
- Apply Prudent Investor Rule when investing for fund under its supervision
- Approve general types of securities for investment
- Set policies and procedures regulating securities transactions on behalf of the clients
- Select custodian servicer
- Select investment director and/or investment consulting service
- Create investment pools

RIO, Manager and Custodian Bank Responsibilities

Retirement and Investment Office (RIO) Responsibilities (on behalf of SIB):

- Administer overall investment strategy
- Advise SIB on ways to maximize risk/return opportunities within each asset class
- Act as liaison between SIB and managers, consultant and custodian
- Monitor individual clients' investment guidelines and asset allocations
- Maintain separate accounting for client accounts

Investment Manager Responsibilities:

- Accept and implement specific mandates or “investment missions”
- Make buy/sell decisions based on investment guidelines
- Report to RIO Staff on regular basis
- Provide education to SIB

Custodian Bank Responsibilities:

- Safe-keep assets
- Settle trades
- Record-keeper

Other Important Responsibilities

Investment Consultant Responsibilities:

- Performance measurement of investment managers
- Manager search assistance
- Provide education to SIB
- Special projects

Others Experts:

- Legal Counsel
- Independent Actuaries and Auditors
- Specialists in custody and fee reviews and/or transaction cost analyses

RIO's Public Website

Investment performance for all SIB clients, including manager level returns and balances, are generally posted to RIO's website within 30 to 45 days after month-end. In addition, the following website links provide additional information relating to SIB governance, meeting materials and our audit committee.

1. SIB Governance Manual - accessed by clicking on "SIB Governance Manual" under the "SIB / Board" section
<http://www.nd.gov/rio/SIB/Board/GovernanceManual/default.htm>
2. SIB Meeting Materials - accessed by clicking on "Meeting Materials" under the "SIB / Board" section
<http://www.nd.gov/rio/SIB/Board/SIB%20Meeting%20Materials/default.htm>
3. SIB Audit Committee Charter and Meeting Materials - accessed by clicking on "SIB Audit Charter" or "Meeting Materials" under the "SIB Audit" section <http://www.nd.gov/rio/SIB%20Audit/Board/default.htm>

Legacy Fund – Actual vs Expected Results

Net Returns Exceed Policy Benchmark - December 31, 2016

SIB's Governance Manual states "SIB clients should receive investment returns consistent with their written investment policies and market variables. **This End is evaluated based on comparing each client's actual return to expected returns (based on its' board approved asset allocation policy) over 5 years.'**"

LEGACY FUND

	1 Yr Ended 12/31/2016	5 Yrs Ended 12/31/2016	1 Yr Ended 12/31/2016	Since Inception
	%	%	\$	\$
Actual Net Return	8.1%	3.6%	\$300 million	\$450 million
Expected Policy Benchmark Return	6.4%	2.6%	\$240 million	\$325 million
Excess Return (Actual > Expected)	1.7%	1.0%	\$60 million	\$125 million

Legacy Fund Policy Benchmark (Asset Allocation): 50% Equity (30% U.S./20% International), 15% Real Assets (TIPS, Real Estate and Infrastructure) and 35% Bonds noting the **Equity and Real Asset benchmarks** were up 8.5% and **Bonds** were up 2.5% in 2016.

Legacy Fund's Actual Net Return was 8.1% in 2016 exceeding the Expected Policy Benchmark of 6.4% by **1.7%**. Net Investment Income (on a \$ basis) was **\$300 million** in 2016 including \$240 million from asset allocation and **Excess Return of \$60 million** from active management.

For the 5-Years Ended 12/31/16, Legacy earned a Net Return of 3.6% exceeding the Policy Benchmark of 2.6% and creating **Excess Return of 1.0%**. Legacy has earned **\$450 million** since inception including \$325 million based on asset allocation and **Excess Return of \$125 million**.



**HB 1175 – State Investment Board
North Dakota Council of Educational Leaders – Rae Ann Kelsch
3/3/2017**

Good morning members of the Senate Political Subdivisions Committee. My name is Rae Ann Kelsch, and I am representing NDCEL and our school leaders in ND. Additionally, I come to you as a former legislator to shed some light on an issue that continues to come before us each session – membership on the State Investment Board. This is a serious bill with serious implications. It begins with the SIB board, but a similar bill continues to show itself with the PERS board, and it is only a matter of time before this discussion may exist with the TFFR board.

When conversations take place with members of the SIB Board, it seems that when Retirement and Investment Office (RIO) leadership talks to legislators through these policy/advisory committees there is a general lack of knowledge. With that, please allow me to outline some of the strengths of the SIB Board to help you understand why as it is comprised at this time is the best makeup for ND investments.

1) The SIB is an executive function, which is represented in the membership of the elected officials (i.e. State Treasurer, Insurance Commissioner, Governor). Membership is already representative of the people and the various fund representatives with the current 11-member board. Legislative involvement blurs the lines between bodies of government

2) The purpose of the SIB, and its individual board members, is to act as fiduciaries to make decisions that are solely in the best interest of the fund. I would assume such a change is precipitated by the solving of a problem and I don't believe that has ever been articulated. The fund consistently outperforms the benchmark, the SIB and RIO initiated an investment de-risking strategy, significantly decreased fees.

SIB has leveraged the fund to hire the best consultants to help make the best possible decisions. The issue, I assume is legislators feeling that the Legacy Fund is their fund and that they should have authority to determine what happens to it. This leads to point #3.

3) Each policy board sets investment policy. From TFFR to PERS, investment policy is set by those boards/advisories. The Legacy Fund is no different. As a result, the legislators that serve on the Legacy Fund Advisory are already intimately involved with the fund through the selection of an asset allocation and other investment policy decisions. This is the critical component of investment and **they already have this authority.**

4) The State Investment Board operates through complete transparency with all meetings open, as appropriate, and all resources are housed online. David Hunter, ED/CIO and the other RIO staff do an excellent job in working with the various policy boards as well to keep all people informed.

5) I would contend that it is bad policy to add a fiscal note of \$22,000, in an environment of cuts, to add two members of this board when there is already adequate influence over the investment policy.

6) The language is also a bit unclear as to who will be serving. The bill states that it is selected by the Majority Leader of the Senate and House. While I would assume this means a legislator, that isn't clearly stated and it could result in a different appointment. In my opinion, this is not a position in which you wish to have a large turnover. It is difficult work and training/retraining new board members, with different agendas, may not be in the best interest of all of the funds invested by the State Investment Board. Decisions made by that board impact the TFFR pension, PERS, Legacy Fund, Insurance Trust, etc. It is a fiduciary responsibility that each member of the board and the RIO staff take very seriously.

Before making sweeping changes to SIB, legislators might consider asking RIO leadership to provide a greater level of support in connecting to these points. As an example of what I mean, consider if the RIO staff hosted a forum, geared toward legislators, that included an Investment 101 that helps define commonly used terms (bps, excess returns, active management) and basics of investment strategies (fee structures, how to read performance, short-term investment vs long-term investment, etc.). I really believe that if the issue is a lack of understanding that this would help that greatly and it could build relationships between RIO and legislators.

Because there are other viable options that do not require a change of law, or expenditure of taxpayer funds unnecessarily, we ask for a DO NOT PASS on HB1175.