

2023 HOUSE INDUSTRY, BUSINESS AND LABOR

HB 1400

2023 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Room JW327C, State Capitol

HB 1400
01/24/2023

Relating to investment of the common schools trust fund.

Chairman Louser called to order 10:18 AM

Members Present: Chairman Louser, Vice Chairman Ostlie, Representatives Boschee, Christy, Dakane, Johnson, Kasper, Koppelman, Ruby, Schauer, Thomas, Tveit, Wagner, Warrey.

Discussion Topics:

- SIB manage funds
- Fees
- Basis points
- Long term

In favor:

Representative Keith Kempenich, District 39 prime bill sponsor, #16825
Jon Godfread, Commissioner, ND Insurance Department (no written testimony)

Opposed:

Joseph Heringer, ND Department of Trust Lands, #16099

Neutral

Scott Anderson, ND Retirement, and Investment Office, #15732

Chairman Louser adjourned the hearing 11:10 AM

Diane Lillis, Committee Clerk

2023 HOUSE STANDING COMMITTEE MINUTES

Industry, Business and Labor Committee Room JW327C, State Capitol

HB 1400
01/31/2023

Relating to investment of the common schools trust fund.

Chairman Louser called to order 9:51 AM

Members Present: Chairman Louser, Vice Chairman Ostlie, Representatives Boschee, Christy, Dakane, Johnson, Kasper, Koppelman, Ruby, Schauer, Thomas, Tveit, Wagner, Warrey.

Discussion Topics:

- Investing differently
- Diversified pool
- Asset management fund
- New talent

Representative Thomas moved Do Not Pass
Representative Ostlie seconded.

Roll call vote:

Representatives	Vote
Representative Scott Louser	Y
Representative Mitch Ostlie	Y
Representative Josh Boschee	AB
Representative Josh Christy	Y
Representative Hamida Dakane	Y
Representative Jorin Johnson	Y
Representative Jim Kasper	Y
Representative Ben Koppelman	Y
Representative Dan Ruby	Y
Representative Austen Schauer	Y
Representative Paul J. Thomas	Y
Representative Bill Tveit	Y
Representative Scott Wagner	Y
Representative Jonathan Warrey	Y

Motion passed 13-0-1

Representative Dakane will carry the bill

Chairman Louser adjourned the hearing 9:57 AM

House Industry, Business and Labor Committee

HB 1400

01/31/2023

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Diane Lillis, Committee Clerk

REPORT OF STANDING COMMITTEE

HB 1400: Industry, Business and Labor Committee (Rep. Louser, Chairman)
recommends **DO NOT PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING).
HB 1400 was placed on the Eleventh order on the calendar.

TESTIMONY

HB 1400

House Bill 1400
North Dakota Retirement and Investment Office (RIO)
Neutral Testimony relating to HB 1400 before the House Industry, Business,
and Labor Committee
Representative Scott Louser, Chair
Representative Mitch Ostlie, Vice Chair

Scott Anderson, CFA, MBA – Chief Investment Officer
Janilyn Murtha, JD, MPAP – Executive Director

I. Introduction

The Retirement and Investment Office (hereinafter “RIO”) was created by the 1989 Legislative Assembly to capture administrative and investment cost savings in the management of the investment program of the State Investment Board (SIB) and the retirement program of the Teachers’ Fund for Retirement (TFFR). Statutory authority for the agency is found in North Dakota Century Code chapter 54-52.5 and the programs are governed by chapters 21-10 (SIB) and 15-39.1 (TFFR).

The State Investment Board has the statutory responsibility to administer the investment program for 28 funds including the Legacy Fund, TFFR, PERS, and WSI. It also maintains contractual relationships for the investment management of multiple political subdivisions and governmental funds. Currently SIB is responsible for the investment of the Legacy Fund, seven pension funds and 20 other non-pension funds for a total of 28 separate client funds with an overall fund value of roughly \$18 billion as of October 31, 2022.

These assets under management have grown from about \$4 billion in 2010 and continue to grow from investment returns and contributions to the Legacy Fund, pension plans, and insurance funds. The combination of the growth of AUM, the number of individually managed funds, and the complexity of mandates such as the Legacy Fund have increased the need for staff resources, infrastructure and new scalable investment processes that can enhance the performance of client funds while reducing the net cost of management of those funds when manager fees are considered.

The RIO team worked closely with the SIB and TFFR Boards to evolve the governance structure of both Boards and Board staff relations to establish a foundation of governance that supported program growth. During this past biennium the State Investment Board established two new committees to support this growth including a Governance and Policy Review Committee as well as an Investment Committee to better support the needs of the program. These changes in particular occurred over the course of many meetings as through board discussion the SIB recognized the need to evolve its own governance to provide the agility and ability needed to manage a growing amount of assets in complex investment strategies.

Anticipating that this question might come before the legislature during the current session, the feasibility of management of the Land Trust was referred by the SIB to the Governance and Policy Review Committee and recommendations were brought forward to the full SIB. The SIB discussion focused on whether there was a business case for management of these assets.

II. Neutral to HB 1400

RIO is testifying as a neutral party relating to this bill because we recognize that the decision regarding management of Land Trust assets is a policy decision for the Land Board and the Legislature. We can provide information on the business case prepared by RIO staff relating to management of Land Trust Assets. The attached presentation summarizes this business case. We also recognize that there are existing provisions in NDCC 21-10 that allow the assets of the Land Trust to be outsourced and managed by the SIB. Specifically, NDCC 21-10-06(3) allows any North Dakota government entity to engage the investment services of the SIB. Respectfully, RIO believes that management of the assets of the Land Trust by RIO would have many positive benefits to the State of North Dakota and to the Land Trust itself. The managing of the Land Trust assets by RIO would lower the cost and increase capabilities of the Land Trust by taking advantage of scale benefits as outlined in the attached presentation which will be provided to you.



LAND TRUST INVESTMENT OPPORTUNITIES

Scott M Anderson, CFA

Ryan Skor, CPA

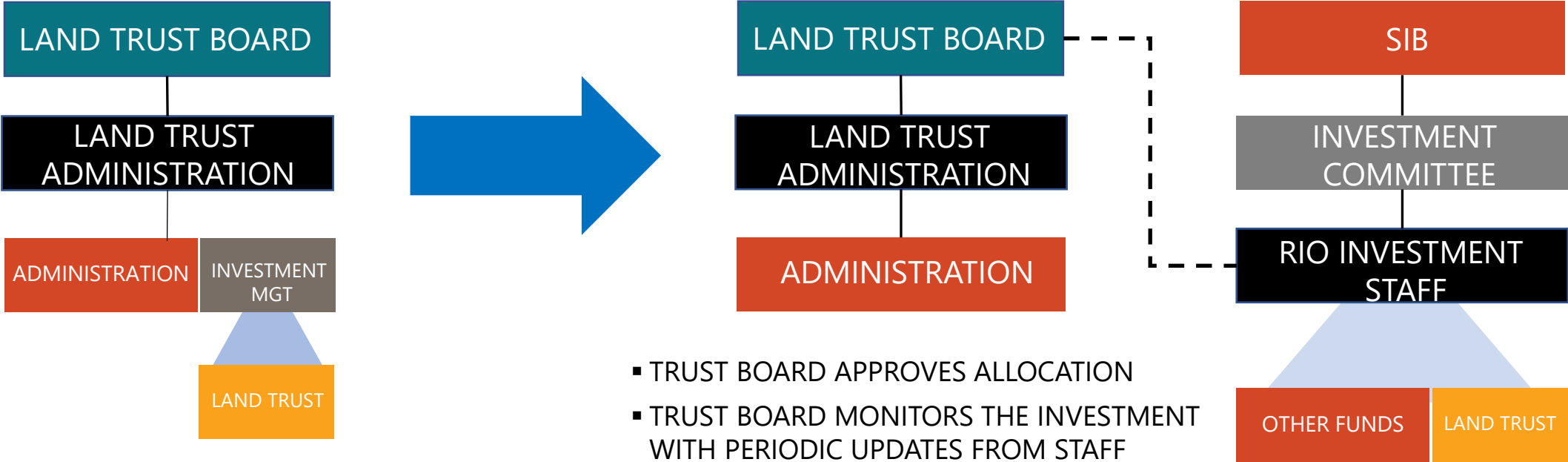
Jan Murtha, JD, MPAP

October 25, 2022

NORTH
Dakota
Be Legendary.

Retirement & Investment

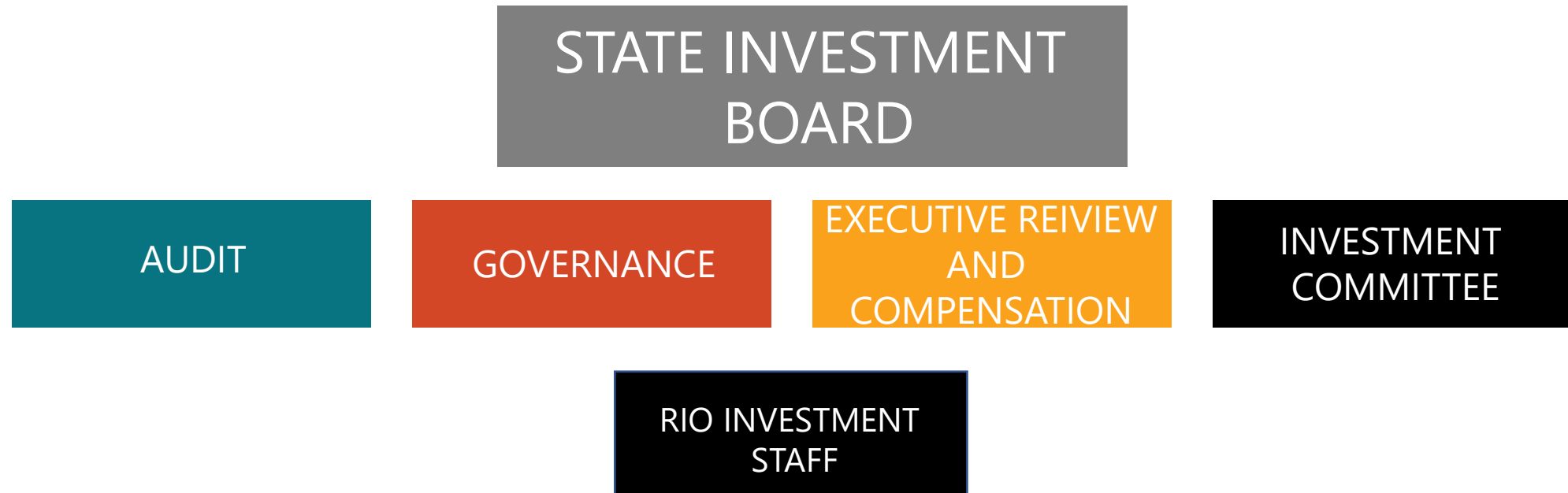
CONCEPT: TRUST FUND OUTSOURCED AS A CLIENT FUND TO THE STATE INVESTMENT BOARD (SIB)



- TRUST BOARD APPROVES ALLOCATION
- TRUST BOARD MONITORS THE INVESTMENT WITH PERIODIC UPDATES FROM STAFF

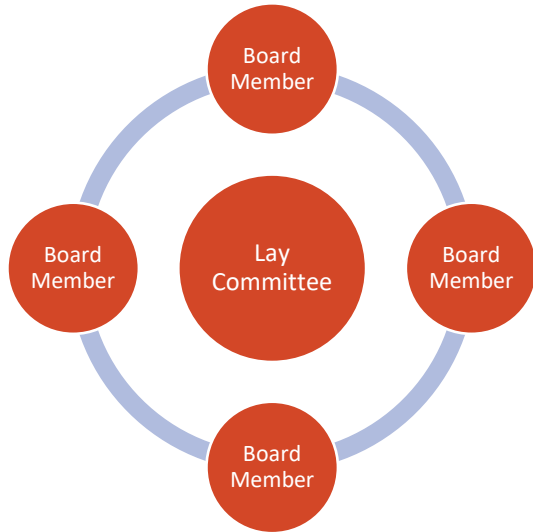
- RIO MANAGES THE ASSETS
- RIO GOVERNED BY SIB WITH ITS COMMITTEE STRUCTURE
- LAND TRUST BENEFITS FROM THE SCALE AND FOCUS OF THE RIO INVESTMENT GOVERNANCE, OPERATIONS AND INVESTMENT MANAGEMENT

ENABLES A MORE ADVANCED SCALED GOVERNANCE PROCESS AND LOWER GOVERNANCE COSTS



- LAND INVESTMENT PROGRAM CAN GROW WITHOUT NEEDING TO GROW THE SIZE OF THE BOARD AND NUMBER OF COMMITTEES
- SIB GOVERNANCE SPECIALIZES IN ASSET MANAGEMENT AND IS STRUCTURED FOR THAT PURPOSE
- LAND TRUST DOES NOT NEED TO RECREATE OR DUPLICATE ANY GOVERNANCE PROCESSES
- ENHANCEMENTS TO INVESTMENT GOVERNANCE ARE DEVELOPED, RESOURCED AND IMPLEMENTED ACROSS MANY MORE FUNDS AND ASSETS

THREE INVESTMENT COMMITTEE ARCHETYPES



- Operates like the board but can meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval
- Lacks investment expertise
- Most investment decisions are at the board level with little delegation to staff

More Board Level



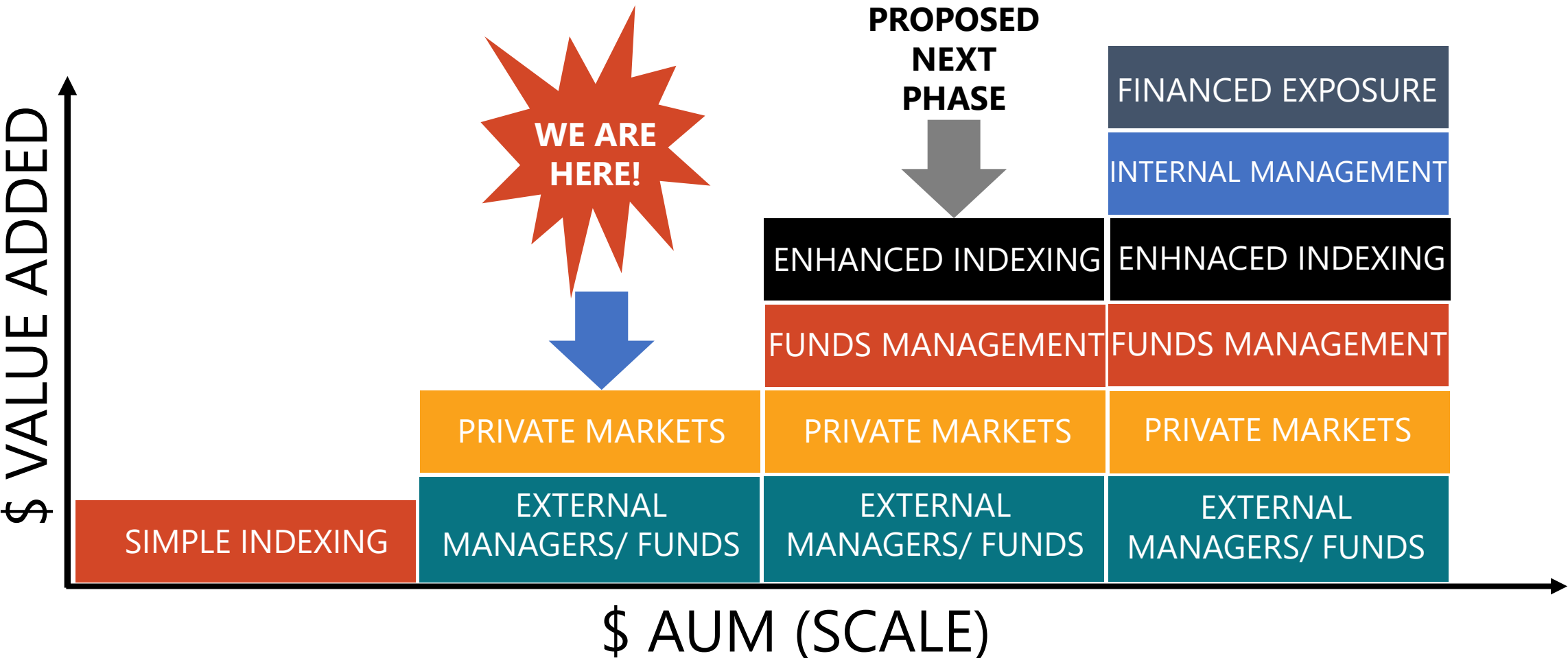
More Advisory

- Able to meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval when necessary but also can delegate decisions to staff
- Staff participation enables delegation, quick decision and better implementation
- Outside and independent investment expertise
- Most investment decisions are at the investment committee or staff level



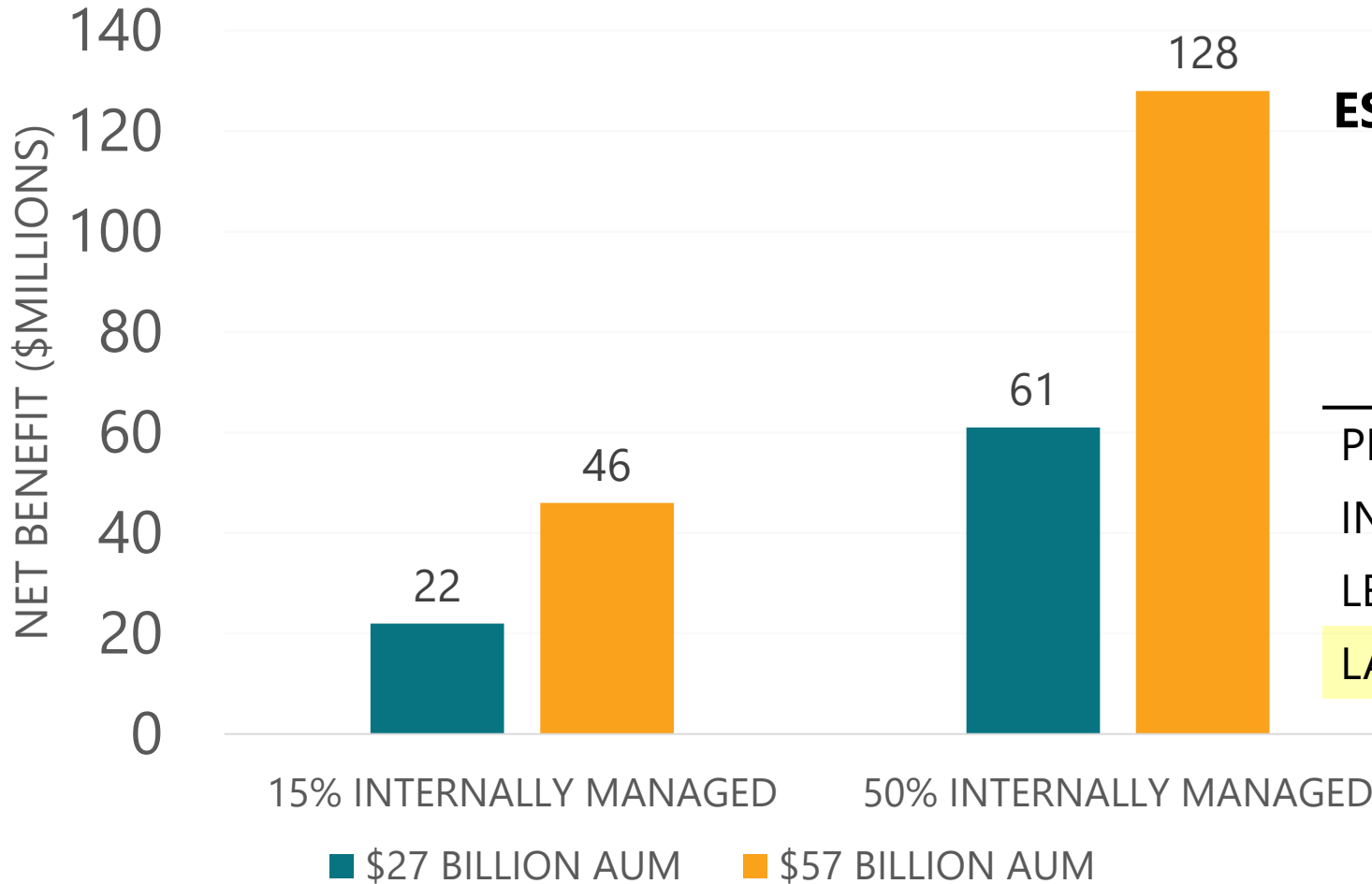
- Can meet more frequently or more quickly
- Able to have focused and in-depth investment conversations
- Able to summarize for full board approval
- Outside and independent investment expertise but need to ensure shared decision making
- Most investment decisions are at the board level
- Less delegation and associated benefits

UNLOCKS SIGNIFICANT OPPORTUNITY FOR IMPROVED RETURNS AND LOWER COSTS



- LOWER COST THAN WITH EXTERNAL MANAGERS
- APPLIED WHERE THERE IS A COST/BENEFIT
- ENABLES ENHANCED LIQUIDITY MANAGEMENT, REBALANCING AND EXPOSURE MANAGEMENT

THE BENEFIT OF INTERNAL INVESTMENT SCALES WITH THE SIZE OF THE COMMITMENT



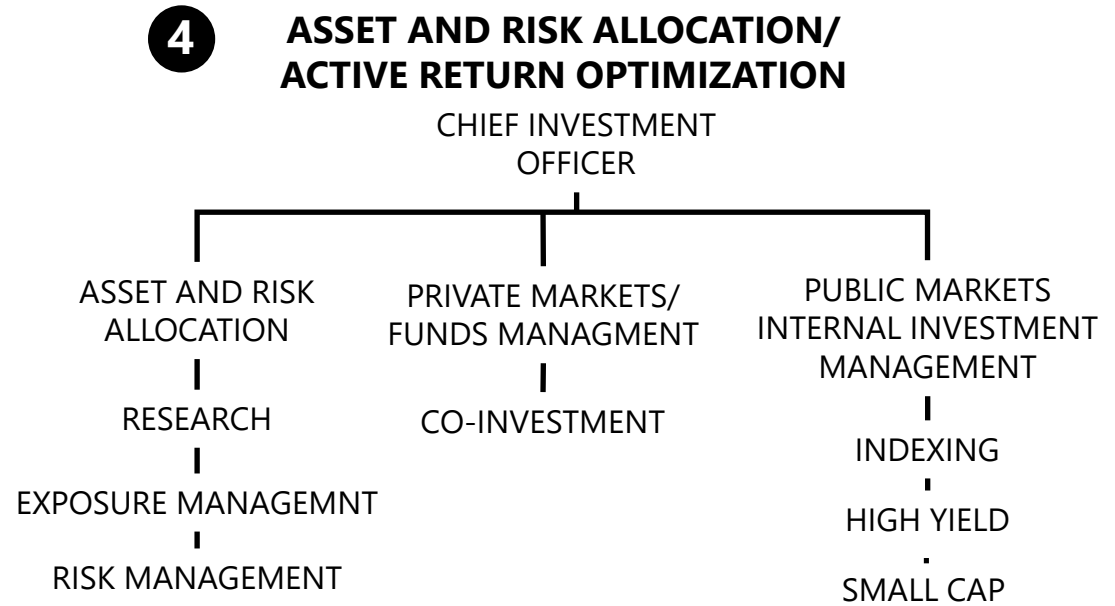
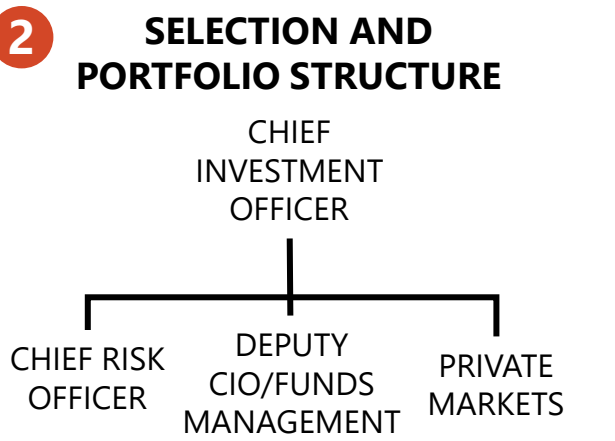
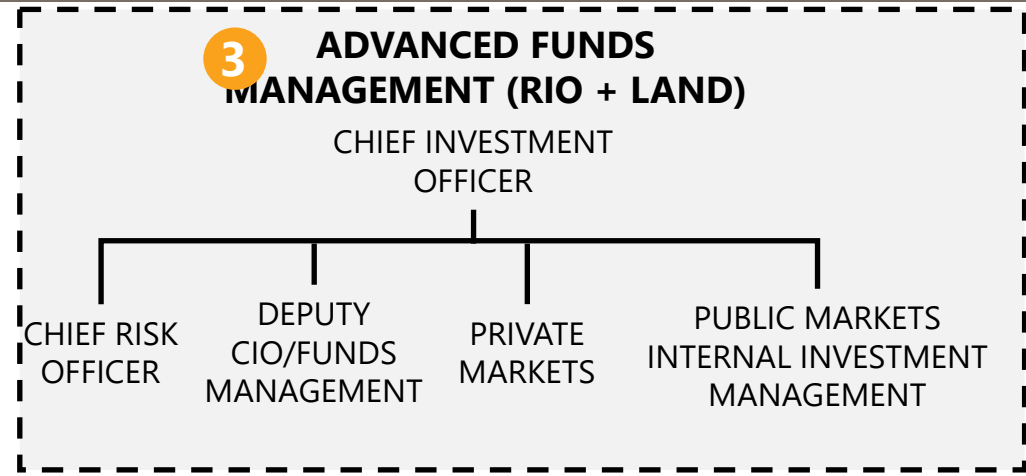
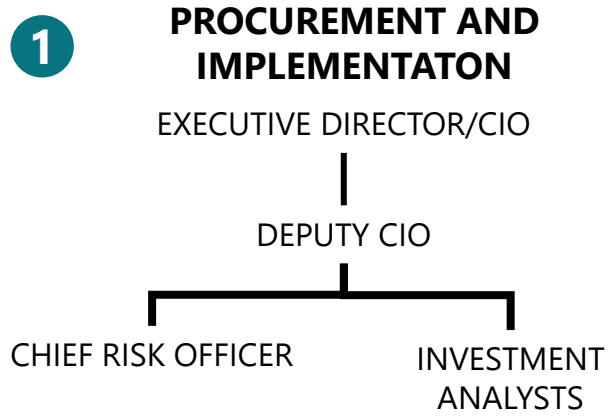
ESTIMATED ANNUAL SAVINGS PER YEAR (\$27 BILLION AUM)

PLAN	15% OF ASSETS		50% OF ASSETS	
	\$(MIL)	%	\$(MIL)	%
PENSION	\$6	0.08%	\$16	0.23%
INSURANCE	\$3	0.10%	\$8	0.26%
LEGACY	\$7	0.09%	\$21	0.25%
LAND TRUST	\$7	0.08%	\$16	0.23%

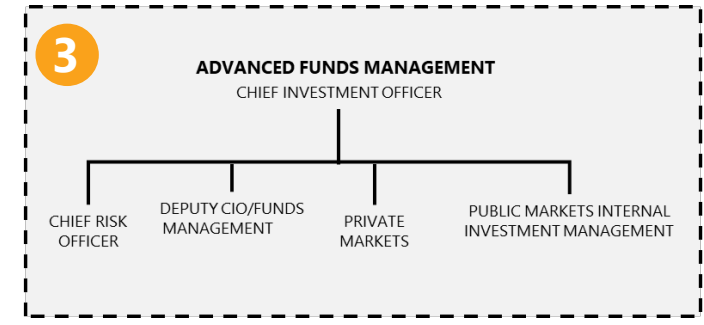
THERE ARE OTHER COST AND RETURN/RISK BENEFITS OF COMBINING ASSETS

1. REDUCED FEES FOR FUND OF FUND MANAGERS, REDUCED FEES ON DIRECT FUND INVESTMENTS FROM SCALE, AND ACCESS TO HIGHER QUALITY MANAGER RELATIONSHIPS FROM A LARGER PORTFOLIO OF COMMITMENTS
2. A DIVERSIFIED PRIVATE MARKETS PORTFOLIO WITH A MORE CONSISTENT ALLOCATION TO MANAGERS, ENCOURAGING ACCESS TO BETTER MANAGERS, HIGHER AVERAGE RETURNS AND LOWER RISK
3. MORE SOPHISTICATED INVESTMENT STRATEGIES ENABLED BY SCALE TO ACHIEVE HIGHER RETURNS PER RISK AT A LOWER COST PER AUM IN BOTH INTERNAL AND EXTERNAL PORTFOLIOS

A COMBINED INVESTMENT PROGRAM COST GROWS AT A LOWER RATE THAN TWO SEPARATE PROGRAMS

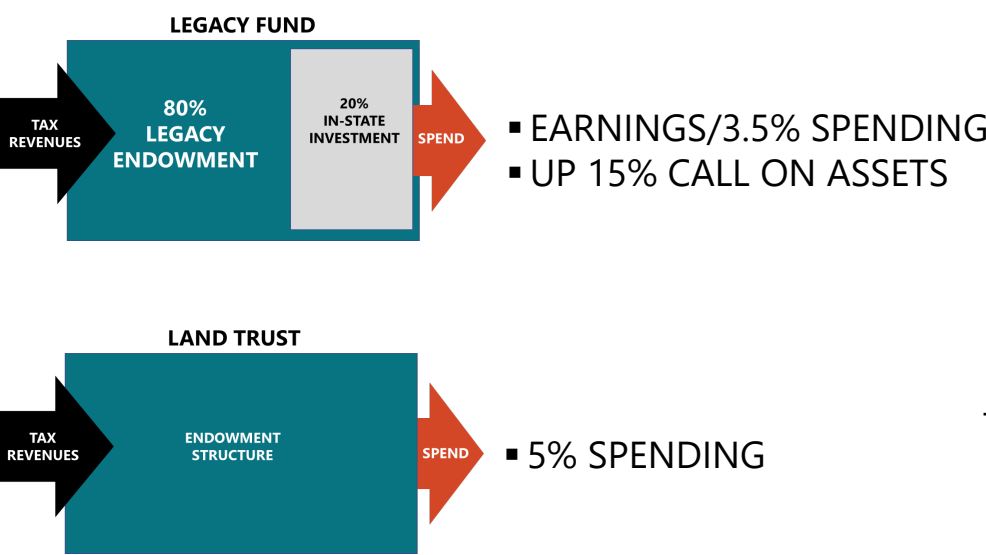


**EXAMPLE:
VERSUS
2X PROGRAMS**



**PLUS
2X PROGRAMS
OPERATIONS**

A LARGER COMBINED ENDOWMENT STRUCTURE CAN BE MANAGED WITH A UNITIZED POOLED ALLOCATION



Asset Class	Policy Target
DOMESTIC EQUITY	20% - 30%
INTERNATIONAL EQUITY	20%
FIXED INCOME	25% - 35%
REAL ESTATE	5%
DIVERSIFIED REAL ASSETS	10%
IN-STATE FIXED INCOME	0% - 10%
IN-STATE EQUITY	0% - 10%

Asset Class	Policy Target
DOMESTIC EQUITY	14% - 24%
INTERNATIONAL EQUITY	14% - 24%
FIXED INCOME	17% - 27%
ABSOLUTE RETURN	10% - 20%
REAL ESTATE	10% - 20%
PRIVATE EQUITY	0% - 10%
PRIVATE INFRASTRUCTURE	0% - 10%
OPPORTUNISTIC INVESTMENTS	0% - 5%

ILLUSTRATION

Asset Class	Policy Target
DOMESTIC EQUITY	20% - 30%
INTERNATIONAL EQUITY	14% - 24%
FIXED INCOME	25% - 35%
ABSOLUTE RETURN	0% - 5%
REAL ESTATE	0% - 10%
PRIVATE EQUITY	0% - 10%
PRIVATE INFRASTRUCTURE	0% - 10%
OPPORTUNISTIC INVESTMENTS	0% - 5%
CASH	-15% - 0%
IN-STATE FIXED INCOME	0% - 10%
IN-STATE EQUITY	0% - 10%

- OPPORTUNITY TO POOL ALLOCATIONS AND UNITIZE
- UNIQUE SPENDING FEATURES OF EACH PLAN CAN BE ACCOMODATED
- DYNAMIC LEVERAGE MIGHT BE USED TO OFFSET 15% CALL RISK AND ADD ADDITIONAL DIVERSIFICATION TO INCREASE RETURN PER RISK

BENEFITS FROM RIO MANAGING THE INVESTMENTS OF THE LAND TRUST

- THE LAND TRUST BOARD OUTSOURCES THE TRUST FUND AS A CLIENT FUND TO THE STATE INVESTMENT BOARD (SIB) AND MAINTAINS THE DISCRETION AND CONTROL OF A CLIENT; **EXISTING STAFF CAN BE TRANSFERRED TO RIO**
- AN SIB GOVERNANCE OF THE INVESTMENT MANAGEMENT ENABLES A MORE ADVANCED SCALED GOVERNANCE PROCESS AND LOWER GOVERNANCE COSTS
- A COMBINED INVESTMENT PROGRAM PROVIDES SCALE ADVANTAGES IN OPERATING COSTS, FEES, OPERATIONS, AND INVESTMENT MANAGEMENT STAFF
- A COMBINED INVESTMENT PROGRAM COST GROWS AT A LOWER RATE THAN TWO SEPARATE PROGRAMS
- A LARGER COMBINED ENDOWMENT STRUCTURE CAN BE MANAGED WITH A UNITIZED POOLED ALLOCATION THAT HAS MORE ADVANCED INVESTMENT FEATURES AND IMPLEMENTATION THAN EITHER STAND-ALONE FUND

INVESTMENT ACCOUNTING & PERFORMANCE REPORTING

- RIO CURRENTLY PREPARES AND MAINTAINS SEPARATE ACCOUNTING AND PERFORMANCE REPORTING FOR EACH OF ITS CLIENT FUNDS ON A MONTHLY BASIS.

<u>Financial Statements</u>	<u>Performance Reports</u>
Client* Public Employees Retirement System (PERS) ▼	Client* Public Employees Retirement System (PERS) ▼
▸ FY2023	▸ FY2023
▸ FY2022	▸ FY2022
▸ FY2021	▸ FY2021
▸ FY2020	▸ FY2020

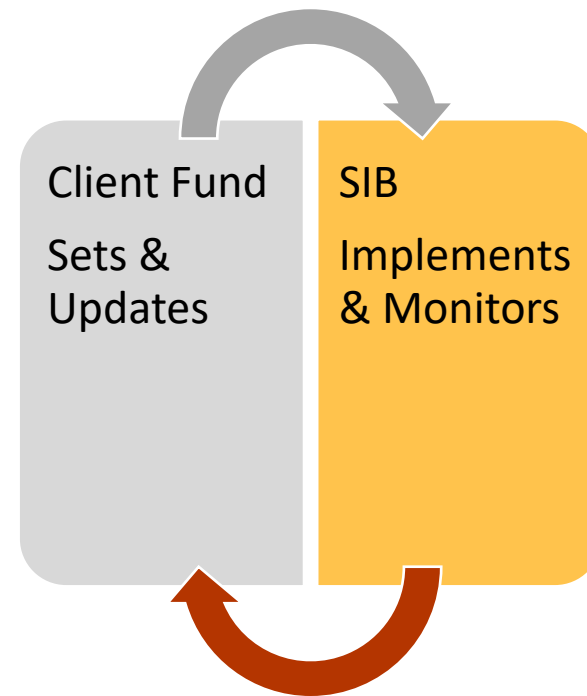
- ABILITY TO ADD LAND TRUST FUNDS TO PORTFOLIO AND SIMILARLY ACCOUNT FOR EACH OF THE 13 PERMANENT TRUSTS AS WELL AS SIIF, CAPITOL BUILDING FUND, COAL DEVELOPMENT TRUST FUND, INDIAN CULTURAL EDUCATION TRUST, AND THEODORE ROOSEVELT PRESIDENTIAL LIBRARY AND MUSEUM ENDOWMENT FUND.

Proposal Summary

- Enhanced Performance Opportunities
- Governance for Growth
- Evolving Operations Support through Collaboration
- ND state government Unification of Efforts

And above all:

- **Control Remains with the Client Board**
 - Per NDCC 21-10-02.1
 - The governing body of each fund... shall establish policies on investment goals and objectives and asset allocation for each respective fund..
 - The asset allocation and any subsequent allocation changes for each fund must be approved by the governing body of that fund and the state investment board.





**TESTIMONY OF JOSEPH HERINGER
COMMISSIONER
North Dakota Department of Trust Lands**

House Bill 1400

House Industry, Business and Labor Committee
January 24, 2023

Chairman Louser and members of the Committee, I am Joseph Heringer, North Dakota Commissioner of University and School Lands and am here to testify in opposition to HB 1400.

The Board of University and School Lands (Board), as established by the North Dakota Constitution, is charged with overseeing the management of state trust lands and investing the revenue generated therefrom to grow as a source of long-term income for the support of certain trust beneficiaries. The Board is comprised of the Governor, Secretary of State, Attorney General, State Treasurer, and Superintendent of Public Instruction. The Department of Trust Lands (Department) is the administrative arm of the Land Board, serving under its direction and authority. The Board is also responsible for managing various trust funds established by the North Dakota Constitution and/or statute, the largest of which is the Common Schools Trust Fund (CSTF).

This bill seems to be a solution in search of a problem.

First, the Board already has authority to contract with the State Investment Board if desired. This makes the bill completely unnecessary.

Second, the current Board investment structure is working very well as evidenced by the performance and distribution record of the funds managed by the Board. As you can see from the CSTF information sheet provided, the fund balance has grown exponentially since 2008 from around \$500 million, to \$5.66 billion as of June 30, 2022. This next biennium the fund will

distribute \$500 million to support North Dakota K-12 public education. That is a 19% increase from the current biennium distribution of \$421 million. I would say that is a good return on investment. And that distribution helps offset the state's other budget pressures of which the committee members are well aware.

Third, even though it may appear benign on its face, legislation like this is viewed by the Board as an attempt to chip away at its constitutional duty, and authority, to prudently manage trust assets. A similar bill (HB 1202) brought in the 2021 session was thoroughly debated and soundly defeated. The complete legislative history of that bill is attached to my testimony which I encourage committee members to read, and also view the video testimony which can be accessed through the legislature's website.

The primary purpose of the CSTF, as outlined in Article IX of the North Dakota Constitution, is to generate revenue to support public K-12 education. Over the years, there has been developed a complex structure of statutes, administrative rules, and Board policies to lay the framework and guidelines to achieve that constitutional objective. This framework governs not only financial investments, but also surface and minerals rights management, and the unclaimed property program which is also under the Board's purview. I would submit that the current structure is working well and encourage the legislature to only intervene where absolutely necessary to fix something that is broken, and this is clearly not one of those cases.

Thank you for your time and consideration. I would be happy to answer any questions you may have.



COMMON SCHOOLS TRUST FUND (CSTF)



\$500 MILLION TO BE DISTRIBUTED IN 2023-25 BIENNIUM

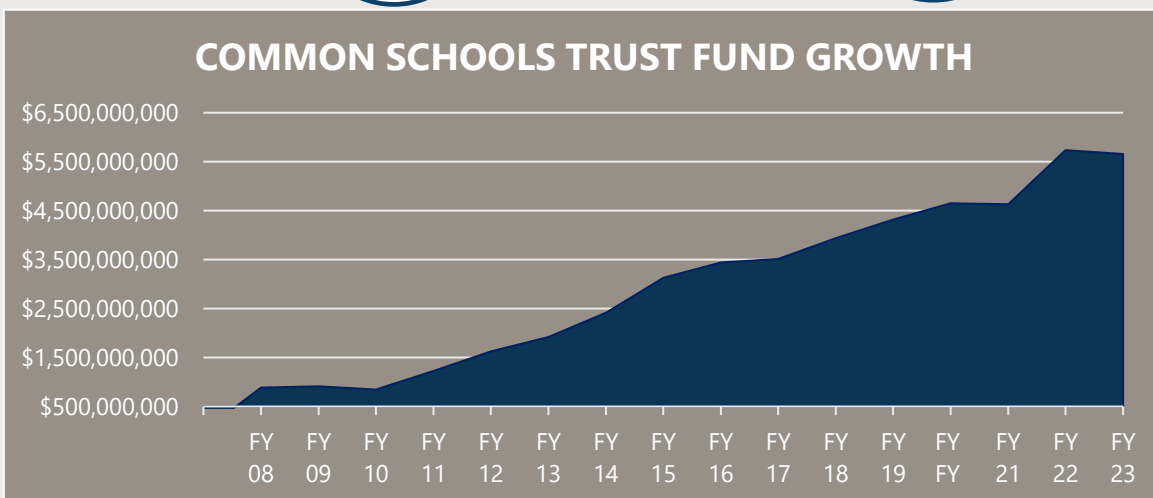


18.7% INCREASE IN DISTRIBUTION OVER LAST BIENNIUM



\$5.66 BILLION VALUE AS OF FISCAL END 2022

COMMON SCHOOLS TRUST FUND GROWTH



\$1.8 BILLION IN K-12 DISTRIBUTIONS OVER LAST 10 YEARS REDUCING FUNDING REQUIRED FROM GENERAL FUND AND PROPERTY TAXES FOR THE STATE TUITION FUND.

THE CSTF HAS GROWN 362% SINCE 2010!

DEPARTMENT OF TRUST LANDS REVENUE STREAMS CONTRIBUTING TO CSTF

MINERALS

- 10% OF OIL EXTRACTION TAX
- 8,600 BAKKEN WELL ROYALTIES
- OIL & GAS LEASE BONUS PAYMENTS



SURFACE

- RIGHTS OF WAY INCOME
- SURFACE RENTAL INCOME
- AGGREGATE LEASING



COMMON SCHOOLS TRUST FUND DISTRIBUTION CALCULATION

10% OF FIVE-YEAR AVERAGE VALUE OF TRUST INVESTMENTS (N.D. CONST ART. 9, SEC. 2)

2.88% NET AVERAGE ANNUAL DISTRIBUTION OVER PAST 10 YEARS

PERCENTAGE OF ROLLING AVERAGE VALUE FORMULA SMOOTHS DISTRIBUTIONS FOR LONG-TERM GROWTH

*** LOWER FUND VALUES IN THE EARLY YEARS OF THE FORMULA PERIOD RESULTS IN A NET ANNUAL DISTRIBUTION OF LESS THAN 5%**

2021 HOUSE GOVERNMENT AND VETERANS AFFAIRS

HB 1202

2021 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee Pioneer Room, State Capitol

HB 1202
1/22/2021

Relating to funds managed by the state investment board and the investments of the board of university and school lands

Vice Chairman B. Koppelman opened the hearing at 11:18 AM. Roll call:

Representatives	Roll Call
Representative Jim Kasper	P
Representative Ben Koppelman	P
Representative Pamela Anderson	P
Representative Jeff A. Hoverson	P
Representative Karen Karls	P
Representative Scott Louser	P
Representative Jeffery J. Magrum	P
Representative Mitch Ostlie	P
Representative Karen M. Rohr	P
Representative Austen Schauer	P
Representative Mary Schneider	P
Representative Vicky Steiner	P
Representative Greg Stemen	P
Representative Steve Vetter	P

Discussion Topics:

- Safekeeping State School lands
- Management of State Permanent Trust Funds, Common school and other funds
- Revenue Distribution
- Investments of the Trust Funds

Rep. Kempenich introduced and testified in favor.

Jodi Smith, Commissioner and Secretary, Board of University and School Lands, testified in opposition with testimony #2205.

Dave Garner, Assistant Attorney General, appeared to answer questions and make some points.

Al Jaeger, Secretary of State, testified in opposition.

Additional written testimony:

David Hunter #4047

Vice Chairman B. Koppelman adjourned at 12:13 PM.

Carmen Hart, Committee Clerk by Donna Whetham



**TESTIMONY OF JODI SMITH
COMMISSIONER
North Dakota Department of Trust Lands**

House Bill 1202

**House Government and Veterans Affairs Committee
January 22, 2021**

Chairman and members of the House Government and Veterans Affairs Committee, I am Jodi Smith, the Commissioner and Secretary for the Board of University and School Lands (Board). I am here to testify in opposition to House Bill 1202.

The Department of Trust Lands (Department) is the administrative arm of the Board, serving under the direction and authority of the Board. The Board is comprised of the Governor, Secretary of State, Attorney General, State Treasurer, and Superintendent of Public Instruction. The Department's primary responsibility is managing the Common Schools Trust Fund (CSTF) and 12 other permanent educational trust funds. The beneficiaries of the trust funds include local school districts, various colleges and universities, and other institutions in North Dakota. The Department manages five additional funds: the Strategic Investment and Improvements Fund (SIIF), the Coal Development Trust Fund, the Capitol Building Fund, the Indian Cultural Education Trust, and the Theodore Roosevelt Presidential Library and Museum Endowment.

The Department also administers the responsibilities outlined in the Uniform Unclaimed Property Act, N.D.C.C. ch. 47-30.1. In this role the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and processes owners' claims. This property is held in permanent trust for owners to claim, with the revenue from the investment of the property benefiting the CSTF.

Additionally, the Department operates the Energy Infrastructure and Impact Office (EIIO), which provides financial support to political subdivisions that are affected by energy development. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program. The EIIO also distributes energy and flood grants carried over from prior biennia.

HISTORY

In 1889, Congress passed the Enabling Act "to provide for the division of Dakota [Territory] into two states, and to enable the people of North Dakota, South Dakota, Montana, and Washington to form constitutions and state governments, and to be admitted into the union on an equal footing with the original states, and to make donations of public lands to such states." Act of February 22, 1889, Ch. 180, 25 Statutes at Large 676.

Section 10 of this Act granted sections 16 and 36 in every township to the new states "for the support of common schools." In cases where portions of sections 16 and 36 had been sold prior to statehood, indemnity or "in lieu" selections were allowed. In North Dakota, this grant of land totaled more than 2.5 million acres.

Under sections 12, 14, 16 and 17 of the Enabling Act (and other acts referred to therein), Congress provided further land grants to the state of North Dakota for the support of colleges, universities, the state capitol, and other public institutions. These additional grants totaled approximately 668,000 acres; thus the total of Enabling Act land grants was nearly 3.2 million acres.

PERMANENT TRUST FUNDS

The land grant at statehood and the State Constitution both provide that the Board manage the trust land and minerals and their proceeds, for the exclusive benefit of supporting the common schools (primary education) and the institutions for which the lands were granted. In accordance with Article IX of the North Dakota Constitution, the trust funds must be managed to preserve purchasing power and to maintain stable distributions to trust beneficiaries. The Board is a constitutional board charged, among other things, with the duty of directing the investment of funds derived from the other sources, including the sale of lands granted by the United States to the state of North Dakota for the support of the common schools and from other sources. It is vested with discretion in the performance of its duties commensurate with the importance of the confidence reposed in the Board. The great and primary duty of the Board is to safeguard the Permanent Trust Funds (PTFs) under its control and direct the investment thereof to the best advantage. HB 1202 removes all discretion from the Board in making investment decisions on behalf of the PTFs. Approval of HB1202 would mean investment decisions by the Board would be eliminated and essentially transferred to the State Investment Board (SIB) in direct contravention to the language and intent of the Constitution.

REVENUE AND DISTRIBUTION HISTORY

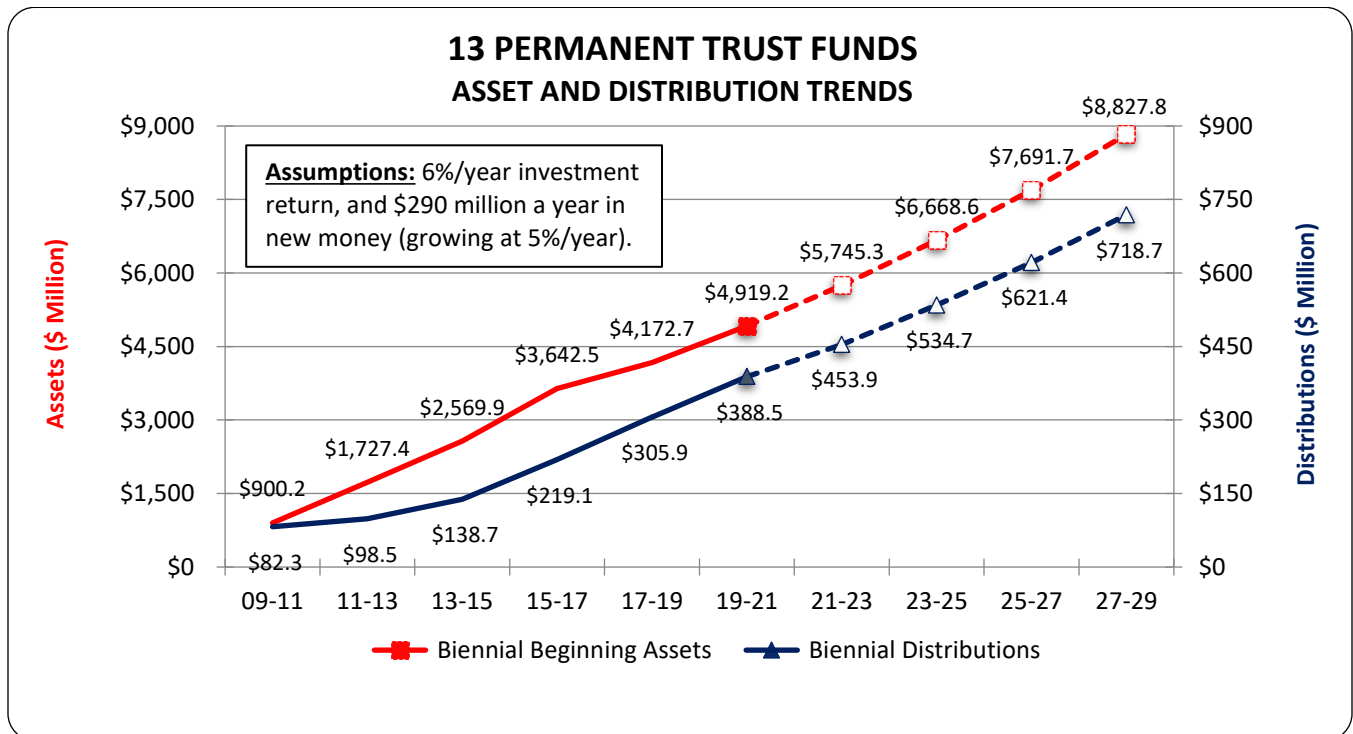
Article IX, Section 2 of North Dakota Constitution provides:

Distributions from the common schools trust fund, together with the net proceeds of all fines for violation of state laws and all other sums which may be added by law, must be faithfully used and applied each year for the benefit of the common schools of the state and no part of the fund must ever be diverted, even temporarily, from this purpose or used for any purpose other than the maintenance of common schools as provided by law. Distributions from an educational or charitable institution's trust fund must be faithfully used and applied each year for the benefit of the institution and no part of the fund may ever be diverted, even temporarily, from this purpose or used for any purpose other than the maintenance of the institution, as provided by law.

For the biennium during which this amendment takes effect, distributions from the perpetual trust funds must be the greater of the amount distributed in the preceding biennium or ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. Thereafter, biennial distributions from the perpetual trust funds must be ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. The average value of trust assets is determined by using the assets' ending value for the fiscal year that ends one year before the beginning of the biennium and the

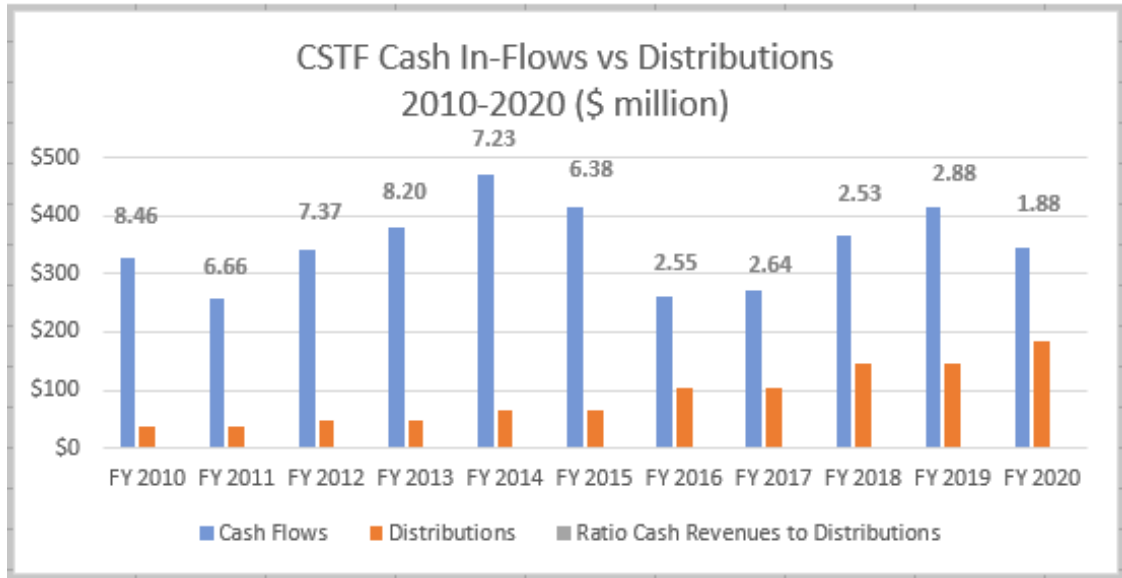
assets' ending value for the four preceding fiscal years. Equal amounts must be distributed during each year of the biennium.

Educational and institutional trust distributions are based upon the growth in value of the trusts' financial assets over time, rather than on the amount of interest and income earned by each trust during the year. Biennial distributions from the PTFs must be 10 percent of the five-year average value of trust assets, excluding the value of lands and minerals. Equal amounts are distributed during each year of the biennium. With the substantial growth in trust assets over the past 10 years, distributions to beneficiaries have significantly increased.



Oil and gas lease bonus and royalty revenues resulted in substantial growth in the CSTF, increasing by 300% over eight years. Strong investment markets have also driven growth since the 2008-2009 recession.

TRUST REVENUES FROM FY 2010 THROUGH FY 2020



In the 2021-2023 biennium, distributions by the CSTF will increase by \$54,264,000 which is a 14.8% increase.

School Year	Amount Distributed	CS % of Cost of Education	CS \$/Pupil Distribution	Biennial Figures	
FY 2010	\$ 38,589,000	4.1%	\$ 404.04	\$ 400.96	
FY 2011	\$ 38,589,000	3.9%	\$ 397.88	4.0%	
FY 2012	\$ 46,257,000	4.6%	\$ 468.50	\$ 461.33	
FY 2013	\$ 46,257,000	4.3%	\$ 454.16	4.46%	
FY 2014	\$ 65,163,000	6.2%	\$ 651.13	\$ 643.27	
FY 2015	\$ 65,163,000	5.9%	\$ 635.40	6.0%	
FY 2016	\$ 103,067,000	8.8%	\$ 979.74	\$ 971.69	
FY 2017	\$ 103,067,000	8.4%	\$ 963.64	8.6%	
FY 2018	\$ 144,132,000	11.6%	\$ 1,334.22	\$ 1,320.90	
FY 2019	\$ 144,132,000	11.4%	\$ 1,307.59	11.5%	
FY 2020	\$ 183,378,000	14.0%	\$ 1,634.88	\$ 1,620.19	
FY 2021	\$ 183,378,000	13.4%	\$ 1,605.49	13.7%	Actual
FY 2022	\$ 210,510,000	15.4%	\$ 1,847.97	\$ 1,829.31	Estimate/Projection
FY 2023	\$ 210,510,000	15.2%	\$ 1,810.66	15.3%	Estimate/Projection

The table below is another look at the CSTF's impact education. With the inclusion of the 2021-23 contribution, the CSTF will have supplied over \$1.4 billion to the schools.

Biennium	Formula Payment	Common Schools	Percentage of Formula	Common Schools Increase
2013-15	\$ 2,165,690,363	\$ 130,326,000	6.0%	\$ 37,812,000
2015-17	\$ 2,398,962,382	\$ 206,134,000	8.6%	\$ 75,808,000
2017-19	\$ 2,512,392,039	\$ 288,264,000	11.5%	\$ 82,130,000
2019-21	\$ 2,679,595,449	\$ 366,756,000	13.7%	\$ 78,492,000
2021-23	\$ 2,751,285,781	\$ 421,020,000	15.3%	\$ 54,264,000

The Board manages other funds for the State and other beneficiaries, including:

Indian Cultural Education Trust

The Indian Cultural Education Trust was created in 2003 to generate income to benefit Indian culture (N.D.C.C. ch. 15-68). Present assets are managed for the benefit of the Mandan, Hidatsa, and Arikara Nation Cultural Education Foundation. This trust's assets are managed, and distributions are determined, in the same manner as the PTFs.

Capitol Building Fund

The Capitol Building Fund was established in N.D.C.C. § 48-10-02 pursuant to Article IX of the North Dakota Constitution. Section 12 of the Enabling Act of 1889 authorized the land grant for "public buildings at the capital of said states". N.D.C.C. § 48-10-02 defines the fund, outlines its purposes, and assigns management of the land and the fund's investment to the Board. Unlike the PTFs created under Article IX, this fund is fully expendable and is subject to legislative appropriation each biennium.

Strategic Investment and Improvements Fund

The SIIF is a fund financed by the revenues earned from sovereign mineral acres, including those formerly owned by the Bank of North Dakota and State Treasurer and minerals located under navigable rivers and lakes (N.D.C.C. ch. 15-08.1 and § 61-33-07). The SIIF also receives a portion of the oil and gas production and extraction taxes (N.D.C.C. § 57-51.1-07.5). This fund may be appropriated by the legislature for one-time expenditures relating to improving state infrastructure or for initiatives to improve the efficiency and effectiveness of state government (N.D.C.C. § 15-08.1-08).

Coal Development Trust Fund

The Coal Development Trust Fund is established by N.D.C.C. ch. 57-62, pursuant to Article X, Section 21 of the North Dakota Constitution. The Fund receives 30 percent of the coal severance tax. This fund is held in trust and is administered by the Board for loans to coal impacted counties, cities, and school districts as provided by N.D.C.C. § 57-62-03 and for loans to school districts pursuant to N.D.C.C. ch. 15.1-36. Any balance not loaned is invested according to the policies of the Board. The income earned by this fund is transferred to the State General Fund each year.

Theodore Roosevelt Presidential Library and Museum Endowment Fund

The Theodore Roosevelt Presidential Library and Museum Endowment Fund (TR Fund) was created to generate income to be used for the operation and maintenance of the library and museum, after the Theodore Roosevelt Presidential Library Foundation raised or secured binding pledges of \$100 million. The TR Fund is managed through an agreement between the Office of the North Dakota Governor and the Board. In May of 2019 the first deposit, totaling \$15 million, was made to the Board for the Theodore Roosevelt Presidential Library and Museum Endowment.

INVESTMENTS

In early 2013, the investment consultant firm, R.V. Kuhns (now known as RVK), was hired through a competitive hiring process by the Board to submit a written report addressing the following issues:

1. Recommendations for a comprehensive evaluation and rewrite of the Board's investment policies and procedures for the PTFs that would help state and ensure long-term goals and objectives for the PTFs.
2. A recommendation of an asset allocation policy for the PTFs that, while recognizing the Board's risk tolerance and return expectations, balanced the Board's responsibilities under North Dakota law to:
 - a. Support the trust beneficiaries;
 - b. Maintain the permanent strength of the fund; and
 - c. Follow the prudent investor rule.
3. A recommendation as to the most appropriate way to transition the PTFs from the then current asset allocation plan to the recommended asset allocation plan.
4. An analysis of the costs associated with the recommended asset allocation plan, including performance monitoring and measurement services. This analysis would include an evaluation of various implementation scenarios, including:
 - a. An ultra-low-cost investment approach;
 - b. A more traditional plan sponsor/investment /consultant approach; and
 - c. An outsourced Chief Investment Officer (including SIB) approach.
5. An analysis of the management of cash and cash-like funds that are not part of the PTFs responsibilities of the Board, in particular the SIIF.

In January 2014, after reviewing the various options provided by RVK, the Board entered into another agreement with RVK to implement the recommendations that came out of RVK's 2013 investment study and to provide performance monitoring services to the Board.

In July 2015, after reviewing the pros and cons of a potential partnership with the SIB, the Board voted four-to-one to continue to actively manage the permanent trusts' investment program through Department staff with the assistance of a retained investment consultant, while also working with the SIB to minimize costs and fees, and to improve efficiencies.

The Commissioner continues to work closely with SIB when negotiating money manager and service provider fees to ensure that both entities are getting the best possible fees, based on the cumulative assets involved. This has resulted in significant fee savings for both entities in the past 20 years.

As of fiscal year-end 2020, the Board had authority over \$5.75 Billion in investment assets. Transferring investment assets from the Board to SIB will NOT realize cost savings.

INVESTMENT FEES

Investment management fees paid by the Board would not change significantly, if at all, by moving the management of investments to SIB. In fiscal year (FY) 2020 the Board and SIB paid nearly the same rate on total investment management fees and in FY 2019 the Board paid a slightly lower rate on investment

management fees than SIB, according to the audited financial statements for the Board and SIB. These low fees are the result of both the Board and SIB pressing investment managers for the lowest fees possible, and from both boards coordinating to lower fees for managers they share in common. In June 2019, the Board engaged Novarca to review the investment fees of the assets under the Board's authority. The net fee savings Novarca was able to negotiate was \$83,400. This represented a 0.024% savings on the mandate and 0.002% for the PTFs. Novarca was not successful on any other mandates, which indicates the Board's trust fund fees remain industry competitive. This review included reviewing fund manager's who are shared between the Board and SIB to determine lower fees based upon combined deposits.

	Land Board		State Investment Board	
	2020	2019	2020	2019
Net Investment Assets	\$ 5,745,236,476	\$ 6,159,608,191	\$ 16,313,599,487	\$ 14,672,899,104
Investment Manager Fees	\$ 22,481,418 0.39%	\$ 22,663,157 0.37%	\$ 63,328,358 0.39%	\$ 60,391,710 0.41%
Investment Consultant Fees	\$ 172,988 0.003%	\$ 163,058 0.003%	\$ 596,272 0.004%	\$ 612,086 0.004%
Custodian Fees	\$ 118,792 0.002%	\$ 159,687 0.003%	\$ 1,433,874 0.009%	\$ 1,312,184 0.009%

During FY 2020 the PTFs paid \$22,335,336 in investment fees (including investment manager fees, custodial expenses, general consultant fees, and specialty consultant fees); this is a decrease of -1.7% from the \$22,711,405 in fees paid in FY 2019. The PTFs' average asset balance increased by 4.76% during the same period (including contributions and withdrawals), from \$4.63 billion in FY 2019 to \$4.85 billion in FY 2020. The primary driver of the decrease in fees is a result of lower incentive fees paid during the year.

Permanent Trust Fund

TABLE 1	2016	2017	2018	2019	2020
Investment Manager Fees	\$ 16,026,712	\$ 20,679,283	\$ 24,750,026	\$ 22,388,660	\$ 22,043,555
Custodial Fees	190,257	169,356	183,019	159,687	118,792
General Consultant Fees	147,917	145,000	148,625	163,058	157,633
Specialty Consultant Fees					15,355
Total Fees	\$ 16,364,886	\$ 20,993,639	\$ 25,081,670	\$ 22,711,405	\$ 22,335,336
Total Fee (bps)	46.3	53.7	57.4	49.0	46.1
Incentive Fees	\$ 1,375,889	\$ 3,513,737	\$ 5,819,245	\$ 1,810,455	\$ 898,695
Incentive Fees (bps)	3.9	9.0	13.3	3.9	1.4
Total Fees Ex Incentives	\$ 14,988,997	\$ 17,479,902	\$ 19,262,425	\$ 20,900,950	\$ 21,436,641
Total Fee Ex Incentives (bps)	42.4	44.7	44.1	45.1	44.6
Avg. Assets (\$ billion)	\$3.53	\$3.91	\$4.37	\$4.63	\$4.85

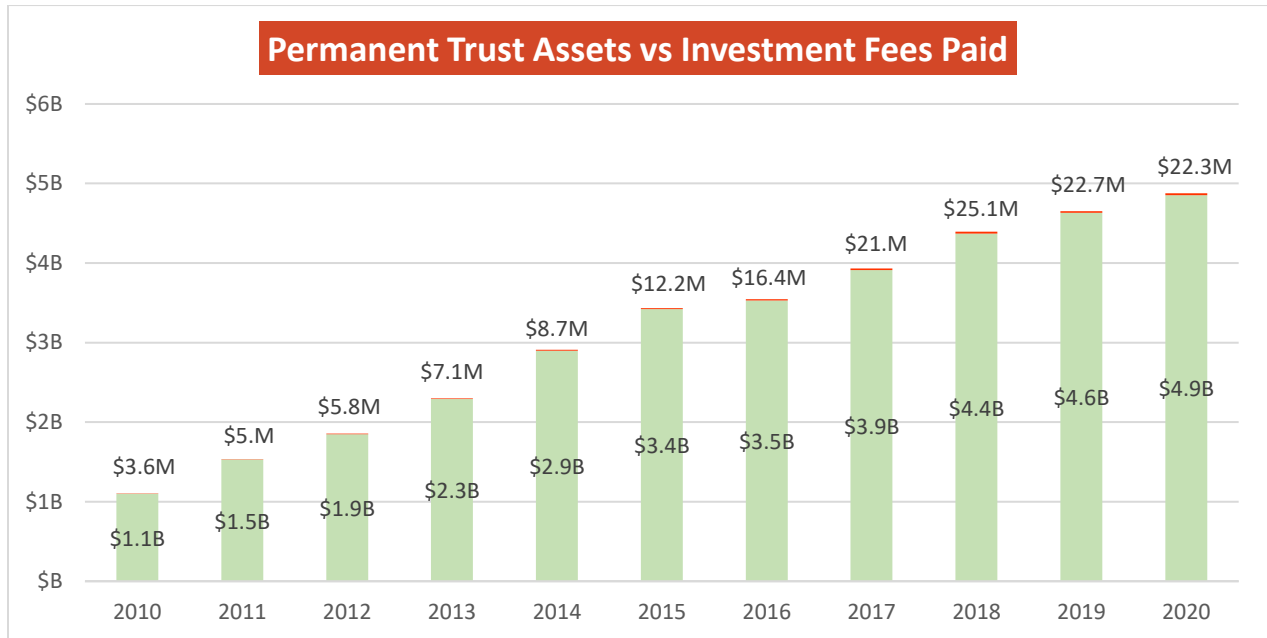
Table 1 summarizes the amount and effective rate of investment related expenses paid to manage the PTF's for each of the past five fiscal years. The increase in fees over the past five years is a result of several factors. During FY 2015 and FY 2016, the Board implemented a new strategic asset allocation for the PTFs. Three of these strategic asset allocation strategies (real estate, absolute return, and diversified inflation) required active investment which resulted in higher overall fees than the historically more passive, low cost strategy. Approximately 4 basis points from FY 2015 to FY 2016 were related to incentive fees on real estate.

From FY 2016 to FY 2018, expenses increased by \$8.7 million, of which \$4.4 million was a result of an increase in incentive fees paid to real estate portfolio managers. The remaining balance of \$4.3 million is due to trust growth, with a small portion of the increase due to minor changes made to the PTFs' asset allocation and investment structure over the past two years.

Table 1 also breaks out incentive fees paid for the past three years from the base cost (excluding incentive fees) of managing the investment program; it demonstrates that the base cost of managing the program has remained stable since the PTFs' current asset allocation was fully implemented in 2016. The minor increase in base costs during FY 2017 was a due to the real estate portfolio not being fully funded until June 30, 2016. The slight decrease in base costs during FY 2018 was driven by the addition of a low-cost mid-cap index fund to the PTFs' equity mix and other minor structural changes to the portfolio. Fees charged for some of the commingled funds in which the PTFs invest have also declined slightly.

Base management fees (excluding incentive fees) over the past five fiscal years have been consistently between 42 and 45 basis points. Total management fees, including incentive fees, have oscillated between 46 and 58 basis points owing to significant swings in incentive fees paid primarily to real estate managers. In FY 2017 and FY 2018, incentive fees accounted for 17% and 23% of total fees, respectively. Meanwhile, in FY 2016, FY 2019 and FY 2020 incentive fees accounted for 8%, 8% and 4% of total fees, respectively. Both FY 2019 and FY 2020 proved challenging for commercial real estate, which explained the lower incentive fees paid. From FY 2019 to FY 2020 total fees decreased by just -\$376,069 or -1.7%, due mostly to lower incentive fees paid.

All management fees that are negotiated as a "state" fee associated with investment funds will not decrease.



CUSTODIAN FEES

The custodian fees charged by Northern Trust would not change. Northern Trust currently charges the Board and SIB at the same fee rate per account and per transaction with consideration given to all of North Dakota’s investment assets. Thus, moving investment accounts from the Board to SIB would result in zero savings on custodian fees.

CONSULTANT FEES

Similarly, investment consultant fees would not decrease. The Board’s investment consultant fees have been slightly lower, but not significantly different, as a percent of assets compared to SIB’s investment consultant fees in both fiscal years 2019 and 2020, per the audited financial statements for the Board and SIB. The Board would need to retain the consultant to aid in fund management decisions that constitutionally cannot be conveyed to SIB.

SIB ADMINISTRATIVE EXPENSES

In accordance with N.D.C.C. § 21-10-06.2, SIB charges its client accounts most of its administrative costs for managing the accounts. Based on SIB’s FY 2020 financial statements that would come to around 0.01% of the Board’s assets or an amount in excess of \$570,000. These monies would be paid by all of the funds the Board controls. The majority would come from the CSTF at over \$460,000 per year and reduce distributions by about 0.25%. The remainder would have a larger impact on the distributions of the smaller permanent trust funds, reducing distributions between 3% and 5% (please see chart below). And, as I will outline later this administrative expense will not have offsetting savings elsewhere.

School/University	2020 Assets	2020 Distribution	SIB Fee (est.)	Reduced Distribution	Negative Fee Impact
Common Schools	4,628,066,674	183,378,000	462,807	182,915,193	-0.3%
NDSU	73,118,794	252,791	7,312	245,479	-2.9%
School for Blind	13,058,151	47,725	1,306	46,419	-2.7%
School for Deaf	21,354,976	70,441	2,135	68,306	-3.0%
State Hospital	14,429,595	42,384	1,443	40,941	-3.4%
Ellendale	23,358,818	87,104	2,336	84,768	-2.7%
Valley City State	13,011,016	47,704	1,301	46,403	-2.7%
Mayville State	8,395,295	35,673	1,000	34,673	-2.8%
Industrial School	25,087,679	82,355	2,509	79,846	-3.0%
School of Science	18,832,991	74,276	1,883	72,393	-2.5%
School of Mines	22,470,496	78,895	2,247	76,648	-2.8%
Veterans Home	5,324,594	20,780	1,000	19,780	-4.8%
UND	35,394,338	132,701	3,539	129,162	-2.7%

INVESTMENT PERFORMANCE COMPARISON

The performance difference between the Board and SIB has not been significantly different over the years. As of FY 2020, the Board investments had a twenty year average annual performance of 5.02% and SIB's twenty year average annual performance was 5.70% for the Public Employees Retirement System and 5.28% for the Teachers' Fund for Retirement. More recently the PTF's performance has slightly lagged behind PERS, TFFR and Legacy Fund, mainly due to differences in asset allocation. Through its history the Board has had a greater reliance on fixed income than SIB. As recently as 2010 some fifty percent of the permanent trust assets were in fixed income. Since hiring the investment consultant RVK, the Board's investments have evolved into a more modern strategic asset allocation. In addition, the Department has recently hired two experienced investment professionals who have helped the Board make further changes to the PTF's asset allocation, and this transition continues today. Over time these changes are expected to improve investment performance.

It must also be noted that the PTFs asset allocation will and should differ from that of PERS, TFFR and Legacy Fund. Each of these funds have different strategic goals and cash flows, as such their asset allocations are designed to meet their unique structures, which means their performances will always vary from one another.

Permanent Trusts	Market Value as of 11/30/20	Asset Allocation	Return FYTD	Legacy Fund	Market Value as of 11/30/20	Asset Allocation	Return FYTD
Total Fund	5,280,369,340	100.00%	9.46%	Total Fund	7,894,446,185	100.00%	11.06%
US Equity	1,060,957,643	20.09%	20.42%	US Equity	2,437,604,947	30.88%	18.79%
International Equity	1,042,199,555	19.74%	17.58%	International Equity	1,670,883,793	21.17%	20.05%
Fixed Income	1,125,819,500	21.32%	3.32%	Fixed Income	2,590,019,588	32.81%	3.17%
Opportunistic	21,833,305	0.41%	11.82%	Opportunistic	725,515	0.01%	N/A
Absolute Return	784,016,888	14.85%	7.83%				
MLPs	106,589,735	2.02%	17.18%	TIPS & Infrastructure	746,765,497	9.46%	4.58%
Real Estate	731,764,330	13.86%	0.52%	Real Estate	344,181,873	4.36%	-0.16%
Cash - Transition	407,188,384	7.71%	0.16%	Cash	104,264,972	1.32%	0.03%

PEER COMPARISON

Alaska, Arizona, Idaho, New Mexico, Oklahoma, Texas, Utah and Wyoming all have similar PTFs, and all separate the investment management of their permanent funds from the management of other funds, such as their state's employee and teacher retirement funds. This is prudent given the liability each state has towards all funds under their authority and responsibility. One board managing all funds under similar asset allocations could expose the state to significant liability if the funds experience an extreme investment loss in a short period of time. Having funds managed by different boards varies the asset allocations of the funds and reduces the likelihood of all the funds experiencing significant loss at the same time.

ADDITIONAL CONSIDERATION

The Department's Investment Division is already run in a very conservative manner with only two full time employees (FTEs) dedicated to the daily management of the Board's investment assets. This is an exceptionally small investment staff by industry standards. Even if investment assets were moved to SIB, the Department would still need at least one of the two dedicated FTEs. The retained FTE would be needed to coordinate between the Department's accounting division and the Retirement and Investment Office (RIO) for cash management and reporting purposes, in addition to coordinating and administering the Board's various loan programs with the Bank of North Dakota. In the related fiscal note, under section 2.B, RIO would require at least two additional FTEs, either the transfer of the Department's FTEs or hiring two new FTEs to manage the additional investment assets.

Further, transferring investment assets from the Board to SIB would cause needless disruption in cash management. For example, the close coordination between the Department's Investment Division and the Department's Minerals Division made continuing allocations to the public school districts smoother after revenues fell precipitously during the 2020 oil market crash and the related mass shut-in of Board leased oil wells. That level of timely and smooth coordination would be more difficult if investment assets were moved to another agency.

Finally, transferring investment assets from the Board to SIB would cause needless duplication of effort by the two boards to ensure they are both in compliance with their fiduciary duties. The Board has a constitutionally mandated fiduciary duty to the perpetual trust funds and a statutorily mandated fiduciary duty, under N.D.C.C. § 15-03-04, to all funds under its control. Likewise, SIB has a statutorily mandated fiduciary duty, under N.D.C.C. § 21-10-07, to all funds under its control. Therefore, each board would have to approve the investment programs of any Board investment assets transferred to SIB. That would include both boards approving any changes to the investment policy statements, changes in asset allocation policies, hiring or firing investment managers, custodians and consultants, and receiving and approving all related investment reports. In addition, manager presentations to the boards would be duplicated, as would RIO staff presentations and reports regarding all Board investment assets. Also, the Board's annual audit of the Department's books and records would also require an audit of SIB and RIO investments of the Board's assets.

This duplication of effort at RIO, to comply with each boards' fiduciary duty, may well lead to additional staff requirements at RIO completely negating any staffing reductions at the Department. Indeed, in the related fiscal note, under section 2.B, RIO assumes the possibility of requiring a third additional FTE, in addition to the two mentioned above, to help manage the additional investment assets and reporting requirements.

In summary, the Board will not realize any savings by moving the investment assets to SIB. In fact, there is the strong potential for increased costs as a result of lost efficiencies for the Department. For these reasons the Board opposes House Bill 1202.

I look forward to working with the committee on this issue and would be happy to answer any questions.

NORTH DAKOTA
DEPARTMENT OF
TRUST LANDS



JODI SMITH
COMMISSIONER



Chairman
Governor Doug
Burgum



Vice Chairman
Secretary of
State Al Jaeger



Attorney
General Wayne
Stenejem



State Treasurer
Thomas Beadle



Superintendent
of Public
Instruction
Kirsten Baesler



BOARD OF UNIVERSITY & SCHOOL LANDS

The management of School Trust Lands in North Dakota is entrusted to the ND Department of Trust Lands, under the direction of the Board of University of School Lands.

Constitution of North Dakota
Article IX



MISSION & VISION

Mission

The mission of the Board of University and School Lands is to prudently and professionally manage assets of the permanent trusts in order to preserve the purchasing power of the funds, maintain stable distributions to fund beneficiaries, and manage all other assets and programs entrusted to the Board in accordance with the North Dakota Constitution and applicable state law.

Vision

The Department of Trust Lands is known nationally for superior management of its assets and programs.



DEPARTMENT SNAPSHOT

- 706,000 surface acres
- 5,000 active surface leases
- 2.6M mineral acres
- 8,200 oil and gas leases and interest in over 45% of the 15,979 producing wells in North Dakota
- \$248.4M oil & gas royalties & lease bonus in FY 2020
- 500,000 transactions processed annually
- \$574M in grant funding since FY 2010
- 5365 (\$27,239,906) Unclaimed Property
- 8,807 (\$7,355,431) claims paid thru Unclaimed Property
- 5 loan programs – 73 loans - \$60M

INVESTMENTS



MIKE SHACKELFORD
INVESTMENTS
DIVISION
DIRECTOR

INVESTMENT RESPONSIBILITIES

The Investment Division prudently invests the financial assets entrusted to the Board of University and School Lands :

Permanent Trust Funds

- Common Schools Trust Fund
- 12 Other Permanent Trust Funds

Indian Cultural Education Trust

Strategic Investment and Improvements Fund

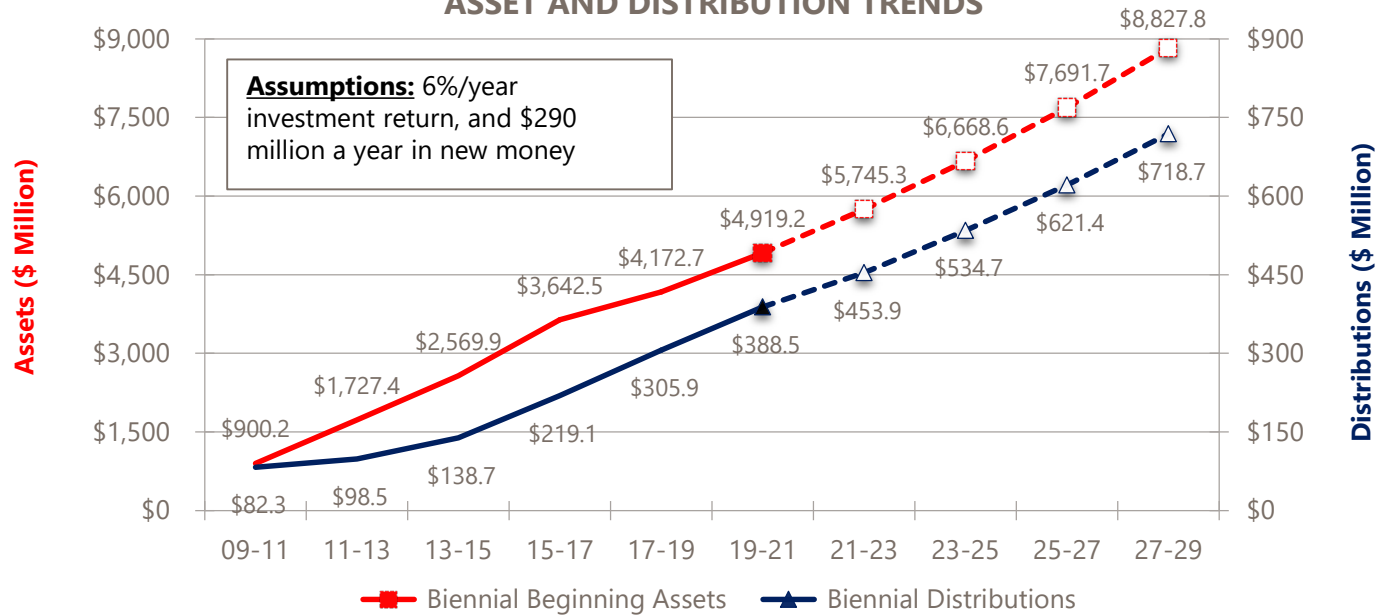
Coal Development Trust Fund

Capitol Building Fund

Theodore Roosevelt Library Endowment



13 PERMANENT TRUST FUNDS ASSET AND DISTRIBUTION TRENDS



The chart shows growth in the assets held by the Permanent Trust Funds and distributions from the funds since the 2009-11 biennium as well as projected future balances and distributions.

Biennial distributions have increased from approximately \$82.3 million during the 2009-11 biennium to \$388.5 million during the 2019-21 biennium.

Distributions are projected to increase an additional \$300 million per biennium by the 2027-29 biennium.

TRUST FUND DISTRIBUTIONS

COMMON SCHOOLS TRUST FUND DISTRIBUTIONS

School Year	Amount Distributed	CS % of Cost of Education	CS \$/Pupil Distribution	Biennial Figures	
FY 2010	\$ 38,589,000	4.1%	\$ 404.04	\$ 400.96	
FY 2011	\$ 38,589,000	3.9%	\$ 397.88	4.0%	
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FY 2015	\$ 65,163,000	5.9%	\$ 635.40	6.0%	
FY 2016	\$ 103,067,000	8.8%	\$ 979.74	\$ 971.69	
FY 2017	\$ 103,067,000	8.4%	\$ 963.64	8.6%	
FY 2018	\$ 144,132,000	11.6%	\$ 1,334.22	\$ 1,320.90	
FY 2019	\$ 144,132,000	11.4%	\$ 1,307.59	11.5%	
FY 2020	\$ 183,378,000	14.0%	\$ 1,634.88	\$ 1,620.19	
FY 2021	\$ 183,378,000	13.4%	\$ 1,605.49	13.7%	Actual
FY 2022	\$ 210,510,000	15.4%	\$ 1,847.97	\$ 1,829.31	Estimate/Projection
FY 2023	\$ 210,510,000	15.2%	\$ 1,810.66	15.3%	Estimate/Projection

Distributions by CSTF will increase by \$54.2M which is a 14.8% increase over last year.

With the inclusion of the 2021-23 biennium the CSTF will have supplied over **\$1.4B to K-12 education since 2013.**

INVESTMENT FEES

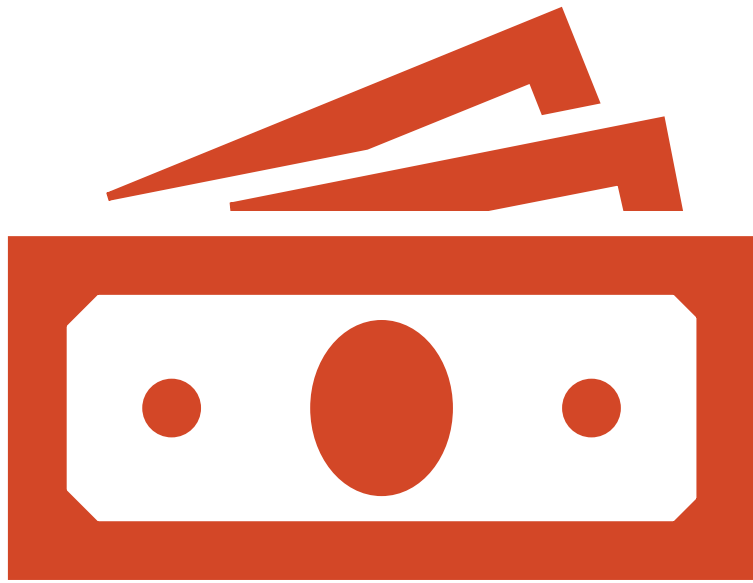
Insignificant difference between fees paid by Department and SIB

	Land Board		State Investment Board	
	2020	2019	2020	2019
Net Investment Assets	\$ 5,745,236,476	\$ 6,159,608,191	\$ 16,313,599,487	\$ 14,672,899,104
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Custodian Fees	\$ 118,792 0.002%	\$ 159,687 0.003%	\$ 1,433,874 0.009%	\$ 1,312,184 0.009%

Permanent Trust Assets vs Investment Fees Paid



Permanent Trusts	Market Value as of 11/30/20	Asset Allocation	Return FYTD	Legacy Fund	Market Value as of 11/30/20	Asset Allocation	Return FYTD
Total Fund	5,280,369,340	100.00%	9.46%	Total Fund	7,894,446,185	100.00%	11.06%
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Opportunistic	21,833,305	0.41%	11.82%	Opportunistic	725,515	0.01%	N/A
Absolute Return	784,016,888	14.85%	7.83%				
MLPs	106,589,735	2.02%	17.18%	TIPS & Infrastructure	746,765,497	9.46%	4.58%
Real Estate	731,764,330	13.86%	0.52%	Real Estate	344,181,873	4.36%	-0.16%
Cash - Transition	407,188,384	7.71%	0.16%	Cash	104,264,972	1.32%	0.03%



FISCAL IMPACT

- Increased Expenses related to increased FTE's
- Increased Expenses related to SIB Administrative Fees
- No Savings Consultant Fees
- No savings from Custodian Fees
- Loss in cash management efficiencies for trusts
- Delayed reporting and approvals due to oversight by two Boards which could result in loss of revenue

IMPACT TO TRUSTS

School/University	2020 Assets	2020 Distribution	SIB Fee (est.)	Reduced Distribution	Negative Fee Impact
Common Schools	4,628,066,674	183,378,000	462,807	182,915,193	-0.3%
NDSU	73,118,794	252,791	7,312	245,479	-2.9%
School for Blind	13,058,151	47,725	1,306	46,419	-2.7%
School for Deaf	21,354,976	70,441	2,135	68,306	-3.0%
State Hospital	14,429,595	42,384	1,443	40,941	-3.4%
Ellendale	23,358,818	87,104	2,336	84,768	-2.7%
Valley City State	13,011,016	47,704	1,301	46,403	-2.7%
Mayville State	8,395,295	35,673	1,000	34,673	-2.8%
Industrial School	25,087,679	82,355	2,509	79,846	-3.0%
School of Science	18,832,991	74,276	1,883	72,393	-2.5%
School of Mines	22,470,496	78,895	2,247	76,648	-2.8%
Veterans Home	5,324,594	20,780	1,000	19,780	-4.8%
UND	35,394,338	132,701	3,539	129,162	-2.7%

SUMMARY

- Increased expenses (\$500,000 per year)
- Lost revenue
- Lost efficiencies
- In direct contravention to the language and intent of the Constitution (Article IX)

SIB Mission Statement and Fast Facts

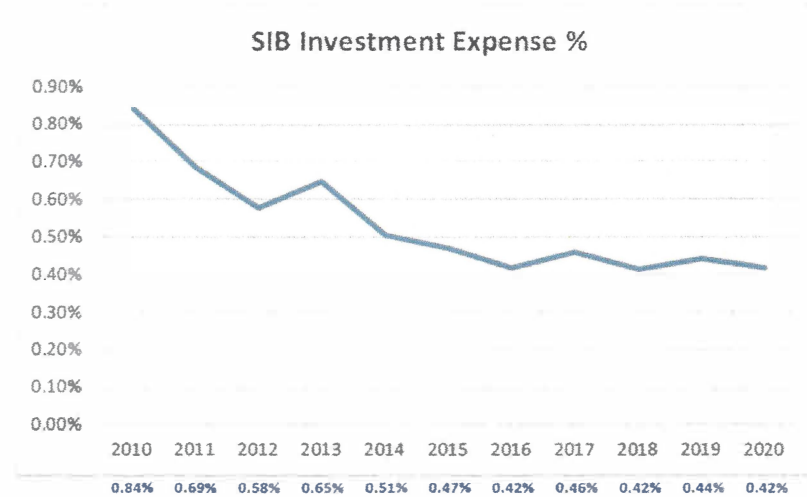
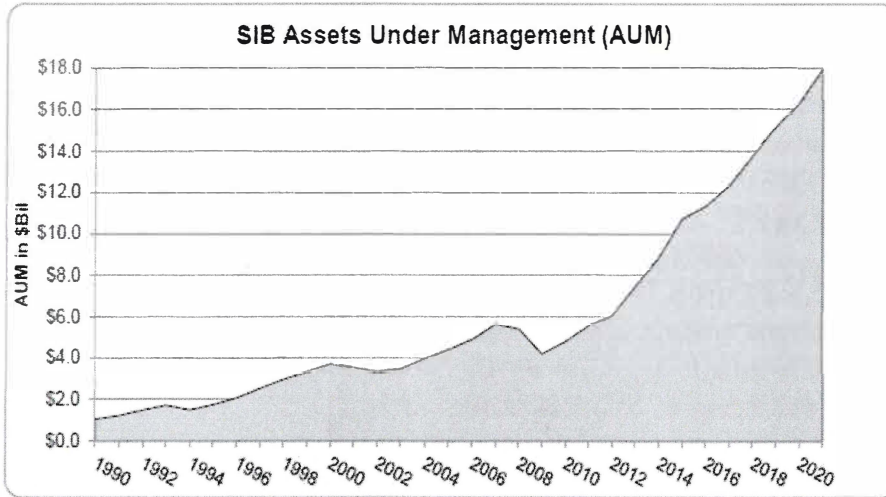
As of November 30, 2020

Mission Statement: The Retirement and Investment Office (RIO) serves the State Investment Board (SIB) and exists in order that:

- 1) SIB clients receive investment returns, consistent with their written investment policies and market variables, in a cost effective investment manner and under the Prudent Investor Rule (as defined in NDCC 21-10-07 "Legal Investments").
- 2) Potential SIB clients have access to information regarding the services provided by the SIB.
- 3) SIB clients receive satisfactory services from our Board & RIO staff including TFFR, PERS, WSI and Legacy & Budget Stabilization Funds.

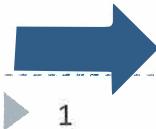
Top Ten SIB Fast Facts:

- SIB client assets under management have more than tripled from \$5 billion in 2010 to \$18 billion in 2020, while rising over 34% since Jan. 1, 2019.
- SIB investment fees have significantly declined from 0.84% in 2010 to less than 0.45% in 2020.
- The SIB's keen focus on fees is saving our clients over \$20 million per year in lower costs which increases client net investment income.
- The SIB's prudent use of active investment management has generated over \$300 million of incremental income for our clients in the last 5-years.
- SIB client investment performance compares favorably with our peers including U.S. public pension plans and larger sovereign wealth funds.
- The SIB pension investment pool, which includes TFFR and PERS, returns are ranked in the top 25% of U.S. public funds in the last 10-years.
- North Dakota Legacy Fund returns are comparable to other Sovereign Wealth Funds since 2015 and favorable in more recent periods (see below).
- Actual net investment returns for 99% of our SIB clients have exceeded approved performance benchmarks for the 5-years ended Sep. 30, 2020.
- The SIB regularly accepts new investment clients such as the Office of the Attorney General and Veterans' Cemetery Trust Fund in recent years.
- SIB client satisfaction scores range from 3.4 to 3.7 in recent years (on 4.0 scale with 4 = Excellent, 3 = Above Average, 2 = Average and 1 = Poor).



Sovereign Wealth Fund Returns		Fund Size	Fiscal Year Ended June 30, 2020			Date of	Fiscal YTD
Fund Name / Fund Size at Nov. 30, 2020	(billions)	1-year	5-years	Inception	Inception	Nov. 30, 2020	
Alaska Permanent Fund (Largest U.S. SWF) Source: https://apfc.org/report-archive/	\$ 71.9	2.01%	6.44%	8.60%	7/1/1980	10.78%	
North Dakota Legacy Fund Source: https://www.rio.nd.gov/legacy-fund	\$ 7.9	4.23%	5.91%	4.76%	9/7/2011	11.06%	
Norway Government Pension Fund (#1 Global) Source: https://www.nbim.no/en/the-fund/returns/	\$ 1,078.0	3.17%	5.41%	5.79%	1/1/1998	n/a	

Note: The Legacy Fund was invested in 100% short-term fixed income prior to August 1, 2013. Since inception returns were 5.19% as of 9/30/2020.



Overview of Prudent Investor Rule

NDCC 21-10-07 Legal Investments - Prudent Investor Rule:

The **state investment board** shall apply the **prudent investor rule** in investing for funds under its supervision. The "**prudent investor rule**" means that in making investments **the fiduciaries** shall exercise the **judgment and care**, under the **circumstances then prevailing**, that an institutional investor of ordinary **prudence, discretion, and intelligence** exercises in the management of large investments entrusted to it, not in regard to speculation but in regard to the permanent disposition of funds, **considering probable safety of capital as well as probable income**. The retirement funds belonging to the teachers' fund for retirement and the public employees retirement system must be invested exclusively for the benefit of their members and in accordance with the respective funds' investment goals and objectives.

The SIB does not make individual investments in securities as all client portfolios are externally managed by approved investment firms using SIB client board approved investment policies and asset allocations.

Economically targeted investing is prohibited unless the investment meets the "exclusive benefit rule" and the following four conditions are satisfied:

- 1) The cost does not exceed the fair market value at time of investment;
- 2) **The investment provides the fund with an equivalent or superior rate of return for a similar investment with a similar time horizon and expected risk;**
- 3) Sufficient liquidity is maintained in the fund to permit distributions in accordance with plan terms; and
- 4) The safeguards or diversity that a **prudent investor would adhere to are present.**

RIO's website was recently updated to improve overall transparency and reporting access for our users and clients noting the Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for its CAFR for the fiscal year ended June 30, 2019 (for the 22nd consecutive year). →



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

North Dakota Retirement and Investment Office

For its Comprehensive Annual Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill

Executive Director/CEO

SIB Client Net Investment Returns Generally Exceed Policy Benchmarks for the 1, 3, 5 and (9 or) 10 years ended Sep. 30, 2020

The prudent use of active investment management by the SIB has generated \$300 million of incremental income for our clients in the last 5-years.

This is based on SIB client assets averaging \$12 billion per annum the last 5-years and Excess Return of 0.50% per annum the last 5 years after deducting all fees and expenses.

Ex. \$12 billion x 0.50% of Excess Return = \$60 million of Excess Return per year x 5 years = \$300 million

Legacy Fund Returns:
Legacy was 100% invested in short-term fixed income from 9/7/2011 to 8/1/2013, then transitioned to 50% Equity, 35% Bonds, 15% Real Assets from 8/1/2013 to 1/31/2015.

SIB Five Largest Clients (AUM as of 9/30/2020)	Qtr. Ended 9/30/2020	1 Yr Ended 9/30/2020	3 Yrs Ended 9/30/2020	5 Yrs Ended 9/30/2020	10 Yrs Ended 9/30/2020
Legacy Fund \$7.4 billion					<i>9 Yrs. Ended</i>
Total Fund Return - Net	4.93%	8.27%	6.02%	7.91%	5.19%
Policy Benchmark Return	3.95%	7.45%	5.94%	7.26%	4.48%
Excess Return	0.98%	0.82%	0.08%	0.65%	0.71%
PERS \$3.4 billion					
Total Fund Return - Net	4.97%	8.15%	6.39%	8.35%	8.05%
Policy Benchmark Return	4.35%	7.05%	6.25%	7.83%	7.52%
Excess Return	0.62%	1.10%	0.14%	0.52%	0.53%
TFFR \$2.7 billion					
Total Fund Return - Net	4.89%	8.08%	6.38%	8.29%	8.07%
Policy Benchmark Return	4.41%	7.06%	6.24%	7.79%	7.42%
Excess Return	0.48%	1.02%	0.14%	0.50%	0.65%
WSI \$2.2 billion					
Total Fund Return - Net	3.10%	7.46%	6.29%	7.07%	7.00%
Policy Benchmark Return	2.25%	7.30%	5.88%	5.99%	5.60%
Excess Return	0.85%	0.16%	0.41%	1.08%	1.40%
BSF \$738 million					
Total Fund Return - Net	1.63%	3.06%	2.80%	2.22%	2.13%
Policy Benchmark Return	0.23%	3.70%	2.83%	2.06%	1.27%
Excess Return	1.40%	-0.64%	-0.03%	0.16%	0.86%

2021 HOUSE STANDING COMMITTEE MINUTES

Government and Veterans Affairs Committee Pioneer Room, State Capitol

HB 1202
1/28/2021

Relating to funds managed by the state investment board and the investments of the board of university and school lands

Chairman Kasper: opened the hearing at 9:37 AM.

Representatives	Roll Call
Representative Jim Kasper	P
Representative Ben Koppelman	P
Representative Pamela Anderson	P
Representative Jeff A. Hoverson	P
Representative Karen Karls	P
Representative Scott Louser	P
Representative Jeffery J. Magrum	P
Representative Mitch Ostlie	P
Representative Karen M. Rohr	P
Representative Austen Schauer	P
Representative Mary Schneider	P
Representative Vicky Steiner	P
Representative Greg Stemen	P
Representative Steve Vetter	P

Discussion Topics:

- Funds control
- Transition of Power

Rep. B. Koppelman moved a Do Not Pass. Seconded by **Rep. Ostlie**.

Representatives	Vote
Representative Jim Kasper	Y
Representative Ben Koppelman	Y
Representative Pamela Anderson	N
Representative Jeff A. Hoverson	Y
Representative Karen Karls	Y
Representative Scott Louser	Y
Representative Jeffery J. Magrum	A
Representative Mitch Ostlie	Y
Representative Karen M. Rohr	Y
Representative Austen Schauer	Y
Representative Mary Schneider	Y
Representative Vicky Steiner	N
Representative Greg Stemen	Y
Representative Steve Vetter	Y

Motion carried for Do Not Pass. 11 -2-1.

House Government and Veterans Affairs Committee
HB 1202
01/28/2021
Page 2

Rep. Louser will carry the bill.

Vice Chairman B. Koppelman adjourned at 12:13 PM.

Carmen Hart, Committee Clerk by Donna Whetham

REPORT OF STANDING COMMITTEE

HB 1202: Government and Veterans Affairs Committee (Rep. Kasper, Chairman)
recommends **DO NOT PASS** (11 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING).
HB 1202 was placed on the Eleventh order on the calendar.

acquired shall be subject to the trust to which the lands exchanged therefor were subject, and the state shall reserve all mineral and water power rights in land so transferred, except coal mineral interests approved for exchange by the board of university and school lands under this section.

When any of said lands have been heretofore or may be hereafter sold on contract, and the purchaser or his heirs or assigns is unable to pay in full for the land purchased within twenty years after the date of purchase and such contract is in default and subject to being declared null and void as by law provided, the board of university and school lands may, after declaring such contract null and void, resell the land described in such contract to such purchaser, his heirs or assigns, for the amount of the unpaid principal, together with interest thereon reckoned to the date of such resale at the rate of not less than three (3%) percent, but in no case shall the resale price be more than the original sale price; such contract of resale shall be upon the terms herein provided, provided this section shall be deemed self-executing insofar as the provisions for resale herein made are concerned.

Section 7. All lands received by the state for any specific educational or charitable institution shall be appraised and sold in the same manner and under the same limitations and subject to all the conditions as to price and sale as provided in this constitution for the appraisal and sale of lands for the benefit of common schools. However, a distinct and separate account shall be kept by the proper officers of each of said funds and the limitations as to the time in which school land may be sold shall apply only to lands granted for the support of common schools.

Section 8. The legislative assembly shall have authority to provide by law for the leasing of lands granted to the state for educational and charitable purposes; but no such law shall authorize the leasing of said lands for a longer period than five years. Said lands shall only be leased for pasturage and meadow purposes and at a public auction after notice as heretofore provided in case of sale; provided, that all of said school lands now under cultivation may be leased, at the discretion and under the control of the board of university and school lands, for other than pasturage and meadow purposes until sold. All rents shall be paid in advance.

Provided, further, that coal lands may also be leased for agricultural cultivation upon such terms and conditions and for such a period, not exceeding five years, as the legislature may provide.

Section 9. No law shall ever be passed by the legislative assembly granting to any person, corporation or association any privileges by reason of the occupation, cultivation or improvement of any public lands by said person, corporation or association subsequent to the survey thereof by the general government. No claim for the occupation, cultivation or improvement of any public lands shall ever be recognized, nor shall such occupation, cultivation or improvement of any public lands ever be used to diminish either directly or indirectly, the purchase price of said lands.

Section 10. The legislative assembly may provide by law for the sale or disposal of all public lands that have been, or may hereafter be granted by the United States to the state for purposes other than set forth in article IX, section 1. The legislative assembly in providing for the appraisal, sale, rental, and disposal of the same shall not be subject to the provisions and limitations of article IX, sections 1 through 11.

Section 11. The legislative assembly shall pass suitable laws for the safekeeping, transfer and disbursement of the state school funds; and shall require all officers charged with the same or the safekeeping thereof to give ample bonds for all moneys and funds received by

them, and if any of said officers shall convert to his own use in any manner or form, or shall loan with or without interest or shall deposit in his own name, or otherwise than in the name of the state of North Dakota, or shall deposit in any banks or with any person or persons, or exchange for other funds or property any portion of the school funds aforesaid or purposely allow any portion of the same to remain in his own hands uninvested, except in the manner prescribed by law, every such act shall constitute an embezzlement of so much of the aforesaid school funds as shall be thus taken or loaned, or deposited, or exchanged, or withheld and shall be a felony; and any failure to pay over, produce or account for, the state school funds or any part of the same entrusted to any such officer, as by law required or demanded, shall be held and be taken to be prima facie evidence of such embezzlement.

Section 12. The following public institutions of the state are permanently located at the places hereinafter named, each to have the lands specifically granted to it by the United States in the Act of Congress approved February 22, 1889, to be disposed of and used in such manner as the legislative assembly may prescribe subject to the limitations provided in the article on school and public lands contained in this constitution.

1. The seat of government at the city of Bismarck in the county of Burleigh.
2. The state university and the school of mines at the city of Grand Forks, in the county of Grand Forks.
3. The North Dakota state university of agriculture and applied science at the city of Fargo, in the county of Cass.
4. A state normal school at the city of Valley City, in the county of Barnes, and the legislative assembly, in apportioning the grant of eighty thousand acres of land for normal schools made in the Act of Congress referred to shall grant to the said normal school at Valley City, as aforementioned, fifty thousand (50,000) acres, and said lands are hereby appropriated to said institution for that purpose.
5. The school for the deaf and dumb of North Dakota at the city of Devils Lake, in the county of Ramsey.
6. A state training school at the city of Mandan, in the county of Morton.
7. A state normal school at the city of Mayville, in the county of Traill, and the legislative assembly in apportioning the grant of lands made by Congress in the Act aforesaid for state normal schools shall assign thirty thousand (30,000) acres to the institution hereby located at Mayville, and said lands are hereby appropriated for said purpose.
8. A state hospital for the insane at the city of Jamestown, in the county of Stutsman. And the legislative assembly shall appropriate twenty thousand acres of the grant of lands made by the Act of Congress aforesaid for other educational and charitable institutions to the benefit and for the endowment of said institution, and there shall be located at or near the city of Grafton, in the county of Walsh, an institution for the feebleminded, on the grounds purchased by the secretary of the interior for a penitentiary building.

Section 13. The following public institutions are located as provided, each to have so much of the remaining grant of one hundred seventy thousand acres of land made by the United States for "other educational and charitable institutions" as is allotted by law:

1. A soldiers' home, when located, or such other charitable institution as the legislative assembly may determine, at the city of Lisbon in the county of Ransom, with a grant of forty thousand acres of land.
2. The school for the blind at the city of Grand Forks in the county of Grand Forks or at such other location as may be determined by the legislative assembly to be in the best interests of the students of such institution and the state of North Dakota.
3. A school of forestry, or such other institution as the legislative assembly may determine, at such place in one of the counties of McHenry, Ward, Bottineau, or

Board of University and School Lands

Comparative Financial Position (Unaudited)

Schedule of Net Assets

Assets by Trust:	<u>March 31, 2022</u>	<u>March 31, 2021</u>
Common Schools	\$5,883,666,903	\$5,267,026,624
North Dakota State University	87,917,828	79,017,991
School for the Blind	15,475,865	14,187,149
School for the Deaf	24,184,317	22,834,488
State Hospital	16,121,622	15,337,118
Ellendale *	28,287,345	25,413,579
Valley City State University	15,386,286	13,983,117
Mayville State University	10,851,808	9,163,286
Youth Correctional Center	31,157,205	27,287,011
State College of Science	22,063,091	20,377,627
School of Mines **	27,049,846	24,475,533
Veterans Home	5,955,286	5,667,751
University of North Dakota	41,943,952	38,289,080
Capitol Building	5,879,862	4,057,371
Strategic Investment and Improvements	689,043,593	629,893,485
Coal Development	71,188,000	71,456,394
Indian Cultural Education Trust	1,416,642	1,358,125
Theodore Roosevelt Presidential Library	55,762,067	53,007,308
Total	<u>\$7,033,351,520</u>	<u>\$6,322,833,037</u>
 Assets by Type:		
Cash	\$397,580,738	\$228,621,486
Receivables	7,776,058	6,630,282
Investments ***	6,540,494,042	5,936,324,340
Office Building (Net of Depreciation)	264,332	336,120
Farm Loans	4,741,374	5,450,201
Energy Construction Loans	-	-
Energy Development Impact Loans	9,196,672	10,036,074
School Construction Loans (Coal)	29,495,505	38,908,935
Due to/from Other Trusts and Agencies	43,802,799	96,525,599
Total	<u>\$7,033,351,520</u>	<u>\$6,322,833,037</u>

*** Ellendale Trust**

The following entities are equal beneficiaries of the Ellendale Trust:

Dickinson State University	School for the Blind
Minot State University	Veterans Home
Dakota College at Bottineau	State Hospital
	State College of Science - Wahpeton

**** School of Mines**

Benefits of the original grant to the School of Mines are distributed to the University of North Dakota.

***** Investments**

Includes available cash available for loans, investments, abandoned stock and claimant liability.