

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2009

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HOUSE BILL 1507*

Short Title: State Treasurer Investments. (Public)

Sponsors: Representative Gibson.

Referred to: Pensions and Retirement, if favorable, Finance.

April 15, 2009

1 A BILL TO BE ENTITLED
2 AN ACT CONCERNING INVESTMENTS OF THE STATE TREASURER.
3 The General Assembly of North Carolina enacts:

4 **SECTION 1.** G.S. 147-69.2 reads as rewritten:

5 **"§ 147-69.2. Investments authorized for special funds held by State Treasurer.**

6 (a) This section applies to funds held by the State Treasurer to the credit of each of the
7 following:

- 8 (1) The Teachers' and State Employees' Retirement System.
- 9 (2) The Consolidated Judicial Retirement System.
- 10 (3) The Teachers' and State Employees' Hospital and Medical Insurance Plan.
- 11 (4) The General Assembly Medical and Hospital Care Plan.
- 12 (5) The Disability Salary Continuation Plan.
- 13 (6) The Firemen's and Rescue Workers' Pension Fund.
- 14 (7) The Local Governmental Employees' Retirement System.
- 15 (8) The Legislative Retirement System.
- 16 (9) The Escheat Fund.
- 17 (10) The Legislative Retirement Fund.
- 18 (11) The State Education Assistance Authority.
- 19 (12) The State Property Fire Insurance Fund.
- 20 (13) The Stock Workers' Compensation Fund.
- 21 (14) The Mutual Workers' Compensation Fund.
- 22 (15) The Public School Insurance Fund.
- 23 (16) The Liability Insurance Trust Fund.
- 24 (16a) The University of North Carolina Hospitals at Chapel Hill funds, except
25 appropriated funds, deposited with the State Treasurer pursuant to
26 G.S. 116-37.2.
- 27 (17) Trust funds of The University of North Carolina and its constituent
28 institutions deposited with the State Treasurer pursuant to G.S. 116-36.1.
- 29 (17a) North Carolina Veterans Home Trust Fund.
- 30 (17b) North Carolina National Guard Pension Fund.
- 31 (17c) Retiree Health Premium Reserve Account.
- 32 (17d) The Election Fund.
- 33 (17e) The North Carolina State Lottery Fund.
- 34 (17f) Funds deposited with the State Treasurer by public hospitals pursuant to
35 G.S. 159-39(g).
- 36 (17g) The Local Government Other Post-Employment Benefits Fund.



- 1 (17h) The Local Government Law Enforcement Special Separation Allowance
2 Fund.
- 3 (17i) The North Carolina Conservation Easement Endowment Fund.
- 4 (17j) The Conservation Grant Fund.
- 5 (18) Any other special fund created by or pursuant to law for purposes other than
6 meeting appropriations made pursuant to the Executive Budget Act.
- 7 (19) The Swain County Settlement Trust Fund.
- 8 (b) It shall be the duty of the State Treasurer to invest the cash of the funds enumerated
9 in subsection (a) of this section in excess of the amount required to meet the current needs and
10 demands on such funds, selecting from among the following:
- 11 (1) Any of the investments authorized by G.S. 147-69.1(c)(1)-(7).
- 12 (2) General obligations of other states of the United States.
- 13 (3) General obligations of cities, counties and special districts in North Carolina.
- 14 (4) Obligations of any company, other organization or legal entity incorporated
15 or otherwise created or located within or outside the United States~~States~~,
16 including obligations that are convertible into equity securities, if the
17 obligations either (i) when acquired, bear one of the four highest ratings of at
18 least one nationally recognized rating service and do not bear a rating below
19 the four highest by any nationally recognized rating service which rates the
20 particular security~~security~~ or (ii) when acquired, bear the fifth highest rating
21 of at least one nationally recognized rating service and do not bear a rating
22 below the fifth highest rating by any nationally recognized rating service
23 which rates the particular security, provided that the obligations are
24 additional securities that are identical to obligations previously acquired
25 pursuant to sub clause (i).
- 26 (5) Repealed by Session Laws 2001-444, s. 2, effective October 1, 2001.
- 27 (6) Asset-backed securities (whether considered debt or equity) ~~provided they~~
28 if
29 the securities either (i) when acquired, bear ratings by nationally recognized
30 rating services as provided in G.S. 147-69.2(b)(4)subdivision (4) of this
31 subsection and that they do not bear a rating below the four highest by any
32 nationally recognized rating service that rates the particular
33 security~~securities~~ or (ii) when acquired, bear the fifth highest rating of at
34 least one nationally recognized rating service and do not bear a rating below
35 the fifth highest rating by any nationally recognized rating service which
36 rates the particular security, provided that the securities are additional
37 securities that are identical to securities previously acquired pursuant to sub
38 clause (i).
- 39 (6a) In addition to the limitations and requirements with respect to the
40 investments of the Retirement Systems set forth in subsection (b) of this
41 section, the State Treasurer shall select investments of the assets of the
42 Retirement Systems such that investments made pursuant to subdivisions (b)
43 (1) through (6) of this section shall at all times equal or exceed twenty
44 percent (20%) of the market value of all invested assets of the Retirement
45 Systems.
- 46 (6b) Investments pursuant to subdivisions (b)(1) through (6) of this section may
47 be made directly by the State Treasurer or through contractual arrangements
48 in which the investment manager has full and complete discretion and
49 authority to invest assets specified in such arrangements in investments
50 authorized by subdivisions (b)(1) through (6) of this section, provided for
51 each indirect investment, the investment manager has assets under
management of at least one hundred million dollars (\$100,000,000).

1 (6c) With respect to Retirement Systems' assets referred to in subdivision (b)(8),
2 they may be invested in obligations and other debt securities, including debt
3 securities convertible into other securities, that do not meet the requirements
4 of any of subdivisions (b)(1) through (6) of this section nor subdivision
5 (b)(7) of this section, provided such investments are made through
6 investment companies registered under the Investment Company Act of
7 1940, individual, common collective trust funds of banks and trust
8 companies, group trusts and limited partnerships, limited liability companies
9 or other limited liability investment vehicles that invest primarily in
10 investments authorized by this subdivision and through contractual
11 arrangements in which the investment manager has full and complete
12 discretion and authority to invest assets specified in such arrangements in
13 investments authorized by this subdivision, provided the investment
14 manager for each investment pursuant to this subdivision has assets under
15 management of at least one hundred million dollars (\$100,000,000) and
16 provided that the investments authorized under this subdivision shall not
17 exceed five percent (5%) of the market value of all invested assets of the
18 Retirement Systems.

19 (7) With respect to Retirement Systems' assets referred to in
20 G.S. 147-69.2(b)(8), subdivision (8) of this subsection, (i) insurance contracts
21 that provide for participation in individual or pooled separate accounts of
22 insurance companies, (ii) group trusts, (iii) individual, common, or collective
23 trust funds of banks and trust companies, (iv) real estate investment trusts,
24 and (v) investment companies registered under the Investment Company Act
25 of 1940, and (vi) limited partnerships, ~~whether described as limited liability~~
26 ~~partnerships—companies, or other limited liability companies; investment~~
27 ~~vehicles; provided the investment manager has assets under management of~~
28 at least one hundred million dollars (\$100,000,000); provided such
29 investment assets are managed primarily for the purpose of investing in or
30 owning real estate or related debt financing located within or outside the
31 United States; and provided that the ~~investment~~ investments authorized by
32 this ~~subsection~~ subdivision shall not exceed ten percent (10%) of the market
33 value of all invested assets of the Retirement Systems.

34 (8) With respect to assets of the Teachers' and State Employees' Retirement
35 System, the Consolidated Judicial Retirement System, the Firemen's and
36 Rescue Workers' Pension Fund, the Local Governmental Employees'
37 Retirement System, the Legislative Retirement System, the North Carolina
38 National Guard Pension Fund (hereinafter referred to collectively as the
39 Retirement Systems), and assets invested pursuant to subdivision (b2) of this
40 section, they may be invested in ~~preferred or common stocks~~ equity securities
41 traded on a public securities exchange or market organized and regulated
42 pursuant to the laws of the jurisdiction of such exchange or market and
43 issued by any company incorporated or otherwise created or located within
44 or outside the United States—States; provided the investments meet the
45 conditions of this subdivision.

46 The investments authorized for the Retirement Systems under this
47 subdivision cannot exceed sixty-five percent (65%) of the market value of
48 all invested assets of the Retirement Systems. ~~Up to five percent (5%) of the~~
49 ~~amount that may be invested under this subdivision may be invested in the~~
50 ~~stocks or shares of a diversified investment company registered under the~~
51 ~~"Investment Company Act of 1940" that has total~~ So long as each

1 investment manager has assets under management of at least fifty million
2 dollars (\$50,000,000); one hundred million dollars (\$100,000,000), the The
3 assets authorized under this subdivision can be invested through (i)
4 investment companies registered under the Investment Company Act of
5 1940; (ii) individual, common, or collective trust funds of banks, banks and
6 trust companies, and group trust funds of investment advisory companies so
7 long as the investment manager has assets under management of at least one
8 hundred million dollars (\$100,000,000); (iii) group trusts, and (iv) contractual
9 arrangements in which investment managers have full and complete
10 discretion and authority to invest assets specified in such contractual
11 arrangements.

12 The assets authorized under this ~~subdivisions~~subdivision (8) of this
13 subsection can also be invested directly, if all of the following conditions are
14 met:

- 15 a. ~~The common stock or preferred stock of such corporation is~~
16 ~~registered on a national securities exchange as provided in the~~
17 ~~Federal Securities Exchange Act or quoted through the National~~
18 ~~Association of Securities Dealers' Automated Quotations (NASDAQ)~~
19 ~~system.~~
20 b. ~~The corporation has paid a cash dividend on its common stock in~~
21 ~~each year of the 5-year period next preceding the date of investment~~
22 ~~and the aggregate net earnings available for dividends on the~~
23 ~~common stock of the corporation for the whole of that period have~~
24 ~~been at least equal to the amount of the dividends paid.~~
25 e. ~~In applying the dividend and earnings test under this section to any~~
26 ~~issuing, assuming, or guaranteeing corporation, if the corporation~~
27 ~~acquired its property or any substantial part thereof within a five-year~~
28 ~~period immediately preceding the date of investment by~~
29 ~~consolidation, merger, or by the purchase of all or a substantial~~
30 ~~portion of the property of any other corporation or corporations, or~~
31 ~~acquired the assets of any unincorporated business enterprise by~~
32 ~~purchase or otherwise, the dividends and net earnings of the several~~
33 ~~predecessor or constituent corporations or enterprises shall be~~
34 ~~consolidated and adjusted so as to ascertain whether or not the~~
35 ~~applicable requirements of this subdivision have been complied with.~~
36 by the State Treasurer in any equity securities represented in the S&P
37 500 Index or that have been publicly announced to be included in the
38 S&P 500 Index. No more than one and one-half percent (1 1/2%) of
39 the market value of the Retirement Systems' assets that may be
40 invested directly under this subdivision can be invested in the stock
41 of a single corporation, and the total number of shares in that single
42 corporation cannot exceed eight percent (8%) of the issued and
43 outstanding stock of that corporation.
44 d. to f. Repealed by Session Laws 2001-444, s. 2, effective October 1, 2001.
45 g. ~~That investments may be made in securities convertible into common~~
46 ~~stocks issued by any such company, if such securities bear one of the~~
47 ~~four highest ratings of at least one nationally recognized rating~~
48 ~~service and do not bear a rating below the four highest by any~~
49 ~~nationally recognized rating service which may then rate the~~
50 ~~particular security.~~

1 (9) With respect to Retirement Systems' assets, as defined in subdivision (b)(8)
2 of this subsection, they may be invested in ~~limited partnership interests in a~~
3 ~~partnership or in interests in a limited liability company~~ interests in limited
4 partnerships, limited liability companies, or other limited liability investment
5 vehicles that are not publicly traded if the primary purpose of the ~~partnership~~
6 ~~or limited liability company~~ limited partnership, limited liability company, or
7 other limited liability investment vehicle is to invest in public or private
8 debt, public or private equity, or corporate buyout transactions, within or
9 outside the United States. The amount invested under this subdivision (b)(9)
10 shall not exceed five percent (5%) of the market value of all invested assets
11 of the Retirement Systems.

12 (9a) With respect to Retirement Systems' assets, as defined in subdivision (b)(8)
13 of this subsection, they may be invested in inflation-linked bonds,
14 timberlands, commodities, and other assets that are acquired for the primary
15 purpose of providing protection against risks associated with inflation,
16 provided such investments are made through investment companies
17 registered under the Investment Company Act of 1940, individual, common
18 or collective trust funds of banks and trust companies, group trusts and
19 limited partnerships, limited liability companies or other limited liability
20 investment vehicles that invest primarily in investments authorized by this
21 subdivision and through contractual arrangements in which the investment
22 manager has full and complete discretion and authority to invest assets
23 specified in such arrangements in investments authorized by this
24 subdivision, provided the investment manager for each investment pursuant
25 to this subdivision has assets under management of at least one hundred
26 million dollars (\$100,000,000) and provided that the investments authorized
27 under this subdivision shall not exceed five percent (5%) of the market value
28 of all invested assets of the Retirement Systems. Notwithstanding anything
29 in this subsection to the contrary, the investments authorized by this
30 subdivision shall not be included in any subdivision other than this
31 subdivision for purposes of the percentage investment limitations therein or
32 otherwise.

33 (10) Recodified as part of subdivision (b)(9) by Session Laws 2000-160, s. 2.

34 (11) With respect to assets of the Escheat Fund, obligations of the North Carolina
35 Global TransPark Authority authorized by G.S. 63A-4(a)(22), not to exceed
36 twenty-five million dollars (\$25,000,000), that have a final maturity not later
37 than October 1, 2009. The obligations shall bear interest at the rate set by the
38 State Treasurer. No commitment to purchase obligations may be made
39 pursuant to this subdivision after September 1, 1993, and no obligations may
40 be purchased after September 1, 1994. In the event of a loss to the Escheat
41 Fund by reason of an investment made pursuant to this subdivision, it is the
42 intention of the General Assembly to hold the Escheat Fund harmless from
43 the loss by appropriating to the Escheat Fund funds equivalent to the loss.

44 If any part of the property owned by the North Carolina Global
45 TransPark Authority now or in the future is divested, proceeds of the
46 divestment shall be used to fulfill any unmet obligations on an investment
47 made pursuant to this subdivision.

48 (12) With respect to assets of the Escheat Fund, in addition to those investments
49 authorized by subdivisions (1) through (6) of this subsection, subsection (b),
50 up to twenty percent (20%) of such assets may be invested in the
51 investments authorized under subdivisions (7) through (9) of this

1 ~~subsection,subsection~~ (b) notwithstanding the percentage limitations
2 imposed on the ~~retirement funds~~Retirement Systems' investments under
3 those subdivisions.

4 (b1) With respect to investments authorized by ~~subsections~~subdivisions (b)(8) and (b)(9)
5 of this section, the State Treasurer shall appoint an Investment Advisory Committee, which
6 shall consist of five members: the State Treasurer, who shall be chairman ex officio; two
7 members selected from among the members of the boards of trustees of the Retirement
8 Systems; and two members selected from the general public. The two public members must
9 have experience in one or more of the following areas: investment management, real estate
10 investment trusts, real estate development, venture capital investment, or absolute return
11 strategies. The State Treasurer shall also appoint a Secretary of the Investment Advisory
12 Committee who need not be a member of the committee. Members of the committee shall
13 receive for their services the same per diem and allowances granted to members of the State
14 boards and commissions generally. The committee shall have advisory powers only and
15 membership shall not be deemed a public office within the meaning of Article VI, Section 9 of
16 the Constitution of North Carolina or G.S. 128-1.1.

17 (b2) The State Treasurer may invest funds deposited pursuant to subdivision (a)(17f) of
18 this section in any of the investments authorized under subdivisions (1) through ~~(6)(6),~~
19 subdivision (6c) and subdivision ~~(8) of subsection (b)(8)(b)~~ of this ~~section-section,~~
20 notwithstanding the percentage limitations imposed on the Retirement Systems' investments
21 therein. The State Treasurer may require a minimum deposit, up to one hundred thousand
22 dollars (\$100,000), and may assess a reasonable ~~fee,fees,~~ not to exceed 15 basis ~~points,points~~
23 per annum, as a condition of participation pursuant to this subsection. Funds deposited pursuant
24 to this subsection by a hospital shall remain the funds of that hospital, and interest or other
25 investment income earned thereon shall be prorated and credited to the contributing hospital on
26 the basis of the amounts thereof contributed, figured according to sound accounting principles.
27 Fees assessed by the State Treasurer may be used to defray the cost of administering
28 investments pursuant to this subdivision.

29 (b3) The State Treasurer may invest funds deposited pursuant to subdivision (a)(16a) of
30 this section in any of the investments authorized under subdivisions (1) through ~~(6)(6),~~
31 subdivision (6c) and ~~subdivision (8) of subsection (b)~~ subdivision (b)(8) of this ~~section-section,~~
32 notwithstanding the percentage limitations imposed on the Retirement Systems' investments
33 therein. The State Treasurer may require a minimum deposit, up to one hundred thousand
34 dollars (\$100,000), and may assess a reasonable ~~fee,fees,~~ not to exceed 15 basis ~~points,points~~
35 per annum, as a condition of participation pursuant to this subsection. Funds deposited pursuant
36 to this subsection by the University of North Carolina Hospitals at Chapel Hill shall remain the
37 funds of the University of North Carolina Hospitals at Chapel Hill, and interest or other
38 investment income earned thereon shall be prorated and credited to the University of North
39 Carolina Hospitals at Chapel Hill on the basis of the amounts thereof contributed, figured
40 according to sound accounting principles. Fees assessed by the State Treasurer may be used to
41 defray the cost of administering investments pursuant to this subdivision.

42 (b4) In addition to the investments authorized under subdivisions(b)(1) through ~~(6)(6)~~ of
43 this section, the State Treasurer may invest funds deposited in the Local Government Other
44 Post-Employment Benefits Fund in any of the investments authorized under ~~subdivision~~
45 subdivisions (b)(6c) and (b)(8) of this section-section, notwithstanding the percentage
46 limitations imposed on the Retirement Systems' investments therein. For investments from that
47 Fund made under ~~subdivision~~subdivisions (b)(6c) and (b)(8) of this section, the State Treasurer
48 may require a minimum deposit of up to one hundred thousand dollars (\$100,000) and may
49 assess a ~~fee,fees~~ of up to 15 basis points per annum as a condition of making the investment.
50 The fee may be used to defray the costs of administering the Fund.

1 (b5) In addition to the investments authorized under subdivisions (b)(1) through ~~(b)(6)~~ of
2 this section, the State Treasurer may invest funds deposited in the Local Government Law
3 Enforcement Special Separation Allowance Fund in any of the investments authorized under
4 ~~subdivision~~ subdivisions (b)(6c) and (b)(8) of this section. notwithstanding the
5 percentage limitations imposed on the Retirement Systems' investments therein. For
6 investments from that Fund made under ~~subdivision~~ subdivisions (b)(6c) and (b)(8) of this
7 section, the State Treasurer may require a minimum deposit of up to one hundred thousand
8 dollars (\$100,000) and may assess ~~a fee~~ fees of up to 15 basis points per annum as a condition
9 of making the investment. The fee may be used to defray the costs of administering the Fund.

10 (c) Repealed by Session Laws 1995, c. 501, s. 2.

11 (d) The State Treasurer may invest funds deposited pursuant to subdivision (a)(17i) of
12 this section in any of the investments authorized under subdivisions (1) through (6) and
13 subdivision (8) of subsection (b) of this section. The State Treasurer may require a minimum
14 deposit, up to one hundred thousand dollars (\$100,000), and may assess a reasonable fee, not to
15 exceed 15 basis points, as a condition of participation pursuant to this subsection. Funds
16 deposited pursuant to this subsection shall remain the funds of the North Carolina Conservation
17 Easement Endowment Fund, and interest or other investment income earned thereon shall be
18 prorated and credited to the North Carolina Conservation Easement Endowment Fund on the
19 basis of the amounts thereof contributed, figured according to sound accounting principles."

20 **SECTION 2.** This act is effective when it becomes law.