

GENERAL ASSEMBLY OF NORTH CAROLINA  
SESSION 2015

HOUSE BILL 1137  
RATIFIED BILL

AN ACT TO ENACT THE TREASURER'S 2016 INVESTMENT AND ADMINISTRATIVE  
CHANGES ACT.

The General Assembly of North Carolina enacts:

**PART I. UPDATE STATUTES FOR TODAY'S MARKET**

**SECTION 1.1.** G.S. 147-66 reads as rewritten:

**"§ 147-66. Office and office hours.**

The Treasurer shall keep his or her office at the City of Raleigh, and shall attend there between the hours of 10 o'clock A.M. and three o'clock P.M., ~~Sundays~~Saturdays, Sundays, ~~periods of travel,~~ and legal holidays excepted. ~~He~~The Treasurer shall be allowed such office room as may be necessary."

**SECTION 1.2.** G.S. 147-69.1(c) reads as rewritten:

"(c) It shall be the duty of the State Treasurer to invest the cash of the funds enumerated in subsection (b) of this section in excess of the amount required to meet the current needs and demands on such funds, selecting from among the following:

- (1) Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.
- (2) Obligations of ~~the Federal Financing Bank,~~ the Federal Farm Credit Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Fannie Mae, the Government National Mortgage Association, ~~the Federal Housing Administration, the Farmers Home Administration, the United States Postal Service, the Export Import Bank,~~ the International Bank for Reconstruction and Development, the International Finance Corporation, the Inter-American Development Bank, the Asian Development Bank, and the African Development Bank, ~~and the Student Loan Marketing Association Bank.~~
- ...
- (7) Prime quality commercial paper ~~bearing~~that, when acquired, bears the highest rating~~rating,~~ such as a minimum of "P1," "A1," or "F1," of at least one nationally recognized rating service designated by the U.S. Securities and Exchange Commission, and does not bearing~~bear~~ a rating below the highest by any nationally recognized rating service which rates the particular obligation.
- (8) Bills of exchange or time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided that when bills or drafts are acquired, the accepting bank or its holding company is either (i) incorporated in the State of North Carolina or (ii) has outstanding publicly held obligations bearing~~that bear~~ the highest rating~~rating,~~ such as a minimum of "P1," "A1," or "F1," of at least one nationally recognized rating service designated by the U.S. Securities and Exchange Commission, and do not bearing~~bear~~ a rating below the highest by any nationally recognized rating service which rates the particular obligations.
- (9) Asset-backed securities (whether considered debt or equity) ~~provided they provided,~~ when acquired, the securities bear the highest rating~~rating,~~ such as "AAA" or "Aaa," of at least one nationally recognized rating service designated by the U.S. Securities and Exchange Commission, and do not



bear a rating below the highest rating by any nationally recognized rating service which rates the particular securities.

- (10) Corporate bonds and notes provided ~~they~~they, when acquired, bear the highest ~~rating~~rating, such as "AAA" or "Aaa," of at least one nationally recognized rating service designated by the U.S. Securities and Exchange Commission, and do not bear a rating below the highest by any nationally recognized rating service which rates the particular obligation."

**SECTION 1.3.** G.S. 147-69.2 reads as rewritten:

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

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

- (1) The Teachers' and State Employees' Retirement ~~System~~System of North Carolina.
- (2) ~~The Consolidated Judicial Retirement System~~System of North Carolina.
- (3) The State Health Plan for Teachers and State Employees.
- ~~(4) The General Assembly Medical and Hospital Care Plan.~~
- (5) The Disability Salary Continuation ~~Plan~~Income Plan of North Carolina.
- (6) The North Carolina Firefighters' and Rescue Squad Workers' Pension Fund.
- (7) The North Carolina Local Governmental Employees' Retirement System.
- (8) The Legislative Retirement ~~System~~System of North Carolina.
- (9) The Escheat Fund.
- (10) The Legislative Retirement Fund.
- (11) The State Education Assistance Authority.
- (12) The State Property Fire Insurance Fund.
- ~~(13) The Stock Workers' Compensation Fund.~~
- ~~(14) The Mutual Workers' Compensation Fund.~~
- (15) The Public School Insurance Fund.
- (16) The Liability Insurance Trust Fund.
- (16a) The University of North Carolina Hospitals at Chapel Hill funds, except appropriated funds, deposited with the State Treasurer pursuant to G.S. 116-37.2.
- (17) Trust funds of The University of North Carolina and its constituent institutions deposited with the State Treasurer pursuant to G.S. 116-36.1.
- (17a) North Carolina Veterans Home Trust Fund.
- (17b) North Carolina National Guard Pension Fund.
- (17c) Retiree Health Benefit Fund.
- (17d) The Election Fund.
- (17e) The North Carolina State Lottery Fund.
- (17f) Funds deposited with the State Treasurer by public hospitals pursuant to G.S. 159-39(g).
- (17g) Funds deposited with the State Treasurer by Local Government Other Post-Employment Benefits Trusts pursuant to G.S. 159-30.1.
- (17h) The Local Government Law Enforcement Special Separation Allowance Fund.
- (17i) The North Carolina Conservation Easement Endowment Fund.
- (17j) The Conservation Grant Fund.
- (18) Any other special fund created by or pursuant to law for purposes other than meeting appropriations made pursuant to the Executive Budget Act.
- (19) The Swain County Settlement Trust Fund.
- (20) Institutional funds of the colleges of the North Carolina Community College System.

(b) It shall be the duty of the State Treasurer to invest the cash of the funds enumerated in subsection (a) of this section in excess of the amount required to meet the current needs and demands on such funds. The State Treasurer may invest the funds as provided in this ~~subsection~~subsection in the manner authorized by subsection (e) of this section. If an investment was authorized by this subsection at the time the investment was made or contractually committed to be made, then that investment shall continue to be authorized by this subsection, and none of the percentage or other limitation on investments set forth in this subsection shall be construed to require the State Treasurer to subsequently dispose of the

investment or fail to honor any contractual commitments as a result of changes in market values, ratings, or other investment qualifications. For purposes of computing market values on which percentage limitations on investments in this subsection are based, all investments shall be valued as of the last date of the most recent fiscal quarter. Notwithstanding anything in this section to the contrary, the State Treasurer shall categorize investment management arrangements according to the primary investment type or primary strategy utilized under the arrangement authorized under subsection (e) of this section. No investment management arrangement may be categorized in more than one of the subdivisions of this section.

- (1) Investments authorized by G.S. 147-69.1(c)(1)-(7).
- (2) General obligations of other states of the United States.
- (3) General obligations of cities, counties and special districts in North Carolina.
- (4) Obligations of any company, other organization or legal entity incorporated or otherwise created or located within or outside the United States, including obligations that are convertible into equity securities, ~~if, when acquired, the obligations bear one of the four highest ratings of at least one nationally recognized rating service when acquired.~~ are within one of the four highest rating categories regardless of gradations, such as ratings beginning with "AAA," "AA," "A," or either "BBB" or "Baa," of at least one nationally recognized rating service designated by the U.S. Securities and Exchange Commission.
- (5) Repealed by Session Laws 2001-444, s. 2, effective October 1, 2001.
- (6) ~~Asset-backed securities (whether considered debt or equity) provided they bear ratings by equity), if, when acquired, the obligations are within one of the four highest ratings categories regardless of gradations, such as ratings beginning with "AAA," "AA," "A," or either "BBB" or "Baa," of at least one nationally recognized rating services as provided in G.S. 147-69.2(b)(4).~~ service designated by the U.S. Securities and Exchange Commission.
- (6a) In addition to the limitations and requirements with respect to the investments of the Retirement Systems set forth in this subsection, the State Treasurer shall select investments of the assets of the Retirement Systems such that investments made pursuant to subdivisions (b)(1) through (6) of this section shall at all times equal or exceed twenty percent (20%) of the market value of all invested assets of the Retirement Systems.
- ~~(6b) Investments pursuant to subdivisions (b)(1) through (6) of this section may be made directly by the State Treasurer, through investment companies registered under the Investment Company Act of 1940, individual, common, or collective trust funds of banks and trust companies, group trusts and limited partnerships, limited liability companies or other limited liability investment vehicles that invest primarily in investments authorized by subdivisions (1) through (6) of this subsection, or through contractual arrangements in which the investment manager has full and complete discretion and authority to invest assets specified in such arrangements in investments authorized by subdivisions (b)(1) through (6) of this section, provided for each indirect investment, the investment manager has assets under management of at least one hundred million dollars (\$100,000,000).~~
- (6c) With respect to Retirement Systems' assets referred to in subdivision (b)(8), they may be invested, within or outside the United States, in obligations, debt securities, and asset-backed securities, whether considered debt or equity, including obligations and securities convertible into other securities, that do not meet the requirements of any of subdivisions (b)(1) through (6) of this section nor subdivision (b)(7) of this section, provided such investments are made through investment companies registered under the Investment Company Act of 1940, individual, common, or collective trust funds of banks and trust companies, group trusts and limited partnerships, limited liability companies or other limited liability investment vehicles that invest primarily in investments authorized by this subdivision and through contractual arrangements in which the investment manager has full and complete discretion and authority to invest assets

~~specified in such arrangements in investments authorized by this subdivision, provided the investment manager for each investment pursuant to this subdivision has assets under management of at least one hundred million dollars (\$100,000,000) and provided that the investments authorized section. The amount invested under this subdivision shall not exceed seven and one-half percent (7.5%) of the market value of all invested assets of the Retirement Systems.~~

- (7) ~~With respect to Retirement Systems' assets referred to in subdivision (8) of this subsection, (i) insurance contracts that provide for participation in individual or pooled separate accounts of insurance companies, (ii) group trusts, (iii) individual, common, or collective trust funds of banks and trust companies, (iv) real estate investment trusts, (v) investment companies registered under the Investment Company Act of 1940, (vi) limited partnerships, limited liability companies, or other limited liability investment vehicles, and (vii) contractual arrangements in which the investment manager has discretion and authority to invest assets specified in such arrangements in investments authorized by this subsection; provided the investment manager has assets under management of at least one hundred million dollars (\$100,000,000); provided such investment assets are subsection may be invested in strategies managed primarily for the purpose of investing in or owning real estate or related debt financing, excluding asset-backed financing, financing and timberlands, located within or outside the United States; and provided that the investments authorized by States. The amount invested under this subdivision shall not exceed ten percent (10%) of the market value of all invested assets of the Retirement Systems.~~

- (8) ~~With respect to assets of the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firefighters' and Rescue Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, the Registers of Deeds' Supplemental Pension Fund, and the Retiree Health Benefit Fund (hereinafter referred to collectively as the Retirement Systems), and assets invested pursuant to subdivision (b2) of this section, they may be invested in a strategy composed primarily of equity securities traded on a public securities exchange or market organized and regulated pursuant to the laws of the jurisdiction of such exchange or market and issued by any company incorporated or otherwise created or located within or outside the United States; provided the investments meet the conditions of this subdivision. The investments authorized for the Retirement Systems under this subdivision cannot exceed sixty five percent (65%) of the market value of all invested assets of the Retirement Systems.~~

~~The assets authorized under this subdivision may be invested directly by the State Treasurer in any equity securities authorized by this subdivision for the primary purpose of approximating the movements of a nationally recognized and published market benchmark index. No more than one and one-half percent (1.5%) of the market value of the Retirement Systems' assets that may be invested directly under this subdivision can be invested in the stock of a single corporation, and the total number of shares in that single corporation cannot exceed eight percent (8%) of the issued and outstanding stock of that corporation.~~

~~So long as each investment manager has assets under management of at least one hundred million dollars (\$100,000,000), the assets authorized under this subdivision may also be invested through any of the following: are subject to the following limitations:~~

- a. ~~Investment companies registered under the Investment Company Act of 1940; individual, common, or collective trust funds of banks and trust companies; and group trusts that invest primarily in investments authorized by this subdivision.~~

- a1. The aggregate amount of such investments cannot exceed sixty-five percent (65%) of the market value of all invested assets of the Retirement Systems.
  - b. ~~Limited partnerships, limited liability companies, or other limited liability investment vehicles that are not publicly traded and invest primarily in investments authorized by this subdivision. Investments under this sub-subdivision~~The aggregate amount of the investment invested through investment companies described in sub-subdivision (e)(4)b. of this section shall not exceed eight and one-half percent (8.5%) of the market value of all invested assets of the Retirement Systems. Systems, except that the market value of group trusts and individual, common, or collective trust funds of banks and trust companies shall not be applied against this limit.
  - e. ~~Contractual arrangements in which investment managers have full and complete discretion and authority to invest assets specified in such contractual arrangements in investments authorized by this subdivision.~~
- (9) With respect to Retirement Systems' assets, as defined in subdivision (b)(8) of this subsection, they may be invested in ~~interests in limited partnerships, limited liability companies, or other limited liability investment vehicles that are not publicly traded if the primary purpose of the limited partnership, limited liability company, or other limited liability investment vehicle is (i) to invest in (i) a strategy composed primarily of private equity, or corporate buyout transactions, within or outside the United States or (ii) an arrangement authorized under subsection (e) of this section with the primary purpose to engage in other strategies not expressly authorized by any other subdivision of this subsection. The amount invested under this subdivision shall not exceed eight and three-quarters percent (8.75%) of the market value of all invested assets of the Retirement Systems.~~
- (9a) With respect to Retirement Systems' assets, as defined in subdivision (b)(8) of this subsection, they may be ~~invested in inflation-linked bonds, timberlands, commodities,~~invested, within or outside the United States, in obligations, debt securities, asset-backed securities, whether considered debt or equity, and other investments that are acquired by the Treasurer for the primary purpose of providing protection against risks associated with inflation, provided such investments are made through investment companies registered under the Investment Company Act of 1940, individual, common or collective trust funds of banks and trust companies, group trusts and limited partnerships, limited liability companies or other limited liability investment vehicles that invest primarily in investments authorized by this subdivision and through contractual arrangements in which the investment manager has full and complete discretion and authority to invest assets specified in such arrangements in investments authorized by this subdivision, provided the investment manager for each investment pursuant to this subdivision has assets under management of at least one hundred million dollars (\$100,000,000) and provided that the investments authorized along with timberland, natural resources, commodities, infrastructure, transportation, agriculture, and other tangible and intangible real assets. The amount invested under this subdivision shall not exceed seven and one-half percent (7.5%) of the market value of all invested assets of the Retirement Systems. Notwithstanding anything in this subsection to the contrary, the investments authorized by this subdivision shall not be included in any subdivision other than this subdivision for purposes of the percentage investment limitations therein or otherwise.
- (10) Recodified as part of subdivision (b)(9) by Session Laws 2000-160, s. 2.
- (10a) With respect to Retirement Systems' assets, as defined in subdivision (8) of this subsection, the market value of any of subdivision (6c) or (7), sub-subdivision b. of subdivision (8), or subdivision (9) or (9a) of this subsection shall not exceed ten percent (10%) of the market value of all

invested assets of the Retirement Systems; and the aggregate market value of all assets invested pursuant to subdivisions (6c) and (7), sub-subdivision b. of subdivision (8), and subdivisions (9) and (9a) of this subsection shall not exceed thirty-five percent (35%) of the market value of all invested assets of the Retirement Systems. ~~The quarterly report provided by the Treasurer pursuant to G.S. 147-68(d1) shall include a specific listing of all direct and indirect placement fees, asset fees, performance fees, and any other money management fees incurred by the State in the management of subdivisions (6c) and (7), sub-subdivision b. of subdivision (8), and subdivisions (9) and (9a) of this subsection. In the event that the market value of any of subdivision (6c) or (7), sub-subdivision b. of subdivision (8), or subdivision (9) or (9a) of this subsection increases during a fiscal year by an amount greater than three percent (3%) of the market value of all invested assets of the Retirement Systems as of the prior fiscal year end, then the quarterly report provided by the Treasurer pursuant to G.S. 147-68(d1) shall describe how that increase complies with the duties described in G.S. 147-69.7 and the consequent expected impact on the risk profile of the Retirement Systems' assets.~~

(11) Repealed by Session Laws 2013-360, s. 6.3(c), effective July 1, 2013.

(12) It is the intent of the General Assembly that the Escheat Fund provide a perpetual and sustainable source of funding for the purposes authorized by the State Constitution. Accordingly, the following provisions apply:

a. With respect to assets of the Escheat Fund, in addition to those investments authorized by subdivisions (1) through (6) of this subsection, up to ten percent (10%) of such assets may be invested in the investments authorized under subdivisions (6c) through (9a) of this subsection, notwithstanding the percentage limitations imposed on the Retirement Systems' investments under those ~~subdivisions~~ subdivisions, and provided that the State Treasurer may invest the assets as provided in subsection (e) of this section.

b. ~~The State Treasurer shall engage a third-party professional actuary or consultant to conduct a valuation and projection of the financial status of the Escheat Fund. The associated costs for the services may be directly charged to the Escheat Fund. The State Treasurer shall communicate the valuation of the actuary or consultant in an annual report to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the chairs of the respective appropriations and appropriate substantive committees of each chamber. The annual report shall evaluate claims by owners upon the Escheat Fund, current and projected investment returns, and projected contributions to the Escheat Fund. In the report, the State Treasurer shall assess the status of utilizing the Escheat Fund as an endowment fund and shall recommend an annual amount available for the funding of scholarships, loans, and grants from the Fund. The annual report shall be presented no later than December 31 of each year.~~

c. The State Treasurer shall invest, in addition to those investments authorized by ~~subdivision (12) of this subsection~~ sub-subdivision a. of this subdivision, ten percent (10%) of the net assets of the Escheat Fund as authorized under G.S. 147-69.2A.

(b1) ~~With respect to investments authorized by subdivisions (b)(7), (b)(8), and (b)(9) of this section, the~~ The State Treasurer shall appoint an Investment Advisory Committee, which shall consist of seven members: the State Treasurer, who shall be chairman ex officio; two members selected from among the members of the boards of trustees of the Retirement Systems; and four members selected from the general public. ~~The four public~~ All appointed members must have experience in areas relevant to the administration of a large, diversified investment program, including, but not limited to, investment management, securities law, real estate development, or absolute return strategies. The State Treasurer shall also appoint a Secretary of the Investment Advisory Committee who need not be a member of the committee.

Members of the committee shall receive for their services the same per diem and allowances granted to members of the State boards and commissions generally. The committee shall have advisory powers only and membership shall not be deemed a public office within the meaning of Article VI, Section 9 of the Constitution of North Carolina or G.S. 128-1.1.

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

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

(b4) In addition to the investments authorized under subdivisions (b)(1) through (6) of this section, the State Treasurer may invest funds deposited pursuant to subdivision (17g) of subsection (a) of this section in any of the investments authorized under subdivisions (b)(6c) and (b)(8) of this section, notwithstanding the percentage limitations imposed on the Retirement Systems' investments therein. Funds deposited pursuant to this subsection by a Local Government Other Post-Employment Benefits Trust and interest or other investment income earned from those funds shall be prorated and credited to the contributing trust on the basis of the amounts contributed, figured according to sound accounting principles. For investments under subdivisions (b)(6c) and (b)(8) of this section, the State Treasurer may require a minimum deposit of up to one hundred thousand dollars (\$100,000) and may assess reasonable fees of up to 15 basis points per annum as a condition of participation pursuant to this subsection. Fees assessed by the State Treasurer may be used to defray the costs of administering the ~~Fund.~~ Fund and expenditures authorized under this section.

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

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

(d) The State Treasurer may invest funds deposited pursuant to subdivisions (a)(17i) or (a)(17j) of this section in any of the investments authorized under subdivisions (1) through (6) and subdivision (8) of subsection (b) of this section. The State Treasurer may require a minimum deposit, up to one hundred thousand dollars (\$100,000), and may assess a reasonable fee, not to exceed 15 basis points, as a condition of participation pursuant to this subsection. Fees assessed by the State Treasurer may be used to defray the costs of administering the funds

and expenditures authorized under this section. Funds deposited pursuant to this subsection shall remain the funds of the North Carolina Conservation Easement Endowment Fund or the Conservation Grant Fund, as applicable, and interest or other investment income earned thereon shall be prorated and credited to the North Carolina Conservation Easement Endowment Fund or the Conservation Grant Fund on the basis of the amounts contributed to the respective Funds, figured according to sound accounting principles.

(e) Investments made pursuant to this section may be made as internally managed investments by the State Treasurer or may be made through third-party investment management arrangements, under the following conditions:

- (1) Internally managed portfolios shall be subject to industry standard portfolio guidelines developed with periodic consultation by the Investment Advisory Committee.
- (2) In assessing whether to invest directly or to utilize indirect third-party investment management arrangements, the State Treasurer shall consider all material factors he or she considers relevant to the decision consistent with the Treasurer's fiduciary duties under G.S. 147-69.7, including financial, operational, and investment expertise and resources, alignment of interests and investor protections, transparency and repeatability of investment process, risk controls, and cost-effectiveness.
- (3) For any third-party investment management arrangements, the investment manager must have total assets under management of at least one hundred million dollars (\$100,000,000) at the inception of the investment management arrangement with the State Treasurer.
- (4) Third-party investment management arrangements may be with persons and legal entities located within or outside the United States, including through any of the following:
  - a. Contractual arrangements in which the investment manager has delegated discretion and authority to invest assets.
  - b. Investment companies as defined under United States generally accepted accounting principles as promulgated by the Financial Accounting Standards Board, including without limitation entities registered under the Investment Company Act of 1940; individual, common, or collective trust funds of banks and trust companies; limited partnerships; limited liability companies or other limited liability investment vehicles; and insurance contracts that provide for participation in individual or pooled separate accounts of insurance companies.

Any limited liability investment vehicles organized by the State Treasurer shall be deemed investment companies for the purposes of this subsection.
- (5) Investment companies shall provide annual audited financial statements to the State Treasurer, unless the State Treasurer waives the requirement after conducting a cost-benefit analysis.
- (6) In connection with any investment otherwise authorized under this section, the State Treasurer may enter into an indemnification agreement provided that, under any agreement, the liability of the State Treasurer will be limited to the amount of the State Treasurer's contractual investment."

**SECTION 1.4.(a)** G.S. 147-69.2A(a) reads as rewritten:

**"§ 147-69.2A. Investments; special funds held by the State Treasurer.**

(a) Firm to Administer Special Fund. – Following a public procurement process, a designee of the Governor, a designee of the State Treasurer, a designee of the Speaker of the House of Representatives, and a designee of the President Pro Tempore of the Senate shall jointly and unanimously select a third-party professional investment management firm, registered with the U.S. Securities and Exchange Commission, to administer ~~the Fund~~ a special fund created to invest assets described in G.S. 147-69.2(b)(12)c. and select investment opportunities appropriate for receiving allocations from the Fund on the basis of potential return on investment and the risks attendant thereto. The State Treasurer shall assign professional and clerical staff to assist in the oversight of the Fund. All costs for the third-party investment management firm and the professional and clerical staff shall be borne by the Fund



pursuant to G.S. 147-69.3(f). The State Treasurer shall discharge his or her duties with respect to the Fund as a fiduciary consistent with the provisions of applicable law, including, without limitation, G.S. 36E-3-G.S. 147-69.7."

**SECTION 1.4.(b)** G.S. 147-69.2A(d) reads as rewritten:

"(d) Report on Escheat Fund ~~Valuation~~ Financial Status. – The State Treasurer shall engage a third-party professional ~~actuary or consultant~~ to conduct a ~~valuation~~ assessment and projection of the financial status of the Escheat Fund. The associated costs for the services may be directly charged to the Escheat Fund. The State Treasurer shall communicate the ~~valuation of the actuary or assessment of the consultant~~ in an annual report to the Governor, the Speaker of the House of Representatives, the President Pro Tempore of the Senate, and the chairs of the respective appropriations and appropriate substantive committees of each chamber. The annual report shall evaluate claims by owners upon the Escheat Fund, current and projected investment returns, and projected contributions to the Escheat ~~Fund~~ Fund, current and projected legislative appropriations, and authorized expenses. In the report, the State Treasurer shall assess the status of utilizing the Escheat Fund as an endowment fund and shall recommend an annual amount available for the funding of scholarships, loans, and grants from the Fund. The annual report shall be presented no later than December 31 of each year."

**SECTION 1.5.** G.S. 147-75 reads as rewritten:

"§ 147-75. **Deputy to act for Treasurer.**

The Treasurer may authorize a deputy to perform any duties pertaining to the office. The Treasurer may authorize a deputy to affix the Treasurer's signature to any check, warrant or any other instrument the Treasurer is required to ~~sign by use of the facsimile signature machine or device during the Treasurer's absence or disability~~ sign. The Treasurer shall be responsible for the conduct of his or her deputies."

**SECTION 1.6.** G.S. 147-78.1 reads as rewritten:

"§ 147-78.1. **Good faith deposits; use of master trust.**

Notwithstanding any other provision of law, the State Treasurer is authorized to select a bank or trust company as master trustee to hold cash or securities to be pledged to the State when deposited with ~~him~~ the State Treasurer pursuant to statute or at the request of another State agency. Securities may be held by the master trustee in any form that, in fact, perfects the security interest of the State in the securities. The State Treasurer shall ~~by rule or regulation~~ contractually establish the manner in which the master trust shall operate. The master trustee may charge reasonable fees for services rendered to each person who deposits the cash or securities with the State."

## **PART II. UPDATES TO THE STATE TREASURER'S INVESTMENT PROGRAMS**

**SECTION 2.1.** G.S. 147-69.3 reads as rewritten:

"§ 147-69.3. **Administration of State Treasurer's investment programs.**

(a) The State Treasurer shall establish, maintain, administer, manage, and operate within the Department of State Treasurer one or more investment programs for the deposit and investment of assets pursuant to the provisions of G.S. 147-69.1 and G.S. 147-69.2. Different Retirement Systems and other funds held by the State Treasurer may be invested collectively or separately in the State Treasurer's discretion consistent with the fiduciary duties stated in G.S. 147-69.7.

(b) Any official, board, commission, other public authority, local government, school administrative unit, local ABC board, or community college of the State having custody of any funds not required by law to be deposited with and invested by the State Treasurer may deposit all or any portion of those funds with the State Treasurer for investment in one of the investment programs established pursuant to this section, subject to any provisions of law with respect to eligible investments, provided that any occupational licensing board as defined in G.S. 93B-1 may participate in one of the investment programs established pursuant to this section regardless of whether or not the funds were required by law to be deposited with and invested by the State Treasurer. In the absence of specific statutory provisions to the contrary, any of those funds may be invested in accordance with the provisions of G.S. 147-69.2 and 147-69.3. Upon request from any depositor eligible under this subsection, the State Treasurer may authorize moneys invested pursuant to this subsection to be withdrawn by warrant on the State Treasurer.

(c) The State Treasurer's investment programs shall be so managed that in the judgment of the State Treasurer funds may be readily converted into cash when needed.

(d) Except as provided by G.S. 147-69.1(d), the total return earned on investments shall accrue pro rata to the fund whose assets are invested according to the formula prescribed by the State Treasurer with the approval of the Governor and Council of State.

(e) The State Treasurer has full powers as a fiduciary to hold, purchase, sell, assign, transfer, lend and dispose of any of the securities or investments in which any of the programs created pursuant to this section have been invested, and may reinvest the proceeds from the sale of those securities or investments and any other investable assets of the program.

(f) The cost of administration, management, and operation of investment programs established pursuant to this section shall be apportioned equitably among the programs in such manner as may be prescribed by the State Treasurer, such costs to be paid from each program, and to the extent not otherwise chargeable directly to the income or assets of the specific investment program or pooled investment vehicle, shall be deposited with the State Treasurer as a General Fund nontax revenue. The cost of administration, management, and operation of investment programs established pursuant to this section and not directly paid from the income or assets of such program shall be covered by an appropriation to the State Treasurer for this purpose in the Current Operations Appropriations Act.

(g) The State Treasurer is authorized to retain the services of independent appraisers, auditors, actuaries, attorneys, investment counseling firms, statisticians, custodians, or other persons or firms possessing specialized skills or knowledge necessary for the proper administration of investment programs created pursuant to this section.

~~(h) The State Treasurer shall prepare, as of the end of each fiscal year, a report on the financial condition of each investment program created pursuant to this section. A copy of each report shall be submitted within 30 days following the end of the fiscal year to the official, institution, board, commission or other agency whose funds are invested, the State Auditor, and the chairs of the Finance Committees of the House of Representatives and the Senate.~~

~~(i) The State Treasurer shall report at least twice a year to the General Assembly, through the Finance Committees of the House of Representatives and the Senate, on the investment programs created under this section. The Treasurer shall present the reports to a joint meeting of the Finance Committees. The chairs of the Finance Committees may receive the reports and call the meetings. The Finance Committees may meet during the interim as necessary to hear the reports from the State Treasurer. The State Treasurer's report and presentation to the Finance Committees shall include all of the following:~~

- ~~(1) A full and complete statement of all moneys invested by virtue of the provisions of G.S. 147-69.1 and G.S. 147-69.2.~~
- ~~(2) The nature and character of the investments.~~
- ~~(3) The revenues derived from the investments.~~
- ~~(4) The costs of administering, managing, and operating the investment programs, including the recapture of any investment commissions.~~
- ~~(5) A statement of the investment policies for the revenues invested.~~
- ~~(6) Any other information that may be helpful in understanding the State Treasurer's investment policies and investment results.~~
- ~~(7) Any other information requested by the Finance Committees.~~

(i1) The State Treasurer shall report the incentive bonus paid to the Chief Investment Officer to the Joint Legislative Commission on Governmental Operations by October 1 of each year.

(i2) In order to promote achievement of long-term investment objectives and to retain key public employees with investment functions, the State Treasurer is authorized to establish, consistent with the State Treasurer's fiduciary duties, market-oriented compensation plans, including salaries and performance-related bonuses, for employees possessing specialized skills or knowledge necessary for the proper administration of investment programs, who shall be exempt from the classification and compensation rules established by the Office of State Human Resources. The design and administration of those compensation plans shall be based on compensation studies conducted by a nationally recognized firm specializing in public fund investment compensation. The compensation and other associated employee benefits shall be apportioned directly from the investment program. The Treasurer shall report the salaries and bonuses paid to the Joint Legislative Oversight Committee on General Government annually.

(j) Subject to the provisions of G.S. 147-69.1(d), the State Treasurer shall adopt any rules necessary to carry out the provisions of this section."

**SECTION 2.2.** G.S. 147-69.7 reads as rewritten:

**"§ 147-69.7. Discharge of duties to Retirement Systems funds.**

(a) The State Treasurer shall discharge his or her duties with respect to ~~the Retirement System~~ each fund or investment program held by the State Treasurer, including each of the funds, enumerated in ~~G.S. 147-69.2(b)(8)~~ G.S. 147-69.2 as follows:

- (1) Solely in the interest of the ~~participants and beneficiaries~~ intended beneficiaries of the fund, if any.
- (2) For the exclusive purpose of carrying out the purpose of the fund, including providing benefits to participants and beneficiaries, and paying reasonable expenses of administering the ~~Retirement Systems fund.~~
- (3) With the care, skill, and caution ~~under the that~~ a prudent investor would use after considering the purposes, distribution requirements, and other circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose prevailing.
- (4) Impartially, taking into account any differing interests of participants and beneficiaries.
- (5) Incurring only costs that are appropriate and reasonable.
- (6) In accordance with a good-faith interpretation of the provisions of G.S. 147-69.2 and any other applicable law governing the Retirement Systems fund.

(b) In investing and managing assets of the ~~Retirement Systems fund~~ pursuant to subsection (a) of this section, the State Treasurer:

- (1) Shall consider the following circumstances:
  - a. General economic conditions.
  - b. The possible effect of inflation or deflation.
  - c. The role that each investment or course of action plays within the overall portfolio of the ~~Retirement Systems fund.~~
  - d. The expected total return from income and the appreciation of capital.
  - e. Needs for liquidity, regularity of income, and preservation or appreciation of capital.
  - f. ~~The~~ With respect to the Retirement Systems defined in G.S. 147-69.2(d) and any other pension plans, the adequacy of funding for the Retirement Systems based on reasonable actuarial factors.
  - g. The purpose of the fund, if established.

- (2) Shall diversify the investments of the ~~Retirement Systems fund~~ unless the State Treasurer reasonably determines that, because of special circumstances, including applicable investment restrictions, it is clearly prudent not to do so.
- (3) Shall make a reasonable effort to verify facts relevant to the investment and management of assets of the ~~Retirement Systems funds.~~
- (4) ~~May~~ Shall invest only in any kind of property or type of investment those investments authorized by law consistent with the provisions of Article 6 of Chapter 146 of the General Statutes.
- (5) May consider benefits created by an investment in addition to investment return only if the State Treasurer determines that the investment providing these collateral benefits would be prudent even without collateral benefits.

(c) Compliance by the State Treasurer with this section must be determined in light of the facts and circumstances existing at the time of the Treasurer's decision or action and not by hindsight.

(d) The State Treasurer's investment and management decisions must be evaluated not in isolation but in the context of the portfolio of the ~~Retirement Systems fund~~ as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the ~~Retirement Systems fund.~~

(e) Notwithstanding any of the foregoing, the State Treasurer shall have no duty to assist or advise any official, board, commission, local government, other public authority, school administrative unit, local ABC board, community college of the State, or other person,

trust, agency, institution, or entity in connection with any of the following decisions and directions with respect to any funds to be deposited with and invested by the State Treasurer:

- (1) The voluntary decision to deposit or withdraw funds in accordance with applicable law in one or more of the State Treasurer's investment programs.
- (2) The voluntary direction as to the allocation of deposited funds in accordance with applicable law among the State Treasurer's investment programs.
- (3) Any other decision or direction by which the depositor exercises control over assets deposited or to be deposited with the State Treasurer in accordance with applicable law."

### **PART III. CODIFY KEY DEPARTMENT OF STATE TREASURER POLICIES**

**SECTION 3.** Article 6 of Chapter 147 of the General Statutes is amended by adding new sections to read:

**"§ 147-69.9. Third-party audit of State Treasurer's investments,**

(a) In addition to all other audits and reports required by the law, the State Treasurer shall prepare and issue, at the end of each fiscal year beginning with the 2015-2016 fiscal year, a set of consolidated stand-alone financial statements regarding investments authorized in G.S. 147-69.1 and G.S. 147-69.2. These financial statements shall be audited by a commercial independent third-party audit firm selected and engaged by the State Treasurer. The audit firm's report and the financial statement shall be provided to the Joint Legislative Commission on Governmental Operations, the House of Representative Appropriations Committee, the Senate Appropriations/Base Budget Committee, and the Fiscal Research Division within six months after the closing of the reporting period.

(b) The management discussion and analysis section of the report accompanying the financial statements shall include a discussion of the investment programs' risk and returns compared to benchmarks, total management fees and incentives paid, and comparison to peer cost benchmarks.

**"§ 147-69.10. Investment policies and performance reviews of Retirement Systems investment programs,**

(a) On at least a biennial basis, the State Treasurer shall present an investment policy statement to the Investment Advisory Committee for the Committee's consultation. The investment policy statement must include descriptions of investment objectives and strategy, roles and responsibilities, permissible asset classes, asset allocation targets and ranges, risk management and compliance guidelines, and evaluation criteria necessary to measure investment performance.

(b) At least once every four years, the State Treasurer shall engage a commercial independent expert firm, pursuant to G.S. 147-69.3(g), to evaluate the governance, operations, and investment practices of the State Treasurer in order to develop recommendations for improvement. The State Treasurer must consult with the Investment Advisory Committee to develop the scope of the evaluation. The report of the independent expert firm shall be provided to the Joint Legislative Commission on Governmental Operations, the House of Representatives Appropriations Committee, the Senate Appropriations/Base Budget Committee, and the Fiscal Research Division within 30 days of receipt.

**"§ 147-69.11. Ethics policies,**

(a) To ensure that the State Treasurer's investment programs operate under a strong governance framework with rigorous internal controls and a high degree of operational transparency and are managed with the highest ethical and professional standards and in the most efficient and effective manner possible, the State Treasurer, after consultation with the Investment Advisory Committee, is authorized and required to adopt policies and procedures on the following topics:

- (1) Requiring that the Department of State Treasurer's Investment Management Division adopt a code of ethics.
- (2) Requiring all employees of the Department who have responsibility for matters related to investments to be provided with training with respect to the discharge of their duties and responsibilities to the funds.
- (3) Governing gifts to employees of the Department who have responsibility for matters related to investments.

- (4) Imposing limitations on external investment managers' use of placement agents and other persons that appear before the Department to ensure that these persons play only a proper role in investment opportunities.
- (5) As a component of the investment due diligence, negotiations, and contracting process, requiring an independent assessment of whether circumstances exist that create a material risk that professional judgement or actions regarding a potential investment arrangement's recommendation, approval, or execution have been or will be unduly influenced by a direct or indirect personal interest."

**PART IV. REQUIRE DETAILED FEE AND PERFORMANCE REPORTING BY STATE TREASURER; CONSOLIDATE STATUTORY REPORTING REQUIREMENTS**

**SECTION 4.1.(a)** Article 6 of Chapter 147 of the General Statutes is amended by adding a new section to read:

**"§ 147-69.12. Reporting on the State Treasurer's investment programs.**

(a) No later than the tenth day of February, May, August, and November of each year, the State Treasurer shall report on all investments for which the State Treasurer is in any way responsible. The State Treasurer's quarterly report shall include each of the following:

- (1) A specific listing of all direct and indirect placement fees, asset fees, performance fees, and any other money management fees incurred by the State in the management of the Retirement Systems defined in G.S. 147-69.2(b)(8). In the event that the market value of any of subdivision (6c) or (7), sub-subdivision b. of subdivision (8), or subdivision (9) or (9a) of G.S. 147-69.2 increases during a fiscal year by an amount greater than three percent (3%) of the market value of all invested assets of the Retirement Systems as of the prior fiscal year end, then the quarterly report provided shall describe how that increase complies with the duties described in G.S. 147-69.7 and the consequent expected impact on the risk profile of the Retirement Systems' assets.
- (2) A specific listing of all investments made with certified green managers and companies and funds that support sustainable practices, including the names of the companies, managers, and funds, the amount invested, and the State's return on investment.
- (3) For bank balances:
  - a. The State's total bank balance with the State Treasurer, including the amount of cash on hand and money on deposit.
  - b. For each bank or other qualified depository utilized by the State Treasurer to hold cash balances, (i) the name of each depository and (ii) current quarter-end cash balances.
- (4) For the State Treasurer's cash management programs:
  - a. Total assets.
  - b. Duration of investments.
  - c. Rate of return, including a comparison to an appropriate benchmark, if available.
- (5) For the Retirement Systems, as defined in G.S. 147-69.2(b)(8), reported separately for each asset class authorized by G.S. 147-69.2(b):
  - a. Total assets.
  - b. Rate of return, including a comparison to an appropriate benchmark, if available.
  - c. Percentage of the total assets that are invested in the asset class and the limitation, if any, on the percentage under G.S. 147-69.2(b).
- (6) For each investment program created under G.S. 147-69.3:
  - a. The financial condition of each investment program.
  - b. A full and complete statement of all moneys invested by virtue of the provisions of G.S. 147-69.1 and G.S. 147-69.2.
  - c. The nature and character of the investments.
  - d. The revenues derived from the investments, net of fees and expenses.

- e. The costs of administering, managing, and operating the investment programs, including the recapture of any investment commissions.
- f. The location on the State Treasurer's Web site where the public may find a statement of the investment policies for the revenues invested.
- g. Any other information that may be helpful in understanding the State Treasurer's investment policies, investment practices, and investment results.
- h. Any other information requested by the House of Representatives and Senate Finance Committees.
- i. The location on the State Treasurer's Web site where the public may find a list of new commitments to external investment managers.
- j. The location on the State Treasurer's Web site where the public may find information on the use of placement agents by investment managers.

(7) For all other investments with or on behalf of the State or any of its agencies or institutions:

- a. The particular agency or institution, fund, rate of return, and duration of the investment.
- b. The amount of deposit on all noninterest bearing accounts.

(b) No later than the date set by G.S. 147-69.9 for the submission of consolidated stand-alone financial statements, the State Treasurer shall report annually on the fees and performance of all externally and internally managed investments for the Retirement Systems defined in G.S. 147-69.2(b)(8). Externally managed investments shall be reported on the basis of each investment vehicle or investment manager, as applicable. Internally managed investments shall be reported on a portfolio-by-portfolio basis. The State Treasurer's annual report shall include all of the following, as applicable, reported separately for each investment:

- (1) The name, commitment amount, statutory classification, and inception year.
- (2) Either a statement that the investment is managed internally by the staff of the State Treasurer or the names of the external investment manager and the investment vehicle for that investment.
- (3) Value of the investment.
- (4) Dollar amount of the management fees and incentive fees.
- (5) For investment-grade fixed income or public equity investments, the periodic net annualized time-weighted rate of return for that fiscal year and since inception, reported net of fees.
- (6) For all investments other than investment-grade fixed income or public equity investments, all of the following:
  - a. The net annualized internal rate of return and investment multiple since inception, reported net of fees.
  - b. The total cash contributions or other investments made by the State Treasurer.
  - c. The total distribution received by the State Treasurer with respect to that investment since inception, reported net of fees.
- (7) For any fund of funds investment vehicles, the aggregate management fees and incentive fees for the underlying investment managers or investment vehicles used by the external investment manager.
- (8) If any placement agent fees relating to the investment were directly or indirectly borne by the State Treasurer or Retirement Systems, a list of the amount and type of those fees.

(c) Reserved.

(d) The reports required by this section shall be delivered to the Joint Legislative Commission on Government Operations, chairs of the House of Representatives and Senate Appropriations Committees, chairs of the House of Representative and Senate Finance Committees, Fiscal Research Division, Governor, Council of State, and State Auditor. The reports shall also be made available for public review, including by posting on the State Treasurer's Web site.

A copy of a report on any State Treasurer investment program shall be sent to the official, institution, board, commission, or other agency investing in that program.

(e) On or before December 31, 2016, the State Treasurer shall adopt rules to implement the provisions of this section, including rules to define the terms used in this section."

**SECTION 4.1.(b)** G.S. 147-68(d) is recodified as G.S. 147-69.12(c).

**SECTION 4.1.(c)** G.S. 147-69.1(e) is repealed.

**SECTION 4.1.(d)** G.S. 147-68(d1) is repealed.

**SECTION 4.2.** G.S. 147-69.8 reads as rewritten:

**"§ 147-69.8. Annual report on new investment authority.**

Whenever the General Assembly broadens the investment authority of the State Treasurer as to the General Fund, the Teachers' and State Employees' Retirement System, the Consolidated Judicial Retirement System, the Firefighters' and Rescue Squad Workers' Pension Fund, the Local Governmental Employees' Retirement System, the Legislative Retirement System, the North Carolina National Guard Pension Fund, or any idle funds, the State Treasurer shall annually report in detail to the General Assembly the investments made under such new authority, including the returns on those investments, earnings, changes to value, and gains and losses in disposition of such investments. The report shall be made during no later than the first six months of each calendar year, covering performance in the prior calendar fiscal year. As to each type of new investment authority, the report shall be made for at least four years. To the extent the information required by this section is also required in the reports under G.S. 147-69.12, the State Treasurer may combine reports or make cross-reference to those reports."

**SECTION 4.3.** G.S. 147-69.2A(b) reads as rewritten:

"(b) Organization and Reporting. – All documents of the Governor or the State Treasurer concerning the Fund are public records governed by Chapter 132 of the General Statutes and any applicable provisions of the General Statutes protecting confidential information.

The State Treasurer and the Governor shall jointly develop and adopt an investment policy statement for the Fund.

The State Treasurer and Governor shall jointly adopt a common policy to prevent conflicts of interests such that (i) the designees of the State Treasurer and Governor who selected the third-party investment management firm, (ii) the staff of the State Treasurer overseeing the Fund, and (iii) the third-party investment management firm's employees selecting or overseeing Fund investments do not provide services for compensation (as an employee, consultant, or otherwise), within two years after the end of their service to the Fund, to any entity in which an investment from the Fund was made.

By October 1, 2015, and at least semiannually thereafter, the State Treasurer shall submit a report to the Governor, the Office of State Budget and Management, the Joint Legislative Commission on Governmental Operations, and the Fiscal Research Division on investments made from the Fund and any return on investment. This report shall be made for the Fund in lieu of the reports required by ~~G.S. 147-69.1(e), 147-69.2(b)(10a), 147-69.3(h), 147-69.3(i), and 147-69.8.~~ G.S. 147-69.8 and G.S. 147-69.12(b)."

**SECTION 4.4.** Sections 4.1, 4.2, 4.3, and 4.4 of this act become effective July 1, 2016, and apply to all reporting periods beginning on or after that date.

## **PART V. EFFECTIVE DATE**

**SECTION 5.** Section 5 of this act is effective when it becomes law. Except as otherwise provided, the remainder of this act becomes effective January 31, 2017.  
In the General Assembly read three times and ratified this the 21<sup>st</sup> day of June, 2016.

s/ Daniel J. Forest  
President of the Senate

s/ Tim Moore  
Speaker of the House of Representatives

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Pat McCrory  
Governor

Approved \_\_\_\_\_ .m. this \_\_\_\_\_ day of \_\_\_\_\_, 2016