



# HOUSE BILL 1137: Treasurer's 2016 Investment Admin. Changes..

2016-2017 General Assembly

<b>Committee:</b>	Senate Pensions & Retirement and Aging	<b>Date:</b>	June 15, 2016
<b>Introduced by:</b>	Reps. Ross, Lambeth, Adcock, Hamilton	<b>Prepared by:</b>	Tawanda N. Foster
<b>Analysis of:</b>	Second Edition		Committee Counsel

**SUMMARY:** *House Bill 1137 would enact the Treasurer's Investment and Administrative Changes Act. The bill modernizes and updates the statutes governing the Department of the State Treasurer's office hours and scope of authority for investment programs, codifies key departmental policies, and consolidates statutory reporting requirements.*

### BILL ANALYSIS:

**Section 1.1** excepts Saturdays and periods of travel from the State Treasurer's Office Hours, and makes technical changes.

**Section 1.2** updates the list of federally-backed entities eligible for investment in the Treasurer's investment-grade fixed income portfolio. This section also clarifies the existing statute by adding references to the terminology of each rating service when discussing credit ratings.

**Section 1.3** updates G.S. 147-69.2 to make technical corrections to the list of funds held by the State Treasurer. This section also standardizes the set of approved investment vehicle structures. The text added to subsection (b) specifies that the percentage "caps" on each asset class are calculated according to the primary investment type or strategy utilized and makes clear that no investment counts in more than one asset class.

**Section 1.4(a)** clarifies a third-party professional investment management firm, registered with the U.S. Securities and Exchange Commission must be selected to administer a special fund to invest the assets described in G.S. 147-69.2(b)(12(c)).

**Section 1.4(b)** changes the Escheat Fund from a valuation by an actuary to an assessment by a consultant.

**Section 1.5** makes a technical correction to delete a reference to a facsimile signature machine.

**Section 1.6** clarifies the State Treasurer must contractually establish the manner in which the master trust operates.

**Section 2.1** clarifies the investment programs for assets held by the State Treasurer may be invested collectively or separately at the State Treasurer's discretion and consistent with their fiduciary duties.

This section requires when utilizing the State Treasurer's power to establish market-oriented compensation plans the authorization is limited and must be consistent with the State Treasurer's fiduciary duties. Also, this section makes technical and conforming changes.

**Section 2.2** clarifies the State Treasurer's fiduciary duties extends to cover all special funds in the Treasurer's care, all funds managed by the Treasurer, and not only the Retirement Systems.

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# House Bill 1137

Page 2

This section also clarifies the State Treasurer does not have a duty to provide advice to other governmental agencies when agencies exercise discretionary control over the assets they deposit.

**Section 3** adds new sections to Article 6, Chapter 147 to do the following:

- Require financial statements, audited by a commercial independent third-party firm, for the Retirement Systems investment program be prepared annually.
- Make a conforming change to expand the scope of oversight by the Investment Advisory Committee to be consistent with the clarification of the scope of the fiduciary duty of the State Treasurer extending to all funds managed by the Treasurer.
- Allow the Investment Advisory Committee to provide consultation on the Investment Policy Statement, covering investment objectives and strategy, asset classes and allocations, and evaluation criteria on a biennial basis. The State Treasurer would also be required to have an independent expert firm evaluation in making recommendations on governance, operation, and investment practices of the department at least once every four years.
- Require the State Treasurer to adopt a code of ethics in consultation with the Investment Advisory Committee to ensure ethical management of the investment programs.

**Section 4.1(a)** adds a new section governing reporting requirements by the Department of the State Treasurer to the General Assembly, Legislative Committees, the Governor, Council of State, and the State Auditor. This new section consolidates all the existing statutorily mandated reporting requirements of the department into one section of the General Statutes.

**Section 4.1(b)** G.S. 147-68(d) is recodified in the new reporting section.

**Section 4.1(c)** repeals G.S. 147-69.1(e) which is now included in the new section on reporting requirements.

**Section 4.1(d)** repeals G.S. 147-687 (d1) which is now included in the new section on reporting requirements.

**Section 4.2** makes technical and conforming changes to annual report requirements on new investment authority.

**Section 4.3** makes conforming changes to organization and reporting requirements.

**Section 4.4** makes Sections 4.1, 4.2, 4.3, and 4.4 effective July 1, 2016 and applies to all reporting periods beginning on or after that date.

**EFFECTIVE DATE:** Section 5 would become effective when this bill becomes law. Except as otherwise provided, this bill would become effective January 31, 2017.