



**HOUSE BILL 97:
2015 Appropriations Act, Sec. 6.3
Venture Capital Multiplier Fund**

2015-2016 General Assembly

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| Committee: | | Date: | January 8, 2016 |
| Introduced by: | Reps. Dollar, L. Johnson, McGrady, Lambeth | Prepared by: | Phyllis Pickett |
| Analysis of: | S.L. 2015-241 | | Committee Counsel |

SUMMARY: *Sec 6.3 amends G.S. 147-69.2(b)(12) pertaining to the Escheat Fund by requiring ten percent (10%) of the Fund to be invested as provided by new G.S. 147-69.2 and requires the State Treasurer to engage a third-party professional actuary or consultant to conduct a valuation and projection of the financial status of the Fund.*

PRIOR LAW: G.S. 147-69.2(b)(12) allowed placement of twenty percent (20%) – rather than ten percent (10%) – of the available Escheats Fund assets into investments as authorized in that statute.

BILL ANALYSIS: Sec. 6.3(a) amends the powers of the State Treasurer by directing that the Treasurer invest ten percent (10%) of the assets of the Escheats Fund in excess of the amount required to meet the current needs and demands of the fund as otherwise provided by G.S. 147-69.2, with the addition of new authority to invest in the following:

- 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 G.S. 147-69.2(b)(1) through (6) or (b)(7), 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 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. G.S. 147-69.2(b)(6a)

- Inflation linked bonds, timberlands, commodities, 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

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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 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. G.S. 147-69.2(b)(9a).

The State Treasurer is required to 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 must communicate that valuation 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 will include an:

- Evaluation of claims by property owners, current and projected investment returns, and projected contributions to the Escheat Fund.
- Assessment of 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.

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

Sec. 6.3(b) enacts provisions concerning the administration and structure for Escheats Fund investments. After a public procurement process, the respective designees of the Governor, the State Treasurer, the Speaker of the House of Representatives, and the President Pro Tempore of the Senate must jointly and unanimously select a third party professional investment management firm registered with the U.S. Securities and Exchange Commission to administer the Fund and select investment opportunities appropriate for receiving allocations from the Fund.

The State Treasurer will 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 will be paid by the Fund. The State Treasurer has a fiduciary relationship with the Fund in accordance with the provisions of applicable law, including, without limitation, G.S. 36E-3. 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 will jointly:

- Develop and adopt an investment policy statement for the Fund.
- 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.

Assets of the Fund may be invested in those types of investments authorized for the North Carolina Retirement Systems by G.S. 147-69.2(b), notwithstanding the percentage limitations imposed on the Retirement Systems' investments under those subdivisions.

The State Treasurer will 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 will 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.

EFFECTIVE DATE: The section became effective July 1, 2015.

BACKGROUND: The Escheats Fund is held by the State Treasurer pursuant to G.S. 147-69.2(a)(9). The State Treasurer has the duty to invest the Fund assets in excess of the amount required to meet the current needs and demands on the Fund. For purposes of computing market values on which percentage limitations on investments are based, all investments are valued as of the last date of the most recent fiscal quarter.