



HOUSE BILL 506: 2025 State Investment Modernization Act.

2025-2026 General Assembly

Committee:	Senate Pensions and Retirement and Aging	Date:	May 20, 2025
Introduced by:	Reps. B. Jones, K. Hall, Ross, Tyson	Prepared by:	Jessica Boney
Analysis of:	Second Edition		Staff Attorney

OVERVIEW: *House Bill 506 would create the North Carolina Investment Authority (Investment Authority), establish a Board of Directors of the Investment Authority, transfer authority to manage investments and carry out statutory duties from the State Treasurer to the Investment Authority beginning January 1, 2026, and make conforming changes.*

BILL ANALYSIS:

Part I – Technical Reorganization of Article 6 (Treasurer) of Chapter 147 (State Officers) of the General Statutes

Section 1.1 to Section 1.4 would recodify and reorganize the statutes related to the State Treasurer.

Part II – Creation of the North Carolina Investment Authority

Section 2.1 would create definitions, including definitions for *Board of Directors*, *Chief Investment Officer*, and *Investment Authority*.

Section 2.2 would do the following:

Investment Authority. Create the Investment Authority as a State agency within the Department of the State Treasurer, direct it is independent of any fiscal control exercised by the Director of Budget, the Department of Administration, and the Department of State Treasurer, and outline the powers and duties of the Investment Authority.

Board of Directors. Establish the Board of Directors to govern the Investment Authority. The members of the Board of Directors would be the State Treasurer (as an ex officio member) and one member appointed by the following: the Speaker of the House of Representatives, the President Pro Tempore of the Senate, the Governor, and the State Treasurer.

The 4 appointees on the Board of Directors would have expert knowledge of investments and a minimum 10-year track record of successful management in pension, endowment, or other relevant investment experience.

Powers and Duties of the Board of Directors. The Board of Directors would have the following investment-related powers and duties:

- Authority to approve investment policy statements, risk budgets, appointment of a master global custodian bank, annual operating budgets for investment programs, and market-oriented compensation plans.
- Review of all investment performance and investment manager appointment and termination activities, investment strategies, asset liability studies, performance benchmarks and key risk indicators, audited investment financial statements and audit reports, independent evaluation of

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governance and investment practices, and periodic cost-effectiveness studies of investment programs.

- Appointment of a Chief Investment Officer of the Investment Authority.
- Approve at least biennially an absolute risk operating range for the Retirement Systems' assets and use the absolute risk operating range to recommend investment return assumptions.
- Approve an annual internal budget that does not exceed three basis points of a rolling three-year average of total assets invested by the Investment Authority, unless special circumstances apply. The Investment Authority would report the annual internal budget and the actual spending for the prior fiscal year to the Joint Legislative Commission on Governmental Operations, the House of Representatives Appropriations Committee, and the Senate Appropriations/Base Budget Committee, and the Fiscal Research Division.
- Authority to independently retain the services of individuals possessing specialized skills necessary for the proper administration of investment programs, including appraisers, auditors, actuaries, attorneys, or investment consultants.
- Authority to establish market-oriented compensation plans, including salaries and performance-related bonuses, for employees possessing specialized skills for the proper administration of investment programs. The Investment Authority would report the salaries and bonuses paid to the Joint Legislative Oversight Committee on General Government annually.

Liability. An individual serving on the Board of Directors would be immune from civil liability for any act or failure to act, with exceptions including when the individual derived an improper personal financial benefit, either directly or indirectly, from the transaction.

Chief Investment Officer. The Investment Authority would appoint a Chief Investment Officer with expert knowledge of investments and a minimum of 15-year track record of successful management in pension, endowment, or other relevant investment management arenas. The Chief Investment Officer may negotiate, renegotiate and execute contracts with third parties in the performance of outlined duties and powers. Any delegation of authority by the Board of Directors would require the Board of Directors approval.

Ethics Policies. Existing law governing ethics policies would apply to the Investment Authority and the Board of Directors would adopt specified ethics policies and procedures.

Section 2.3(a) would clarify rules, code of ethics, policies and procedures adopted by the State Treasurer and in effect on June 30, 2025, that are impacted by the change in authority shall remain in effect until amended by law, amended by the Investment Authority, or repealed.

Section 2.3(b) Funds appropriated and available to the Department of State Treasurer may be used to pay expenses of the Investment Authority before the Investment Authority begins to manage investments on January 1, 2026.

Section 2.4 would make this Part effective July 1, 2025.

Part III – North Carolina Investment Authority to Manage Investments and Begin Carrying Out Statutory Duties January 1, 2026

Section 3.1(a) would do the following:

- **General Fund and Highway Fund Investments.** Adds the Investment Authority as an entity to advise the Governor and Council of State with investments. It would be the Investment Authority's duty to invest the cash of the General Fund, the Highway Fund and the Highway Trust Fund.

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- **Special Fund Investments.** Directs it is the Investment Authority's duty to invest the cash for all the special funds held by the Treasurer under G.S. 147-69.2. The caps would be removed on the amount of Retirement Systems' assets that may be invested in specified funds, but the aggregate market value of these specified funds would not exceed 80% of the market value of all invested assets of the Retirement Systems. The market value of illiquid investments would be limited to 40% of the market value of all invested assets of the Retirement System. The Investment Authority would be able to invest up to 80% of the Escheat Fund assets. Reference to the Investment Advisory Committee would be removed. The requirement for any third party investment management organization to have total assets under management of at least one hundred million dollars at the inception of the investment management arrangement would be removed.
- **Venture Capital Multiplier Fund.** Removes the public procurement process to select a third-party professional investment management firm and authorizes the Investment Authority to select the third-party professional investment firm to invest the assets of the Escheat Fund. Documents concerning the Fund would no longer be public records, and the Investment Authority would be required to develop a specified conflict of interest policy.
- **Administration of Investment Authority's Investment Programs.** Would allow the Investment Authority to charge administrative fees for the operation of investment programs. The Investment Authority's designated attorneys would review all proposed investment contracts and all proposed contracts for investment-related services to meet specified criteria. The requirement to report the incentive bonus paid to the Chief Investment Officer to the Joint Legislative Commission on Governmental Operations would be removed.
- **Support for Supplemental Retirement Board of Trustees.** The Supplemental Retirement Board of Trustees would be able to request support or assistance from the Investment Authority.

Section 3.1(b) would amend the laws governing reports and audits of the State Treasurer to: (i) transfer authority from the State Treasurer to the Investment Authority, (ii) require the Investment Authority to report monthly on the performance of all investments, and (iii) make conforming changes.

Section 3.1(c) would make conforming changes G.S. 147-70.6 governing discharge of duties to transfer authority to the Investment Authority.

Section 3.1(d) would require the Board of Directors to ensure a portion of the Retirement Systems' invested assets are always available to be converted to cash proceeds sufficient to make project net benefit payments and high probably contractual obligations.

Section 3.1(e) would direct the Chief Investment Officer to manage the Retirement Systems' investments to remain within the approved risk operating range set by the Board of Directors.

Section 3.2 would clarify rules adopted by the State Treasurer and in effect as of December 31, 2025, that are impacted by the change in authority shall remain in effect until amended by law, amended by the Investment Authority, or repealed.

Section 3.3 would make this Part effective January 1, 2026.

Part IV – Technical and Conforming Changes

Section 4.1 to Section 4.3(a) would make technical and conforming changes. This part would have various effective dates.

EFFECTIVE DATE: Except as otherwise provided, the act would be effective when it becomes law.