

GENERAL ASSEMBLY OF NORTH CAROLINA
1987 SESSION

CHAPTER 751
SENATE BILL 489

AN ACT TO EXPAND AND CLARIFY THE INVESTMENT AUTHORITY OF THE
STATE TREASURER.

The General Assembly of North Carolina enacts:

Section 1. The fifth sentence of G.S. 147-69 is repealed.

Sec. 2. G.S. 147-69.1(c) is rewritten to read:

"(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 Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, 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 Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the Student Loan Marketing Association.
- (3) Repurchase Agreements with respect to securities issued or guaranteed by the United States government or its agencies or other securities eligible for investment by this section executed by a bank or trust company or by primary or other reporting dealers to the Federal Reserve Bank of New York.
- (4) Obligations of the State of North Carolina;
- (5) a. Savings certificates issued by any savings and loan association organized under the laws of the State of North Carolina or by any federal savings and loan association having its principal office in North Carolina; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Administrator of the Savings and Loan Division of the

Department of Commerce of the State of North Carolina, be fully collateralized;

- b. Certificates of deposit issued by banks organized under the laws of the State of North Carolina, or by any national bank having its principal office in North Carolina; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, be fully collateralized;
- c. With respect to savings certificates and certificates of deposit, the rate of return or investment yield may not be less than that available in the market on United States government or agency obligations of comparable maturity;
- d. Shares of or deposits in any savings and loan association organized under the laws of the State of North Carolina, or any federal savings and loan association having its principal office in North Carolina; provided that any moneys invested in such shares or deposits in excess of the amount insured by the federal government or an agency thereof, or by a mutual deposit guaranty association authorized by the Administrator of the Savings and Loan Division of the Department of Commerce of the State of North Carolina, be fully secured by surety bonds, or be fully collateralized.
- e. Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation.
- f. 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 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 the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.
- g. Asset-backed securities (whether considered debt or equity) provided they bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest rating by any nationally recognized rating service which rates the particular securities.
- h. Corporate bonds and notes provided they bear the highest rating of at least one nationally recognized rating service and do not bear a rating below the highest by any nationally recognized rating service which rates the particular obligation."

Sec. 3. G.S. 147-69.1 is amended by adding a new subsection to read:

"(f) The Treasurer may also invest the cash of the General Fund and the Highway Fund in excess of the amount required to meet the current needs and demands on those funds in investments in limited partnership interests in partnerships which are managed primarily for the purpose of investment in venture capital or corporate buyout transactions; provided, that the investment authorized by this subsection shall not exceed three percent (3%) of the cash balance as shown on the records of the State Treasurer for the General Fund and the Highway Fund."

Sec. 4. G.S. 147-69.1 is amended by adding a new subsection to read:

"(g) If and to the extent the General Assembly shall authorize the sale of all or any part of the stock owned by the State in the North Carolina Railroad Company or the Atlantic and North Carolina Railroad Company, the proceeds of any sale shall be separately accounted for and invested as expressly directed by the General Assembly, but in the absence of any express direction as to investment, the proceeds may be invested as authorized by this section."

Sec. 5. G.S. 147-69.2 is rewritten to read:

"§ 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:

- (1) The Teachers' and State Employees' Retirement System,
- (2) The Consolidated Judicial Retirement System,
- (3) The Teachers' and State Employees' Hospital and Medical Insurance Plan,
- (4) The General Assembly Medical and Hospital Care Plan,
- (5) The Disability Salary Continuation Plan,
- (6) The Firemen's and Rescue Workers' Pension Fund,
- (7) The Local Governmental Employees' Retirement System,
- (8) The Legislative Retirement System,
- (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 Workmen's Compensation Fund,
- (14) The Mutual Workmen's Compensation Fund,
- (15) The Public School Insurance Fund,
- (16) The Liability Insurance Trust Fund,
- (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, and
- (18) Any other special fund created by or pursuant to law for purposes other than meeting appropriations made pursuant to the Executive Budget Act.

(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, selecting from among the following:

- (1) Any of the investments authorized by G.S. 147.69.1(c);
- (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 without the United States if such obligations bear one of the three highest ratings of at least one nationally recognized rating service and do not bear a rating below the three highest by any nationally recognized rating service which rates the particular security;
- (5) Notes secured by mortgages insured by the Federal Housing Administration or guaranteed by the Veterans Administration on real estate located within the State of North Carolina;
- (6) Asset-backed securities (whether considered debt or equity) provided they bear ratings by nationally recognized rating services as provided in G.S. 147-69.2(b)(4) and that they do not bear a rating below the three highest by any nationally recognized rating service which rates the particular securities;
- (7) With respect to Retirement Systems' assets referred to in G.S. 147-69.2(b)(8), (i) insurance contracts which 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 and (iv) real estate investment trusts; provided the investment manager has assets under management of at least one hundred million dollars (\$100,000,000); provided such investment assets are managed primarily for the purpose of investing in or owning real estate or related debt financing located in the United States; and provided that the investment authorized by this subsection shall not exceed ten percent (10%) of the book 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 Firemen's and Rescue Workers' Pension Fund, the Local Governmental Employees' Retirement System, and the Legislative Retirement System (hereinafter referred to collectively as the Retirement Systems), preferred or common stocks issued by any company incorporated or otherwise created or located within or without the United States, provided:
 - a. That common stock or preferred stock of such corporation is registered on a national securities exchange as provided in the Federal Securities Exchange Act or quoted through the National Association of Securities Dealers' Automated Quotations (NASDAQ) system;

- b. That such corporation shall have paid a cash dividend on its common stock in each year of the 5-year period next preceding the date of investment and the aggregate net earnings available for dividends on the common stock of such corporation for the whole of such period shall have been at least equal to the amount of such dividends paid;
- c. That in applying the dividend and earnings test under this section to any issuing, assuming, or guaranteeing corporation, where such corporation shall have acquired its property or any substantial part thereof within a five-year period immediately preceding the date of investment by consolidation, merger, or by the purchase of all or a substantial portion of the property of any other corporation or corporations, or shall have acquired the assets of any unincorporated business enterprise by purchase or otherwise, the dividends and net earnings of the several predecessor or constituent corporations or enterprises shall be consolidated and adjusted so as to ascertain whether or not the applicable requirements of this section have been complied with;
- d. That the book value of common and preferred stocks including securities convertible into common stocks shall not exceed fifty per centum (50%) of the book value of all invested assets of the Retirement Systems; provided, further:
 - 1. Not more than one and one-half per centum (1 1/2%) of the book value of such assets shall be invested in the stock of a single corporation, and provided further;
 - 2. The total number of shares in a single corporation shall not exceed eight per centum (8%) of the issued and outstanding stock of such corporation, and provided further;
 - 3. As used in this subdivision d. and elsewhere in this section, book value shall mean adjusted cost basis as shown on the records of the State Treasurer.
- e. Up to five per cent (5%) of the limits authorized in subdivision d. may be invested in the stocks or shares of a diversified investment company registered under the 'Investment Company Act of 1940' which has total assets of at least fifty million dollars (\$50,000,000).
- f. Individual, common or collective trust funds of banks or trust companies provided that the investment manager has assets under management of at least one hundred million dollars (\$100,000,000).
- g. That investments may be made in securities convertible into common stocks issued by any such company, if such securities

bear one of the four highest ratings of at least one nationally recognized rating service and do not bear a rating below the four highest by any nationally recognized rating service which may then rate the particular security."

Sec. 6. G.S. 147-69.3(d) is amended by deleting the word "interest" and substituting "net income".

Sec. 7. G.S. 147-69.3(f) is rewritten to read:

"(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."

Sec. 8. G.S. 147-69.3(i) is amended by adding the following sentence at the end:

"The State Treasurer shall also establish annual investment yield targets for all moneys invested by virtue of the provisions of G.S. 147-69.1 and G.S. 147-69.2, and shall include in his annual report a statement of the extent that these targets have been reached."

Sec. 9. This act is effective upon ratification.

In the General Assembly read three times and ratified this the 7th day of August, 1987.