

GENERAL ASSEMBLY OF NORTH CAROLINA

SESSION 1999

S

1

SENATE BILL 1552

Short Title: Establish Investment Advisory Committee.

(Public)

Sponsors: Senator Hoyle.

Referred to: Finance.

May 30, 2000

A BILL TO BE ENTITLED

1 AN ACT TO ESTABLISH AN INVESTMENT ADVISORY COMMITTEE TO
2 DEVELOP AN INVESTMENT POLICY STATEMENT FOR NORTH CAROLINA,
3 TO REVIEW THE INVESTMENTS MADE BY THE STATE TREASURER, AND
4 TO RECOMMEND INVESTMENT POLICIES TO THE STATE TREASURER
5 THAT ARE CONSISTENT WITH THE STATE'S INVESTMENT POLICY
6 STATEMENT.
7

8 The General Assembly of North Carolina enacts:

9 Section 1. Article 6 of Chapter 147 of the General Statutes is amended by
10 adding two new sections to read:

11 "**§ 147-69.4. Investment Advisory Committee.**

12 (a) Created. – The Investment Advisory Committee is established to review the
13 investment programs created by the State Treasurer and to recommend investment
14 policies to the State Treasurer that are consistent with the State's investment policy
15 statement.

16 (b) Members. – The Investment Advisory Committee consists of five members
17 who will serve staggered two-year terms. The members must be experienced in matters
18 relating to the investment of pension funds. A person serving on the Committee, or a
19 business organization affiliated with a person serving on the Committee, may not directly

1 or indirectly contract with or provide services for the investment of the State's trust funds
2 during the person's term on the Committee or for one year thereafter.

3 The appointments to the Investment Advisory Committee must be made by April 1 of
4 each year. Each member of the Committee must serve until the member's respective
5 successor is appointed and qualified. A member may not serve more than two
6 consecutive terms. The members shall be appointed as follows:

7 (1) The Governor shall appoint one member.

8 (2) The President Pro Tempore of the Senate shall appoint two members.

9 (3) The Speaker of the House of Representatives shall appoint two
10 members.

11 (c) Meetings. – The Investment Advisory Committee must meet at least once
12 during each calendar quarter. It may meet at any time upon the call of the chairperson or
13 upon the request of a majority of the Committee's members. The Committee must select
14 one of its members to be the chairperson of the Committee at its first meeting held on or
15 after April 1 of each year.

16 A majority of the Committee members will constitute a quorum for the transaction of
17 Committee business. Any action by the Committee requires a vote of the majority of the
18 members present at the meeting. Votes concerning any investment policy must be
19 recorded in the minutes of the meeting.

20 A member who fails to attend two consecutive Committee meetings or who fails to
21 attend fifty percent (50%) of the Committee's meetings during a calendar year without an
22 excused absence from the chairperson will be removed from the Committee and another
23 member must be appointed by the respective appointing authority. Members of the
24 Committee may not be compensated for their services on the Committee, but they will be
25 reimbursed for all necessary expenses incurred in the performance of their duties as
26 members of the Committee.

27 (d) Duties. – The Investment Advisory Committee has the following duties and
28 responsibilities:

29 (1) To develop and annually review the State's investment policy statement.

30 (2) To review all investments made by the State Treasurer.

31 (3) To recommend to the State Treasurer investment policies consistent
32 with the law pertaining to the kind or nature of the investment,
33 reinvestment, purchase, sale, or exchange transactions.

34 (4) To promptly notify the North Carolina General Assembly, through a
35 written report to the President Pro Tempore of the Senate and the
36 Speaker of the House of Representatives, when it believes the State
37 Treasurer's investment programs and policies are contrary to the State's
38 investment policy statement.

39 (5) To promptly notify the Attorney General of any unauthorized, illegal,
40 irregular, or unsafe handling or expenditure of trust funds.

41 **"§ 147-69.5. Investment policy statement.**

42 The Investment Advisory Committee must develop an investment policy statement
43 that sets forth the standards governing the investment of trust funds by the State

1 Treasurer. The Committee must review the policy statement at least once a year and
2 make any necessary revisions. The investment policy statement must include all of the
3 following:

4 (1) Investment objectives.

5 (2) Asset allocation policy and risk tolerance.

6 (3) Asset class definitions, including specific types of permissible
7 investments within each asset class and any specific limitations or other
8 considerations governing the investment of the funds.

9 (4) Investment manager guidelines.

10 (5) Performance evaluation guidelines.

11 (6) Guidelines for the selection and termination of providers of investment-
12 related services, such as investment advisors, external money managers,
13 investment consultants, custodians, brokers, and legal counsels.

14 (7) Proxy voting guidelines.

15 (8) A description of the role of the investment department staff in making
16 decisions regarding the investment of trust funds.

17 (9) Procedures to facilitate the management of information necessary for
18 decision making related to trust fund investment and the dissemination
19 of that information to the public."

20 Section 2. G.S. 147-69.3(a) reads as rewritten:

21 "(a) The State Treasurer shall establish, maintain, administer, manage, and operate
22 within the Department of State Treasurer one or more investment programs for the
23 deposit and investment of assets pursuant to the provisions of G.S. 147-69.1 and G.S.
24 147-69.2. The State Treasurer must meet quarterly with the Investment Advisory
25 Committee. The State Treasurer must present the quarterly reports required by G.S. 147-
26 69.1 to the Investment Advisory Committee, and the State Treasurer must seek the
27 Committee's advice concerning the State's investment programs."

28 Section 3. G.S. 147-69.3(i) reads as rewritten:

29 "(i) The State Treasurer's annual report to the General Assembly shall include all of
30 the following:

31 (1) ~~a~~A full and complete statement of all moneys invested by virtue of the
32 provisions of G.S. 147-69.1 and G.S. 147-69.2, the G.S. 147-69.2.

33 (2) The nature and character of the investments therein, and the revenues
34 derived therefrom. The State Treasurer shall also establish from them.

35 (3) The establishment of annual investment yield targets for all moneys
36 invested by virtue of the provisions of G.S. 147-69.1 and G.S. 147-69.2,
37 and shall include in his annual report a statement of the extent that these
38 targets have been reached.

39 (4) A notation with any investment policy made against the
40 recommendation of the Investment Advisory Committee with an
41 explanation of the investment decision."

42 Section 4. G.S. 147-69.1(e) reads as rewritten:

1 "(e) The State Treasurer shall cause to be prepared quarterly statements on or
2 before the tenth day of January, April, July and October in each ~~year, which shall year.~~
3 The report must show the amount of cash on hand, the amount of money on deposit, the
4 name of each depository, and all investments for which ~~he~~ the State Treasurer is in any
5 way responsible. Each quarterly statement shall be delivered to the ~~Governor and~~
6 Governor, the Council of State, and a State, the Investment Advisory Committee, and the
7 General Assembly. A copy shall also be posted in the office of the State Treasurer for the
8 information of the public."

9 Section 5. G.S. 147-69.2(b)(8) reads as rewritten:

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

13 ...

14 (8) With respect to assets of the Teachers' and State Employees' Retirement
15 System, the Consolidated Judicial Retirement System, the Firemen's and
16 Rescue Workers' Pension Fund, the Local Governmental Employees'
17 Retirement System, and the Legislative Retirement System (hereinafter
18 referred to collectively as the Retirement Systems), preferred or
19 common stocks issued by any company incorporated or otherwise
20 created or located within or without the United States, provided:

- 21 a. That common stock or preferred stock of such corporation is
22 registered on a national securities exchange as provided in the
23 Federal Securities Exchange Act or quoted through the National
24 Association of Securities Dealers' Automated Quotations
25 (NASDAQ) system;
- 26 b. That such corporation shall have paid a cash dividend on its
27 common stock in each year of the 5-year period next preceding
28 the date of investment and the aggregate net earnings available
29 for dividends on the common stock of such corporation for the
30 whole of such period shall have been at least equal to the amount
31 of such dividends paid;
- 32 c. That in applying the dividend and earnings test under this section
33 to any issuing, assuming, or guaranteeing corporation, where
34 such corporation shall have acquired its property or any
35 substantial part thereof within a five-year period immediately
36 preceding the date of investment by consolidation, merger, or by
37 the purchase of all or a substantial portion of the property of any
38 other corporation or corporations, or shall have acquired the
39 assets of any unincorporated business enterprise by purchase or
40 otherwise, the dividends and net earnings of the several
41 predecessor or constituent corporations or enterprises shall be
42 consolidated and adjusted so as to ascertain whether or not the
43 applicable requirements of this section have been complied with;

- 1 d. That the book value of common and preferred stocks including
2 securities convertible into common stocks shall not exceed ~~fifty~~
3 ~~per centum (50%)~~ sixty-five percent (65%) of the book value of all
4 invested assets of the Retirement Systems; provided, further:
- 5 1. Not more than one and one-half ~~per centum~~ percent (1
6 1/2%) of the book value of such assets shall be invested in
7 the stock of a single corporation, and provided further;
- 8 2. The total number of shares in a single corporation shall
9 not exceed eight ~~per centum~~ percent (8%) of the issued and
10 outstanding stock of such corporation, and provided
11 further;
- 12 3. As used in this subdivision d. and elsewhere in this
13 section, book value shall mean adjusted cost basis as
14 shown on the records of the State Treasurer.
- 15 e. Up to five ~~per cent~~ percent (5%) of the limits authorized in
16 subdivision d. may be invested in the stocks or shares of a
17 diversified investment company registered under the "Investment
18 Company Act of 1940" which has total assets of at least fifty
19 million dollars (\$50,000,000).
- 20 f. Individual, common or collective trust funds of banks or trust
21 companies provided that the investment manager has assets
22 under management of at least one hundred million dollars
23 (\$100,000,000).
- 24 g. That investments may be made in securities convertible into
25 common stocks issued by any such company, if such securities
26 bear one of the four highest ratings of at least one nationally
27 recognized rating service and do not bear a rating below the four
28 highest by any nationally recognized rating service which may
29 then rate the particular security."

30 Section 6. Notwithstanding G.S. 147-69.4(b), as enacted by this act, one of the
31 initial appointments by the President Pro Tempore of the Senate and one of the initial
32 appointments by the Speaker of the House of Representatives will expire on April 1,
33 2002.

34 Section 7. This act becomes effective April 1, 2001.