



NORTH CAROLINA
DEPARTMENT OF STATE TREASURER
INVESTMENT MANAGEMENT DIVISION

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TO: Investment Advisory Committee
FROM: Shawn Wischmeier
DATE: February 16, 2011
RE: Legislative Agenda

A thorough review of all statutes relevant to NCRS was reviewed with the detail help of external legal counsel, Womble Carlyle Sandridge & Rice. Although the approach to how some of these parts have been included in the marked-up version of the legislation may appear cumbersome, a great deal of effort was put in to ensure that all parts fit together in a way that both as fully transparent and clear as possible, while at the same time allowing the desired flexibility. Additionally, care was taken to ensure that similar wording was used consistently across multiple subsections of the code.

Attached is a blacklined copy of G.S. 147-69.2 showing proposed technical corrections and other proposed changes. Please note the following:

(b)(6c) A technical correction was made to clarify that both common trust funds and collective trust funds are permitted investment vehicles under this subdivision.

(b)(8) The permitted indirect public equity investments managed by investment managers were expanded to include investments made through limited partnership, limited liability companies and other limited liability investment vehicles that are not themselves publicly traded. A conforming change was made to subdivision (b)(9) so that these indirect public equity investments are included in subdivision (b)(8) instead of (b)(9). Also, in the revised subdivision (b)(8), a separate cap of 10% would apply to these investments.

To conform to the approach of subdivisions (b)(6c) and (b)(9a) and the similar approach of subdivisions (b)(7) and (b)(9), clarification was added that the various investment vehicles must "primarily" invest in public equity. In other words, the qualification of the vehicles depends on their primary investments rather than other ancillary investments that may be included in the vehicle.

The revisions described above would allow investments in long/short equity hedge fund strategies within the public equity portfolio. The revised subdivision also allows the Treasurer to invest directly in equity securities for the primary purpose of approximating the movement of a published benchmark index. This authority would allow the Treasurer to passively manage composites of such equity securities without incurring the cost of external management. The current statute already allows the Treasurer to invest directly in equity securities; however, the ability is limited to the S&P 500 Index and does not have a restriction against the active management of portfolios internally.

(b)(9) In addition to the change conforming to (b)(8) described above, the investment limit was changed to 10%. Also, recognizing some private investment funds employ multiple strategies that may not clearly fit within a stated investment classification, additional "catch-all" language was added so that such investments are expressly authorized and count towards the percentage limit of subdivision (b)(9).