

State Treasurer’s 2016 Investment Administrative Changes Act

Summary Overview

The State Treasurer’s 2016 Investment Administrative Changes Act is designed to update statutes, adopt unanimous recommendations of the Treasurer’s bipartisan Investment Fiduciary Governance Commission, codify in statute certain key Treasurer policies on topics like audit and reporting, and allow greater internal management of assets.

Item	Additional transparency, or increased checks & balances?	Expands or tightens Treasurer’s authority?
1. Statutory updates and cleanup		
<ul style="list-style-type: none">Provides that the statutory fiduciary duties of the State Treasurer apply to all the funds managed by the Treasurer, not only the Retirement Systems.	Increases checks & balances	Tightens authority
<ul style="list-style-type: none">Clarifies that real assets (such as timberland, natural resources, commodities, infrastructure, and transportation) are always placed in the G.S. 147-69.2(b)(9a) portfolio. The current statute specifies that assets are placed in the portfolio only if the Treasurer’s primary purpose for the investment was to provide protection against risks associated with inflation. This left open whether investments were placed in the portfolio if the Treasurer’s primary purpose was to achieve superior risk-adjusted investment returns through investment in real assets.	Neutral	Neutral
<ul style="list-style-type: none">Removes restrictions that required the Treasurer to use external third-party investment managers instead of investing funds internally. Current statute allows internally managed investment only in investment-grade fixed income securities and public equity index strategies. Revised statute would allow internally managed investment, where prudent, in broader public equity strategies and in any asset class.	Neutral	Expands authority
<ul style="list-style-type: none">Adds new requirements for DST to assess certain fiduciary factors in determining the use of internal or external investment management: resourcing, expertise, alignment of interests, transparency, risk controls, and cost-effectiveness.	Increases checks & balances	Tightens authority

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• Requires internal portfolios to be subject to industry standard portfolio guidelines developed after consultation with Investment Advisory Committee.	Increases transparency	Tightens authority
• Standardizes, for all asset classes, the authorized investment structures (for example, limited liability companies, group trusts, and investment management agreements for separate accounts). Language in the current statute was developed over several decades and is not uniform, leading to inconsistencies like investment in certain separate accounts being authorized for U.S. Treasury securities generally, but not Treasury Inflation-Protected Securities.	Neutral	Expands authority
• Updates 1869 statute to clarify that State Treasurer's workweek is Monday to Friday and that State Treasurer may periodically be in travel or leave status.	Neutral	Neutral
• Eliminates statutory authorization to place investment-grade fixed income portfolio in the obligations of certain federal or federally-backed entities that no longer issue debt or are no longer investment-grade.	Neutral	Tightens authority
• Clarifies how statute treats credit rating gradations (such as AA+, AA, and AA-) used by rating agencies.	Neutral	Neutral
• Adds the Registers of Deeds' Supplemental Pension Fund to the statutory definition of "Retirement Systems," which will cause all the pension funds administered by the Treasurer to be authorized for the same investment asset classes.	Neutral	Expands authority
• Clarifies that the Retirement Systems need not be invested in lockstep with one another; based on a particular system's funding level or other relevant characteristics, the State Treasurer may choose to place funds in a customized asset allocation so long as the asset allocation meets the legal limits set out in the General Statutes.	Neutral	Expands authority

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2. Codification of key Treasurer policies		
<ul style="list-style-type: none"> Consolidates statutory reporting requirements into one section. 	Neutral	Neutral
<ul style="list-style-type: none"> Extends audited financial statement requirement that otherwise would expire. 	Increases transparency	Tightens authority
<ul style="list-style-type: none"> Requires detailed fee and performance reporting currently being provided by Treasurer under policy. 	Increases transparency	Tightens authority
<ul style="list-style-type: none"> Clarifies that DST does not have a duty to provide advice to governmental agencies to the extent such government agencies exercise control over assets deposited with DST for investment. 	Neutral	Neutral
<ul style="list-style-type: none"> Requires any State Treasurer to adopt policies, after consultation with the Investment Advisory Committee, on the most critical ethics matters, including a Code of Ethics, gifts, placement agents, post-employment restrictions, and required certifications that staff have no conflicts of interest. 	Increases checks & balances	Tightens authority
<ul style="list-style-type: none"> Clarifies Investment Advisory Committee has oversight of all assets invested by the Treasurer, not simply the Retirement Systems. 	Increases checks & balances	Tightens authority
<ul style="list-style-type: none"> Extends existing Investment Advisory Committee public member qualifications to apply to all members. 	Neutral	Tightens authority