



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

TO: Lawrence A. Martin, Executive Director, Legislative Commission on Pensions and Retirement;
The Honorable Mike Parry, Chair, State Government Innovation and Veterans Committee;
The Honorable Richard J. Cohen, Ranking Minority Caucus Member, State Government Innovation and Veterans Committee;
The Honorable Ray Vandever, Chair, Local Government and Elections Committee;
The Honorable Ellen R. Anderson, Ranking Minority Caucus Member, Local Government and Elections Committee;
The Honorable Joyce Peppin, Chair, Government Operations and Elections Committee;
The Honorable Michael V. Nelson, Ranking Minority Caucus Member, Government Operations and Elections Committee

FROM: 2010 Investment Study Group

RE: Local Retirement Fund Investment Authorities Study

DATE: January 14, 2011

The 2010 Omnibus Retirement Bill required the Office of the State Auditor to convene a group consisting of representatives from local public pension plans to study public pension investment-related provisions, authorities, and limitations under Minnesota law. Members of the Investment Study Group were:

Howard Bicker, Executive Director, Minnesota State Board of Investment;
Edward Burek, Deputy Director, Legislative Commission on Pensions and Retirement;
Bruce Duncan, President, Excelsior Fire Department Relief Association;
Dave Ganfield, Administrator, Apple Valley Fire Department Relief Association;
Dave Matlon, Treasurer, Bloomington Fire Department Relief Association;
Rebecca Otto, Minnesota State Auditor;
Teri Richardson, Assistant Executive Director, Minnesota State Board of Investment;
J. Michael Stoffel, Executive Director, Duluth Teachers' Retirement Fund Association;
Gene Waschbusch, Secretary-Treasurer, St. Paul Teachers' Retirement Fund Association;
and
Nyle Zikmund, Chief, Spring Lake Park, Blaine & Mounds View Fire Department.

In addition, notices of Investment Study Group meetings were posted and the meetings were open to the public. Representatives from local public pension plans, investment brokers, pension plan consultants, and members of the public attended the Investment Study Group meetings to share their thoughts, suggestions, and experiences.

The Investment Study Group held four meetings between August and November 2010 and assessed the effectiveness of current statutory prescriptions, and considered options for change. All of the proposed changes presented for your consideration received unanimous consent by the Investment Study Group members. The proposed changes that are attached are purely technical changes that, if adopted, will result in improved compliance with investment statutes, enhanced protection of public pension funds, and statutes that are more user-friendly and up-to-date.

Thank you for your consideration.

1.1 A bill for an act

1.2 relating to retirement; all Minnesota public pension plans; revising investment
1.3 authority provisions; amending Minnesota Statutes 2010, sections 11A.24; 69.77,
1.4 subdivision 9; 69.775; 354A.08; 356A.06, subdivisions 6, 7.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2010, section 11A.24, is amended to read:

1.7 **11A.24 AUTHORIZED INVESTMENTS.**

1.8 Subdivision 1. **Securities generally.** (a) The state board ~~shall have the authority~~ is
1.9 authorized to purchase, sell, lend or and exchange the following securities specified in this
1.10 section, for funds or accounts specifically made subject to this section, including puts and
1.11 call options and future contracts traded on a contract market regulated by a governmental
1.12 agency or by a financial institution regulated by a governmental agency. These securities
1.13 may be owned directly or through shares in exchange-traded or mutual funds, or as units
1.14 in commingled trusts that own the securities described in subdivisions 2 to 6, subject to
1.15 any limitations as specified in this section.

1.16 (b) Any agreement to lend securities must be concurrently collateralized with cash
1.17 or securities with a market value of not less than 100 percent of the market value of the
1.18 loaned securities at the time of the agreement. Any agreement for put and call options
1.19 and futures contracts may only be entered into with a fully offsetting amount of cash or
1.20 securities. Only securities authorized by this section, excluding those under subdivision 6,
1.21 paragraph (a), clauses (1) to ~~(4)~~ (3), may be accepted as collateral or offsetting securities.

1.22 Subd. 2. **Government obligations.** The state board ~~may~~ is authorized to invest
1.23 funds in governmental bonds, notes, bills, mortgages, and other evidences of indebtedness
1.24 provided if the issue is backed by the full faith and credit of the issuer or if the issue

2.1 is rated among the top four quality rating categories by a nationally recognized rating
 2.2 agency. The obligations in which the board may invest under this subdivision ~~include~~ are
 2.3 guaranteed or insured issues of ~~(a):~~

2.4 (1) the United States, its agencies, its instrumentalities, or organizations created
 2.5 and regulated by an act of Congress; ~~(b)~~

2.6 (2) the Dominion of Canada and or any of its provinces, provided the principal and
 2.7 interest is are payable in United States dollars; ~~(c)~~

2.8 (3) any of the states and or any of their municipalities, political subdivisions,
 2.9 agencies or instrumentalities; ~~(d) the International Bank for Reconstruction and~~
 2.10 ~~Development, the Inter-American Development Bank, the Asian Development Bank, the~~
 2.11 ~~African Development Bank, or and~~

2.12 (4) any other United States government sponsored organization of which the United
 2.13 States is a member, provided if the principal and interest is are payable in United States
 2.14 dollars.

2.15 Subd. 3. **Corporate obligations.** (a) The state board ~~may~~ is authorized to invest
 2.16 funds in bonds, notes, debentures, transportation equipment obligations, ~~or~~ and any other
 2.17 longer term evidences of indebtedness issued or guaranteed by a corporation organized
 2.18 under the laws of the United States or any state ~~thereof~~ of the United States, or the
 2.19 Dominion of Canada or any Canadian province ~~thereof~~ provided that if:

2.20 (1) the principal and interest of obligations of corporations incorporated or organized
 2.21 under the laws of the Dominion of Canada or any Canadian province ~~thereof~~ shall be
 2.22 are payable in United States dollars; and

2.23 (2) the obligations shall be are rated among the top four quality categories by a
 2.24 nationally recognized rating agency.

2.25 (b) The state board may invest in unrated corporate obligations or in corporate
 2.26 obligations that are not rated among the top four quality categories as provided in
 2.27 paragraph (a), clause (2), ~~provided that if:~~

2.28 (1) the aggregate value of these obligations ~~may~~ does not exceed five percent of the
 2.29 market ~~or book~~ value, ~~whichever is less,~~ of the fund for which the state board is investing;

2.30 (2) the state board's participation is limited to 50 percent of a single offering subject
 2.31 to this paragraph; and

2.32 (3) the state board's participation is limited to 25 percent of an issuer's obligations
 2.33 subject to this paragraph.

2.34 Subd. 4. **Other obligations.** (a) The state board ~~may~~ is authorized to invest funds
 2.35 ~~in bankers acceptances, certificates of deposit, deposit notes, commercial paper, mortgage~~
 2.36 ~~securities and asset backed securities, repurchase agreements and reverse repurchase~~

3.1 ~~agreements, guaranteed investment contracts, savings accounts, and guaranty fund~~
3.2 ~~certificates, surplus notes, or debentures of domestic mutual insurance companies if they~~
3.3 ~~conform to the following provisions:~~

3.4 (1) ~~bankers acceptances and deposit notes of United States banks are limited to those~~
3.5 ~~if issued by banks~~ a United States bank that is rated in the highest four quality categories
3.6 by a nationally recognized rating agency;

3.7 (2) ~~certificates of deposit are limited to those if issued by (i) a United States banks~~
3.8 ~~and savings institutions that are~~ bank or savings institution that is rated in the top four
3.9 quality categories by a nationally recognized rating agency or whose certificates of deposit
3.10 are fully insured by federal agencies; ~~or (ii) certificates of deposits issued by a credit~~
3.11 ~~unions~~ union in amounts up to an amount within the limit of the insurance coverage
3.12 provided by the National Credit Union Administration;

3.13 (3) ~~commercial paper is limited to those if issued by a United States corporations~~
3.14 ~~corporation or their~~ its Canadian subsidiaries subsidiary and if rated in the highest two
3.15 quality categories by a nationally recognized rating agency;

3.16 (4) ~~mortgage securities shall be~~ and asset-backed securities if rated in the top four
3.17 quality categories by a nationally recognized rating agency;

3.18 (5) ~~collateral for repurchase agreements and reverse repurchase agreements is~~
3.19 ~~limited to~~ if collateralized with letters of credit and or securities authorized in this section;

3.20 (6) ~~guaranteed investment contracts are limited to those if issued by an insurance~~
3.21 ~~companies~~ company or banks a bank that is rated in the top four quality categories by a
3.22 nationally recognized rating agency or to alternative guaranteed investment contracts
3.23 where if the underlying assets comply with the requirements of this section;

3.24 (7) ~~savings accounts are limited to those if fully insured by a federal agencies~~
3.25 ~~agency;~~ and

3.26 (8) ~~asset backed securities shall be rated in the top four quality categories by a~~
3.27 ~~nationally recognized rating agency~~ guaranty fund certificates, surplus notes, or debentures
3.28 if issued by a domestic mutual insurance company.

3.29 (b) Sections 16A.58, 16C.03, subdivision 4, and 16C.05 do not apply to certificates
3.30 of deposit and collateralization agreements executed by the state board under paragraph
3.31 (a), clause (2).

3.32 (c) In addition to investments authorized by paragraph (a), clause (4), the state board
3.33 may is authorized to purchase from the Minnesota Housing Finance Agency all or any
3.34 part of a pool of residential mortgages, not in default, that has previously been financed
3.35 by the issuance of bonds or notes of the agency. The state board may also enter into a
3.36 commitment with the agency, at the time of any issue of bonds or notes, to purchase at

4.1 a specified future date, not exceeding 12 years from the date of the issue, the amount of
4.2 mortgage loans then outstanding and not in default that have been made or purchased from
4.3 the proceeds of the bonds or notes. The state board may charge reasonable fees for any
4.4 such commitment and may agree to purchase the mortgage loans at a price sufficient to
4.5 produce a yield to the state board comparable, in its judgment, to the yield available on
4.6 similar mortgage loans at the date of the bonds or notes. The state board may also enter
4.7 into agreements with the agency for the investment of any portion of the funds of the
4.8 agency. The agreement must cover the period of the investment, withdrawal privileges,
4.9 and any guaranteed rate of return.

4.10 Subd. 5. **Corporate stocks.** The state board ~~may~~ is authorized to invest funds in
4.11 stocks or convertible issues of any corporation organized under the laws of the United
4.12 States or ~~the any of its states thereof~~, the Dominion of Canada or any of its provinces, or
4.13 any corporation listed on an exchange that is regulated by an agency of the United States
4.14 or of the Canadian national government, ~~if they conform to the following provisions:~~

4.15 ~~(a) The aggregate value of corporate stock investments, as adjusted for realized~~
4.16 ~~profits and losses, shall not exceed 85 percent of the market or book value, whichever is~~
4.17 ~~less, of a fund, less the aggregate value of investments according to subdivision 6;~~

4.18 ~~(b) Investments shall.~~ An investment in any corporation must not exceed five
4.19 percent of the total outstanding shares of any one that corporation, except that the state
4.20 board may hold up to 20 percent of the shares of a real estate investment trust and up to 20
4.21 percent of the shares of a closed-end mutual fund.

4.22 Subd. 5a. **Asset mix limitations.** The aggregate value of investments under
4.23 subdivision 5, plus the aggregate value of all investments under subdivision 6, must not
4.24 exceed 85 percent of the market value of a fund.

4.25 Subd. 6. **Other investments.** (a) In addition to the investments authorized in
4.26 subdivisions 1 to 5, and subject to the provisions in paragraph (b), the state board ~~may~~
4.27 is authorized to invest funds in:

4.28 (1) ~~venture capital~~ equity and debt investment businesses through participation in
4.29 limited partnerships, trusts, private placements, limited liability corporations, limited
4.30 liability companies, limited liability partnerships, and corporations;

4.31 (2) real estate ownership interests or loans secured by mortgages or deeds of trust or
4.32 shares of real estate investment trusts through investment in limited partnerships, bank
4.33 -sponsored collective funds, trusts, mortgage participation agreements, and insurance
4.34 company commingled accounts, including separate accounts;

5.1 ~~(3) regional and mutual funds through bank sponsored collective funds and open-end~~
5.2 ~~investment companies registered under the Federal Investment Company Act of 1940, and~~
5.3 ~~closed-end mutual funds listed on an exchange regulated by a governmental agency;~~

5.4 ~~(4)~~ (3) resource investments through limited partnerships, trusts, private placements,
5.5 limited liability corporations, limited liability companies, limited liability partnerships,
5.6 and corporations; and

5.7 ~~(5)~~ (4) international securities.

5.8 (b) The investments authorized in paragraph (a) must conform to the following
5.9 provisions:

5.10 (1) the aggregate value of all investments made ~~according to~~ under paragraph (a),
5.11 clauses (1) to ~~(4)~~ (3), may not exceed 35 percent of the market value of the fund for
5.12 which the state board is investing;

5.13 (2) there must be at least four unrelated owners of the investment other than the state
5.14 board for investments made under paragraph (a), clause (1), (2), or (3), ~~or~~ (4);

5.15 (3) state board participation in an investment vehicle is limited to 20 percent thereof
5.16 for investments made under paragraph (a), clause (1), (2), or (3), ~~or~~ (4); and

5.17 (4) state board participation in a limited partnership does not include a general
5.18 partnership interest or other interest involving general liability. The state board may not
5.19 engage in any activity as a limited partner which creates general liability.

5.20 (c) All financial, business, or proprietary data collected, created, received, or
5.21 maintained by the state board in connection with investments authorized by paragraph (a),
5.22 clause (1), (2), or ~~(4)~~ (3), are nonpublic data under section 13.02, subdivision 9. As used
5.23 in this paragraph, "financial, business, or proprietary data" means data, as determined by
5.24 the responsible authority for the state board, that is of a financial, business, or proprietary
5.25 nature, the release of which could cause competitive harm to the state board, the legal
5.26 entity in which the state board has invested or has considered an investment, the managing
5.27 entity of an investment, or a portfolio company in which the legal entity holds an interest.
5.28 As used in this section, "business data" is data described in section 13.591, subdivision 1.
5.29 Regardless of whether they could be considered financial, business, or proprietary data, the
5.30 following data received, prepared, used, or retained by the state board in connection with
5.31 investments authorized by paragraph (a), clause (1), (2), or ~~(4)~~ (3), are public at all times:

5.32 (1) the name and industry group classification of the legal entity in which the state
5.33 board has invested or in which the state board has considered an investment;

5.34 (2) the state board commitment amount, if any;

5.35 (3) the funded amount of the state board's commitment to date, if any;

5.36 (4) the market value of the investment by the state board;

6.1 (5) the state board's internal rate of return for the investment, including expenditures
6.2 and receipts used in the calculation of the investment's internal rate of return; and

6.3 (6) the age of the investment in years.

6.4 Subd. 7. **Appropriation.** There is annually appropriated to the state board, from
6.5 the assets of the funds for which the state board invests ~~pursuant~~ relating to authorized
6.6 investments under subdivision 6, clause paragraph (a), sums sufficient to pay the costs for
6.7 the management of these ~~funds~~ assets by private management firms.

6.8 **EFFECTIVE DATE.** This section is effective the day following final enactment.

6.9 Sec. 2. Minnesota Statutes 2010, section 69.77, subdivision 9, is amended to read:

6.10 Subd. 9. **Local police and paid fire relief association investment authority.**

6.11 (a) The ~~funds~~ special fund of the association must be invested in securities that are
6.12 authorized investments under section 356A.06, subdivision 6 or 7, whichever applies.

6.13 ~~Notwithstanding any provision of section 356A.06, subdivision 6 or 7 to the contrary, the~~
6.14 ~~special fund of the relief association may be additionally invested in:~~

6.15 ~~(1) open-end investment companies registered under the federal Investment~~
6.16 ~~Company Act of 1940, if the portfolio investments of the investment companies comply~~
6.17 ~~with the type of securities authorized for investment under section 356A.06, subdivision 7,~~
6.18 ~~up to 75 percent of the market value of the assets of the fund; and~~

6.19 ~~(2) domestic government and corporate debt obligations that are not rated in the top~~
6.20 ~~four quality categories by a nationally recognized rating agency, and comparable unrated~~
6.21 ~~securities if the percentage of these assets does not exceed five percent of the total assets~~
6.22 ~~of the special fund or 15 percent of the special fund's nonequity assets, whichever is less,~~
6.23 ~~the special fund's participation is limited to 50 percent of a single offering of the debt~~
6.24 ~~obligations, and the special fund's participation is limited to 25 percent of an issuer's debt~~
6.25 ~~obligations that are not rated in the top four quality categories. Securities held by the~~
6.26 ~~association before June 2, 1989, that do not meet the requirements of this subdivision may~~
6.27 ~~be retained after that date if they were proper investments for the association on that date.~~

6.28 ~~(b) The governing board of the association may select and appoint investment~~
6.29 ~~agencies to act for and in its behalf or may certify special fund assets for investment by the~~
6.30 ~~State Board of Investment under section 11A.17. The governing board of the association~~
6.31 ~~may certify general fund assets of the relief association for investment by the State Board~~
6.32 ~~of Investment in fixed income pools or in a separately managed account at the discretion~~
6.33 ~~of the State Board of Investment as provided in section 11A.14. The governing board of~~
6.34 ~~the association may select and appoint a qualified private firm to measure management~~

7.1 performance and return on investment, and the firm ~~shall~~ must use the formula or formulas
7.2 developed by the state board under section 11A.04, clause (11).

7.3 (c) The governing board of the association may certify general fund assets of the
7.4 relief association for investment by the State Board of Investment in fixed income pools
7.5 or in a separately managed account at the discretion of the State Board of Investment
7.6 as provided in section 11A.14.

7.7 **EFFECTIVE DATE.** This section is effective the day following final enactment.

7.8 Sec. 3. Minnesota Statutes 2010, section 69.775, is amended to read:

7.9 **69.775 INVESTMENTS.**

7.10 (a) The special fund assets of a relief association governed by sections 69.771 to
7.11 69.776 must be invested in securities that are authorized investments under section
7.12 356A.06, subdivision 6 or 7, whichever applies.

7.13 ~~(b) Notwithstanding the foregoing, up to 75 percent of the market value of the assets~~
7.14 ~~of the special fund, not including any money market mutual funds, may be invested in~~
7.15 ~~open-end investment companies registered under the federal Investment Company Act of~~
7.16 ~~1940, if the portfolio investments of the investment companies comply with the type of~~
7.17 ~~securities authorized for investment under section 356A.06, subdivision 7.~~

7.18 ~~(c) Securities held by the associations before June 2, 1989, that do not meet the~~
7.19 ~~requirements of this section may be retained after that date if they were proper investments~~
7.20 ~~for the association on that date.~~

7.21 ~~(d) The governing board of the association may select and appoint investment~~
7.22 ~~agencies to act for and in its behalf or may certify special fund assets for investment by the~~
7.23 ~~State Board of Investment under section 11A.17.~~

7.24 ~~(e) The governing board of the association may certify general fund assets of the~~
7.25 ~~relief association for investment by the State Board of Investment in fixed income pools~~
7.26 ~~or in a separately managed account at the discretion of the State Board of Investment~~
7.27 ~~as provided in section 11A.14.~~

7.28 ~~(f)~~ (b) The governing board of the association may select and appoint a qualified
7.29 private firm to measure management performance and return on investment, and the
7.30 firm ~~shall~~ must use the formula or formulas developed by the state board under section
7.31 11A.04, clause (11).

7.32 **EFFECTIVE DATE.** This section is effective the day following final enactment.

8.1 Sec. 4. Minnesota Statutes 2010, section 354A.08, is amended to read:

8.2 **354A.08 AUTHORIZED INVESTMENTS.**

8.3 ~~(a) In addition to investments authorized under section 356A.06, subdivision 7, a~~
 8.4 ~~teachers retirement fund association may receive, hold, and dispose of:~~

8.5 ~~(1) real estate or personal property acquired by it, whether the acquisition was by~~
 8.6 ~~purchase; or any other lawful means, as provided in this chapter or in the association's~~
 8.7 ~~articles of incorporation; and.~~

8.8 ~~(2) domestic government and corporate debt obligations that are not rated in the top~~
 8.9 ~~four quality categories by a nationally recognized rating agency, and comparable unrated~~
 8.10 ~~securities if the percentage of these assets does not exceed five percent of the total assets~~
 8.11 ~~of the pension plan or 15 percent of the pension plan's nonequity assets, whichever is less,~~
 8.12 ~~if the pension plan's participation is limited to 50 percent of a single offering of the debt~~
 8.13 ~~obligations, and if the pension plan's participation is limited to 25 percent of an issuer's~~
 8.14 ~~debt obligations that are not rated in the top four quality categories.~~

8.15 ~~(b) In addition to other authorized real estate investments, an association may also~~
 8.16 ~~invest funds in Minnesota situs nonfarm real estate ownership interests or loans secured~~
 8.17 ~~by mortgages or deeds of trust. The board may also certify assets for investment by the~~
 8.18 ~~State Board of Investment as provided under section 11A.17.~~

8.19 **EFFECTIVE DATE.** This section is effective the day following final enactment.

8.20 Sec. 5. Minnesota Statutes 2010, section 356A.06, subdivision 6, is amended to read:

8.21 Subd. 6. **Limited list of authorized investment securities.** (a) ~~Except to the~~
 8.22 ~~extent otherwise authorized by law, Authority. This subdivision specifies the investment~~
 8.23 ~~authority for a limited list plan. A limited list plan is a covered pension plan may invest its~~
 8.24 ~~assets only in investment securities authorized by this subdivision if the plan that does not:~~

8.25 (1) have assets with a ~~book~~ market value in excess of \$1,000,000;

8.26 (2) use the services of an investment advisor registered with the Securities and
 8.27 Exchange Commission in accordance with the Investment Advisers Act of 1940, or
 8.28 registered as an investment advisor in accordance with sections 80A.58, and 80A.60, for
 8.29 the investment of at least 60 percent of its assets, calculated on ~~book~~ market value;

8.30 (3) use the services of the State Board of Investment for the investment of at least 60
 8.31 percent of its assets, calculated on ~~book~~ market value; or

8.32 (4) use a combination of the services of an investment advisor meeting the
 8.33 requirements of clause (2) and the services of the State Board of Investment for the
 8.34 investment of at least 75 percent of its assets, calculated on ~~book~~ market value.

9.1 ~~(b) **Investment agency appointment authority.** securities authorized for~~ The
9.2 governing board of a covered pension plan covered by this subdivision are: may select
9.3 and appoint investment agencies to act for or on its behalf.

9.4 ~~(c) **Savings accounts; similar vehicles.** A limited list plan is authorized to invest in:~~

9.5 ~~(1) certificates of deposit issued, to the extent of available insurance or~~
9.6 ~~collateralization, by a financial institution that is a member of the Federal Deposit~~
9.7 ~~Insurance Corporation or the Federal Savings and Loan Insurance Corporation, that is~~
9.8 ~~insured by the National Credit Union Administration, or that is authorized to do business~~
9.9 ~~in this state and has deposited with the chief administrative officer of the plan a sufficient~~
9.10 ~~amount of marketable securities as collateral in accordance with section 118A.03;~~

9.11 ~~(2) guaranteed investment contracts, limited to those issued by insurance companies~~
9.12 ~~or banks rated in the top four quality categories by a nationally recognized rating agency~~
9.13 ~~or to alternative guaranteed investment contracts where the underlying assets comply~~
9.14 ~~with the requirements of this paragraph; and~~

9.15 ~~(3) savings accounts, to the extent of available insurance, with a financial institution~~
9.16 ~~that is a member of the Federal Deposit Insurance Corporation or the Federal Savings and~~
9.17 ~~Loan Insurance Corporation; limited to those fully insured by federal agencies.~~

9.18 ~~(3) (d) **Government-backed obligations.** A limited list plan is authorized to invest~~
9.19 ~~in governmental obligations as further specified in this paragraph, including bonds, notes,~~
9.20 ~~bills, or other fixed obligations, issued by the United States, an agency or instrumentality~~
9.21 ~~of the United States, an organization established and regulated by an act of Congress or by~~
9.22 ~~a state, state agency or instrumentality, municipality, or other governmental or political~~
9.23 ~~subdivision that mortgages, and other evidences of indebtedness, if the issue is backed~~
9.24 ~~by the full faith and credit of the issuer or if the issue is rated among the top four quality~~
9.25 ~~rating categories by a nationally recognized rating agency. The obligations in which plans~~
9.26 ~~are authorized to invest under this paragraph are guaranteed or insured issues of:~~

9.27 ~~(i) for the obligation in question, issues an obligation that equals or exceeds the~~
9.28 ~~stated investment yield of debt securities not exempt from federal income taxation and of~~
9.29 ~~comparable quality;~~

9.30 ~~(ii) for an obligation that is a revenue bond, has been completely self-supporting~~
9.31 ~~for the last five years; and~~

9.32 ~~(iii) for an obligation other than a revenue bond, has issued an obligation backed by~~
9.33 ~~the full faith and credit of the applicable taxing jurisdiction and has not been in default on~~
9.34 ~~the payment of principal or interest on the obligation in question or any other nonrevenue~~
9.35 ~~bond obligation during the preceding ten years;~~

10.1 (1) the United States, one of its agencies, one of its instrumentalities, or an
10.2 organization created and regulated by an act of Congress;

10.3 (2) the Dominion of Canada or one of its provinces if the principal and interest are
10.4 payable in United States dollars;

10.5 (3) a state or one of its municipalities, political subdivisions, agencies, or
10.6 instrumentalities; or

10.7 (4) any United States government sponsored organization of which the United States
10.8 is a member if the principal and interest are payable in United States dollars.

10.9 ~~(4) (e) **Corporate obligations.** A limited list plan is authorized to invest in corporate~~
10.10 ~~obligations, including bonds, notes, debentures, or other regularly issued and readily~~
10.11 ~~marketable evidences of indebtedness issued by a corporation organized under the laws~~
10.12 ~~of any state that during the preceding five years has had on average annual net pretax~~
10.13 ~~earnings at least 50 percent greater than the annual interest charges and principal payments~~
10.14 ~~on the total issued debt of the corporation during that period and that, for the obligation~~
10.15 ~~in question, has issued an obligation rated in one of the top three quality categories by~~
10.16 ~~Moody's Investors Service, Incorporated, or Standard and Poor's Corporation; and~~

10.17 ~~(5) shares in an open-end investment company registered under the federal~~
10.18 ~~Investment Company Act of 1940, if the portfolio investments of the company are limited~~
10.19 ~~to investments that meet the requirements of clauses (1) to (4); transportation equipment~~
10.20 ~~obligations, or any other longer term evidences of indebtedness issued or guaranteed by~~
10.21 ~~a corporation organized under the laws of the United States or any of its states, or the~~
10.22 ~~Dominion of Canada or any of its provinces if:~~

10.23 ~~(1) the principal and interest are payable in United States dollars; and~~

10.24 ~~(2) the obligations are rated among the top four quality categories by a nationally~~
10.25 ~~recognized rating agency.~~

10.26 ~~(f) **Mutual fund authority, limited list authorized assets.** Securities authorized~~
10.27 ~~under paragraphs (c) to (e) may be owned directly or through shares in exchange-traded~~
10.28 ~~funds, or through open-end mutual funds, or as units of commingled trusts.~~

10.29 ~~(g) **Extended mutual fund authority.** Notwithstanding restrictions in other~~
10.30 ~~paragraphs of this subdivision, a limited list plan is authorized to invest the assets of~~
10.31 ~~the special fund in exchange-traded funds and open-end mutual funds, if their portfolio~~
10.32 ~~investments comply with the type of securities authorized for investment under section~~
10.33 ~~356A.06, subdivision 7, paragraphs (c) to (g). Investments under this paragraph must not~~
10.34 ~~exceed 75 percent of the assets of the special fund, not including any money market~~
10.35 ~~investments through mutual or exchange-traded funds.~~

11.1 (h) Supplemental fund authority. The governing body of a limited list plan may
 11.2 certify special fund assets to the State Board of Investment for investment under section
 11.3 11A.17.

11.4 (i) Assets mix restrictions. A limited list plan must conform to the asset mix
 11.5 limitations specified in section 356A.06, subdivision 7.

11.6 EFFECTIVE DATE. This section is effective the day following final enactment.

11.7 Sec. 6. Minnesota Statutes 2010, section 356A.06, subdivision 7, is amended to read:

11.8 Subd. 7. **Expanded list of authorized investment securities.** (a) **Authority.**

11.9 ~~Except to the extent otherwise authorized by law,~~ A covered pension plan not described by
 11.10 subdivision 6, paragraph (a), is an expanded list plan and shall invest its assets only in
 11.11 accordance with as specified in this subdivision. The governing board of an expanded list
 11.12 plan may select and appoint investment agencies to act for or on its behalf.

11.13 (b) **Securities generally; investment forms.** ~~The covered pension~~ An expanded list
 11.14 plan has the authority is authorized to purchase, sell, lend, or and exchange the investment
 11.15 securities specified in paragraphs (c) to (i) authorized under this subdivision, including
 11.16 puts and call options and future contracts traded on a contract market regulated by a
 11.17 governmental agency or by a financial institution regulated by a governmental agency.
 11.18 These securities may be owned directly or through shares in exchange-traded or mutual
 11.19 funds, or as units in commingled trusts that own the securities described in paragraphs (c)
 11.20 to (i), including real estate investment trusts and insurance company commingled accounts,
 11.21 including separate accounts, subject to any limitations specified in this subdivision.

11.22 (c) **Government obligations.** ~~The covered pension~~ An expanded list plan may
 11.23 is authorized to invest funds in governmental bonds, notes, bills, mortgages, and other
 11.24 evidences of indebtedness if the issue is backed by the full faith and credit of the issuer or
 11.25 the issue is rated among the top four quality rating categories by a nationally recognized
 11.26 rating agency. The obligations in which funds may be invested under this paragraph
 11.27 include are guaranteed or insured issues of:

11.28 (1) the United States, one of its agencies, one of its instrumentalities, or organizations
 11.29 an organization created and regulated by an act of Congress;

11.30 (2) the Dominion of Canada and or one of its provinces, provided if the principal
 11.31 and interest is are payable in United States dollars;

11.32 (3) ~~the states and their~~ a state or one of its municipalities, political subdivisions,
 11.33 agencies, or instrumentalities; and

11.34 (4) ~~the International Bank for Reconstruction and Development, the Inter-American~~
 11.35 ~~Development Bank, the Asian Development Bank, the African Development Bank, or any~~

12.1 ~~other~~ a United States government-sponsored organization of which the United States is a
 12.2 member, ~~provided~~ if the principal and interest is are payable in United States dollars.

12.3 (d) **Investment-grade corporate obligations.** ~~The covered pension~~ An expanded
 12.4 list plan may is authorized to invest funds in bonds, notes, debentures, transportation
 12.5 equipment obligations, or any other longer term evidences of indebtedness issued or
 12.6 guaranteed by a corporation organized under the laws of the United States or any state
 12.7 thereof of its states, or the Dominion of Canada or any province thereof of its provinces if
 12.8 they conform to the following provisions:

12.9 (1) ~~the principal and interest of obligations of corporations incorporated or organized~~
 12.10 ~~under the laws of the Dominion of Canada or any province thereof must be~~ are payable in
 12.11 United States dollars; and

12.12 (2) ~~the obligations must be~~ are rated among the top four quality categories by a
 12.13 nationally recognized rating agency.

12.14 (e) **Below-investment-grade corporate obligations.** An expanded list plan is
 12.15 authorized to invest in unrated corporate obligations or in corporate obligations that are
 12.16 not rated among the top four quality categories if the:

12.17 (1) aggregate value of these obligations does not exceed five percent of the covered
 12.18 pension plan's market value;

12.19 (2) covered pension plan's participation is limited to 50 percent of a single offering
 12.20 subject to this paragraph; and

12.21 (3) covered pension plan's participation is limited to 25 percent of an issuer's
 12.22 obligations subject to this paragraph.

12.23 (e) (f) **Other obligations.** (1) ~~The covered pension~~ An expanded list plan may is
 12.24 authorized to invest funds in ~~bankers acceptances, certificates of deposit, deposit notes,~~
 12.25 ~~commercial paper, mortgage participation certificates and pools, asset backed securities,~~
 12.26 ~~repurchase agreements and reverse repurchase agreements, guaranteed investment~~
 12.27 ~~contracts, savings accounts, and guaranty fund certificates, surplus notes, or debentures of~~
 12.28 ~~domestic mutual insurance companies if they conform to the following provisions:~~

12.29 (i) ~~bankers acceptances and deposit notes of United States banks are limited to those~~
 12.30 if issued by banks a United States bank that is rated in the highest four quality categories
 12.31 by a nationally recognized rating agency;

12.32 (ii) ~~certificates of deposit are limited to those if issued by (A) a United States~~
 12.33 ~~banks and bank or savings institutions that are~~ institution rated in the highest four quality
 12.34 categories by a nationally recognized rating agency or whose certificates of deposit are
 12.35 fully insured by federal agencies, or (B) if issued by a credit unions union in amounts

13.1 ~~up to~~ an amount within the limit of the insurance coverage provided by the National
13.2 Credit Union Administration;

13.3 (iii) ~~commercial paper is limited to those if issued by a United States corporations~~
13.4 corporation or their its Canadian subsidiaries subsidiary and if rated in the highest two
13.5 quality categories by a nationally recognized rating agency;

13.6 (iv) ~~mortgage participation or pass through certificates evidencing interests in pools~~
13.7 ~~of first mortgages or trust deeds on improved real estate located in the United States where~~
13.8 ~~the loan to value ratio for each loan as calculated in accordance with section 61A.28,~~
13.9 ~~subdivision 3, does not exceed 80 percent for fully amortizable residential properties and~~
13.10 ~~in all other respects meets the requirements of section 61A.28, subdivision 3~~ securities
13.11 and asset-backed securities if rated in the top four quality categories by a nationally
13.12 recognized rating agency;

13.13 (v) ~~collateral for~~ repurchase agreements and reverse repurchase agreements ~~is~~
13.14 ~~limited to~~ if collateralized with letters of credit ~~and or~~ securities authorized in this section;

13.15 (vi) guaranteed investment contracts ~~are limited to those if issued by an insurance~~
13.16 ~~companies company or banks a bank that is~~ rated in the top four quality categories by a
13.17 nationally recognized rating agency or ~~to~~ alternative guaranteed investment contracts
13.18 ~~where~~ if the underlying assets comply with the requirements of this subdivision;

13.19 (vii) savings accounts ~~are limited to those if fully insured by a federal agencies~~
13.20 agency; and

13.21 (viii) ~~asset backed securities must be rated in the top four quality categories by a~~
13.22 ~~nationally recognized rating agency~~ guaranty fund certificates, surplus notes, or debentures
13.23 if issued by a domestic mutual insurance company.

13.24 (2) Sections 16A.58, 16C.03, subdivision 4, and 16C.05 do not apply to certificates
13.25 of deposit and collateralization agreements executed by the covered pension plan under
13.26 clause (1), item (ii).

13.27 (3) In addition to investments authorized by clause (1), item (iv), ~~the covered pension~~
13.28 an expanded list plan may is authorized to purchase from the Minnesota Housing Finance
13.29 Agency all or any part of a pool of residential mortgages, not in default, that has previously
13.30 been financed by the issuance of bonds or notes of the agency. The covered pension plan
13.31 may also enter into a commitment with the agency, at the time of any issue of bonds or
13.32 notes, to purchase at a specified future date, not exceeding 12 years from the date of the
13.33 issue, the amount of mortgage loans then outstanding and not in default that have been
13.34 made or purchased from the proceeds of the bonds or notes. The covered pension plan may
13.35 charge reasonable fees for any such commitment and may agree to purchase the mortgage
13.36 loans at a price sufficient to produce a yield to the covered pension plan comparable, in

14.1 its judgment, to the yield available on similar mortgage loans at the date of the bonds or
14.2 notes. The covered pension plan may also enter into agreements with the agency for the
14.3 investment of any portion of the funds of the agency. The agreement must cover the period
14.4 of the investment, withdrawal privileges, and any guaranteed rate of return.

14.5 ~~(f)~~ (g) Corporate stocks. ~~The covered pension~~ An expanded list plan may is
14.6 authorized to invest funds in stocks or convertible issues of any corporation organized
14.7 under the laws of the United States or ~~the~~ any of its states ~~thereof~~, any corporation
14.8 organized under the laws of the Dominion of Canada or any of its provinces, or any
14.9 corporation listed on an exchange that is regulated by an agency of the United States or of
14.10 the Canadian national government, if they conform to the following provisions:

14.11 ~~(1) the aggregate value of investments under this paragraph, plus paragraphs (g) and~~
14.12 ~~(k), plus equity investments under paragraphs (h), (i), and (j), as adjusted for realized~~
14.13 ~~gains and losses, must not exceed 85 percent of the market or book value, whichever is~~
14.14 ~~less, of a fund; and~~

14.15 ~~(2) investments.~~ An investment in any corporation must not exceed five percent
14.16 of the total outstanding shares of any one that corporation, except that an expanded list
14.17 plan may hold up to 20 percent of the shares of a real estate investment trust and up to 20
14.18 percent of the shares of a closed mutual fund.

14.19 ~~(g) Developed market foreign stocks investments.~~ ~~In addition to investments~~
14.20 ~~authorized under paragraph (f), the covered pension fund may invest in foreign stock sold~~
14.21 ~~on an exchange in any developed market country that is included in the Europe, Australia,~~
14.22 ~~and Far East Index.~~

14.23 ~~(h) Commingled or mutual investments.~~ ~~The covered pension plan may invest~~
14.24 ~~in index funds or mutual funds, including index mutual funds, through bank-sponsored~~
14.25 ~~collective funds and shares of open-end investment companies registered under the~~
14.26 ~~Federal Investment Company Act of 1940, to the extent that these funds comply with~~
14.27 ~~paragraphs (c) to (j).~~

14.28 ~~(i) Real estate investment trust; related investments.~~ ~~The covered pension plan~~
14.29 ~~may invest in real estate investment trusts secured by mortgages or deeds of trust and~~
14.30 ~~sold on an exchange, and insurance company commingled accounts, including separate~~
14.31 ~~accounts, of a debt or equity nature.~~

14.32 ~~(j) Exchange traded funds.~~ ~~The covered pension plan may invest funds in exchange~~
14.33 ~~traded funds, subject to the maximums, the requirements, and the limitations set forth in~~
14.34 ~~paragraphs (c) to (i), as applicable.~~

15.1 ~~(k)~~ (h) Other investments. (1) In addition to the investments authorized in
 15.2 paragraphs (b) to ~~(j)~~ (g), and subject to the provisions in clause (2), ~~the covered pension~~
 15.3 an expanded list plan may is authorized to invest funds in:

15.4 (i) ~~venture capital~~ equity and debt investment businesses through participation in
 15.5 limited partnerships, trusts, private placements, limited liability corporations, limited
 15.6 liability companies, limited liability partnerships, and corporations;

15.7 (ii) real estate ownership interests or loans secured by mortgages or deeds of trust
 15.8 or shares of real estate investment trusts, through investment in limited partnerships or,
 15.9 bank-sponsored collective funds, trusts, mortgage participation agreements, and insurance
 15.10 company commingled accounts, including separate accounts;

15.11 ~~(iii) regional and mutual funds through bank sponsored collective funds and~~
 15.12 ~~open-end investment companies registered under the Federal Investment Company Act of~~
 15.13 ~~1940 to the extent that a fund or a portion of a fund does not qualify under paragraph (h);~~

15.14 ~~(iv)~~ (iii) resource investments through limited partnerships, trusts, private
 15.15 placements, limited liability corporations, limited liability companies, limited liability
 15.16 partnerships, and corporations; and

15.17 ~~(v)~~ (iv) international debt securities and emerging market equity securities.

15.18 (2) The investments authorized in clause (1) must conform to the following
 15.19 provisions:

15.20 (i) the aggregate value of all investments made ~~according to~~ under clause (1),
 15.21 ~~including allocated amounts of index and mutual funds~~ items (i), (ii), and (iii), may not
 15.22 exceed ~~20~~ 35 percent of the market value of the fund for which the ~~covered pension~~
 15.23 expanded list plan is investing;

15.24 (ii) there must be at least four unrelated owners of the investment other than the
 15.25 ~~covered pension~~ expanded list plan for investments made under clause (1), item (i), (ii),
 15.26 or (iii), or (iv);

15.27 (iii) ~~covered pension plan~~ the expanded list plan's participation in an investment
 15.28 vehicle is limited to 20 percent thereof for investments made under clause (1), item (i),
 15.29 (ii), or (iii), or (iv); and

15.30 (iv) ~~covered pension plan~~ the expanded list plan's participation in a limited
 15.31 partnership does not include a general partnership interest or other interest involving
 15.32 general liability. The ~~covered pension~~ expanded list plan may not engage in any activity
 15.33 as a limited partner which creates general liability; and

15.34 (v) for volunteer firefighter relief associations, emerging market equity and
 15.35 international debt investments must not exceed 15 percent of the association's special
 15.36 fund market value.

16.1 (i) Supplemental plan investments. The governing body of an expanded list plan
16.2 may certify assets to the State Board of Investment for investment under section 11A.17.

16.3 (j) Asset mix limitations. The aggregate value of an expanded list plan's
16.4 investments under paragraphs (g) and (h) and equity investments under paragraph (i),
16.5 regardless of the form in which these investments are held, must not exceed 85 percent of
16.6 the covered plan's market value.

16.7 EFFECTIVE DATE. This section is effective the day following final enactment.

16.8 Sec. 7. INVESTMENT AUTHORITY TRANSITION PROVISION.

16.9 If any investment by the State Board of Investment or any covered pension plan fund
16.10 was an authorized investment under law in effect immediately before the effective date
16.11 of applicable sections of this act, but is not authorized by this act, the applicable assets
16.12 must be liquidated before June 30, 2013.

16.13 EFFECTIVE DATE. This section is effective the day following final enactment.