

## **Mutual Fund Revisions**

### **Issues related to Minn. Stat. Section 69.775:**

With the recent proposed changes to the mutual fund provisions on the long list, Minn. Stat. Section 69.775 does not appear to grant any additional authority to long list users. Paid fire and police relief associations have the same authority under Minn. Stat. Section 69.77 Subd. 9 (a)(1).

For short list users Minn. Stat. Section 69.775 (b) does provide additional options, since the short list itself restricts investment to mutual funds that invest only in investments authorized on the short list, which is limited to certificates of deposit, and certain government and corporate obligations. There are probably very few mutual funds that meet these criteria.

However, Minn. Stat. Section 69.775 in its current form may provide too many options. This statute restricts mutual funds to long list investments, including “other investments.” By using this statute short list users can indirectly invest in resource investments, venture capital investment businesses, and international debt securities.

Additionally there are language problems with this Minn. Stat. Section 69.775 (b). The phrase “not including money market funds” was added to this statute to exclude money market mutual funds from the 75 percent cap. Since this statute authorizes and limits mutual fund investment, this phrase causes some confusion as to whether it is excluding money market funds from the additional authorization or excluding them from the 75 percent cap.

Finally, Minn. Stat. § 69.775 authorizes short list and long list users to certify assets for investment by the State Board of Investment. It is important that short list and long list users retain this authority.

### **Proposed Changes:**

#### **69.775 INVESTMENTS.**

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

~~(b) Notwithstanding the foregoing, up to 75 percent of the market value of the assets of the special fund, not including any money market mutual funds, may be invested in open end investment companies registered under the federal Investment Company Act of 1940, if the portfolio investments of the investment companies comply with the type of securities authorized for investment under section 356A.06, subdivision 7. [See change to 356A.06, subdivision 6 (c) in Exhibit D.]~~

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

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

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

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

## **69.77 POLICE AND FIREFIGHTERS' RELIEF ASSOCIATION GUIDELINES ACT.**

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

(a) The funds of the association must be invested in securities that are authorized investments under section 356A.06, subdivision 6 or 7, whichever applies. Notwithstanding any provision of section 356A.06, subdivision 6 or 7 to the contrary, the special fund of the relief association may be additionally invested in:

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

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

(b) The governing board of the association may select and appoint investment agencies to act for and in its behalf or may certify special fund assets for investment by the State Board of Investment under section 11A.17. The governing board of the association may certify general fund assets of the relief association for investment by the State Board of Investment in fixed income pools or in a separately managed account at the discretion of the State Board of Investment as provided in section 11A.14. The governing board of the association may select and

appoint a qualified private firm to measure management performance and return on investment, and the firm shall use the formula or formulas developed by the state board under section 11A.04, clause (11).