

HF3272 (Albright); SFxxxx: Authorizing New Investments for the State Board of Investment

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ATTACHMENT: Investment Advisory Council Report memo dated November 25, 2019:
"Proposed Statutory Amendments to Investment Authority"

Summary

HF 3272 (Albright); SF xxxx authorizes the State Board of Investment (SBI) to invest in three new types of investments. The three new types of investments are (1) co-investments and separate accounts, (2) bank loans, and (3) liquid alternatives. The bill also exempts liquid alternatives from a requirement that private market investments cannot exceed 35% of a fund's portfolio (i.e., the SBI cannot have more than 35% of the Combined Fund invested in private markets). The bill also makes a number of minor conforming changes. *For a full description of each of the new types of investments, see the attached Investment Advisory Council report memo.*

This bill amends Minnesota Statutes, Section 11A.24, Subdivision 6. The changes in this bill were recommended to the SBI by the Investment Advisory Council (IAC). The investment advisory council is a 17-member council established by the legislature to advise the State Board of Investment and its staff on investment related matters. The State Board of Investment approved the proposed amendments on December 2, 2019.

Is it appropriate to expand SBI's investment authority?

Commission staff lacks the expertise necessary to opine on whether the proposed change might affect investment performance or risk negatively or positively. However, staff can provide information on legislative history and practice in other jurisdictions.

The legislature has expanded the SBI's investment authority from time to time in order to keep up with changes in investment technology and trends. Minnesota Statutes, Section 11A.24 establishes the SBI's authority to invest in a number of different types of investments listed in the statute. The section was first established in 1980. At that time, the SBI was authorized to invest in 18 different types of investments. Since 1980, the legislature has expanded the investment authorization several times. Today, statute authorizes the SBI to invest in at least 33 different types of investments. Past expansions of investment authorization include:

1. Swap contracts marked to market (2013);
2. Shares in exchange-traded or mutual funds (2012);

3. Unrated corporate bonds, mortgage securities, asset backed securities, and shares of a real estate investment trust (1994); and
4. International securities (1988).

Many state legislatures provide broad authority to their investment boards to invest prudently, rather than listing authorized investments. In those states, the investments proposed in this bill are permitted as long as the investment is undertaken prudently and complies with any other laws. Given how broad the current list of authorized investments is, the Commission may wish to consider whether it continues to be good policy to list authorized investments in the statute. The legislature can maintain its current oversight role through restricting certain investments and prohibiting undesirable practices.

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