



House Office Building, 9 South  
Lansing, Michigan 48909  
Phone: 517/373-6466

## PUBLIC EMPLOYEE RETIREMENT SYSTEMS; INVESTMENTS

**House Bill 5754**

**Sponsor: Rep. Jerry Vander Roest**

**Committee: Senior Health, Security and  
Retirement**

**Complete to 5-9-00**

### **A SUMMARY OF HOUSE BILL 5754 AS INTRODUCED 5-9-00**

The bill would amend the Public Employee Retirement System Investment Act, which provides for the authorization of and limitations on the investment of assets of public employee retirement systems in Michigan. The act applies to all retirement systems operated by the state or by local units of government in Michigan.

The bill would make the following changes:

Investment fiduciaries. Under current law, an investment fiduciary (other than a state or local government employee) must meet certain requirements, including that he or she be a registered investment advisor under both the federal Investment Advisors Act and the Michigan Uniform Securities Act. The bill would modify this provision by allowing an investment fiduciary to be registered under either the federal or state act.

MacBride principles. Current law requires the investment fiduciary to use all capital stock, common stock, preferred stock, American depository receipts, or any other evidence of residual ownership of a corporation in which it has investments to support shareholder resolutions and initiatives proposing the adoption of the MacBride principles, or to support shareholder resolutions and initiatives proposing to recognize efforts to end employment discrimination contained in the Anglo-Irish agreement dated November 15, 1985. (The MacBride principles are requirements for companies doing business in Northern Ireland designed to end discriminatory employment practices.) The bill would amend this provision so that it would apply only to direct stock investments, including stocks and foreign securities.

Investments in domestic stocks. The act currently authorizes an investment fiduciary to invest up to 65 percent of a system's assets in stock. The bill would raise this threshold to 70 percent. Further, the bill would allow an investment fiduciary to designate an American depository receipt (ADR) that meets the requirements of the act for a stock investment to be classified as either a domestic stock investment, or an investment in foreign securities.

Real estate investment trusts. Current law allows investment in publicly or privately issued "real estate investment trusts" (REIT) or in certain other real or personal property. An investment in stock under this provision is not considered to be an investment in stock subject to the 65 percent threshold (see above). The bill would delete this provision, and instead would allow an investment fiduciary to designate this type of investment as either a real estate investment or an investment in domestic stock for purposes of determining asset limitations.

Pooled funds. Current law allows a financial institution or a management company retained as an investment fiduciary to invest the assets of a system in a collective investment fund, common trust fund, or pooled fund that is established and maintained for investment of those assets by the financial institution or management company. The bill would amend this provision to include trust companies along with financial institutions and management companies.

Basket clause. The act allows a system with less than \$250 million in assets to invest up to five percent of the system's assets in investments not specifically authorized by the act. A system with assets of \$250 million or more may invest up to 10 percent, and the state treasurer is authorized to invest up to 15 percent of the system's assets in this manner. The bill would increase the "basket clause" limit for the state treasurer to 20 percent, and would add a provision allowing a system with assets of \$1 billion or more to invest up to 15 percent of the system's assets in investments not specifically authorized by the act.

Loan of securities. The act currently permits an investment fiduciary to loan bonds, stocks, or other securities if, when the loan is executed, at least 102 percent of the full market value of the security loaned is secured by collateral of cash to be invested in investment grade securities or repurchase agreements collateralized by investment grade securities (among other things). The term "investment grade" is defined in the act to refer to securities graded in the top four major grades as determined by two national rating services (e.g., Moody's, Standard and Poor's). The bill would eliminate use of the term "investment grade securities" in this provision, and instead would allow the use of unrated securities in addition to securities graded in the top four major grades as determined by two national rating services (the current definition of "investment grade") and securities rated in the top four major grades of one national rating service if only rated by one service. The investment fiduciary could only use unrated securities if it determined that they were of comparable quality to the eligible rated securities.

Loan guarantees. Currently, a system with assets of \$100 million or more and established by a city is authorized to invest in certain loan guarantees. The bill would repeal this provision.

MCL 38.1132b et al.

Analyst: D. Martens

---

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.