

BAY COUNTY VOLUNTARY EMPLOYEES'
BENEFICIARY ASSOCIATION

STATEMENT OF INVESTMENT
POLICIES AND OBJECTIVES

I. INTRODUCTION

The Bay County Voluntary Employees' Beneficiary Association (VEBA) Trust was established for the purpose of providing, through Health Care Organizations, on a pre-funded basis, medical benefits for retired employees, their spouses and dependents of the County and its Component Units. To provide for such other life, sick, accident, vacation or other post employment benefits as defined in Section 501 (c)(9) of the Internal Revenue Code of 1986 and permitted under the State of Michigan, Public Act 149 of 1999 entitled "Public Employee Health Care Fund Investment Act".

The VEBA Trust agreement became effective 9/30/01 with the adoption, on 9/24/01, of resolution 2001-242 by the Bay County Board of Commissioners.

Attached, as a part of this document, are P.A. 149 of 1999 and Resolution 2001-242, which includes the Bay County Voluntary Employees' Beneficiary Association Trust Agreement.

The purpose of this document is to set forth the investment policies and objectives with respect to the assets of the VEBA in order that:

1. Standards for the safekeeping of VEBA assets are specified.
2. There is a clear understanding by all parties of the goals pertaining to the investment of the VEBA assets.
3. There is a basis for the evaluation of the investment performance of the VEBA and its investment managers.
4. The duties and responsibilities of the VEBA Board of Trustees ("Trustees") and staff are defined.
5. Criteria for investment diversification and investment manager selection are established.

II. SAFEKEEPING OF ASSETS

1. All assets which are part of separately managed investment portfolios are to be held in a designated trust account at a custodian bank licensed to conduct business in Michigan.
2. All pooled/co-mingled funds (mutual funds, collective investment trusts, money market funds, etc.) must provide evidence of an independent audit of fund assets at least annually.

III. INVESTMENT OBJECTIVES

The VEBA assets serve as the primary vehicle for the investment of assets to facilitate the prefunding of retiree health care and other post employment benefits. Therefore, the VEBA assets are to be managed in a way that produces a balance portfolio of income and capital

appreciation at a moderate level of risk in order to meet the County's future post employment benefit obligations.

The investment objectives of the VEBA are to achieve an annual investment return target of 7.3% over a 10 year time period or full market cycle.

IV. PHILOSOPHY AND VEBA OPERATION

All assets of the VEBA are to be used for the exclusive benefit of the VEBA members. VEBA assets shall be invested solely in the interest of the VEBA beneficiaries for the exclusive purpose of:

1. Funding medical or other post-employment benefits to retired employees, their spouses and dependents.
2. Defraying the administrative expenses of the VEBA.

It is the duty of the Trustees to supervise the management of the VEBA assets in accordance with this policy and the VEBA Trust Agreement, as may be amended from time to time.

The Trustees will adopt investment strategies that are deemed most appropriate given decisions regarding future contributions and use of Fund assets. The Trustees are also responsible for the selection of investment managers, consultants and any other investment professionals required to execute and monitor the Fund. Trustees may further delegate specific fund management duties to specified Bay County Finance Department personnel.

V. PERMITTED INVESTMENTS

All investment fiduciaries are required to invest the assets of the VEBA in accordance with this investment policy and in compliance with Section 13 of the Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended, which is attached and is incorporated into this policy by reference; as well as any other applicable state and federal laws, regulations, and rules not specifically mentioned herein.

VI. ASSET ALLOCATION – TOTAL VEBA

Acceptable Ranges of Commitment

	<u>Minimum %</u>	<u>Target %</u>	<u>Maximum%</u>
<u>Equity</u>			
Large Capitalization	28	33	38
Mid/Small Capitalization	15	20	25
Total Equity	48	53	58
<u>Fixed Income</u>			
Investment Grade Bonds	42	47	52

**Cash reserves held to pay claims shall not, for purposes of this policy, be considered to be part of this allocation.*

If multiple investment managers are employed, asset allocations among investment managers will be rebalanced by the Trustees in order to maintain allocations within the policy guidelines set forth herein. The VEBA's Finance Officer / Secretary in conjunction with its Consultant shall monitor the asset allocation and, from time to time, recommend to the Trustees changes needed to rebalance the fund in order that allocation of assets remain within the above asset allocation guidelines. As a result of market fluctuations, benefit payments, administrative expenses and contributions to the VEBA rebalancing should occur periodically, no later than two quarters after the rebalancing targets have been reached, to ensure that the asset deployment is within the stated guidelines. For the purpose of rebalancing, it will be assumed that all assets held by a manager are either invested in the asset class or held in reserve to be invested in the asset class in which the manager was hired to invest. The Consultant in conjunction with the Finance Officer / Secretary shall confer with the Trustees from time to time to determine whether changes in the asset allocation are required.

VII. DIVERSIFICATION

The investment of the VEBA's assets shall be broadly diversified to reduce the risk of large losses. The Trustees are responsible for diversifying by asset class and investment manager style. Each investment manager is responsible for diversifying within the asset management style for which they have been selected. Diversification guidelines as established by the state law governing public employees' retirement system investments, PA 314 of 1965, as amended, shall be adhered to by the Trustees regarding the benchmark by which the VEBA and all investment managers will be held responsible.

VIII. INVESTMENT MANAGER SELECTION

The responsibility for managing VEBA's assets will be delegated to investment managers with expertise appropriate for their assigned role. Both mutual / comingled funds and separately managed accounts are acceptable vehicles for investment of the VEBA assets. The Consultant will assist the Trustees and the Finance Officer / Secretary with hiring and monitoring the investment performance of the investment managers. All investment managers must be Registered Advisors under the U. S. Securities and Exchange Commission, Investment Advisors Act of 1940. Investment Managers must have a minimum of \$100 million of assets under management in the strategy they are selected to operate and have a minimum of five years of experience in the investment discipline for which they are selected.

IX. LIQUIDITY

The VEBA will maintain adequate liquidity to meet benefit payments and administrative expenses. Investment managers will be advised as far in advance as possible of additions to or withdrawals from their portfolios.

X. FIXED INCOME MINIMUM RATING/DURATION STANDARDS

No individual fixed income security held as an asset of the VEBA shall have a Moody's investment rating below "Baa3" or a Standard & Poor's rating below "BBB-" The total

fixed income portfolio of each fixed income manager shall have an average rating of "A" or better from either rating agency. The effective duration of the portfolio may not vary more than +/- two (2) years from the effective duration of the Barclays Capital Aggregate Bond Index.

XI. PROHIBITED INVESTMENTS

Within the guidelines set forth within, the investment managers have full discretion over the management of funds in their care with the exception of the following prohibited investments:

1. Venture Capital
2. Letter Stock
3. Options, except Covered Calls and Embedded Call and Put Options
4. Commodity / Future Contracts
5. Private Placements, except Rule 144(A) Fixed Income Securities
6. Limited Partnerships
7. Derivatives, except when they are within commingled / pooled investment vehicles

Regarding derivatives, the Trustees recognize that managers of, or managers who purchase commingled / pooled investment vehicles cannot respond to the individual needs of each of their client; therefore, these managers are to define their policies on derivatives and the Trustees shall make the judgment as to whether or not the manager's practices are in keeping with the spirit of the Trustees' policy on derivatives.

XII. POLICY AND OBJECTIVES REVIEW

The policies and objectives of the VEBA will be reviewed by the Trustees and Finance Officer / Secretary at least annually and at any time there are material changes to the investment objectives or circumstances governing the Fund. Their focus will be on the continued feasibility and appropriateness of the VEBA's investment policies and objectives. The Trustees should amend the VEBA's policies and objectives as deemed necessary.

XIII. PERFORMANCE REVIEW

The investment performance of the VEBA and its investment managers will be reviewed no less than quarterly by the Trustees and Finance Officer / Secretary. Performance reviews will focus on investment results in relation to stated investment objectives and adherence to stated investment policies. The reviews will encompass investment market opportunities, performance in relation to risk, and comparison to managers with similar investment characteristics in other funds.

The VEBA is expected to perform within the top 50% of funds with a similar level of equity commitment and outperform a customized policy benchmark of market indices over at least a three to five year period. The composition of the policy benchmark is set as follows:

- 33% Russell 1000 Index
- 20% Russell 2000 Index
- 47% Barclays Capital Aggregate Bond Index

Each investment manager shall comply with investment policies and performance objectives established by the Trustees in conjunction with the Consultant. Each manager is

expected to exceed two performance standards over a designated measurement period. The primary manager performance expectation is to rank within the top half (1/2) of an applicable universe of actively managed peer funds over at least a 3 to 5 year measurement period. Secondly, in terms of market comparisons, an investment manager's performance is expected to beat that of an assigned benchmark index over a period of at least 3 to 5 years.

Investment managers who do not meet or exceed the above objectives will be placed on probation and their performance will be subject to further review by the Trustees for possible termination.

The VEBA investment performance and manager reviews shall be conducted, by the VEBA's consultant, on a quarterly basis and shall focus on adherence to this investment policy, progress toward achievement of its/their specific investment objectives and guidelines, and performance relative to opportunities. Each investment manager will be required to submit written quarterly reports and meet with the Trustees at least once annually. The Trustees will make their determinations about manager retention and replacement based on the above criteria and their considered opinion of the merits of an investment manager's capabilities.

XIV. TRADING

Investment managers are prohibited from conducting investment transactions (trades) with or through any and all subsidiaries and / or parent organization(s).

XV. DIRECTED BROKERAGE

In order to reduce "out of pocket" expenses, the Trustees may require the domestic equity managers to utilize directed brokerage, provided that the directed brokerage can be competitive on total transaction costs.

XVI. PROXY VOTING

Unless notified otherwise, the investment managers shall have the authority to "vote" on all issues presented to stockholders. It is expected that managers will vote for the sole benefit of the VEBA and its beneficiaries. A summary of the votes cast shall be submitted to the Trustees on a quarterly basis. This summary must identify the company, number of shares held, subject proxy issue, votes (whether for or against management), and justification. Voting proxies must conform to the provision set forth in the Public Employees' Retirement Systems Act, Public Act 314 of 1965, as amended (MCL38.1132 et seq, as amended).

XVII. ADOPTION AND AMENDMENT

Adopted 3/10/09

Amended 11/8/11

VEBA Investment Policy

WORD: G:Retirement

APPROVED AS TO LEGAL FORM ONLY

Martha P. Fitzhugh
MARTHA P. FITZHUGH

BAY COUNTY CORPORATION COUNSEL

DATE: 11/10/12

PUBLIC EMPLOYEE HEALTH CARE FUND INVESTMENT ACT
Act 149 of 1999

AN ACT to provide for the creation of public employee health care funds; to provide for the administration of the funds; to authorize the investment of the assets of the funds or trusts; and to prescribe the powers and duties of investment fiduciaries and certain public officers and employees.

History: 1999, Act 149, Imd. Eff. Nov. 1, 1999.

The People of the State of Michigan enact:

38.1211 Short title.

Sec. 1. This act shall be known and may be cited as the "public employee health care fund investment act".

History: 1999, Act 149, Imd. Eff. Nov. 1, 1999.

38.1212 Definitions.

Sec. 2. As used in this act:

(a) "Fund" means a public employee health care fund created pursuant to this act and used for the accumulation and investment of funds for the purpose of funding health care for retired employees of the public corporation.

(b) "Investment fiduciary" means a person or persons who do any of the following:

(i) Exercises any discretionary authority or control in the investment of the fund's or trust's assets.

(ii) Renders investment advice to a fund or trust for a fee or other direct or indirect compensation.

(c) "Public corporation" means any county, city, village, township, authority, district, board, or commission in this state.

(d) "Qualified person" means a person or group of persons who are eligible to receive health care benefits and who are designated as a qualified person by the public corporation.

(e) "Trust" means a trust created under the authority of a state or federal law for the purpose of funding retiree health care benefits.

History: 1999, Act 149, Imd. Eff. Nov. 1, 1999.

38.1213 Establishment of public employee health care fund; resolution.

Sec. 3. The legislative body of a public corporation may adopt a resolution establishing a public employee health care fund for the purpose of accumulating funds to provide for the funding of health care benefits to retirants and beneficiaries of retirants of the public corporation. Money for the payment of health care benefits for retired employees of the public corporation may, at the discretion of the public corporation, be provided from this fund or any other fund or trust. The resolution shall include all of the following:

(a) The designation of a person or persons who shall act as the fund's investment fiduciary.

(b) A restriction of withdrawals from the fund solely for the payment of health care benefits on behalf of qualified persons and the payment of the expenses of administration of the fund.

(c) The designation of who is a qualified person for purposes of payment of health care benefits from the fund.

(d) A determination of whether the fund will be established on an actuarial basis.

History: 1999, Act 149, Imd. Eff. Nov. 1, 1999.

38.1214 Investment fiduciary; duties.

Sec. 4. An investment fiduciary shall invest the assets of the fund in accordance with an investment policy adopted by the governing body of a public corporation and that complies with section 13 of the public employee retirement system investment act, 1965 PA 314, MCL 38.1133. However, the investment fiduciary shall discharge his or her duties solely in the interest of the public corporation. The public corporation may invest the fund's assets in the investment instruments and subject to the investment limitations governing the investment of assets of public employee retirement systems under the public employee retirement system investment act, 1965 PA 314, MCL 38.1132 to 38.1140.

History: 1999, Act 149, Imd. Eff. Nov. 1, 1999.

38.1215 Investment of trust assets; resolution.

Sec. 5. The legislative body of a public corporation may, by resolution, allow a trust to invest the assets of the trust in accordance with the public employee retirement system investment act, 1965 PA 314, MCL 38.1132 to 38.1140. The resolution shall include the following:

(a) A statement of the authority under which the trust is established.

(b) Approval to invest the assets of the trust in accordance with the public employee retirement system investment act, 1965 PA 314, MCL 38.1132 to 38.1140.

History: 1999, Act 149, Imd. Eff. Nov. 1, 1999.

38.1216 Actuarial review; report.

Sec. 6. The investment fiduciary shall have an actuarial review of the fund or trust prepared at least every 5 years with assets valued on a market related basis. The investment fiduciary shall prepare and issue a summary annual report to the legislative body of the public corporation that established the fund or trust.

History: 1999, Act 149, Imd. Eff. Nov. 1, 1999.

NO. 2001-242

RESOLUTION

9/25/01

BY: BAY COUNTY BOARD OF COMMISSIONERS

- WHEREAS, Bay County (the "County") and certain Component Units of Bay County provide qualified retired employees with "Retiree Medical Benefits" pursuant to contracts, rules, and procedures which have developed over time ("Component Units" being any authority, district, board, or commission whose employees participate in the Bay County Employees' Retirement System [such Component Units, together with the County, being "Employers"]); and
- WHEREAS, Retiree Medical is presently provided on an unfunded, pay-as-you-go basis by the Employers; and
- WHEREAS, The County believes it prudent to begin a process of prefunding the Retiree Medical Benefits through a trust, similar to the prefunded pension trust for the Bay County Employees' Retirement System ("BCERS"), principally (a) in order to reduce the unfunded liability which Retiree Medical Benefits represent, (b) in order to reduce the cost of providing such benefits in the future, and (c) in order to increase retirees' security in such benefits; and
- WHEREAS, The Retiree Medical Benefits may be prefunded through a Voluntary Employees' Beneficiary Association (VEBA) pursuant to the Public Employee Health Care Fund Investment Act (P.A. 149 of 1999), and Section 501(c)(9) of the Internal Revenue Code of 1986, as amended; and
- WHEREAS, The County wishes to adopt a VEBA for the purposes described above with respect to Retiree Medical Benefits of (a) at this time, non-union employees of the County who would be eligible, upon retirement, for Retiree Medical Benefits, and (b) such unionized employees of the County who shall agree through collective bargaining to similar coverage by the VEBA, and (c) employees of Component Units which shall choose to adopt the VEBA (with appropriate collective bargaining, where applicable), provided that adoption by any Component Unit is consented to at the time by resolution of the Bay County Board of Commissioners; and

- WHEREAS,** The County does not presently intend to fund the VEBA on a strict actuarial basis, but rather intends to make discretionary contributions from time to time, which contributions shall be no less than the amount of BCERS contribution which the County saves by reason of funding the 4% BCERS employee contribution (historically made on employees' behalf by the County) out of actuarial surplus in the BCERS, provided that the BCERS's actuarial surplus shall no longer be used for such purpose if and when the funded ratio of the BCERS drops to 125% or less; and
- WHEREAS,** In order to more accurately define the Retiree Medical Benefits which are to be prefunded under the VEBA, the County has prepared a document entitled the "Bay County Retiree Health Benefit Plan" ("Retiree Medical Plan"), which is intended to set forth present rules and policies pertaining to Retiree Medical Benefits; Therefore, Be It
- RESOLVED** By the Bay County Board of Commissioners that the Bay County Voluntary Employees' Beneficiary Association Trust Agreement ("VEBA") as presented to this meeting is hereby adopted, effective September 30, 2001 (subject to subsequent approval of the Internal Revenue Service as provided below); Be It Further
- RESOLVED** That the VEBA shall be funded, initially with respect to Bay County non-union employees eligible for retiree medical, in the manner described above in this resolution and as prescribed by the VEBA; Be it Further
- RESOLVED** That all contributions to the VEBA shall be conditioned upon approval of the VEBA's tax-exempt status by the Internal Revenue Service, as provided in the VEBA; Be It Further
- RESOLVED** That proper County personnel, acting with outside legal counsel (Stevenson Keppelman Associates) are hereby authorized and directed to apply to the Internal Revenue Service for a determination that the VEBA meets the tax-qualification requirements of Internal Revenue Code of 1986 Section 501(c)(9); Be It Further
- RESOLVED** That the persons described as trustees in the VEBA (generally being the current trustees of the BCERS) are hereby designated as trustees of the VEBA; Be It Further

RESOLVED That the Bay County Retiree Health Benefit Plan is hereby adopted with respect to employees of Bay County (subject to collective bargaining consent, where applicable), effective September 30, 2001; Be It Further

RESOLVED That the Chairman of the Board is authorized to execute the VEBA on behalf of Bay County.

EDWARD L. RIVET, CHAIRMAN

BAY COUNTY BOARD OF COMMISSIONERS

VEBAIRS.

BAY COUNTY BOARD OF COMMISSIONERS 9/24/01 MEETING

RESOLUTION NO. 2001-242

MOTION NO. _____

MOVED BY COMM. Gwizdata

SUPPORTED BY COMM. Reder

VOTE:

ROLL CALL: YEAS 8 NAYS 0 EXCUSED 1 - Rupp

VOICE: YEAS _____ NAYS _____ EXCUSED _____

DISPOSITION: ADOPTED DEFEATED _____ WITHDRAWN _____

AMENDED _____ CORRECTED _____ REFERRED _____

PUBLIC EMPLOYEE RETIREMENT SYSTEM INVESTMENT ACT
Act 314 of 1965

AN ACT to authorize the investment of assets of public employee retirement systems or plans created and established by the state or any political subdivision; to provide for the payment of certain costs and investment expenses; to authorize investment in variable rate interest loans; to define and limit the investments which may be made by an investment fiduciary with the assets of a public employee retirement system; and to prescribe the powers and duties of investment fiduciaries and certain state departments and officers.

History: 1965, Act 314, Imd. Eff. July 22, 1965;—Am. 1980, Act 31, Imd. Eff. Mar. 8, 1980;—Am. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1988, Act 252, Eff. Jan. 1, 1989;—Am. 1988, Act 253, Eff. Jan. 1, 1989;—Am. 1988, Act 343, Imd. Eff. Oct. 19, 1988.

The People of the State of Michigan enact:

38.1121-38.1131 Repealed. 1982, Act 55, Imd. Eff. Apr. 6, 1982.

Compiler's note: Prior to the repeal of MCL 38.1121 to 38.1131, MCL 38.1125a had expired by its own terms.

38.1132 Short title; meanings of words and phrases.

Sec. 12. (1) This act shall be known and may be cited as the "public employee retirement system investment act".

(2) For the purposes of this act, the words and phrases defined in sections 12a to 12f have the meanings ascribed to them in those sections.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1988, Act 127, Imd. Eff. May 24, 1988;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1132a Definitions; A.

Sec. 12a. "Assets", for the purpose of meeting asset limitations contained in this act, means the total of the cash and investments of a system valued at market.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1132b Definitions; D to F.

Sec. 12b. (1) "Defined contribution plan" means a defined contribution plan as defined in section 414(i) in the internal revenue code.

(2) "Derivative" means either of the following:

(a) A contract or convertible security that changes in value in concert with a related or underlying security, future, or other instrument or index; or obtains much of its value from price movements in a related or underlying security, future, or other instrument or index; or both.

(b) A contract or security, such as an option, forward, swap, warrant, or a debt instrument with 1 or more options, forwards, swaps, or warrants embedded in it or attached to it, the value of which contract or security is determined in whole or in part by the price of 1 or more underlying instruments or markets.

(3) "Equity interests" means limited partnership interests and other interests in which the liability of the investor is limited to the amount of the investment, but does not mean general partnership interests or other interests involving general liability of the investor.

(4) "Foreign security" means any of the following:

(a) A fixed income security issued by a government, a governmental agency, or a public or private company that is traded outside of the United States and issued in a currency other than the United States dollar.

(b) An equity position in a company traded on an exchange outside of the United States or a security issued in a currency other than the United States dollar or an unregistered American depository receipt.

(c) An equity or fixed income derivative that derives its value from an investment described in subdivision (a) or (b) or a foreign stock or bond index traded on an exchange outside of the United States.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

38.1132c Definitions; I.

Sec. 12c. (1) "Investment fiduciary" means a person other than a participant directing the investment of the assets of his or her individual account in a defined contribution plan who does any of the following:

(a) Exercises any discretionary authority or control in the investment of a system's assets.

(b) Renders investment advice for a system for a fee or other direct or indirect compensation.

(2) "Invest" or "investment" means the utilization of money in the expectation of future returns in the form of income or capital gain. Investments initially purchased in accordance with this act which subsequently do not qualify for purchase for any reason, shall be considered to continue to meet the requirements of this act. Investment includes a guarantee by an investment fiduciary.

(3) "Investment grade" means graded in the top 4 major grades as determined by 2 national rating services.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

38.1132d Definitions; N to P.

Sec. 12d. (1) "National rating services" means Moody's investors service, inc.; Standard & Poor's ratings group; Fitch investors service inc.; Duff & Phelps credit rating corp.; or any other nationally recognized statistical rating organization as determined by the state treasurer.

(2) "Net earnings available for fixed charges" means net income after deducting operating and maintenance expenses, taxes other than federal and state income taxes, depreciation, and depletion, but excluding extraordinary expenses appearing in the regular financial statements of the system.

(3) "Obligations" means bonds, notes, collateral trust certificates, convertible bonds, debentures, equipment trust certificates, conditional sales agreements, guaranteed mortgage certificates, pass-through certificates, participation certificates, mortgages, trust deeds, general obligation bonds, revenue bonds, or other similar interest bearing instruments of debt. Obligations may be secured or unsecured and may be publicly offered or privately placed.

(4) "Party in interest" means, as it relates to a system, any of the following:

(a) An investment fiduciary, counsel, or employee of the system.

(b) A person providing services to the system.

(c) The political subdivision sponsoring the system.

(d) An organization, any of whose members are covered by the system.

(e) A spouse, ancestor, lineal descendant, or spouse of a lineal descendant of an individual described in subdivision (a) or (b).

(f) An entity controlled by an individual or organization described in subdivisions (a) to (e).

(5) "Portfolio company" means an entity in which the investment fiduciary has invested or has considered investing system assets.

(6) "Private equity" means an asset class consisting of equity or debt securities in entities that are not publicly traded, which may include, but are not limited to, investments in leveraged buyouts, venture capital, growth capital, distressed or special situations, mezzanine capital, and secondary investments in equity or debt interests.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000;—Am. 2008, Act 425, Imd. Eff. Jan. 6, 2009.

38.1132e Definitions; S.

Sec. 12e. (1) "Small business" means a corporation, partnership, sole proprietorship, or other entity which does not meet the specific requirements of investments permitted under this act.

(2) "Small business investment company" means an incorporated body or a limited partnership under section 301 of title III of the small business investment act of 1958, Public Law 85-699, 15 U.S.C. 681.

(3) "Soft dollar" means brokerage commissions that are used by the system to purchase goods or services.

(4) "Stock" means capital stock, common stock, preferred stock, American depository receipts, or any other evidence of residual ownership of a corporation.

(5) "System" means a public employee retirement system created and established by this state or any political subdivision of this state.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1132f Definitions; V.

Sec. 12f. "Venture capital firm" means a corporation, partnership, proprietorship, or other entity, the principal business of which is or will be the making of investments in small business, either directly or indirectly by investing in entities the principal business of which is or will be the making of investments in small businesses.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1133 Investment authority; investment fiduciary; investing, reinvesting, holding in nominee form, and managing assets of system; powers and duties; costs; prohibited acts; exceptions; requirements; debt instrument issued by foreign country; list of expenses.

Sec. 13. (1) The provisions of this act shall supersede any investment authority previously granted to a system under any other law of this state.

(2) The assets of a system may be invested, reinvested, held in nominee form, and managed by an investment fiduciary subject to the terms, conditions, and limitations provided in this act. An investment fiduciary of a defined contribution plan may arrange for 1 or more investment options to be directed by the participants of the defined contribution plan. The limitations on the percentage of total assets for investments provided in this act do not apply to a defined contribution plan in which a participant directs the investment of the assets in his or her individual account, and that participant is not considered an investment fiduciary under this act.

(3) An investment fiduciary shall discharge his or her duties solely in the interest of the participants and the beneficiaries, and shall do all of the following:

(a) Act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.

(b) Act with due regard for the management, reputation, and stability of the issuer and the character of the particular investments being considered.

(c) Make investments for the exclusive purposes of providing benefits to participants and participants' beneficiaries, and of defraying reasonable expenses of investing the assets of the system.

(d) Give appropriate consideration to those facts and circumstances that the investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role the investment or investment course of action plays in that portion of the system's investments for which the investment fiduciary has responsibility; and act accordingly. For purposes of this subsection, "appropriate consideration" includes, but is not limited to, a determination by the investment fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investments of the system, to further the purposes of the system, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action; and consideration of the following factors as they relate to the investment or investment course of action:

(i) The diversification of the investments of the system.

(ii) The liquidity and current return of the investments of the system relative to the anticipated cash flow requirements of the system.

(iii) The projected return of the investments of the system relative to the funding objectives of the system.

(e) Give appropriate consideration to investments that would enhance the general welfare of this state and its citizens if those investments offer the safety and rate of return comparable to other investments permitted under this act and available to the investment fiduciary at the time the investment decision is made.

(f) Prepare and maintain written objectives, policies, and strategies with clearly defined accountability and responsibility for implementing and executing the system's investments.

(g) Monitor the investment of the system's assets with regard to the limitations on those investments pursuant to this act. Upon discovery that an investment causes the system to exceed a limitation prescribed in this act, the investment fiduciary shall reallocate assets in a prudent manner in order to comply with the prescribed limitation.

(4) An investment fiduciary who is an investment fiduciary of any of the following shall comply with the divestment from terror act, 2008 PA 234, MCL 129.291 to 129.301, in making investments under this act:

(a) The Tier 1 retirement plan available under the state employees' retirement act, 1943 PA 240, MCL 38.1 to 38.69.

(b) The Tier 1 retirement plan available under the judges retirement act of 1992, 1992 PA 234, MCL 38.2101 to 38.2670.

(c) The state police retirement system created under the state police retirement act of 1986, 1986 PA 182, MCL 38.1601 to 38.1648.

(d) The public school employees retirement system created under the public school employees retirement act of 1979, 1980 PA 300, MCL 38.1301 to 38.1408.

(5) An investment fiduciary may use a portion of the income of the system to defray the costs of investing, managing, and protecting the assets of the system; may retain investment and all other services necessary for the conduct of the affairs of the system; and may pay reasonable compensation for those services. Subject to an annual appropriation by the legislature, a deduction from the income of a state administered system resulting from the payment of those costs shall be made.

(6) The system shall be a separate and distinct trust fund and the assets of the system shall be for the exclusive benefit of the participants and their beneficiaries and of defraying reasonable expenses of investing the assets of the system. With respect to a system, an investment fiduciary shall not cause the system to

engage in a transaction if he or she knows or should know that the transaction is any of the following, either directly or indirectly:

(a) A sale or exchange or a leasing of any property from the system to a party in interest for less than the fair market value, or from a party in interest to the system for more than the fair market value.

(b) A lending of money or other extension of credit from the system to a party in interest without the receipt of adequate security and a reasonable rate of interest, or from a party in interest to the system with the provision of excessive security or at an unreasonably high rate of interest.

(c) A transfer to, or use by or for the benefit of, the political subdivision sponsoring the system of any assets of the system for less than adequate consideration.

(d) The furnishing of goods, services, or facilities from the system to a party in interest for less than adequate consideration, or from a party in interest to the system for more than adequate consideration.

(7) With respect to a system subject to this act, an investment fiduciary shall not do any of the following:

(a) Deal with the assets of the system in his or her own interest or for his or her own account.

(b) In his or her individual or any other capacity act in any transaction involving the system on behalf of a party whose interests are adverse to the interests of the system or the interest of its participants or participants' beneficiaries.

(c) Receive any consideration for his or her own personal account from any party dealing with the system in connection with a transaction involving the assets of the system.

(8) This section does not prohibit an investment fiduciary from doing any of the following:

(a) Receiving any benefit to which he or she may be entitled as a participant or participant's beneficiary of the system.

(b) Receiving any reimbursement of expenses properly and actually incurred in the performance of his or her duties for the system.

(c) Serving as an investment fiduciary in addition to being an officer, employee, agent, or other representative of the political subdivision sponsoring the system.

(d) Receiving agreed upon compensation for services from the system.

(9) Except for an employee of a system, this state, or the political subdivision sponsoring a system, when acting in the capacity as an investment fiduciary, an investment fiduciary who is qualified under section 12c(1)(b) shall meet 1 of the following requirements:

(a) Be a registered investment adviser under either the investment advisers act of 1940, 15 USC 80b-1 to 80b-21, the uniform securities act, 1964 PA 265, MCL 451.501 to 451.818, or the uniform securities act (2002), 2008 PA 551, MCL 451.2101 to 451.2703.

(b) Be a bank as defined under the investment advisers act of 1940, 15 USC 80b-1 to 80b-21.

(c) Be an insurance company qualified under section 16(3).

(10) An investment fiduciary shall not invest in a debt instrument issued by a foreign country that has been identified by the United States state department as engaging in or sponsoring terrorism.

(11) A system shall annually publish and make available to the plan participants and beneficiaries a list of all expenses paid by soft dollars.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000;—Am. 2008, Act 273, Imd. Eff. Sept. 29, 2008;—Am. 2008, Act 425, Imd. Eff. Jan. 6, 2009;—Am. 2009, Act 84, Imd. Eff. Aug. 31, 2009.

38.1133a “MacBride principles” defined; duties of investment fiduciary; effect of unlawful principle.

Sec. 13a. (1) As used in this section, “MacBride principles” means those requirements for companies doing business in Northern Ireland designed to do all of the following:

(a) Increase the representation of individuals from underrepresented religious groups in the work force including managerial, supervisory, administrative, clerical, and technical jobs.

(b) Provide adequate security for the protection of minority employees both at the workplace and while traveling to and from the workplace.

(c) Ban provocative religious or political emblems from the workplace.

(d) Publicly advertise all employment openings and make special recruitment efforts to attract applicants from underrepresented religious groups.

(e) Provide that layoff, recall, and termination procedures shall not in practice favor particular religious groupings.

(f) Abolish job reservations, apprenticeship restrictions, and differential employment criteria, which discriminate on the basis of religion or ethnic origin.

(g) Develop training programs that will prepare substantial numbers of current minority employees for

skilled jobs, including the expansion of existing programs and the creation of new programs to train, upgrade, and improve the skills of minority employees.

(h) Establish procedures to assess, identify, and actively recruit minority employees with potential for further advancement.

(i) Appoint senior management staff members to oversee the efforts to comply with these principles and the implementation of timetables to achieve these principles.

(2) With respect to investments qualified under section 14 or 20k, the investment fiduciary shall 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 either of the following:

(a) Shareholder resolutions and initiatives proposing the adoption of the MacBride principles for companies doing business in Northern Ireland.

(b) Shareholder resolutions and initiatives proposing to recognize efforts to end employment discrimination contained in any agreement between the government of the Republic of Ireland and the government of the United Kingdom, signed on November 15, 1985, which agreement is commonly referred to as the Anglo-Irish agreement.

(3) If a provision of the MacBride principles is found to be in violation of the law of the United Kingdom by a court in the United States or the United Kingdom, then the duties of the investment fiduciary prescribed by this section shall not apply to the extent that a shareholder resolution or initiative includes the provision that has been found unlawful.

History: Add. 1988, Act 343, Imd. Eff. Oct. 19, 1988;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

38.1133b, 38.1133c Repealed. 1993, Act 214, Imd. Eff. Oct. 27, 1993.

Compiler's note: The repealed sections pertained to encouragement or condonation of legally required discrimination; extension of deadlines for divestment of assets; developing and maintaining register of certain companies; and providing register to boards of retirement systems.

38.1133c Definitions; effort by fiduciary to identify scrutinized companies; assembly into scrutinized companies list; update and availability of list; procedures; report; effectiveness of section; exemption of fiduciary from conflicting statutory or common law obligations; liability; affirmative exclusion from federal sanctions; severability.

Sec. 13c. (1) As used in this section:

(a) "Active business operations" means all business operations that are not inactive business operations.

(b) "Business operations" means engaging in commerce in any form in Sudan, including by acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

(c) "Company" means any sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association, including all wholly owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of such entities or business associations, that exists for profit-making purposes.

(d) "Complicit" means taking actions during any preceding 20-month period which have directly supported or promoted the genocidal campaign in Darfur, including, but not limited to, preventing Darfur's victimized population from communicating with each other, encouraging Sudanese citizens to speak out against an internationally approved security force for Darfur, actively working to deny, cover up, or alter the record on human rights abuses in Darfur, or other similar actions.

(e) "Direct holdings" in a company means all securities of that company held directly by the fiduciary or in an account or fund in which the fiduciary owns all shares or interests.

(f) "Fiduciary" means the Michigan legislative retirement system board of trustees for the Tier 1 plan for the Michigan legislative retirement system created by the Michigan legislative retirement system act, 1957 PA 261, MCL 38.1001 to 38.1080, and the treasurer of this state for the retirement systems created under all of the following acts:

(i) The state police retirement act of 1986, 1986 PA 182, MCL 38.1601 to 38.1648.

(ii) The Tier 1 retirement plan available under the judge's retirement act of 1992, 1992 PA 234, MCL 38.2101 to 38.2670.

(iii) The Tier 1 retirement plan available under the state employees retirement act, 1943 PA 240, MCL 38.1 to 38.69.

(iv) The public school employees retirement act of 1979, 1980 PA 300, MCL 38.1301 to 38.1408.

(g) "Government of Sudan" means the government in Khartoum, Sudan, which is led by the national congress party or any successor government formed on or after October 13, 2006 and does not include the

regional government of southern Sudan.

(h) "Inactive business operations" means the mere continued holding or renewal of rights to property previously operated for the purpose of generating revenues but not presently deployed for such purpose.

(i) "Indirect holdings" in a company means all securities of that company held in an account or fund, such as a mutual fund or other commingled fund, managed by 1 or more persons not employed by the fiduciary, in which the fiduciary owns shares or interests together with other investors not subject to the provisions of this act.

(j) "Marginalized populations of Sudan" includes, but is not limited to, all of the following:

(i) The portion of the population in the Darfur region that has been genocidally victimized.

(ii) The portion of the population of southern Sudan victimized by Sudan's north-south civil war.

(iii) The Beja, Rashidiya, and other similarly underserved groups of eastern Sudan.

(iv) The Nubian and other similarly underserved groups in Sudan's Abyei, Southern Blue Nile, and Nuba Mountain regions.

(v) The Amri, Hamadab, Manasir, and other similarly underserved groups of northern Sudan.

(k) "Military equipment" means weapons, arms, military supplies, and equipment that readily may be used for military purposes, including, but not limited to, radar systems or military-grade transport vehicles; or supplies or services sold or provided directly or indirectly to any force actively participating in armed conflict in Sudan.

(l) "Mineral extraction activities" includes exploring, extracting, processing, transporting, or wholesale selling or trading of elemental minerals or associated metal alloys or oxides, including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc, as well as facilitating such activities, including by providing supplies or services in support of such activities.

(m) "Oil-related activities" includes, but is not limited to, owning rights to oil blocks; exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading of oil; constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure; and facilitating such activities, including by providing supplies or services in support of such activities, provided that the mere retail sale of gasoline and related consumer products shall not be considered oil-related activities.

(n) "Power production activities" means any business operation that involves a project commissioned by the national electricity corporation of Sudan or other similar government of Sudan entity whose purpose is to facilitate power generation and delivery, including, but not limited to, establishing power-generating plants or hydroelectric dams, selling or installing components for the project, providing service contracts related to the installation or maintenance of the project, as well as facilitating such activities, including by providing supplies or services in support of such activities.

(o) "Scrutinized company" means any company, except a social development company and a company described in subsection (10) that is not complicit in the Darfur genocide, that meets the criteria in subparagraph (i), (ii), or (iii):

(i) The company has business operations that involve contracts with or provision of supplies or services to 1 or more of the following:

(A) The government of Sudan.

(B) Companies in which the government of Sudan has any direct or indirect equity share.

(C) Government of Sudan-commissioned consortia or projects.

(D) Companies involved in government of Sudan-commissioned consortia or projects and that have 1 or more of the following:

(I) More than 10% of the company's revenues or assets linked to Sudan involve oil-related activities or mineral extraction activities, less than 75% of the company's revenues or assets linked to Sudan involve contracts with or provision of oil-related or mineral extracting products or services to the regional government of southern Sudan or a project or consortium created exclusively by that regional government, and the company has failed to take substantial action.

(II) More than 10% of the company's revenues or assets linked to Sudan involve power production activities, less than 75% of the company's power production activities include projects whose intent is to provide power or electricity to the marginalized populations of Sudan, and the company has failed to take substantial action.

(ii) The company is complicit in the Darfur genocide.

(iii) The company supplies military equipment within Sudan, unless the fiduciary finds that the military equipment will not be used to facilitate offensive military actions in Sudan or the fiduciary finds that the company implements rigorous and verifiable safeguards to prevent use of that equipment by forces actively participating in armed conflict.

(p) "Social development company" means a company whose primary purpose in Sudan is to provide

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humanitarian goods or services, including medicine or medical equipment, agricultural supplies or infrastructure, educational opportunities, journalism-related activities, information or information materials, spiritual-related activities, services of a purely clerical or reporting nature, food, clothing, or general consumer goods that are unrelated to oil-related activities, mineral extraction activities, or power production activities.

(q) "Substantial action" means adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within 1 year and to refrain from any new business operations, undertaking significant humanitarian efforts in conjunction with an international organization, the government of Sudan, the regional government of southern Sudan, or a nonprofit entity and evaluated and certified by an independent third party to be substantial in relationship to the company's Sudan business operations and of benefit to 1 or more marginalized populations of Sudan, or through engagement with the government of Sudan, materially improving conditions for the genocidally victimized population in Darfur.

(2) Within 90 days after the effective date of the amendatory act that added this section, the fiduciary shall make its best efforts to identify all scrutinized companies in which the fiduciary has direct or indirect holdings or could possibly have such holdings in the future. The efforts shall include 1 or more of the following:

(a) Reviewing and relying, as appropriate in the fiduciary's judgment, on publicly available information regarding companies with business operations in Sudan, including information provided by nonprofit organizations, research firms, international organizations, and government entities.

(b) Contacting asset managers contracted by the fiduciary that invest in companies with business operations in Sudan.

(c) Contacting other institutional investors that have divested from or engaged with companies that have business operations in Sudan.

(3) At the end of the 90-day period or by the first meeting of the fiduciary following the 90-day period described in subsection (2), the fiduciary shall assemble all scrutinized companies identified into a scrutinized companies list.

(4) The fiduciary shall update the scrutinized companies list on a quarterly basis based on evolving information from, among other sources, those sources listed in subsection (2). The fiduciary shall make the scrutinized companies list freely available to the fiduciaries of other public retirement systems located in this state if making the list available does not violate any agreements with third parties or reveal proprietary information of a third party.

(5) The fiduciary shall adhere to the following procedure for companies on the scrutinized companies list:

(a) The fiduciary shall immediately determine the companies on the scrutinized companies list in which the fiduciary oversees pursuant to its responsibilities as defined in subsection (1)(f).

(b) For each company identified in subdivision (a) with only inactive business operations, the fiduciary shall send a written notice informing the company of this section and encourage the company to continue to refrain from initiating active business operations in Sudan until it is able to avoid scrutinized business operations and further encourage the company to engage in substantial humanitarian operations in the country. The fiduciary shall continue the correspondence on a semiannual basis.

(c) For each company newly identified in subdivision (a) with active business operations, the fiduciary shall send a written notice informing the company of its scrutinized company status and that it may become subject to divestment by the fiduciary. The notice shall offer the company the opportunity to clarify its Sudan-related activities and shall encourage the company, within 90 days, to either cease its scrutinized business operations or convert such operations to inactive business operations in order to avoid qualifying for divestment by the fiduciary.

(d) If, within 90 days following the fiduciary's first engagement with a company pursuant to subdivision (c), that company ceases scrutinized business operations, the company shall be removed from the scrutinized companies list and this section shall cease to apply to it unless it resumes scrutinized business operations. If, within 90 days following the fiduciary's first engagement, the company converts its scrutinized active business operations to inactive business operations, the company shall be subject to this section.

(e) If, after 90 days following the fiduciary's first engagement with a company pursuant to subdivision (c), the company continues to have scrutinized active business operations, and only while the company continues to have scrutinized active business operations, the fiduciary shall sell, redeem, divest, or withdraw all publicly traded securities of the company, according to the following schedule:

(i) At least 50% of the assets shall be removed from the fiduciary's assets under management within 9 months after the company's most recent appearance on the scrutinized companies list.

(ii) 100% of the assets shall be removed from the fiduciary's assets under management within 15 months after the company's most recent appearance on the scrutinized companies list.

(f) Except as provided in subdivisions (g) and (h), at no time shall the fiduciary acquire securities of

companies on the scrutinized companies list that have active business operations.

(g) No company which the United States government affirmatively declares to be excluded from its present or any future federal sanctions regime relating to Sudan shall be subject to divestment or investment prohibition pursuant to subdivisions (e) and (f).

(h) Subdivisions (e) and (f) shall not apply to indirect holdings in actively managed investment funds. For purposes of this section, actively managed investment funds include private equity funds and publicly traded funds. Before the fiduciary invests in a new private equity fund that is not in the fiduciary's portfolio as of the effective date of the amendatory act that added this section, the fiduciary shall perform due diligence to prevent investment in any private equity fund where the offering memorandum or prospectus identifies the purpose of the private equity fund as investing in scrutinized companies with active business operations in Sudan. The fiduciary is not required to identify holdings in private equity funds or submit engagement letters to those funds. If the manager of a publicly traded, actively managed fund that is in the fiduciary's portfolio on the effective date of the amendatory act that added this section creates a similar publicly traded, actively managed fund with indirect holdings devoid of identified scrutinized companies with scrutinized active business operations as defined in this section, the fiduciary shall replace all applicable investments with investments in the similar fund in an expedited time frame consistent with prudent investment standards.

(6) The fiduciary shall file a publicly available report to the legislature that includes the scrutinized companies list within 30 days after the list is created. Annually thereafter, the fiduciary shall file a publicly available report to the legislature and send a copy of that report to the United States presidential special envoy to Sudan that includes all of the following:

(a) A summary of correspondence with companies engaged by the fiduciary under this section.

(b) All investments sold, redeemed, divested, or withdrawn in compliance with this section.

(c) All prohibited investments under this section.

(d) Any progress made under subsection (5)(h).

(7) This section is effective until the first occurrence of any of the following:

(a) The United States congress or the president of the United States declares that the Darfur genocide has been halted for at least 12 months.

(b) The United States revokes all sanctions imposed against the government of Sudan.

(c) The congress or president of the United States declares that the government of Sudan has honored its commitments to cease attacks on civilians, demobilize and demilitarize the Janjaweed and associated militias, grant free and unfettered access for deliveries of humanitarian assistance, and allow for the safe and voluntary return of refugees and internally displaced persons.

(d) The congress or president of the United States, through legislation or executive order, declares that mandatory divestment of the type provided for in this act interferes with the conduct of United States foreign policy.

(8) With respect to actions taken in compliance with this section, including all good faith determinations regarding companies as required by this section, the fiduciary shall be exempt from any conflicting statutory or common law obligations, including any obligations in respect to choice of asset managers, investment funds, or investments for the fiduciary's securities portfolios.

(9) The fiduciary, members of an investment advisory committee, and any person with decision-making authority with regard to investments of the fiduciary shall not be held liable for any action undertaken for the purpose of complying with or executing the mandates required under this section.

(10) Scrutinized company does not include a company that the federal government has affirmatively excluded from federal sanctions for business the scrutinized company conducts relating to Sudan, or that has consistently obtained applicable licenses or approvals to conduct transactions with Sudan. If the fiduciary becomes aware at any time that a company that has not been affirmatively excluded from federal sanctions for business it conducts relating to Sudan and has not received from the United States government applicable licenses or approvals to conduct transactions with Sudan, that company is immediately subject to subsection (5).

(11) If any provision, section, subsection, sentence, clause, phrase, or word of this legislation or its application to any person or circumstance is found to be invalid, illegal, unenforceable, or unconstitutional, the same is hereby declared to be severable and the balance of this legislation shall remain effective and functional notwithstanding such invalidity, illegality, unenforceability, or unconstitutionality.

History: Add. 2008, Act 233, Imd. Eff. July 17, 2008.

38.1133d Definitions; scrutinized companies; identification by fiduciaries; assembling scrutinized companies list; update by fiduciary; procedure; report; effectiveness of section; conditions; liability of fiduciary; scrutinized company affirmatively excluded from

federal sanctions; effect; severability.

Sec. 13d. (1) As used in this section:

- (a) "Active business operations" means all business operations that are not inactive business operations.
- (b) "Business operations" means engaging in commerce in any form in Iran, including by acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.
- (c) "Company" means any sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association, including all wholly owned subsidiaries, majority-owned subsidiaries, parent companies, or affiliates of such entities or business associations, that exists for profit-making purposes.
- (d) "Direct holdings" in a company means all securities of that company held directly by the fiduciary or in an account or fund in which the fiduciary owns all shares or interests.
- (e) "Fiduciary" means the Michigan legislative retirement system board of trustees for the Tier 1 plan for the Michigan legislative retirement system created by the Michigan legislative retirement system act, 1957 PA 261, MCL 38.1001 to 38.1080, and the treasurer of this state for the retirement systems created under all of the following acts:
- (i) The state police retirement act of 1986, 1986 PA 182, MCL 38.1601 to 38.1648.
- (ii) The Tier 1 retirement plan available under the judge's retirement act of 1992, 1992 PA 234, MCL 38.2101 to 38.2670.
- (iii) The Tier 1 retirement plan available under the state employees retirement act, 1943 PA 240, MCL 38.1 to 38.69.
- (iv) The public school employees retirement act of 1979, 1980 PA 300, MCL 38.1301 to 38.1408.
- (f) "Government of Iran" means the government of Iran, its instrumentalities, and companies owned or controlled by the government of Iran.
- (g) "Inactive business operations" means the mere continued holding or renewal of rights to property previously operated for the purpose of generating revenues but not presently deployed for such purpose.
- (h) "Indirect holdings" in a company means all securities of that company held in an account or fund, such as a mutual fund or other commingled fund, managed by 1 or more persons not employed by the fiduciary, in which the fiduciary owns shares or interests together with other investors not subject to the provisions of this act.
- (i) "Iran" means the Islamic republic of Iran.
- (j) "Military equipment" means weapons, arms, military supplies, and equipment that readily may be used for military purposes, including, but not limited to, radar systems or military-grade transport vehicles.
- (k) "Mineral extraction activities" includes exploring, extracting, processing, transporting, or wholesale selling or trading of elemental minerals or associated metal alloys or oxides, including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc, as well as facilitating such activities, including by providing supplies or services in support of such activities.
- (l) "Oil-related activities" includes, but is not limited to, owning rights to oil blocks; exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading of oil; constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure; and facilitating such activities, including by providing supplies or services in support of such activities, provided that the mere retail sale of gasoline and related consumer products shall not be considered oil-related activities.
- (m) "Petroleum resources" means petroleum or natural gas.
- (n) "Power production activities" means any business operation that involves a project commissioned by the government of Iran whose purpose is to facilitate power generation and delivery, including, but not limited to, establishing power-generating plants or hydroelectric dams, selling or installing components for the project, providing service contracts related to the installation or maintenance of the project, as well as facilitating such activities, including by providing supplies or services in support of such activities.
- (o) "Scrutinized company" means any company not described in subsection (10) that has business operations that involve contracts with or provision of supplies or services to the government of Iran; companies in which the government of Iran has any direct or indirect equity share, consortiums, or projects commissioned by the government of Iran; or companies involved in consortiums and projects commissioned by the government of Iran and 1 or more of the following:
- (i) More than 10% of the company's total revenues or assets are linked to Iran, and involve oil-related activities or mineral-extraction activities, and the company has failed to take substantial action.
- (ii) The company has, with actual knowledge, on or after August 5, 1996, made an investment of \$20,000,000.00 or more, or any combination of investments of at least \$10,000,000.00 each, which in the

aggregate equals or exceeds \$20,000,000.00 in any 12-month period, and which directly or significantly contributes to the enhancement of Iran's ability to develop petroleum resources.

(p) "Substantial action" means adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within 1 year and to refrain from any new business operations.

(2) Within 90 days after the effective date of the amendatory act that added this section, the fiduciary shall make its best efforts to identify all scrutinized companies in which the fiduciary has direct or indirect holdings or could possibly have such holdings in the future. The efforts may include 1 or more of the following:

(a) Reviewing and relying, as appropriate in the fiduciary's judgment, on publicly available information regarding companies with business operations in Iran, including information provided by nonprofit organizations, research firms, international organizations, and government entities.

(b) Contacting asset managers contracted by the fiduciary that invest in companies with business operations in Iran.

(c) Contacting other institutional investors that have divested from or engaged with companies that have business operations in Iran.

(d) Reviewing the laws of the United States regarding the levels of business activity that would cause application of sanctions against companies conducting business or investing in countries that are designated state sponsors of terror.

(3) At the end of the 90-day period or by the first meeting of the fiduciary following the 90-day period described in subsection (2), the fiduciary shall assemble all scrutinized companies identified into a scrutinized companies list.

(4) The fiduciary shall update the scrutinized companies list on a quarterly basis based on evolving information from, among other sources, those sources listed in subsection (2). The fiduciary shall make the scrutinized companies list freely available to the fiduciaries of other public retirement systems located in this state if making the list available does not violate any agreements with third parties or reveal proprietary information of a third party.

(5) The fiduciary shall adhere to the following procedure for companies on the scrutinized companies list:

(a) The fiduciary shall immediately determine the companies on the scrutinized companies list in which the fiduciary oversees pursuant to its responsibilities as described in subsection (1)(e).

(b) For each company identified in subdivision (a) with only inactive business operations, not later than 60 days after the identification of the company, the fiduciary shall send a written notice informing the company of this section and encourage the company to continue to refrain from initiating active business operations in Iran until it is able to avoid scrutinized business operations. The fiduciary shall continue the correspondence on a semiannual basis.

(c) For each company newly identified in subdivision (a) with active business operations, not later than 60 days after the company is newly identified, the fiduciary shall send a written notice informing the company of its scrutinized company status and that it may become subject to divestment by the fiduciary. The notice shall offer the company the opportunity to clarify its Iran-related activities and shall encourage the company, within 90 days, to either cease its scrutinized business operations through substantial action or convert such operations to inactive business operations in order to avoid qualifying for divestment by the fiduciary.

(d) If, within 90 days following the fiduciary's first engagement with a company pursuant to subdivision (c), that company announces a plan of substantial action, the company shall be removed from the scrutinized companies list and this section shall cease to apply to it unless it fails to implement its plan of substantial action within the designated time frame. If, within 90 days following the fiduciary's first engagement, the company converts its active business operations to inactive business operations, the company shall be subject to this section.

(e) If, after 90 days following the fiduciary's first engagement with a company pursuant to subdivision (c), the company continues to have active business operations, and only while the company continues to have active business operations, the fiduciary shall sell, redeem, divest, or withdraw all publicly traded securities of the company, according to the following schedule:

(i) At least 50% of the assets shall be removed from the fiduciary's assets under management within 9 months after the company's most recent appearance on the scrutinized companies list.

(ii) 100% of the assets shall be removed from the fiduciary's assets under management within 15 months after the company's most recent appearance on the scrutinized companies list.

(f) Except as provided in subdivisions (g) and (h), at no time shall the fiduciary acquire securities of companies on the scrutinized companies list that have active business operations.

(g) No company which the United States government affirmatively declares to be excluded from its present or any future federal sanctions regime relating to Iran shall be subject to divestment or investment prohibition pursuant to subdivisions (e) and (f).

(h) Subdivisions (e) and (f) shall not apply to indirect holdings in actively managed investment funds. For purposes of this section, actively managed investment funds include private equity funds and publicly traded funds. Before the fiduciary invests in a new private equity fund or publicly traded fund that is not in the fiduciary's portfolio as of the effective date of the amendatory act that added this section, the fiduciary shall perform due diligence to prevent investment in any private equity fund or publicly traded fund where the offering memorandum or prospectus identifies a purpose of the private equity fund or publicly traded fund as investing in scrutinized companies with active business operations in Iran. The fiduciary is not required to identify holdings in private equity funds or submit engagement letters to those funds. If the manager of a publicly traded, actively managed fund that is in the fiduciary's portfolio on the effective date of the amendatory act that added this section creates a similar publicly traded, actively managed fund with indirect holdings devoid of identified scrutinized companies with scrutinized active business operations as defined in this section, the fiduciary shall replace all applicable investments with investments in the similar fund in an expedited time frame consistent with prudent investment standards.

(6) The fiduciary shall file a publicly available report to the legislature that includes the scrutinized companies list within 30 days after the list is created. Annually thereafter, the fiduciary shall file a publicly available report to the legislature that includes all of the following:

- (a) A summary of correspondence with companies engaged by the fiduciary under this section.
- (b) All investments sold, redeemed, divested, or withdrawn in compliance with this section.
- (c) All prohibited investments under this section.
- (d) Any progress made under subsection (5)(h).

(7) This section is no longer effective upon the occurrence of 1 or more of the following:

(a) The congress or president of the United States affirmatively and unambiguously states, through legislation, executive order, or written certification from the president to congress, that the government of Iran has ceased to acquire weapons of mass destruction and support international terrorism.

(b) The United States revokes all sanctions imposed against the government of Iran.

(c) The congress or president of the United States affirmatively and unambiguously states, through legislation, executive order, or written certification from the president to congress, that mandatory divestment of the type provided for in this section interferes with the conduct of United States foreign policy.

(8) With respect to actions taken in compliance with this section, including all good faith determinations regarding companies as required by this section, the fiduciary shall be exempt from any conflicting statutory or common law obligations, including any obligations in respect to choice of asset managers, investment funds, or investments for the fiduciary's securities portfolios.

(9) The fiduciary, members of an investment advisory committee, and any person with decision-making authority with regard to investments of the fiduciary shall not be held liable for any action undertaken for the purpose of complying with or executing the mandates required under this section.

(10) Scrutinized company does not include a company that the federal government has affirmatively excluded from federal sanctions for business the scrutinized company conducts relating to Iran, or that has consistently obtained applicable licenses or approvals to conduct transactions with Iran. If the fiduciary becomes aware at any time that a company that has not been affirmatively excluded from federal sanctions for business it conducts relating to Iran and has not received from the United States government applicable licenses or approvals to conduct transactions with Iran, that company is immediately subject to subsection (5).

(11) If any provision, section, subsection, sentence, clause, phrase, or word of this legislation or its application to any person or circumstance is found to be invalid, illegal, unenforceable, or unconstitutional, the same is hereby declared to be severable and the balance of this legislation shall remain effective and functional notwithstanding such invalidity, illegality, unenforceability, or unconstitutionality.

History: Add. 2008, Act 232, Imd. Eff. July 17, 2008.

38.1134 Investment in stock.

Sec. 14. (1) An investment fiduciary may invest not more than 70% of a system's assets in stock. An investment fiduciary shall not invest in more than 5% of the outstanding stock of any 1 corporation, or invest more than 5% of a system's assets in the stock of any 1 corporation, unless otherwise provided in this act.

(2) Stock invested in under this section shall meet 1 of the following requirements:

(a) Be registered on a national securities exchange regulated under title I of the securities exchange act of 1934, chapter 404, 48 Stat. 881, 15 U.S.C. 78a to 78l, 78m to 78o, 78o-3 to 78dd-1, 78ee to 78hh, and 78kk to 78 ll.

(b) Be on the national association of securities dealers automated quotation system or a successor to this system.

(c) Be issued pursuant to rule 144a under the securities act of 1933, 17 C.F.R. 230.144a.

(3) Notwithstanding subsection (2), an investment fiduciary may designate an American depository receipt that satisfies the requirements of subsection (2) as an investment qualified under this section or as an investment in foreign securities qualified under section 20k.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

38.1135 Investment in investment companies.

Sec. 15. An investment fiduciary may invest in investment companies registered under the investment company act of 1940, title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-64. The management company of the investment company shall have been in operation for at least 5 years and shall have assets under management of more than \$500,000,000.00. An investment in an investment company shall be considered an investment in the underlying assets for all purposes under this act.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1136 Investment in annuity investment contracts or participations in separate accounts of life insurance company; investment in general account of life insurer; requirements.

Sec. 16. (1) An investment fiduciary may invest in annuity investment contracts or participations in separate real estate, mortgage, bond, stock, or other special investment accounts of a life insurance company authorized to do business in this state. An investment in such a separate account shall be considered an investment in stock under section 14 only to the extent that the separate account's assets include stock, and then only for the purpose of determining the 70% maximum investment limit under section 14. An investment in such a separate account shall also be considered an investment in real or personal property under section 19(1), but only to the extent that the separate account's assets include real or personal property, and then only for the purpose of determining the 5% maximum investment limit under section 19(1).

(2) An investment fiduciary may invest in the general account of a life insurer authorized to do business in this state under the insurance code of 1956, 1956 PA 218, MCL 500.100 to 500.8302, but the total amount of assets of any 1 system invested in any 1 insurer shall not exceed 50% of the capital and surplus of the insurer.

(3) A life insurance company under this section shall have been in operation for at least 5 years and have assets under management of more than \$500,000,000.00. The insurance company shall have a claims-paying ability rating no less than single A according to A.M. Best & company or AA- according to Duff & Phelps credit rating corp., and an overall company financial strength rating no less than Aa3 according to Moody's investors service, inc. or AA- according to Standard & Poor's ratings group.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

38.1137 Other authorized investments; prohibited investments.

Sec. 17. (1) An investment fiduciary may invest in any of the following:

(a) Obligations issued, assumed, or guaranteed by a solvent entity created or existing under the laws of the United States or of any state, district, or territory of the United States, which are not in default as to principal or interest, including, but not limited to, the following:

(i) Obligations secured by the mortgage of real property or the pledge of adequate collateral if, during any 3, including 1 of the last 2, of the 5 fiscal years immediately preceding the time of investment, the net earnings of the issuing, assuming, or guaranteeing entity available for fixed charges, as determined in accordance with standard accounting practice, shall have been not less than the total of its fixed charges for the year on an overall basis, nor less than 1-1/2 times its fixed charges for the year on a priority basis after excluding interest requirements on obligations subordinate to the issue as to security.

(ii) Equipment trust certificates of railroad companies organized under the laws of any state of the United States or of Canada or any of its provinces, payable within 20 years from their date of issue, in annual or semiannual installments, beginning not later than the fifth year after the date of issue, which certificates are a first lien on the specific equipment pledged as security for the payment of the certificates, and which certificates are either the direct obligations of the railroad companies or are guaranteed by the railroad companies, or are executed by trustees holding title to the equipment.

(iii) Obligations other than those described in subparagraphs (i) and (ii), if the net earnings of the issuing, assuming, or guaranteeing entity available for fixed charges during each of any 3, including 1 of the last 2, of the 5 fiscal years immediately preceding the time of investment, shall have been not less than 1-1/2 times the total of the entity's fixed charges for such year, or if the obligations are of investment grade.

(b) Obligations secured by a security interest in real or personal property and a lease obligation given by a solvent entity whose obligations would be qualified investments under the provisions of this act, if the

investment does not exceed 100% of the appraised value of the property subject to the lease, and if all of the following requirements are met:

- (i) The lease has an unexpired term equal to or exceeding the remaining term of the investment.
 - (ii) The lease is noncancelable unless the lessee first pays the sum of all unpaid rents due or to become due during the remaining lease term.
 - (iii) The lease provides for net rental payments equal to or exceeding the periodic payments on the investment.
 - (iv) The lease provides that the net rental payments are to be made without abatement or offset during the full term of the lease.
 - (v) The lease and the lease payments are assigned to the system, an agent of the system, or an independent trustee.
- (c) Obligations issued, assumed, or guaranteed by the United States, its agencies, or United States government-sponsored enterprises.
- (d) Obligations of a possession, territory, or public instrumentality of the United States, or of any state, city, county, township, village, school district, authority, or any other governmental unit having the power to levy taxes, or in obligations of other similar political units of the United States. These investments shall be of investment grade. These investments shall not be permitted if in the 3 preceding years the governmental unit has failed to pay its debt or any part of its debt or the interest on the debt. The aggregate investments made under this subdivision shall not exceed 5% of the system's total assets.
- (e) Banker's acceptances, commercial accounts, certificates of deposit, or depository receipts issued by a bank, trust company, savings and loan association, or a credit union.
- (f) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 national rating services, and which matures within 270 days after the date of issue.
- (g) Repurchase agreements for the purchase of securities issued by the United States government or its agencies and executed by a bank or trust company or by members of the association of primary dealers or other recognized dealers in United States government securities.
- (h) Reverse repurchase agreements for the sale of securities issued by the United States government or its agencies and executed with a bank or trust company or with members of the association of primary dealers or other recognized dealers in United States government securities.
- (i) Any investment otherwise permitted by this section in which the interest rate varies from time to time. Notwithstanding a provision of any other act to the contrary, a loan shall not be considered to be in violation of the usury statutes of this state by virtue of the fact that the loan is made on a variable interest rate basis.
- (j) Obligations secured by any of the obligations described in subdivision (a) or (c).
- (k) Dollar denominated obligations issued in the United States by foreign governments, supranationals, banks, or corporations. These investments shall be of investment grade.
- (2) Except as otherwise provided in this act and except for obligations described in subsection (1)(c), an investment fiduciary shall not do any of the following:
- (a) Invest in more than 5% of the outstanding obligations of any 1 issuer.
 - (b) Invest more than 5% of a system's assets in the obligations of any 1 issuer.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

38.1138 Investment in real estate or mortgages on certain leased real property.

Sec. 18. An investment fiduciary may invest in real estate or mortgages on real property leased or to be leased to the United States government, or to a state, territory, agency, authority, or public instrumentality of the United States, if the investment does not exceed 100% of the appraised value of the property subject to the mortgage and if all of the following requirements are met:

- (a) The lease has an unexpired term exclusive of optional renewal terms equal to or greater than the remaining term of the investment.
- (b) The lease provides for net rental payments equal to or greater than the periodic payments on the investment.
- (c) The lease and the lease payments are assigned to the system.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982.

38.1139 Investment in real estate investment trust or real or personal property.

Sec. 19. (1) An investment fiduciary may invest up to 5% of a system's assets in publicly or privately issued real estate investment trusts or in real or personal property otherwise qualified pursuant to section 15, 16, or 20c.

(2) In addition to investments authorized under subsection (1), an investment fiduciary of a system having assets of more than \$100,000,000.00 may do any of the following:

(a) Invest in, buy, sell, hold, improve, lease, or acquire by foreclosure or an agreement in lieu of foreclosure, real or personal property or an interest in real or personal property.

(b) Develop, maintain, operate, or lease the real or personal property referred to in subdivision (a).

(c) Form or invest in 1 or more limited partnerships, corporations, limited liability companies, trusts, or other organizational entities for which liability of an investor cannot exceed the amount of the investment under the laws of the United States or of any state, district, or territory of the United States or foreign country. The limited partnership, corporation, limited liability company, trust, or other organizational entity may invest in, buy, sell, hold, develop, improve, lease, or operate real or personal property, or originate a mortgage or invest in an annuity separate account that invests in real or personal property to hold title to, improve, lease, manage, develop, maintain, or operate real or personal property whether currently held or acquired after the effective date of the amendatory act that added this subdivision. An entity formed under this subdivision has the right to exercise all powers granted to the entity by the laws of the jurisdiction of formation, including, but not limited to, the power to borrow money in order to provide additional capital to benefit and increase the overall return on the investment held by the entity.

(d) Invest in investments otherwise qualified pursuant to subsection (1).

(3) Except as otherwise provided in this section, the aggregate investments made under subsection (2) shall not exceed 5% of the assets of the system. The purchase price of an investment made under this section shall not exceed the appraised value of the real or personal property.

(4) If the investment fiduciary of a system is the state treasurer, investments described in subsection (1) or (2) may exceed 5% of the assets of the system.

(5) An investment qualified under this section in which the underlying asset is an interest in real or personal property constitutes an investment under this section for the purpose of meeting the asset limitations contained in this act. This subsection applies even though the investment may be qualified elsewhere in this act. Notwithstanding this subsection, an investment fiduciary may designate a real estate investment trust which satisfies the requirements of section 14(2) as an investment qualified under this section or as an investment in stock under section 14.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000;—Am. 2008, Act 425, Imd. Eff. Jan. 6, 2009.

38.1139a State treasurer as investment fiduciary; investments in private equity; limitation.

Sec. 19a. If the investment fiduciary is the state treasurer, investments in private equity shall not be more than 30% of the total assets.

History: Add. 2008, Act 425, Imd. Eff. Jan. 6, 2009.

38.1140 Investment in secured loans; real property not considered encumbered; investment in part of obligation or participation interest in loan or group of loans; investment in real estate loan; investment in loan or loans or certificate of participation secured by loan or loans made on single family residential property; investment in certificates representing interest in mortgages or group of mortgages; limitations and restrictions; investment in second mortgage; investment with variable interest rate.

Sec. 20. (1) An investment fiduciary may invest in loans secured by any of the following:

(a) First liens upon improved or income bearing real property, including but not limited to improved agricultural land, and improved business, industrial, and residential properties.

(b) First mortgages or deeds of trust on leasehold estates having an unexpired term equivalent to the term of the mortgage, inclusive of the term or terms that may be provided by enforceable options of renewal.

(c) First mortgages on unimproved real property, at least 60% of which real property is under contract of sale and that contract or contracts are pledged as additional collateral.

(2) Investments made in loans described in subsection (1) shall not exceed 80% of the appraised value of the real property at the time of the loan and shall not have a term longer than 35 years, except under the following conditions:

(a) A loan on improved land with permanent buildings used for agriculture shall be repayable by annual or more frequent installment payments sufficient to amortize 40% or more of the principal of the loan within a period of not more than 10 years.

(b) A loan on single family residential property shall be repayable by installment payments sufficient to amortize the entire principal of the loan within a period of not more than 30 years.

(3) Real property shall not be considered to be encumbered within the meaning of this section if the real

property is subject to lease in whole or in part and under the terms of the lease rents or profits are reserved to the owner.

(4) An investment fiduciary may invest in a part of an obligation or a participation interest in a loan or a group of loans if the investment of each participant is not less than \$50,000.00 at the time of investment, and if the entire indebtedness of which participation is a part would qualify under the provisions of this section.

(5) An investment fiduciary shall not invest in a real estate loan unless the investment fiduciary has reviewed a written appraisal of the real estate securing the loan.

(6) An investment fiduciary may invest in a loan or loans or certificates of participation secured by a loan or loans made on single family residential property in an amount not to exceed 95% of the appraised value, at the time of the loan, of the real estate offered as security, if the loan is secured by a mortgage, deed of trust, or other instrument under the terms of which the installment payments are sufficient to amortize the entire principal of the loan within a period of not more than 30 years, and the loan is insured by a private mortgage insurer licensed to do business in this state and approved by the federal home loan mortgage corporation and the federal national mortgage association.

(7) An investment fiduciary may invest in certificates representing an interest in a mortgage or group of mortgages if the certificates are insured or guaranteed by a private mortgage insurance company or the United States government or an agency or instrumentality of the United States government.

(8) The limitations and restrictions of subsections (1) to (7) shall not apply to loans that are made pursuant to the servicemen's readjustment act of 1944, chapter 268, 58 Stat. 284, insured under the provisions of the national housing act, chapter 847, 48 Stat. 1246, by the federal housing administration, nor to real estate loans which are guaranteed as to principal by the United States government or an agency or an instrumentality of the United States government.

(9) Notwithstanding subsection (1), an investment fiduciary may invest in a second mortgage if all of the following requirements are met:

(a) The total of the balance owing on the first mortgage and the amount of the second mortgage do not exceed 80% of the appraised value of the real property at the time of the second mortgage.

(b) The second mortgage does not have a term longer than 30 years.

(c) The investment fiduciary has the absolute right to pay the underlying first mortgage in part or in full at any time.

(d) The investment fiduciary assumes no liability for payment of the underlying first mortgage.

(10) An investment fiduciary may invest in any investment otherwise permitted by this section in which the interest rate varies from time to time. A loan shall not be considered to be in violation of the usury statutes of this state by virtue of the fact that the loan is made on a variable interest rate basis.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1140a Investment in debt, warrant, or equity interest in small business, small business investment company, or venture capital firm; creation of small business investment companies or venture capital firms to invest in small businesses; limitation.

Sec. 20a. (1) Except as provided in subsection (2), an investment fiduciary of a system having assets of more than \$250,000,000.00 may invest not more than 2% of a system's assets in a debt, warrant, or equity interest in a small business having more than 1/2 of the small business's assets or employees within this state, or in a debt, warrant, or equity interest in a small business investment company or venture capital firm having its principal office or more than 1/2 of its assets within this state, or the system may create, own, hold, buy, sell, operate, manage, and direct 1 or more small business investment companies or venture capital firms designed to invest in small businesses having more than 1/2 of their assets or employees within this state. An investment fiduciary may also join with a group composed of other public employee retirement systems, pension systems subject to the employee retirement income security act of 1974, Public Law 93-406, 88 Stat. 829, financial institutions, corporations, or governmental agencies or instrumentalities to accomplish the purposes of this section. An investment in stock under this section shall be considered an investment in stock under section 14 only for the purpose of determining the 70% maximum investment limitation contained in section 14.

(2) If the investment fiduciary of a system is the state treasurer, investments described in subsection (1) may exceed 2% of the assets of the system, but shall not exceed 5% of the assets of the system.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

38.1140b Deposits by investment fiduciary.

Sec. 20b. An investment fiduciary may make interest bearing deposits with the treasurer of the political

subdivision sponsoring the system or with the state treasurer, either of whom may then manage and invest the deposits in a collective investment fund, common trust fund, or pooled fund that is established and maintained for investment of those assets by the treasurer of the political subdivision sponsoring the system or by the state treasurer in accordance with this act.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1140c Financial institution or management company retained as investment fiduciary; investment of system assets in collective investment fund, common trust fund, or pooled fund established and maintained by financial institution or management company; “financial institution” defined.

Sec. 20c. (1) A financial institution, a trust company, a management company qualified under section 15, or any affiliate of a person described in this section if that affiliate qualifies as an investment fiduciary under section 13(8)(a), retained to act as an investment fiduciary may invest the assets of a system in any collective investment fund, common trust fund, or pooled fund that is established and maintained for investment of those assets by the financial institution, trust company, or management company under federal or state statutes or rules or regulations. An investment in a collective investment fund, common trust fund, or pooled fund shall be considered an investment in the underlying assets of that fund for all purposes under this act.

(2) As used in this section, “financial institution” means a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this state under the laws of this state or the United States.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 1997, Act 42, Imd. Eff. June 30, 1997;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

38.1140d Investments not qualified under act.

Sec. 20d. (1) An investment fiduciary of a system having assets of less than \$250,000,000.00 may invest not more than 5% of the system's assets in investments not otherwise qualified under this act, except as qualified in section 19a, whether the investments are similar or dissimilar to those specified in this act.

(2) An investment fiduciary of a system having assets of \$250,000,000.00 or more may invest not more than 10% of the system's assets in investments described in subsection (1).

(3) An investment fiduciary of a system having assets of \$1,000,000,000.00 or more may invest not more than 15% of the system's assets in investments described in subsection (1).

(4) An investment fiduciary of a system who is the state treasurer may invest not more than 20% of the system's assets in investments described in subsection (1).

(5) If an investment described in subsection (1) is subsequently determined to be permitted under another section of this act, then the investment shall no longer be included under this section.

(6) This section shall not be used to exceed a percentage of total assets limitation for an investment provided in any other section of this act.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Oct. 16, 2000;—Am. 2008, Act 425, Imd. Eff. Jan. 6, 2009.

38.1140e Loan of securities by investment fiduciary.

Sec. 20e. (1) An investment fiduciary may loan bonds, stocks, or other securities if at the time the loan is executed, at least 102% of the full market value of the security loaned is secured by collateral of cash to be invested in 1 or more of the following:

(a) Securities graded in the top 4 major grades as determined by at least 1 national rating service, but not graded below the top 4 grades as determined by any of the national rating services, or determined by the investment fiduciary to be of comparable quality in the case of unrated securities.

(b) Repurchase agreements collateralized by securities graded in the top 4 major grades as determined by at least 1 national rating service, but not graded below the top 4 grades as determined by any of the national rating services, or determined by the investment fiduciary to be of comparable quality in the case of unrated securities.

(c) Irrevocable bank letters of credit.

(d) Securities issued or guaranteed by the United States government or an agency of the United States government.

(2) At all times during the term of a loan under subsection (1), the collateral shall be equal to not less than 100% of the full market value of the security loaned.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2000, Act 307, Imd. Eff. Rendered Monday, October 17, 2011

Oct. 16, 2000.

38.1140f Transferring and holding securities.

Sec. 20f. An investment fiduciary may use 1 or more nominees to facilitate transfer of a system's securities and may hold the securities in safekeeping with the federal reserve system, a clearing corporation, or a custodian bank which is a member of the federal reserve system.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982.

38.1140g Investment in securities exempt from taxes.

Sec. 20g. Notwithstanding any other provision of this act, investment in securities wholly or partially exempt from income or other taxes levied by the United States shall be made only at taxable-equivalent yields or returns available in the marketplace on otherwise comparable securities at the time the investment decision is made.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982.

38.1140h Applicable law; actuarial valuation; supplemental actuarial analysis; "proposed pension benefit change" defined.

Sec. 20h. (1) In addition to the provisions of this act, a system is subject to the applicable accounting and reporting requirements contained in the following acts and parts of acts:

- (a) 1919 PA 71, MCL 21.41 to 21.55.
- (b) The uniform budgeting and accounting act, 1968 PA 2, MCL 141.121 to 141.440a.
- (c) Section 91 of the executive organization act of 1965, 1965 PA 380, MCL 16.191.

(2) Except as otherwise provided in subsection (4), a system shall have an annual actuarial valuation with assets valued on a market-related basis. A system shall prepare and issue a summary annual report. The system shall make the summary annual report available to the plan participants and beneficiaries and the citizens of the political subdivision sponsoring the system. The summary annual report shall include all of the following information:

- (a) The name of the system.
- (b) The names of the system's investment fiduciaries.
- (c) The system's assets and liabilities.
- (d) The system's funded ratio.
- (e) The system's investment performance.
- (f) The system's expenses.

(3) A system shall provide a supplemental actuarial analysis before adoption of pension benefit changes. The supplemental actuarial analysis shall be provided by the system's actuary and shall include an analysis of the long-term costs associated with any proposed pension benefit change. The supplemental actuarial analysis shall be provided to the board of the particular system and to the decision-making body that will approve the proposed pension benefit change at least 7 days before the proposed pension benefit change is adopted. For purposes of this subsection, "proposed pension benefit change" means a proposal to change the amount of pension benefits received by persons entitled to pension benefits under a system. Proposed pension benefit change does not include a proposed change to a health care plan or health benefits.

(4) A system that has assets of less than \$20,000,000.00 is only required to have the actuarial valuation required under subsection (2) done every other year.

History: Add. 1982, Act 55, Imd. Eff. Apr. 6, 1982;—Am. 1996, Act 485, Imd. Eff. Dec. 27, 1996;—Am. 2002, Act 728, Imd. Eff. Dec. 30, 2002.

38.1140i Repealed. 2000, Act 307, Imd. Eff. Oct. 16, 2000.

Compiler's note: The repealed section pertained to guaranteed repayment of loans.

38.1140j Investment in derivatives.

Sec. 20j. (1) Subject to qualification elsewhere in this act, an investment fiduciary may invest in any of the following:

(a) A derivative that hedges positions of a nonderivative component of a portfolio that clearly reduces a defined risk.

(b) A derivative that replicates the risk/return profile of an asset or asset class, provided the asset or asset class is permitted in other sections of this act.

(c) A derivative that rebalances the country or asset class exposure of a portfolio.

(d) A derivative in which the investment fiduciary has examined the price, yield, and duration characteristics in all market environments both at the time of investment and on an ongoing basis.

(e) A commingled or pooled investment fund that uses derivatives, if the fund's use of derivatives is consistent with the guidelines outlined in this section.

(f) Over-the-counter derivatives if, in the case of an over-the-counter security, a minimum of 2 competing bids or offers are obtained. All counter party risk in over-the-counter derivative transactions shall be examined at the time of investment and on an ongoing basis.

(2) The aggregate market value of the underlying security, future, or other instrument or index made under this section shall not exceed 15% of the assets of the system. For purposes of the asset limitation in this section only, "derivatives" does not include:

(a) Asset backed pools, mortgage backed pools, or collateralized mortgage obligations that are otherwise qualified under this act and are no more exposed to prepayment risk or interest rate risk than the underlying collateral including planned amortization classes and sequential-pay collateralized mortgage obligations.

(b) Convertible bonds, convertible preferred stock, rights or warrants to purchase stock or bonds or notes or partnership interests, floating rate notes, zero coupon securities, stripped principal securities, or stripped interest securities, which items are otherwise qualified under this act.

(c) Exchange-listed derivatives trading on a daily basis and settling in cash daily or having a limited and fully defined risk profile at an identified, fixed cost, including futures contracts and purchased options.

(d) Currency forwards trading on a daily basis and settling in cash daily or having a limited and fully defined risk profile at an identified, fixed cost.

(3) Notwithstanding any other provision of this act to the contrary, an investment fiduciary shall not invest in derivatives for the purpose of leveraging a portfolio or shorting securities as a sole investment.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1140k Investment in foreign securities.

Sec. 20k. (1) Notwithstanding a percentage of total assets limitation for an investment provided in any other section of this act, an investment fiduciary may invest not more than 20% of a system's assets in foreign securities. Except as otherwise provided in this act, an investment fiduciary shall not do any of the following:

(a) Invest in more than 5% of the outstanding foreign securities of any 1 issuer.

(b) Invest more than 5% of a system's assets in the foreign securities of any 1 issuer.

(2) Investments in foreign securities under this section shall be made only by investment fiduciaries described in section 13(8) who have demonstrated expertise in investments of that type.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1140/ Financial or proprietary information.

Sec. 20l (1) A record or portion of a record, material, or other data received, prepared, used, or retained by an investment fiduciary in connection with the investment of assets of a system that relates to financial or proprietary information pertaining to a portfolio company in real estate or alternative investments in which the investment fiduciary has invested or has considered an investment that is considered by the portfolio company and acknowledged by the investment fiduciary as confidential; or that relates to financial or proprietary information whether prepared by or for the investment fiduciary regarding loans and assets directly owned by the investment fiduciary and acknowledged by the investment fiduciary as confidential is not subject to the disclosure requirements of the freedom of information act, Act No. 442 of the Public Acts of 1976, being sections 15.231 to 15.246 of the Michigan Compiled Laws.

(2) A document to which the investment fiduciary is a party evidencing an investment is not considered financial or proprietary information that may be exempt from disclosure pursuant to subsection (1).

(3) As used in this section, "financial or proprietary information" means information that has not been publicly disseminated or that is unavailable from other sources, the release of which might cause the portfolio company or the investment fiduciary significant competitive harm. Financial or proprietary information includes but is not limited to financial performance data and projections, financial statements, list of coinvestors and their level of investment, product and market data, rent rolls, and leases.

History: Add. 1996, Act 485, Imd. Eff. Dec. 27, 1996.

38.1140m Employer contribution.

Sec. 20m. The governing board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of any system shall confirm in the annual actuarial valuation and the summary annual report required under section 20h(2) that each plan under this act provides for the payment of the required employer contribution as provided in this section and shall confirm in the summary annual report that the system has received the required employer contribution for the year covered in the summary annual report. The required employer contribution

is the actuarially determined contribution amount. An annual required employer contribution in a plan under this act shall consist of a current service cost payment and a payment of at least the annual accrued amortized interest on any unfunded actuarial liability and the payment of the annual accrued amortized portion of the unfunded principal liability. For fiscal years that begin before January 1, 2006, the required employer contribution shall not be determined using an amortization period greater than 40 years. Except as otherwise provided in this section, for fiscal years that begin after December 31, 2005, the required employer contribution shall not be determined using an amortization period greater than 30 years. For the state employees retirement system, the public school employees retirement system, and the state police retirement system only, for the fiscal year beginning October 1, 2006, the contribution for the unfunded actuarial accrued liability shall be equal to the product of the assumed real rate of investment return times the unfunded actuarial accrued liability. In a plan year, any current service cost payment may be offset by a credit for amortization of accrued assets, if any, in excess of actuarial accrued liability. A required employer contribution for a plan administered under this act shall allocate the actuarial present value of future plan benefits between the current service costs to be paid in the future and the actuarial accrued liability. The governing board vested with the general administration, management, and operation of a system or other decision-making body of a system shall act upon the recommendation of an actuary and the board and the actuary shall take into account the standards of practice of the actuarial standards board of the American academy of actuaries in making the determination of the required employer contribution.

History: Add. 2002, Act 728, Imd. Eff. Dec. 30, 2002;—Am. 2007, Act 22, Imd. Eff. June 26, 2007.