CHAPTER 11

STATE BOARD OF INVESTMENT

11.01 MEMBERSHIP; RECORDS. The governor shall be ex officio president of the state board of investment, which shall have a permanent executive secretary, who shall keep a record of its proceedings. Both the executive secretary of the board and the auditor shall keep appropriate investment and accounting records.

[*1921 c 516 s 1; 1925 c 131 s 1; 1929 c 254 s 1; 1931 c 346 s 1; 1935 c 337 s 1; 1939 c 387 s 1; 1941 c 172 s 1; 1943 c 152 s 1; 1963 c 567 s 3*] *(6303)*

11.015 PERMANENT SCHOOL FUND, INVESTMENT. Subdivision 1. The state board of investment may invest the permanent school funds of the state of Minnesota in such securities as are duly authorized by Article VIII, Section 4, of the Constitution of the state of Minnesota subject, however, to the limitations provided in this section. Such investments shall be made with such prudence, discretion, and intelligence as will protect the safety of the principal of such fund as well as the income to be derived therefrom. The state board of investment shall sell such securities when the overall investment portfolio of the fund will be improved through such action and may reinvest the proceeds in securities herein provided for.

Subd. 2. Bonds of any municipal or political subdivision of this state, issued pursuant to a law of this state, are legal investments for the permanent school fund; provided, however, that the issuer has not, within ten years prior to the making of the investment, been in default for more than 30 days in the payment of any part of the principal or interest on any debt evidenced by its bonds, and provided further, that the assessed value of the real and personal property within the municipality issuing such bonds is more than double the sum of the bonded indebtedness of such municipality and the bonded indebtedness of any other political subdivision imposing taxes upon the property within such municipality for the payments of its bonded indebtedness. Where the area of such other political subdivision is greater than the area of the municipality issuing such bonds, the amount of bonded indebtedness of such other political subdivision to be used in making the foregoing calculations shall be such figure as is arrived at by dividing the bonded indebtedness of such other political subdivision by the total assessed value of real and personal property in such other subdivision and multiplying the result by the assessed value of the real and personal property of such other political subdivision within such municipality.

Subd. 3. Not more than 50 percent of the bonds of any municipal or political subdivision of this state issued at one time and due on any one maturity date may be purchased for accounts managed by the state board of investment. Such bonds must bear the same coupon rate as those of the same maturity sold to other investors and must be purchased at a price no higher than that offered to other buyers of the issue at the time of purchase.

Subd. 4. Bonds, notes, debentures, equipment obligations, or any other obligation of any corporation organized within any of the states of the United States or in Canada provided that obligations of Canadian corporations shall be payable in United States dollars, are legal investments for the permanent school fund; provided, however, that no bonds, notes, debentures, equipment obligations, or any other obligation of any corporation with assets of less than ten million dollars may be purchased, nor shall the book value of the outstanding capital stock of such corporation at the time of such investment be equal to less than 50 percent of its total funded debt. For a period of five consecutive years or longer immediately prior to the date of such investment, the pretax earnings of the corporation shall have been at least three times the interest requirements on outstanding bonds, and for such period the gross operating revenues of any such corporation shall have averaged per year not less than one million dollars; provided that the investment in such securities shall not exceed 40 per cent of the total assets of the fund at any time.

Subd. 5. All investments made under subdivisions 2, 3, and 4 hereof shall be rated among the top third of the quality categories, not applicable to defaulted bonds, used by a nationally recognized rating agency for rating the quality of the same.

Subd. 6. Preferred and common stocks of any corporation organized within any of the states of the United States or in Canada listed on a United States national stock exchange and insurance and bank common and preferred stocks are legal investments for the permanent school fund, providing these stocks conform to the limitations prescribed in the Constitution, Article VIII, Section 4. The aggregate of common and preferred stock investments may not exceed 20 per cent of the total assets of the fund at any time. Furthermore, the board may invest no more than five percent of the assets of the fund in common or preferred stocks in any one year, the intent of this provision being that the fund may not attain a position of 20 percent in stocks within a period of less than four years. All percentage restrictions concerning stock investments, both by constitutional provisions and by statute, shall be computed on the basis of the cost price of such stocks at the time of investment. No investment shall be made in the common or preferred stocks of any corporation with assets of less than ten million dollars.

Subd. 7. At the end of each fiscal year, the total amount of losses on the sales of securities, not offset by gains on the sales of securities during that year, shall be computed, with a portion of these losses to be deducted each fiscal year from the interest and dividend income and such amount of interest and dividend income added to the principal of the fund. Losses taken on the sales of bonds shall be accumulated over a period equal to the average remaining life of the bonds sold, and losses taken on the sales of stocks shall be accumulated within a period of five years, unless these losses are offset by gains on future sales of securities. In any fiscal year in which the gains on the sales of securities exceed the losses on the sales of securities, such excess shall be added to the principal of the fund.

Subd. 8. Income arising from the investment of the permanent school fund shall be invested in short term obligations of the United States of America or an agency thereof until such investment income is needed for payment to the school districts.

[*1963 c 567 s 1*]

11.02 [Repealed, 1959 c 693 s 7]

11.03 [Repealed, 1959 c 693 s 7]

11.04 SECRETARY TO HAVE ACCESS TO BONDS AND SECURITIES BEING PART OF TRUST FUNDS. The state treasurer shall continue to have the custody of the bonds and securities belonging to the trust funds of the state, but the secretary shall have access thereto, in the presence of a representative of the state treasurer, during the usual office hours of the treasury department.

[*1917 c. 271 s. 7*] *(6310)*

11.05 APPROPRIATION FOR INVESTMENT. Subdivision 1. **Annually.** There are hereby annually appropriated for the purposes of investment all moneys received into the state treasury to the credit of the permanent school fund, permanent university fund, internal improvement land fund, and all other funds required to be invested in securities or which may be loaned as provided by law.

Subd. 2. **Coverage.** The annual appropriations herein provided for shall cover the full purchase price of bonds or other securities to be purchased, including premiums when bonds or securities are purchased above par. All premiums to be paid out of such appropriation of trust funds shall be amortized from the income from said bonds or securities as follows: The yield on said bonds or securities shall be calculated on the basis of cost including premiums. From each interest payment to be received there is hereby appropriated and there shall be transferred to the respective trust funds the difference between the yield of the bond or security so calculated for that interest period and the interest received, so that at the maturity of the bond, or security the respective trust funds will be completely reimbursed for the amount of premiums paid. When United States government obligations are purchased below par, all discounts shall be accumulated on such bonds or securities as follows: At the time each interest payment is received there shall be transferred from the principal to the income of the respective trust funds the difference between the yield of the bond, or security so calculated for that interest period and the interest received so that at the maturity of the bond, or security, income will be credited with the full amount of the interest yield, namely the amount received from the coupons plus the amount of the discount. The amount received from the bond, or security, at maturity will be credited to principal and will completely reimburse the principal for: (1) The amount paid from principal for the purchase of the bond at a discount, and (2) the amounts transferred from principal to income to cover the difference between the yield of the bond, or security, and the interest received from the coupons. The yield from United States treasury bills shall be the difference between the cost price and selling price or maturity value and shall be regarded as interest income. The state board of investment shall initiate those entries that are necessary to give effect to the above provision applicable to those investments purchased on and after January 1, 1955.

Subd. 3. **Profit credited to trust fund.** If the state board of investment shall sell any bonds or other securities held in the trust funds of the state above the purchase price therefor, the profit therefrom shall be credited to the principal of the trust fund in which they are held.

Subd. 4. **Collection of unearned interest.** If the state board of investment shall accept payment of any bonds or other securities, by the issuers thereof, prior to maturity, upon payment of their face value and accrued interest, plus the difference in interest between that which the face value of said bonds or securities would have yielded if they had not been paid before maturity and the interest, if less, that will be received on the reinvestment of the principal so prepaid up to the date of its original maturity, the unearned interest so paid in advance shall be distributed in the same manner and at such times as the interest on such bonds or securities would have been distributed if such interest had not been so prepaid.

[*R L s 2436; 1945 c 312 s 1; Ex1961 c 34 s 1*] *(6313)*

11.06 STANDING APPROPRIATION FOR EXPENSE OF INVESTMENT. There are hereby annually appropriated such sums as shall be found necessary for the incidental expenses of purchase, including the payment of interest accrued at the time of purchase, of bonds for the permanent school and university funds, payable from the current or general school or university funds, respectively, and for like expenses of the purchase of bonds for the other permanent funds referred to in section 11.05, payable from the respective current or general funds.

[*R. L. s. 2437*] *(6314)*

11.07 [Repealed, 1961 c 561 s 17]

11.08 ESCHEATED PROPERTY, REPORT, SALE. The state auditor shall report immediately to the state board of investment all personal property other than money received by the state of Minnesota as escheated property. When the state board of investment shall determine that it is for the best interest of the state to sell such property it shall direct the state treasurer to sell the same to the highest bidder in such manner and upon such terms and conditions as it may prescribe. All moneys received from such sale shall be credited to the general revenue fund of the state.

[*1941 c 198 s 1; 1957 c 861 s 2*]

11.09 [Repealed, 1961 c 561 s 17]

11.10 INVESTMENT OF MONEY IN STATE TREASURY NOT CURRENTLY NEEDED. Subdivision 1. **Investment of treasury fund.** When there shall be any money in the state treasury that is not currently needed, the state auditor shall certify to the state board of investment the amount thereof. The board of investment may then invest said amount, or any part thereof, in treasury bonds, certificates of indebtedness, bonds or notes of the United States of America or bonds, notes or certificates of indebtedness of the State of Minnesota, all of which must mature not later than three years from date of purchase.

Subd. 2. **State auditor to certify.** When it shall appear to the state auditor that any invested funds are needed for current purposes before the maturity dates of the securities held, he shall so certify and it shall then be the duty of the board of investment to order the sale or conversion into cash of securities of the amount so certified.

Subd. 3. **Interest and profit credited to general revenue fund.** All interest and profit accruing from said investments shall be credited to and be a part of the general revenue fund, except as otherwise provided by law; and any loss incurred in the principal of said investments shall be borne by the general revenue fund.

[*1949 c 110 s 1-3*]

11.11 EXECUTIVE SECRETARY; CONSULTANTS. The board of investment shall employ an executive secretary to perform the duties provided by law, and may employ or engage such expert consultants and technical and other assistants as it deems necessary. Such persons so employed or engaged are in the unclassified service of the state. The employment of the executive secretary shall be subject to confirmation by the senate in the same manner as the appointment of executive officers is confirmed by the senate.

[*1959 c 693 s 1*]

11.12 DUTIES OF EXECUTIVE SECRETARY; BOND. The executive secretary shall manage and direct the work of the board of investment on a full time basis. He shall be a person well qualified by training and experience to manage, administer and invest the money available from time to time for investment. He shall have free access to all files and records of the various funds assigned to the board for investment purposes, and may inspect and audit the various accounts thereof as he deems necessary. He shall devote his full time and attention to the duties of his office, and shall not engage in any other occupation or profession. He shall be paid such salary as is determined by the board, subject to such maximum amount as may be set by the legislature. He shall perform duties prescribed by the board. He shall attend all board meetings and report to the board all operations and negotiations under his control and supervision. Before he assumes the office to which he has been appointed, the executive secretary shall give bond to the state in the sum of at least $100,000 conditioned for the faithful discharge of his official duties.

[*1959 c 693 s 2*]

11.13 INVESTMENT POLICIES. The board shall invest the funds over which it has supervision in securities authorized by law and may dispose of or convert such securities when in its judgment it is to the best interest of the funds so to do. The board shall formulate and establish, and may from time to time amend, modify or repeal such policies as it deems necessary and proper which shall govern the methods, practices or procedures for the investment, reinvestment, purchase, sale, or exchange of securities, to be followed by the executive secretary. All securities purchased or sold by the state board of investment, except stocks listed or traded on a major United States stock exchange, securities bound by underwriting restrictions, or securities classified as private placements and offered only to a limited number of institutional investors, shall be purchased or sold on the basis of competitive offerings or bids received from at least two firms known to specialize in the securities being traded and likely to position these securities in relevant quantities. A record of the offerings or bids shall be kept by the executive secretary. All securities purchased shall be kept in the custody of the state treasurer and shall be held as an asset of the fund from which the money was spent, and except as otherwise provided by law, any loss or gain shall inure to such fund.

[*1959 c 693 s 3; 1965 c 306 s 1*]

11.14 OFFICE SPACE. The custodian of the state capitol building shall provide the executive secretary and staff with suitable office and storage space in the state capitol near the office of the state treasurer.

[*1959 c 693 s 4*]

11.15 INVESTMENT OF STATE BOND FUND. Subdivision 1. All money received in the state treasury to the credit of the separate and special state bond fund, which the state treasurer is directed by Article IX, Section 6, Subdivision 4, of the constitution to maintain on his official books and records, is annually appropriated for the purpose of investment and reinvestment in accordance with this act, and so much of the income arising therefrom as may be necessary to pay expenses incidental thereto is annually appropriated for that purpose.

Subd. 2. When there is any money in the state bond fund not needed to pay principal or interest due on state bonds within 30 days, the amount thereof shall be invested by the state board of investment in securities which are direct general obligations of the United States. No investment in securities maturing more than three years from the date of purchase thereof shall be made at any time unless the aggregate face amount of all securities then held in the fund, maturing within three years from said date, is equal to the aggregate amount of principal and interest to become due on state bonds within 12 months from said date. Subject to these limitations, the fund shall be invested and reinvested so as to produce the maximum yield thereon.

Subd. 3. When any of such invested money is needed to pay principal or interest due on state bonds, in excess of cash on hand or receivable from investments in the fund on or before the due date, the state board of investment shall convert securities into cash in an amount sufficient to make the payment.

Subd. 4. All interest and profit accruing from any investment of the state bond fund shall be credited to and be a part of the state bond fund, and all loss from the sale thereof and all necessary expenses of investment and reinvestment shall be charged to that fund.

Subd. 5. Whenever money for the payment of any issue or class of issues of state bonds is transferred to the state bond fund out of the proceeds of such bonds, or is transferred thereafter pursuant to a standing annual appropriation in the law authorizing the issuance of the bonds, the net income from time to time received from the investment of this money shall be deducted from the amounts subsequently required to be transferred pursuant to such annual appropriation.

[*1965 c 901 s 84*]