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.