

1 AN ACT relating to the investment of funds by the Kentucky Retirement Systems'  
2 and County Employees Retirement System's boards of trustees.

3 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

4 ➔Section 1. KRS 16.642 is amended to read as follows:

- 5 (1) The board shall be the trustee of the several funds created by KRS 16.505 to 16.652  
6 and shall have full power to invest and reinvest such funds, subject to the  
7 limitations that no investments shall be made except upon the exercise of bona fide  
8 discretion, in securities which, at the time of making the investment, are, by law,  
9 permitted for the investment of funds by fiduciaries in this state, except that the  
10 board may, at its discretion, purchase common stock in corporations that do not  
11 have a record of paying dividends to their stockholders. Subject to such limitations,  
12 the board shall have full power to hold, purchase, sell, assign, transfer or dispose of  
13 any of the securities or investments in which any of the funds created herein have  
14 been invested, as well as of the proceeds of such investments and any moneys  
15 belonging to such funds.
- 16 (2) All securities acquired under authority of KRS 16.505 to 16.652 shall be registered  
17 in the name "Kentucky Retirement Systems" or nominee name as provided by KRS  
18 286.3-225, and every change in registration, by reason of sale or assignment of such  
19 securities shall be accomplished pursuant to written policies adopted by the board.
- 20 (3) The board, in keeping with its responsibility as trustee and wherever feasible, shall  
21 give priority to the investment of funds in obligations calculated to improve the  
22 industrial development and enhance the economic welfare of the Commonwealth.
- 23 (4) The investment committee established pursuant to KRS 61.650 shall serve as the  
24 investment committee of the funds established by KRS 16.505 to 16.652.
- 25 (5) ***As used in this subsection, "alternative investment" means a private equity fund,***  
26 ***private equity fund of funds, venture capital fund, hedge fund, hedge fund of***  
27 ***funds, buy-out fund, commodities fund, distressed debt fund, mezzanine debt***

1 *fund, or other unregistered investment vehicle engaged in the strategic trading of*  
 2 *securities and other financial instruments not including real estate.* Based upon  
 3 market value at the time of purchase, the board shall:

4 *(a) Limit the amount of assets invested in alternative investments to not more*  
 5 *than twenty-five percent (25%) of the assets in the pension and insurance*  
 6 *funds; and*

7 *(b)* Limit the amount of assets managed by any one (1) active or passive  
 8 investment manager *of any investment fund* to fifteen percent (15%) of the  
 9 assets in the pension and insurance funds.

10 ➔Section 2. KRS 61.650 (Effective April 1, 2021) is amended to read as follows:

11 (1) (a) The board shall be the trustee of the several funds created by KRS 16.510,  
 12 61.515, and 61.701 as it pertains to the trust fund for the Kentucky Retirement  
 13 Systems insurance trust fund, notwithstanding the provisions of any other  
 14 statute to the contrary, and shall have exclusive power to invest and reinvest  
 15 such funds in accordance with federal law.

16 (b) 1. The board shall establish an investment committee whose membership  
 17 shall be composed of the following:

18 a. The three (3) trustees appointed by the Governor pursuant to KRS  
 19 61.645 who have investment experience; and

20 b. Additional trustees appointed by the board chair.

21 2. The investment committee shall have authority to implement the  
 22 investment policies adopted by the board and act on behalf of the board  
 23 on all investment-related matters and to acquire, sell, safeguard,  
 24 monitor, and manage the assets and securities of the several funds.

25 (c) A trustee, officer, employee, employee of the Kentucky Public Pensions  
 26 Authority, or other fiduciary shall discharge duties with respect to the  
 27 retirement system:

- 1           1.   Solely in the interest of the members and beneficiaries;
- 2           2.   For the exclusive purpose of providing benefits to members and
- 3           beneficiaries and paying reasonable expenses of administering the
- 4           system;
- 5           3.   With the care, skill, and caution under the circumstances then prevailing
- 6           that a prudent person acting in a like capacity and familiar with those
- 7           matters would use in the conduct of an activity of like character and
- 8           purpose;
- 9           4.   Impartially, taking into account any differing interests of members and
- 10          beneficiaries;
- 11          5.   Incurring any costs that are appropriate and reasonable; and
- 12          6.   In accordance with a good-faith interpretation of the law governing the
- 13          retirement system.
- 14          (d) In addition to the standards of conduct prescribed by paragraph (c) of this
- 15          subsection:
- 16           1.   All internal investment staff, including investment staff of the Kentucky
- 17           Public Pensions Authority, and investment consultants shall adhere to
- 18           the Code of Ethics and Standards of Professional Conduct, and all board
- 19           trustees shall adhere to the Code of Conduct for Members of a Pension
- 20           Scheme Governing Body. All codes cited in this subparagraph are
- 21           promulgated by the CFA Institute; and
- 22           2.   Investment managers shall comply with all applicable provisions of the
- 23           federal Investment Advisers Act of 1940, as amended, and the rules and
- 24           regulations promulgated thereunder, and shall comply with all other
- 25           applicable federal securities statutes and related rules and regulations
- 26           that apply to investment managers.
- 27          (2) All securities acquired under authority of KRS 61.510 to 61.705 shall be registered

1 in the name "Kentucky Retirement Systems" or nominee name as provided by KRS  
2 286.3-225 and every change in registration, by reason of sale or assignment of such  
3 securities, shall be accomplished pursuant to written policies adopted by the board.

4 (3) The board, in keeping with its responsibility as trustee and wherever consistent with  
5 its fiduciary responsibilities, shall give priority to the investment of funds in  
6 obligation calculated to improve the industrial development and enhance the  
7 economic welfare of the Commonwealth.

8 (4) The contents of real estate appraisals, engineering or feasibility estimates, and  
9 evaluations made by or for the system relative to the acquisition or disposition of  
10 property, until such time as all of the property has been acquired or sold, shall be  
11 excluded from the application of KRS 61.870 to 61.884 and shall be subject to  
12 inspection only upon order of a court of competent jurisdiction.

13 (5) As used in this subsection, "alternative investment" means a private equity fund,  
14 private equity fund of funds, venture capital fund, hedge fund, hedge fund of  
15 funds, buy-out fund, commodities fund, distressed debt fund, mezzanine debt  
16 fund, or other unregistered investment vehicle engaged in the strategic trading of  
17 securities and other financial instruments not including real estate. Based upon  
18 market value at the time of purchase, the board shall:

19 (a) Limit the amount of assets invested in alternative investments to not more  
20 than twenty-five percent (25%) of the assets in the pension and insurance  
21 funds; and

22 (b) Limit the amount of assets managed by any one (1) active or passive  
23 investment manager of any investment fund to fifteen percent (15%) of the  
24 assets in the pension and insurance funds.

25 (6) All contracts for the investment or management of assets of the systems shall not be  
26 subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the  
27 following process to develop and adopt an investment procurement policy with

1 which all prospective contracts for the investment or management of assets of the  
2 systems shall comply:

- 3 (a) On or before July 1, 2017, the board shall consult with the secretary of the  
4 Finance and Administration Cabinet or his or her designee to develop an  
5 investment procurement policy, which shall be written to meet best practices  
6 in investment management procurement;
- 7 (b) Thirty (30) days prior to adoption, the board shall tender the preliminary  
8 investment procurement policy to the secretary of the Finance and  
9 Administration Cabinet or his or her designee for review and comment;
- 10 (c) Upon receipt of comments from the secretary of the Finance and  
11 Administration Cabinet or his or her designee, the board shall choose to adopt  
12 or not adopt any recommended changes;
- 13 (d) Upon adoption, the board shall tender the final investment procurement policy  
14 to the secretary of the Finance and Administration Cabinet or his or her  
15 designee;
- 16 (e) No later than thirty (30) days after receipt of the investment procurement  
17 policy, the secretary or his or her designee shall certify whether the board's  
18 investment procurement policy meets or does not meet best practices for  
19 investment management procurement; and
- 20 (f) Any amendments to the investment procurement policy shall adhere to the  
21 requirements set forth by paragraphs (b) to (e) of this subsection.

22 ➔Section 3. KRS 78.790 (Effective April 1, 2021) is amended to read as follows:

- 23 (1) (a) The board shall be the trustee of the several funds created by KRS 78.510 to  
24 78.852, and the County Employees Retirement System insurance trust fund as  
25 provided by KRS 61.701, and shall have full and exclusive power to invest  
26 and reinvest such funds in accordance with federal law.
- 27 (b) 1. The board shall establish an investment committee that shall include

- 1 members of the board with investment experience, elected members, or  
2 other members as determined by the board chair, and may also include  
3 nonvoting members who have investment expertise.
- 4 2. The investment committee shall have authority to implement the  
5 investment policies adopted by the board and act on behalf of the board  
6 on all investment-related matters and to acquire, sell, safeguard,  
7 monitor, and manage the assets and securities of the several funds.
- 8 (c) A trustee, officer, employee, employee of the Kentucky Public Pensions  
9 Authority, or other fiduciary shall discharge duties with respect to the system:
- 10 1. Solely in the interest of the members and beneficiaries;  
11 2. For the exclusive purpose of providing benefits to members and  
12 beneficiaries and paying reasonable expenses of administering the  
13 system;  
14 3. With the care, skill, and caution under the circumstances then prevailing  
15 that a prudent person acting in a like capacity and familiar with those  
16 matters would use in the conduct of an activity of like character and  
17 purpose;  
18 4. Impartially, taking into account any differing interests of members and  
19 beneficiaries;  
20 5. Incurring any costs that are appropriate and reasonable; and  
21 6. In accordance with a good-faith interpretation of the law governing the  
22 system.
- 23 (d) In addition to the standards of conduct prescribed by paragraph (c) of this  
24 subsection:
- 25 1. All internal investment staff, including investment staff of the Kentucky  
26 Public Pensions Authority, and investment consultants shall adhere to  
27 the Code of Ethics and Standards of Professional Conduct, and all board

1 trustees shall adhere to the Code of Conduct for Members of a Pension  
2 Scheme Governing Body. All codes cited in this subparagraph are  
3 promulgated by the CFA Institute; and

4 2. Investment managers shall comply with all applicable provisions of the  
5 federal Investment Advisers Act of 1940, as amended, and the rules and  
6 regulations promulgated thereunder, and shall comply with all other  
7 applicable federal securities statutes and related rules and regulations  
8 that apply to investment managers.

9 (2) All securities acquired under the authority of KRS 78.510 to 78.852 shall be  
10 registered in the name County Employees Retirement System or nominee name as  
11 provided by KRS 286.3-225 and every change in registration, by reason of sale or  
12 assignment of such securities, shall be accomplished pursuant to written policies  
13 adopted by the board.

14 (3) The board, in keeping with its responsibility as the trustee and wherever feasible,  
15 shall give priority to the investment of funds in obligations calculated to improve  
16 the industrial development and enhance the economic welfare of the  
17 Commonwealth.

18 (4) The contents of real estate appraisals, engineering or feasibility estimates, and  
19 evaluations made by or for the system relative to the acquisition or disposition of  
20 property, until such time as all of the property has been acquired or sold, shall be  
21 excluded from the application of KRS 61.870 to 61.884 and shall be subject to  
22 inspection only upon order of a court of competent jurisdiction.

23 (5) *As used in this subsection, "alternative investment" means a private equity fund,*  
24 *private equity fund of funds, venture capital fund, hedge fund, hedge fund of*  
25 *funds, buy-out fund, commodities fund, distressed debt fund, mezzanine debt*  
26 *fund, or other unregistered investment vehicle engaged in the strategic trading of*  
27 *securities and other financial instruments not including real estate.* Based upon

1 market value at the time of purchase, the board shall:

2 (a) Limit the amount of assets invested in alternative investments to not more  
3 than twenty-five percent (25%) of the assets in the pension and insurance  
4 funds; and

5 (b) Limit the amount of assets managed by any one (1) active or passive  
6 investment manager of any investment fund to fifteen percent (15%) of the  
7 assets in the pension and insurance funds.

8 (6) All contracts for the investment or management of assets of the system shall not be  
9 subject to KRS Chapters 45, 45A, 56, and 57. Instead, the board shall conduct the  
10 following process to develop and adopt an investment procurement policy with  
11 which all prospective contracts for the investment or management of assets of the  
12 system shall comply:

13 (a) The board shall consult with the secretary of the Finance and Administration  
14 Cabinet or his or her designee to develop an investment procurement policy,  
15 which shall be written to meet best practices in investment management  
16 procurement;

17 (b) Thirty (30) days prior to adoption, the board shall tender the preliminary  
18 investment procurement policy to the secretary of the Finance and  
19 Administration Cabinet or his or her designee for review and comment;

20 (c) Upon receipt of comments from the secretary of the Finance and  
21 Administration Cabinet or his or her designee, the board shall choose to adopt  
22 or not adopt any recommended changes;

23 (d) Upon adoption, the board shall tender the final investment procurement policy  
24 to the secretary of the Finance and Administration Cabinet or his or her  
25 designee;

26 (e) No later than thirty (30) days after receipt of the investment procurement  
27 policy, the secretary or his or her designee shall certify whether the board's

- 1 investment procurement policy meets or does not meet best practices for  
2 investment management procurement; and  
3 (f) Any amendments to the investment procurement policy shall adhere to the  
4 requirements set forth by paragraphs (b) to (e) of this subsection.