-, TRS
KENTUCKY

TEACHERS' RETIREMENT SYSTEM
of the State of Kentucky

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February 26, 2019

Katie Carney
Office of Special Projects
Legislative Research Commission
Capitol Annex, Room 39
Frankfort, KY 40601

RE: SB 169/BR 1729
AA Statement 1 of 1

Dear Ms. Carney:

Senate Bill 169 codifies a more appropriate and protective set of ethical standards of conduct for investment managers who manage money for the Teachers' Retirement System (TRS). These standards are embodied in federal securities laws and provide high ethical standards of conduct for investment managers. They are a higher standard than those currently in statute that require adherence to standards established by the CFA Institute (CFA). Furthermore, the federal standards, unlike the CFA standards, are subject to enforcement by the Securities and Exchange Commission, and non-compliance results in civil penalties and criminal prosecution. Adherence to the CFA standards is not enforced by any regulatory or government authority. Investment managers operate across the nation and from a risk management and administrative perspective desire one uniform set of standards. They are willing to adhere to federal standards but are unable to agree to individual state standards that could vary from state to state.

While the attached actuarial analysis shows that this legislation has no negative impact from an actuarial standpoint, not having the change will, from an investment standpoint, result in the collateral impact of lower returns and less diversification of the portfolio. To wit, four investment managers in the last six months have refused to enter into contracts with TRS because of the CFA standards; all of the managers have worked with TRS in prior funds that have been successful. Three of these lost investment opportunities were in private equity, an asset class that returned for TRS a net (after all fees were paid) 19% for the most recent fiscal year. Continuing to have the wrong standards of ethical conduct for investment managers will continue to hamstring TRS's ability to invest, resulting in lower returns and a portfolio that is less diversified than is optimal. Lower returns will require larger contributions from the commonwealth to make up for the shortfall.

Sincerely,

Robert B. Barnes
Deputy Executive Secretary of Operations and
General Counsel

cc. Leona Deleon

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February 26, 2019

Mr. Robert B. Barnes
Deputy Executive Secretary of
Operation Kentucky Teachers'
Retirement System 479 Versailles
Road
Frankfort, KY 40601-3800

Actuarial Impact – Senate Bill 169 – 19 RS BR 1729

Dear Beau:

As requested, we have prepared an actuarial analysis of the impact of Senate Bill 169 – 19 RS BR 1729 on the Kentucky Teachers' Retirement System (TRS). This bill revises language in KRS 161.430 to allow the TRS Board of Trustees to contract with investment managers to invest and manage assets of the system and to require such investment managers to comply with the Federal Investment Advisers Act of 1940.

This bill would not increase or decrease the benefits or increase or decrease participation in the benefits or change the actuarial accrued liability of TRS. Therefore, there would be no negative impact on the unfunded actuarial accrued liabilities or funding levels of the system, and no annual employer costs to TRS for this legislation.

If you have any questions, please do not hesitate to contact us.

Sincerely,

Edward J. Koebel

Cathy Turcot

Edward J. Koebel, EA, FCA, MAAA
Principal and Consulting Actuary

Cathy Turcot
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