

**KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES
REGULAR QUARTERLY MEETING
SEPTEMBER 14, 2017 AT 10:00 A.M., ET
1270 LOUISVILLE ROAD, FRANKFORT, KENTUCKY 40601
REVISED**

1. Roll Call
2. [Approval of Minutes – July 12, 2017*](#)
3. Public Comment
4. [Employer Voluntary Cessation Approval; Kentucky Association of Children’s Advocacy Centers \(KACAC\)*- Joe Bowman](#)
5. Retiree Health Care Committee Report and Recommendations*- Vince Lang
6. Bylaws and Transparency*- Mark Blackwell
7. [Conflict of Interest and Confidentiality Policy*- Mark Blackwell](#)
8. [Investment Committee Report and Recommendations*- Dave Harris/ Rich Robben](#)
9. [KERS Board Nominations*- Brian Huffman](#)
10. [Hazardous Position Requests*- Karen Roggenkamp](#)
11. [Audit Committee Report*- John Chilton/ Brian Huffman](#)
12. [Financial Statements- Karen Roggenkamp](#)
13. KRS Update- David Eager
14. New Business*
 - Swear in new Trustee
 - [CERS Participation Approval](#)
 - Other
15. Closed Session
16. Adjourn

**Board Action required*

BOARD OF TRUSTEES # 411
KENTUCKY RETIREMENT SYSTEMS
SPECIAL CALLED MEETING JULY 12, 2017 AT 10:00 A.M.
1270 LOUISVILLE ROAD, FRANKFORT, KENTUCKY 40601

At the Special Called Meeting of the Board of Trustees held on July 12, 2017, the following members were present: John Farris (Chair), David Adams, Wilburn Joe Brothers, John Chilton, William Cook, Kelly Downard, Thomas Elliott (non-voting), JT Fulkerson, David Harris, Vince Lang, Keith Percy, Betty Pendergrass, Mary Helen Peter, Jerry Powell, Neil Ramsey, David Rich, and Secretary Thomas Stephens. In addition, Staff members present were David Eager, Karen Roggenkamp, Rebecca Stephens, Connie Davis, Mark Blackwell, Shawn Sparks, Kathy Rupinen, Joe Bowman, Ann Case, Shaun Case, Erin Surratt, Joe Gilbert, and Leigh Taylor. Also present were Danny White and Joe Newton of Gabriel Roeder Smith, Rebecca Heckler, Russ Wright, Jim Carroll, Chris Biddle, Jim Waters, Aaron Ammerman, Michael Kurtsinger, Joe Baer, William F. Smith, Steve Starkweather, Larry Totten, Bo Cracraft, Collin Johnson, Frank Willey, Brianna Carroll, J.D. Chaney, C. Bartley, G. Kennedy, Teresa Sanders, Jodi Whitaker, Shellie Hampton, Steve Barger, Nick Jilek, Representative Jerry Miller, Michile Hill, Johnathan Eakin, Alfred Miller, Penny Downs, and Tom Loftus.

Mr. Farris called the meeting to order and introduced the agenda item *New Trustee Oath of Office* –Mr. Joe Brothers and Mr. Downard were introduced to the Board and provided a brief personal introduction. Ms. Leigh Taylor, as Notary, administered the Oath Office to Mr. Brothers and Mr. Fulkerson (re-appointment), Mr. Downard was previously sworn in at the June 20, 2017 Investment Committee Meeting.

Mr. Farris introduced the agenda item *Approval of Minutes* – May 18, 2017. Mr. Eager noted that portions of the recording were inaudible with regard to the KERS Hazardous Plan 2.3% inflation rate. A motion to approve the minutes was made by Mr. Powell and seconded by Sec. Stephens. Mr. Downard and Mr. Brothers abstained from voting on that motion. The motion passed unanimously. Sec. Stephens made a motion to adopt the 2.3% inflation rate for KERS Hazardous Plan and was seconded by Mr. Lang. The motion passed unanimously.

Mr. Farris introduced the agenda item *Setting the Economic Assumptions and Actuarial Rates: KERS Hazardous Pension Fund; CERS Non-Hazardous and CERS Hazardous Pension Funds; All KRS Insurance Funds*. Ms. Pendergrass addressed the asset allocation policy recommendation. Mr. Harris offered an analysis of the asset allocation policy and a discussion was held. Sec. Stephens made a motion to accept the 6.25% rate of return for the CERS Non-Hazardous and CERS Hazardous, KERS Hazardous and all Insurance Funds and was seconded by Mr. Cook. There was further discussion on the motion and then a roll call vote was taken. Mr. Farris (yes), Mr. Adams (yes), Mr. Brothers (yes), Mr. Chilton (yes), Mr. Cook (yes), Mr. Downard (yes), Mr. Fulkerson (no), Mr. Harris (yes), Mr. Lang (no), Mr. Percy (yes), Ms. Pendergrass (no), Ms. Peter (no), Mr. Powell (no), Mr. Ramsey (yes), Mr. Rich (yes), and Sec. Stephens (yes). The motion passed with eleven in favor and five opposed. A motion was made to accept the Asset Allocation policy recommendation of the investment committee by Sec. Stephens and seconded by Mr. Fulkerson. A roll call vote was taken. Mr. Farris (yes), Mr. Adams (yes), Mr. Brothers (yes), Mr. Chilton (yes), Mr. Cook (yes), Mr. Downard (yes), Mr. Fulkerson (yes), Mr. Harris (yes), Mr. Lang (no), Mr. Percy (yes), Ms. Pendergrass (no), Ms. Peter (yes), Mr. Powell (yes), Mr. Ramsey (yes), Mr. Rich (yes), and Sec. Stephens (yes). The motion passed with thirteen in favor and two opposed.

Mr. Danny White of Gabriel Roeder Smith gave a brief discussion on the payroll growth assumption. A motion was made by Mr. Powell to approve KERS Hazardous payroll growth assumption rate at 0% and seconded by Mr. Lang. The motion passed unanimously. A motion was made to approve the recommendation of the CERS Hazardous and Non-Hazardous payroll growth rate assumption of 2.0% by Mr. Lang and seconded by Mr. Powell. The motion carried with one opposed (Trustee Cook).

Mr. Farris introduced the agenda item *KRS Bylaws*. Mr. Mark Blackwell reviewed the changes and a discussion was held. Mr. Farris encouraged Mr. Rich and Mr. Blackwell to meet regarding review of the Bylaws. This agenda item was tabled pending further review of the Bylaws, no action was taken.

Mr. Chilton exited the meeting

Mr. Farris introduced the agenda item *Review and Approval of the Investment Procurement Policy*. Mr. Blackwell gave an overview of the procurement policy and timeline for completion in collaboration with the Finance and Administration Cabinet. Mr. Robben provided an overview of the procurement policy. A motion was made to approve the investment procurement policy preliminary draft by Sec. Stephens and seconded by Mr. Powell. The motion carried unanimously.

Mr. Farris introduced the agenda item *Review and Approval of the Investment Policy Statement*. Mr. Rich Robben reviewed the changes to the Investment Policy Statement. Mr. Eager provided further commentary. Sec. Stephens made a motion to approve the proposed changes to the Investment Policy Statement and was seconded by Mr. Fulkerson. The motion passed unanimously.

Mr. Farris introduced the agenda item *Public Comment*. Mr. Carroll voiced an objection to public comment during this special called meeting. Mr. Farris noted Mr. Carroll's objection for the record but stated that the Board would err on the side of allowing public comment. Mr. Farris introduced Mr. J.D. Chaney, Deputy Executive Director with Kentucky League of Cities. Mr. Chaney spoke briefly on the actuarial rates and impact. Mr. Farris then introduced Mr. Bill Smith, Mr. Aaron Ammerman, and Mr. Jim Waters with the Bluegrass Institute, Mr. Smith, Mr. Ammerman, and Mr. Waters spoke about the unfunded liability and the defined benefit plans.

Mr. Lang made a motion to enter into closed session to discuss litigation. The motion was seconded by Mr. Powell; the motion passed unanimously. Mr. Farris Read the following statement: A motion having been made in open session to move into closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter closed session to discuss litigation, pursuant to KRS 61.810(1)(c), because of the necessity of

protecting the confidentiality of the Systems' litigation strategy and preserving any available attorney-client privilege. The meeting moved into closed session.

All public attendees exited the meeting.

Mr. Farris called the meeting back into open session. No action was taken. There being no further business, the meeting adjourned at 12:00 p.m. to meet on September 14, 2017 or upon call of the Interim Executive Director or the Chair of the Board of Trustees.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees as of 7/12/17.

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CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Trustees on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in conjunction with this meeting.

Recording Secretary

We, the Chair of the Board of Trustees of the Kentucky Retirement Systems and Executive Director of the Kentucky Retirement Systems, do certify that the Minutes of Meeting Number 411, held on July 12, 2017, were approved on September 14, 2017.

Chair of the Board of Trustees

Interim Executive Director

I, _____, have reviewed the Minutes of the July 12, 2017, Board of Trustees Special Called Meeting for content, form, and legality.

Executive Director Office of Legal Services

KENTUCKY RETIREMENT SYSTEMS

To: Members of the Board of Trustees of Kentucky Retirement Systems

From: Joseph P. Bowman 

Re: Voluntary Cessation
Kentucky Association of Child Advocacy Centers (KACAC)

Date: September 14th, 2017

This memorandum is to advise the Board of Trustees that Kentucky Association of Child Advocacy Centers (KACAC) has successfully completed the necessary legal requirements, including payment of administrative costs incurred, to voluntarily cease participation from the Kentucky Employees Retirement System (KERS). *See* KRS 61.522. Pursuant to the administrative regulation 105 KAR 1:145 §10(6): "After the employer has paid all the administrative costs, the Board of Trustees of Kentucky Retirement Systems shall approve or reject the employer's Form 7730, Application for Voluntary Cessation from CERS or KERS."

This matter is now ready for the Board of Trustees to vote to approve or reject cessation from participation.



Board of Directors

Brady Dunnigan, *President*
Dinsmore and Shohl, LLP

Erin Frazier, *Vice President*
Norton HealthCare

Laura Kretzer, *Secretary*
Judi's Place for Kids

Jason Sauer, *Treasurer*
Churchill Downs, Inc.

Loretta Coppage
Lake Cumberland Children's
Advocacy Center

Vickie Henderson
Northern Kentucky
Children's Advocacy Center

Lisa Phelps
Hope's Place

Rence Shepard
Graves Shepard Consulting,
LLC

Carolina Weatherford
Eastern Kentucky
Broadcasting

Whitney Westerfield
Kentucky State Senate

Camille Yancey
Sites and Harbison, LLP

September 5, 2017

Mr. Joseph Bowman
General Counsel
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, Kentucky 40601

Dear Mr. Bowman,

I write to confirm that the Kentucky Association of Children's Advocacy Centers (KACAC) is in receipt of the final actuarial cost for cessation provided by KRS last Friday, September 1, 2017. KACAC has reviewed the report and still intends to cease participation. KACAC will pay the full actuarial cost by one-time payment.

Sincerely,

Caroline Ruschell
Executive Director

STITES & HARBISON PLLC
ATTORNEYS

250 West Main Street
Suite 2300
Lexington, KY 40507-1758
(859) 226-2300
(859) 253-9144 Fax

August 23, 2017

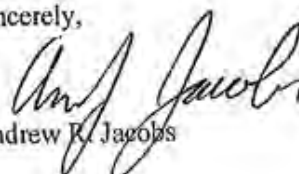
Andrew R. Jacobs
(859) 226-2251
(859) 425-7883 FAX
ajacobs@stites.com

Mr. Joe Bowman
General Counsel
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, KY 40601

Dear Mr. Bowman:

As legal counsel for the Kentucky Association of Children's Advocacy Centers ("KACAC"), this letter is to advise you pursuant to KRS 61.522 and applicable regulations that KACAC has adopted a retirement program which is intended to be a qualified plan under 26 U.S.C. 401 capable of accepting trustee to trustee transfers.

Sincerely,


Andrew R. Jacobs

ARJ:bjj

Enclosure

22990:22990:636528:1

www.stites.com



P: 469.524.0000 | F: 469.524.0003 | www.grsconsulting.com

August 25, 2017

Mr. David Eager
Interim Executive Director
Kentucky Retirement Systems
1260 Louisville Road
Frankfort, KY 40601

Re: Final Determination of Kentucky Association of Children's Advocacy Centers Withdrawal Liability

Dear Mr. Eager:

Below are the results of our calculation of the final full actuarial cost associated with the withdrawal of the Kentucky Association of Children's Advocacy Centers (ACAC) from the Kentucky Employees Retirement System (KERS). These results are based on an effective cessation date of June 30, 2017.

Summary

In summary, the ACAC's final determined withdrawal liability is \$16,999 under the lump-sum payment option and \$17,409 under the installment payment option.

Actuarial Analysis

The actuarial calculations were performed in accordance with KRS 61.522, as amended by HB 351, which requires that an employer voluntarily ceasing participation in its respective retirement system pay "the full actuarial cost of the benefits accrued by current and former employees". This analysis is performed separately for the pension fund and the insurance fund and as of the June 30 2017, which is the cessation date identified in the ACAC's application for cessation.

The employer's payment can be in one lump sum or over a time period determined by the Board, not to exceed 20 years.

Mr. David Eager
August 25, 2017
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The following tables provide a summary of the development of the withdrawal amount for ACAC to pay the Kentucky Retirement Systems for terminating membership in KERS.

Table 1: Full Actuarial Cost at June 30, 2017 at 4.00% Discount Rate (Installment Plan)

	Retirement Fund	Insurance Fund	Total
1 Full Actuarial Cost for Active Members	\$ 8,161	\$ 0	\$ 8,161
2 Full Actuarial Cost for Inactive Members	11,925	0	11,925
3 Full Actuarial Cost for Members in Receipt of Benefits	<u>0</u>	<u>0</u>	<u>0</u>
4 Total Full Actuarial Cost	\$ 20,086	\$ 0	\$ 20,086
5 Estimated Funded Ratio at June 30, 2017 based on the Valuation Discount Rate and on a Market Value of Asset Basis ¹	13.33%	28.80%	
6 Unfunded Portion of Full Actuarial Cost (4) - (4) x (5)	\$ 17,409	\$ 0	\$ 17,409

¹ Based on current plan provisions; membership data as of June 30, 2017; updated assumptions adopted by the Board in May and July 2017; and preliminary market value of assets at June 30, 2017.

Table 2: Full Actuarial Cost at June 30, 2017 at 4.50% Discount Rate (Lump Sum)

	Retirement Fund	Insurance Fund	Total
1 Full Actuarial Cost for Active Members	\$ 8,161	\$ 0	\$ 8,161
2 Full Actuarial Cost for Inactive Members	11,453	0	11,453
3 Full Actuarial Cost for Members in Receipt of Benefits	<u>0</u>	<u>0</u>	<u>0</u>
4 Total Full Actuarial Cost	\$ 19,614	\$ 0	\$ 19,614
5 Estimated Funded Ratio at June 30, 2017 based on the Valuation Discount Rate and on a Market Value of Asset Basis ¹	13.33%	28.80%	
6 Unfunded Portion of Full Actuarial Cost (4) - (4) x (5)	\$ 16,999	\$ 0	\$ 16,999

¹ Based on current plan provisions; membership data as of June 30, 2017; updated assumptions adopted by the Board in May and July 2017; and preliminary market value of assets at June 30, 2017.



Mr. David Eager
August 25, 2017
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Data and Basis of Calculations

The liability cost for the active member and the second inactive member is equal to the member's accumulated employee contributions with interest as of June 30, 2017. The liability for the other inactive member is based on their June 30, 2017 accrued benefit provided by KRS, and assumed to commence at age 65. Table 3 provides a summary of the demographic information for the three members in the ACAC calculations.

Table 3: Membership Data

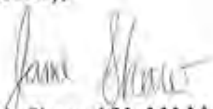
	Active Member	Inactive Member #1	Inactive Member #2
Age	38	55	30
Service	3.8	1.3	4.3
Accumulated Contributions	\$ 8,161	\$ 2,824	\$ 6,863
Final Average Monthly Compensation	\$ 3,529		
Accrued Monthly Benefit	\$ 149	\$ 47	

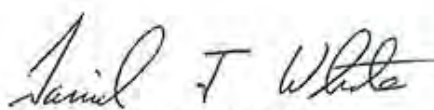
The principle assumptions used in the calculation of the Actuarial Cost of ACAC include the mortality assumption used in the June 30, 2016 actuarial valuation, a discount rate of 4.00% for the installment plan calculations, and a discount rate of 4.50% for the lump sum calculation. The funded portion of the liability is based on the funded ratios of the KERS Non-Hazardous Funds on a market value of asset basis as of June 30, 2017. The actuarial accrued liability of the KERS Non-Hazardous Funds was determined as of June 30, 2016, and rolled-forward to June 30, 2017 using generally accepted actuarial procedures. The market value of assets as June 30, 2017 was provided by the Kentucky Retirement Systems.

All of our work conforms with generally accepted actuarial principles and practices and the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the applicable requirements of Kentucky State law.

The undersigned are independent actuaries and consultants. Mr. White is an Enrolled Actuary and both Mr. White and Ms. Shaw are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. Both consultants below are experienced in performing valuations for large public retirement systems.

Sincerely,


Janie Shaw, ASA, MAAA
Consultant


Daniel J. White, FSA, EA, MAAA
Senior Consultant



KENTUCKY RETIREMENT SYSTEMS

TO: Members of the of the Kentucky Retirement Systems Board of Trustees
FROM: Retiree Health Plan Committee
DATE: September 14, 2017
SUBJECT: Retiree Health Plan Committee Report

The Retiree Health Plan Committee met on Thursday, September 07, 2017 to discuss and make recommendations regarding the non-Medicare and Medicare eligible health plans for KRS retirees for the 2018 plan year. The recommendations of the Committee are documented below in the bolded red font.

Non Medicare-Eligible Retirees (KEHP Plan).

1. Recommendation as to what the monthly maximum contribution amount for the Non-Medicare Eligible plan.

NOTE: See PowerPoint Presentation, this contains the information for Board Decision Points:

- Tobacco Use fee
- Access to the Consumer Directed Health Plans
- Proposed LivingWell Promise discount
- 2018 KEHP plan premiums were provided as a confidential handout during the Committee meeting.

Retiree Health Plan Committee recommends that the KRS Board select the KEHP LivingWell PPO plan option as the contribution plan and set the contribution rate (see the confidential handout for the LivingWell PPO plan at the single premium) as the 100% contribution the Trust will pay for a retiree with a service credit of 240 months of service or greater and a participation date prior to July 1, 2003. Because the Committee recommends the selection of the LivingWell PPO as the contribution plan, the hazardous rates would be tied to the rates for the LivingWell PPO Couple, Parent Plus and Family plans.

Note: The Tobacco Use Fee remains unchanged for 2018. Retirees (including spouses and dependents) who are tobacco users will be responsible for paying the Tobacco Use Fee. See the confidential handout for the fee.

Note: Retirees or planholders that failed to complete the LivingWell promise for plan year 2017 will not be entitled to the discount if they choose to enroll in a LivingWell plan for 2018. See the confidential handout for the fee.

2. Recommendation as to whether KRS should default retirees/beneficiaries and their dependents into a plan for 2018.

Each year there are retirees who, due to unforeseen circumstances, failed to submit an application during open enrollment. KRS is without the statutory authority to permit those persons to enroll without a qualifying event. As a result, KRS' Board promulgated an administrative regulation, 105 KAR 1:410, which was effective 2/6/2015, to allow KRS to default retirees and their dependents into a health plan so that these individuals will not be without coverage for the year simply because they forgot to enroll during open enrollment. Each year several decisions must be made by the Board to facilitate the administration of the default process:

- a. Recommendation as to which plan should be the default plan.

DEI is defaulting employees into the Standard PPO plan; however, the Board may choose any of the four plans as a default plan.

- b. Recommendation as to the circumstances under which retirees and their dependents should be defaulted into a plan for 2018.
 - i. KRS Management recommends new retirees be defaulted into a single level of coverage.
 - ii. KRS Management recommends retirees and beneficiaries not currently enrolled in a plan will not be defaulted into a plan.
 - iii. KRS Management recommends that retirees and beneficiaries currently enrolled in a plan for 2017 be defaulted into the default plan selected by the Board at the same level of coverage for the 2018 plan year if they fail to submit a health insurance application during open enrollment.

Retiree Health Plan Committee recommends that the KRS Board allow retirees that fail to complete a health insurance application during a mandatory open enrollment or as a new retiree to be defaulted into the Standard PPO plan as described above in 2b (i), (ii), and (iii).

3. Cross Reference Retirees with Active Employee Spouse: KRS 61.702(3)(a)5 provides the employer's contribution for the working member or spouse to be applied toward the premium, and the KRS insurance trust fund shall pay the balance not to exceed the monthly contribution. The Cross Reference plan is a Family plan. Unless, amended by the Board, the Cross Reference contribution will equal the monthly maximum contribution determined above.

Retiree Health Plan Committee recommends that the KRS Board allow retirees described in 3 above the option to select the Cross Reference plans.

4. Hazardous Duty Spouse and Eligible Dependent Verification. KRS hazardous duty members are required to remit the Form 6256 (Designation of Spouse and/or Dependent Child for Health Insurance Contribution) each year during Open Enrollment for the next plan year. Unless advised by the Board to change the process, KRS will continue the process decided upon during the February 18, 2016 Board Meeting. If the retiree fails to submit the form, the health insurance contribution will not be funded for the spouse/dependent until the form is submitted. When the form is submitted KRS will reimburse any premium contribution owed to the retiree. If a retiree fails to submit the form during the plan year KRS will not reimburse the premium if the request is received after December 31st of the plan year.

Retiree Health Plan Committee recommends that the KRS Board continue the process described in 4 above. Retirees will be eligible for reimbursement of premiums for the 90 days prior to the receipt of the Form 6256. For example if the form is submitted June 3, 2018, the reimbursement will be for March –May 2018 (KRS is unable to process partial months of premium).

Medicare-Eligible Retirees

1. Recommendation as to what the contribution rate should be for the Medicare-Eligible plan for 2018.

NOTE: See PowerPoint Presentation, from Humana and Information from Gabriel Roeder Smith (GRS).

Retiree Health Plan Committee recommends setting the contribution rate for the KRS Premium Plan at \$252.51 as the 100% contribution the Trust will pay for a retiree with a service credit of 240 months of service or greater. The Committee recommends setting the contribution rate for the KRS Premium Plan as the 100% contribution the Trust will pay for a hazardous duty spouse and/or an eligible dependent. Note: The premiums for the KRS Essential Plan is at \$75.56, the Medical Only Plan is at \$165.01, the Medicare Advantage Mirror Premium Plan is at \$330.21 and the Medicare Advantage Mirror Essential Plan is at \$214.88. The Committee recommends approval of an increase in the Medicare Advantage Plans deductible for 2018. The Deductible will be \$500.00 and the Maximum Out of Pocket amount will be \$1,200.00

2. Recommendation as to whether KRS should continue to pay for the additional administrative fees for retirees who are required to enroll in one of the Mirror plans and who fall under certain exceptions. Recommendation that individuals without Medicare Part B be allowed to enroll in the Mirror Plans and the individual would be responsible for the additional cost above the contribution amount.

On September 15, 2016, the Board approved payment for administrative fees (estimated \$77.70 per month for 2018) for individuals who need to be enrolled in one of the Mirror Plans for several enumerated reasons (administrative exceptions):

- Individual is scheduled for a transplant or surgery at a hospital that Humana confirms will not accept Humana Medicare Advantage for said procedure for said individual.
- Individual is undergoing treatment by a specialist that Humana confirms will not accept Humana Medicare Advantage for said treatment for said individual.
- Individual resides outside Humana's Filed and Approved MA-PPO network service area where Humana affirms there are provider access issues (e.g., non-acceptance of Humana Medicare Advantage)

Note: KRS has 1 retiree that meets this criteria.

Retiree Health Plan Committee recommends that KRS continue to pay the administrative fee for administrative exceptions in 2018, under the circumstances set forth in the three bullet points above. The Committee recommends that an individual without Medicare Part B be allowed to enroll in the Medicare Advantage Mirror Plans and they will be responsible for paying the additional cost above the contribution amount.

3. Recommendation as to whether KRS should default retirees and their dependents into a plan for 2018.

Each year there are retirees who, due to unforeseen circumstances, failed to submit an application during open enrollment. KRS is without the statutory authority to permit those persons to enroll without a qualifying event. As a result, KRS' Board promulgated an administrative regulation, 105 KAR 1:410 which was effective 2/6/2015, to allow KRS to default retirees and their dependents into a health plan so that these individuals will not be without coverage for the year simply because they forgot to enroll during open enrollment.

- a. If the Committee recommends that KRS default retirees and their dependents into a plan, recommendation as to which plan should be the default plan.

Due to federal law/regulations, the Medical Only or Mirror Plan without Prescription Drug coverage would be the only option available as a default plan for the Medicare-eligible population.

- b. If the Committee recommends that KRS default retirees and their dependents into a plan, recommendation as to the circumstances under which retirees and their dependents should be defaulted into a plan for 2018.
 - i. KRS Management would recommend that current enrollees and new retirees be defaulted into a plan. Retirees and beneficiaries not currently enrolled would not be defaulted into a plan.
 - ii. Current enrollee would be defaulted at the same level of coverage as the previous plan year (single).

- iii. New retirees would be defaulted into a single level of coverage.

Retiree Health Plan Committee recommends that Medicare eligible retirees (and their dependents) who fail to enroll in a plan during a mandatory open enrollment be defaulted into the KRS Medical Only Plan as set forth in 3b (i), (ii), and (iii) above. Note: if the spouse and dependents are not Medicare eligible they will be defaulted into the KEHP Standard PPO plan at the same Level/Option as the previous plan year (Single, Parent Plus, Couple, and Family).

- 4. Hazardous Duty Spouse and Eligible Dependent Verification. KRS hazardous duty members are required to remit the Form 6256 (Designation of Spouse and/or Dependent Child for Health Insurance Contribution) each year during Open Enrollment for the next plan year. Unless advised by the Board to change the process, KRS will continue the process decided upon during the February 18, 2016 Board meeting. If the retiree fails to submit the form, the health insurance contribution will not be funded for these dependents until the form is submitted. When the form is submitted KRS will reimburse any premium owed to the retiree. If a retiree fails to submit the form during the plan year KRS will not reimburse the premium if the request is received after December 31st of the plan year.

Retiree Health Plan Committee recommends that the KRS Board continue the process described in 4 above. Retirees will be eligible for reimbursement of premiums for the 90 days prior to the receipt of the Form 6256. For example if the form is submitted June 3, 2018, the reimbursement will be for March –May 2018 (KRS is unable to process partial months of premium).

RECOMMENDATION: The Retiree Health Plan Committee recommends approval of the above decisions by the Kentucky Retirement Systems Board of Trustees.

STATEMENT OF BYLAWS AND COMMITTEE ORGANIZATION

Summary of Key Revisions[9/14/2017]

Section	Page	Revision
1.1(e)	1	Add Regular Meeting (2 nd Thursday of November)
1.1(g)(1)	2	Regular meeting notice (with agenda) posted 10 prior to meeting date; revisions to agenda must be proposed not later than 96 hours before meeting, and approved 72 hours before meeting
1.1(k)	2	Board Chair appoints members of Standing Committees, with appointments recorded in Board minutes
1.2(d)	3	KRS purchases (except investment procurement) are made under Model Procurement Code (KRS 45A)
1.2(m)	3	The Board establishes formal trustee education program
1.3(a)	4	Executive Director appoints all KRS staff, subject to KRS-18A (Personnel Cabinet), and manages agency-related HR functions
1.3(d)	4	Executive Director implements formal trustee education program
1.3(g)	4	Executive Director responsible for internal administration and operation of investment department. [no change in investment function: Investment Committee implements investment policies adopted by Board]
1.3(o)	5	Executive Director authorized to act in emergencies
2.2(b)(1)(B)	6	<i>Hazardous Duty Subcommittee</i> established, under Audit Committee
2.2(b)(4)	6	Audit Committee to review and recommend additions/reductions to KRS administrative budget, and budget amendments
2.2(d)	7	Investment Committee comprised of 9 trustees (6 with investment experience appointed by Governor; 3 appointed by Board Chair)

STATEMENT OF BYLAWS AND COMMITTEE ORGANIZATION

Summary of Key Revisions

[9/14/2017]

2.2(d)(1)(D)	8	<i>Actuarial Subcommittee</i> appointed by Investment Committee Chair (7 members: (i) 3 appointed with Investment Experience, (ii) 1 each from CERS, KERS and SPRS, and (iii) Chair of Audit Committee)
[Prior 2.2(e)]	n/a	Legislative and Budget Committee no longer needed; functions absorbed [Budget to Audit Committee; Legislative under ED (no change to current structure or bylaws)]
[Prior 2.2(f)]	n/a	Human Resources Committee no longer needed; Primary HR function absorbed by State Personnel Cabinet.

* * * * *

[DRAFT – 09/14/2017]

KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES

STATEMENT OF BYLAWS AND COMMITTEE ORGANIZATION

[As Amended: _____]

Section 1.1 GENERAL ADMINISTRATION.

This Statement of Bylaws and Committee Organization of the Board of Trustees is adopted pursuant to the authority of KRS 61.645. The law shall control if any inconsistency exists between the law and this Statement of Bylaws and Committee Organization of the Board of Trustees.

- a. **Board Year.** The Board Year shall be from April 1 of each calendar year through March 31 of the following year.
- b. **Quorum; Parliamentary Authority.**
 1. **Board of Trustees:** As required by KRS 61.645(8)(c), a majority of the trustees shall constitute a quorum and all actions taken by the Board shall be by affirmative vote of a majority of the trustees present.
 2. **Committees of the Board of Trustees:** A majority of the trustees on any Committee of the Board of Trustees appointed pursuant to Section 2 of these Bylaws shall constitute a quorum and all actions taken by the Committee shall be by affirmative vote of a majority of the trustees present.
 3. The most recent edition of Robert's Rules of Order shall be the parliamentary authority [RONR (11th ed., as amended)]
- c. **Meetings.** Meetings of the Board and Committees shall be conducted consistent with the Open Meetings Act, KRS 61.805 to 61.850. The Open Meetings Act shall control if any inconsistency exists between the Open Meetings Act and these Bylaws.
- d. **Annual Meeting.** The annual meeting of the Board shall be held on the third Thursday of April of each Board Year.
- e. **Regular Meetings.** Regular meetings of the Board shall be held on the third Thursday of February and May, the second Thursday of September and November, and on the first Thursday of December.
- f. **Special Meetings.**
 1. Special Meetings of the Board of Trustees shall be held upon the call of the Chair of the Board of Trustees or the Executive Director. Upon the request of a majority of the members of the Board, the Chair of the Board of Trustees or Executive Director may call a special meeting.
 2. Special meetings of a Standing or *ad hoc* Committee of the Board of Trustees shall be held upon the call of the Committee Chair or the Executive Director. Upon the request of a majority of the members of the Standing or *ad hoc* Committee, the Committee Chair or Executive Director may call a special meeting.

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- g. **Notice of Meetings.**
1. **Regular Meetings.** Notice of a regular meeting of the Board shall be posted at least ten (10) days (inclusive of weekends and holidays) before the meeting is scheduled. The notice of a regular meeting shall include the date, time and location of the meeting, and the agenda for the meeting. The agenda shall be determined under the direction of and approval by the Chair of the Board. Changes or revisions to the agenda may be proposed by the Executive Director or member of the Board, provided such proposal shall be delivered to the Chair for approval not less than ninety-six (96) hours before the meeting is scheduled. Approved changes or revisions to the agenda shall be posted not less than seventy-two (72) hours before the meeting is scheduled.
 2. **Special Meetings.** When circumstances warrant a special meeting of the Board or of a Committee, notice shall be posted as soon as reasonably possible, but not less than twenty-four (24) hours before the meeting is scheduled. The notice of a special meeting shall include the date, time, and location of the special meeting and the agenda for the meeting. Discussions and action at the meeting shall be limited to items listed on the agenda in the notice.
- h. **Records of Proceedings.** All official acts of the Board shall be recorded in the minutes of the regular or special meeting at which the action was approved or adopted. The Executive Director shall cause the minutes to be transcribed and presented for approval or amendment at the next regular meeting. The minutes or a copy certified by the Chair and Executive Director shall be on file in the retirement office and open to public inspection.
- i. **Change in Meeting Dates.** Any regular or special meeting of the Board may be changed by following the procedure prescribed in these Bylaws for calling special meetings.
- j. **Chair and Vice Chair of the Board.** The Board shall elect a Chair and a Vice-Chair at each annual meeting to hold office for the ensuing Board Year or until their successors are elected. The Chair shall not serve more than four (4) consecutive years as Chair or vice-Chair (in combination) of the Board. The Vice-Chair shall not serve more than four (4) consecutive years as Chair or vice-Chair (in combination) of the Board. A trustee who has served four (4) consecutive years as Chair or vice-Chair of the Board may be elected Chair or vice-Chair of the Board after an absence of two (2) years from the positions.
- k. **Committees.** The Board may create Committees with such powers and duties as the Board may determine. The Chair of the Board of Trustees, unless otherwise stipulated or determined by the Board, shall appoint the members of each Standing or *ad hoc* Committee, and such appointments shall be recorded in the minutes of the current or next-following regular Board meeting. Committee members shall serve concurrently with the appointing Chair.
- l. **Conflicts of Interest.** Board members shall file a financial disclosure statement with the Executive Branch Ethics Commission by April 15 of each calendar year, or within thirty (30) days following departure from office as a member of the Board, or as otherwise provided by law.
- m. **Travel Policy Guidelines.** All travel for official business of Kentucky Retirement Systems must be done in accordance with the requirements of and consistent with KRS Chapter 45.

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- n. **Election Policy Guidelines.** All elections for elected members of the Board of Trustees of Kentucky Retirement Systems must be conducted in accordance with the provisions of KRS 61.645 and the Kentucky Retirement Systems Board of Trustees Election Policy and Procedures adopted by the Board.
- o. **Violations of Board Policies and Guidelines.** If a complaint is made that a member of the Board violated these Bylaws or any policy approved by the Board, the Board shall follow the procedure found in the Conflict of Interest and Confidentiality Policy in investigating the complaint.

Section 1.2 BOARD RESPONSIBILITIES.

- a. The Board shall make and maintain Bylaws.
- b. The Board shall appoint an Executive Director and fix the Executive Director's salary.
- c. The Board shall authorize the Executive Director to appoint all employees deemed necessary to transact the business of the systems.
- d. The Board shall act on contracts for rental of office space, and professional services, including but not limited to the auditor, actuary, legal counsel, medical examiners, and hearing officers, in accordance with the requirements of the Commonwealth of Kentucky Model Procurement Act (KRS 45A).
- e. The Board shall act on legislative and regulatory changes proposed by the staff of KRS.
- f. The Board shall ratify the audited financial statements.
- g. The Board shall ratify the actions of its Committees.
- h. The Board shall select and employ an actuary who shall be a fellow of the Conference of Consulting Actuaries or a member of the American Academy of Actuaries to provide and recommend the actuarial tables and funding methods necessary for the administration of the systems and for the annual determination of actuarial assets and liabilities of the systems.
- i. The Board shall consider and act on the recommendations of the Investment Committee and actuary, and shall approve and adopt actuarial assumptions and contribution rates based on the actuarial tables and funding methods adopted by Board, as revised from time to time.
- j. The Board shall adopt contribution rates toward medical insurance premiums.
- k. The Board shall provide oversight concerning programs and services for members, retirees, beneficiaries, and participating employers.
- l. The Board shall select candidates for each trustee ballot as provided in KRS 61.645.
- m. The Board shall establish a formal trustee education program for all trustees of the Board, pursuant to the requirements of KRS 61.645(18).
- n. The Board, and individual members of the Board, should ordinarily refer all news media inquiries to the Executive Director and/or the Board Chair, and should not speak on behalf of the Board or KRS with the news media. However, nothing in this subsection is intended

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to prevent individual Board members from speaking to the media concerning their actions and decisions as individual Board members.

Section 1.3 Executive Director Responsibilities.

- a. The Executive Director shall appoint all employees deemed necessary to transact the business of the systems, and shall be responsible for oversight and implementation of agency-related human resources management, e.g., affirmative action and similar matters. All employees of the systems, except for the Executive Director, shall be subject the state personnel system established pursuant to KRS 18.005 to 18A.204 and shall have their salaries determined by the secretary of the Personnel Cabinet.
- b. The Executive Director shall develop a biennial budget and necessary budget amendments. The Executive Director (or designee) shall present a budget-to-actual expenditure analysis to the Board at each regular quarterly meeting of the Board.
- c. The Executive Director shall be responsible for information and record management, and shall develop and maintain a disaster recovery plan.
- d. The Executive Director shall be responsible for implementing a formal trustee education program for all trustees of the Board, pursuant to the requirements of KRS 61.645(18).
- e. The Executive Director shall establish and implement policies in conformance with statutes, regulations and Board policies related to benefits administration.
- f. The Executive Director shall provide oversight of litigation and report significant developments to the Board.
- g. The Executive Director shall be responsible for the operation and administration of the investment department. Provided, however, that the Investment Committee of the Board shall have authority to implement the investment policies adopted by the Board and act on behalf of the Board on all investment-related matters.
- h. The Executive Director shall act as legislative liaison, and represent the Board at legislative hearings and other legislative meetings.
- i. The Executive Director shall oversee the administrative appeals and disability appeals hearing process.
- j. The Executive Director shall recommend legislative or regulatory changes and propose draft language.
- k. The Executive Director shall provide technical assistance to the members of General Assembly, Governor's office, state and local government officials, members, retirees, and beneficiaries of the retirement systems.
- l. The Executive Director shall implement any statutory or regulatory changes and take appropriate action to conform to federal law.
- m. The Executive Director shall communicate with the mass media and other agencies, entities or institutions, including responding to correspondence or inquiries addressed to the Board.
- n. The Executive Director shall coordinate reciprocal benefits with the other state administered retirement systems in Kentucky.

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- o. In the case of emergency conditions that threaten the functioning of KRS, the preservation or protection KRS property or assets, vital data, or the health and safety of any person, and where a quorum of the Board is unavailable, the Executive Director may take actions necessary to prevent or mitigate the threat, even if a vote of the Board of Trustees would otherwise be necessary to take such action. When a quorum of the Board of Trustees becomes available, any such actions taken by the Executive Director shall be reviewed and ratified as necessary.

Section 2.1 STANDING COMMITTEES.

The Board shall have the Standing Committees specified in Section 2.2, each of them to have the duties and responsibilities as therein set forth, together with such other duties and responsibilities as the Board may by resolution determine. In each Board Year, the Chair, elected at the annual meeting, shall appoint Board members to Committees as specified in Section 2.2, unless otherwise determined by the Board. Each Committee shall have a Chair and the Board Chair shall appoint the Chair of each Committee, unless otherwise determined by the Board. A Committee may (but is not required to) elect a Vice Chair from among its members by a majority vote of its membership. A Vice Chair so elected shall preside at meetings of the Committee in the absence or inability to act of the Committee Chair. Any Board member may attend any meeting of any Committee of which he or she is not a member but shall not have a vote.

Section 2.2 STANDING COMMITTEES; DUTIES AND RESPONSIBILITIES.

The Standing Committees of the Board are, and shall have respective duties and responsibilities, as follows:

- a. **Administrative Appeals Committee.** There shall be two (2) Administrative Appeals Committees, which may be combined with the Disability Appeals Committees. Consistent with the provisions of KRS Chapter 13B, the Committees shall meet in alternate months, as needed, to act in matters of administrative appeals. Each Committee shall consist of three (3) members; however, the members appointed to one Committee may also serve from time to time on the other Committee. The Committees shall ensure that the retirement laws are administered impartially and uniformly and that the actions of the retirement system resulting in the appeal were correct and fair under the applicable statutes and regulations.
 1. **Committee Responsibilities.** In matters of administrative appeals, the Committee members shall consider the administrative record including the recommended order and any exceptions filed and it may adopt the hearing officer's recommended order, or it may reject or modify, in whole or in part, the recommended order, or it may remand the matter, in whole or in part, to the hearing officer for further proceedings as appropriate, or it may act on cases properly remanded by a court of competent jurisdiction. The Committee may also recommend legislative changes to improve the administration of the benefits. Any recommended legislative changes shall be referred to the Legislative and Budget Committee for study.
 2. **Executive Director Office of Benefits Responsibilities.** The Executive Director Office of Benefits or designated staff, in coordination with KRS legal department staff, will coordinate meeting dates and determine which cases will be reviewed. Staff will

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compile the administrative records and distribute the files to the Committee members prior to each meeting. Staff may provide legal or technical advice to the Committee.

- b. **Audit Committee.** The Committee shall consist of not less than three (3) and not more than seven (7) members and will act on behalf of the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes, and the process for monitoring compliance with laws, regulations and the code of conduct.

1. **Committee Responsibilities.**

A. The Committee will meet quarterly, with authority to convene additional meetings, as circumstances require. The regular quarterly meetings shall be held on the first Thursday of February and May, the fourth Thursday of August, and the first Thursday of November. The Committee shall have the authority to review reports by the Internal Auditor and to recommend appropriate policies and procedures. Additional responsibilities are enumerated in the Audit Committee Charter of the Board of Trustees.

B. **Hazardous Duty Subcommittee.**

1. The Chair of the Audit Committee may appoint a Subcommittee of not less than three (3) nor more than five (5) members of the Audit Committee to a Hazardous Duty Subcommittee. One appointed member shall be designated as Chair of the Subcommittee. The Subcommittee will meet as necessary upon call of the Chair of the Subcommittee.

2. Upon appointment the Subcommittee shall review and investigate the employees whose names have been certified by the applicable authority to meet the criteria of KRS 61.592 and 105 KAR1:130 for hazardous duty, and also those employees who have been so certified who are not, or no longer are, working in a hazardous duty position.

3. The Subcommittee will report its findings and recommendations of each such investigation and review to the Audit Committee. Upon review and approval, the Audit Committee shall forward the results and its recommendations to the Board of Trustees for approval and ratification.

2. **Internal Auditor Responsibilities.** The Internal Auditor will be responsible for the planning, implementation and reporting of audits and the internal audit plan. The Internal Auditor will also be responsible for the functional control of audit activities in relation to the objectives of the Division of Internal Audit. Additional responsibilities are enumerated in the Division of Internal Audit Charter.

3. **Audit Charters.** The Audit Committee Charter of the Board of Trustees and the Division of Internal Audit Charter are hereby incorporated by reference.

4. **Budget.** The Audit Committee shall review the retirement systems biennial administrative budget and necessary budget amendments. The Executive Director (or designee) will schedule meetings, prepare budget documents and supporting schedules and present them to Committee members prior to the date of a meeting.

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- c. **Disability Appeals Committee.** There shall be two (2) Disability Appeals Committees, which may be combined with the Administrative Appeals Committees. Consistent with the provisions of KRS Chapter 13B, the Committees shall meet in alternate months, as needed, to act in matters of disability appeals. Each Committee shall consist of three (3) members; however the members appointed to one Committee may serve from time to time on the other Committee. The Committees shall ensure that the disability retirement laws are administered impartially and uniformly and that all members who apply for disability retirement benefits, and who qualify under the applicable statutes, are approved for benefits.
 1. **Committee Responsibilities.** In matters of disability appeals the Committee members shall consider the administrative record including the recommended order and any exceptions filed and it may adopt the hearing officer's recommended order, or it may reject or modify, in whole or in part, the recommended order, or it may remand the matter, in whole or in part, to the hearing officer for further proceedings as appropriate, or it may act on cases properly remanded by a court of competent jurisdiction. The Committee may also recommend legislative changes to improve the administration of the benefits. Any recommended legislative changes shall be referred to the Legislative and Budget Committee for study.
 2. **Executive Director Office of Benefits Responsibilities.** The Executive Director Office of Benefits or designated staff, in coordination with KRS legal department staff, will coordinate meeting dates and determine which cases will be reviewed. Staff will compile the administrative records and distribute the files to the Committee members prior to each meeting. Staff may provide legal or technical advice to the Committee.
- d. **Investment Committee.** The Committee shall consist of nine (9) members, as follows: (i) the six (6) trustees appointed by the Governor pursuant to KRS 61.645(1)(e)(5), and (ii) three (3) trustees appointed by the Board Chair.
 1. **Committee Responsibilities.**
 - A. The Investment Committee shall have authority to implement the investment policies adopted by the Board (including without limitation the Board's Statement of Investment Policy (pensions and health), and to act on behalf of the Board on all investment-related matters and to acquire, sell, safeguard, monitor, and manage the assets and securities of the several funds.
 - B. The Investment Committee will meet quarterly to review reports from investment staff, investment consultants and investment managers with authority to convene additional meetings as circumstances require. The regular quarterly meetings shall be held on the first Tuesday of February and May, the fourth Tuesday of August, and the first Wednesday of November.
 - C. The Committee will monitor investment performance and management practices and make reports and recommendations to the Board. The Committee will approve the selection and termination of service providers. The Committee will evaluate whether the Investment Policy, the investment activities, and management controls and processes continue to be consistent with meeting the retirement systems' goals and perform other duties specified in the Statement of Investment Policy.

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D. Actuarial Subcommittee.

1. The Chair of the Investment Committee may appoint an Actuarial Subcommittee comprised of seven (7) members of the Board, with the concurrence of the Board Chair as to each appointee, as follows: (i) three (3) trustees appointed by the Governor pursuant to KRS 61.645(1)(e)(5), (ii) one (1) trustee elected by members and retired members of the County Employees Retirement System, (iii) one (1) trustee elected by members and retired members of the Kentucky Employees Retirement System, (iv) one (1) trustee elected by members and retired members of the State Police Retirement System, and (v) the Chair of the Audit Committee. The Investment Committee Chair shall appoint a Chair of the Actuarial Subcommittee. The Actuarial Subcommittee will meet as necessary upon call of the Chair of the Actuarial Subcommittee.
 2. Upon appointment the Subcommittee will review and evaluate actuarial assumptions, funding methods and tables proposed by the actuary (including without limitation all economic, mortality, disability, etc. assumptions) for each system within KRS that affect: (i) the annual determination of the actuarial valuation of assets and liabilities of the systems within the meaning of KRS 61.670, (ii) the factors that apply to amounts payable to members (e.g., early commencement, commutation, repayment, etc.), and (iii) the actuarially recommended contribution rate for employers required under KRS 61.510 to 61.692, KRS 16.505 to 16.652, and KRS 78.510 to 78.852, except as otherwise determined by law or regulation.
 3. The Subcommittee will report its findings and recommendations of each such review or evaluation to the Investment Committee. Upon review and approval, the Investment Committee shall forward the results and its recommendations to the Board of Trustees for ratification.
- E. The Investment Committee may also recommend legislative changes to the Board to improve the administration of investment-related matters.

2. Executive Director Office of Investments Responsibilities.

The CIO shall administer the assets of the retirement systems consistent with the policies, guidelines and limits established by the law, the Investment Committee and the Statement of Investment Policy. The CIO will provide members of the Investment Committee with assessments of service providers and performance reports. The CIO will identify issues for consideration by the Investment Committee and prepare recommendations regarding those issues. The CIO will recommend changes to the Investment Committee regarding service providers, statutes, policies or guidelines as needed to maintain a productive relationship between the investment program and its goals. The CIO will communicate with the mass media and other agencies, entities or institutions regarding investment related issues.

3. Investment Policy. The "Statement of Investment Policy: Pension Funds," the "Statement of Investment Policy: Insurance," and the "Investment Procurement Policy" are hereby incorporated by reference.

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- e. **Retiree Health Plan Committee.** The Committee shall consist of a maximum of seven (7) members and shall assist the Board in providing a group hospital and medical insurance plan for present and future recipients of a retirement allowance from KERS, CERS, and SPRS as required by KRS 61.702.
 - 1. **Committee Responsibilities.**
 - A. The Committee will meet quarterly to review reports from retirement staff and retiree health insurance consultants with authority to convene additional meetings, as circumstances require. The regular quarterly meetings shall be held on the second Tuesday of February and May, the first Thursday of September, and the second Tuesday of November.
 - B. The Committee will monitor retiree health insurance matters and make reports and recommendations to the Board. The Committee will evaluate retiree health insurance issues and obligations set forth in state and federal law. The Committee may, as deemed necessary, evaluate health insurance companies, health maintenance organizations, self-insurance proposals, and other ways of providing a group hospital and medical insurance plan for retirees as provided in KRS 61.702.
 - C. The Committee may negotiate and recommend appropriate contracts for execution by the Board. The Committee may solicit reports and actuarial analyses in order to analyze issues regarding retiree health insurance. The Committee may also recommend legislative changes to improve the administration of retiree health insurance related matters. Any recommended legislative changes shall be referred to the Legislative and Budget Committee for study.
 - 2. **Executive Director Responsibilities.** The Executive Director and his staff will maintain and provide the Committee with necessary information to execute its responsibilities. The Executive Director and his staff will provide advice regarding state and federal laws and regulations. Staff will identify issues for consideration by the Committee and prepare recommendations regarding those issues.
- f. In addition to the duties and responsibilities described in this Section 2.2, each Standing Committee may develop appropriate policies and proposals to be ratified by the Board.

Section 2.3 DELEGATIONS OF AUTHORITY BY THE BOARD.

- a. **Delegation of Authority.** Except as may be prohibited by or inconsistent with law, the Board may delegate to any Standing Committee of the Board any power, authority, duty or responsibility conferred on the Board by law. In the case of any such delegation, the decision or action of the Committee within the scope of its delegated authority shall constitute the decision or action of the Board. The Board may at any time rescind the delegated authority as a whole or in part, except that a rescission of authority with respect to quasi-judicial matters delegated to a Committee shall not operate to affect the proceedings or the final action of any such matter pending before the Committee when the Board acts to rescind. This exception is designed to preclude the Board from using its authority to rescind a delegation to interfere with the process or outcome of a quasi-judicial proceeding then in progress before a Committee which had properly commenced the proceeding within the scope of its authority.

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b. **Request for Proposal (RFP) Process.**

1. The Board Chair shall appoint an RFP Committee as needed to ensure that the most appropriate vendors are chosen to provide services to the retirement systems consistent with the KRS "Investment Procurement Policy." An RFP Committee will not have regular meetings, but will meet as a Special Meeting at the call of the Executive Director or the Chair.
2. As directed by the RFP Committee, Staff will solicit and screen responses for eligibility and completeness. Staff will conduct any preliminary due diligence necessary to assist in the screening of responses and the selection of the finalists presented for consideration by the Committee.
3. The RFP Committee will review and make recommendations for appropriate vendors during the next regularly scheduled Board meeting or at a Special Meeting.

Section 2.04 AD HOC COMMITTEES.

In addition to the Standing Committees specified in Section 2.2, the Chair or the Board may at any time establish an *ad hoc* Committee of the Board and fix its duties and responsibilities for any purpose which in the judgment of the Chair or the Board is better served by a temporary rather than Standing Committee. Each such Committee shall consist of such number of members as the Chair shall determine, and the Chair shall also then appoint the Chair and designate the other members of the Committee unless otherwise determined by the Board.

Section 2.05 LIMITATIONS ON AUTHORITY.

No Committee shall have any power or authority, nor shall the Board delegate to it power or authority, as to any of the following:

- a. The amendment or repeal of any Board resolution.
- b. Action on other matters committed by Board resolution or by Kentucky law (including the common law of trusts respecting the delegation or the non-delegation of fiduciary responsibilities) to the Board under terms or provisions that make such action non-delegable.

Section 2.06 AMENDMENT OF BYLAWS.

These Bylaws may be amended at any regular meeting of the Board of Trustees by a vote of a majority of the entire membership of the Board.

Section 3.0 CERTIFICATION OF STATEMENT OF BYLAWS AND COMMITTEE ORGANIZATION.

We, the Chair of the Board of Trustees and the Executive Director of the Kentucky Retirement Systems, do certify that this Statement of Bylaws and Committee Organization was approved by the Board on this the ____ day of _____, 20 ____.

John R. Farris, Date

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Chair, Board of Trustees

David L. Eager,
Interim Executive Director

Date

[DRAFT – 09/14/2017]

KENTUCKY RETIREMENT SYSTEMS
BOARD OF TRUSTEES

STATEMENT OF BYLAWS AND COMMITTEE ORGANIZATION

[As Amended: _____]

Section 1.1 GENERAL ADMINISTRATION.

This Statement of Bylaws and Committee Organization of the Board of Trustees is adopted pursuant to the authority of KRS 61.645. The law shall control if any inconsistency exists between the law and this Statement of Bylaws and Committee Organization of the Board of Trustees.

- a. **Board Year.** The Board Year shall be from April 1 of each calendar year through March 31 of the following year.

~~b. QUORUM; PARLIAMENTARY AUTHORITY.~~ Quorum; Parliamentary Authority.

1. Board of Trustees: As required by KRS 61.645(8)(c), a majority of the trustees ~~on the board or any committee~~ shall constitute a quorum, ~~for transaction of business~~ and all actions taken by the Board ~~or any committee~~ shall be by affirmative vote of a majority of the trustees present ~~and constituting~~.

2. Committees of the Board of Trustees: ~~A majority of the trustees on any Committee of the Board of Trustees appointed pursuant to Section 2 of these Bylaws shall constitute a quorum.~~ and all actions taken by the Committee shall be by affirmative vote of a majority of the trustees present.

3. The most recent edition of Robert's Rules of Order shall be the parliamentary authority. [RONR (11th ed., as amended)]

~~b.c.~~ Meetings. Meetings of the Board and Committees ~~will~~ shall be conducted consistent with the Open Meetings Act, KRS 61.805 to 61.850. The Open Meetings Act shall control if any inconsistency exists between the Open Meetings Act and these Bylaws.

~~d.~~ Annual Meeting. The annual meeting of the Board shall be held on the third Thursday of ~~April~~ April of each Board Year.

~~d.e.~~ REGULAR QUARTERLY MEETINGS. ~~The regular quarterly~~ Regular Meetings. Regular meetings ~~of the Board~~ shall be held on the third Thursday of February and May, the second Thursday of September ~~and November~~, and on the first Thursday of December.

~~e.~~ SPECIAL MEETINGS.

f. Special Meetings.

1. Special Meetings of the Board of Trustees shall be held upon the call of the Chair of the Board of Trustees or the Executive Director. Upon the request of a majority of the members of the Board, the Chair of the Board of Trustees or Executive Director may call a special meeting.

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2. Special meetings of a Standing or *ad hoc* Committee of the Board of Trustees shall be held upon the call of the Committee Chair or the Executive Director. Upon the request of a majority of the members of the Standing or *ad hoc* Committee, the Committee Chair or Executive Director may call a special meeting.

B. Notice of Meetings.

1. **Regular Meetings.** Notice of a regular meeting of the Board shall be posted at least ten (10) days (inclusive of weekends and holidays) before the meeting is scheduled. The notice of a regular meeting shall include the date, time and location of the meeting, and the agenda for the meeting. The agenda shall be determined under the direction of and approval by the Chair of the Board. Changes or revisions to the agenda may be proposed by the Executive Director or member of the Board, provided such proposal shall be delivered to the Chair for approval not less than ninety-six (96) hours before the meeting is scheduled. Approved changes or revisions to the agenda shall be posted not less than seventy-two (72) hours before the meeting is scheduled.

~~1.2~~ **Special Meetings.** When circumstances warrant a special meeting of the Board or a Standing or *Ad hoc* committee of a Committee, notice shall be posted as soon as practicable reasonably possible, but at least not less than twenty-four hours (24) hours before the meeting is scheduled. The notice of a special meeting shall include the date, time, and location of the special meeting and the agenda for the special meeting. Discussions and action at the meeting shall be limited to items listed on the agenda in the notice.

~~f. NOTICE OF MEETINGS.~~ Members ~~Records of the Board and committees shall be given written and/or email notice of the time and place of each regular or special meeting and of the business to be considered at least ten (10) days prior to such meeting, except that when circumstances warrant a special meeting of the Board or a committee, such notice shall be given as soon as reasonably possible, but not less than twenty-four (24) hours prior to the special meeting.~~

~~g.h. RECORDS OF PROCEEDINGS.~~ All official acts of the Board shall be recorded in the minutes of the regular or special meeting at which the action was approved or adopted. The Executive Director shall cause the minutes to be transcribed and presented for approval or amendment at the next regular meeting. The minutes or a copy certified by the Chair and Executive Director shall be on file in the retirement office and open to public inspection.

~~h.i. Change in Meeting Dates.~~ Any regular or special meeting of the Board may be changed by following the procedure prescribed in these Bylaws for calling special meetings.

j. **Chair and Vice Chair of the Board.** The Board shall elect a Chair and a Vice-Chair at each annual meeting to hold office for the ensuing Board Year or until their successors are elected. The Chair shall not serve more than four (4) consecutive years as Chair or vice-Chair (in combination) of the Board. The Vice-Chair shall not serve more than four (4) consecutive years as Chair or vice-Chair (in combination) of the Board. A trustee who has served four (4) consecutive years as Chair or vice-Chair of the Board may be elected Chair or vice-Chair of the Board after an absence of two (2) years from the positions.

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- k. **Committees.** The Board may create Committees with such powers and duties as the Board may determine. ~~The Chair of the Board of Trustees, unless otherwise stipulated or determined by the Board, shall appoint the members of each Standing or ad hoc Committee, and such appointments shall be recorded in the minutes of the current or next-following regular Board meeting. Committee members shall serve concurrently with the appointing Chair.~~

~~The Chair of the Board of Trustees, unless otherwise determined by the Board, shall name the members of each Committee. Committee members shall serve concurrently with the appointing Chair.~~

- l. **Conflicts of Interest.** Board members shall file a financial disclosure statement with the Executive Branch Ethics Commission by April 15 of each calendar year, or within thirty (30) days following departure from office as a member of the Board, or as otherwise provided by law.

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~~m. TRAVEL POLICY GUIDELINES.~~

~~0.01. I. Travel Policy Guidelines.~~ All travel for official business of Kentucky Retirement Systems must be done in accordance with the ~~Kentucky Retirement Systems Travel Policy requirements of~~ and ~~Procedures adopted by the Board of Trustees consistent with KRS Chapter 45.~~

~~2. No more than six (6) Board members may be passengers on the same airline flight. A maximum of two (2) senior staff members may be passengers on the same flight.~~

~~0.01. Election Policy Guidelines.~~ All elections for elected members of the Board of Trustees of Kentucky Retirement Systems must be conducted in accordance with the provisions of KRS 61.645 and the Kentucky Retirement Systems Board of Trustees Election Policy and Procedures adopted by the Board.

~~p.0. VIOLATIONS OF BY-LAWS OR BOARD POLICIES.~~ ~~Violations of Board Policies and Guidelines.~~ If a complaint is made that a member of the Board violated these ~~by-laws~~ ~~Bylaws~~ or any policy approved by the Board, the Board shall follow the procedure found in the Conflict of Interest and Confidentiality Policy in investigating the complaint.

Section 1.2 BOARD RESPONSIBILITIES.

a. The Board shall make ~~and maintain~~ Bylaws.

b. The Board shall appoint an Executive Director and fix the Executive Director's salary.

~~c. The Board shall adopt a compensation and classification plan applicable to all KRS employees other than the Executive Director and the Chief Investment Officer. The Board shall authorize and instruct the Executive Director to cause the name, position and salary of each employee to be posted on the website of KRS and otherwise be subject to public review pursuant to Kentucky Revised Statutes 61.870 to 61.884. The Executive Director shall present a list of the salaries of the KRS executive staff, including: the Executive Director; Chief Officers; Deputy Chief Officers; Division Directors; Deputy Controller; Information Security Officer; General Counsel; and Assistant General Counsel to the Board at its regular quarterly meeting in September each year, unless the Board directs that the data be presented at a different time or more frequently.~~

~~c. The Board shall authorize the Executive Director to appoint all employees deemed necessary to transact the business of the systems.~~

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- d. The Board shall act on contracts for rental of office space, and professional services, including but not limited to the auditor, actuary, legal counsel, medical examiners, and hearing officers—, in accordance with the requirements of the Commonwealth of Kentucky Model Procurement Act (KRS 45A).
- e. The Board shall act on legislative and regulatory changes proposed by the staff of ~~the~~KRS,
retirement systems.
- f. The Board shall ratify the audited financial statements.
- g. The Board shall ratify the actions of its Committees.
- h. The Board shall select and employ an actuary who shall be a fellow of the Conference of Consulting Actuaries or a member of the American Academy of Actuaries to provide and recommend the actuarial tables and funding methods necessary for the administration of the systems and for the annual determination of actuarial assets and liabilities of the systems.
- h.i. The Board shall consider and act on the recommendations of the Investment Committee and actuary, and shall approve and adopt actuarial assumptions and contribution rates based on the actuarial tables and funding methods adopted by Board, as revised from time to time.
assumptions and contribution rates.
- h.j. The Board shall adopt contribution rates toward medical insurance premiums.
- h.k. The Board shall provide oversight concerning programs and services for members, retirees, beneficiaries, and participating employers.
- h.l. The Board shall select candidates for each trustee ballot as provided in KRS 61.645.
- ~~m. The Board.~~The Board shall establish a formal trustee education program for all trustees of the Board, pursuant to the requirements of KRS 61.645(18).
- h.n. The Board, and individual members of the Board, should ordinarily refer all news media inquiries to the Executive Director and/or the ~~KRS~~ Board Chair, and should not speak on behalf of the Board or KRS with the news media. However, nothing in this subsection is intended to prevent individual Board members from speaking to the media concerning their actions and decisions as individual Board members.

Section 1.3 Executive Director Responsibilities.

- ~~a. The Executive Director shall appoint all staff to all positions in the retirement systems, and shall manage the staff to perform all administrative functions of Kentucky Retirement Systems.~~

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- ~~a. The Executive Director shall appoint all employees deemed necessary to transact the business of the systems, and shall be responsible for oversight and implementation of agency-related human resources management, e.g., affirmative action and similar matters. All employees of the systems, except for the Executive Director, shall be subject the state personnel system established pursuant to KRS 18.005 to 18A.204 and shall have their salaries determined by the secretary of the Personnel Cabinet.~~
- b. The Executive Director shall develop a biennial budget and necessary budget amendments. The Executive Director (or designee) shall present a budget-to-actual expenditure analysis to the Board at each regular quarterly meeting of the Board.
- c. The Executive Director shall be responsible for information and record management, and shall develop and maintain a disaster recovery plan.
- ~~d. The Executive Director shall be responsible for implementing a formal trustee education program for all trustees of the Board, pursuant to the requirements of KRS 61.645(18).~~
- ~~d-e. The Executive Director shall establish and implement policies in conformance with statutes, regulations and Board policies related to benefits administration.~~
- ~~e-f. The Executive Director shall provide oversight of litigation and report significant developments to the Board.~~
- ~~g. The Executive Director shall be responsible for the operation and administration of the investment department. Provided, however, that the investment Committee of the Board shall have authority to implement the investment policies adopted by the Board and act on behalf of the Board on all investment-related matters.~~
- ~~f-h. The Executive Director shall act as legislative liaison, and represent the Board at legislative hearings and other legislative meetings.~~
- ~~g-i. The Executive Director shall oversee the administrative appeals and disability appeals hearing process.~~
- ~~h-j. The Executive Director shall recommend legislative or regulatory changes and propose draft language.~~
- ~~i-k. The Executive Director shall provide technical assistance to the members of General Assembly, Governor's office, state and local government officials, members, retirees, and beneficiaries of the retirement systems.~~
- ~~l. The Executive Director shall implement any statutory or regulatory changes and take appropriate action to conform to federal law.~~
- ~~j-m. The Executive Director shall communicate with the mass media and other agencies, entities or institutions, including responding to correspondence or inquiries addressed to the Board.~~
- ~~k. The Executive Director shall implement any statutory or regulatory changes and take appropriate action to conform with federal law.~~
- ~~f-n. The Executive Director shall coordinate reciprocal benefits with the other state administered retirement systems in Kentucky.~~

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~~m. The Executive Director shall present a list of the salaries of the KRS executive staff, including the Executive Director, Chief Officers, Deputy Chief Officers, Division Directors, Deputy Controller, Information Security Officer, General Counsel, and Assistant General Counsel to the Board at its regular quarterly meeting in September each year, unless the Board directs that the data be presented at a different time or more frequently.~~

~~n. The Executive Director shall present a budget-to-actual expenditure analysis to the Board at each quarterly meeting of the Board.~~

o. In the case of emergency conditions that threaten the functioning of KRS, the preservation or protection KRS property or assets, vital data, or the health and safety of any person, and where a quorum of the Board is unavailable, the Executive Director may take actions necessary to prevent or mitigate the threat, even if a vote of the Board of Trustees would otherwise be necessary to take such action. When a quorum of the Board of Trustees becomes available, any such actions taken by the Executive Director shall be reviewed and ratified as necessary.

Section 2.1 STANDING COMMITTEES.

The Board shall have the Standing Committees specified in Section 2.2, each of them to have the duties and responsibilities as therein set forth, together with such other duties and responsibilities as the Board may by resolution determine. In each Board Year, the Chair, elected at the annual meeting, shall appoint Board members to Committees as specified in Section 2.2, unless otherwise determined by the Board. Each Committee shall have a Chair and the Board Chair shall appoint the Chair of each Committee, unless otherwise determined by the Board. A Committee may (but is not required to) elect a Vice Chair from among its members by a majority vote of its membership. A Vice Chair so elected shall preside at meetings of the Committee in the absence or inability to act of the Committee Chair. Any Board member may attend any meeting of any Committee of which he or she is not a member but shall not have a vote.

Section 2.2 ~~Committee~~ STANDING COMMITTEES; DUTIES AND RESPONSIBILITIES.

The Standing Committees of the Board are, and shall have respective duties and responsibilities, as follows:

- a. ~~Administrative Appeals Committees~~Committee. There shall be two (2) Administrative Appeals Committees, which may be combined with the Disability Appeals Committees. Consistent with the provisions of KRS Chapter 13B, the Committees shall meet in alternate months, as needed, to act in matters of administrative appeals. Each Committee shall consist of three (3) members; however, the members appointed to one Committee may also serve from time to time on the other Committee. The Committees shall ensure that the retirement laws are administered impartially and uniformly and that the actions of the retirement system resulting in the appeal were correct and fair under the applicable statutes and regulations.

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1. Committee Responsibilities. In matters of administrative appeals, the Committee members shall consider the administrative record including the recommended order and any exceptions filed and it may adopt the hearing officer's recommended order, or it may reject or modify, in whole or in part, the recommended order, or it may remand the matter, in whole or in part, to the hearing officer for further proceedings as appropriate, or it may act on cases properly remanded by a court of competent jurisdiction. The Committee may also recommend legislative changes to improve the administration of the benefits. Any recommended legislative changes shall be referred to the Legislative and Budget Committee for study.
 2. Chief Executive Director Office of Benefits Officer—Responsibilities. The Chief Executive Director Office of Benefits Officer or designated staff, in coordination with KRS legal department staff, will coordinate meeting dates and determine which cases will be reviewed. Staff will compile the administrative records and distribute the files to the Committee members prior to each meeting. Staff may provide legal or technical advice to the Committee.
- b. Audit Committee. The Committee shall consist of a maximum of not less than three (3) and not more than seven (7) members and will act on behalf of the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the internal and external audit processes, and the process for monitoring compliance with laws, regulations and the code of conduct.
1. Committee Responsibilities.
 - A. The Committee will meet quarterly, with authority to convene additional meetings, as circumstances require. The regular quarterly meetings shall be held on the first Thursday of February; and May, the fourth Thursday of August, and the first Thursday of November. The Committee shall have the authority to review reports by the Internal Auditor and to recommend appropriate policies and procedures. Additional responsibilities are enumerated in the Audit Committee Charter of the Board of Trustees.
 - B. Hazardous Duty Subcommittee.
 1. The Chair of the Audit Committee may appoint a Subcommittee of not less than three (3) nor more than five (5) members of the Audit Committee to a Hazardous Duty Subcommittee. One appointed member shall be designated as Chair of the Subcommittee. The Subcommittee will meet as necessary upon call of the Chair of the Subcommittee.
 2. Upon appointment the Subcommittee shall review and investigate the employees whose names have been certified by the applicable authority to meet the criteria of KRS 61.592 and 105 KAR1:130 for hazardous duty, and also those employees who have be so certified who are not, or no longer are, working in a hazardous duty position.
 3. The Subcommittee will report its findings and recommendations of each such investigation and review to the Audit Committee. Upon review and approval, the Audit

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Committee shall forward the results and its recommendations to the Board of Trustees for approval and ratification.

4. Internal Auditor Responsibilities. The Internal Auditor will be responsible for the planning, implementation and reporting of audits and the internal audit plan. The Internal Auditor will also be responsible for the functional control of audit activities in relation to the objectives of the Division of Internal Audit. Additional responsibilities are enumerated in the Division of Internal Audit Charter.

2-3. Audit Charters. The Audit Committee Charter of the Board of Trustees and the Division of Internal Audit Charter are hereby incorporated by reference.

4. Budget. The Audit Committee shall review the retirement systems biennial administrative budget and necessary budget amendments. The Executive Director (or designee) will schedule meetings, prepare budget documents and supporting schedules and present them to Committee members prior to the date of a meeting.

c. Disability Appeals Committees~~Committee~~. There shall be two (2) Disability Appeals Committees, which may be combined with the Administrative Appeals Committees. Consistent with the provisions of KRS Chapter 13B, the Committees shall meet in alternate months, as needed, to act in matters of disability appeals. Each Committee shall consist of three (3) members; however the members appointed to one Committee may serve from time to time on the other Committee. The Committees shall ensure that the disability retirement laws are administered impartially and uniformly and that all members who apply for disability retirement benefits, and who qualify under the applicable statutes, are approved for benefits.

1. Committee Responsibilities. In matters of disability appeals the Committee members shall consider the administrative record including the recommended order and any exceptions filed and it may adopt the hearing officer's recommended order, or it may reject or modify, in whole or in part, the recommended order, or it may remand the matter, in whole or in part, to the hearing officer for further proceedings as appropriate, or it may act on cases properly remanded by a court of competent jurisdiction. The Committee may also recommend legislative changes to improve the administration of the benefits. Any recommended legislative changes shall be referred to the Legislative and Budget Committee for study.

2. Chief Executive Director Office of Benefits Officer~~Officer~~—Responsibilities. The Chief Executive Director Office of Benefits Officer~~Officer~~ or designated staff, in coordination with KRS legal department staff, will coordinate meeting dates and determine which cases will be reviewed. Staff will compile the administrative records and distribute the files to the Committee members prior to each meeting. Staff may provide legal or technical advice to the Committee.

d. Investment Committee. The Committee shall consist of a maximum of five (5) nine (9) members, as follows: (i) the six (6) trustees appointed by the Governor pursuant to KRS 61.645(1)(e)(5), and (iii) three (3) trustees appointed by the Board Chair.

1. Committee Responsibilities;

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~~A. The Investment Committee shall have authority to implement the investment policies adopted by the Board (including without limitation the Board's Statement of Investment Policy (pensions and health), and to act on behalf of the Board on all investment-related matters to assure the prudent investment of the retirement systems' and to acquire, sell, safeguard, monitor, and manage the assets to achieve the long-term funding goals established in the Board's Statement of Investment Policy and securities of the several funds.~~

~~1. Committee Responsibilities. The B. The Investment Committee will meet quarterly to review reports from investment staff, investment consultants and investment managers with authority to convene additional meetings; as circumstances require. The regular quarterly meetings shall be held on the first Tuesday of February, and May, and the fourth Tuesday of August, and the first Wednesday of November.~~

~~C. The Committee will monitor investment performance and management practices and make reports and recommendations to the Board. The Committee will approve the selection and termination of service providers. The Committee will evaluate whether the Investment Policy, the investment activities, and management controls and processes continue to be consistent with meeting the retirement systems' goals and perform other duties specified in the Statement of Investment Policy. The Committee may also recommend legislative changes to improve the administration of investment-related matters. Any recommended legislative changes shall be referred to the Legislative and Budget Committee for study.~~

~~2. Chief Investment Officer Responsibilities. The Chief Investment Officer ("CIO") will D. Actuarial Subcommittee.~~

~~1. The Chair of the Investment Committee may appoint an Actuarial Subcommittee comprised of seven (7) members of the Board, with the concurrence of the Board Chair as to each appointee, as follows: (i) three (3) trustees appointed by the Governor pursuant to KRS 61.645(1)(e)(5), (ii) one (1) trustee elected by members and retired members of the County Employees Retirement System, (iii) one (1) trustee elected by members and retired members of the Kentucky Employees Retirement System, (iv) one (1) trustee elected by members and retired members of the State Police Retirement System, and (v) the Chair of the Audit Committee. The Investment Committee Chair shall appoint a Chair of the Actuarial Subcommittee. The Actuarial Subcommittee will meet as necessary upon call of the Chair of the Actuarial Subcommittee.~~

~~2. Upon appointment the Subcommittee will review and evaluate actuarial assumptions, funding methods and tables proposed by the actuary (including without limitation all economic, mortality, disability, etc. assumptions) for each system within KRS that affect: (i) the annual determination of the actuarial valuation of assets and liabilities of the systems within the meaning of KRS 61.670, (ii) the factors that apply to amounts payable to members (e.g., early commencement, commutation, repayment, etc.), and (iii) the actuarially recommended contribution rate for employers required under KRS 61.510 to~~

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61.692, KRS 16.505 to 16.652, and KRS 78.510 to 78.852, except as otherwise determined by law or regulation.

3. The Subcommittee will report its findings and recommendations of each such review or evaluation to the Investment Committee. Upon review and approval, the Investment Committee shall forward the results and its recommendations to the Board of Trustees for ratification.

E. The Investment Committee may also recommend legislative changes to the Board to improve the administration of investment-related matters.

2. Executive Director Office of Investments Responsibilities.

The CIO shall administer the assets of the retirement systems consistent with the policies, guidelines and limits established by the law, the Investment Committee and the Statement of Investment Policy and the Investment Committee. The CIO will provide members of the Investment Committee with assessments of service providers and performance reports. The CIO will identify issues for consideration by the Investment Committee and prepare recommendations regarding those issues. The CIO will recommend changes to the Investment Committee regarding service providers, statutes, policies or guidelines as needed to maintain a productive relationship between the investment program and its goals. The CIO will communicate with the mass media and other agencies, entities or institutions regarding investment related issues.

3. Investment Policy. The "Statement of Investment Policy: Pension Funds," the "Statement of Investment Policy: Insurance Fund," and the Statement of "Investment Procurement Policy: Pension Funds" are hereby incorporated by reference.

~~c. Legislative and Budget Committee. The Legislative and Budget Committee shall consist of a maximum of seven (7) members and shall review the retirement systems administrative budget and recommend additions or reductions in specific program areas or budgetary items. The Committee reviews and recommends statutory changes to the Board related to the administration of benefits and compliance with federal law and determines which changes are in the best interests of the retirement systems.~~

~~1. Committee Responsibilities. The Committee will meet only as necessary. Meetings may be called as set forth in Section 1.4(f) of these bylaws. The Committee shall have the authority to review budget recommendations and legislative recommendations of members of the Board, staff or others. The Committee may approve, reject and modify changes, as well as provide policy guidance for staff in drafting changes. The Committee will present the final recommendations to the Board.~~

~~2. Executive Director Responsibilities. The Executive Director will schedule meetings, prepare the budget document and supporting schedules, prepare draft changes to Kentucky Revised Statutes and present them to Committee members prior to the date of a meeting. Staff will research the impact of proposed changes~~

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~~and report the results to the Committee. Staff will also make preliminary contacts with legislators, employers and interest groups to assist in formulating legislation to accommodate all interested parties. Staff will work with the General Assembly, Legislative Research Commission, the Governor's Office and interest groups to obtain passage of the Board's legislative proposals, or advocate other interests supported by the Board.~~

~~f. **Human Resources Committee.** The Committee shall consist of a maximum of five (5) members and shall assist the Executive Director and the Board of Trustees in attracting and retaining a competent, creative and motivated workforce.~~

~~1. **Committee Responsibilities.** The Committee shall meet on the third Thursday of February and May, the second Thursday of September, and the first Thursday of December with authority to convene additional meetings, as circumstances require. The Committee recommends personnel policies to the Board. The Committee reviews and recommends salaries for executive staff based on comparable salaries and job performance. The Committee shall ensure the provisions enumerated in KRS 61.645 (9) are administered in a fair and equitable manner. The provisions of KRS 61.645(9) are herein incorporated by reference. The Committee may also recommend legislative changes to improve the administration of the personnel system. Any recommended legislative changes shall be referred to the Legislative and Budget Committee for study.~~

~~2. **Executive Director Responsibilities.** The Executive Director and his staff will maintain and provide the Committee with data on salaries of comparable positions in comparable businesses or similarly structured retirement systems. Staff will identify issues for consideration by the Committee and prepare recommendations regarding those issues.~~

~~g. **Retiree Health Plan Committee.** The Committee shall consist of a maximum of seven (7) members and shall assist the Board in providing a group hospital and medical insurance plan for present and future recipients of a retirement allowance from KERS, CERS, and SPRS as required by KRS 61.702.~~

~~1. **Committee Responsibilities.**~~

~~A. The Committee will meet quarterly to review reports from retirement staff and retiree health insurance consultants with authority to convene additional meetings, as circumstances require. The regular quarterly meetings shall be held on the second Tuesday of February and May, the first Thursday of September, and the second Tuesday of November.~~

~~B. The Committee will monitor retiree health insurance matters and make reports and recommendations to the Board. The Committee will evaluate retiree health insurance issues and obligations set forth in state and federal law. The Committee~~

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may, as deemed necessary, evaluate health insurance companies, health maintenance organizations, self-insurance proposals, and other ways of providing a group hospital and medical insurance plan for retirees as provided in KRS 61.702.

- C. The Committee may negotiate and recommend appropriate contracts for execution by the Board. The Committee may solicit reports and actuarial analyses in order to analyze issues regarding retiree health insurance. The Committee may also recommend legislative changes to improve the administration of retiree health insurance related matters. Any recommended legislative changes shall be referred to the Legislative and Budget Committee for study.
2. **Executive Director Responsibilities.** The Executive Director and his staff will maintain and provide the Committee with necessary information to execute its responsibilities. The Executive Director and his staff will provide advice regarding state and federal laws and regulations. Staff will identify issues for consideration by the Committee and prepare recommendations regarding those issues.

~~h.f.~~ In addition to the duties and responsibilities described in ~~this~~ Section 2.2, each Standing Committee may develop appropriate policies and proposals to be ratified by the Board.

Section 2.3 ~~Delegations~~ **DELEGATIONS OF AUTHORITY BY THE BOARD.**

~~Delegation of Authority by the Board.~~

- a. ~~Except as may be prohibited by or inconsistent with law, the Board may delegate to any Standing Committee of the Board any power, authority, duty or responsibility conferred on the Board by law. In the case of any such delegation, the decision or action of the Committee within the scope of its delegated authority shall constitute the decision or action of the Board. The Board may at any time rescind the delegated authority as a whole or in part, except that a rescission of authority with respect to quasi-judicial matters delegated to a Committee shall not operate to affect the proceedings or the final action of any such matter pending before the Committee when the Board acts to rescind. This exception is designed to preclude the Board from using its authority to rescind a delegation to interfere with the process or outcome of a quasi-judicial proceeding then in progress before a Committee which had properly commenced the proceeding within the scope of its authority.~~
- b. **Request for Proposal (RFP) Process.**
 1. ~~The Standing Board Chair shall appoint an RFP Committee charged with oversight of the area germane needed to the RFP shall ensure that the most appropriate vendors are chosen to provide services to the retirement systems consistent with the "Kentucky Retirement Systems Procurement Policy." The Standing Committee will review and make recommendations for appropriate vendors during its regularly-scheduled meeting or at a special meeting if necessary.~~

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~~1.1 The Chair shall appoint a RFP Committee as needed to review and make recommendations regarding RFPs that are not within an area germane to a Standing Committee. The KRS "Investment Procurement Policy." An RFP Committee will not have regular meetings, but will meet as a Special Meeting at the call of the Executive Director or the Chair.~~

~~1.2 Staff Responsibilities. As directed by the RFP Committee, Staff will solicit and screen responses for eligibility and completeness. Staff will conduct any preliminary due diligence necessary to assist in the screening of responses and the selection of the finalists presented for consideration by the Committee.~~

~~3. The RFP Committee will review and make recommendations for appropriate vendors during the next regularly scheduled Board meeting or at a Special Meeting.~~

~~Section 2.404 AD HOC COMMITTEES.~~

~~In addition to the Standing Committees specified in Section 2.2, the Chair or the Board may at any time establish an *ad hoc* Committee of the Board and fix its duties and responsibilities for any purpose which in the judgment of the Chair or the Board is better served by a temporary rather than Standing Committee. Each such Committee shall consist of such number of members as the Chair shall determine, and the Chair shall also then appoint the Chair and designate the other members of the Committee unless otherwise determined by the Board.~~

~~Section 2.505 LIMITATIONS ON AUTHORITY.~~

~~No Committee shall have any power or authority, nor shall the Board delegate to it power or authority, as to any of the following:~~

- ~~a. The amendment or repeal of any Board resolution.~~
- ~~b. Action on other matters committed by Board resolution or by Kentucky law (including the common law of trusts respecting the delegation or the non-delegation of fiduciary responsibilities) to the Board under terms or provisions that make such action non-delegable.~~

~~Section 2.606 Amendment of Bylaws06 AMENDMENT OF BYLAWS.~~

~~These Bylaws may be amended at any regular meeting of the KRS Board of Trustees by a vote of a majority of the entire membership of the Board.~~

~~Section 3.0 CERTIFICATION OF STATEMENT OF BYLAWS AND COMMITTEE ORGANIZATION.~~

~~We, the Chair of the Board of Trustees and the Executive Director of the Kentucky Retirement Systems, do certify that this Statement of Bylaws and Committee Organization was approved by the Board on this the 5th day of ~~December 2013~~, 20~~

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Randy Overstreet, Chair

John R. Farris,

Date

William A. Thielen, Chair, Board of Trustees

David L. Fager,

Date

Interim Executive Director

Date

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CONFLICT OF INTEREST AND CONFIDENTIALITY POLICY

Summary of Key Revisions

[9/14/2017]

Section	Page	Revision
5(4)	4	Complaint against KRS Employee (other than ED and CIO): adjudicated by Executive Director, or at Executive Director discretion, forwarded to Ethics Commission; if complaint found to be true, Employee is disciplined pursuant to Personnel Cabinet rules.
5(5)	4	Complaint against contractor, vendor or service provider: adjudicated by Executive Director; action taken, if necessary, pursuant to contract.
5(6)	4	Complaint against Trustee, Executive Director, Internal Auditor, or CIO: Board Chair, in consultation with the Board, (i) appoints <u>ad hoc</u> Special Committee to investigate and report to Board; or (ii) refers to Ethics, Commission, Attorney General or other appropriate authority.
5(7)	4	If Special Committee is appointed, Chair appoints a Committee Chair and 3-7 trustee members (inclusive of Special Committee Chair); complaint sent to person against whom complaint is lodged.
5(8)	4	Special Committee investigation conducted on a confidential basis
5(9)	4	If Special Committee finds that facts are insufficient to constitute a violation of Policy, investigation is terminated and reported to Board.
5(10)	5	If investigation indicates a violation, Special Committee reports results to Board, which is considered in closed session. Decision regarding disciplinary action reported in opens session.
5(11)	5	Alternative disciplinary actions in case of violation by Executive Director, Internal Auditor, or CIO itemized. Action requires 2/3rds vote of total Board membership.
5(12)	5	Alternative disciplinary actions in case of violation by Trustee itemized. Action requires 2/3rds vote of total Board membership.

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**KENTUCKY RETIREMENT SYSTEMS
CONFLICT OF INTEREST AND CONFIDENTIALITY POLICY**

[Initial Approval Date: August 17, 2006]

As Amended: _____

INTRODUCTION

Adoption of Conflict of Interest and Confidentiality Policy:

Pursuant to the provisions of KRS 61.645, the Board of Trustees ("Board") of the Kentucky Retirement Systems ("KRS") is permitted to adopt procedures necessary to conduct the business of the Retirement Systems as needed. The law shall control if any inconsistency exists between the law and this policy.

Statement of Conflict of Interest and Confidentiality Policy:

KRS recognizes the need to maintain the public's confidence and trust in the integrity of KRS and the Commonwealth of Kentucky. Individuals associated with KRS must not engage in activities that have the potential to become a conflict of interest with their association with KRS. Likewise, individuals associated with KRS must not release information about KRS or any of its members that would breach any duty to protect such information. KRS recognizes the need to establish procedures to prevent such conflicts or breaches.

Purpose:

The purpose of this Conflict of Interest and Confidentiality Policy ("Policy") is to: a) establish what individuals are subject to conflict of interest provisions of KRS; b) establish the specific standards of conduct with regard to conflict of interest; c) establish standards with regard to the confidentiality of information; and d) establish procedures for the obtaining of written conflict of interest statements and confidentiality agreements from certain individuals.

PROCEDURES REGARDING CONFLICTS OF INTEREST AND CONFIDENTIALITY

Section 1: Application of Policy

1. This Policy shall apply to all individuals who have a statutory, contractual or working relationship with KRS.
2. Individuals affected by this Policy shall include, but are not limited to:
 - a. Employees of KRS;
 - b. KRSTrustees;
 - c. Independent contractors of KRS; and
 - d. Vendors and service providers of KRS with whom a contractual obligation to KRS exists.

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Section 2: Standards of Conduct Regarding Conflicts of Interest

1. Individuals have an obligation to diligently identify, disclose, avoid, and manage conflicts of interest or potential conflicts of interest.
2. Potential conflicts of interest exist when an individual or an individual's family may be directly or indirectly financially impacted, whether favorably or detrimentally, by a decision made or considered by KRS in which the individual participates or would participate.
3. Individuals and their family members should not enter into any contract with KRS or any agency doing business with KRS, for financial gain, apart from an employment contract, without full disclosure and satisfactory management of any potential conflict of interest in accordance with the Executive Branch Code of Ethics provisions, as set forth in KRS Chapter 11A.
4. Individuals should not be involved in the decision to hire or in the supervision of any member of their immediate family.
5. Individuals should not conduct business or participate in decisions with a company or agency in which the individual or family member is employed or is actively seeking employment.
6. Individuals should not accept gifts, loans, gratuities, discounts, favors, hospitality, services, or other compensation under circumstances from which it could reasonably be inferred that a major purpose of the donor is to influence the individual in the performance of their duties.
7. Individuals must avoid all conduct which in any way might lead the public to believe that the individual is using his or her position with KRS to further a professional or private interest.
8. Individuals not covered by the conflict of interest provisions under KRS Chapter 11A must not violate any conflict of interest statute or principle by the performance of their duties with KRS. These individuals must not engage directly or indirectly in any financial or other transaction with a Trustee or employee of KRS that would violate the standards of the Executive Branch Ethics provisions, as set forth in KRS Chapter 11A.

Section 3: Standards of Conduct Regarding Confidentiality

1. Individuals associated with KRS may be granted access to confidential information in the course of employment, as a KRS Trustee, or within a contractual relationship with KRS.
2. This information may include, but is not limited to, individual member information, including but not limited to, Social Security numbers, names, addresses, phone numbers, birth dates, beneficiaries, health insurance information, Personal Identification Numbers (PIN), as well as documents, records, programs, files, scientific or technical information, or other information made available to individuals for purposes of completing their obligations to KRS.
3. These individuals have a duty to keep confidential the information to which they are granted access as a result of their association with KRS.
4. KRS and these individuals shall also recognize that confidential member information is

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protected under KRS 61.661.

Section 4: Written Statements of Conflict of Interest and Confidentiality

1. **Conflict of Interest (KRS Trustees and Employees)**: On an annual basis, the Executive Director, Executive Director Office of Investments, Executive Director Office of Operations, Executive Director Office of Benefits, Executive Director Office of Legal Services, Executive Advisor, all employees of the Division of Investments and Investment Operations, General Counsel(s), all Division Directors, and all KRS Trustees shall file a written conflict of interest statement on the form(s) provided by KRS and approved by the Board of Trustees.
2. **Conflict of Interest (Contractors; Vendors; Service Providers)**: All independent contractors, vendors and service providers of KRS shall file a written conflict of interest statement on the form(s) provided by KRS and approved by the Board of Trustees, which shall remain effective during the term of their relationship with KRS and thereafter.
3. **Confidentiality Agreement (Contractors; Vendors; Service Providers)**: Upon proposal for contract that requires the exchange or disclosure of confidential KRS information, the contractor, vendor or service provider making the proposal shall file a written confidentiality agreement on a form provided by KRS and approved by the Board of Trustees. The confidentiality agreement may be amended to conform to specific needs of the proposed contract as well as the individual contractor, vendor or service provider.
4. **Conflict of Interest and Confidentiality**: Other individuals or entities covered by this Policy may also be requested to file a written conflict of interest or confidentiality statement as needed or requested by the Board.

Individuals or entities covered by this Policy who abstain from involvement in an official KRS decision because of personal or private interests must disclose that fact. KRS employees, contractors, vendors and service providers must disclose the conflict in writing to KRS' Executive Director or his or her designee. KRS Trustees who abstain from an official KRS decision because of personal or private interests shall disclose that fact in the minutes for the meeting where the recusal or abstention occurs.

Section 5: Violations of Conflict of Interest and Confidentiality Policy

1. Any person who suspects that an employee of KRS, a member of the Board of Trustees of KRS, or a contractor, vendor or service provider has violated the Kentucky Retirement Systems' Conflict of Interest and Confidentiality Policy, the Bylaws, or any Board policy, may file a complaint in writing with the Board.
2. The written complaint shall be in the form of a letter addressed to the Chair of the Board, or if the complaint is about the Chair of the Board, the complaint shall be addressed to the Vice Chair of the Board. A complaint may be filed anonymously. Employees of KRS filing a complaint may be protected by the Kentucky Whistleblower Statute, KRS 61.102.

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3. A complaint shall include the name of the person or organization against whom the complaint is made and include a detailed description of the alleged violation including the time, date, and place, if known. The person should attach to the complaint all evidence in his or her possession regarding the alleged violation.
4. If the complaint is against an employee of KRS (other than the Executive Director, the Internal Auditor, or the Executive Director Office of Investments) the complaint shall be forwarded to the Executive Director (or delegate) for investigation, or in the discretion of the Executive Director (or delegate) may be referred to the Executive Branch Ethics Branch; if the alleged violation is found to be true by the Executive Director (or delegate), the employee shall be disciplined as procedures established by the Personnel Cabinet policies.
5. If the complaint is against a contractor, vendor or service provider of KRS, the complaint shall be forwarded to the Executive Director for investigation. If the alleged violation is found to be true, any action taken shall be consistent with the contract between KRS and the contractor, vendor or service provider.
6. If the complaint is against (i) a member of the Board of Trustees, (ii) the Executive Director, (iii) the Internal Auditor, or (iv) the Executive Director Office of Investments, the Chair shall, in consultation with the Board: (A) appoint an *ad hoc* special committee ("Special Committee") in accordance with the Bylaws of the Board, to investigate the complaint and report its conclusions and recommendations to the Board, or (B) if the complaint alleges a violation of the Executive Branch Code of Ethics (KRS Chapter 11A), refer the complaint to the Executive Branch Ethics Commission (KRS 11A.060), the Kentucky Attorney General or other appropriate entity.
7. Upon appointment of a Special Committee, the Chairman of the Board shall appoint a Chair of the Special Committee and designate other Board members (which shall be not less than three (3) nor more than seven (7) members, including the Chair of the Special Committee). The Chair of the Special Committee shall forward the complaint to the person against whom the complaint is made. The person may file a written response to the complaint, which should include all evidence in his or her possession regarding the alleged violation.
8. The Special Committee shall determine how the investigation of the complaint is to proceed; provided that the investigation and any information gathered in the course of investigation shall be conducted and maintained on a confidential basis. The Special Committee may assign staff to investigate the alleged violation or may engage a third party to investigate the alleged violation. Information shall be deemed confidential if it is not subject to public disclosure pursuant to the Kentucky Open Records Act, KRS 61.872 to 61.884, at the time of its disclosure or use.
9. If the result of the investigation indicates that the facts are not sufficient to constitute a violation of this (or other applicable) Policy, the Special Committee shall immediately terminate the investigation and report its determination and recommendations to the Board of Trustees. If the Board decides to take no action, the Special Committee shall prepare an explanation of the decision to take no action and shall maintain a copy of the complaint and the explanation in a confidential file. A copy of the explanation shall be sent to the person against whom the allegations were made and no further disclosure shall be made.

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10. If the results of the investigation indicate that there is cause to believe that a violation of this (or other applicable) Policy has occurred, the Special Committee shall report its determination to the Board for its consideration at the next regular or special Board meeting. The Board discussion of the allegations and the report of the Special Committee, including any proposed disciplinary action, shall be conducted in closed session pursuant to KRS 61.810(f). The decision regarding disciplinary action shall be made in open session as required by KRS 61.815(l)(c).
11. If the Executive Director, the Internal Auditor, or the Executive Director Office of Investments is found to have violated this (or other applicable) Policy, the Board may impose one of the following disciplinary actions:
 - a. Verbal Reprimand;
 - b. Written reprimand, which will be added to the minutes and placed in the personnel file of the Executive Director, Internal Auditor, or Executive Director Office of Investments;
 - c. Suspension without pay for a period of time; or
 - d. Termination of employment.

The determination that the Executive Director, the Internal Auditor, or the Executive Director Office of Investments violated this (or other applicable) Policy shall require a vote of two-thirds (2/3) of the total membership of the Board. The Executive Director, the Internal Auditor and the Executive Director Office of Investments shall not have the right to appeal to the Kentucky Personnel Board.

12. If a member of the Board of Trustees is found to have violated this (or other applicable) Policy, the Board may impose any or all of the following disciplinary actions:
 - a. Remove the member of the Board from any or all committees of the Board to which the member is assigned;
 - b. Verbal public reprimand; and/or
 - c. Written public reprimand.

The determination that a member of the Board violated this (or other applicable) Policy shall require a vote of two-thirds (2/3) of the total membership of the Board. If there are not sufficient members of the Board present at a meeting, the Chair may pass the matter to the next regular or special meeting of the Board.

13. If KRS becomes aware of violations of its Conflict of Interest and Confidentiality Policy, no provision of this (or other applicable) Policy shall be interpreted to limit KRS' remedies provided pursuant to the terms of an applicable contract, and by State or Federal Law.

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ETHICS AND CONFIDENTIALITY

Individuals as set forth above shall conform to the Executive Branch Code of Ethics with regard to conflicts of interests as set forth in KRS Chapter 11A. Individuals as set forth above shall conform to the confidentiality requirements of KRS 61.661.

CERTIFICATION

We, the Chair of the Board of Trustees and the Executive Director, do each hereby certify that this Kentucky Retirement Systems' Conflict of Interest and Confidentiality Policy was amended and made effective by the Board of Trustees on this, the ____ day of _____, 2017.

David L. Eager,
Interim Executive Director

Date

John R. Farris
Chair, Board of Trustees

Date

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**KENTUCKY RETIREMENT SYSTEMS
CONFLICT OF INTEREST AND CONFIDENTIALITY POLICY**

[Initial Approval Date: August 17, 2006]

As Amended ~~Date: August 18, 2011; May 19, 2016;~~ _____

INTRODUCTION

Adoption of Conflict of Interest and Confidentiality Policy:

Pursuant to the provisions of KRS 61.645, the Board of Trustees ("Board") of the Kentucky Retirement Systems ("KRS") is permitted to adopt procedures necessary to conduct the business of the Retirement Systems as needed. The law shall control if any inconsistency exists between the law and this policy.

Statement of Conflict of Interest and Confidentiality Policy:

KRS recognizes the need to maintain the public's confidence and trust in the integrity of KRS and the Commonwealth of Kentucky. Individuals associated with KRS must not engage in activities that have the potential to become a conflict of interest with their association with KRS. Likewise, individuals associated with KRS must not release information about KRS or any of its members that would breach any duty to protect such information. KRS recognizes the need to establish procedures to prevent such conflicts or breaches.

Purpose:

The purpose of this Conflict of Interest and Confidentiality Policy ("Policy") is to: a) establish what individuals are subject to conflict of interest provisions of KRS; b) establish the specific standards of conduct with regard to conflict of interest; c) establish standards with regard to the confidentiality of information; and d) establish procedures for the obtaining of written conflict of interest statements and confidentiality agreements from certain individuals.

PROCEDURES REGARDING CONFLICTS OF INTEREST AND CONFIDENTIALITY

Section 1: Application of Policy

1. This Policy shall apply to all individuals who have a statutory, contractual or working relationship with KRS.
2. Individuals affected by this Policy shall include, but are not limited to:
 - a. Employees ~~of KRS~~ of KRS;
 - b. KRSTrustees;
 - c. Independent contractors ~~of KRS~~ of KRS; and
 - d. Vendors and service providers of KRS with whom a contractual obligation to KRS exists.

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Section 2: Standards of Conduct Regarding Conflicts of Interest

1. Individuals have an obligation to diligently identify, disclose, avoid, and manage conflicts of interest- or potential conflicts of interest.
2. Potential conflicts of interest exist when an individual or an individual's family may be directly or indirectly financially impacted, whether favorably or detrimentally, by a decision made or considered by KRS in which the individual participates or would participate.
3. Individuals and their family members should not enter into any contract with KRS or any agency doing business with KRS, for financial gain, apart from an employment contract, without full disclosure and satisfactory management of any potential conflict of interest in accordance with the Executive Branch Code of Ethics- provisions, as set forth in KRS Chapter 11A.
4. Individuals should not be involved in the decision to hire or in the supervision of any member of their immediate family.
5. Individuals should not conduct business or participate in decisions with a company or agency in which the individual or family member is employed or is actively seeking employment.
6. Individuals should not accept gifts, loans, gratuities, discounts, favors, hospitality, services, or other compensation under circumstances from which it could reasonably be inferred that a major purpose of the donor is to influence the individual in the performance of their duties.
7. Individuals must avoid all conduct which in any way might lead the public to believe that the individual is using his or her position with KRS to further a professional or private interest.
8. Individuals not covered by the conflict of interest provisions under KRS Chapter ~~11A~~ 11A must not violate any conflict of interest statute or principle by the performance of their duties with KRS. These individuals must not engage directly or indirectly in any financial or other transaction with a Trustee or employee of KRS that would violate the standards of the Executive Branch Ethics provisions, as set forth in KRS Chapter 11A.

Section 3: Standards of Conduct Regarding Confidentiality

1. Individuals associated with KRS may be granted access to confidential information in the course of employment, as a KRS Trustee, ~~or~~ within a contractual relationship with KRS.
2. This information may include, but is not limited to, individual member information, including but not limited to, Social Security numbers, names, addresses, phone numbers, birth dates, beneficiaries, health insurance information, Personal Identification Numbers (PIN), as well as documents, records, programs, files, scientific or technical information, or other information made available to individuals for purposes of completing their obligations to KRS.
3. These individuals have a duty to keep confidential the information to which they are granted access as a result of their association with KRS.
4. KRS and these individuals shall also recognize that confidential member information is protected under KRS 61.661.

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Section 4: Written Statements of Conflict of Interest and Confidentiality

1. Conflict of Interest: (KRS Trustees and Employees): On an annual basis, the Executive Director, ~~Chief Investment Officer, Chief Executive Director Office of Investments, Executive Director Office of Operations Officer, Chief, Executive Director Office of~~ Benefits Officer, Executive Director Office of Legal Services, Executive Advisor, all employees of the Division of Investments and Investment Operations, ~~the~~ General Counsel, ~~Assistant General Counsel, the Senior Advisor for Retiree Health Care(s),~~ all Division Directors, and all KRS Trustees shall file a written conflict of interest statement on the form(s) provided by KRS and ~~adopted~~approved by the Board of Trustees.
2. Conflict of Interest: (Contractors; Vendors; Service Providers): All independent contractors, vendors and ~~vendors~~service providers of KRS shall file a written conflict of interest statement on the form(s) provided by KRS and ~~adopted~~approved by the Board of Trustees ~~that, which~~ shall remain effective during the term of their relationship with KRS and thereafter.
3. Confidentiality: Agreement (Contractors; Vendors; Service Providers): Upon proposal for contract that requires the exchange or ~~disclosure~~disclosure of confidential KRS information, the ~~proposer~~contractor, vendor or service provider making the proposal shall file a written confidentiality agreement on ~~the~~ form provided by KRS; and approved by the Board of Trustees. The confidentiality agreement may be amended to conform to specific needs of the proposed contract as well as the individual contractor, vendor or contractor/service provider.
4. Conflict of Interest and Confidentiality: Other individuals or entities covered by this Policy may also be requested to file a written conflict of interest or confidentiality statement as needed or requested by the Board.

Individuals or entities covered by this Policy who abstain from involvement in an official KRS decision because of personal or private interests must disclose that fact. KRS employees, contractors, vendors, and ~~independent contractors~~service providers must disclose the conflict in writing to KRS' Executive Director or his or her designee. KRS Trustees who abstain from an official KRS decision because of personal or private interests shall disclose that fact in the minutes for the meeting where the recusal or abstention occurs.

Section 5:

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Violations of Conflict of Interest and Confidentiality Policy

1. Any person who suspects that an employee of KRS, a member of the Board of Trustees of KRS, or ~~an outside~~ contractor, vendor or service provider has violated the Kentucky Retirement ~~Systems~~ Systems' Conflict of Interest and Confidentiality Policy, the Bylaws, or any Board policy, may file a complaint in writing with the Board.

The written complaint shall be in the form of a letter addressed to the Chair of the Board ~~and the Internal Auditor~~, or if the complaint is about the Chair of the Board, the complaint shall be addressed to the Vice Chair of the Board ~~and the Internal Auditor~~. ~~If the complaint is against the Internal Auditor, the complaint shall be addressed to the Chair of the Board and the Chair of the Audit Committee of the Board.~~

2. A complaint may be filed anonymously. Employees of KRS filing a complaint may be protected by the Kentucky Whistleblower Statute, KRS 61.102.
3. A complaint shall include the name of the person or organization against whom the ~~allegations are~~ complaint is made and include a detailed description of the alleged violation including the time, date, and place, if known. The person should attach to the complaint all evidence in his or her possession regarding the alleged violation.
4. If the complaint is against an employee of KRS: ~~(other than the Chair and Executive Director~~, the Internal Auditor ~~shall send, or the Executive Director Office of Investments)~~ the complaint shall be forwarded to the Executive Director (or delegate) for investigation ~~as provided by the Kentucky Retirement Systems Personnel Policies. If, or in the allegations are~~ discretion of the Executive Director (or delegate) may be referred to the Executive Branch Ethics Branch; if the alleged violation is found to be true, by the Executive Director (or delegate), the employee shall be disciplined as provided procedures established by the ~~Kentucky Retirement Systems~~ Personnel Cabinet policies.
5. If the complaint is against a contractor, vendor or service provider of KRS, the ~~Chair and the Internal Auditor shall send the complaint to the Executive Director shall be forwarded to be investigated. If the allegations are~~ the Executive Director for investigation. If the alleged violation is found to be true, any action taken shall be consistent with the contract between KRS and the contractor, vendor or service provider.

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Conflict of Interest and Confidentiality Policy
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- ~~6.~~ If the ~~allegations are~~ complaint is against (i) a member of the Board of Trustees, the Executive Director, the Internal Auditor, or the Chief Investment Officer, the complaint shall be added to the agenda of the next regularly scheduled or special Audit Committee meeting; (ii) the Executive Director, (iii) the Internal Auditor, or (iv) the Executive Director Office of Investments, the Chair shall, in consultation with the Board: (A) appoint an *ad hoc* special committee ("Special Committee") in accordance with the Bylaws of the Board, to investigate the complaint and report its conclusions and recommendations to the Board, or (B) if the complaint alleges a violation of the Executive Branch Code of Ethics (KRS Chapter 11A), refer the complaint to the Executive Branch Ethics Commission (KRS 11A.060), the Kentucky Attorney General or other appropriate entity.
- ~~6.7.~~ Upon appointment of a Special Committee, the Chairman of the Board shall appoint a Chair of the Special Committee and designate other Board members (which shall be not less than three (3) nor more than seven (7) members, including the Chair shall send a copy of the Special Committee). The Chair of the Special Committee shall forward the complaint to the ~~member of the Board of Trustees, the Executive Director, or the Chief Investment Officer~~ person against whom the ~~allegations are~~ complaint is made. The ~~member of the Board of Trustees, the Executive Director, the Internal Auditor, or the Chief Investment Officer~~ person may file a written response to the ~~allegations.~~ The ~~member of the Board of Trustees, the Executive Director, the Internal Auditor, or the Chief Investment Officer~~ complaint, which should attach to the response include all evidence in his or her possession regarding the alleged violation.
- ~~7.8.~~ The ~~Audit~~ Special Committee shall determine how the investigation of the complaint is to proceed. ~~The Audit;~~ provided that the investigation and any information gathered in the course of investigation shall be conducted and maintained on a confidential basis. The Special Committee may assign staff to investigate the ~~allegations made in the complaint~~ alleged violation or may engage a third party to investigate the ~~allegations made in the complaint~~ alleged violation. Information shall be deemed confidential if it is not subject to public disclosure pursuant to the Kentucky Open Records Act, KRS 61.872 to 61.884, at the time of its disclosure or use.
- ~~8.9.~~ If the ~~results result~~ of the investigation ~~indicate~~ indicates that ~~there is no basis for the~~ allegations or the ~~allegations~~ facts are not sufficient to constitute a violation of this ~~policy, a~~ (or other applicable) Policy, the Special Committee shall immediately terminate the investigation and report shall be presented its determination and recommendations to the Board at the next regular or special Board meeting of Trustees. If the Board decides to take no action, the ~~investigator~~ Special Committee shall prepare an explanation of the decision to take no action and shall maintain a copy of the complaint and the explanation: in a confidential file. A copy of the explanation shall be sent to the ~~member of the Board of Trustees, the Executive Director, the Internal Auditor, or the Chief Investment Officer~~ person against whom the allegations were made and no further disclosure shall be made.
- ~~3.~~ If the results of the investigation indicate that there is a basis for cause to believe that a violation of this (or other applicable) Policy has occurred, the ~~allegations, the~~ Chair ~~Special Committee~~ shall place ~~report its determination to~~ the matter on the agenda ~~Board~~ for its consideration at the next regular or

special Board meeting. The Board ~~shall determine whether or not a violation~~discussion ~~of this policy occurred~~the allegations and ~~whether to impose~~the report of the Special Committee, including any proposed disciplinary action ~~under the terms of this policy.~~

~~9.10. The discussion of the disciplinary action,~~ shall be conducted in closed session pursuant to KRS 61.810~~(4)~~(f). The decision regarding disciplinary action shall be made in open session as required by KRS 61.815(l)(c). ~~The complaint and all evidence shall be recorded in the minutes of the meeting.~~

~~4. The determination that~~ if the Executive Director, the Internal Auditor, or the Chief Investment Officer ~~violated this policy shall require a vote of two thirds of the total membership of the Board.~~

~~5. The determination that a member of the Board violated this policy shall require a vote of two-thirds of the total membership of the Board. If there are not sufficient members of the Board present at a meeting, the Chair may pass the matter to the next regular or special meeting of the Board.~~

~~10.11. If the Executive Director, the Internal Auditor, or the Chief Investment Officer Office of Investments is found to have violated this (or other applicable) Policy, the Board may impose one of the following disciplinary actions:~~

~~a. Verbal Reprimand;~~

~~b. Written reprimand, which will be added to the minutes and placed in the personnel file of the Executive Director, Internal Auditor, or Chief Investment Officer Executive Director Office of Investments;~~

~~c. Suspension without pay for a period of time; or~~

~~d. Termination of employment.~~

~~The determination that the Executive Director, the Internal Auditor, or the Executive Director Office of Investments violated this (or other applicable) Policy shall require a vote of two-thirds (2/3) of the total membership of the Board. The Executive Director, the Internal Auditor and the Chief Investment Officer Executive Director Office of Investments shall not have the right to appeal to the Kentucky Personnel Board.~~

~~11.12. If thea member of the Board of Trustees is found to have violated this (or other applicable) Policy, the Board may impose any or all of the following disciplinary actions:~~

~~a. Remove the member of the Board from any or all committees of the Board to which the member is assigned;~~

~~b. Verbal public reprimand; and/or~~

~~c. Written public reprimand.~~

~~6. The Board may also direct staff to report the violation to the Executive Branch Ethics Commission, Kentucky Attorney General, or other appropriate entity.~~

~~The determination that a member of the disciplinary action to be takenBoard violated this (or other applicable) Policy shall require a vote of two-thirds (2/3) of the total membership of the Board. If there are not sufficient members of the Board present at a meeting, the Chair may pass the matter to the next regular or special meeting of the Board.~~

~~12.13. If KRS becomes aware of violations of its Conflict of Interest and Confidentiality Policy, no provision of this (or other applicable) Policy shall be interpreted to limit KRS' remedies provided pursuant to the terms of the an applicable contract, and by State, or Federal Law.~~

ETHICS AND CONFIDENTIALITY

Individuals as set forth above shall conform to the Executive Branch Code of Ethics with regard to conflicts of interests as set forth in KRS Chapter HA11A. Individuals as set forth above shall conform to the confidentiality requirements ~~of KRS~~ of KRS 61.661.

CERTIFICATION

We, the Chair of the Board of Trustees and the Executive Director, do each hereby certify that this ~~Board of Trustees~~ Kentucky Retirement Systems' Conflict of Interest and Confidentiality Policy was amended and made effective by the Board of Trustees on this, the 19th day of May, 2016, 2017.


~~ANTI-Fraud~~ Chair of the Board of Trustees

5-19-16

David L. Eager,

Date

~~13a~~ 5-19-16

~~William A. Thielen, Interim Executive Director~~ _____

John R. Farris Date _____
Chair, Board of Trustees



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



To: KRS Board of Trustees
From: Richard Robben, Interim Executive Director of Investments
Date: September 14th, 2017
Subject: Summary of Investment Committee Activity

New Members

Over the last quarter we welcomed to new members to our Investment Committee, Mr. Kelly Downard and Mr. Matt Monteiro, CFA. These additions bring the number of appointed trustees with investment experience to 6, bringing the board into compliance with recently passed legislation.

New Investments

At the August 22nd meeting, the following investments were approved by the Investment Committee:

- \$150MM with Benefit Street Partners (Private Credit)
- \$150MM with White Oak (Private Credit)

Because of the illiquid nature of both of these investments, the Investment Committee approved these investment for the *following plans only*:

- KERS Haz
- CERS
- CERS Haz
- All Insurance Plans

Investment Consulting Services RFP

The Investment Committee Chair, Mr. Dave Harris, instructed investment staff members to conduct a RFP process to evaluate investment consultants qualified for the role of overseeing and advising the staff, the Investment Committee and the Board on a wide range of investment issues. In addition to wanting to simplify and broaden our consulting relationships, the Investment Committee wanted to reduce the consulting fees, if possible, while at the same time improve the quality of consulting services.

The scope of activities and responsibilities of the new consultant were outlined in the RFP and, except as it applies to real estate investing, included, but was not limited to:

- Provide general investment consulting services ***in all asset classes except Real Estate.***
- Assist in the ongoing evaluation of all investment managers retained by KRS
- Recommend investment managers the consultant feels KRS should hire
- Offer opinions on managers staff is considering hiring including onsite visits as needed
- Advise on asset allocation issues including doing asset/liability studies as appropriate (additional fees may be warranted)
- Help maintain an appropriate Investment Policy Statement
- Work with staff on risk management practices and policies
- Attend Board and Investment Committee meetings when requested
- Help KRS Investment Operations staff fulfill their responsibility to monitor partnership cash flow and manager fees, including carried interests
- Provide Quarterly and Annual reports containing each manager's performance results and identify any areas where changes should be considered
- Educate staff and Trustees generally and in specific areas where the consultant has conducted research applicable to KRS

The committee identified organizational criteria to help focus on those investment consultants most likely to be able to meet KRS' needs because they have the resources and experience required. Qualifying criteria included having at least \$500 Billion in assets under advisement within the tax exempt public fund category, and have multiple clients with at least \$5 Billion in plan assets. The following nine firms met the criteria:

- Aon Hewitt
- Callan
- Meketa
- NEPC
- PCA (a current consultant)
- Russell
- RVK (a current consultant)
- Verus
- Wilshire

After review of the RFP responses, the Review Committee selected four firms, Aon Hewitt, RVK, Meketa, and Wilshire to come to Frankfort for half day interviews. Each firm brought a presentation that covered their RFP response as well as supplementary material and sample reports (e.g. quarterly performance reports, asset allocation studies, etc.). Meketa, Wilshire and Aon had four firm representatives. RVK had six. In the end, committee members felt that with the benefit of the RFP responses, prior knowledge of and working with some of the consultants, the reference calls, and the onsite interviews, it was prepared to make a recommendation that Wilshire be awarded the contract subject to a final on-site due diligence meeting in Pittsburgh. Key differentiators were:

- ✓ *A compatible investment philosophy focusing on risk controlled returns*
- ✓ *Breadth and depth of their research (over 88 researchers and 300 staff)*
- ✓ *Experience with other underfunded state systems (average 23 years' of experience)*
- ✓ *KRS would be an important client (5.5:1 consultant to client ratio)*
- ✓ *Back office expertise to share with KRS (10 back office professionals)*
- ✓ *Employee-ownership which promotes longevity (average 14 years with Wilshire)*
- ✓ *The firm's long history...45 years of investment consulting experience*
- ✓ *Overseas presence for research (offices in 6 countries)*
- ✓ *Business is focused on institutional asset mgmt. (\$1T under advisement)*
- ✓ *List of common clients with GRS*
- ✓ *Personal chemistry the committee felt toward Wilshire's team*

The table below illustrates how the fee proposed by Wilshire compares to the amounts historically paid by KRS for consulting services:

Consulting Services	FY 2016	FY 2017	FY 2018 e
Albourne*	\$486,902.32	\$240,000.00	\$0.00
ORG	\$305,920.25	\$309,058.92	\$315,000.00
Pension Consulting Alliance	\$389,146.87	\$400,821.26	\$101,000.00
RVK **	\$443,206.38	\$442,958.97	\$115,000.00
Wilshire**	\$0.00	\$0.00	\$992,000.00
Subtotal - Consulting	\$1,625,175.82	\$1,392,839.15	\$1,523,000.00
Burgess Software	\$225,000.00	\$225,000.00	\$0.00
Total	\$1,850,175.82	\$1,617,839.15	\$1,523,000.00

* Albourne was terminated in January 2017

** RVK & Wilshire annual fees prorated from 9/1/17

Wilshire's proposed fee represents an estimated increase of \$130,160.85 in our total consulting expenses for fiscal year 2018 versus fiscal year 2017. However, it also represents a much higher level of service and support than we have requested of our consultants in the past. Additionally, because Wilshire and KRS both utilize the same software for partnership cash flow monitoring and reporting (Burgess), their proposal will allow KRS to cancel its subscription to the application, saving the \$225,000 annual subscription fee.

The Investment Committee approved the recommendation of the Review Committee (appendix A) to hire Wilshire as the new general investment consultant for KRS. The Investment Committee also reaffirmed that ORG will continue to serve as KRS' real estate consultant with the full confidence of the Committee and the investment staff.

Adoption of Updated Investment Policy Statement

At the July 12th meeting, the Investment Committee approved a series of updates to the Investment Policy Statement. The refresh effort, led by committee member Mr. Bill Cook, was aimed at updating language concerning leverage, and restating return targets in relative terms instead of absolute numbers. This

updated IPS was approved by the Investment Committee and the Board at the special called meeting on July 12th. The new Investment Policy Statement is included here as appendix B.

Adoption of New Asset Allocation & Assumed Rates of Return

After many months of study, the Asset Allocation sub-committee presented their final recommendations for asset allocations for each plan. These new asset allocations were approved by the Board at the July 12th special meeting, while the new assumed rates of return were addressed at 2 different meetings. The rates for KERS and SPRS were approved at the May 18th Board meeting, and the rates for all other plans were approved by the Board at the July 12th special meeting. The new asset allocation for each plan are included here as appendix C.

Investment Procurement Policy Draft Approval

Over the summer, KRS staff worked with the Office of Finance and Administration to develop an Investment Services Procurement Policy as specified by Senate Bill 2. A draft version of that policy was approved by the Investment Committee on July 12th, and has been sent to Finance and Administration for final approval.

Performance

Both Pension and Insurance plans posted strong performance for the most recent fiscal year, with both besting their benchmarks. The strong performance trend has continued with above benchmark performance again in July.

PENSION (Net of Fees)					
	Jul-17	FY2017	1Yr	3Yr	5Yr
Total Pension Fund	1.80%	13.47%	12.51%	5.73%	8.22%
Benchmark	1.74%	13.28%	12.17%	5.92%	8.42%
	0.06%	0.19%	0.34%	-0.19%	-0.20%
KERS	1.61%	12.09%	11.35%	5.24%	7.95%
Benchmark	1.51%	11.92%	11.01%	5.55%	8.19%
	0.10%	0.17%	0.34%	-0.31%	-0.24%
KERS-HAZ	1.83%	13.44%	12.69%	5.78%	8.27%
Benchmark	1.80%	13.58%	12.45%	5.64%	8.32%
	0.03%	-0.14%	0.24%	0.14%	-0.05%
CERS	1.84%	13.81%	12.78%	5.84%	8.28%
Benchmark	1.81%	13.64%	12.47%	5.64%	8.32%
	0.03%	0.17%	0.31%	0.20%	-0.04%
CERS-HAZ	1.83%	13.73%	12.71%	5.88%	8.29%
Benchmark	1.80%	13.61%	12.46%	5.64%	8.32%
	0.03%	0.12%	0.25%	0.24%	-0.03%
SPRS	1.71%	12.50%	11.92%	4.99%	7.79%
Benchmark	1.66%	12.61%	11.56%	5.38%	8.16%
	0.05%	-0.11%	0.36%	-0.39%	-0.37%

INSURANCE (Net of Fees)					
	Jul-17	FY2017	1Yr	3Yr	5Yr
Total Insurance Fund	1.79%	13.72%	12.66%	5.93%	8.06%
Benchmark	1.76%	13.55%	12.39%	6.25%	8.61%
	0.03%	0.17%	0.27%	-0.32%	-0.55%
KERS-INS	1.81%	13.78%	12.56%	5.66%	7.80%
Benchmark	1.86%	13.89%	12.57%	5.85%	8.40%
	-0.05%	-0.11%	-0.01%	-0.19%	-0.60%
KERSH-INS	1.79%	13.76%	12.69%	5.88%	8.07%
Benchmark	1.81%	13.73%	12.48%	5.88%	8.42%
	-0.02%	0.03%	0.21%	0.00%	-0.35%
CERS-INS	1.78%	13.67%	12.65%	5.97%	8.11%
Benchmark	1.78%	13.62%	12.42%	5.91%	8.44%
	0.00%	0.05%	0.23%	0.06%	-0.33%
CERSH-INS	1.78%	13.70%	12.68%	6.03%	8.14%
Benchmark	1.77%	13.62%	12.42%	5.91%	8.45%
	0.01%	0.08%	0.26%	0.12%	-0.31%
SPRS-INS	1.78%	13.70%	12.69%	5.97%	8.11%
Benchmark	1.77%	13.61%	12.42%	5.93%	8.45%
	0.01%	0.09%	0.27%	0.04%	-0.34%

A Year in Review

I was recently asked to put together a list of accomplishments made by the Investment Committee over the last year. I have attached that list as appendix D. As you will see, it has been a very busy and successful 12 months.

KRS Investment Consultant RFP Process and Recommendation-2017

Recommendation:

The investment consultant selection committee recommends KRS hire Wilshire Associates as its investment consultant responsible for all asset classes except real estate. Wilshire's fee will be \$1.19 mil for the first year and will escalate each year by the increase in the CPI.

The table below illustrates how the fee proposed by Wilshire compares to the amounts historically paid by KRS for consulting services:

Consulting Services	FY 2016	FY 2017	FY 2018 e
Albourne*	\$486,902.32	\$240,000.00	\$0.00
ORG	\$305,920.25	\$309,058.92	\$315,000.00
Pension Consulting Alliance	\$389,146.87	\$400,821.26	\$101,000.00
RVK **	\$443,206.38	\$442,958.97	\$115,000.00
Wilshire**	\$0.00	\$0.00	\$992,000.00
Subtotal - Consulting	\$1,625,175.82	\$1,392,839.15	\$1,523,000.00
Burgess Software	\$225,000.00	\$225,000.00	\$0.00
Total	\$1,850,175.82	\$1,617,839.15	\$1,523,000.00

* Albourne was terminated in January 2017

** RVK & Wilshire annual fee of \$1,190,00 is prorated from 9/1/17

Wilshire's proposed fee represents an estimated increase of \$130,160.85 in our total consulting expenses for fiscal year 2018 versus fiscal year 2017. However, it also represents a much higher level of service and support than we have requested of our consultants in the past. Additionally, because Wilshire utilizes the same software for partnership cash flow monitoring and reporting that KRS uses, their proposal will allow KRS to cancel our subscription to the application, saving KRS the \$225,000 annual subscription fee.

ORG will continue as KRS' real estate consultant with the full confidence of the Investment Committee and the investment staff.

Background

The Investment Chair, Dave Harris, instructed investment staff members to conduct a RFP process to evaluate investment consultants qualified for the role of overseeing and advising the staff, the Investment Committee, and the Board on a wide range of investment issues.

In addition to wanting to simplify our consulting relationships by eliminating two roles, the Investment Committee wanted to reduce the consulting fees, if possible, while at the same time improve the quality of consulting services.

The scope of activities and responsibilities of the new consultant were outlined in the RFP and included, but was not limited to:

- Provide general investment consulting services in all asset classes except Real Estate.
- Assist in the ongoing evaluation of all investment managers retained by KRS
- Recommend investment managers the consultant feels KRS should hire
- Offer opinions on managers staff is considering hiring including onsite visits as needed
- Advise on asset allocation issues including doing asset/liability studies as appropriate (additional fees may be warranted)
- Help maintain an appropriate Investment Policy Statement
- Work with staff on risk management practices and policies
- Attend Board and Investment Committee meetings when requested
- Assist KRS Investment Operations staff in fulfilling their responsibility to monitor partnership cash flow and manager fees, including carried interests
- Provide Quarterly and Annual reports containing each manager's performance results and identify any areas where changes should be considered
- Educate staff and Trustees generally and in specific areas where the consultant has conducted research applicable to KRS

The RFP Committee

Investment Committee Chair appointed the following people to be on the Investment Consultant RFP Committee:

Rich Robben Chair

Andy Kiehl

Joe Gilbert

Anthony Chiu

Ann Case

David Eager

The Launch Process, Criteria and Criteria Weightings

The committee, working with KRS legal staff, drafted the RFP containing the scope of the consulting assignment, the criteria by which the investment consultants would be evaluated, the importance weighing for each criteria, and a series of background and practices questions.

Below are the criteria and weightings used to evaluate the proposals:

- 1) Depth, breadth, and experience of the consulting team assigned to KRS' account, including experience with similar plans-20%
- 2) Organizational strength including, but not limited to: tenure of firm, stability of firm, longevity of key personnel, financial condition, industry reputation, client list-20%
- 3) Soundness and compatibility of investment philosophy and approach-15%
- 4) Breadth and capabilities of technological resources including , but not limited to: research platform, risk reporting, back office and administrative support offered, and other available resources-20%
- 5) Fee Proposal-10%
- 6) Other-15%

The "Other" category includes:

- Quality of proposal, including its clarity, completeness, and responsiveness to requested information and demonstrated ability to complete work in a timely manner;
- Absence of actual or potential material conflicts of interest at the firm level and by key personnel;
- Respondent firm's ownership and incentive structure;
- Overall knowledge and understanding of KRS, the plans, funding levels and challenges. Level of specific knowledge of existing KRS management relationships;
- References and information by them about respondent;
- Availability and proximity of their staff to interact in person with KRS staff, the Board and/or the Investment Committee in Kentucky (in most cases Frankfort, but also in Louisville and Lexington);and
- Evaluation of the quality and appropriateness of Consultant Questionnaire answers.

The committee identified organizational criteria to help focus on those investment consultants most likely to be able to meet KRS' needs and having the resources and experience required. Qualifying criteria included having at least \$500 Billion in US Institutional tax exempt assets under advisement.

Nine firms met the criteria as follows:

- Aon
- Callan
- Meketa
- NEPC
- PCA (a current consultant)
- Russell
- RVK (a current consultant)
- Verus
- Wilshire

Importantly, these nine firms work with public funds in over 90% of all states.

All nine firms were invited to respond to the RFP which was posted on the website. Only Russell declined to participate. The other eight all submitted very comprehensive responses.

RFP Response Reviews

Committee members reviewed the responses prior to meeting on July 17. Based upon committee members' evaluations and the discussion that ensued, the committee agreed to invite the following four firms to come to Frankfort to meet and present their capabilities:

- Aon-Chicago
- Meketa-Boston
- RVK-Portland with servicing from Chicago
- Wilshire-Santa Monica with servicing from Pittsburgh

The ratings appear below.

Category	Weight	Wilshire	RVK	Verus	NEPC	Meketa	PCA	Callan	Aon
Team	20%	85.00	85.00	70.00	80.00	80.00	80.00	75.00	85.00
Organization	20%	85.25	79.00	76.00	65.00	77.00	80.00	55.00	90.00
Investment Philosophy	15%	91.00	80.00	80.00	78.00	85.00	80.00	72.50	95.00
Tech., Research, Back Office	20%	95.00	51.00	35.00	45.00	80.00	25.00	60.00	95.00
Fee Proposal	10%	70.00	90.00	40.00	100.00	30.00	80.00	60.00	50.00
Other	15%	93.00	85.50	40.00	5.00	77.00	55.00	25.00	88.25
Total Score	100%	87.65	76.825	58.2	60.45	74.7	65.25	58.63	86.49
Rank		1	3	8	6	4	5	7	2

Consultant Interviews

Interviews lasting 3.5 hours were conducted on August 3rd and 4th. Each firm brought a presentation that covered their RFP response as well as supplementary material and sample reports (e.g. quarterly performance reports, asset allocation studies, etc.). Meketa, Wilshire and Aon had four firm representatives. RVK had six. In the end, committee members felt that with the benefit of the RFP responses, prior knowledge of and working with some of the consultants, the reference calls, and the onsite interviews, it was prepared to make a recommendation that Wilshire be awarded the contract subject to a final on-site due diligence meeting in Pittsburgh.

Key differentiators were:

- A compatible investment philosophy focusing on risk controlled returns
- Breadth and depth of their research (over 88 researchers and 300 staff)
- Experience with other underfunded state systems (average 23 years’ of experience)
- KRS would be an important client (5.5:1 consultant to client ratio)
- Back office expertise to share with KRS (10 back office professionals)
- Employee-ownership which promotes longevity (average 14 years with Wilshire)
- The firm’s long history...45 years of investment consulting experience
- Overseas presence for research (offices in 6 countries)
- Business is focused on institutional asset mgmt. (\$1T under advisement)
- List of common clients with GRS
- Personal chemistry the committee felt toward Wilshire’s team

Final Due Diligence

Members of the RFP team met with the Wilshire team in their Pittsburgh office on August 16th for an additional round of due diligence, and came away from that meeting very confident in Wilshire's ability to provide a tremendous amount of value to KRS.



Kentucky Retirement Systems

Statement of Investment Policy Adopted July 12th, 2017

This Statement of Investment Policy is issued by the Board of Trustees of the Kentucky Retirement Systems (Systems) in connection with investing the pension and insurance funds of the Kentucky Employees Retirement Systems, the County Employees Retirement Systems and the State Police Retirement System. This document supersedes all prior documents entitled Statement of Investment Policy.

I. The Board of Trustees

The retirement plans administered by the Kentucky Retirement Systems are a “Qualified Pension Plan” under Section 401 of the Internal Revenue Code. Additionally, KRS 61.701 establishes health insurance benefits to recipients of the Kentucky Employees Retirement Systems, County Employees Retirement Systems and State Police Retirement System. KRS 61.702 provides that all amounts necessary to provide for insurance benefits shall be paid to the insurance fund. The Board shall administer the fund in the same manner as the retirement funds.

The Board of Trustees authorizes and directs the appointment of an Investment Committee with full power to act for the board in the acquisition, sale and management of the securities and funds of the Systems in accordance with the provisions of the Statutes and Investment Policy of the Board. The Board shall review the actions of the Investment Committee at each quarterly Board meeting.

II. The Investment Committee

The Investment Committee consists of nine members of the Board of Trustees. The 6 members appointed by the Governor, and 3 members of the committee being appointed by the chairperson of the Board of Trustees. In accordance with statute, six (6) positions are filled by the Trustees that were appointed to the board as persons with specific experience (Section 61.645.1.e.2). The committee acts on behalf of the board on investment related matters.

The Investment Committee has the following oversight responsibilities:

- A. Assure compliance with this policy and all applicable laws and regulations.
- B. Approve the selection and termination of service providers. If a situation warrants a termination of an investment manager prior to the next available investment committee, the Chief Investment Officer can terminate an investment manager relationship with a detailed review of the situation to occur at the next investment committee.

- C. Meet no less than quarterly to evaluate whether this policy, the investment activities and management controls and processes continue to be consistent with meeting the Systems' goals. Mandate actions necessary to maintain the overall effectiveness of the program.
- D. Review assessment of investment program management processes and procedures, and this policy relative to meeting stated goals.

III. Staff Responsibilities

The Chief Investment Officer is responsible for administration of investment assets of the Systems consistent with the policies, guidelines and limits established by the law, this Statement of Investment Policy and the Investment Committee.

The Chief Investment Officer receives direction from and reports to the KRS Investment Committee on all investment matters, including but not limited to the following:

- A. Maintaining the diversification and risk exposure of the funds consistent with policies and guidelines.
- B. Assess and report on the performance and risk exposure of the overall investment program relative to goals, objectives, policies and guidelines.
- C. Monitoring and assessing service providers, including not less than annual onsite visits, to assure that they meet expectations and conform to policies and guidelines.
- D. Recommend changes to service providers, statutes, policies or guidelines as needed to maintain a productive relationship between the investment program and its goals; act as liaison on all investment related matters.
- E. Communicating with the mass media and other agencies, entities or institutions regarding investment related issues.
- F. Identify issues for consideration by the Investment Committee and prepare recommendations regarding such matters.
- G. Preparing for each proposed investment a memo to the Investment committee covering the pertinent details including but not limited to: Amount of the investment, type of investment, purpose, opportunity/goal, risks, volatility assumptions, liquidity, structure, fees, background of investment firm with reasons for selection, list of other firms considered, which plans will invest, and the reasons why specific plans may be excluded.

The Chief Investment Officer or designee is authorized to execute trades on fixed income and equity securities (including ETF's) and to execute proxies for the Board consistent with this Policy.

To carry out this Policy and investment related decisions of the Board, the Chief Investment

Officer or designee is authorized to execute agreements and other necessary or proper documents pertaining to investment managers, consultants, investment related transactions or other investment functions.

IV. Service Providers

A. Investment Managers

In instances where the Investment Committee has determined it is desirable to employ the services of an external Investment Manager, the following shall be applicable:

1. Investment Managers shall be qualified and agree to serve as a fiduciary to the Systems and shall generally have been in the business of investment management for large United States institutional investors for at least three to five years.
2. Investment Managers shall manage assets in accordance with this Policy and any additional guidelines established by contract, as may be modified in writing from time to time.
3. Total assets assigned to the selected manager shall not exceed 25% of that firm's total assets under management and shall not exceed 25% of a firm's total assets under management in a commingled product. Separate accounts or funds of one are not included in this 25% limitation for commingled products.
4. The assets managed by any one active or passive investment manager shall not exceed 15% of the assets in the pension and insurance funds.
5. All investment management services will be contracted according to the KRS Investment Procurement Policy established by the Board of Trustees.

B. Custody Bank

The Board shall hire custodians and other agents who will be fiduciaries to the Systems and who will assume responsibility for the safekeeping and accounting of all assets held on behalf of the Systems and other duties as agreed to by contract.

C. Investment Consultants

Qualified independent investment consultants may be retained by the Systems for asset allocation studies, asset allocation recommendations, performance reviews, manager searches and other investment related consulting functions and duties as set forth by contract.

D. Selection

Qualified investment managers, custody banks, investment consultants and other service providers shall be selected by the Investment Committee in accordance with the KRS Investment Procurement Policy. The selection shall be based upon the demonstrated ability of the professional(s) to provide the required expertise or assistance described in the RFP/RFI (if utilized). In order to create an efficient and effective process, the Investment Committee or Chief Investment Officer may, in their sole discretion, utilize RFI, RFP, third

party proprietary software or database, review of existing service provider capabilities or any combination of these or other methods to select a service provider.

V. Investment Philosophy

The Trustees of the Kentucky Retirement Systems recognize their fiduciary duty not only to invest the Systems' funds in formal compliance with the Prudent Person Rule but also to manage those funds in continued recognition of the basic long term nature of those systems. The Trustees interpret this to mean, in addition to the specific guidelines and restrictions set forth in this document, that the assets of the systems shall be proactively managed -- that is, investment decisions regarding the particular asset classes, strategies, and securities to be purchased or sold shall be the result of the conscious exercise of discretion.

The Trustees recognize that, commensurate with their overall objective of maximizing long-range return while maintaining a high standard of portfolio quality and consistency of return, it is necessary that proper diversification of assets be maintained both across and within the classes of securities held to minimize/mitigate overall portfolio risk. Consistent with carrying out their Fiduciary Responsibilities and the concept of Modern Portfolio Theory, the Trustees will not systematically exclude any investments in companies, industries, countries, or geographic areas unless required to do so by statute. Within this context of proactive management and the necessity for adherence to proper diversification, the Trustees rely upon appropriate professional advice from multiple service providers.

The Trustees and other fiduciaries shall discharge their duties with respect to the Systems: (1) solely in the interest of the participants and beneficiaries; (2) for the exclusive purpose of providing benefits to participants and beneficiaries; (3) with the care, skill and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose; (4) impartially; (5) incurring and paying appropriate and reasonable expenses of administration which may not necessarily be the lowest and (6) in accordance with a good faith interpretation of the laws, regulations and other instruments governing the Systems.

Additionally, the Trustees and other fiduciaries shall not engage in any transaction which results in a substantial diversion of the Systems income or assets without adequate security and reasonable rate of return to a disqualified person or in any other prohibited transaction described in Internal Revenue Code Section 503(b).

VI. Investment Objectives

The Board of Trustees realizes that prudent investment management is a duty. In fulfillment of this duty, the Board of Trustees recognizes that while long-term objectives are important, it is also necessary that short-term benchmarks be used to assess the periodic performance of the investment program.

Accordingly, the Board of Trustees has established the following investment objectives:

- Long-Term: Defined as a period of time exceeding twenty years.

In the long-term, the total assets of the Systems should achieve a return which exceeds the actuarially required rate of return of each plan. In addition to exceeding the actuarially required rate of return, the total fund return should exceed the return achieved by its blended performance benchmark.

- Short-Term: Defined as any period shorter than the defined Long-Term period.

The returns of the particular asset classes of the System, measured on a rolling basis, should seek to exceed the returns achieved by comparable passive market indices as described in the appropriate Addendum of this statement.

VII. Derivative Securities and Leveraging

Definition:

A derivative is broadly defined as a financial instrument whose value, usefulness, and marketability is derived from or linked to the value of an underlying security.

Definitions and examples in the investment universe include:

Forward Contracts - a forward contract is a non-standardized, Over-the-Counter (OTC) contract between two parties, governed by ISDA agreements, to buy or sell an asset at a specified future time at a price agreed to today. This is in contrast to a spot contract, which is an agreement to buy or sell an asset at a set price today. It costs nothing to enter a forward contract. The party agreeing to buy the underlying asset in the future assumes a long position, and the party agreeing to sell the asset in the future assumes a short position. The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into. An example of a forward contract is a currency forward contract. Currency forward contracts are commonly used to hedge foreign currency risk, which is an inherent risk of investing in international assets.

Futures Contracts - a futures contract is a standardized, exchange traded contract between two parties to buy or sell a specified asset of standardized quantity and quality at a specified future date at a price agreed to today (the futures price). Futures contracts are not "direct" securities like stocks, bonds, rights or warrants. The party agreeing to buy the underlying asset in the future assumes a long position and the party agreeing to sell the asset in the future assumes a short position. Futures may be settled in cash or physically settled depending on the characteristics of the underlying asset and the specifications of the contract. If futures are physically settled the buyer must make arrangements for taking physical delivery. An example of a futures contract is the S&P 500 Futures contract which is traded at the Chicago Mercantile Exchange. The S&P 500 futures contract is commonly used for equitization of cash held in the equity portfolio of a fund so as to keep un-invested cash levels at a minimum. Futures contracts have many other uses for portfolio managers and are considered a valuable tool for adding flexibility and cost effectiveness to the management of a portfolio.

Options - Options are derivative financial instruments that may be standardized, exchange traded, or OTC contracts that specify a contract between two parties for a future transaction on an asset at a reference price. The buyer of the option gains the right, but not the obligation, to engage in that transaction, while the seller incurs the corresponding obligation to fulfill the transaction. The price of an option is derived from the difference between the reference price and the value of the underlying asset (commonly a stock, a bond, a currency or a futures contract) plus a premium based on the time to maturity, expected volatility, and the interest rate environment. Other types of options exist, and options can in principle be created for any type of valuable asset.

An option which conveys the right to buy an asset is called a call; an option which conveys the right to sell an asset is called a put. The reference price at which the underlying asset may be traded is called the strike price or exercise price. The process of activating an option and thereby trading the underlying asset is referred to as exercising it. While there are several styles of option contracts the two most common are American-style contracts and European-style contracts. American-style options contracts may be exercised at or before expiration while European-style options may only be exercised at expiration. Most options have an expiration date while others have strike reset points. If the option is not exercised by the expiration date, it becomes void and worthless.

In return for assuming the obligation, called writing the option, the originator of the option collects a payment, a premium, from the buyer. The writer of an option must make good on delivering (or receiving) the underlying asset or its cash equivalent, if the option is exercised.

An example of an option contract is an S&P 500 put contract. These contracts may be used by a portfolio manager to purchase downside portfolio protection or may be combined with other options contracts to temper volatility in the portfolio, thus reducing risk.

Swaps and Swaptions – Swaps are derivative financial instruments in which counterparties exchange certain benefits of one party's financial instrument for those of the other party's financial instrument. (Swaptions are simply options on swaps) Most swaps are non-standardized, OTC contracts between two parties and are governed by ISDA agreements. Some types of swaps are also exchanged on public markets such as the Chicago Mercantile Exchange, the Chicago Board Options Exchange, Intercontinental Exchange and Frankfurt-based Eurex AG. The benefits of a swap depend on the type of financial instruments involved. At the initiation of a swap contract, two counterparties agree to exchange one stream of cash flows against another stream. These streams are called the legs of the swap. The swap agreement defines the dates when the cash flows are to be paid and the way they are calculated. Usually at the time when the contract is initiated, at least one of these series of cash flows is determined by a reference point such as an interest rate, foreign exchange rate, equity price or commodity price. The cash flows are calculated on a notional principal amount, which is usually not exchanged between counterparties. Value transfers can be made with cash or [collateral](#) depending on contract terms.

An example of a swap contract is an interest rate swap. An interest rate swap is an agreement to exchange a series of cash flows on periodic settlement dates over a certain

time period. The duration properties of interest rate swaps are the primary reason for their popularity as an effective portfolio management tool for fixed income managers. If a fixed income manager agrees to pay a floating rate and receive a fixed rate in a swap, s/he will be increasing duration in her/his portfolio.

Warrants - a warrant is a type of derivative security that entitles the holder to buy or sell the underlying stock of the issuing company at a fixed exercise price until the expiry date. Warrants may be either exchange traded or OTC in nature. OTC Warrants are typically long term in nature.

Warrants are frequently attached to bonds (to reduce interest rates for the issuer) or preferred stock (to reduce dividend payments) as a sweetener. Warrants can also be used in private equity deals. Frequently, these warrants are detachable, and can be sold independently of the bond or stock. (Typically traded OTC)

This list is not intended to be an all-encompassing list of derivative contracts available for use in the portfolios, but rather, to display a sample of the most common types of contracts and describe the spirit of their intended use in the portfolios.

Derivatives Permitted Use:

KRS permits external managers and Investment Division (Staff) to invest in derivative securities, or strategies which make use of derivative investments, for exposure, cost efficiency and risk management purposes, if such investments do not cause the portfolio to be leveraged beyond a 100% invested position. Any derivative security shall be sufficiently liquid that it can be expected to be sold at, or near, its most recently quoted market price. Typical uses of derivatives in the portfolio are broadly defined below:

Exposure:

Derivatives are an effective way for a portfolio manager to gain exposure to a security that the manager does not want to purchase in the cash market. Reasons for gaining exposure to a security through the use of derivatives may include cheaper transactions costs, liquidity/lack of supply in the underlying market, and the flexibility to implement investment views with minimum portfolio disruption. An example is a cash equitization program.

Cost Efficiency:

Derivatives are often used due to the cost efficiency associated with the contract properties. Given the fact that derivatives can be used as a form of insurance, upfront trading costs must be sufficiently low for investors to purchase the contract and insure their portfolios efficiently. Furthermore, due to properties associated with derivatives and cash outlay characteristics (minimal cash outlay at inception of the contract) derivatives are generally a vehicle of gaining cost efficient exposure. An example is the cost (zero) to purchase a futures contract.

Risk Management:

Derivatives can be used for mitigating risk in the portfolio. When used as a risk management tool, derivatives can significantly reduce an identified financial risk or involuntary risk from investment areas by providing changes in fair values or cash flows that substantially offset the changes in fair values or cash flows of the associated item being hedged. An example is the use of currency forwards to offset periods of dollar strength when international equity markets increase in value, thereby protecting foreign asset gains in the portfolio.

Derivatives Restricted Use:

Settlement:

Investments in futures contracts are to be cash settled unless physically settled and stored by external managers. At no time shall KRS agree to take physical delivery on a futures contract.

Position Limits:

Futures and options positions entered into by KRS, or on its behalf, will comply with all position and aggregate limits established by the local governing authorities within each jurisdiction.

Over-the-Counter (OTC):

Investments in securities not traded on public exchanges that are deemed Over-the-Counter (OTC) in nature are allowed provided that a counterparty risk monitoring component is delineated in the manager's guideline section of the manager's contract. All counterparties must have a short-term credit rating of at least BBB (Standard and Poor's or Fitch) or Baa2 (Moody's).

All OTC derivative transactions, including those managed through Agency Agreements, must be subject to established International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements and have full documentation of all legal obligations of KRS under the transactions. All ISDA Master Agreements entered into by or on behalf of KRS by the Investment Division (Staff) and external manager pursuant to an Agency Agreement shall provide that Netting applies. (Netting allows the parties to an ISDA Master Agreement to aggregate the amounts owed by each of them under all of the transactions outstanding under that ISDA Master Agreement and replace them with a single net amount payable by one party to the other.) The Investment Division (Staff) and external managers may also use collateral arrangements to mitigate counterparty credit or performance risk. If an external manager utilizes a collateral arrangement to mitigate counterparty credit or performance risk the arrangement shall be delineated in the manager's guideline section of the manager's contract.

Derivatives Applications Not Permitted:

Speculation:

Except for investments in alternative, absolute return investments, and real return investments, derivatives may not be used for any activity for which the primary purpose is speculation or to profit while materially increasing risk to KRS. Derivatives are considered

speculative if their uses have no material relation to objectives and strategies specified by KRS IPS or applicable to the portfolio. Derivatives may not be used for circumventing any limitations or restrictions imposed by the KRS IPS or applicable regulatory requirements.

Leverage:

Leverage is inherent in derivative contracts since only a small cash deposit is required to establish a much larger economic impact position. Thus, relative to the cash markets, where in most cases the cash outlay is equal to the asset acquired, derivative investments offer the possibility of establishing substantially larger market risk exposures with the same amount of cash as a traditional cash market portfolio. Therefore, risk management and control processes must focus on the total risk, i.e. the net notional value, assumed in a derivative investment.

The above is not intended to limit KRS from borrowing to cover short-term cash flow needs nor prohibit KRS from loaning securities in accordance with a securities lending agreement.

VIII. Asset Allocation Guidelines

In establishing asset allocation guidelines the Board recognizes that each system has its own capacity to tolerate investment volatility, or risk. Therefore, each system has been studied and asset allocation guidelines have been established on a system by system basis. The Board will cause the asset allocation guidelines of each system to be reviewed annually. The Board will provide the Investment Committee with the results of any asset liability study and guidance for determining the needs of the systems.

The intent of the Board of Trustees in allocating funds to the investment managers is for the investment managers to fully invest the funds. However, the Board of Trustees is aware that from time to time the investment manager will require a portion of the allocated funds to be held in cash provided the cash holdings do not exceed Five percent (5%) of the manager's allocation for any given quarter, unless such cash holdings are an integral part of a fixed income manager's investment strategy.

The individual plan level asset allocations of the each Pension and Insurance Fund constituent will be reviewed monthly by staff relative to its target asset class allocation, taking into account any tactical policy shift directed by the Investment Committee. Staff shall reallocate the assets when the actual asset class allocation deviates from the policy plus any tactical shift by a minimum of 1%, and a maximum of 15% of the allocation target (if target allocation is 20% then action required when +/- 3%).

Regarding individual investment manager initial allocations, staff will get approval at the Investment Committee meeting for a specific dollar amount intended to be committed to a closed-end fund such as private equity or real estate funds and will get approval for a percent of plan assets for open-end investments such as public equity, public fixed income, and absolute return managers. For those open-end funds where assets can be added or

subtracted, the Chief Investment Officer will have full discretion to reduce an investment manager's allocation or fire a manager, and will have limited discretion to add to an investment manager's allocation. Limited discretion is defined as doubling the size of any Investment Committee approved investment where the of that investment that is less than or equal to 1% of total assets, or adding an additional 1% of capital to any investment committee approved amount that is greater than 1% of total assets. In neither case will this occur prior to the one-year anniversary of the amount approved by the Investment Committee, and must be reported to the Investment Committee at the next scheduled meeting

In keeping with its responsibility as Trustee and wherever consistent with its fiduciary responsibility, the Board encourages the investment of the fund's assets in investments, funds, and securities of corporations which provide a positive contribution to the economy of the Commonwealth of Kentucky. However, where any security is not a prohibited investment under the governing laws and policies, discretion will be granted to the appointed investment managers in the selection of such securities and timing of transactions consistent with the following guidelines and restrictions.

A. Domestic Equity Investments

Investment may be made in common stock, securities convertible into common stock, preferred stock of publicly traded companies on stock markets, asset class relevant ETF's or any other type of security contained in a manager's benchmark. Each individual domestic equity account shall have a comprehensive set of investment guidelines prepared, which contains a listing of permissible investments, portfolio restrictions and standards of performance for the account.

The internally managed equity index funds are intended, consistent with the governing plan documents, to gain exposure to a broad asset sector to replicate the characteristics of the asset class, to minimize administrative expenses and to help achieve overall portfolio objectives. These objectives can be achieved through several management techniques, including but not limited to, portfolio optimization, non-reinvestment of index dividends and other management techniques intended to help achieve the objectives of the entire pension fund.

B. International Equity Investments

Investments may be made in common stock, securities convertible into common stock, preferred stock of publicly traded companies on stock markets, asset class relevant ETF's or any other type of security contained in a manager's benchmark. Each individual international equity account shall have a comprehensive set of investment guidelines which shall contain a listing of permissible investments, portfolio restrictions and standards of performance for the account.

C. Fixed Income Investments

Fixed Income investments will be similar in type to those securities found in the KRS fixed income benchmarks and the characteristics of the KRS fixed income portfolio will be similar to the KRS fixed income benchmarks. The fixed income accounts may include, but are not limited to the following fixed income securities: U.S. Government and Agency bonds, investment grade U.S. corporate credit, investment grade non-U.S. corporate credit, non-investment grade U.S. corporate credit including both bonds and bank loans, non-investment grade non U.S. corporate credit including bonds and bank loans, municipal bonds, non-U.S. sovereign debt, mortgages including residential mortgage backed securities, commercial mortgage backed securities, and whole loans, asset-backed securities, and emerging market debt including both sovereign EMD and corporate EMD and asset class relevant ETF's.

Each individual fixed income account shall have a comprehensive set of investment guidelines which contains a listing of permissible investments, portfolio restrictions, risk parameters, and standards of performance for the account.

D. Private Equity Investments

Subject to specific approval of the Investment Committee of the Board of Trustees, investments may be made for the purpose of creating a diversified portfolio of alternative investments. Private equity investments are expected to achieve attractive risk-adjusted returns and, by definition, possess a higher degree of risk with a higher return potential than traditional investments. Accordingly, total rates of return from private equity investments are expected to be greater than those that might be obtained from conventional public equity or debt investments. They have low correlation to other investment classes and therefore can contribute to reducing the risk and enhancing the returns of a total portfolio, as well as providing portfolio diversification. Examples of such investments include, but are not limited to, venture capital partnerships, private equity, leveraged buyouts and funds, private debt, timberland, oil and gas partnerships, commodities and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion has been allocated to non-US investments. These non-U.S. investments are not restricted by geography.

Guidelines for Private Equity

The private equity market is highly sophisticated and specialized with respect to variety and types of investment structures. There exist major competition for deal flow on the part of both investor and general partners. To a great extent, market forces drive the bargaining of economic terms. Most investment vehicles are structured as commingled vehicles and often blind pool investment partnerships. The most common offering forms are equity private placements where the governing laws of the partnership impose a passive role of the limited partner investor. These contractual arrangements are long-term in nature and provide the general partner or sponsors a reasonable time horizon to wisely invest capital, add value through intensive operational management, then realize the proceeds of such an investment. Moreover, terms of the partnership are proposed by the general partner are critical to the economic incentives and ultimate net performance of the partnership.

Over the long term, KRS will use a specified index plus risk premium approach.

Investment Strategy and Plan Guidelines

To strengthen the diversification of the investments, several guidelines will be utilized in Staff's formulation and recommended annual investment strategy and plan. These guidelines encompass annual commitment levels to the asset class, types of investment vehicles that can be utilized, controlling financing stage risks, industry, manager and geography concentration/diversification limits, acceptable contact negotiations, appropriate sizes for investments, and the preferred alignment of interests.

Investment Vehicles: KRS will gain exposure to private equity investments by hiring external investment managers either directly or through participation in secondary private equity markets. Typically, the Fund will subscribe as a Limited Partner to limited partnership vehicles sponsored by such specialty external investment managers. KRS may also gain exposure by utilizing the following vehicles: limited liability companies and co-investments alongside the Fund's existing or potential limited partnerships.

Investment Timing Risks: Staff should limit the potential for any one investment to negatively impact the long-term results of the portfolio by investing across business cycles. Moreover, the portfolio must gain exposure to the array of financing stages by opportunistically exploiting the best investments at different stages of the business cycle. Staff may also consider purchasing secondary partnership interests to shorten the effective life of the partnership interest and therefore positively impacting the current and long term net return of the portfolio. In addition, mindful of vintage year diversification, KRS should seek to identify attractive commitments annually, further ensuring the portfolio invests across business cycles.

General Partner Diversification: Staff will seek to work with a variety of general partners due to their specialized expertise in particular segments of the private equity market and source of their deal flow. No more than fifteen (15) percent of the KRS Pension or Insurance total allocation to private equity investments may be committed to any one partnership, without the approval of the Board.

Geographical Diversification: To ensure geographical diversification, the target range for total commitments outside of the United States will be 15-45% through commitments to funds located and or investing both in and outside of the United States.

Industry/Sector Concentration: As fallout of diversified commitments outlined above, it is expected that the portfolio will be generally diversified by sector/industry. KRS will maintain diversification by ensuring:

No more than 35% of total net assets of the private equity portfolio may be invested in a single sector of the domestic economy.

No more than 20 % of total net assets of the private equity portfolio may be invested in a single industry within a particular sector.

No more than 10% of total net assets of the private equity portfolio may be invested in any single equity or debt related assets.

Subcategory Strategy

The private equity portfolio includes strategic subcategory classifications including venture capital, buyouts and debt-related. The target percentages set forth below for each category are based on invested capital. For specific plan allocations to Private Equity, Please refer to Appendix A for the Pension funds and Appendix B for the Insurance funds.

The sub-asset target allocations to Venture Capital, Buyouts, and Debt-related for specific plan allocations refer to Appendix A for the Pension funds and Appendix B for the Insurance fund are based on market value and will have a range of +/- 10%:

E. Real Estate Investments

Subject to specific approval of the Investment Committee of the Board of Trustees, investments may be made in equity and debt real estate for the purpose of achieving the highest total rate of return possible consistent with a prudent level of risk. Allowable real estate investments include open-end and closed-end commingled real estate funds, joint venture investments, public and private REITs (real estate investment trusts), public real estate operating companies, and real estate related debt.

Private real estate investments are unique and can be illiquid and long term in nature. Given that this may lead to large short term performance discrepancies versus public benchmarks, KRS more appropriately measures its real estate investments based on both relative return and absolute return methodologies:

Relative Return: The real estate portfolio is expected to generate returns, net of all fees and expenses, in excess of the National Council of Real Estate Investment Fiduciaries Open End Diversified Core Equity Index ("NCREIF ODCE") lagged 1 calendar quarter.

Absolute Return: The long term real return objective (returns adjusted for inflation) for the KRS real estate portfolio is five percent (5%) over the *Barclays Capital U.S. 7-10 Year Treasury Bond Index*, net of investment management fees. This return shall be calculated on a time-weighted basis using industry standard reporting methodologies.

KRS has determined that the primary role of the real estate asset class is to provide for the following:

- Attractive risk adjusted returns through active management and ability to access managers with the expertise and capabilities to exploit market inefficiencies in the asset class. The illiquid nature of real estate investments combined with the complexity of investments makes it difficult for casual investors to effectively access the asset class effectively. It is our belief that through active management and by investing in top tier managers with interests aligned through co-investment and incentive based compensation, KRS can maximize its risk adjusted returns. This active management approach will be pursued.
- Diversification benefits through low correlations with other asset classes, primarily the U.S. equity markets.
- Provide a hedge against unanticipated inflation, which real estate has historically provided due to lease structures and the increases in material and labor costs during inflationary periods.
- Permit KRS to invest in unique opportunities that arise due to dislocations in markets that occur from time to time.

Allocation to Real Estate Asset Class

KRS divides the real estate investment universe into core, value-add, opportunistic and public securities sectors, with descriptive attributes of each listed below. It should be noted that targeted returns for each sector denoted in the descriptions below are based on industry guidelines and may vary based on different points in market cycles and changes in general inflation levels.

A. Core Properties

- Operating, substantially leased office, retail, industrial or apartment properties. Several alternative property types may be included in Core such as self-storage, medical office, ground leases, senior housing and triple net leased properties to the extent they exhibit similar risk and return attributes to the traditional Core property types.
- Generally have institutional qualities for size, physical attributes and location.
- Target total returns of 3-5% per year (net of fees and promoted interest) above the *Barclays Capital U.S. 7-10 Year Treasury Bond Index*, with a high proportion of the total return to be generated from current income and a small proportion of the total return generated from appreciation.

- Leverage for core properties is moderate with an upper limit of 50% loan to value.

B. Value Added Properties

- Office, retail, industrial or apartment properties that have moderate risk associated with their investment. Several alternative property types may be included in Value-Added such as self-storage, medical office, senior housing and triple net leased properties to the extent they exhibit similar risk and return attributes for Value-Added investments.
- Value-Added investments are targeted to capitalize on defects with specific properties that can be identifiable and correctable through leasing, re-development, management and/or recapitalization.
- Target returns for value added investments are 5-7% above the *Barclays* Capital U.S. 7-10 Year Treasury Bond Index per year (net of fees and promoted interest).
- Leverage for value added investments is generally limited to approximately 65% loan to value.

C. Opportunistic Investments

- Opportunistic investments can be comprised of any property sector. Opportunistic investments can include office, retail, industrial and apartments with high-risk attributes. In addition, hotels, operating companies, development, land and distressed properties are all examples of opportunistic investments
- Leverage for opportunistic investments can be 75% loan to value or higher in certain cases.
- Opportunistic investments will target returns in excess of 7% (net of fees and promoted interest) above the *Barclays* Capital U.S. 7-10 Year Treasury Bond Index in order to compensate for the additional risk commensurate with the increased risk compared to core property investments.

D. Public Securities

- Public Real Estate securities (“Public Securities”) do not allow for control over the assets or management. Examples of public securities may include REITs and CMBS, among others. Investment strategies using public securities may be classified as core, value-add, or opportunistic strategies based on the characteristics of those specific investments and are reviewed on a case by case basis. Real estate strategies utilizing public securities that provide daily

liquidity to KRS shall be required to be classified as “Public Securities” under the Investment Policy Statement.

- Public Securities generally have higher risk and return characteristics than Core properties due to higher leverage and operating company risks. In addition, the daily pricing of securities result in additional reported volatility of returns.
- Daily pricing and public market trading provide liquidity. However, due to small float and limited market capitalization of Public Securities, improved liquidity may come at a price.
- The emergence of the international Public Securities market has broadened the universe to include Asia, European, Australian and North American property companies.
- Expected returns are dependent on investment strategy of the public security which shall be identified at time of investment and the return expectation will match one the above the categories

Diversification and Risk Management Guidelines

The policy ranges for the real estate portfolio sectors have been set with reasonably wide ranges in order to allow KRS to capitalize on market inefficiencies and attractive opportunities, while also maintaining a certain level of low risk stability to the portfolio. Since many of the real estate investments will be private market investments in commingled funds, KRS will not have precise control over the actual real estate exposure. Funding, de-funding and rebalancing the portfolio may be protracted (like private equity) due to the asset classes illiquid characteristics.

A. Sector Diversification

KRS will seek to limit investments using the following diversification limits:

	Target	Range
Core:	70%	50% to 90%
Value Added:	20%	10% to 30%
Opportunistic:	10%	0% to 20%
Public Securities:	0%	0% to 100%

B. Investment Vehicles

Due to the size of KRS's portfolio, the preferred investment structure is commingled funds. Exceptions may be for public equity accounts which may be efficiently invested through a separate account or single property investments. Single property investments, outside of a joint venture with an approved property manager or co-investment with an approved real estate fund manager, shall be limited to no more than 5% of the total real estate allocation and a presentation to the full board prior to investment.

KRS may also consider co-investment opportunities in cases where discounted fees and appropriate diversification can be achieved for a particular investment opportunity.

C. Diversification

KRS will seek to control risk in its real estate investment program by diversifying its investments by investment manager, property type and location diversification.

D. Investment Manager

KRS will limit the amount committed to any one investment manager to the larger of thirty percent (30%) of the total allocation for real estate investments or 1% of the total funds value at the time of commitment.

E. Property Type Diversification

KRS will seek to limit investments by property type diversification using the following limits:

Office: 0% to 40% of the total allocation

Retail: 0% to 40% of the total allocation

Apartment: 0% to 40% of the total allocation

Industrial: 0% to 40% of the total allocation

Other: 0% to 40% of the total allocation (other includes hotels, self-storage, parking, etc.) Geographic Diversification

The KRS real estate portfolio shall seek to include investments diversified across various locations with different economic concentrations. The portfolio shall be at least 80% invested in U.S. markets.

Diversification will be monitored with respect to major regional areas; e.g. Pacific, Mountain, Southwest, Southeast, Mideast, Northeast, East North Central, West North Central. International monitoring will be carried out in a similar fashion as that used domestically.

F. Total Leverage

KRS recognizes that leverage is an inherent component of real estate investments and use of leverage can be an effective means to increase overall returns from time to time on a risk-adjusted basis. There will be a goal to a limit of 65% of the total portfolio placed on the use of leverage. The measurement will be the weighted average of investments with their max allowed leverage.

All portfolio leverage will be secured through the individual fund investments. There will be no recourse debt permitted.

G. Vintage Year Risks

KRS will seek to avoid any concentrated vintage year risks.

F. Real Return Investments

The purpose of the Real Return Portfolio is to identify strategies that provide both favorable stand-alone risk-adjusted returns as well as the benefit of hedging inflation for the broader plans. Real return strategies are not necessarily a separate asset class but may include real assets, such as infrastructure, real estate, commodities, and natural resources among others, as well as financial assets that have a positive correlation to inflation. This can include “real” bonds such as TIPs (and other inflation linkers) or “real” stocks such as REITs, MLPs, and oil & gas stocks. Additionally, real return managers may attempt to add value by tactically allocating to various asset classes according to how each asset class performs across an economic cycle and the manager’s perception of where we are in the cycle. The goal is to invest in inflation sensitive assets during inflationary periods, and avoid those assets in deflationary periods, thus providing a positive real return across the cycle.

The real return opportunity set may include numerous vehicles to access a wide variety of investment styles and strategies. These investment vehicles may include mutual funds, ETFs, separately managed accounts as well as hedge funds (open-end limited partnerships) and private equity (close-end limited partnerships). The list of strategies that the KRS Real Return Portfolio may use includes, but is not limited to, the following:

- GTAA (Global Tactical Asset Allocation)/ Global Macro: GTAA or macro strategies are those that make directional bets on major markets or asset classes instead of individual securities. GTAA and macro strategies typically invest in all major assets classes including equity markets, credit and debt instruments, currencies/interest rates, and commodities. These strategies tend to focus on economic factors that would suggest an opportune time to invest in a given asset class, and will change their allocations actively

over time. Within a real return portfolio, these strategies may use inflation as the economic factor to gain exposure to and will target a real rate of return over time.

- Inflation Linked Securities are securities that directly tie coupon payments or principal increases to an inflation index, such as CPI. These strategies could include not only US TIPs, but also global sovereign inflation linked bonds, corporate or infrastructure inflation linked bonds, and possibly short duration floating rate bonds.
- Inflation Sensitive Equities include publicly traded equity and equity related securities in companies which have a high sensitivity to inflation in their profit margins via the nature of their operating assets, such as energy companies, basic materials and miners, natural resource stocks, and listed infrastructure. This category can also include REITs, MLPs as well as ETFs and index products on REITS, MLPs, natural resource stocks, etc.
- Commodities: Commodities are the raw materials that are physical inputs into the production process. Managers that invest in liquid commodity strategies using exchange traded futures can span from simple indexing (matching a long-only commodities index), to enhanced indexing or active long (selecting positions that vary from the index but within fairly tight ranges), as well as unconstrained long-short managers.
- Private Property: For the purposes of this policy, private property refers to the ownership of an idiosyncratic, physical asset that is predominately fixed and/or permanent or at least substantially long-lived. This includes real estate, such as land and any improvements to or on the land, as well as timberland and farmland. Timberland investing involves the institutional ownership of forest for the purpose of growing and harvesting the timber. The timber may be used for furniture, housing lumber, flooring, pulp for paper, woodchips, and charcoal, among other things. Farmland investing entails ownership of land used primarily if not exclusively for agricultural production both for crops, including row crops and permanent crops, as well as livestock. Private property can also include infrastructure investing, which refers to financing the manufacture or development of the underlying fundamental assets and basic systems that are necessary for an economy whereby such assets are largely fixed and long-lived. These tend to be high cost, capital intensive investments that are vital to a society's prosperity and facilitate the transfer, distribution, or production of basic goods and services.
- Natural Resources: Natural resources can include investing in the financing, development, extraction, and production of minerals, basic materials, petroleum products, and water as well as renewable resources such as agricultural commodities and solar energy. As opposed to property, the returns generated in these investment

strategies come more from the actual production of the resource itself. Further, these are depleting and/or consumable assets that are also portable and fungible and which in the aggregate comprise a majority of the inputs into most measurements of inflation.

- **Private Assets:** Private assets can include tangible or intangible assets that are not easily sold in the regular course of a business's operations for cash, and which are held for their role in contributing directly to the business's ability to generate profit. As the useful life of the asset tends to extend across many years and the assets tend to be capital intensive as well, they have some similarity to private infrastructure. Further, given that the assets contribute directly to the production process as well as often retaining intrinsic value, there is a fundamental link to inflation somewhat similar to natural resources.
- **Other (Opportunistic Inflation Hedge):** Other/opportunistic strategies include those that have a propensity to provide a positive real return or positive correlation with inflation over time. Liquid strategies such as inflation swaps, diversified inflation hedging mutual funds, or nominal bonds backed by inflation sensitive assets may be included in this allocation, while other illiquid strategies that may provide the same real profile can include private equity in inflation sensitive companies, hard asset-backed private credit, and structured inflation-linked products among others.

The Real Return allocation shall seek to achieve the following:

- 1) **Short-term benchmark:** For periods less than five years or a full market cycle, the allocation should achieve an annual rate of return that exceeds the appropriate benchmark (the weighted average return of the underlying investment benchmarks) annually over a complete market cycle, net of all investment management fees.
- 2) **Strategic objective:** For periods greater than five years or a full market cycle, the allocation should not only outperform the short-term benchmark, but also achieve a rate of return that exceeds (CPI + 300 basis points) as well.

Portfolio Guidelines

No more than 50% of the total net assets of the Real Return portfolio may be invested in any one registered investment vehicle, mutual fund, or separately managed account.

No more than 20% of the total net assets of the Real Return portfolio may be invested in any single closed-end or open-end limited partnership or other unregistered investment vehicle.

The relative allocations to the liquid and illiquid portfolios will be determined according to each individual plan's liquidity needs, funding status, and allocation targets on an investment by investment basis.

G. Cash Equivalent Securities

Selection of particular short-term instruments, whether viewed as liquidity reserves or as investment vehicles, should be determined primarily by the safety and liquidity of the investment and only secondarily by the available yield. The following short-term investment vehicles are considered acceptable: Publicly traded investment grade corporate bonds, variable rate demand notes, government and agency bonds, mortgages, municipal bonds, and collective STIFs, money market funds or instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper) and repurchase agreements relating to the above instruments. Instruments may be selected from among those having an investment grade rating at the time of purchase by at least one recognized bond rating service. In cases where the instrument has a split rating, the lower of the two ratings shall prevail. All instruments shall have a maturity at the time of purchase that does not exceed 397 days. Repurchase agreements shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur. Variable rate securities shall be deemed to have a maturity equal to the time left until the next interest rate reset occurs, but in no case will any security have a stated final maturity of more than three years.

The Systems' fixed income managers that utilize cash equivalent securities as an integral part of their investment strategy are exempt from the permissible investments contained in the preceding paragraph. Permissible short-term investments for fixed income managers shall be included in the investment manager's investment guidelines.

H. Absolute Return Strategies

The purpose of the Absolute Return Portfolio is to identify strategies that provide both favorable stand-alone risk-adjusted returns as well as the benefit of diversification for the overall plan. Absolute return strategies, by definition, are not necessarily a separate asset class, but broaden the opportunity set within existing asset classes such as stocks, bonds, currencies and commodities by going both long and short, employing derivatives and leverage, shortening and extending investment horizons, and moving across public and private markets, amongst others. By focusing on the idiosyncratic risks of security selection and often attempting to

minimize systematic market risks through hedging activities, absolute return managers can make investment decisions unconstrained by restrictive relative benchmarks such as the S&P 500 or Barclay's Aggregate Bond Index, and add value to portfolios by achieving favorable risk-adjusted returns in most market environments while also reducing overall plan volatility.

The absolute return opportunity set is generally considered to include hedge funds and other strategies attempting to achieve positive returns without heavy reliance on the assumption of traditional systematic risk factors. Investment vehicles used to access this opportunity set can include limited partnerships, but also mutual funds, ETFs, and separately managed accounts, amongst others. Absolute return strategies are extremely heterogeneous, as managers have both greater variability within a strategy and the flexibility to evolve across styles and asset classes. This is a key benefit of absolute return; however, it also makes strategy classifications less meaningful and manager selection significantly more important. It also necessitates relatively broader allowable strategy ranges than in other more traditional asset classes.

The list of strategies that the KRS Absolute Return Portfolio may utilize includes, but is not limited to:

- **Equity Strategies:** Equity-based hedge funds are those which primarily purchase listed stocks, long and short, using no to substantial leverage. These strategies may differ across multiple styles such as broad or sector based mandates, geographically focused or global, concentrated versus diversified, long biased or market neutral, or short term trading versus longer term fundamental. Sub-strategies in this category would include fundamental long/short equity, short bias, tactical trading, and equity market neutral.
- **Event Driven:** Event-driven strategies also invest in the securities of corporate issuers, including stocks and corporate bonds. However, these strategies will invest based upon specific corporate actions that will change the value of these securities including mergers, spin-offs, tender and exchange offers and bankruptcy or restructuring. These strategies can be flexible across equity/credit, long/short as well as other style characteristics noted earlier. Another critical differentiator among event driven strategies is whether they pursue primarily hard versus soft catalysts. Examples of sub-strategies in this category include merger arbitrage, shareholder activism, multi-strategy event, special situations, and opportunistic value/soft catalyst.
- **Credit Strategies:** Credit strategies are those which focus on the debt side of the capital structure. They may have equity exposure, but the vast majority of the portfolio is invested in credit securities. Similarly, these strategies may be long biased or more hedged, may be more fundamentally based or more quantitative, focus on paying versus non-performing, and shorter term trading versus longer term focused. However, some funds may be focused on structured credit markets, including RMBS and CMBS, and others may move opportunistically across various credit segments. Sub-strategies may include long/short corporate credit, structured credit, and distressed securities.
- **Relative Value:** Relative Value strategies are those that do not invest in the intrinsic value of any individual security, but rather research the historical and/or mechanical

relationships between related securities and invest in the spread. For example, they may bet on one bond being overvalued relative to another bond from the same issuer. These strategies are almost always market neutral, but may vary from moderately to highly leveraged, concentrated versus diversified, or from HFT (high frequency trading) to a longer term investment horizon. Examples of sub-strategies in this category include fixed income arbitrage, convertible arbitrage, and statistical arbitrage.

- **Multi-Strategies:** Multi-Strategy hedge funds are those which will actively employ several of the other major hedge fund categories. Typically, hedge funds may do more than one thing, but to be a true multi-strategy, a hedge fund must have meaningful allocations of capital to at least 3 of the other four major categories: equity, credit/event, relative value, and macro/CTA. A true multi-strategy hedge fund should not have 50% to 70% of NAV invested in one strategy or 50% to 70% of the historical return attribution from one strategy. Finally, most multi-strategy hedge funds have their roots in one specific style and have evolved into multi-strategies over time.
- **Global Macro:** Macro strategies are those that make directional bets on major markets or asset classes instead of individual securities. Global macro funds are typically diversified across 3 of the 4 major liquid markets: equity indices, credit/debt, currencies/rates, and commodities. These strategies are often quantitative or discretionary, or shorter term/market timing versus longer term/macroeconomic focused. Finally, some traders may focus largely on certain markets, such as rates or currencies, trading on fundamental economic signals.
- **CTA/Commodity/Currency:** Managed Futures or CTAs will trade the same markets as global macro funds (i.e. equity indices, debt markets, currencies, and commodities) but will focus heavily on price or other technical signals, instead of fundamental or economic data. CTAs tend to be purely systematic (black-box) or discretionary, shorter to longer term and will employ either trend following/momentum strategies or counter-trend/ mean reversion. Similar to macro funds, some CTAs focus purely on certain markets, such as commodities or currencies.
- **Other:** Strategies in this category, sometimes referred to as alternatives to alternatives, tend to be the most highly uncorrelated strategies. These may not be true “alpha” generators, as they often are simply accessing extremely unique and non-competitive markets, looking to harvest systemic risk premia found in these markets. However, the “betas” they are accessing are truly idiosyncratic. These strategies are much smaller and tend to have a bit higher illiquidity than other hedge funds. Examples of sub-strategies that fall in this category would be intellectual property, weather risk, and insurance strategies.

The Absolute Return allocation shall seek to achieve the following.

- 1) Short-term benchmark: For periods less than five years or a full market cycle, the allocation should achieve an annual rate of return that exceeds the appropriate benchmark (HFRI Diversified Fund of Fund Composite), net of all investment management fees, with similar risk relative to the benchmark.
- 2) Strategic benchmark: For periods greater than five years or a full market cycle, the allocation should not only outperform the short-term benchmark, but also achieve a rate of return that exceeds the appropriate long-term benchmark (1 Year Treasury Bill Rate + 500 basis points) as well.

Portfolio Guidelines

No more than 10% of the total net assets of the Absolute Return portfolio may be invested in any one single manager hedge fund. No more than 15% of the total net assets of the Absolute Return portfolio may be invested in any one single separately managed account, mutual fund, or other registered investment vehicle.

No more than 15% of the total net assets of the Absolute Return portfolio allocation may be invested with any one single hedge fund manager strategy (excluding Funds of Funds). No more than 25% of the net assets of the Absolute Return portfolio allocation may be invested with any one single investment manager (excluding Funds of Funds).

As the Absolute Return allocation can invest in various investment vehicles and strategies with differing liquidity profiles, it is important to consider liquidity as a separate risk spectrum. In order to manage the portfolio and provide the system liquidity as necessary, but remain flexible enough to capture returns available in moderately illiquid opportunities, the Absolute Return allocation will adhere to the following liquidity targets:

At all times, at least 25.0% of the Absolute Return portfolio as a whole is to be available in quarterly or better liquidity vehicles.

At all times, no more than 50.0% of the Absolute Return portfolio as a whole is to be committed to vehicles that provide liquidity on a greater than annual basis.

No investments to vehicles with a greater than 5 year lock-up are permitted in the Absolute Return portfolio.

IX. Standards of Measurement

Performance Measurement

The Kentucky Retirement Systems (“KRS”) overall fund performance is measured relative to the KRS Pension or Insurance Total Fund Benchmark. The benchmark is calculated by means of a weighted average methodology. This method is consistent with industry-wide standards and the practices utilized by the CFA Institute. It is the product of the various component weights (i.e., asset classes’ percentages) by their respective performance (returns). Due to market fluctuations and acceptable divergence, the asset classes’ weights (percentages) are often not equivalent to the benchmark’s weights. Therefore, the performance may indicate that the Funds have outperformed (underperformed) relative to their respective benchmarks, even when the preponderance of lesser weighted categories have underperformed (outperformed) their indices.

KRS measures its asset classes, sub-asset classes, sectors, strategies, portfolios, and instruments (investment) performance with indexes that are recognized and published (e.g., S&P 500 & Barclays Aggregate Bond Index). These indices are determined to be appropriate measures of investments and composites of investments with identical or similar investments profiles, characteristics, and strategies. The benchmarks and indexes are intended to be objective, investable, replicable, representative and measurable of the investment mandate and, developed from publicly available information that is acceptable to KRS and the investment manager/advisor as the neutral position consistent with the underlying investor status. KRS’ investment consultant and staff recommend the benchmarks and indexes. These measures shall be subject to the annual review and approval of the KRS Investment Committee and ratification of the Kentucky Retirement Systems’ Board of Trustees.

The KRS Total Fund Benchmarks and sub-components, indexes, are described in Appendix A and B of this document. The following descriptions represent general standards of measurement that will be used as guidelines for the various classes of investments and managers of the Kentucky Retirement Systems. They are to be computed and expressed on a time-weighted total return basis:

Total Public Asset Class Allocations

Short-term

- For periods less than five years or a full market cycle, the Asset Class Allocation should exceed the returns of the appropriate Index.

Intermediate & Long-term

- For periods greater than five years or one market cycle, the Asset Class Allocation should exceed the appropriate Index, compare favorably on a risk-adjusted basis, and generate returns that rank above the median return of a relevant peer group. Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index.

Individual Public Security Portfolios: Individual portfolios shall be assigned a market goal or benchmark that is representative of the style or market capitalization of the assignment. Individual accounts should be monitored using the following Standards:

Short-term

- For periods less than five years or a full market cycle, individual portfolios should exceed the returns of their market goal or benchmark.

Intermediate & Long-term

- For periods greater than five years or one market cycle, individual portfolios should exceed the return of their market goal or benchmark, compare favorably on a risk-adjusted basis, and generate returns that rank above the median return of a relevant peer group. Volatility, as measured by the standard deviation of monthly returns, should be comparable to the benchmark.

Alternative Assets:

In addition to exceeding the appropriate benchmark listed in Appendix A and B, the Alternative portfolio should also seek to achieve the following:

Short-term

- Alternative investments should earn a Net IRR that place the investment above the median Net IRR of other similar funds, of the same vintage year, as reported by Venture Economics.

Intermediate & Long-term

- The private equity portfolio should earn a return that meets or exceeds the KRS Private Equity Index. Individual private equity investments should earn a Net IRR above the median Net IRR of other similar funds, of the same vintage year, as reported by Venture Economics.

Real Estate

The Total Real Estate allocation of the fund shall be benchmarked to the appropriate benchmark and are listed in Appendix A and B.

Real Return

The total Real Return allocation shall seek to :

- (1) Achieve a rate of return that exceeds the appropriate benchmark annually over a complete market cycle (historically 3-5 years), net of all investment management fees.
- (2) Achieve a rate of return that exceeds the appropriate real return composite index over a complete market cycle (historically 3-5 years), net of all investment management fees.
- (3) Achieve a positive risk/reward trade-off when compared to similar style real return Investment Managers.

Absolute Returns

The total Absolute Return allocation shall seek to :

- (1) Achieve a rate of return that exceeds the appropriate benchmark annually over a complete market cycle (historically 3-5 years), net of all investment management fees.

- (2) Achieve a positive risk/reward trade-off when compared to similar style FOF return Investment Managers.

X. Investments Performance Review Procedures

On a timely basis, but not less than quarterly, the Investment Committee, on behalf of the Board of Trustees, will review the performance of the portfolio for determination of compliance with this Statement of Investment Policy. On an annual basis, a comprehensive review of each asset class and underlying portfolios shall be conducted by the staff and presented to the Investment Committee. The review shall consist of an organizational, performance and compliance assessment.

The Compliance Officer shall perform tests at least monthly to assure compliance with the restrictions imposed by this policy. These tests shall be performed at the asset class and total fund level. Quarterly, the Compliance Officer shall prepare a report to the Investment Committee detailing the restrictions tested, exceptions, the cause of the exception and the subsequent resolution. The Investment Committee shall report the findings to the Board of Trustees at the next regularly scheduled meeting.

The following restrictions shall be tested at least monthly:

- ▶ The amount of stock in the domestic or international equity allocation in any single corporation shall not exceed 5% of the aggregate market value of the Systems' assets.
- ▶ The amount of stock held in the domestic or international equity allocation shall not exceed 3% of the outstanding shares of any single corporation.
- ▶ Investment in "frontier" markets (those countries not included in the MSCI EM Index) shall not exceed 5% of the System's international equity assets.
- ▶ The duration of the core and global fixed income portfolios combined shall not vary from that of the KRS Fixed Income Index by more than +/- 25% duration as measured by effective duration, modified duration, or dollar duration.
- ▶ The duration of the TIPS portfolio shall not deviate from the KRS TIPS benchmark by more than 10%.
- ▶ The amount invested in the debt of a single issuer shall not exceed 5% of the total market value of the Systems' fixed income assets, with the exception of U.S. Government issued, guaranteed or agency obligations (or securities collateralized by same), and derivative securities used for exposure, cost efficiency, or risk management purposes in compliance with Section VII of this policy.
- ▶ 50% of the fixed income assets must have liquidity that is trade date plus three days or better.

The Chief Investment Officer shall develop a comprehensive set of investment guidelines for each externally managed account. These guidelines should ensure, at the total fund and asset class level, that the restrictions set forth above are preserved.

XI. Additional Items

The KRS Board recognizes that the voting of proxies is an important responsibility in assuring the overall performance of the Fund over a long time horizon. The Board has delegated the responsibility of voting all proxies to an outside Proxy Voting service provider or contracted external investment manager. The Board expects that the proxy voting service will execute all proxies in a timely fashion, and in accordance with the voting policy which has been formally adopted.

The Board has adopted the ISS U.S. Proxy Voting Guidelines as the System's approved Proxy Voting Policy for all internally voted items. This policy is updated at least annually by ISS is and hereby incorporated by this reference. The policy can be found publically using the following link:

<http://www.issgovernance.com/files/2012USSummaryGuidelines1312012.pdf>

- A. Investment Procurement Policy Dated July 2017 is hereby incorporated by reference.
- B. Investment Brokerage Policy dated May 2011 is hereby incorporated by reference.
- C. Transactions Procedures Policy dated November 2014 is hereby incorporated by reference.
- D. Securities Litigation Policy and Procedures dated May 2011 is hereby incorporated by reference.
- E. Investment Securities Lending Guidelines dated May 2011 is hereby incorporated by reference.
- F. Securities Trading Policy for Trustees and Employees dated February 2015 is hereby incorporated by reference.
- G. Manager and Placement Agent Statement of Disclosure Policy dated August 2012 is hereby incorporated by reference.

Signatories

As Adopted by the Investment Committee

Date: _____

Signature: _____

Mr. David L. Harris
Chair, Investment Committee

As Adopted by the Board of Trustees

Date: _____

Signature: _____

Mr. John R. Farris
Chair, Board of Trustees



Kentucky Retirement Systems

Appendix A: Addendum to the Statement of Investment Policy
Pension Fund – Asset Allocation / Benchmark Composite
Effective July 12th, 2017

This addendum to the investment policy is issued by the Board of Trustees of Kentucky Retirement Systems (Systems) in connection with investing the pension funds of the Kentucky Employees Retirement System, the County Employees Retirement System and the State Police Retirement System. This document supersedes all prior documents entitled Addendum to the Statement of Investment Policy.

I. Asset Allocation with Benchmarks

KRS Pension Fund - Asset Allocation							
Asset Class	Benchmark	Target					Allowable Range (+/- Target)
		KERS	KERS Hazardous	CERS	CERS Hazardous	SPRS	
Assumed Rate of Return		5.25%	6.25%	6.25%	6.25%	5.25%	
US Equity	Russell 3000	17.5%	17.5%	17.5%	17.5%	17.5%	2.5%
Non US Equity	MSCI ACWI Ex-US IMI	17.5%	17.5%	17.5%	17.5%	17.5%	2.5%
Global Fixed Income	Barclays Universal Index	10.0%	4.0%	4.0%	4.0%	10.0%	1.5%/1%
Credit Fixed Income	Barclays US High Yield	17.0%	24.0%	24.0%	24.0%	17.0%	3.5%/2.5%
Real Estate	NCREIF ODCE	5.0%	5.0%	5.0%	5.0%	5.0%	1.0%
Absolute Return	HFRI Diversified FOF	10.0%	10.0%	10.0%	10.0%	10.0%	1.5%
Real Return	Custom - Allocation Specific	10.0%	10.0%	10.0%	10.0%	10.0%	1.5%
Private Equity ST <5 Yrs	Actual Performance	10.0%	10.0%	10.0%	10.0%	10.0%	1.5%
Private Equity LT 5+ Yrs	Russell 3000 + 300 bps (lagged)						
Cash	Citi Grp 3-mos Treasury Bill	3.0%	2.0%	2.0%	2.0%	3.0%	1.0%

II. Total Fund Blended Benchmark Composite

Pension Fund Composite		
US Equity	Russell 3000	17.5%
Non US Equity	MSCI ACWI Ex-US IMI	17.5%
Global Fixed Income	Barclays Universal Index	5.1%
Credit Fixed Income	Barclays U.S. High Yield	22.7%
Real Estate	NCREIF ODCE	5%
Absolute Return	HFRI Diversified FOF	10.0%
Real Return	Custom - Allocation Specific	10.0%
Private Equity <Short Term <5 Yrs>	Actual Performance	10.0%
Private Equity <Long Term 5 Yrs+>	Russell 3000 (lagged 1 qtr) + 300 bps	
Cash	Citi Grp 3-mos Treasury Bill	2.2%

At the November 3, 2011 Investment Committee meeting Staff was authorized to combine Public and Private Equity targets and exposures for the KERS and SPRS plans to help manage portfolio risks caused by the unintended overweight to Private Equity, which is caused by the denominator effect over time.

Signatories

As Adopted by the Investment Committee
Date: July 12th, 2017

Signature: _____
David L. Harris
Chair, Investment Committee

As Adopted by the Board of Trustees
Date: July 12th, 2017

Signature: _____
John R. Farris
Chair, Board of Trustees



Kentucky Retirement Systems

Appendix B: Addendum to the Statement of Investment Policy
Insurance Fund – Asset Allocation / Benchmark Composite
Effective July 12th, 2017

This addendum to the investment policy is issued by the Board of Trustees of Kentucky Retirement Systems (Systems) in connection with investing the insurance funds of the Kentucky Employees Retirement System, the County Employees Retirement System and the State Police Retirement System. This document supersedes all prior documents entitled Addendum to the Statement of Investment Policy.

I. Asset Allocation with Benchmarks

KRS Insurance Fund - Asset Allocation							
Asset Class	Benchmark	Target					Allowable Range (+/- Target)
		KERS	KERS Hazardous	CERS	CERS Haz	SPRS	
Assumed Rate of Return		6.25%	6.25%	6.25%	6.25%	6.25%	
US Equity	Russell 3000	17.5%	17.5%	17.5%	17.5%	17.5%	2.5%
Non US Equity	MSCI ACWI Ex-US IMI	17.5%	17.5%	17.5%	17.5%	17.5%	2.5%
Global Fixed Income	Barclays Universal Index	4.0%	4.0%	4.0%	4.0%	4.0%	1.0%
Credit Fixed Income	Barclays US High Yield	24.0%	24.0%	24.0%	24.0%	24.0%	3.5%
Real Estate	NCREIF ODCE	5.0%	5.0%	5.0%	5.0%	5.0%	1.0%
Absolute Return	HFRI Diversified FOF	10.0%	10.0%	10.0%	10.0%	10.0%	1.5%
Real Return	Custom – Allocation Specific	10.0%	10.0%	10.0%	10.0%	10.0%	1.5%
Private Equity ST <5 Yrs	Actual Performance	10.0%	10.0%	10.0%	10.0%	10.0%	1.5%
Private Equity LT 5+ Yrs	Russell 3000 + 300 bps (lagged)						
Cash	Citi Grp 3-mos Treasury Bill	2.0%	2.0%	2.0%	2.0%	2.0%	1.0%

II. Total Fund Blended Benchmark Composite

Insurance Fund Composite		
US Equity	Russell 3000	17.5%
Non US Equity	MSCI ACWI Ex-US IMI	17.5%
Global Fixed Income	Barclays Universal Index	4.0%
Credit Fixed Income	Barclays U.S. High Yield	24.0%
Real Estate	NCREIF ODCE	5.0%
Absolute Return	HFRI Diversified FOF	10.0%
Real Return	Custom – Allocation Specific	10.0%
Private Equity <Short Term <5 Yrs>	Actual Performance	10.0%
Private Equity <Long term 5 Yrs+>	Russell 3000 (lagged 1 qtr) + 300 bps	
Cash	Citi Grp 3-mos Treasury Bill	2.0%

At the November 3, 2011 Investment Committee meeting Staff was authorized to combine Public and Private Equity targets and exposures to help manage portfolio risks caused by the unintended overweight to Private Equity, which is caused by the denominator effect over time.

Signatories

As Adopted by the Investment Committee
Date: July 12th, 2017

Signature: _____
David L. Harris
Chair, Investment Committee

As Adopted by the Board of Trustees
Date: July 12th, 2017

Signature: _____
John R. Farris
Chair, Board of Trustees

**KRS IC Summary Overview 9-7-2017
(August 2016 to August 2017)**

1. Began meeting on a monthly basis and improved interaction with the KRS investment department. Revised asset allocations for each plan, developed a new Investment Policy Statement and asset class clarity

2. Formed an Asset Allocation Sub-Committee

- Each Plan's traditional asset class exposure was over complicated and gave a false sense of diversification.
- Focus on building a portfolio for each plan that is more likely to produce reasonable results given the funding level and cash flow requirements for benefit funding.
- Focus on contributions and liquidity needs of each Plan
- Refined each plan's portfolio's duration, implied volatility, and liquidity status.
- Alternative investment strategies will continue to be used to complement our core equity and fixed income risk.

3. Streamlined overall investment policy into three major asset allocations

- A. Equities 45%
- B. Debt 30%
- C. Diversified Strategies 25%

4. Reviewed and reduced hedge fund allocation

- Performed an in-depth review of all hedge fund investments.
 - KRS had \$1.61 billion invested in hedge funds as of August 1st, 2016. We have cut that allocation by over \$500,000,000 (30%) down to \$1.14 billion, and will be under \$1 billion by the end of 2017.
 - Terminated 27 hedge fund investments to date
 - Large portion of the allocations were adding no value and were very high cost. These investments were terminated.
 - Lack of return vs. the risk taken; cost prohibitive, difficult to monitor asset class allocation of funds within our IPS
 - Reduced our total dollar amount of fees paid to hedge funds by an estimated \$11,000,000 through a combination of investment terminations and negotiation of fee reductions.

5. Reviewed, re-bid and improved consulting services

- Terminated consulting contracts with Albourne in the absolute return and real return asset classes and PCA in the private equity asset class.
- Replaced general investment consultant RVK with Wilshire Consulting bringing much needed depth of services for all asset classes except real estate, enhanced back office support, reconciliation, reporting, risk analytics, liability funding sensitivity, non-liquid asset tracking and oversight of policies and procedures.

6. Reviewed and rebid legal counsel services

7. Master custodian services and fees

- Engaged Bank of New York Mellon (BONY) to help us maximize the value we receive from our relationship.

8. Security lending program

- Terminated our relationship w Deutsche Bank, replacing contract with BONY, our master custodian which has strong financials and operating efficiency

9. Reviewed the internal investment department tasks, work flows & organizational structure

- Staff refocused on a few investment types where we can either gain an advantage and get outsized returns or manage in house at a very low cost.
- Reviewed investment department organizational chart.

10. Performance

- Produced investment results, net of fees, above the benchmark for the first time since FY 2014

Pension Fund Returns			
Fiscal Year	Return	Benchmark	Relative
2017	13.47%	13.30%	0.17%
2016	-0.52%	-0.19%	-0.33%
2015	2.01%	3.13%	-1.12%

Insurance Fund Returns			
Fiscal Year	Return	Benchmark	Relative
2017	13.72%	13.55%	0.17%
2016	-0.09%	0.03%	-0.12%
2015	1.86%	3.79%	-1.93%

11. Developed a new Investment Procurement Policy

- Working in conjunction with the Finance and Administration Cabinet, we have developed and implemented a new procurement policy for investments in accordance with recently passed legislation.

12. Broad Advancements

- Assisted KRS Board in RFP of a replacement actuarial firm resulting in a collaborative consulting relationship.
- Assisted in setting the discount rate for HB 351 (cessation) which resulted in the first two employers who left KRS having to pay an additional \$25 million to cover their liability compared to the previous valuation method.
- Addressed our actuarial assumptions in a much more realistic way so that our legislators and the governor can make more informed decisions as to how to solve our pension problem

KRS Actuarial Assumptions 2017-2018 Plan Year

- KERS Non-Haz & SPRS: 5.25% assumed return; 0% payroll growth; 2.3% inflation
- KERS Haz: 6.25% assumed return; 0% payroll growth; 2.3% inflation
- CERS Plans: 6.25% assumed return; 2% payroll growth; 2.3% inflation

13. Costs Reductions (all fees annual)

- Estimated net hedge fund fee savings \$11,000,000
- Consulting and software savings

Consulting Services	FY 2016	FY 2017	FY 2018 e
Albourne*	\$486,902.32	\$240,000.00	\$0
ORG	\$305,920.25	\$309,058.92	\$315,000
Pension Consulting Alliance	\$389,146.87	\$400,821.26	\$101,000
RVK**	\$443,206.38	\$442,958.97	\$115,000
Wilshire**	\$0.00	\$0.00	\$992,000
Subtotal - Consulting	\$1,625,175.82	\$1,392,839.15	\$1,523,000
Burgess Software	<u>\$225,000.00</u>	<u>\$225,000.00</u>	<u>\$0</u>
	\$1,850,175.82	\$1,617,839.15	\$1,523,000

**Albourne was terminated in January 2017*

***Wilshire annual fee of \$1,190,000 is prorated from 9/1/17*

Total Estimated Net Fee Savings >>> \$12,523,000

To: KRS Board of Trustees
From: Mark Blackwell, *mb*
Executive Advisor
Date: September 14, 2017
Subject: Investment Procurement Policy

The attached Investment Procurement Policy (Policy) was approved by the Board of Trustees as a preliminary document at the Board meeting held July 12, 2017, per the requirements of SB2 (KRS 61.650).

KRS 61.650 requires the preliminary Policy, as so approved, to be tendered to the Secretary of the Finance and Administration Cabinet for review and comment 30 days prior to final adoption by the Board. The Policy was tendered as required on July 24; no additional comment having been made, the Policy is submitted to the Board for adoption.

[Note that, upon adoption by the Board the document is resubmitted to the Finance Cabinet, which is then required to certify, within 30 days of receipt, whether the Policy meets or does not meet best practices for investment management procurement.]

KENTUCKY RETIREMENT SYSTEMS INVESTMENT PROCUREMENT POLICY

INTRODUCTION

Kentucky law mandates that the Kentucky Retirement Systems (KRS) of the State of Kentucky, through the Board of Trustees, develop and adopt an investment procurement policy (KRS 61.650). The policy must be designed, in consultation with the Secretary of the Finance and Administration Cabinet, to follow best practices for investment procurement. This policy functions in concert with other statutes, administrative regulations and guidelines detailing fiduciary and ethical requirements and parameters for investing trust funds. The law shall control if any inconsistency exists between it and this policy.

The procurement procedures in this policy will be implemented consistent with the board's fiduciary duty established by law to procure the managers, goods and services needed to support the investment or management of KRS assets. The board has delegated investment authority to its Investment Committee, consistent with investment policies adopted by the board.

The board also has designated a portion of KRS's funds to be managed externally, including by investment managers specializing in mandates such as equities, bonds, other publicly traded securities, alternative investments, real estate, timberland and/or any other asset type authorized by Kentucky law. Additionally, the board is responsible for the procurement of investment analytical, professional, research and technical services to carry out the investment or management of KRS assets.

Investment procurements will promote the highest level of competition and best value, giving due consideration to factors including, but not limited to, timing (including emergencies), execution, quality, service and price. Whenever KRS is considering an investment procurement, staff – rather than members of the KRS board and Investment Committee – will communicate directly with the principals of the potential vendor to ensure transparency, accountability and compliance with laws and board policies, including those banning payment of fees or commissions to placement agents.

1. Definitions

Alternative investments (alternatives): investments with general partners or managers in assets such as timberland, private equity and infrastructure that are long-term and illiquid in nature.

Best and final price: request to submit their last and most competitive pricing to secure a contract.

Co-investment opportunities: an opportunity to invest in a company or property outside of an existing limited partnership. Co-investment opportunities arise when the general partner wants to make an investment for the partnership, but the total value of that investment is larger than the partnership can hold. Co-investments generally have much more favorable economics than the investment in the partnership, and are usually only offered to limited partners who have expressed a desire to be shown these opportunities.

Evaluation factors/screening criteria: evaluation criteria that represent the key areas of importance in making a final determination, which shall always include cost/price, as well as other considerations weighted by importance.

External investment manager: a vendor selected by an authorized competitive selection process and that is approved by the Investment Committee, subject to ratification by the board, to invest KRS funds in a manner specified by contract.

Final candidate pool: that subset of vendor(s) from which the final vendor is chosen to provide services to Kentucky Retirement Systems under this Investment Procurement Policy

Highest level of competition and best value: seeking vendors that provide the best performance at the lowest cost (economic efficiency) giving due consideration to factors including, but not limited to, performance improvements (faster, more suitable), timing (including emergencies), execution, quality, trust, reputation, service and price.

Independent: not having conflicts of interest.

Investment consultant: an external firm or individual retained to advise the board and the Investment Committee and assist investment staff in a variety of ways, including as outlined in this policy.

Minimum qualifications: establishes the lowest threshold metric for determining whether a vendor is qualified to reasonably perform the necessary work.

Specialty investment consultant: an external firm or individual retained to advise the board and Investment Committee and assist investment staff in a variety of ways, including recommending general partners or managers for alternative investments.

Investment procurement: all contracts for the investment or management of assets of KRS undertaken subject to fiduciary duty and other legal and ethical standards in accordance with KRS 61.650(6).

Performance attribution: quantifies the relationship between a portfolio's returns and the active decisions of the portfolio manager.

Placement agents: a third party or firm banned by KRS 61.645(21) and board policies from receiving fees or commissions incident to an investment by KRS.

Qualitative analysis: a review of a potential vendor that uses unquantifiable information, such as the impact of vendor management expertise, processes and ownership structure on an investment.

Quantitative analysis: economic, business or financial reviews that aim to understand or predict behavior or events through the use of mathematical measurements and calculations, statistical

modeling and research.

Quiet Period: a specified timeframe when board members and staff are restricted in communications with potential vendors in designated procurements.

Request For Information (RFI): a document sent to vendors to request specific information or clarification on a service or product.

Request For Proposals (RFP): a document soliciting proposals for a procurement based on the terms listed in the offering document.

Request For Quotations (RFQ): an invitation to suppliers to bid on providing specific products or services.

2. External Manager Selection

External investment managers are to be chosen through a competitive selection process coordinated by KRS investment staff and based upon established criteria. The selection process, which typically involves the assistance of KRS's independent investment consultant, results in a recommendation of a manager. The recommendation will be made to the KRS Investment Committee for its review and approval, with ratification by the board no later than at its next quarterly meeting.

KRS normally will use an open search process when conducting a manager search. KRS will identify a list of suitable candidates that are appropriate for the mandate. The list of suitable candidates will be developed by KRS staff and/or the independent investment consultant using a broad-based list of potential managers that meet the screening criteria provided by KRS.

KRS also may use a request process such as an RFP, RFI or RFQ when conducting a manager search. The request may be sent directly to known vendors, will be listed on the KRS website and may be advertised through other means such as financial media. Any advertisement will state clearly the mandate for which KRS is seeking a manager. The advertisement also will state certain minimum requirements that a manager must meet.

A written report documenting the particulars of the search process will be given to the Investment Committee with the recommendation of a manager. The report will include matters such as the screening criteria, the number of managers considered, the number of managers interviewed, the number of firms in the final candidate pool, the names of the firms in the final candidate pool, any prior KRS history with the manager, references checked and summaries of other qualitative and quantitative analyses.

A. Determination of Screening Criteria

Screening criteria may include, but are not limited to: investment processes; investment fee schedule; investment products; dollar value and composition of assets under management; historical performance; years of experience; growth of firm; a manager's history with KRS;

other client relationships (including experience with large public funds); ownership; the number and depth of investment professionals; research capabilities; structure of the proposed investment (separate account, commingled account, limited partnership, etc.); compliance with standard contractual provisions; compliance with the Chartered Financial Analyst (CFA) Institute Code of Ethics; compliance with Global Investment Performance Standards as administered by the CFA Institute; and reporting consistent with the Institutional Limited Partners Association standards. Other criteria may be added for any search.

B. Preliminary Screening

- 1) KRS staff and/or the investment consultant identify a preliminary list of firms that meet the initial set of screening criteria.
- 2) KRS staff and/or the investment consultant contact each firm on the preliminary list to determine if they are accepting new business and to obtain the most current information and any additional information, as required. Follow-up telephone calls, interviews or on-site visits are made as necessary.
- 3) Based upon the established criteria, staff and/or the investment consultant narrows the preliminary list to a candidate pool.

C. Candidate Pool

- 1) KRS staff and/or the investment consultant conduct a more in-depth interview with each candidate. The interviews may be in person or telephonic which allows for the interaction with and evaluation of the person or persons who will be investing on behalf of KRS. Interview topics may include:
 - a) Investment process;
 - b) Any action or investigation concerning a candidate by a regulatory or civil or criminal enforcement agency;
 - c) Any SEC forms, other similar agency reports or prospectuses;
 - d) Qualifications of the firm's representatives, including the portfolio management team;
 - e) A list of institutional references;
 - f) Communication with the firm;
 - g) Employee compensation and ownership structure;

- h) Availability of the contact person and portfolio manager to meet with KRS and responsiveness to board and staff concerns;
 - i) Validation of performance and the continued management by key individuals who will be responsible for fulfilling assignment;
 - j) Accommodation of KRS's priorities;
 - k) Experience with large public funds;
 - l) Fee discussions;
 - m) Conflicts of interest, including the appearance of conflicts of interest. Potential or actual conflicts of interest must be evaluated during due diligence and after engagement under the board's Conflict of Interest and Confidentiality Policy and applicable statutes and regulations. The investment staff will employ reasonable efforts to identify conflicts of interest affecting KRS trustees, employees and managers with respect to all investments.
 - n) Placement agents. Staff will employ reasonable due diligence to ensure that no fees or commissions are paid to a third party or firm banned, either by KRS 61.645(21) or board policies, from receiving fees or commissions incident to an investment by KRS.
- 2) Quantitative analyses also are conducted in addition to the qualitative analyses above. This analysis will include performance attribution and risk management.
- 3) Additional due diligence factors may be necessary in selecting general partners or managers for alternatives (such as timberland, private equity and infrastructure) because of the long-term and illiquid nature of these types of investments. The additional factors include particular considerations such as risk management; diversification; and legal and business matters.
- a) KRS may engage independent specialized consultants to assist in the selection of these managers.
 - b) KRS staff and/or consultants will narrow potential funds to seek best-in-class managers.
 - c) Any new fund offering by an existing manager (also known as a reup) will be evaluated consistent with the process described above (understanding that some of the materials and knowledge for conducting due diligence already may have been obtained based on the prior investment with the manager).
- 4) KRS staff and – if involved in the process – the investment consultant (or, in the case of alternative investments, any engaged specialty investment consultant), will reach a

consensus regarding a manager for the final written recommendation to the Investment Committee. Any approval by the Investment Committee is subject to the review by and ratification of the board, the completion of due diligence and the negotiation and execution of a contract.

- a) It is critical that the terms of the contract accurately reflect the terms and conditions of the authorization. The process may involve highly specialized contract provisions, including investment guidelines, and result in protracted negotiations. Staff may retain outside counsel to assist in the contract process.
- b) The investment manager must certify that no fees or commissions are paid to a third party or firm banned, either by KRS 61.645(21) or board policies, from receiving fees or commissions incident to an investment by KRS.

D. An approval of a manager by the Investment Committee is reported to the board no later than at its next quarterly meeting for review and ratification.

3. Co-Investment Opportunities

Co-Investment opportunities occurring from general partners, funds, or other investment managers already contained in the KRS portfolio and previously approved by the KRS Investment Committee may be authorized by Kentucky Retirement Systems Executive Director Office of Investments in amounts up to 1% of the plan assets, considering the following:

- 1) The co-investments may be made alongside an existing KRS General Partner, provided that the strategy and objective of the partnership investing in the transaction are consistent with those of the partnership in which KR has an existing commitment.
- 2) Co-investments shall be made on the same (or better) terms and conditions as provided to the partnership;

4. External Investment Consultant Selection

External investment consultants are to be chosen through a competitive selection process coordinated by KRS investment staff and based upon established criteria. The selection process results in a recommendation of a consultant to the KRS Investment Committee for its review and approval, with ratification by the board no later than at its next quarterly meeting.

KRS normally will use an open search process when conducting a consultant search. A list of suitable candidates will be developed by KRS staff using a broad-based list of potential consultants that meet the screening criteria provided by KRS.

KRS also may use a request process such as a request for proposal (RFP), request for information (RFI) or request for quotation (RFQ) when conducting a consultant search. The request may be sent directly to known vendors, will be listed on the KRS website and may be advertised through

other means such as financial media. Any advertisement will state clearly the mandate for which KRS is seeking a consultant. The advertisement also will state certain minimum requirements that a consultant must meet.

A written report documenting the particulars of the search process will be given to the Investment Committee with the recommendation of a consultant. The report will include matters such as the firm name, screening criteria, the number of consultants considered, the number of consultants interviewed, the number of firms in the final candidate pool and their names, any prior KRS history with the consultant, references checked and summaries of other qualitative and quantitative analyses.

A. Determination of Screening Criteria.

Screening criteria for an External Investment Consultant may include, but are not limited to: depth, breadth and experience in consulting similar plans, organizational strength, firm stability, key personnel, financial condition, industry reputation, client list, soundness and compatibility of investment philosophy and approach, breadth and capability of technological resources, research platform, risk reporting, fee proposal, size of public institutional, tax-exempt client AUM; size of pension fund client assets; consultant's history with KRS; other client relationships (including experience with large public funds); ownership; the number and depth of investment professionals; research capabilities; compliance with standard contractual provisions; compliance with the Chartered Financial Analyst (CFA) Institute Code of Ethics; compliance with Global Investment Performance Standards as administered by the CFA Institute; and reporting consistent with the Institutional Limited Partners Association standards. Other criteria may be added for any search.

B. Preliminary Screening.

- 1) KRS staff will identify a preliminary list of firms that meet the initial set of screening criteria.
- 2) KRS staff will contact each firm on the preliminary list to determine if they are accepting new business, would be interested in being a candidate, and to obtain the most current information and any additional information, as required. Follow-up telephone calls, interviews, or on-site visits are made as necessary.
- 3) Based upon the established criteria, KRS staff narrows the preliminary list to a candidate pool.

C. Analysis.

- 1) KRS staff will conduct a qualitative and quantitative analysis utilizing criteria developed by KRS staff identified to meet the External Investment Consultant needs of the Agency.

- 2) KRS staff will utilize, as necessary, additional diligence factors for consideration in selecting an External Investment Consultant. KRS staff may conduct interviews, in-person or telephonic, which allows for the interaction with and evaluation of the person or persons who will be providing consulting services. References will be checked.
- 3) It is critical that the terms of the contract accurately reflect the terms and conditions of the authorization. The process may involve highly specialized contract provisions, including investment guidelines, and result in protracted negotiations. Staff may retain outside counsel to assist in the contract process.
- 4) KRS staff will reach a consensus regarding an External Investment Consultant to be provided as a final written recommendation to the Investment Committee. Any approval by the Investment Committee is subject to the review and ratification of the board, the completion of due diligence and the negotiation and execution of a contract. An approval of an External Investment Consultant by the Investment Committee is reported to the board no later than at its next quarterly meeting for review and ratification.

5. Procurement of investment analytical, professional, research and technical services

KRS will procure investment-related goods and services through one of the methods below. Nothing in this section shall apply to the procurement of ordinary goods and services that are common to other KRS administrative functions.

- A. Procurement of goods and services costing **less than \$5,000** during a fiscal year will be determined by KRS staff based upon best value comparing known vendors. In comparing vendors, staff will promote the highest level of competition.
- B. Procurement of goods and services costing **from \$5,000 to \$24,999** during a fiscal year will be determined by any one of the Executive Director of Kentucky Retirement Systems, Executive Director Office of Operations, Executive Director Office of Investments, or any KRS employee designated to act in their stead, based upon best value comparing at least three (3) known vendors, whose price quotations may be obtained by telephone, catalog, or internet.
- C. Procurement of goods and services **equal to or greater than \$25,000** in cost during a fiscal year will be determined solely by the Executive Director of Kentucky Retirement Systems, or any KRS employee designated to act in his/her stead, based upon best value comparing at least three (3) known vendors, whose price quotations must be obtained in written form on the vendor's letterhead. The price quotations received and comments by KRS concerning the basis for placing the order shall be recorded in writing and shall be placed in a file to be maintained by KRS. These records are retained by KRS for record, audit, and review.
- D. KRS may utilize a price contract established by the Commonwealth of Kentucky, the U.S.

General Services Administration or U.S. Communities (a national government purchasing cooperative) so long as the vendor sells to KRS at or below the contract price and under the same terms and conditions.

E. KRS may publish a request for proposal (RFP), request for information (RFI) and/or request for quotation (RFQ) for goods or services. The request may be sent directly to known vendors; will be listed on the KRS website; and may be advertised through other means, such as financial media, as appropriate to promote the highest level of competition. The request will describe the goods or services required, the type of information and data required of each vendor, the relative importance of qualifications and the evaluation factors to be used. After determining the best value of proposals received, KRS may negotiate a contract for goods or services with a vendor. If contract terms cannot be agreed upon with the highest-ranking vendor, negotiations may be conducted with other vendor(s) in the order of ranking as defined by the request. The evaluation of best value will be documented by KRS. The documentation will include specifics of the process used in selecting the vendor. Those specifics may include: price, the number of vendors considered, the number of vendors interviewed, any prior KRS history with the vendor, references checked and summaries of other qualitative and quantitative analyses.

F. Exceptions to using the methods of procurement above include, but are not limited to: goods and services available only from one or two uniquely qualified sources; advertisements and public notices; and copyrighted computer software. The reason for the exception will be documented by the executive secretary or a deputy executive secretary.

6. Contract Renewal

As applicable, contract renewals, whether they be annual or longer-term agreements, use criteria such as continued need of vendor and/or asset class; level of trust; continuity of ownership, leadership and process; long-term performance; and competitiveness of fees. KRS staff will submit a formal recommendation regarding the renewal of a contract to the Investment Committee for approval. The submission to the committee will include a description of the process used in making the recommendation to renew the contract. Any approval by the Investment Committee is subject to the review by and ratification of the board, the completion of due diligence and the negotiation and execution of a contract.

7. Emergency Procurement

The existence of an emergency may cause an immediate need for managers, goods and/or services that cannot be procured through KRS's normal investment procurement procedures. The determination that an emergency exists is to be made by, and procurement actions approved by, any two of the Executive Director, the Deputy Executive Director, or the Chief Investment Officer. Thereafter, no later than at the next quarterly meetings of the board and Investment Committee, the emergency and procurement actions incident to the emergency will be reported.

8. Quiet Period

To ensure a competitive and fair procurement, KRS staff, the board and committee members will follow a quiet period with potential vendors during specified timeframes. A quiet period is a specified timeframe when staff, the board and committee members are restricted in communications with potential vendors in designated procurements. Staff assigned to the procurement are not covered by the quiet period and will notify the board, committee and other staff upon initiation of a quiet period and a description of the types of vendors to whom it applies. During quiet periods, covered staff, the board and committee members will not communicate with potential vendors or with an existing vendor on matters pertaining to the procurement, except during board or committee meetings.

A quiet period will cease when the approval of a vendor has been ratified by the board, or if the search process or quiet period are otherwise ended.

9. Other Laws and Policies that Comprise KRS Investment Procurement Policy

This policy is to be implemented in conjunction and accordance with the laws and other policies that, cumulatively, establish the comprehensive KRS Investment Procurement Policy under which all KRS investment procurements are made. These laws and other policies are as follows, but are not limited to:

- A. Executive Branch Code of Ethics (KRS Chapter 11A);
- B. Board as fiduciary (KRS 61.650, 78.790, 16.642);
- C. Pension Fund investment requirements (KRS 61.650);
- D. KRS conflict of interest prohibitions (KRS 61.655);
- E. KRS confidentiality requirement (KRS 61.661);
- F. Insurance Fund investment requirements (KRS 61.701 and 105 KAR 1:410); and
- G. Kentucky Retirement Systems Board of Trustees Election Policy and Procedure, Statement of Bylaws and Committee Organization, Trustees Education Program, Conflict of Interest and Confidentiality Policy, Policy and Procedures Regarding Open Records Request, CFA Code of Ethics and Standards of Professional Conduct, CFA Asset Manager Code of Professional Conduct, and CFA Code of Conduct for Members of a Pension Scheme Governing Body.

CERTIFICATION OF ADOPTION.

This is to certify that this Kentucky Retirement Systems Investment Procurement Policy was approved and adopted by the Board of Trustees of the Kentucky Retirement Systems on this the _____ day of _____, 20____.

John R. Farris, Chair, Board of Trustees	Date
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David L. Eager, Interim Executive Director	Date
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CERTIFICATION

This certifies that the Investment Procurement Policy of the Kentucky Retirement Systems of the State of Kentucky, attached hereto, meets best practices for investment management procurement as specified by KRS 61.650(6).

William M. Landrum III
Secretary of the Finance and Administration Cabinet
Commonwealth of Kentucky

Date



KENTUCKY RETIREMENT SYSTEMS

David L. Eager, Interim Executive Director

Perimeter Park West • 1260 Louisville Road • Frankfort, Kentucky 40601


kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



MEMORANDUM

Date: August 24, 2017

To: David L Eager
Interim Executive Director

From: Brian Huffman 
Internal Auditor

Re: Nominations for the KERS Election

The following individuals (listed in random order) have submitted their names for consideration for nomination for the Kentucky Employees' Retirement System (KERS) election to the Board of Trustees of Kentucky Retirement Systems (KRS):

- 1) Mr. Larry Parker Totten
- 2) Mr. Russell Thomas Wright
- 3) Ms. Sherry Lynn Kremer
- 4) Ms. Glenda Mae France
- 5) Mr. James Daniel Brannen
- 6) Ms. Gloria Jean Ham
- 7) Ms. Lori Mae Withers
- 8) Mr. Raymond Campbell Connell
- 9) Mr. John Aaron Wesley
- 10) Ms. Gretchen D. Marshall
- 11) Mr. George Vincent Lang
- 12) Ms. Mary Helen Peter
- 13) Mr. Cary Brandon Bishop

The aforementioned applicants were the ones received by the deadline for nominations, July 31, 2017. One person submitted an application, but it was received after the July 31, 2017 deadline. Therefore, the application was rejected.

According to Kentucky Revised Statute 61.645 (4) and the Board of Trustees Election Policy and Procedures, the Board of Trustees is permitted to nominate no more than three nominees for each of the two Board seats assigned to KERS. Therefore, these individuals will be placed on the nomination score sheet for each Board member to cast his/her nomination choice.

David L Eager
August 24, 2017
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cc: John R. Farris, Chair,
Board of Trustees

John E. Chilton, CPA, Chair,
Audit Committee of the Board of Trustees

David Rich, Member
Audit Committee of the Board of Trustees

Mary Helen Peter, Member
Audit Committee of the Board of Trustees

David L. Harris, Member
Audit Committee of the Board of Trustees

Mark Blackwell
Executive Advisor

Rich Robben
Interim Chief Investment Officer

Becky Stephens
Executive Director Office of Benefits

Karen D. Roggenkamp, MBA,
Executive Director Office of Operations

Joseph Overhults, CPA
Associate Director of Assurance Services
Dean, Dorton, Allen, and Ford, PLLC
Certified Public Accountants

z:/KERS election 18 memo Aug 24.doc

To: Members of the Board
From: D’Juan Surratt
Date: 9/14/2017
Subject: Hazardous Position Classification

AGENCIES ARE ASKING FOR HAZARDOUS DUTY COVERAGE FOR THE FOLLOWING POSITIONS:

<u>Agency</u>	<u>Position</u>	<u>Effective Date</u>
City of Villa Hills	Police Chief	09/01/2017
City of Villa Hills	Police Detective	09/01/2017
City of Villa Hills	Police Sergeant	09/01/2017
Louisville Jefferson Co. Metro Gov.	EMS – EMT II	09/01/2017
City of Versailles	Assistant Fire Chief	09/01/2017
Saint Matthews Fire District	Paramedic	08/01/2017
Saint Matthews Fire District	Emergency Medical Technician	08/01/2017
Saint Matthews Fire District	Paramedic – Firefighter	08/01/2017
Saint Matthews Fire District	Emergency Medical Technician- Firefighter	08/01/2017
Eastern Kentucky University	Corporal	06/01/2016*

EKU is requesting a retro date of 6/1/16. There are three members in this position and they accidentally omitted it when their other positions were approved in 2016.

61.592 Retirement of persons working in hazardous positions.

- (1) (a) "Hazardous position" for employees participating in the Kentucky Employees Retirement System, and for employees who begin participating in the County Employees Retirement System before September 1, 2008, means:
 1. Any position whose principal duties involve active law enforcement, including the positions of probation and parole officer and Commonwealth detective, active fire suppression or prevention, or other positions, including, but not limited to, pilots of the Transportation Cabinet and paramedics and emergency medical technicians, with duties that require frequent exposure to a high degree of danger or peril and also require a high degree of physical conditioning;
 2. Positions in the Department of Corrections in state correctional institutions and the Kentucky Correctional Psychiatric Center with duties that regularly and routinely require face-to-face contact with inmates; and
 3. Positions of employees who elect coverage under KRS 196.167(3)(b)2. and who continue to provide educational services and support to inmates as a Department of Corrections employee.
 - (b) "Hazardous position" for employees who begin participating in the County Employees Retirement System on or after September 1, 2008, means police officers and firefighters as defined in KRS 61.315(1), paramedics, correctional officers with duties that routinely and regularly require face-to-face contact with inmates, and emergency medical technicians if:
 1. The employee's duties require frequent exposure to a high degree of danger or peril and a high degree of physical conditioning; and
 2. The employee's duties are not primarily clerical or administrative.
 - (c) The effective date of participation under hazardous duty coverage for positions in the Department of Alcoholic Beverage Control shall be April 1, 1998. The employer and employee contributions shall be paid by the employer and forwarded to the retirement system for the period not previously reported.
- (2) (a) Each employer may request of the board hazardous duty coverage for those positions as defined in subsection (1) of this section. Upon request, each employer shall certify to the system, in the manner prescribed by the board, the names of all employees working in a hazardous position as defined in subsection (1) of this section for which coverage is requested. The certification of the employer shall bear the approval of the agent or agency responsible for the budget of the department or county indicating that the required employer contributions have been provided for in the budget of the employing department or county. The system shall determine whether the employees whose names have been certified by the employer are working in positions meeting the definition of a hazardous position as provided by subsection (1) of this section. This process shall not be required for employees who elect coverage under KRS 196.167(3)(b)2.

196.037 Department personnel to have powers of peace officers.

- (1) All personnel of the department, while acting for the department in any capacity entailing the maintenance of custody over any prisoners, shall have all the authority and powers of peace officers.
- (2) All department personnel who are officially requested by a law enforcement agency in a county of Kentucky or by the Department of Kentucky State Police to assist in the apprehension of a prisoner who has escaped from the legal or physical custody of the Department of Corrections or a detention facility of the Department of Corrections shall possess, while responding to and for the duration of the matter for which the request was made, the same powers of arrest as peace officers.
- (3) Probation and parole officers, while acting for the department in any capacity entailing the maintenance of custody or supervision of any confined prisoner, paroled prisoner, escaped prisoner, probationer, or other person otherwise placed under their supervision shall have all the authority and powers of peace officers.
- (4) Internal affairs officers and supervisors of the department, while investigating any person in connection with an offense involving personnel of the department, employee of any contractor providing services to the department, confined prisoner, paroled prisoner, escaped prisoner, probationer, or other person otherwise placed under the supervision of the department, shall have all the authority and powers of peace officers.

Effective: June 24, 2015

History: Amended 2015 Ky. Acts ch. 126, sec. 1, effective June 24, 2015. -- Amended 2007 Ky. Acts ch. 85, sec. 224, effective June 26, 2007. -- Amended 2000 Ky. Acts ch. 345, sec. 1, effective July 14, 2000. -- Amended 1996 Ky. Acts ch. 334, sec. 2, effective July 15, 1996. -- Amended 1992 Ky. Acts ch. 211, sec. 20, effective July 14, 1992; and ch. 335, sec. 2, effective July 14, 1992. -- Amended 1990 Ky. Acts ch. 497, sec. 19, effective July 13, 1990. -- Amended 1982 Ky. Acts ch. 344, sec. 4, effective July 15, 1982. -- Amended 1974 Ky. Acts ch. 74, Art. V, sec. 24(14). -- Created 1962 Ky. Acts ch. 106, Art. X, sec. 8.

*Members of the Board
September 14, 2017
Page 1 of 2*

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: John E. Chilton
Audit Committee Chair

David L. Eager
Interim Executive Director

DATE: August 24, 2017
SUBJECT: Meeting of the Audit Committee

The Audit Committee held a meeting on August 24, 2017. The purpose of the meeting was to review and discuss the following:

- 1. The Audit Committee approved the May 4, 2017, Audit Committee meeting minutes.**
- 2. The following quarterly reports were presented to the Audit Committee:**

Ms. Karen Roggenkamp presented a review of the Unaudited Fiscal Year ended June 30, 2017 Financial Statements for both the Pension and Insurance Funds. This discussion included information about cash flows, administrative expenses, and outstanding invoices.

Ms. Connie Davis presented the review of the annual A-133 information disclosure letter for awards of Federal funds.

Ms. Karen Roggenkamp presented information on disclosure incidents that occurred during the second quarter of calendar year 2017.

Mr. Brian Huffman reviewed the Internal Audit Budget and it's relation to actual expenses for the Fiscal Year ended June 30, 2017.

Mr. Brian Huffman reviewed the Anonymous Reporting updates.

*Members of the Board
September 14, 2017
Page 2 of 2*

Mr. Brian Huffman reviewed and discussed the Investment Compliance Report for the quarters ended December 31, 2016, March 31, 2017, and June 30, 2017 for the Pension and Insurance Funds.

Committee action: None – for informational purposes only.

3. The following new business was discussed with the Audit Committee:

Mr. Brian Huffman presented updates on the County Employee Retirement System Board of Trustees Election and the Kentucky Employee Retirement System Board of Trustees Election.

Mr. David Eager presented an update on the personnel search for an Internal Audit Deputy Director.

Mr. Brian Huffman presented an update on the status of current audits.

Mr. Brian Huffman presented his annual statement of auditor independence.

Ms. Karen Roggenkamp discussed the recertification process for hazardous positions.

Committee action: None – for informational purposes only.

4. Review of the Web Application and Information Security Assessment Audit

During closed session Ms. Rebecca Adkins and Ms. Pam Hirschler discussed the findings and recommendations of the Web Application and Information Security Assessment that was conducted by Crowe Howarth, LLP in May and June 2017.

Committee action: The Audit Committee approved the recommendations presented.

RECOMMENDATION: The Audit Committee requests that the Board ratify the actions taken by the Audit Committee.

MEMORANDUM

Date: August 15, 2017
To: Brian Huffman
Internal Auditor
From: Karen Roggenkamp
Executive Director of Operations
Re: **FY 2017 Financial Highlights**

KENTUCKY RETIREMENT SYSTEMS						
<i>Net Position Comparison – Pension Fund</i>						
	KERS	KHAZ	CERS	CHAZ	SPRS	TOTAL
Fourth Quarter of FY 2017	\$2,092,779,477	\$605,922,606	\$6,739,139,226	\$2,227,676,107	\$256,383,087	\$11,921,900,504
FY 2016 End of Period (6/30/16)	\$1,980,292,118	\$527,879,431	\$6,141,394,419	\$2,010,174,047	\$218,012,479	\$10,877,752,495
Change in Net Position	\$112,487,358	\$78,043,176	\$597,744,806	\$217,502,060	\$38,370,617	\$1,044,148,018

FY 2017 Summary (period ending June 30):

Total Pension Net Assets were \$11.9 Billion at year end compared to \$10.9 Billion at the end of Fiscal Year (FY) 2016. The primary factors of \$1.0 Billion (9.6%) increase were higher employer contributions and positive investment performance.

Comments & Comparisons to Prior Year:

- Total **Contributions** were \$1.67 Billion which is an increase of \$399.4 Million from the end of FY16. The following were the major drivers of the increase in contributions:
 - Member contributions increased by \$26.8M due to an increase in covered payroll (CERS and CERS Haz).
 - Employer contributions increased by \$216.5M due to an increase in the contribution rates For KERS, CERS and SPRS.
 - The inflow of \$98.2M as appropriated by the General Fund (ARC+ during last year’s legislative session).
- Overall **Investment Income** was \$1.42B compared to a negative \$76.0M last year. The major drivers of the increase in Investment Income were:
 - The net appreciation in the FV of Investments increased from a negative \$212.9M in FY16 to a positive \$1.2B in FY17. The increase in FV for FY17 is made up of realized gains of \$560.4M and unrealized gains of \$603.7M
 - Interest and Dividends earned during the 2017 fiscal year increased by \$139.8M from prior year to \$334.6M. The increase in interest and dividends is related to increased Absolute Return Income as well as market changes among other asset classes.
 - Investment expenses were \$85.5M higher than FY16 of \$61.7M. Investment Fees increased as market conditions improved creating higher market values which is the basis for all fees.
- Total **Deductions** were \$2.0B (up \$77.7M from 2016). Benefits/Refunds totaled \$2.0B. The 4.0% increase was primarily driven by CERS Nonhaz and CERS Haz retirement payments. Pension administrative expenses were \$33.1M compared to \$32.8M for same period last year.

KENTUCKY RETIREMENT SYSTEMS						
<i>Net Position Comparison – Insurance Fund</i>						
	KERS	KHAZ	CERS	CHAZ	SPRS	TOTAL
Fourth Quarter of FY 2017	\$781,409,307	\$484,441,007	\$2,160,551,392	\$1,179,314,304	\$178,190,585	\$4,783,906,595
FY 2016 End of Period (6/30/16)	\$668,318,886	\$437,395,843	\$1,908,549,216	\$1,056,097,315	\$160,947,901	\$4,231,309,161
Change in Net Position	\$113,090,421	\$47,045,164	\$252,002,176	\$123,216,989	\$17,242,684	\$552,597,434

FY 2017 Summary (period ending June 30):

Total Insurance Net Assets were \$4.2 Billion at the end of Fiscal Year (FY) 2016 and increased by 13.1% to \$4.8 Billion. Total contributions and net investment income of \$914.2M offset deductions of \$361.6M, resulted in an increase in net position of \$552.6M.

Comments & Comparisons to Prior Year:

- Total **Contributions** were \$340.0M (\$3.0M lower than 2016) due to a decrease in required employer contributions credited to the insurance fund across three of the five plans (KERS Haz, CERS Haz, and SPRS).
- Overall **Investment Income** was positive \$574.2M compared to a negative \$5.2M in 2016. The major drivers of Investment Income were:
 - The net appreciation in the FV of Investments was positive 480.3M compared to negative \$54.5M in 2016. The increase in FV for FY17 is made up of realized gains of \$223.3M and unrealized gains of \$256.9M.
 - Interest and Dividends were \$127.4M (increase of \$50.4M from the prior year). The increase in interest and dividends is related to increased Absolute Return Income as well as market changes among other asset classes.
 - Investment expenses were \$34.2M, slightly higher than FY16 of \$28.8M Investment Fees increased as market conditions improved creating higher market values which is the basis for all fees.
- Total **Deductions** were \$361.6M (higher by \$8.2M compared to 2016). A slight increase in Healthcare Premiums accounted for increase.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF NET POSITION
PENSION FUNDS
As of June 30, 2017
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2017	2016		
ASSETS									
Cash and Short-term Investments									
Cash Deposits	\$ 1,295,361	\$ 1,376,971	\$ 93,690	\$ 398,461	\$ 202,336	\$ 3,366,819	\$ 1,121,515	200%	1
Short-term Investments	\$ 114,474,330	\$ 241,689,617	\$ 11,972,414	\$ 94,635,887	\$ 24,158,222	\$ 486,930,470	\$ 306,243,184	59%	2
Total Cash and Short-term	\$ 115,769,691	\$ 243,066,587	\$ 12,066,104	\$ 95,034,349	\$ 24,360,558	\$ 490,297,289	\$ 307,364,700		
RECEIVABLES									
Accounts Receivable	\$ 72,976,003	\$ 45,291,225	\$ 13,040,410	\$ 11,526,560	\$ 7,290,768	\$ 150,124,966	\$ 126,336,053	19%	3
Accounts Receivable - Investments	\$ 37,130,978	\$ 111,339,088	\$ 3,999,106	\$ 34,892,740	\$ 10,038,341	\$ 197,400,253	\$ 316,026,024	-38%	4
Accounts - Alternate Participation	\$ -	\$ -	\$ -	\$ 94,335	\$ -	\$ 94,335	\$ 101,245	-7%	
Total Receivables	\$ 110,106,981	\$ 156,630,313	\$ 17,039,516	\$ 46,513,634	\$ 17,329,109	\$ 347,619,554	\$ 442,463,322		
INVESTMENTS, AT FAIR VALUE									
Fixed Income	\$ 298,401,375	\$ 569,194,091	\$ 29,400,553	\$ 186,884,612	\$ 49,288,557	\$ 1,133,169,187	\$ 1,130,595,132	0%	
Public Equities	\$ 817,021,140	\$ 3,667,139,945	\$ 122,230,150	\$ 1,205,589,648	\$ 325,287,000	\$ 6,137,267,883	\$ 5,416,405,517	13%	5
Private Equities	\$ 374,434,266	\$ 833,783,477	\$ 31,243,842	\$ 280,729,989	\$ 77,752,899	\$ 1,597,944,473	\$ 1,367,455,984	17%	6
Derivatives	\$ 3,224,054	\$ 13,946,894	\$ 440,995	\$ 4,604,087	\$ 1,236,908	\$ 23,452,939	\$ 12,267,866	91%	7
Absolute Return	\$ 163,325,387	\$ 508,541,218	\$ 17,204,091	\$ 161,149,580	\$ 42,665,914	\$ 892,886,191	\$ 1,104,194,904	-19%	8
Real Return	\$ 164,692,090	\$ 557,468,741	\$ 19,891,238	\$ 188,078,195	\$ 52,186,586	\$ 982,316,851	\$ 902,277,351	9%	
Real Estate	\$ 81,466,857	\$ 298,419,163	\$ 11,271,558	\$ 95,409,281	\$ 27,947,325	\$ 514,514,183	\$ 516,267,596	0%	
Total Investments, at Fair Value	\$ 1,902,565,169	\$ 6,448,493,529	\$ 231,682,427	\$ 2,122,445,393	\$ 576,365,188	\$ 11,281,551,706	\$ 10,449,464,350		
Security Lending Collateral Invested	\$ 62,353,872	\$ 230,953,576	\$ 7,803,077	\$ 75,707,194	\$ 19,994,511	\$ 396,812,230	\$ 653,683,441		
FIXED/INTANGIBLE ASSETS									
Fixed Assets	\$ 929,074	\$ 1,700,704	\$ 11,003	\$ 153,235	\$ 91,375	\$ 2,885,391	\$ 2,819,040		
Intangible Assets	\$ 5,919,584	\$ 9,960,922	\$ 100,005	\$ 826,734	\$ 493,581	\$ 17,300,826	\$ 17,300,826		
Accumulated Depreciation	\$ (816,583)	\$ (1,498,564)	\$ (9,417)	\$ (135,242)	\$ (80,751)	\$ (2,540,557)	\$ (2,441,324)		
Accumulated Amortization	\$ (3,893,506)	\$ (6,500,048)	\$ (77,872)	\$ (546,528)	\$ (317,519)	\$ (11,335,474)	\$ (9,448,411)		
Total Fixed Assets	\$ 2,138,569	\$ 3,663,014	\$ 23,718	\$ 298,199	\$ 186,686	\$ 6,310,186	\$ 8,230,132	-23%	9
Total Assets	\$ 2,192,934,283	\$ 7,082,807,019	\$ 268,614,843	\$ 2,339,998,769	\$ 638,236,052	\$ 12,522,590,965	\$ 11,861,205,944		
LIABILITIES									
Accounts Payable	\$ 3,137,125	\$ 5,180,604	\$ 443,439	\$ 1,802,644	\$ 2,403,602	\$ 12,967,415	\$ 12,498,593	4%	
Investment Accounts Payable	\$ 34,663,809	\$ 107,533,613	\$ 3,985,240	\$ 34,812,824	\$ 9,915,332	\$ 190,910,817	\$ 317,271,424	-40%	10
Securities Lending Collateral	\$ 62,353,872	\$ 230,953,576	\$ 7,803,077	\$ 75,707,194	\$ 19,994,511	\$ 396,812,230	\$ 653,683,441	-39%	11
Total Liabilities	\$ 100,154,806	\$ 343,667,793	\$ 12,231,756	\$ 112,322,662	\$ 32,313,445	\$ 600,690,462	\$ 983,453,458		
Total Plan Net Assets	\$ 2,092,779,477	\$ 6,739,139,226	\$ 256,383,087	\$ 2,227,676,107	\$ 605,922,606	\$ 11,921,900,504	\$ 10,877,752,486		

NOTE - Variance Explanation

- 1 Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.
- 2 Short Term Investments is primarily comprised of the cash that is on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow.
- 3 The increase in Accounts Receivable is a result of the increase in the contribution rates (funding of the ARC).
- 4 Variance is a result of transactions activity which is based on each individual manager.
- 5 Increase in Public Equity is due to an increased allocation beginning 1/1/16.
- 6 The increase in Private Equity is a result of appreciation in assets during the first half of FY17.
- 7 Derivatives include currency forwards/futures as permitted by KRS investment policy. Derivative income increases as the hedging investment offsets the strong USD.
- 8 The reduction in Absolute Return is a result of efforts to reduce our exposure to Hedge Funds
- 9 Increase in Amortization of fixed assets.
- 10 Variance is a result of transactions activity which is based on each individual manager.
- 11 During FY17, the provider for Securities Lending was transitioned from Deutsche Bank to BNY Mellon creating a reduction in exposure for several months.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF CHANGES IN NET POSITION
PENSION FUNDS
For the Twelve Months Ended June 30, 2017
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2017	2016	
ADDITIONS								
Member Contributions	\$ 100,543,155	\$ 150,714,902	\$ 5,347,639	\$ 60,100,810	\$ 17,523,968	\$ 334,230,475	\$ 307,422,382	9%
Employer Contributions	\$ 644,804,215	\$ 331,492,460	\$ 38,029,448	\$ 114,315,905	\$ 37,630,118	\$ 1,166,272,147	\$ 949,800,944	23% 1
General Fund Appropriations	\$ 58,193,000	\$ -	\$ 25,000,000	\$ -	\$ 15,000,000	\$ 98,193,000	\$ -	
Pension Spiking Contributions	\$ 908,895	\$ 2,061,070	\$ 210,164	\$ 1,631,595	\$ 344,296	\$ 5,156,020	\$ 2,683,219	92% 2
Health Insurance Contributions (HB1)	\$ 5,155,740	\$ 9,157,704	\$ 130,675	\$ 1,708,118	\$ 811,205	\$ 16,963,442	\$ 14,719,676	15% 3
Employer Cessation Contributions	\$ 53,214,804	\$ -	\$ -	\$ -	\$ -	\$ 53,214,804	\$ -	
Total Contributions	\$ 862,819,810	\$ 493,426,137	\$ 68,717,927	\$ 177,756,427	\$ 71,309,587	\$ 1,674,029,887	\$ 1,274,626,222	
INVESTMENT INCOME								
From Investing Activities								
Net Appreciation in FV of Investments	\$ 170,056,893	\$ 688,183,504	\$ 21,254,824	\$ 225,647,406	\$ 58,939,924	\$ 1,164,082,552	\$ (212,891,980)	647% 4
Interest/Dividends	\$ 66,216,240	\$ 184,727,708	\$ 7,223,764	\$ 60,211,972	\$ 16,220,953	\$ 334,600,637	\$ 194,788,140	72% 5
Total Investing Activities Income	\$ 236,273,133	\$ 872,911,212	\$ 28,478,588	\$ 285,859,379	\$ 75,160,878	\$ 1,498,683,189	\$ (18,103,840)	
Investment Expense	\$ 15,600,298	\$ 48,166,500	\$ 1,722,386	\$ 15,765,417	\$ 4,267,057	\$ 85,521,658	\$ 61,727,480	39% 6
Net Income from Investing Activities	\$ 220,672,835	\$ 824,744,712	\$ 26,756,202	\$ 270,093,962	\$ 70,893,820	\$ 1,413,161,531	\$ (79,831,321)	
From Securities Lending Activities								
Securities Lending Income	\$ 477,070	\$ 1,791,201	\$ 60,405	\$ 586,670	\$ 154,700	\$ 3,070,045	\$ 4,634,867	
Securities Lending Expense								
Securities Lending Borrower Rebates	\$ 110,018	\$ 431,682	\$ 14,472	\$ 141,015	\$ 37,001	\$ 734,189	\$ 101,142	
Securities Lending Agent Fee	\$ 55,038	\$ 203,845	\$ 6,887	\$ 66,821	\$ 17,647	\$ 350,239	\$ 680,059	
Net Income from Securities Lending	\$ 312,014	\$ 1,155,674	\$ 39,046	\$ 378,833	\$ 100,051	\$ 1,985,618	\$ 3,853,666	-48.5% 7
Total Investment Income	\$ 220,984,849	\$ 825,900,386	\$ 26,795,248	\$ 270,472,794	\$ 70,993,872	\$ 1,415,147,149	\$ (75,977,655)	
Total Additions	\$ 1,083,804,659	\$ 1,319,326,522	\$ 95,513,174	\$ 448,229,222	\$ 142,303,459	\$ 3,089,177,036	\$ 1,198,648,567	
DEDUCTIONS								
Benefit Payments	\$ 948,490,080	\$ 687,460,534	\$ 56,934,354	\$ 226,984,435	\$ 61,231,137	\$ 1,981,100,540	\$ 1,903,556,943	4%
Refunds	\$ 11,819,139	\$ 14,430,038	\$ 25,827	\$ 2,314,917	\$ 2,106,412	\$ 30,696,333	\$ 30,985,401	-1%
Administrative Expenses	\$ 10,974,173	\$ 19,614,046	\$ 181,440	\$ 1,421,157	\$ 918,857	\$ 33,109,674	\$ 32,300,825	3%
Capital Project Expenses	\$ 33,908	\$ 77,098	\$ 936	\$ 6,653	\$ 3,876	\$ 122,472	\$ 533,104	-77% 8
Total Deductions	\$ 971,317,301	\$ 721,581,717	\$ 57,142,557	\$ 230,727,162	\$ 64,260,283	\$ 2,045,029,019	\$ 1,967,376,273	
Net Increase(Decrease) in Plan Net	\$ 112,487,358	\$ 597,744,806	\$ 38,370,617	\$ 217,502,060	\$ 78,043,176	\$ 1,044,148,018	\$ (768,727,706)	
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS								
Beginning of Period	\$ 1,980,292,118	\$ 6,141,394,419	\$ 218,012,479	\$ 2,010,174,047	\$ 527,879,431	\$ 10,877,752,495	\$ 11,646,480,202	
End of Period	\$ 2,092,779,477	\$ 6,739,139,224	\$ 256,383,097	\$ 2,227,676,107	\$ 605,922,608	\$ 11,921,900,513	\$ 10,877,752,495	

NOTE - Variance Explanation

- 1 The increase in Employer Contributions is due to an increase in the Employer Contribution rate and the increase in covered payroll CERS and CERS Haz.
- 2 Pension Spiking contributions increased due to an increase in Pension Spiking billings for the year.
- 3 The increase in Health Insurance Contributions is due to an increase in covered payroll in all systems except KERS.
- 4 Favorable market conditions resulting in appreciation of assets.
- 5 Higher Returns resulting in higher investment income.
- 6 Appreciation resulting in higher investment expense.
- 7 During FY17, the provider for Securities Lending was transitioned from Deutsche Bank to BNY Mellon creating a reduction in exposure for several months.
- 8 Capital Project expenses continue to decline as project winds down.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF NET POSITION
INSURANCE FUNDS
As of June 30, 2017
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2017	2016		
ASSETS									
Cash and Short-Term Investments									
Cash Deposits	\$ 82,463	\$ 57,975	\$ 24,194	\$ 49,316	\$ 30,429	\$ 244,377	\$ 152,362	60%	1
Short-term Investments	\$ 45,549,116	\$ 76,039,617	\$ 6,653,535	\$ 40,363,683	\$ 16,254,439	\$ 184,860,388	\$ 123,400,027	50%	2
Total Cash and Short-term	\$ 45,631,579	\$ 76,097,592	\$ 6,677,728	\$ 40,412,999	\$ 16,284,868	\$ 185,104,766	\$ 123,552,390		
RECEIVABLES									
Accounts Receivable	\$ 12,761,895	\$ 11,574,050	\$ 764,064	\$ 2,579,884	\$ 563,877	\$ 28,243,770	\$ 31,558,512	-11%	3
Investment Accounts Receivable	\$ 12,099,027	\$ 34,091,827	\$ 2,834,242	\$ 18,693,306	\$ 7,780,066	\$ 75,498,469	\$ 139,473,219	-46%	4
Total Receivables	\$ 24,860,922	\$ 45,665,877	\$ 3,598,307	\$ 21,273,190	\$ 8,343,943	\$ 103,742,239	\$ 171,031,731		
INVESTMENTS, AT FAIR VALUE									
Security Lending Collateral Invested	\$ 29,675,973	\$ 80,042,395	\$ 6,530,652	\$ 43,847,644	\$ 18,449,530	\$ 178,546,194	\$ 198,278,633		
Fixed Income	\$ 60,360,474	\$ 166,222,545	\$ 13,881,499	\$ 91,875,303	\$ 38,872,695	\$ 371,212,515	\$ 370,201,984	0%	
Public Equities	\$ 441,668,037	\$ 1,165,790,162	\$ 96,165,137	\$ 640,408,221	\$ 270,110,714	\$ 2,614,142,270	\$ 2,278,866,187	15%	5
Private Equities	\$ 66,297,293	\$ 294,500,539	\$ 25,220,829	\$ 164,590,279	\$ 58,668,107	\$ 609,277,046	\$ 455,394,737	34%	6
Derivatives	\$ 1,577,791	\$ 4,301,020	\$ 356,734	\$ 2,362,795	\$ 976,016	\$ 9,574,356	\$ 4,659,129	105%	7
Absolute Return	\$ 56,678,889	\$ 160,944,816	\$ 14,104,356	\$ 90,135,119	\$ 37,618,976	\$ 359,482,156	\$ 413,903,171	-13%	8
Real Return	\$ 66,711,149	\$ 183,911,957	\$ 12,462,295	\$ 93,457,491	\$ 38,824,972	\$ 395,367,864	\$ 347,390,860	14%	9
Alternative Investment	\$ 30,084,633	\$ 98,385,855	\$ 8,634,190	\$ 53,945,217	\$ 22,684,946	\$ 213,734,840	\$ 208,905,457	2%	
Total Investments, at Fair Value	\$ 723,378,266	\$ 2,074,056,893	\$ 170,825,039	\$ 1,136,774,426	\$ 467,756,425	\$ 4,572,791,049	\$ 4,079,321,525		
Total Assets	\$ 823,546,740	\$ 2,275,862,758	\$ 187,631,726	\$ 1,242,308,259	\$ 510,834,765	\$ 5,040,184,247	\$ 4,572,184,279		
LIABILITIES									
Accounts Payable	\$ 241,032	\$ 624,226	\$ 11,726	\$ 114,344	\$ 21,746	\$ 1,013,075	\$ 352,997	187%	10
Investment Accounts Payable	\$ 12,220,417	\$ 34,644,744	\$ 2,898,764	\$ 19,031,967	\$ 7,922,482	\$ 76,718,374	\$ 142,243,478	-46%	11
Securities Lending Collateral	\$ 29,675,973	\$ 80,042,395	\$ 6,530,652	\$ 43,847,644	\$ 18,449,530	\$ 178,546,194	\$ 198,278,633	-10%	
Total Liabilities	\$ 42,137,422	\$ 115,311,365	\$ 9,441,142	\$ 62,993,955	\$ 26,393,758	\$ 256,277,642	\$ 340,875,108		
Total Plan Net Assets	\$ 781,409,317	\$ 2,160,551,393	\$ 178,190,584	\$ 1,179,314,304	\$ 484,441,007	\$ 4,783,906,605	\$ 4,231,309,171		

NOTE - Variance Explanation

- 1 Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.
- 2 Short Term Investments is primarily comprised of the cash that is on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow.
- 3 Decrease in Receivables is due to fewer outstanding monthly reporting employer invoices.
- 4 Variance is a result of transactions activity which is based on each individual manager.
- 5 Increase in Public Equity is due to an increased allocation beginning 1/1/16.
- 6 The increase in Private Equity is a result of appreciation in assets during the first half of FY17.
- 7 Derivatives include currency forwards/futures as permitted by KRS investment policy. Derivative income increases as the hedging investment offsets the strong USD.
- 8 The reduction in Absolute Return is a result of efforts to reduce our exposure to Hedge Funds
- 9 Additional \$38M invested into the Internal TIPS Portfolio.
- 10 Increase in Payables is due to higher outstanding Employer credit invoices compared to the same period last year.
- 11 Variance is a result of transactions activity which is based on each individual manager.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF CHANGES IN NET POSITION
INSURANCE FUNDS
For the Twelve Months Ended June 30, 2017
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2017	2016		
ADDITIONS									
Employer Contributions	\$ 133,023,560	\$ 117,310,161	\$ 9,222,254	\$ 50,743,360	\$ 4,687,783	\$ 314,987,118	\$ 333,118,927	-5%	
Medicare Drug Reimbursement	\$ 1,449	\$ 686	\$ 39	\$ 77	\$ 13	\$ 2,263	\$ 0		
Insurance Premiums	\$ 248,747	\$ 707,244	\$ (54,182)	\$ (301,658)	\$ (51,380)	\$ 548,771	\$ 720,613	-24%	1
Retired Reemployed Healthcare	\$ 3,764,948	\$ 3,401,811	\$ -	\$ 793,737	\$ 931,860	\$ 8,892,357	\$ 9,154,948	-3%	
Employer Cessation Contributions	\$ 15,567,246	\$ -	\$ -	\$ -	\$ -	\$ 15,567,246	\$ -		
Total Contributions	\$ 152,605,950	\$ 121,419,902	\$ 9,168,111	\$ 51,235,516	\$ 5,568,276	\$ 339,997,754	\$ 342,994,488		
INVESTMENT INCOME									
From Investing Activities									
Net Appreciation in FV of Investments	\$ 75,308,665	\$ 217,622,209	\$ 18,036,163	\$ 119,918,994	\$ 49,400,244	\$ 480,286,275	\$ (54,534,087)	981%	2
Interest/Dividends	\$ 19,709,356	\$ 57,871,072	\$ 4,868,304	\$ 31,817,307	\$ 13,113,194	\$ 127,379,233	\$ 76,938,707	66%	3
Total From Investing Activities	\$ 95,018,021	\$ 275,493,281	\$ 22,904,467	\$ 151,736,301	\$ 62,513,438	\$ 607,665,508	\$ 22,404,620		
Investment Expense									
Net Income from Investing Activities	\$ 4,226,802	\$ 16,244,952	\$ 1,362,373	\$ 8,992,332	\$ 3,401,669	\$ 34,228,128	\$ 28,816,866	19%	4
Net Income from Investing Activities	\$ 90,791,219	\$ 259,248,330	\$ 21,542,094	\$ 142,743,969	\$ 59,111,768	\$ 573,437,380	\$ (6,412,246)		
From Securities Lending									
Securities Lending Income	\$ 177,524	\$ 479,763	\$ 39,400	\$ 262,926	\$ 110,992	\$ 1,070,605	\$ 1,556,097		
Securities Lending Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Security Lending Borrower Rebates	\$ 30,516	\$ 83,251	\$ 7,048	\$ 45,714	\$ 19,600	\$ 186,130	\$ 75,502		
Security Lending Agent Fees	\$ 22,036	\$ 59,436	\$ 4,849	\$ 32,560	\$ 13,698	\$ 132,578	\$ 222,089		
Net Income from Securities Lending	\$ 124,972	\$ 337,076	\$ 27,502	\$ 184,652	\$ 77,695	\$ 751,897	\$ 1,258,506	-40%	5
Total Net Income from Investments	\$ 90,916,190	\$ 259,585,406	\$ 21,569,597	\$ 142,928,621	\$ 59,189,463	\$ 574,189,277	\$ (5,153,740)		
Total Additions	\$ 243,522,140	\$ 381,005,308	\$ 30,737,708	\$ 194,164,137	\$ 64,757,739	\$ 914,187,031	\$ 337,840,748		
DEDUCTIONS									
Healthcare Premiums Subsidies	\$ 127,647,982	\$ 124,572,568	\$ 13,405,017	\$ 70,407,143	\$ 17,562,089	\$ 353,594,798	\$ 344,946,588	3%	
Administrative Expense	\$ 860,692	\$ 788,794	\$ 65,908	\$ 380,674	\$ 105,042	\$ 2,201,110	\$ 2,038,411	8%	
Self Funded Healthcare Costs	\$ 1,919,994	\$ 3,635,866	\$ 24,059	\$ 159,331	\$ 45,444	\$ 5,784,695	\$ 6,419,262	-10%	
Excise Tax Insurance	\$ 3,050	\$ 5,904	\$ 40	\$ -	\$ -	\$ 8,994	\$ 17,765	-49%	6
Total Deductions	\$ 130,431,719	\$ 129,003,132	\$ 13,495,024	\$ 70,947,149	\$ 17,712,575	\$ 361,589,597	\$ 353,422,026		
Net Increase(Decrease) in Plan Net Assets	\$ 113,090,422	\$ 252,002,176	\$ 17,242,684	\$ 123,216,988	\$ 47,045,164	\$ 552,597,434	\$ (15,581,278)		
INSURANCE BENEFITS									
Beginning of Period	\$ 668,318,886	\$ 1,908,549,216	\$ 160,947,901	\$ 1,056,097,315	\$ 437,395,843	\$ 4,231,309,161	\$ 4,246,890,439		
End of Period	\$ 781,409,307	\$ 2,160,551,392	\$ 178,190,585	\$ 1,179,314,304	\$ 484,441,007	\$ 4,783,906,595	\$ 4,231,309,161		

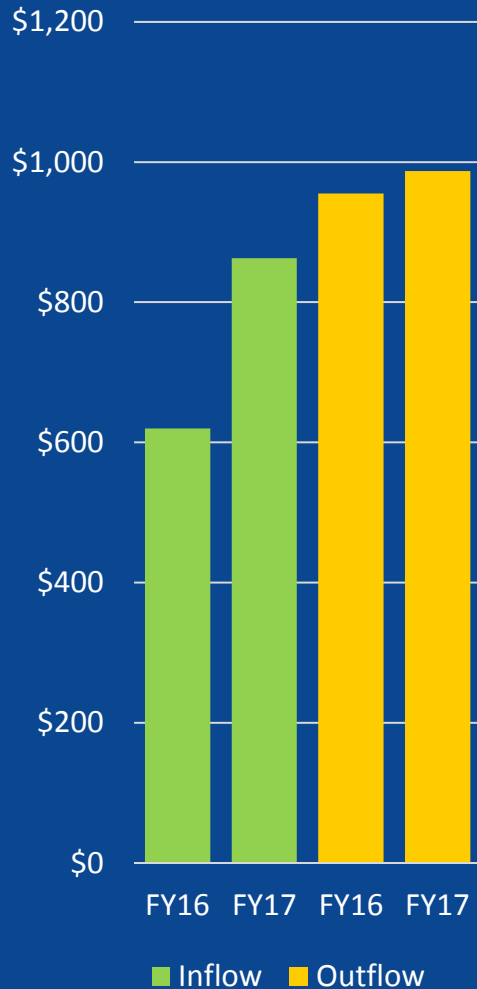
NOTE - Variance Explanation

- 1 The decrease in Insurance Premiums is due to an increase in direct pay billing refunds to hazardous duty retirees.
- 2 Favorable market conditions resulting in appreciation of assets.
- 3 Higher Returns resulting in higher investment income.
- 4 Appreciation resulting in higher investment expense.
- 5 KRS is currently in the process of changing providers for services of Securities Lending. The portfolio was reduced in December as the transition began.
- 6 FYE 2016 was overstated due to a 2015 Payable that was not zeroed out. Percent change was actually 3%.



FY16-FY17

Inflows increased by 39.26%
Outflows increased by 3.41%



CASH FLOW/NET POSITION – PENSION		
\$000's		
Contributions	FY16	FY17
<i>Member Contributions</i>	\$101,677	\$100,543
<i>Employer Contributions</i>	512,670	644,804
<i>General Fund Appropriations</i>		58,193
<i>Pension Spiking Contributions</i>	414	909
<i>Health Insurance Contributions (HB1)</i>	4,817	5,156
<i>Employer Cessation Contributions</i>		53,215
Contribution Inflow	619,579	862,820
<i>Benefit Payments</i>	923,288	948,490
<i>Refunds</i>	12,130	11,819
<i>Administrative Expenses</i>	10,808	10,923
<i>Capital Project Expenses</i>	181	34
<i>Investment Expense (Includes Securities)</i>	8,087	15,765
Contribution Outflow	954,494	987,031
Net Contributions	(334,915)	(124,211)
<i>Investment Income</i>	35,591	66,693
<i>Realized Gain/(Loss)</i>	54,752	80,665
<i>Unrealized Gain/(Loss)</i>	(102,919)	89,392
Total Net Position	(\$347,491)	\$112,538



FY16-FY17

Inflows increased by 121.06%

Outflows increased by 2.18%

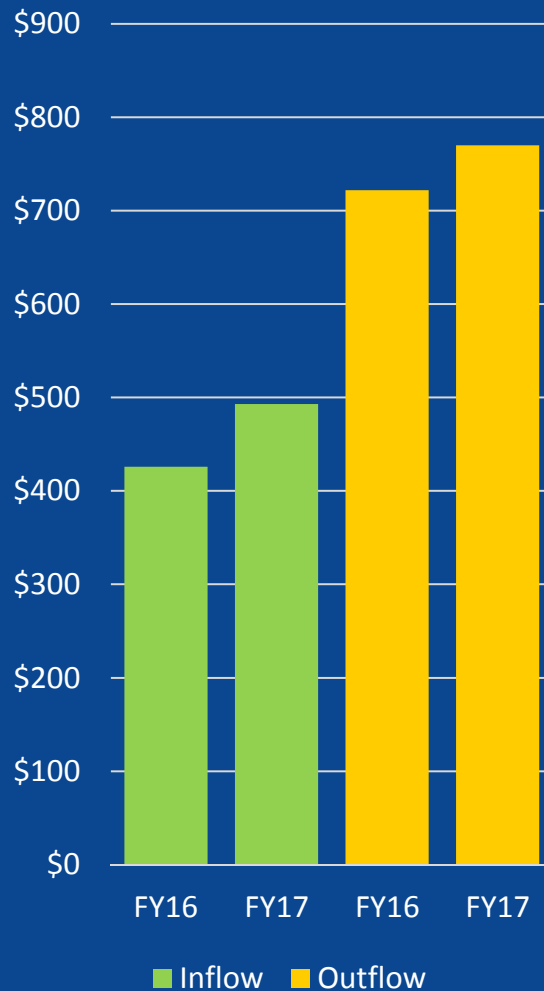


CASH FLOW/NET POSITION – PENSION		
\$000's		
Contributions	FY16	FY17
<i>Member Contributions</i>	\$5,149	\$5,348
<i>Employer Contributions</i>	25,723	38,029
<i>General Fund Appropriations</i>		25,000
<i>Pension Spiking Contributions</i>	99	210
<i>Health Insurance Contributions (HB1)</i>	114	131
Contribution Inflow	31,085	68,718
<i>Benefit Payments</i>	56,268	56,934
<i>Refunds</i>	11	26
<i>Administrative Expenses</i>	174	180
<i>Capital Project Expenses</i>	4	1
<i>Investment Expense (Includes Securities)</i>	1,169	1,744
Contribution Outflow	57,626	58,885
Net Contributions	(26,541)	9,833
<i>Investment Income</i>	4,009	7,284
<i>Realized Gain/(Loss)</i>	337	10,482
<i>Unrealized Gain/(Loss)</i>	(7,020)	10,773
Total Net Position	(\$29,215)	38,372



FY16-FY17

Inflows increased by 15.89%
Outflows increased by 6.71%



CASH FLOW/NET POSITION – PENSION

\$000's

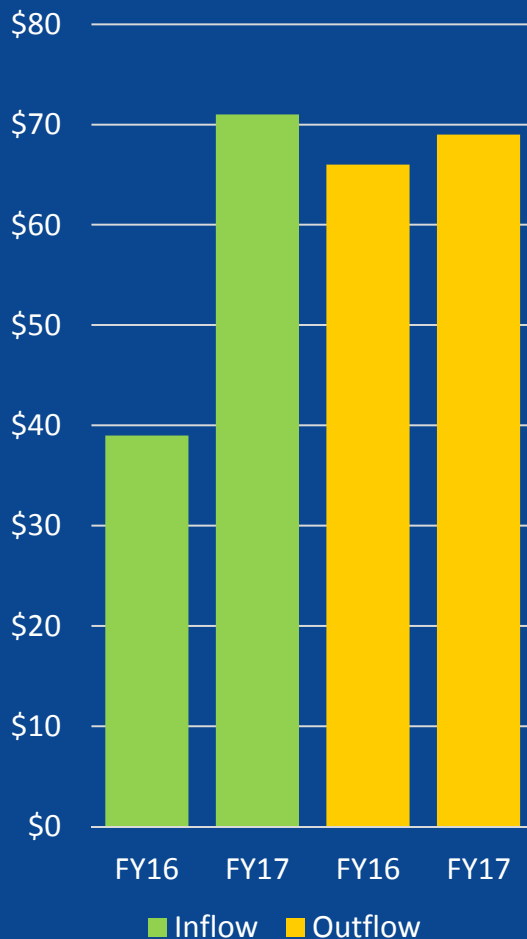
Contributions	FY16	FY17
<i>Member Contributions</i>	\$133,987	\$150,715
<i>Employer Contributions</i>	282,767	331,492
<i>General Fund Appropriations</i>		
<i>Pension Spiking Contributions</i>	1,338	2,061
<i>Health Insurance Contributions (HB1)</i>	7,687	9,158
Contribution Inflow	425,779	493,426
<i>Benefit Payments</i>	651,246	687,461
<i>Refunds</i>	13,753	14,430
<i>Administrative Expenses</i>	19,078	19,532
<i>Capital Project Expenses</i>	307	77
<i>Investment Expense (Includes Securities)</i>	37,494	48,802
Contribution Outflow	721,878	770,302
Net Contributions	(296,099)	(276,876)
<i>Investment Income</i>	113,405	186,519
<i>Realized Gain/(Loss)</i>	671	332,348
<i>Unrealized Gain/(Loss)</i>	(117,382)	355,836
Total Net Position	(\$299,405)	597,827



FY16-FY17

Inflows increased by 80.54%

Outflows increased by 4.47%



CASH FLOW/NET POSITION – PENSION

\$000's

Contributions	FY16	FY17
<i>Member Contributions</i>	\$15,055	\$17,524
<i>Employer Contributions</i>	23,689	37,630
<i>General Fund Appropriations</i>		15,000
<i>Pension Spiking Contributions</i>	70	344
<i>Health Insurance Contributions (HB1)</i>	684	811
Contribution Inflow	39,498	71,309
<i>Benefit Payments</i>	59,306	61,231
<i>Refunds</i>	2,211	2,106
<i>Administrative Expenses</i>	901	915
<i>Capital Project Expenses</i>	15	4
<i>Investment Expense (Includes Securities)</i>	3,213	4,322
Contribution Outflow	65,646	68,578
Net Contributions	(26,148)	2,731
<i>Investment Income</i>	9,594	16,376
<i>Realized Gain/(Loss)</i>	1,063	28,553
<i>Unrealized Gain/(Loss)</i>	(9,097)	30,387
Total Net Position	\$(24,588)	\$78,047



FY16-FY17

Inflows increased by 12.02%

Outflows increased by 7.15%



CASH FLOW/NET POSITION – PENSION
\$000's

Contributions	FY16-Q3	FY17-Q3
<i>Member Contributions</i>	\$51,554	\$60,101
<i>Employer Contributions</i>	104,952	114,316
<i>General Fund Appropriations</i>		
<i>Pension Spiking Contributions</i>	761	1,631
<i>Health Insurance Contributions (HB1)</i>	1,418	1,708
Contribution Inflow	158,685	177,756
<i>Benefit Payments</i>	213,448	226,984
<i>Refunds</i>	2,879	2,315
<i>Administrative Expenses</i>	1,340	1,414
<i>Capital Project Expenses</i>	26	7
<i>Investment Expense (Includes Securities)</i>	12,545	15,973
Contribution Outflow	230,238	246,693
Net Contributions	(71,553)	(68,937)
<i>Investment Income</i>	36,823	60,799
<i>Realized Gain/(Loss)</i>	326	108,332
<i>Unrealized Gain/(Loss)</i>	(33,624)	117,315
Total Net Position	(\$68,028)	217,509



FY16-FY17

Inflows increased by 12.16%
Outflows increased by 1.69%



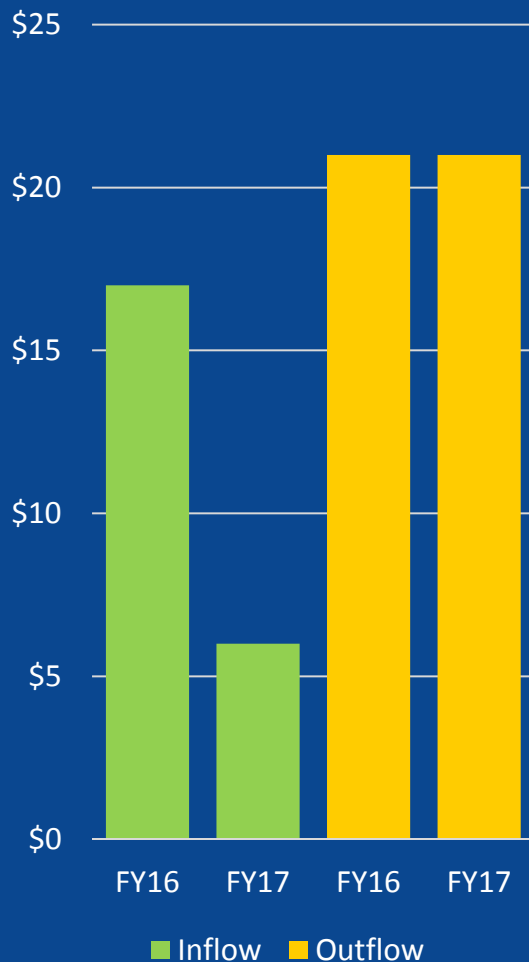
CASH FLOW/NET POSITION – INSURANCE		
\$000's		
Contributions	FY16	FY17
<i>Employer Contributions</i>	\$131,935	\$133,024
<i>Medicare Drug Reimbursement</i>		1
<i>Insurance Premiums</i>	240	249
<i>Retired Reemployed Healthcare</i>	3,880	3,765
<i>Employer Cessation Contributions</i>		15,567
Contribution Inflow	136,055	152,606
<i>Healthcare Premium Subsidies</i>	126,550	127,648
<i>Administrative Expense</i>	820	861
<i>Self Funded Healthcare Costs</i>	2,095	1,920
<i>Excise Tax Insurance</i>	6	3
<i>Investment Expense (Includes Securities)</i>	3,001	4,279
Contribution Outflow	132,472	134,711
Net Contributions	3,583	17,895
<i>Investment Income</i>	12,023	19,887
<i>Realized Gain/(Loss)</i>	(1,001)	35,747
<i>Unrealized Gain/(Loss)</i>	(11,925)	39,561
Total Net Position	2,680	113,090



FY16-FY17

Inflows decreased by 66.76%

Outflows increased by 3.62%



CASH FLOW/NET POSITION – INSURANCE

\$000's

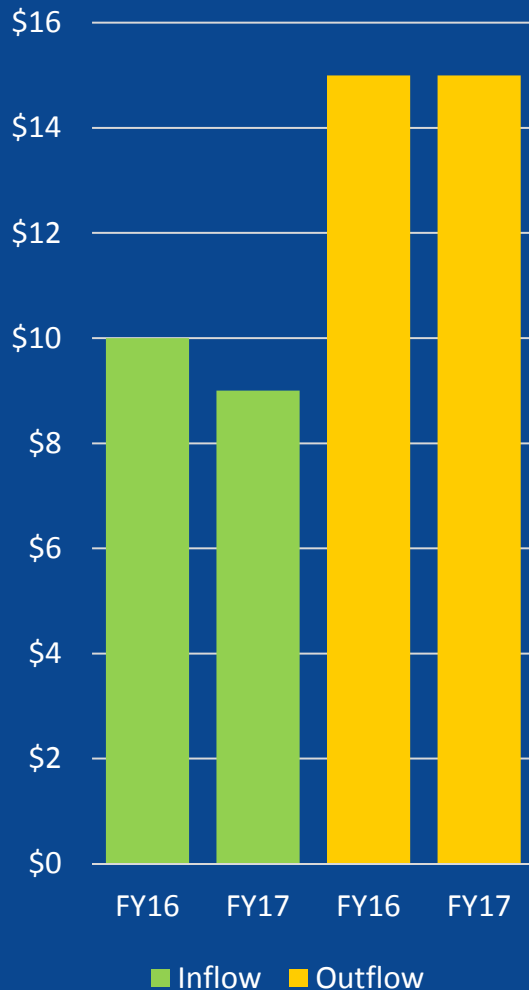
Contributions	FY16	FY17
<i>Employer Contributions</i>	15,929	4,687
<i>Medicare Drug Reimbursement</i>		
<i>Insurance Premiums</i>	(13)	(51)
<i>Retired Reemployed Healthcare</i>	837	932
<i>Employer Cessation Contributions</i>		
Contribution Inflow	16,753	5,568
<i>Healthcare Premium Subsidies</i>	17,439	17,562
<i>Administrative Expense</i>	98	105
<i>Self Funded Healthcare Costs</i>	51	45
<i>Excise Tax Insurance</i>		
<i>Investment Expense (Includes Securities)</i>	2,820	3,435
Contribution Outflow	20,408	21,147
Net Contributions	(3,655)	(15,579)
<i>Investment Income</i>	8,121	13,224
<i>Realized Gain/(Loss)</i>	(736)	23,235
<i>Unrealized Gain/(Loss)</i>	(5,447)	26,165
Total Net Position	(1,717)	47,045

Note: The insurance contribution rate dropped from 9.97% in FY16 to 2.74% in FY17 due to the funding level.



FY16-FY17

Inflows decreased by 10.19%
Outflows decreased by 1.52%



CASH FLOW/NET POSITION – INSURANCE
\$000's

Contributions	FY16	FY17
<i>Employer Contributions</i>	\$10,228	\$9,222
<i>Medicare Drug Reimbursement</i>		
<i>Insurance Premiums</i>	(29)	(54)
<i>Retired Reemployed Healthcare</i>	9	
<i>Employer Cessation</i>		
Contribution Inflow	10,208	9,168
<i>Healthcare Premium Subsidies</i>	13,836	13,405
<i>Administrative Expense</i>	64	66
<i>Self Funded Healthcare Costs</i>	26	24
<i>Excise Tax Insurance</i>	1	
<i>Investment Expense (Includes Securities)</i>	1,172	1,374
Contribution Outflow	15,099	14,869
Net Contributions	(4,891)	(5,701)
<i>Investment Income</i>	2,997	4,908
<i>Realized Gain/(Loss)</i>	(106)	8,392
<i>Unrealized Gain/(Loss)</i>	(1,767)	9,644
Total Net Position	(3,767)	17,243

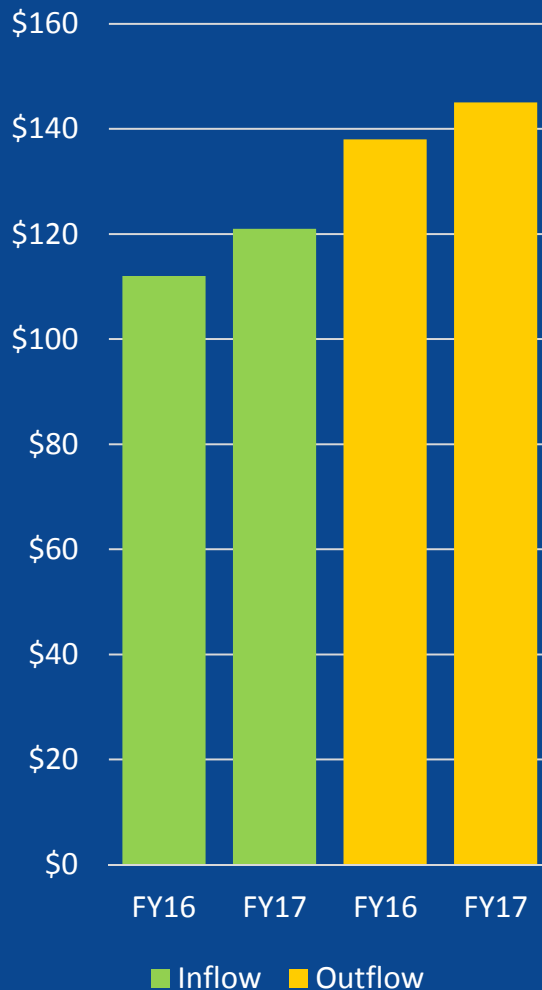
Note: The insurance contribution rate dropped from 53.90% in FY16 to 21.86% in FY17 due to the funding level.



FY16-FY17

Inflows increased by 7.96%

Outflows increased by 5.63%



CASH FLOW/NET POSITION – INSURANCE

\$000's

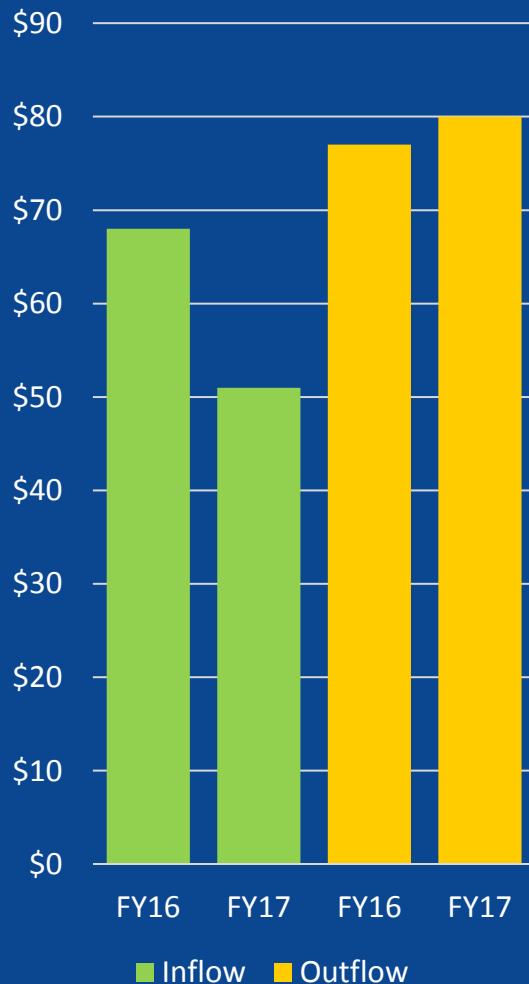
Contributions	FY16	FY17
<i>Employer Contributions</i>	\$108,269	\$117,310
<i>Medicare Drug Reimbursement</i>		1
<i>Insurance Premiums</i>	629	707
<i>Retired Reemployed Healthcare</i>	3,567	3,402
<i>Employer Cessation Contributions</i>		
Contribution Inflow	112,465	121,420
<i>Healthcare Premium Subsidies</i>	118,603	124,573
<i>Administrative Expense</i>	715	789
<i>Self Funded Healthcare Costs</i>	4,110	3,636
<i>Excise Tax Insurance</i>	11	6
<i>Investment Expense (Includes Securities)</i>	14,206	16,387
Contribution Outflow	137,645	145,391
Net Contributions	(25,180)	(23,971)
<i>Investment Income</i>	35,790	58,351
<i>Realized Gain/(Loss)</i>	(4,024)	100,498
<i>Unrealized Gain/(Loss)</i>	(18,982)	117,124
Total Net Position	(12,396)	252,002



FY16-FY17

Inflows decreased by 24.11%

Outflows increase by 4.04%



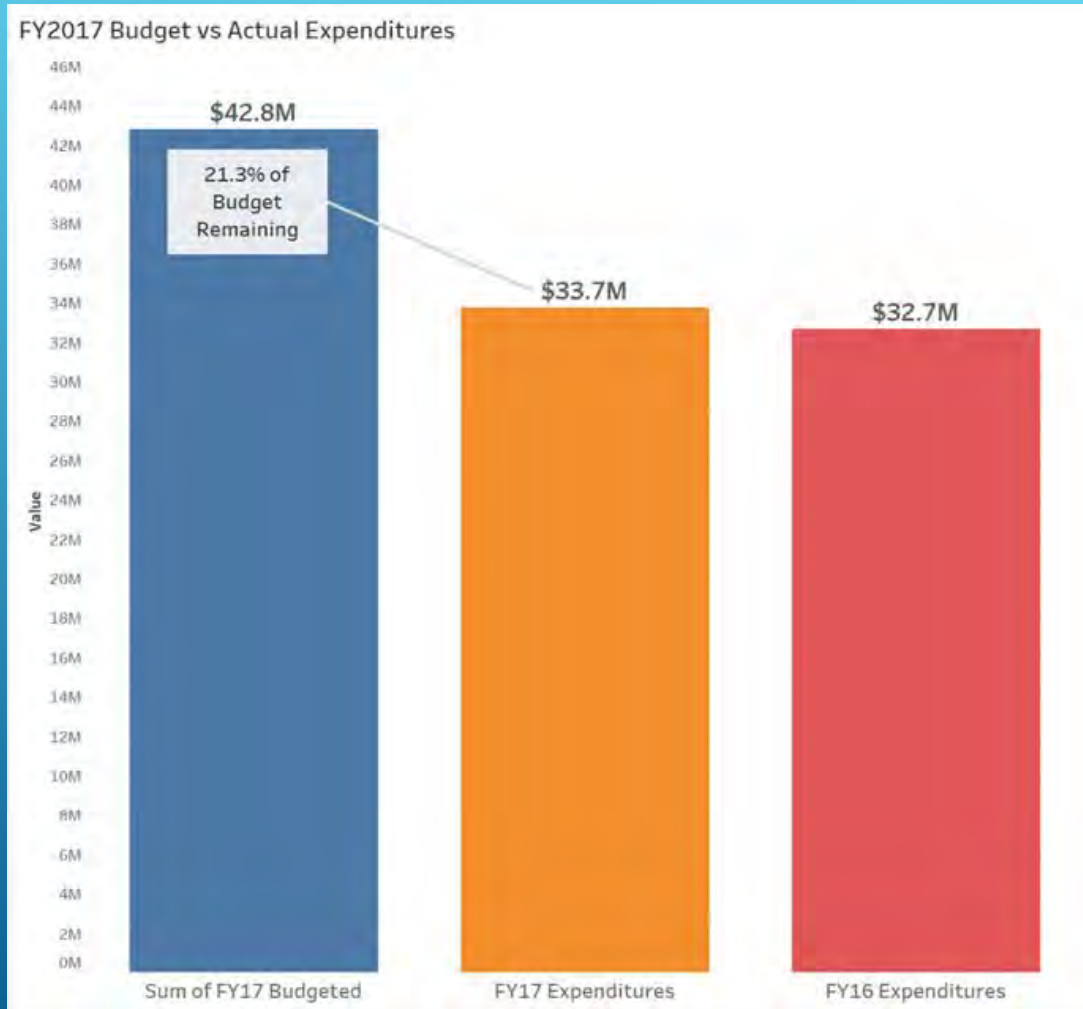
CASH FLOW/NET POSITION – INSURANCE

\$000's

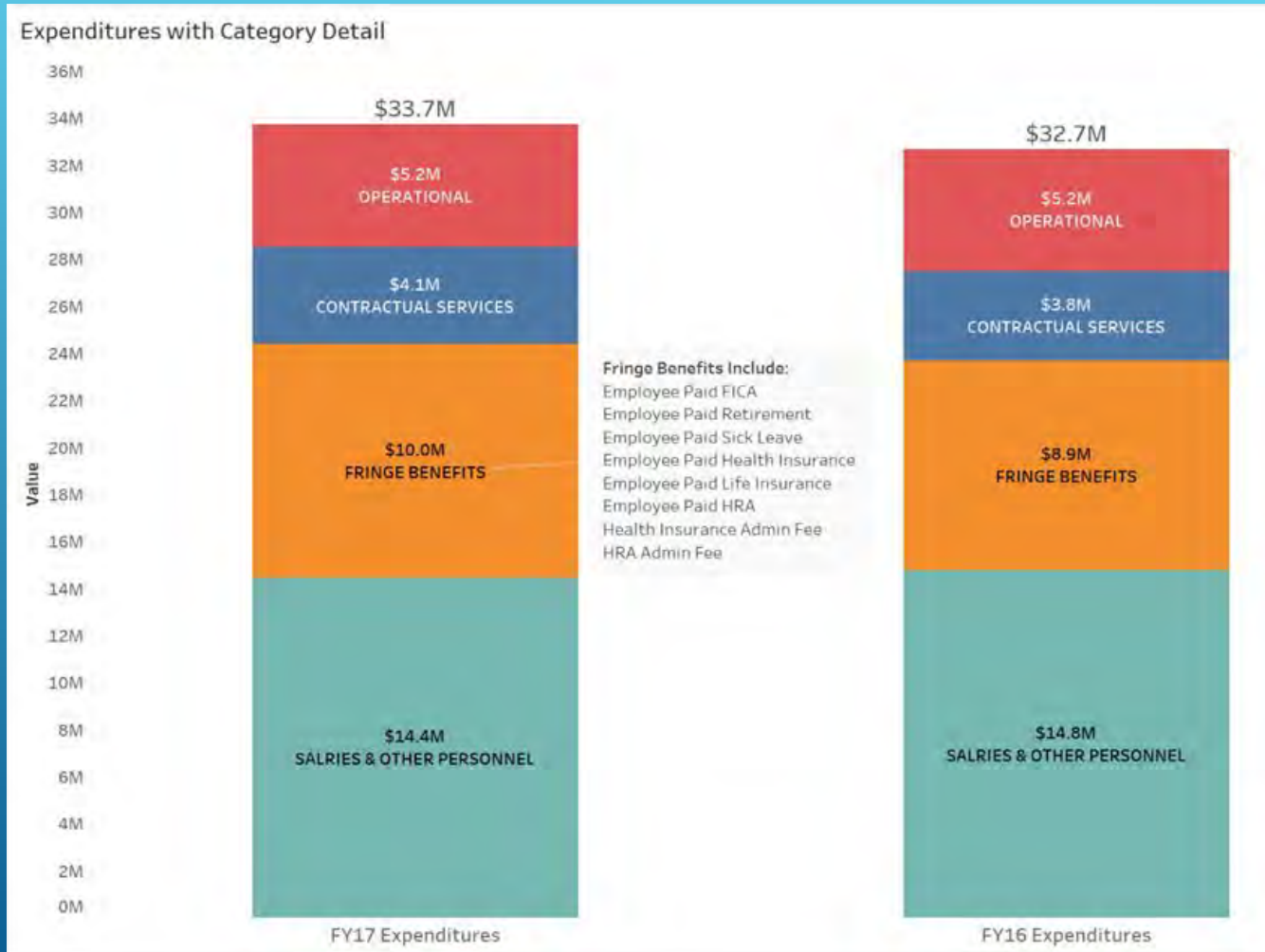
Contributions	FY16	FY17
<i>Employer Contributions</i>	\$66,757	\$50,743
<i>Medicare Drug Reimbursement</i>		1
<i>Insurance Premiums</i>	(106)	(302)
<i>Retired Reemployed Healthcare</i>	862	794
<i>Employer Cessation</i>		
Contribution Inflow	67,513	51,236
<i>Healthcare Premium Subsidies</i>	68,518	70,407
<i>Administrative Expense</i>	342	381
<i>Self Funded Healthcare Costs</i>	137	159
<i>Excise Tax Insurance</i>		
<i>Investment Expense (Includes Securities)</i>	7,916	9,071
Contribution Outflow	76,913	80,018
Net Contributions	(9,400)	(28,782)
<i>Investment Income</i>	19,564	32,080
<i>Realized Gain/(Loss)</i>	(1,815)	55,476
<i>Unrealized Gain/(Loss)</i>	(8,732)	64,443
Total Net Position	(383)	123,217

Note: The insurance contribution rate dropped from 20.26% in FY16 to 12.69% in FY17 due to the funding level.

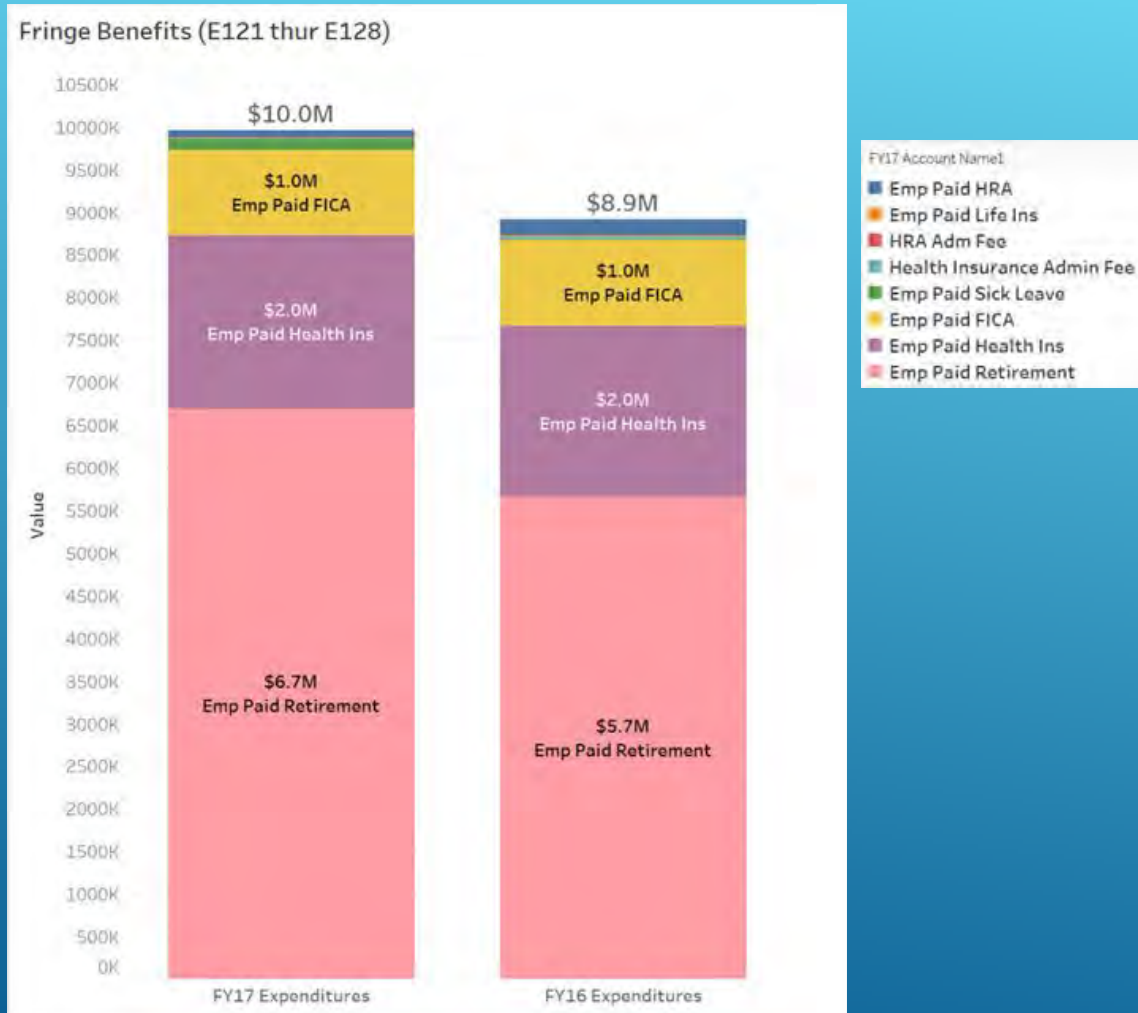
KRS Administrative Expenses



KRS Administrative Expenses by Category



KRS Administrative Expenses Benefits Analysis



**KRS ADMINISTRATIVE BUDGET 2016-17
BUDGET-TO-ACTUAL ANALYSIS**

For the Year Ended June 30, 2017

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
	PERSONNEL				
111	Salaries	\$14,654,119	\$13,989,803	\$664,316	4.5%
114	Wages (Per Diem)	\$56,000	\$2,881	\$53,119	94.9%
115	Wages (Overtime)	\$450,000	\$328,684	\$121,316	27.0%
119	Wages (Block 50)	\$100,000	\$44,973	\$55,027	55.0%
120	Benefits	\$0	\$5,858	(\$5,858)	0.0%
121	Emp Paid FICA	\$1,107,282	\$1,006,363	\$100,919	9.1%
122	Emp Paid Retirement	\$6,878,883	\$6,689,927	\$188,956	2.7%
123	Emp Paid Health Ins	\$2,402,968	\$2,032,257	\$370,711	15.4%
124	Emp Paid Life Ins	\$4,003	\$2,977	\$1,026	25.6%
125	Emp Paid HRA	\$0	\$88,266	(\$88,266)	0.0%
126	Health Insurance Admin Fee	\$26,400	\$7,992	\$18,408	69.7%
127	HRA Adm Fee	\$13,000	\$4,104	\$8,896	68.4%
128	Emp Paid Sick Leave	\$40,000	\$126,053	(\$86,053)	-215.1%
111A	Escrow For Admin Fees	\$0	(\$2,000)	\$2,000	0.0%
131	Workers Compensation	\$50,400	\$50,422	(\$22)	-0.0%
132	Unemployment	\$10,000	\$0	\$10,000	100.0%
133	Tuition Assistance	\$35,000	\$18,310	\$16,690	47.7%
133I	Investment Tuition Assistance	\$5,000	\$2,240	\$2,760	55.2%
133T	Audit Tuition Assistance	\$2,500	\$0	\$2,500	100.0%
135	Bonds	\$3,000	\$51	\$2,949	98.3%
141	LEGAL & AUDITING SERVICES				
141A	Legal Hearing Officers	\$350,000	\$169,184	\$180,816	51.7%
141B	Legal (Stoll, Keenon)	\$250,000	\$132,797	\$117,203	46.9%
141C	Polsinelli Shugart	\$100,000	\$0	\$100,000	100.0%
141D	Legal counsel Frost Brown	\$0	\$32,752	(\$32,752)	
141E	Reinhart	\$500,000	\$380,002	\$119,998	24.0%
141F	Ice Miller	\$500,000	\$187,840	\$312,160	62.4%
141L	Middleton Reutlinger	\$80,000	\$48,094	\$31,906	39.9%
142	Auditing	\$250,000	\$151,560	\$98,440	39.4%
146	CONSULTING SERVICES				
146A	Medical Reviewers	\$380,000	\$386,334	(\$6,334)	-1.7%
146B	Medical Reports	\$10,000	\$0	\$10,000	100.0%
146C	Medical Exams	\$35,000	\$34,037	\$963	2.8%
146E	Escrow for Actuary Fees	\$0	(\$11,000)		
150	CONTRACTUAL SERVICES				
150C	Miscellaneous Contracts	\$275,000	\$53,333	\$221,667	80.6%
150D	Health Consultant	\$125,000	(\$3,757)	\$128,757	103.0%
150E	Banking	\$9,000	\$0	\$9,000	100.0%
150F	PBI	\$9,000	\$0	\$9,000	100.0%
150G	Human Resources Consulting	\$100,000	\$0	\$100,000	100.0%
150H	Health Insurance Admin Fee	\$2,500,000	\$2,207,310	\$292,690	11.7%
150I	Investment Consulting	\$600,000	\$0	\$600,000	100.0%
150J	Medical Claims TPA	\$1,575,534	\$0	\$1,575,534	100.0%
150K	Pharmacy Claims TPA	\$1,019,200	\$0	\$1,019,200	100.0%
159	Actuarial Services	\$650,000	\$343,672	\$306,328	47.1%
162	Facility Security Charges	\$3,200	\$3,191	\$9	0.3%
	PERSONNEL SUBTOTAL	\$35,159,489	\$28,514,512	\$6,633,977	18.9%

BUDGET-TO-ACTUAL ANALYSIS

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
	OPERATIONAL				
211	Natural Gas	\$25,000	\$15,918	\$9,082	36.3%
212	Electric	\$190,000	\$176,336	\$13,664	7.2%
221	Rent-NonState Building	\$33,500	\$32,688	\$812	2.4%
222	Rent -State Owned Building	\$710,200	\$710,459	(\$259)	-0.0%
223	Equipment Rental	\$12,000	\$14,634	(\$2,634)	-21.9%
224	Copier Rental	\$100,000	\$65,119	\$34,881	34.9%
226	Rental Carpool	\$0	\$3,838	(\$3,838)	0.0%
232	Vehicle/Equip. Mainten.	\$29,000	\$2,654	\$26,346	90.8%
241	Postage	\$525,000	\$470,101	\$54,899	10.5%
242	Freight	\$1,200	\$477	\$724	60.3%
251	Printing (State)	\$1,000	\$1,138	(\$138)	-13.8%
252	Printing (non-state)	\$300,000	\$204,990	\$95,010	31.7%
254	Insurance	\$85,000	\$235,716	(\$150,716)	-177.3%
256	Garbage Collection	\$15,000	\$18,390	(\$3,390)	-22.6%
259	Conference Expense	\$40,000	\$16,724	\$23,276	58.2%
259I	Conference Exp. Investment	\$12,600	\$8,203	\$4,397	34.9%
259T	Conference Exp. Audit	\$1,500	\$431	\$1,069	71.3%
300	MARS Usage	\$35,000	\$32,000	\$3,000	8.6%
321	Office Supplies	\$150,000	\$109,189	\$40,811	27.2%
331	Data Processing Supplies	\$150,000	\$7,371	\$142,629	95.1%
343	Motor Fuels & Lubricants	\$3,000	\$1,870	\$1,130	37.7%
346	Furniture & Office Equipment	\$350,000	\$2,619	\$347,381	99.3%
361	Travel (In-State)	\$75,000	\$29,797	\$45,203	60.3%
361I	Travel (In-State) Investment	\$1,500	\$75	\$1,425	95.0%
361T	Travel (In-State) Audit	\$500	\$35	\$465	93.0%
362	Travel (Out of State)	\$20,000	\$14,837	\$5,163	25.8%
362I	Travel (Out of State) Invest	\$50,000	\$25,919	\$24,081	48.2%
362T	Travel (Out of State) Audit	\$2,500	\$0	\$2,500	100.0%
381	Dues & Subscriptions	\$85,000	\$46,128	\$38,872	45.7%
381I	Dues & Subscriptions Invest	\$15,000	\$11,502	\$3,498	23.3%
381T	Dues & Subscriptions Audit	\$5,000	\$720	\$4,280	85.6%
399	Miscellaneous	\$75,211	\$18,975	\$56,236	74.8%
399I	Miscellaneous Investment	\$20,000	\$1,336	\$18,664	93.3%
399T	Miscellaneous Audit	\$2,000	\$1,070	\$930	46.5%
601	Capital Outlay	\$0	\$0	\$0	0.0%
802	COT Charges	\$90,000	\$85,143	\$4,857	5.4%
814	Telephone - Wireless	\$8,000	\$4,421	\$3,579	44.7%
815	Telephone - Other	\$250,000	\$186,338	\$63,662	25.5%
847	Computer Equip./Software	\$4,000,000	\$2,677,021	\$1,322,979	33.1%
847I	Comp. Equip./Software Invest	\$190,000	\$0	\$190,000	100.0%
847T	Comp. Equip./Software Audit	\$1,000	\$500	\$500	50.0%
	OPERATIONAL SUBTOTAL	\$7,659,711	\$5,234,678	\$2,425,033	31.7%
	TOTALS	\$42,819,200	\$33,749,191	\$9,059,009	21.2%

TO: Members of the Board
FROM: D’Juan Surratt
DATE: 9/14/2017
SUBJECT: Participation of Additional Agencies

PARTICIPATION—NONHAZARDOUS

There is one (1) new agency electing to participate with the County Employees Retirement System under non-hazardous coverage. Copies of minutes, resolution to participate and agency budget will be available at the meeting for review. Contract for Health Insurance has been received for the agency electing to participate in CERS.

RECOMMENDATION: We recommend that the Board approve the participation of the McLean County Regional Water Commission, having satisfactorily completed their trial participation period.

P075

Form-7600

**McLean County Regional Water Commission
Special Called Meeting**

August 16, 2016

ATTENDANCE:

Joe Howell (P)
Keith Ayer (P)

Kenneth Lee (P)
Barbara Wiggins (P)

Ron Dame (P)

Chairman Joe Howell welcomed all guests and called the meeting to order at 1:00 p.m. He announced the purpose of this special called meeting was to discuss retirement options.

Chairman Howell asked Bill Quisenberry for comments. Mr. Quisenberry referenced handouts that were distributed via email that showed rates for state insurance (see attachment). He explained that in order to participate in state retirement, all entities must participate in state insurance. The Commission must offer all plan types, LivingWell CDHP, LivingWell PPO, Standard PPO, and Standard CDHP. Mr. Quisenberry also referenced a chart delineating private insurance options (see attachment).

Discussion followed concerning the benefits and disadvantages of both alternatives. Chairman Howell called for a vote.


*

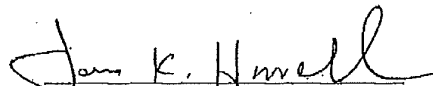
Ron Dame made a motion to accept the state retirement plan. The motion was seconded by Kenneth Lee. A vote was taken and the motion carried, with Keith Ayer voting nay.

Joanna Shake will contact Nadine White to start the process.

The next Commission meeting will be September 6, 2016, at 6:30 p.m. A motion was made by Keith Ayer to adjourn, with Kenneth Lee offering a second. The motion carried unanimously.

ATTEST:


Secretary


Chairman

P075



Kentucky Retirement Systems
Perimeter Park West • 1260 Louisville Rd. • Frankfort KY 40601-6124
Phone: (502) 696-8800 • Fax: (502) 696-8822 • kyret.ky.gov



Form 7000
Revised 05/2010

Resolution

At a meeting of the McLean County Regional Water Commission, held on the 16th day of August, 20 16,
Present and presiding was Chairman, Joe Howell with the following members present: Kenneth Lee,
Barbara Wiggins, Ronald Dame and Keith Ayer.

Members absent: None

A motion was made by Ronald Dame and seconded by Kenneth Lee
that the following resolution be adopted in accordance with KRS 78.530:

WHEREAS, the General Assembly of the Commonwealth of Kentucky has established the County Employees Retirement System, and

WHEREAS, the governing body of the City of this agency is of the opinion that participation in this retirement system is in the best interest of this agency and the employees and officers thereof, and

WHEREAS, the governing body of this agency is cognizant of the requirements and benefits of the County Employees Retirement System as provided for in KRS 78.510 to 78.990.

WHEREAS, the governing body of this agency is aware of the provisions under KRS 78.530 (2), once a county participates it shall thereafter continue to participate except as provided in KRS 78.535, and

WHEREAS, the governing body is aware of the continuing liability in the agency should be terminated under the provisions of KRS 78.535,

NOW, THEREFORE, BE IT RESOLVED, that this agency be and is hereby authorized to participate in the County Employees Retirement System effective April 1, 2017, and that all eligible regular full-time officers and employees of this agency are hereby authorized and directed to comply with the statutory requirements of this retirement system.

FURTHER BE IT RESOLVED, that all the employees of this agency whose duties require an average of 100 or more hours of work each month, determined by using the number of hours actually worked in a calendar or fiscal year, be considered as "regular full-time" employees for purposes of the County Employees Retirement System except those employees of agencies excluded as shown below which may participate in the system as a separate agency and those other persons who are employed as "temporary", "part-time", and "seasonal" workers, as defined in KRS 78.510 (21).

Agencies excluded as authorized by KRS 78.530 are:

The above Resolution was adopted on roll call, the voting results are as follows:

Yeas: Joe Howell, Kenneth Lee, Barbara Wiggins and Ronald Dame

Nays: Keith Ayer

Not Voting: This resolution was ratified and affirmed by the same vote March 7, 2017.

I do hereby certify that the above is a true and correct copy of an Order of the governing body of the above named agency.

Print Name: Joe Howell Title: Chairman

Signature: Joe K. Howell

XXXII. PROPOSED OPERATING BUDGET - (WATER SYSTEM) - NEW USERS -
EXTENSION ONLY (1st Full Year of Operation) - Year Ending
(No Additional Water Customers)

A. Operating Income:		
Water Sales - Wholesale Customers	\$	707,239
Total Operating Income	\$	707,239
B. Operation and Maintenance Expenses: (Projected)		
Chemical Fee (Calhoun Budget = \$45,000)	\$	55,451
Power Costs (Calhoun Budget = \$60,000)	\$	73,860
Labor and benefits (\$108,000 X 1.4 w/ 2.5% inflation for 2 yrs)	\$	158,855
Maintenance Supplies	\$	8,318
Laboratory (Calhoun Budget = \$8,000)	\$	8,346
Pump Stations	\$	15,473
Admin (Bookeeping, Ins., Audit, Etc.)	\$	15,000
Miscellaneous	\$	10,506
Total	\$	345,809
C. Non-Operating Income:		
Interest Income	\$	-
D. Net Income		
	\$	361,430
E. Debt Repayment: (New Loan = \$4,950,000 Grant = \$2,466,000)		
RUS Interest Proposed Loan 3.50%	\$	173,250
RUS Principal Proposed Loan 38 Yrs		64,262
RUS Interest		-
RUS Principal		-
Non-RUS Interest (KIA \$1,475,974 @ .75% 30 Yrs +.2% Fee)		14,022
Non-RUS Principal - KIA \$1,475,974		42,752
Total Debt Repayment	\$	294,286
F. Renewal and Replacement - Short Lived Assets Reserve		
	\$	35,000
G. Balance Available for Coverage		
	\$	32,144

Retiree Health Plan FAQ's

1. Who is covered by KRS Retiree Health Insurance? See KRS 61.702 and 105 KAR 1:410

- a. KRS provides group rates on medical insurance for eligible retired members and dependents. Participation in the insurance program is optional.
 - i. Non-Medicare eligible retirees are covered through the Kentucky Employees Health Plans (KEHP) until they become Medicare eligible due to age or disability.
 - ii. Medicare eligible retirees are covered through Medicare Advantage plans. In 2015 as a result of a Request for Proposal (RFP), KRS offers these plans through Humana.

2. Who can be considered as a Dependent?

- a. Legal spouse
- b. Children up to age 26 (son, daughter, stepson, stepdaughter, adopted child or eligible foster child of the taxpayer)
- c. Disabled child regardless of age

Note: the definition of eligible dependent for hazardous duty health insurance premium contribution is (KRS 16.505(17):

- Legal spouse
- A child in the womb;
- A natural or legally adopted child of the member who:
 - Has neither attained the age eighteen (18) nor married; or
 - An unmarried full-time student who has not attained age twenty-two (22).

3. When did the member begin participating and why is this important?

KRS contributes toward the monthly insurance premium based on years of service and type of service (hazardous or nonhazardous).

- 1. **Prior to July 1, 2003** – KRS pays a percentage of the monthly contribution rate (see Percentage Contribution table below) for medical insurance coverage based on the retired member's years of service and type of service.

Total Years of Service	% paid for Retiree	Total hazardous Service	% paid toward dependent coverage
Less than 4 years	0%	Less than 4 years	0%
4 - 9 years	25%	4 - 9 years	25%
10 - 14+ years	50%	10 - 14+ years	50%
15 - 19+ years	75%	15 - 19+ years	75%
20 or more years	100%	20 or more years	100%

Retiree Health Plan FAQ's

2. **Dollar Contribution:** Retirees hired July 1, 2003 – August 31, 2008 are eligible for health insurance benefits when they have earned at least **10** years of service in the state administered retirement systems. Retirees hired on or after September 1, 2008 are eligible for health insurance benefits when they have earned at least **15** years of service in the state administered retirement systems. This monthly contribution increases each year by 1.5% on July 1st.
 - i. **Nonhazardous members** will earn a contribution for insurance of ten dollars (\$10) per month for each year of earned service.
 - ii. **Hazardous members** will earn a contribution of fifteen dollars (\$15) per month for each year of service. Upon the retiree's death, the spouse of a hazardous duty member will receive a monthly insurance contribution of ten dollars (\$10) per month for each year of hazardous duty provide the spouse is designated as the beneficiary and remains eligible for monthly benefits upon the retired member's death.

4. **What action is required by the KRS Board of Directors for the non-Medicare eligible retiree plans?**
 - a. Per KRS 61.702 and 105 KAR 1:410, the Board is required to take action each year before mid-September selecting the KEHP plan that the individual trust will pay 100% contribution of the premium if the retiree has 240 months of service credit or greater. The plan selected as the contribution plan must be actuarial equivalent to the 1994 KY Kare Standard as described in KRS chapter 18A, Section 225 (2) (a). The 1994 KY Kare Standard has a relative value of 1.00, the KEHP plans offered are all actuarial equivalent with relative values 0.93, 0.94, 0.98 and 1.04. Previously the KRS Board has determined that the plan with the 0.98 value (LivingWell PPO) is the contribution plan.
 - b. The Board is required to select the contribution plan for the hazardous duty spouse and eligible dependent before mid-September each year. Previously the Board has followed the policy of selecting the same plan as the retiree at the Couple, Parent Plus or Family level.

5. **What is a default plan?**
 - a. This is the plan that DEI and KRS allows retirees and eligible dependents currently enrolled in a KEHP plan, to be covered under if they fail to submit an application during a mandatory open enrollment, as a new retiree, or aging into Medicare. This allows the individual retiree or dependent health insurance coverage if they miss the yearly open enrollment window or fail to submit a health insurance application as a new retiree.

6. **What is the Tobacco Use Fee?**
 - a. This is a fee that the retiree/spouse/dependent is required to pay if they use tobacco products.
 - b. Note – if the individual stops the tobacco use during the plan year, they are allowed to request that they no longer pay the fee.

7. **What is the LivingWell Fee?**
 - a. If a plan holder is enrolled in a LivingWell KEHP plan for 2016 and they complete the LivingWell Promise (biometric screening or completion of a health assessment online), they will be eligible for a lower rate if they choose to enroll in a LivingWell plan for 2017. This promise must be renewed each year.

Retiree Health Plan FAQ's

8. What is the Family Cross Reference option?

- a. This is an option that allows a working spouse and retired member to combine their contributions in order to pay for one family plan. This option is addressed under KRS 18A and KRS 61.702.

9. What is the Hazardous Duty Spouse and Eligible Dependent Verification Process?

- a. In order for KRS to provide the premium contribution defined above for hazardous duty spouse or eligible dependents, the retiree must complete the Form 6256 (Designation of Spouse and/or Dependent Child for Health Insurance Contribution) during Open Enrollment each year. Currently, failure to submit the verification form results in the premium being deducted from the retiree's monthly benefit or payment via Direct Debit if the recipient's benefit isn't large enough to cover the premium amount.

10. What action is required by the KRS Board of Directors for the Medicare eligible retiree plans?

- a. See 4 above. Note: the Medicare plans are individual contracts, so there are no Family, Couple or Parent Plus levels.
- b. The Board must select a contribution plan for the retiree that has 100% contribution before mid-September each year. The Premium Medicare Advantage Plan meets the actuarial equivalency when compared to the LivingWell PPO KEHP Plan.
- c. The Board must select a contribution plan for the hazardous duty spouse before mid-September each year.

September 14, 2017
Connie Pettyjohn RN
Director of Retiree Health Care
502-696-8457