

**Kentucky Retirement Systems Board of Trustees  
Quarterly Board Meeting  
March 2, 2022, 10:00 a.m. ET  
Live Video Conference/Facebook Live  
AGENDA**

- |   |                                  |
|---|----------------------------------|
| 1. Call to Order  | Keith Peercy                     |
| 2. Legal Public Statement   | Office of Legal Services         |
| 3. Roll Call/Public Comment   | Sherry Rankin                    |
| 4. Approval of Minutes – December 2, 2021; January 11, 2022;<br>January 14, 2022; and January 21, 2022* | Keith Peercy                     |
| 5. Approval of KRS Board Election Policy*   | Kristen Coffey                   |
| 6. Update on KRS Trustee Election   | Kristen Coffey                   |
| 7. Amendments to KRS Investment Policy Statement*   | Prewitt Lane<br>Steven Herbert   |
| 8. Joint Audit Committee Reports and Recommendations*   | Lynn Hampton<br>Kristen Coffey   |
| 9. Joint Retiree Health Plan Committee Reports and Recommendations                                      | Larry Totten<br>Connie Pettyjohn |
| 10. Quarterly Financial Reports   | Rebecca Adkins                   |
| a. Quarterly Financial Statements   |                                  |
| b. Quarterly Administrative Expenses to Budget  |                                  |
| c. Contribution Report  |                                  |
| d. Outstanding Invoices   |                                  |
| e. Penalty Waiver   |                                  |
| 11. House Bill 8 Update   | Rebecca Adkins                   |
| 12. Department Spotlight – Member Services  | Shauna Miller                    |
| 13. Legislative Updates   | David Eager                      |
| 14. KPPA Updates  | David Eager                      |
| 15. KRS Updates   | Keith Peercy                     |
| 16. CEO Report  | John Chilton                     |
| 17. New Business  | Keith Peercy                     |
| 18. Closed Session**  | Keith Peercy                     |
| 19. Adjourn*  | Keith Peercy                     |

*\*Board Action Required*

*\*\*Board Action May Be Required*

**MINUTES OF MEETING  
BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS  
December 2, 2021 AT 10:00 AM ET  
VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the Kentucky Retirement Systems Board of Trustees held on December 2, 2021 the following members were present: Keith Peercy (Chair), Bruce Brown, John Cheshire, Raymond Connell, Joseph Grossman, Lynn Hampton, Prewitt Lane, Pamela Thompson and Larry Totten. Staff members present were KRS CEO John Chilton, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Victoria Hale, Connie Davis, D’Juan Surratt, Jared Crawford, Kristen Coffey, Jillian Hall, Wes Crosthwaite, Staci Receveur, Ashley Gabbard, Shaun Case, Phillip Cook, Glenna Frasher and Sherry Rankin. Others in attendance included Danny White and Janie Shaw with GRS Consulting; Chris Tessman and Craig Morton with Wilshire; and Allen Norvell and Ryan Graham with Blue and Co.

Mr. Peercy called the meeting to order.

Mr. Michael Board read the Legal Public Statement.

Ms. Sherry Rankin called roll.

There being no public comment, Mr. Peercy introduced agenda item *Approval of Minutes – November 16, 2021*. Mr. Totten made a motion and Mr. Lane seconded to approve the minutes as presented. The motion passed unanimously.

Mr. Peercy introduced agenda item *Approval of Annual Actuarial Valuations and Contribution Rates*. Ms. Janie Shaw with GRS began by indicating the full presentation was previously presented to this Board at the November 2021 meeting. Therefore, she reviewed the required contribution rates of 9.97% for the KERS Non-Hazardous, 31.82% for KERS Hazardous, and 140.51% for State Police systems which will go into effect on July 1, 2022. Ms. Shaw noted the reduction in the rates over the last valuation, and this is due to the favorable return on investments that occurred during the 2021 Fiscal Year. A motion was made by Mr. Totten and seconded by Ms. Hampton to approve the annual actuarial valuation. The motion passed unanimously. A motion was made by Ms. Hampton and seconded by Mr. Totten to adopt the employer contribution rates as presented. The motion passed unanimously.

Mr. Peercy introduced agenda item *Wilshire Quarterly Investment Reports*. Mr. Lane introduced Chris Tessman and Craig Morton from Wilshire to present the quarterly report ending September 30, 2021 for the Kentucky Employees Retirement System and State Police Retirement System. Mr. Morton reviewed the Asset Class Performance. Mr. Morton continued to review the quarterly charts reflecting the Economic Growth, Consumer Activity, Inflation and Employment levels, US Equity Market, Non-US Equity Market, US Fixed Income, and the September 2021 Asset Class Assumptions. Mr. Tessman then reviewed quarterly charts that reflected the Asset Allocation Compliance, Total Fund Attribution, Plan Sponsor Peer Group Analysis, Plan Sponsor Scattergram, and the Asset Allocation and Performance charts. Mr. Grossman asked Mr. Herbert his thoughts related to our current position, where we are outside of the Investment Policy Statement, are changes to the Investment Policy Statement needed at this time. Mr. Herbert indicated that changes are not needed at this time to the Investment Policy Statement, and that it will take a little time to realize the changes that were recently made in regards to the Real Estate market. This presentation was for informational purposes only.

Mr. Peercy introduced agenda item *External Audit*. Mr. Ryan Graham and Mr. Allen Norvell with Blue and Co. indicated that a more intensive review of the audit report was provided to the Joint Audit Committee. Mr. Graham indicated that staff is continuing to work on items identified in that meeting, but noted it is not substantial, and the draft is presented here for your review and questions. He stated that the final version is expected to be completed by December 8, 2021, as it will need to be sent to the State for their financial reporting. In reviewing the opinion from Blue and Co, Mr. Graham stated that their report will be issued as a “clean” or “unmodified” opinion, which they also plan to issue upon the final version of the report. A motion was made by Mr. Totten and seconded by Mr. Cheshire to adopt the external audit report as presented.

Mr. Peercy introduced agenda item *Joint Audit Committee Reports and Recommendations*. Ms. Hampton requested that Mr. Board review the process of how material in Joint committees are to be reported to the respective Boards. Mr. Board indicated that discussions about the relationship between the Joint Audit Committee and the KPPA Board have occurred. Mr. Board explained that the Joint Audit Committee is comprised of members from both the County Employees Retirement System and the Kentucky Retirement Systems and that the committee structure is such that the members of the joint committee would report back to their respective Boards and not directly to the KPPA Board. He suggested that the best approach might be to have a representative of each

of the County Employees Retirement System and the Kentucky Retirement Systems who are also a member of the Kentucky Public Pensions Authority, to then report to KPPA that their respective Boards have reviewed and approved the reports. Mr. Board stated that the external and internal auditors would then independently present their reports directly to the KPPA Board. He explained that structurally, there is not a process of getting those reports to the KPPA Board since the Joint Audit Committee has no direct relation to KPPA. Ms. Hampton questioned whether the previous agenda item of the External Audit report was in compliance with the process Mr. Board just reviewed. Mr. Board verified and indicated the need for someone from this Board who is also on the KPPA Board to report to the KPPA meeting the outcome of the approval of the report. Ms. Hampton indicated to Mr. Percy that someone would need to be appointed to report the approval to the KPPA Board. Mr. Percy stated that he, or one of the other members of KPPA, would report the vote to the KPPA Board.

Ms. Hampton began her report by stating that the Joint Audit Committee met on November 30, 2021 in a special called meeting where the committee discussed the Financial Statements that were just reviewed and approved by this Board. Ms. Coffey reviewed the results from an audit of the Review of the Employer Penalty Invoice Waiver Process. The audit noted two findings from this audit and it resulted in placing penalty invoice waivers in an email account that is accessible to all staff involved in the waiver process and to update the related policy and procedures. This report was provided for informational purposes only.

Mr. Percy introduced agenda item *Quarterly Financial Reports*. Mr. Percy indicated that these reports were provided and reviewed in the previous meeting, and unless the Trustees had questions, this agenda item would be passed without review. There being no questions, the meeting proceeded.

Mr. Percy introduced agenda item *Biennial Budget Request*. Ms. Adkins advised the Board that the Biennial Budget Request for Fiscal Years 2023 and 2024 has been submitted and wanted to provide the details regarding the request. Ms. Adkins noted that no additional funds were requested. Ms. Adkins reviewed the spreadsheet created for comparison purposes for the Board. The overall budget remained flat. Ms. Adkins then reviewed the process for the Biennial Budget, and indicated that this is just a request and it is sent both to LRC and the Finance Cabinet. The Finance Cabinet compiles these requests from all of the agencies in the Executive Branch to create

the Governor's Budget Proposal. LRC also compiles these to assist both houses of the legislature to create their budget bill. Ms. Adkins reiterated that this is just a request, and that it must be approved by the legislature. Ms. Adkins indicated that KPPA Staff Vonda Donoho and Elizabeth Smith worked in conjunction with our assigned Budget Analyst to finalize the figures used in our budget request. Mr. Connell asked if the employees of KPPA are on the normal state salary schedule. Ms. Adkins confirmed and stated that KPPA falls under 18A. Mr. Connell then questioned how the system is paying for raises of employees. Ms. Adkins answered that this a requirement from the Finance Cabinet, called a defined calculation and forces a calculation of a 1% increase in salaries. Ms. Thompson questioned the increase in the fiscal year 2022 budgeted amount for salaries, and why it was such an increase over the Fiscal Year 2021 expenditure for salaries. Ms. Adkins stated that KPPA is understaffed, with 270 approved positions and only about 248 currently filled, and to also cover for the Boards CEO positions and any other positions that may occur due to the separation of the Boards. Ms. Hampton questioned the large increases found for the medical reviewers and asked for clarification. Ms. Adkins explained that the medical reviewers are physicians who review application for disability benefits and historically, the agency has experienced great difficulty in retaining the contracted medical examiners. After sending out a Request for Information to seek information regarding any outside companies that could provide this type of service, it was discovered that there are vendors who could provide the assistance that would be needed to process our disability applications. After performing a cost analysis, it was determined that this would be more efficient. Ms. Hampton asked if this had already occurred and was in place now. Ms. Adkins confirmed. For the benefit of the newer Trustees and as a refresher, the administrative budget comes from the pension funds. KPPA does not receive general funds nor does it use insurance funds. All administrative expenses come from the pension funds. Mr. Totten asked a question pertaining to any caps put on the number of positions and/or employees the agency hires. He questioned whether the agency has been put under any stress regarding the filling of positions or face lowering the cap on the number of employees. Ms. Adkins answered that she has not been made aware of anything nor has seen any indication of that. This material was presented for informational purposes only.

Mr. Peercy introduced agenda item *Bylaw Amendments*. Mr. Peercy stated that the only change to the Bylaws pertains to the Board being allowed to make changes to the Bylaws during a Special Called Meetings. Mr. Board indicated that the substantive change will be in Section 2.6, where it will state that the Bylaws may be amended at any regular or special meeting of the Board of

Trustees. Mr. Board explained that there is a group working to revise the Board and Committee meeting schedule in an attempt to add some space between all of the meetings. Once this calendar is complete, these Bylaws will need to be amended again, which will require a Special Called Meeting. The current Bylaws do not allow for changes to be made during a Special Called Meeting, thus the need for this amendment. A motion was made by Mr. Grossman and seconded by Mr. Totten to approve the amendments to the KRS Bylaws as presented. The motion passed unanimously.

Mr. Peercy introduced agenda item *Legislative Updates*. Mr. Eager began by explaining that any proposed legislation that may have an impact on the systems, either the administration or costs, has to have an actuarial analysis (AA) completed. The AA requests come to KPPA from LRC and are reviewed by KPPA staff to determine if we should a) Send an internally generated AA letting LRS know that we see no fiscal or administrative impact, b) Send an internally generated AA stating we believe there is an administrative impact but no fiscal impact, or c) We believe there could be a fiscal impact in which case we request an AA from GRS. Once we obtain the AA from GRS, it is sent to LRC. During the last session, in total there were about 35 actuarial analysis completed, and it is anticipated that this session will be around the same, if not more. To date, one request has been received.

Mr. Peercy introduced agenda item *House Bill 8 Appeals Decisions*. Ms. Adkins reviewed House Bill 8 that was passed during the 2021 Regular Session of the Kentucky General Assembly. The passing of this bill changed the calculation methodology for the KERS Nonhazardous employer contributions from a percent of payroll to normal cost plus a flat amount which is equal to each agency's assigned percentage of the annual total unfunded actuarially accrued liability of the KERS Nonhazardous fund over a closed period. The assigned percentage is based on the liability that was attributable to the agency as of June 30, 2019. The bill allowed agencies affected by this change to submit a one-time appeal of the members who made up the assigned liability percentage. It limited the type of appeals that could be submitted to or considered by the Board. The three valid bases of appeals are as follows: the agency can claim that it was not the member's last participating employer; the member was hired through a contract between the executive branch and the employer to provide services to the executive branch; or the member was employed by the appealing agency because a community mental health center was contracted to provide services at a facility previously operated by the executive branch. Ms. Adkins noted that House Bill 8 places

the burden of proof regarding these appeals on the appealing employer. She stated that 87 employers requested data, but only 47 agencies appealed a total of 5,191 members. Ms. Adkins discussed the process that KPPA staff followed in reviewing these appeals. Mr. Connell questioned the basis of the appeals for the contract laborers and community health centers. Ms. Adkins explained that there are agencies contracted with the State who do the work that was formerly done by state employees; therefore the state should be responsible for the contribution and unfunded liability issues. The third appeal basis pertains to a facility that was owned and operated by the state. The responsibility of running this facility was contracted to other agencies. Ms. Hampton questioned whether it is denying a person, or simply moving the liability from one entity to the state. Ms. Adkins stated that this does not have any effect on members or their benefits. Ms. Adkins further stated, the KERS plans will get their funds either way, it is just the determination of the appeal that decides who will pay the liability. These are the appeals the Board is being asked to review and on which a final Board decision is due before December 31, 2021. Ms. Adkins advised that during the final review of the process, it appears that there may have been an issue with a small number of appeals. The Board is not making a determination based on each appeal, but that the process as a whole was appropriate because it would have taken too many trustee resources to review each of the 5,191 appeals. Ms. Adkins stated that the final approve/deny numbers are not exact until we have a final resolution on the small number that are still outstanding. She suggested that the Board carefully review the process that was developed and utilized. If you agree with the process, then I feel confident that the experts we have working on this information, being senior benefit counselors and attorneys, can make the correct determination based on the process in place. Ms. Adkins advises that the numbers will change, but does not expect a significant change. Mr. Totten questioned if the change would be in the total number of members affected or how they are divided among the three appeal basis. Ms. Adkins replied that the change would occur in the number of employees recommended to be denied and the number of employees recommended to be approved. Ms. Hampton questioned where and how were the errors found. Ms. Adkins indicated that due to the volume of information, spreadsheets were used for tracking and an error was found in the spreadsheet for one of the larger employers. The staff is meticulously going through all of the spreadsheets to ensure that all of the information contained thereon is accurate. Mr. Connell commended the efforts of the staff and stated that the process was thoroughly developed and found it easier to approve the overall process rather than to review over 5,100 appeals. Mr. Totten asked if the Board was under any deadlines for approval. Ms. Adkins stated that the final decision needs to be made by December 31, 2021. Mr. Totten

asked if the Statute allows for the approval of a process rather than the approval of the determinations. Ms. Adkins stated her understanding would be that the Statute calls for the Board to make a final decision. Ms. Hall indicated that the Statute reads that the Board is to make the final decision on the determinations of all the appeals. Mr. Peercy stated that it is his opinion that the Board approve staff recommendations on the determinations, as it would be nearly impossible for the Board to review every appeal. He stated that the Board needs to rely upon staff expertise and the process they have developed and utilized, and to approve their recommendations regarding these appeals. Mr. Connell made a motion and seconded by Mr. Totten to adopt the recommendations of the KPPA staff regarding the determinations related to the House Bill 8 appeals. Ms. Hampton questioned whether we should provide a range regarding the numbers of approvals and denials without having the final numbers. Mr. Peercy stated that by approving the recommendations of the staff, that includes what we are reviewing today as well as what they decide after our meeting has concluded. Ms. Hampton asked Ms. Adkins that once the numbers have been finalized, if that information could be brought back to the Board for informational purposes. Ms. Adkins agreed to report back to the Board the final results. Mr. Chilton asked if the employer would receive a letter informing them of the final decision. Ms. Adkins indicated that the employer will be sent a letter with a specific list of those employees who were denied and those should be sent to them in a few weeks. The motion passed unanimously.

Mr. Peercy introduced agenda item *CEO Report*. Mr. Chilton indicated that he will be working with Mr. Eager in the upcoming legislative session, both in the background and in meeting with the legislators. Mr. Chilton announced that there will be information forthcoming regarding the Trustee Education requirements and opportunities that will be available during the first quarter of the new calendar year.

Mr. Peercy introduced agenda item *New Business*. Mr. Peercy announced that he had no new business and unless anyone had new business, this agenda item would be passed. Since no new business, the meeting continued.

Mr. Peercy introduced agenda item *Closed Session*. A motion was made by Mr. Cheshire and seconded by Mr. Lane to go in to closed session. Prior to the vote, Mr. Peercy, Mr. Cheshire and Mr. Eager all recused themselves from the closed session portion of this meeting. The motion passed unanimously.



Mr. Peercy read the following statement and the meeting moved into closed session: A motion having been made in open session to move into a 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 consider 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. All public attendees exited the meeting.

Mr. Lane called the meeting back to open session. There being no action taken during the closed session, Mr. Lane opened the floor for a motion to adjourn. Mr. Totten made a motion and Mr. Connell seconded to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held December 2, 2021 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

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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

I, the Chair of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of Meeting held on December 2, 2021 were approved on March 2, 2022.

\_\_\_\_\_  
Chair of the Board of Trustees

I have reviewed the Minutes of the December 2, 2021 Board of Trustees Meeting for content, form, and legality.

\_\_\_\_\_  
Executive Director  
Office of Legal Services

**MINUTES OF MEETING**  
**BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS**  
**January 11, 2022 AT 10:00 AM ET**  
**VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the Kentucky Retirement Systems Board of Trustees held on January 11, 2022 the following members were present: Keith Peercy (Chair), Bruce Brown, John Cheshire, Raymond Connell, Joseph Grossman, Lynn Hampton, Prewitt Lane, Pamela Thompson and Larry Totten. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens, III, David Eager, Rebecca Adkins, Michael Board, Steven Herbert, Victoria Hale, Connie Davis, Kristen Coffey, Connie Pettyjohn, Ashley Gabbard, Shaun Case, Glenna Frasher and Sherry Rankin. Others in attendance included Benjamin Lewis and Janet Jakubowicz with Dentons Bingham Greenebaum.

Mr. Peercy called the meeting to order.

Mr. Michael Board read the Legal Public Statement.

Ms. Sherry Rankin called roll.

There being no public comment, Mr. Peercy introduced agenda item *Bylaw Amendments*. Mr. Board stated that there is not a large substantial changes to the Kentucky Retirement Systems' Bylaws. Mr. Board referenced the Bylaw changes in the December 2021 meeting that allowed changes to be made at a Special Called Meeting. Mr. Board then reviewed the proposed changes on page 2 of the Bylaws pertaining to the Regular Meetings schedule. Due to the complexity of the Board and Committee Meeting Schedule, a new meeting schedule had to be developed. Therefore, the former language in the Bylaws setting the day and month needed to be revised. Mr. Board further stated that in the Committee sections, the referenced meeting dates have been removed to coincide with the new Meeting Calendar. Mr. Connell questioned if the "no later than December" language was necessary. Mr. Board explained that the language was chosen in an effort to not put a date certain in the Bylaws, but needed it to be finalized prior to the December meeting, in an effort move into a new year without a set meeting schedule. Ms. Thompson agrees that it is important to have that language in place, as she has realized conflicts in her schedule for the first few meetings and the earlier the schedule is set the fewer chances for conflicts may occur. A motion was made by Mr. Cheshire and seconded by Mr. Totten to approve the Bylaw Amendments as presented. The motion passed unanimously.

Mr. Peercy introduced agenda item *Adoption of 2022 Meeting Calendar*. Mr. Peercy stated that the concept of the new meeting calendar for Board and Committee Meetings was needed to relieve some pressure from the staff that was increasing due to having too many meetings in a short time frame. He indicated that this calendar arrangement still leaves the month of July completely open to accommodate vacations. Ms. Adkins spoke on behalf of Ms. Surratt explaining a potential issue with the September 2022 KRS Board Meeting date. She stated that the Joint Retiree Health Plan Committee Meeting is scheduled for September 6, 2022, and cannot be moved any earlier due to needing information from outside of our agency, therefore it needs to stay on that date. Her concern is that with the KRS Board Meeting scheduled for September 8, 2022, it will not give enough time for the Trustees to review the material that would have just been voted upon two days prior to their meeting. Ms. Pettyjohn indicated that the meeting date could not go past September 14<sup>th</sup> or 15<sup>th</sup>, due to material would need to be sent for printing in order to meet the October 1<sup>st</sup> deadline to get the material to our retirees. Ms. Adkins suggested moving the KRS Board Meeting to the morning of September 14, 2022. After a discussion, it was decided to move the KRS Board Meeting from September 8, 2022 to the morning of September 14, 2022. Ms. Thompson asked for clarification about the start times for these Board meetings, as it is not specified on the calendar. Mr. Peercy stated that typically the start times for all KRS Board meetings has been 10:00 am and there were no comments by the Board when asked if that time posed an issue. Mr. Totten questioned the confidence that the CERS Board will approve this calendar since their meeting was moved to February 3, 2022. Mr. Chilton responded that this Board is approving the KRS Board and Joint Committee Meeting Schedules as proposed on this meeting calendar, and then CERS Board will then approve their schedule of meetings. Mr. Owens stated that the CERS Board asked to have their January meeting moved to the February 3, 2022 date, but assures a group effort in collaboration with Mr. Board, Ms. Adkins, and the KPPA leadership to create this meeting calendar. Mr. Owens announced that this is the calendar that the CERS Board plans to approve with a full level of confidence. A motion was made by Mr. Connell and seconded by Mr. Totten to approve the 2022 KRS Meeting Calendar, with all meeting start times being set at 10:00 am (ET). The motion passed unanimously.

Mr. Peercy introduced agenda item *Closed Session*. Mr. Board stated that due to their being Case Law that indicates the subject matter to be discussed in this Closed Session must be held in Open Session, that there no longer remains a reason for the Closed Session. Mr. Peercy questioned if the matter could just be called in the Open Session of the meeting. Mr. Board responded that due

to this being a Special Called Meeting that prohibits discussion of items that do not appear on the Agenda. And since the Agenda did not reference the subject matter, it would also not be allowed in Open Session. Mr. Peercy asked if it would be appropriate to include this topic on the agenda for their January 14, 2022 Special Called Board Meeting for Trustee Training Session. Mr. Board indicated that there would be sufficient time to update the posted agenda to take care of this item on the January 14, 2022 Special Called Board Meeting.

Mr. Grossman made a motion and Mr. Totten seconded to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held January 11, 2022 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

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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

I, the Chair of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of Meeting held on January 11, 2022 were approved on March 2, 2022.

\_\_\_\_\_  
Chair of the Board of Trustees

I have reviewed the Minutes of the January 11, 2022 Board of Trustees Meeting for content, form, and legality.

\_\_\_\_\_  
Executive Director  
Office of Legal Services

**MINUTES OF MEETING**  
**BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS**  
**January 14, 2022 AT 10:00 AM ET**  
**VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the Kentucky Retirement Systems Board of Trustees held on January 14, 2022 the following members were present: Keith Peercy (Chair), Bruce Brown, John Cheshire, Raymond Connell, Joseph Grossman, Lynn Hampton, Prewitt Lane, and Larry Totten. Staff members present were KRS CEO John Chilton, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Victoria Hale, Andrea Freadreacea, Ashley Gabbard, Shaun Case, Glenna Frasher, Phillip Case and Sherry Rankin. Others in attendance included Benjamin Lewis and Janet Jakubowicz with Dentons Bingham Greenebaum; and Kathryn Gabhart, Executive Director of Executive Branch Ethics Commission.

Mr. Peercy called the meeting to order.

Mr. Michael Board read the Legal Public Statement.

Ms. Sherry Rankin called roll.

There being no public comment, Mr. Peercy introduced agenda item *Employment of KRS Legal Counsel*. KRS CEO John Chilton began by indicating that one of the directives in the Statutes for the creation of the Kentucky Retirement Systems Board, includes the hiring of a CEO and Legal Counsel for the Board. After a diligent search for a firm that was free of conflict that would deem them unqualified to represent our Board, Mr. Chilton announced his recommendation of Benjamin Lewis and Janet Jakubowicz with the firm Dentons Bingham Greenebaum, LLP, to be hired as the Legal Counsel for the Kentucky Retirement Systems Board. Both Janet Jakubowicz and Benjamin Lewis were able to provide their background and legal focuses in their legal practice. Mr. Lane commented that in his former capacity with a previous employer, he was given information about the firm's abilities and how pleased the employer was with the legal representation provided by Ms. Jakubowicz. Ms. Hampton questioned whether Ms. Jakubowicz had reviewed the current litigation involving the Board and if any conflicts were discovered. Ms. Jakubowicz indicated that even though an in depth review had not been done, verification was completed with respect to conflicts of interest, and none were discovered that would hinder the representation of this Board.

Ms. Jakubowicz stated that other lawyers in the firm have historically represented other state agencies, including Kentucky Community and Technical College System (KCTCS) and the University of Louisville. She indicated that if either of those agencies, along with the Kentucky Retirement Systems were ever adverse to one another in litigation, that the firm would not represent any of those entities in that litigation. Mr. Connell questioned if this firm would be taking over any current litigation being handled by outside counsel, or is this hire to satisfy the statutory requirement. Mr. Chilton indicated that in discussions with Ms. Jakubowicz and Mr. Lewis, it was stated that they would work closely with the KPPA legal staff, in parallel to the work on the current litigation matters being handled by outside counsel. Mr. Connell then questioned the type of work that the firm would be handling. Mr. Chilton indicated that the Board is currently involved in litigation and that advice would be sought from Ms. Jakubowicz and Mr. Lewis on how to proceed in those cases. Mr. Board also responded that cases involving fiduciary and trust issues, as well as employer participation and investment litigation, have routinely been handled by outside counsel. Ms. Hampton asked about the procurement rules pertaining to the hiring of counsel. Mr. Chilton provided his understanding that in this situation it could mean the statutory hiring, or the approach being taken here in engagement of a law firm. He stated that there are no procurement rules or procedures that apply in this circumstance. Mr. Board indicated that in the statutes, namely, KRS 61.645(9) (a), directs the Board of Trustees to appoint through a contract for services, a Chief Executive Officer and a General Counsel, and shall fix the compensation and terms of employment without the limitation of KRS Chapters 18A, 45A, and 64.640. Mr. Board explained that 45A is the state's Model Procurement Code which govern the way these services are procured. However, according to this statute, these positions are exempt from those usual procurement procedures. Mr. Grossman questioned that based on the knowledge of the scope of the litigation in our present cases and any future cases, did Mr. Lewis feel qualified to represent this Board. Mr. Lewis affirmed their qualifications for representation and stated that if something falls outside of their expertise, the expertise is within their firm and the ability to pull in that expertise at any point is available at any time. Mr. Totten asked for clarification in regards to the no retainer fee and hourly compensation rate of \$350.00 per hour. Mr. Chilton stated that there is no retainer fee, and that billing would occur on a monthly basis at a flat hourly rate of \$325.00 for all professionals in the firm. Mr. Totten made a motion and seconded by Mr. Connell to retain Dentons Bingham Greenebaum, LLP as General Counsel for the Board of Kentucky Retirement Systems. The motion passed unanimously.



Mr. Peercy introduced agenda item *Executive Branch Ethics Training*. Mr. Board introduced Ms. Katie Gabhart, Executive Director of the Executive Branch Ethics Commission, who presented the Trustee Ethics Training material. Ms. Gabhart presented a power point presentation on Trustee Ethics, as well as reviewing the Guide to Executive Branch Code of Ethics. Afterwards, Ms. Gabhart stated that this training fulfills the mandatory training requirement for officers in major management. Mr. Board announced that the KPPA Ethics Officer is Jillian Hall, one of our Staff Attorneys in the Non-Advocacy Division of the Office of Legal Services.

Mr. Grossman made a motion and seconded by Ms. Hampton to adjourn the meeting. The motion passed unanimously.

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## CERTIFICATION

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Recording Secretary

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Chair of the Board of Trustees

I have reviewed the Minutes of the January 14, 2022 Board of Trustees Meeting for content, form, and legality.

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Executive Director  
Office of Legal Services

**MINUTES OF MEETING**  
**BOARD OF TRUSTEES KENTUCKY RETIREMENT SYSTEMS**  
**January 21, 2022 AT 10:00 AM ET**  
**VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the Kentucky Retirement Systems Board of Trustees held on January 21, 2022 the following members were present: Keith Peercy (Chair), Bruce Brown, John Cheshire, Raymond Connell, Joseph Grossman, Lynn Hampton, and Larry Totten. Staff members present were KRS CEO John Chilton, Erin Surratt, Michael Board, Steven Herbert, Victoria Hale, Ashley Gabbard, Shaun Case, Glenna Frasher, Phillip Case and Sherry Rankin. Others in attendance included Robert Gauss and Audra Ferguson-Allen with Ice Miller, LLP.

Mr. Peercy called the meeting to order.

Mr. Michael Board read the Legal Public Statement.

Ms. Sherry Rankin called roll.

There being no public comment, Mr. Peercy introduced agenda item *Fiduciary Training*. Robert Gauss and Audra Ferguson-Allen with Ice Miller, LLP presented a training session on Fiduciary Topics. This informational session included Fiduciary Basics, Fiduciary Duties in Connection with Funding and Investments, Overview of Litigation, Best Practices for Mitigating Liability and other topics to watch.

Ms. Hampton made a motion and Mr. Grossman seconded to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held January 21, 2022 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

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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

I, the Chair of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of Meeting held on January 21, 2022 were approved on March 2, 2022.

\_\_\_\_\_  
Chair of the Board of Trustees

I have reviewed the Minutes of the January 21, 2022 Board of Trustees Meeting for content, form, and legality.

\_\_\_\_\_  
Executive Director  
Office of Legal Services

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## Kentucky Retirement Systems Board of Trustees Election Policy

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### I. INTRODUCTION

#### Adoption of Board Election Policy

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

#### Statement of Board Election Policy

The Board is composed of nine Trustees who shall be selected as follows:

1. Two (2) elected from the members of the Kentucky Employees Retirement System (KERS).
2. One (1) elected from the members of the State Police Retirement System (SPRS).
3. Six (6) nominated by the Governor.
  - a. Three (3) Trustees with retirement experience.
  - b. Three (3) Trustees with investment experience.

KRS 61.645 (3) through (6) provides the basic statutory requirements for the election of the Trustees of the Board. The Board recognizes the need to establish consistent procedures for the implementation of these statutory provisions requiring the election of certain Trustees.

#### Purpose

The purpose of this Board Election Policy (Policy) is to establish procedures to implement KRS 61.645 and 105 Kentucky Administrative Regulation 1:445, Electronic ballots in Trustee elections.

### II. DEFINITIONS

The following definitions and terms used in this Policy shall be applicable whenever used herein:

1. "Application" means the form adopted by the Board to be used by members seeking to be nominated and placed on the Official Ballot as a candidate. [The application can be submitted through the KPPA website using DocuSign. It may also be submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member.](#)
2. "Ballot" or "Official Ballot" means a voting instrument, either electronic or paper, that includes the candidates for election as a Board Trustee and the following information for each of the candidates:
  - a. Name;
  - b. Recent photograph;

- c. City and county of residence;
- d. The Systems' current employing agency and position title or the Systems' employing agency from which the candidate last worked or retired and the position title of the last position held;
- e. Education including schools and/or universities attended and degrees earned;
- ~~f. Whether or not the candidate has been convicted of a felony;~~
- ~~g. Any professional licenses or certifications held by the candidate; and~~
- ~~h. Any organization of which the candidate is a member that is listed on the candidate's application or résumé.~~

Commented [CK(1)]: This information is on the application, not the ballot.

The ballot shall contain the website address where each candidate's application, cover letter, picture, and résumé shall be available for viewing. Candidates' position on the ballot shall be determined by random lottery, performed and certified by a representative from the Kentucky Public Pensions Authority (KPPA) Division of Internal Audit Administration. Identification information for each eligible voter shall be protected by bar code or other means. The ballot shall include the ability to write-in candidates.

- 3. "Candidate" means a potential candidate who has been nominated and placed on the Official Ballot by the current Board or by petition from the membership of the retirement system for which the vote is being taken.
- 4. "Constitutionally eligible individual" means a potential candidate who does not have a conflict of interest on the basis of holding a constitutionally elected or appointed position pursuant to KRS 61.645 and Kentucky Constitution Section 165.
- 5. "Cover Letter" means a document submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member, which details the member's qualifications for serving as a Trustee to the board.
- 6. "Eligible voter" means any person who was a member of the retirement system for which the vote is being taken on or before December 31 of the year preceding the election year and who has provided the KPPA at the Frankfort retirement office with a valid email or physical address as set forth in KRS 61.645.
- 7. "Member" shall mean individuals of KERS or SPRS, whether that individual is active (i.e. currently employed), inactive (i.e. formerly employed, but not retired and has not taken an account refund), or retired.
- 8. "Petition" means a document submitted by a potential candidate requesting to be nominated and placed on the Official Ballot by the members of their respective retirement system. A petition shall meet the following standards or, if it fails to meet the following standards, shall be deemed invalid and the requesting individual shall not be a potential candidate qualified for nomination and placement on the Official Ballot as a candidate:
  - a. The petition shall contain the names, the last four digits of Social Security numbers, and signatures of not less than one-tenth of the number of members voting in the last election for the respective retirement system. Each member may only be counted once on the petition.

- b. A potential candidate seeking nomination by petition shall submit a fully completed application, cover letter, résumé, picture, and a release for a criminal background check at the same time the petition is submitted to the KPPA at the Frankfort retirement office.
9. "Picture" means a photograph that will be included on the KPPA website and on the Official Ballot. The picture should be in color and at least size 5x7. The picture should be submitted in an electronic format to trustee.election@kyret.ky.gov.
10. "Plurality of votes" means a majority of votes cast in the election on a Valid Ballot.
11. "Potential candidate" means a member who is seeking nomination as a candidate by the current Board or by valid petition from the membership of the system for which the vote is being taken and who meets the following criteria:
- a. Is a member of the system for which the vote is being taken;
  - b. Has fully completed and submitted an application, cover letter, résumé, picture, and a release for a criminal background check by the required deadline;
  - c. Is a constitutionally eligible individual;
  - d. Is not statutorily prohibited from being a Trustee by virtue of the term limits in KRS 61.645 (3);
  - e. Is not a current or former employee of the Systems, County Employees Retirement System, or KPPA; and
  - f. Is not in violation of any provision of KRS 11A.020 or 11A.040 by a court of competent jurisdiction or any other statute.
12. "Résumé" means a document submitted to the KPPA either electronically at trustee.election@kyret.ky.gov or at the Frankfort retirement office by a member of the system for which an election is to be held, which shall include the member's name, address, phone number, e-mail address, educational background, and professional employment history. Employment history must include dates of employment, job title, employer name and address, and type of business. Résumé may also include any certifications and relevant memberships not included on the application.
13. "Term of Office" means the period of membership on the Board, which shall begin on April 1 of the year elected or appointed and shall end on March 31 four years thereafter.
14. "Valid Ballot" means a current version of the electronic or paper ballot provided to an eligible voter that has been marked to show the voter's choice of at least one (1), but not more than the maximum number of eligible candidates for the number of vacancies being filled.
- a. Electronic ballots shall be cast by-on or before March 1.
  - b. Paper ballots shall contain the signature of the voter and be postmarked to the Systems in care of a predetermined post office box number at a United States Post Office no later than on or before March 1.

Any ballot that does not meet these standards shall be deemed an invalid ballot and shall not be counted. In addition, if multiple ballots are submitted by one (1) individual, only the first received ballot will be considered valid and will be counted; all subsequent ballots shall be invalid and will not be counted.

15. "Write-in candidate" means an individual whose full name (first, middle, and last name) was written in the space provided on at least one Valid Ballot. Should a write-in candidate receive a plurality of votes, a representative from the KPPA Division of Internal Audit Administration will ensure the write-in candidate meets all of the following criteria. If the criteria is not met, the write-in candidate will not be allowed to serve as Trustee:
- a. Is a member of the system for which the vote is being taken;
  - b. Is a constitutionally eligible individual;
  - c. Is not statutorily prohibited from being a Trustee by virtue of the term limits in KRS 61.645 (3);
  - d. Is not a current or former employee of the Systems, County Employees Retirement System, or KPPA; and
  - e. Is not in violation of any provision of KRS 11A.020 or 11A.040 by a court of competent jurisdiction or any other statute.

### III. REQUESTS FOR CANDIDATES

1. The KPPA shall notify the membership of the retirement system holding the election that applications are being accepted from members who would like to be considered for nomination by the Board as a candidate for the position of Trustee. The notice shall include information, or direct the membership on how to find information, regarding the qualifications necessary for candidacy as well as the due dates for applications and other required documents.
2. A member seeking nomination by the Board must submit a completed application, cover letter, résumé, picture, and a release for a criminal background check to the KPPA by July 31 of the year prior to the expiration of a term of office.
3. ~~If a member requesting nomination by the Board is currently employed or holds any other office, the member's~~ personal information ~~for each member requesting nomination by the Board~~ will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
  - a. If the member is not a constitutionally eligible individual, the member shall be notified of his or her ineligibility, and that he or she will not be listed as a potential candidate for nomination by the Board, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were to be declared a winner of the election.
  - b. The Board also shall be notified if the member seeking to be listed as a potential candidate for nomination by the Board is determined not to be a constitutionally eligible individual.
4. Any information requested by a potential candidate and approved by designated KPPA staff to be provided to the potential candidate shall be forwarded to all other potential candidates, providing the information does not violate the confidentiality requirements specified in KRS 61.661 or any other binding law.



#### IV. NOMINATION BY THE BOARD

1. The System's Chief Executive Officer or designee shall provide written notice to the Board of election procedures at the first quarterly meeting in the Board year preceding the expiration of the term of office.
2. The Board shall nominate no more than three (3) candidates for each position to be elected. This nomination shall take place no less than six (6) months prior to the expiration of the current elected Trustee's term of office. Prior to making the nominations, the current Trustees will be given a list of all potential candidates seeking nomination by the Board.
  - a. In the case of KERS, the ballot shall contain no more than six (6) names.
  - b. In the case of SPRS, the ballot shall contain no more than three (3) names.
3. From the list provided, each Trustee may vote for up to three (3) potential candidates, but must vote for at least one (1) potential candidate per open position. Voting will occur in a roll call manner so that each current Trustee verbally confirms his or her nominations. The number of allowable nominations are as follows:
  - a. In the case of KERS, each current Trustee may vote for up to six (6) candidates, but must vote for at least two (2) candidates.
  - b. In the case of SPRS, each current Trustee may vote for up to three (3) candidates, but must vote for at least one (1) candidate.
4. After voting under Paragraph three (3) of this section is completed, a representative from the KPPA Division of Internal Audit Administration will review the number of votes received by each potential candidate. The potential candidates that receive the highest number of votes will be placed on the Official Ballot. No more than the maximum allowed nominated candidates under Paragraph two (2) of this section will be placed on the Official Ballot.
5. If multiple potential candidates receive the same number of votes under Paragraph three (3) of this section resulting in more than the maximum allowed nominated candidates under Paragraph two (2) of this section, another vote will be taken only of those potential candidates receiving a tying vote for the last spot(s) on the Official Ballot. Trustees will vote for up to one (1) potential candidate per remaining spot to be filled on the Official Ballot. After the additional vote is taken, the potential candidate(s) receiving the highest number of votes will be placed on the Official Ballot. The voting shall continue in this manner until the ties are broken resulting in no more than the maximum number of allowed nominated candidates under Paragraph two (2) of this section.
6. If voting under Paragraphs three (3) and/or five (5) of this section results in fewer than the maximum number of allowed potential candidates being nominated to the Official Ballot under Paragraph two (2), the Trustees must take one (1) of the following actions by affirmative majority vote:
  - a. Allow only those potential candidates with the highest number of votes under Paragraphs three (3) and/or five (5) to be placed on the Official Ballot, or

- b. From the original list of potential candidates, vote in accordance with Paragraph five (5) of this section for potential candidates who have not received sufficient votes under Paragraphs three (3) or five (5) to be placed on the ballot until the maximum number of potential candidates under Paragraph two (2) are nominated to be on the Official Ballot.
7. The KPPA will publish the candidates nominated by the Board on the KPPA website. Deadlines as set out below shall be provided on the website.

## V. NOMINATION BY PETITION

1. After the candidates are nominated by the Board, a member may also seek nomination by petition from the membership of the retirement system for which the election is to be held. The petition nomination process will be published on the KPPA website.
2. To be nominated as a candidate on the Official Ballot, a member seeking nomination by petition from the membership of the retirement system for which the election is to be held must submit a petition complying with the requirements as set out in the definitions above and adhere to the following requirements:
  - a. The petition may only contain the name of one (1) potential candidate.
  - b. The petition shall be delivered to the KPPA at the Frankfort retirement office no later than November 30 of the year prior to the expiration of a term of office.
3. Names and last four digits of Social Security numbers on petitions shall be verified by designated KPPA staff and the results shall be certified by a representative from the KPPA Division of Internal Audit Administration. The certification of additional candidates shall become part of the official minutes of the Board.
4. If a member submitting a petition is currently employed or holds any other office, the member's personal information for each member submitting a petition will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
  - a. If the member is not a constitutionally eligible individual, the member shall be notified of his or her ineligibility, and that he or she does not qualify as a potential candidate for nomination by petition, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were to be declared a winner of the election.
  - b. The Board also shall be notified if the member seeking to qualify as a potential candidate for nomination by petition is determined not to be a constitutionally eligible individual.
5. Any information requested by a potential candidate and approved by designated KPPA staff to be provided to the potential candidate shall be forwarded to all other potential candidates, providing the information does not violate the confidentiality requirements specified in KRS 61.661 or any other binding law.

## VI. ELECTION BY THE MEMBERSHIP

1. An Official Ballot, complying with the requirements as set out in the definitions above, shall be prepared no later than three (3) months prior to the expiration of the term of office in question.
  - a. Electronic ballots shall include instructions on voting for a candidate, including write-in candidates. The deadline by which electronic votes must be cast shall be included on the electronic ballots.
  - b. Paper ballots shall include instructions for voting for a candidate, including write-in candidates, and for marking and returning the ballots. The postmark deadline for the paper ballots shall be printed on the ballots. Paper ballots shall be addressed to the Systems in care of a predetermined post office box number at a United States Post Office.
2. The KPPA Executive Director or designee shall initiate a bid for a contracted firm to administer the election (hereafter referred to as the "Election Services Vendor") using the procurement procedures then in place. The bid shall outline vendor security requirements, the technical requirements for both electronic and paper ballots (including paper ballot printing specifications), and the required election timeline.
3. The Election Services Vendor shall obtain the post office box for receipt of paper ballots. Access to this post office box shall be limited to the Election Services Vendor. An agreement shall be made between KPPA and the Election Services Vendor concerning the location of the postal box and the Business Reply Permit Number that shall be used.
4. All eligible voters will be provided with an electronic ballot or mailed a paper ballot on or before January 20.
5. Only one (1) ballot will be provided to an eligible voter. Ballots will be distributed as follows:
  - a. Electronic ballots for the election of Trustees shall be distributed via email addresses on file at KPPA.
  - b. Paper ballots for the election of Trustees shall be distributed via the United States Postal Service to each voter that does not have a valid email address on file at KPPA or to each eligible voter that requests a paper ballot by November 30 of the year prior to the expiration of a term of office.
6. Duplicate ballots will not be produced.
  - a. If an eligible voter fails to receive a ballot (paper or electronic) because of an act or omission of the Systems or the KPPA and makes the Systems or the KPPA aware of this before the voting has closed, a representative from the KPPA Division of Internal Audit Administration shall work with the Election Services Vendor to provide a replacement ballot. If the Systems or the KPPA is made aware of the situation on or before one (1) week prior to the postmark deadline, the eligible voter may request either a paper or electronic ballot. If the Systems or the KPPA is made aware of the situation with less than a week before for the postmark deadline, only an electronic ballot will be provided to the eligible voter.
  - b. If a paper ballot is returned to the Election Services Vendor, the System, or KPPA with an invalid address, but a corrected address is received from the United

**Commented [CK(2)]:** House Bill 297 (2022) allows KPPA to exclude a member address that has been marked as invalid in the KPPA system. If that portion of HB 297 passes, the policy will be updated to say:  
Paper ballots for the election of Trustees shall be distributed via the United States Postal Service to each voter that does not have a valid email address on file at KPPA or to each eligible voter that requests a paper ballot by November 30 of the year prior to the expiration of a term of office. Paper ballots shall not be distributed by mail to member addresses reported as invalid to KPPA.

States Postal Service on or before one (1) week prior to the postmark deadline, a representative from the KPPA Division of Internal Audit Administration may work with the Election Services Vendor to mail a subsequent paper ballot to the eligible voter at the corrected address.

7. The Election Services Vendor shall count each ballot. In so doing, the Election Services Vendor shall review the validity of the ballot in accordance with the definition above. All votes via valid ballots shall be counted for the candidates marked. During the process of the count, all ballots shall be in the exclusive control of the Election Services Vendor, with proper security to ensure that no one other than the Election Services Vendor has access to the ballots.
8. Official ballots returned to the Systems or KPPA will be processed in accordance with 105 KAR 1:445 Sections 4, 6.
9. After counting all valid ballots, the Election Services Vendor shall certify in writing the results of the election to the Chair of the Board in care of the Systems' Chief Executive Officer and the KPPA Executive Director on or before March 15 of the year in which a term of office expires.
10. The candidate(s) receiving a plurality of the votes for each Trustee position to be elected shall be designated as the winner. Winning candidates shall begin their term of office as Trustee on April 1 and shall be sworn in at the annual meeting of the Board.
  - a. In the case of KERS, the two (2) persons receiving the largest pluralities of votes shall be the elected Trustees.
  - b. In the case of SPRS, the one (1) person receiving the largest plurality of votes shall be the elected Trustee.
11. Once ballots have been counted and the election is deemed final, the Election Services Vendor shall destroy all ballots and provide a certificate to that effect to the Systems' Chief Executive Officer and the KPPA Executive Director.

## **VII. FILLING A VACANCY**

1. Any vacancy that may occur in a Trustee position other an elected Trustee position, except by the expiration of the term, shall be filled in the same manner that provides for the selection of that non-elected Trustee position under KRS 61.645.
2. Any vacancy, which may occur in an elected position, other than by the expiration of the term, shall be filled within ninety (90) days by appointment by a majority vote of the remaining elected Trustees.
  - a. The KPPA shall notify the membership of the retirement system with the vacancy that applications are being accepted from members who would like to be considered for appointed to the position of Trustee.
  - b. A member seeking appointment by the Board must submit a completed application, cover letter, résumé, picture, and release for criminal background check to the KPPA at the Frankfort retirement office no later than sixty (60) days after the vacancy occurs. The specific due date will be listed in the provided notice.

- c. ~~If the member requesting appointment by the Board is currently employed or holds any other office, the member's~~ Personal information ~~for each member requesting appointment by the Board~~ will be forwarded to the Office of the Attorney General of Kentucky to determine whether the member is a constitutionally eligible individual.
  - i. If a member is not a constitutionally eligible individual, the member shall be notified of ineligibility, and that he or she will not be considered for appointment to the vacant position, unless the member agrees to resign from the position causing the constitutional ineligibility. This resignation would only be required if the member were appointed to the position of Trustee.
  - ii. The Board shall also be notified if a member seeking appointment is determined not to be a constitutionally eligible individual.
3. Each current elected Trustee may make one (1) nomination for the ~~vacant~~ vacancy of the elected position, which will allow for a maximum of two nominees.
4. All individuals nominated by the current elected Trustees shall meet the requirements of a potential candidate as defined above.
5. The remaining elected Trustees shall then vote on a nominee to fill the vacancy using the voting procedure set forth above in Nomination by the Board Procedures Paragraphs 3, 4, 5, and 6.
6. Any such vacancies shall only be filled for the expiration of the unexpired term.

#### **VIII. PROCUREMENT OF THE ELECTION SERVICES VENDOR**

1. When procuring an Election Services Vendor, the request for proposal (RFP) shall indicate that the selected vendor will sign the KPPA's Business Associate Agreement and Confidentiality Agreement as well as provide a summary of security policies and standard security procedures related to ensuring election integrity. The RFP must include specific security details to which the vendor must adhere. The security details should include, but not be limited to, the following topics:
  - a. Technology systems, network, and application software used to process sensitive information.
  - b. Vendor risk and threat management responsibilities.
  - c. Software License Agreements.
  - d. Service Level Agreement and Support.
2. The team that drafts the RFP and evaluates the bid proposals should include KPPA employees from the Divisions of Internal Audit Administration, Communications, and Enterprise and Technology Services. The KPPA Executive Management team and Office of Legal Services employees as well as the Systems' Chief Executive Officer and General Counsel should be consulted as needed.

**IX. ETHICS**

Ethics in the election process shall conform to the Executive Branch Code of Ethics as set forth in KRS Chapter 11A.

**X. CERTIFICATION**

We, the Chair of the Kentucky Retirement Systems Board, the Chief Executive Officer of the Kentucky Retirement Systems, and the Executive Director of KPPA do hereby certify that this Board Election Policy was adopted by the Board on this the ~~15th~~<sup>2nd</sup> day of ~~April~~<sup>March</sup>, 202~~1~~.

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Keith Peercy, Board Chair  
Kentucky Retirement Systems Board of Trustees

Date

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John Chilton, Chief Executive Officer  
Kentucky Retirement Systems

Date

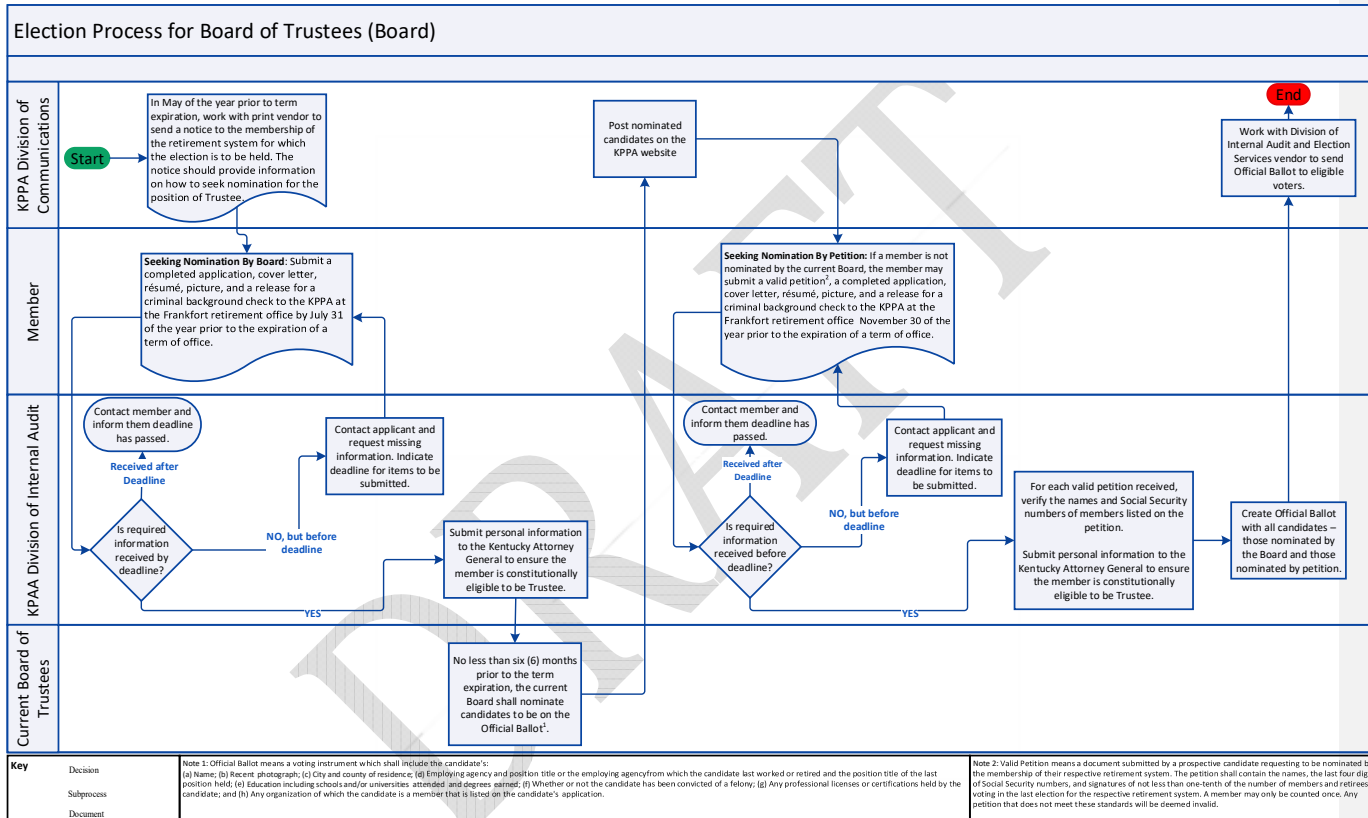
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David Eager, Executive Director  
Kentucky Public Pensions Authority

Date

History: Approval Date: April 15, 2021  
Amended: March 2, 2022

Exhibit A





## Kentucky Public Pensions Authority

### Internal Audit Administration



To: Members of the Kentucky Retirement Systems Board of Trustees

From: Kristen N. Coffey, CICA *KNC*  
Division Director, Internal Audit Administration

Date: March 2, 2022

Subject: 2022 KERS and 2023 SPRS Trustee Election Update

The Kentucky Employees Retirement System (KERS) election is completed. All electronic votes were required to be cast by March 1, 2022 and all paper ballots were required to be postmarked by that same date. The election vendor is working on tabulating the results. Election America will certify the results and make them available to the Kentucky Retirement Systems (KRS) Chief Executive Officer and Board Chairman by March 15, 2022. The two individuals with the highest number of votes will begin their term on April 1, 2022 and will be sworn in at the April 12, 2022 Annual Kentucky Retirement Systems Board of Trustees meeting.

As of February 22, the date this memo was drafted, 3,163 electronic votes had been cast and 772 paper ballots returned. This is an overall voter turnout of 2.85%. The voter turnout for those who received an electronic ballot was 4.30% and 1.20% for those who received a paper ballot. The 2018 KERS election had an overall voter turnout of 9.00%.

The term of office for Mr. Keith Peercy, Trustee for the State Police Retirement System (SPRS), expires on March 31, 2023. In May 2022, a request for nominations will be sent to all SPRS members. An email will be sent to members with a valid email address on file and a postcard will be sent to members that do not have a valid email address on file. Applications, cover letters, résumés, pictures, and release for criminal background checks are due to the retirement office by July 31, 2022. Beginning with this election, applications can now be completed and submitted on-line. Cover letters and résumés can be submitted electronically to [trustee.election@kyret.ky.gov](mailto:trustee.election@kyret.ky.gov). Since the release for criminal background check form is a KSP form, it must still be mailed to the retirement office. Applicants have the choice to mail a copy a hard copy of all forms to the retirement office.

**No action is required of the Board.**



**DRAFT**  
**Kentucky Retirement Systems**  
Investment Policy Statement  
Adopted D A T E November 16, 20212022

This Investment Policy Statement (“IPS”) is issued by the Board of Trustees (“Board” or “Trustees”) of the Kentucky Retirement Systems (“KRS”) in connection with investing the assets of the Kentucky Employees Retirement System (“KERS”) and the State Police Retirement System (“SPRS”), jointly referred to as “Systems.” This document supersedes all prior documents entitled Statement of Investment Policy or Investment Policy Statement.

## I. Introduction

### A. Purpose

The purpose of this IPS is to define the framework for investing the assets of the Systems. This IPS is intended to provide general principles for establishing the goals, the allocation of assets, employment of outside asset management, and monitoring the results of the Systems.

The pension plans administered by KRS are “Qualified Pension Plans” under Section 401(a) of the Internal Revenue Code. Additionally, Kentucky Revised Statutes 61.701 establishes health insurance benefits to recipients of KERS, and SPRS. Kentucky Revised Statutes 61.702 provides that all amounts necessary to provide for insurance benefits shall be paid to the insurance fund. The Board shall administer the insurance trust fund in the same manner as the pension plans.

### B. Philosophy

The Trustees of KRS recognize their fiduciary duty not only to invest the Systems' assets in formal compliance with the Prudent Person Rule, but also to manage those assets in continued recognition of the basic long-term nature of the Systems. The Trustees interpret this to mean, in addition to the specific guidelines and restrictions set forth in the law and 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 asset allocation is the primary driver of long-term investment performance, and will therefore review asset allocation and asset-liability studies on a regular basis as outlined in Section III of this document. The asset allocation guidelines represent a strategic decision, with the primary aim that the portfolios meet their performance objectives in the long- term while understanding that this may not necessarily occur in the short term.

The Trustees recognize that there is generally an inverse relationship between market efficiency, and the ability for active management to produce alpha. Therefore, investments in efficient markets will be made using index or index-like investments with the goal of replicating index returns with low management fees. Active management will be pursued in less efficient markets, accepting higher tracking error, and paying higher management fees with the expectation of producing excess returns over the long term. This focuses Office of Investments' (“Staff”) and consultant(s) efforts on identifying, selecting, and monitoring managers as well as the overall management fees paid, in the areas of the market most likely to produce excess returns.

The Trustees recognize that, commensurate with their overall objective of maximizing long-term returns 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, 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 Staff and multiple service providers.

KRS recognizes the importance of responsible investing. Accordingly, the Trustees acknowledge that integrating Environment, Social, and Governance (ESG) policy principles that engages the issue from a risk, opportunity and fiduciary duty perspective will enhance investment results. The overriding consideration for the Trustees will continue to be investing to maximize the long-term returns for plan beneficiaries.

## II. Responsibilities

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 (Prudent Person Rule);
- (4) impartially;
- (5) incurring and paying appropriate and reasonable expenses of administration and management which may not necessarily be the lowest; and,
- (6) in accordance with a good faith interpretation of the laws, regulations and other instruments governing KRS and 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) - Prohibited Transactions.

### A. Board of Trustees

The Investment Committee is created by Kentucky Revised Statutes 61.650 and the Board as set forth in the Board's Statement of Bylaws and Committee Organization document. The Board Chair authorizes and appoints members to an Investment Committee with full power to act for the Board in the acquisition, sale and management of the assets of the Systems in accordance with the provisions of any applicable statutes, and policies of the Board. The Board shall review and ratify the actions of the Investment Committee at the Board meeting following the Investment Committee meeting where such action was taken.

### B. Investment Committee

The Investment Committee consists of at least three (3) Trustees appointed by the Governor to the Board pursuant to Kentucky Revised Statutes 61.645(1)(c). Additional members may be appointed by the Board Chair. The Investment Committee acts on behalf of the Board on investment related matters.

The Investment Committee has the following oversight responsibilities:

- A. Assure compliance with this IPS and all applicable laws and regulations.
- B. Approve the selection and termination of service providers. If the need arises to terminate a manager between Board meetings, the Chief Investment Officer (“CIO”) will have discretion to do so after receiving approval from either the Board Chair or the Investment Committee Chair. The Investment Committee and the Board must be notified of the manager termination at the next scheduled Investment Committee and Board meetings.
- C. Meet no less than quarterly to evaluate whether this IPS, the investment activities and management controls and processes continue to be consistent in meeting the Systems' goals. Mandate actions necessary to maintain the overall effectiveness of the investment program.
- D. Review assessment of investment program management processes and procedures, and this IPS relative to meeting stated goals.

C. Staff

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

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

- i. Maintaining the diversification and risk exposure of the Systems consistent with policies and guidelines.
- ii. Assessing and reporting on the performance and risk exposure of the overall investment program relative to goals, objectives, policies and guidelines.
- iii. Monitoring and assessing service providers to assure that they meet expectations and conform to policies and guidelines.
- iv. Recommending changes to service providers, statutes, policies or guidelines as needed to maintain a productive relationship between the investment program and its goals; acting as liaison on all investment related matters.
- v. Identifying issues for consideration by the Investment Committee and preparing recommendations or reports regarding such matters.
- vi. Preparing, for each proposed investment, a memo to the Investment Committee covering the pertinent details of the investment, 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.

The Chief Investment Officer or designee is authorized to execute trades on fixed income and equity securities (including exchange-traded funds or “ETF’s”) and to execute proxies for the Board consistent with this IPS.

To carry out the IPS and any 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.

#### D. 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:

- i. Investment Managers shall be qualified by the Chief Investment Officer, agree to serve as a fiduciary to the Systems, and should be of institutional quality as deemed by Staff in consultation with the investment consultant(s).
- ii. Investment Managers shall manage assets in accordance with this IPS and any additional guidelines established by contract, as may be modified in writing from time to time.
- iii. 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.
- iv. The assets managed by any one active or passive investment manager shall not exceed 15% of the overall assets in the pension and insurance funds per KRS 61.650(5).
- v. All investment management services will be contracted according to the Investment Procurement Policy established by the Board.

#### E. 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, as well as other duties as agreed to by contract.

A process shall implement portfolio accounting system that includes plan accounting and unitization methods. An investment related service provider(s) may be selected to execute the process in accordance with the Boards' selection process. The following is a brief description of our plan accounting processing:

Within the plan accounting structure there are two primary types of accounts Plan Accounts and Pool Accounts. Plan Accounts are the owners of the investment pool. An account is established for each plan and these accounts hold Units of Participation that represent the plan's/fund's invested value of the investment pool. Pool Accounts are accounts that hold the assets of the investment pool where all investment related activity and earnings occur. These accounts are the investment strategies of the pool. Units of Participation are bought and sold as each plan/fund contributes or withdraws cash or assets from the investment pool. The investment pool earnings are then allocated to plans utilizing a cost distribution method that allows for fluctuating prices experienced in capital markets. This involves earnings allocated to the plan accounts with an increase or decrease in cost on the Unit of Participation Holdings of the Plan Accounts. Correspondingly, the price of the Unit of Participation Holdings is updated to reflect change in market value in the investment pool. Earnings are allocated based on the daily weighted average of Master Trust Units held by each plan/fund account during the monthly earnings period. This method is commonly used when plans make multiple contributions or withdrawals from the investment pool throughout the month as it eliminates allocation distortion due to large end of month cash flows.

An institutional accounting system shall support a method for determining the amount of monthly earnings are allocated to each plan account.

#### F. 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.

#### G. Selection

Qualified investment managers, custody banks, investment consultants, and other investment related service providers shall be selected by the Investment Committee in accordance with the IPS. 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 a Request For Information (“RFI”), a Request For Proposals (“RFP”), third party proprietary software or databases, review of existing service provider capabilities, or any combination of these, or other methods to select a service provider.

### III. Asset Allocation Guidelines

In establishing asset allocation guidelines the Board recognizes that each plan and any underlying fund\* have their own capacity to tolerate investment volatility, or risk. The asset allocation guidelines of each Fund will be reviewed annually.

Based on the asset liability study, which analyzes the expected returns, risk, and correlations of various asset classes, projected liabilities, liquidity, and the risks associated with alternative asset mix strategies, the Board has established the following Asset Allocation Guidelines, effective November 12, 2020. The asset classes are “bucketed” or grouped together into macro-asset class buckets (i.e. growth, liquidity and diversifying) based on their expected correlations to one another in order to create a better understanding of risk and diversification, and based on asset class exposures to the economic factors of growth and inflation.

\*KERS Hazardous and Non-hazardous

<b>KERS Hazardous Pension Fund and the KRS Insurance Trust Fund - 6.25% Assumed Rate of Return</b>				
<b>Asset Class</b>	<b>Target</b>	<b>Relative Range (+/-)</b>	<b>Minimum</b>	<b>Maximum</b>
<b>Growth</b>	<b>68.50%</b>	<b>15%</b>	<b>58.23%</b>	<b>78.78%</b>
US Equity	21.75%	30%	15.23%	28.28%
Non US Equity	21.75%	30%	15.23%	28.28%
Private Equity	10.00%	30%	7.00%	13.00%
High Yield / Specialty Credit	15.00%	30%	10.50%	19.50%
<b>Liquidity</b>	<b>11.50%</b>	<b>20%</b>	<b>9.20%</b>	<b>13.80%</b>
Core Fixed Income	10.00%	20%	8.00%	12.00%
Cash	1.50%	100%	0.00%	3.00%
<b>Diversifying</b>	<b>20.00%</b>	<b>15%</b>	<b>17.00%</b>	<b>23.00%</b>
Real Estate	10.00%	30%	7.00%	13.00%
Real Return	10.00%	30%	7.00%	13.00%
<b>Opportunistic</b>	<b>0.00%</b>	<b>n/a</b>	<b>0.00%</b>	<b>5.00%</b>

<b>KERS Non-Hazardous Pension Fund and SPRS Pension Plan - 5.25% Assumed Rate of Return</b>				
Asset Class	Target	Relative Range (+/-)	Minimum	Maximum
<b>Growth</b>	<b>54.50%</b>	<b>15%</b>	<b>46.33%</b>	<b>62.68%</b>
US Equity	16.25%	30%	11.38%	21.13%
Non US Equity	16.25%	30%	11.38%	21.13%
Private Equity	7.00%	30%	4.90%	9.10%
High Yield / Specialty Credit	15.00%	30%	10.50%	19.50%
<b>Liquidity</b>	<b>25.50%</b>	<b>20%</b>	<b>20.40%</b>	<b>30.60%</b>
Core Fixed Income	20.50%	20%	16.40%	24.60%
Cash	5.00%	100%	0.00%	10.00%
<b>Diversifying</b>	<b>20.00%</b>	<b>15%</b>	<b>17.00%</b>	<b>23.00%</b>
Real Estate	10.00%	30%	7.00%	13.00%
Real Return	10.00%	30%	7.00%	13.00%
<b>Opportunistic</b>	<b>0.00%</b>	<b>n/a</b>	<b>0.00%</b>	<b>5.00%</b>

The intent of the Board in allocating funds to the investment managers is for the investment managers to fully invest the funds. However, the Board 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 asset allocations of each Pension and Insurance Trust 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.

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 the appropriate asset class target for open-end investments such as public equity, public fixed income, and Diversifying Strategies managers. For those open-end funds where assets can be added or subtracted, the Chief Investment Officer will have discretion to reduce or increase an investment manager's allocation between 50% and 150% of the approved target. The target will not be raised 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. If the need arises to terminate a manager between Board meetings, the Chief Investment Officer will have discretion to do so after receiving approval from either the Board Chair or the Investment Committee Chair. The Investment Committee and the Board must be notified of the manager termination at the next scheduled Investment Committee and Board meetings.

Short-term market shifts may cause the asset mix to drift from the allocation targets. Should the target percentage fall out of the indicated range for a particular asset class, Staff shall direct rebalancing transactions to reallocate assets from the over-allocated asset class to the under-allocated asset class. Within the allowable ranges, Staff should use regular cash flows to rebalance toward targets to avoid incurring additional trading costs to correct minor deviations from policy targets. Except when there is a perceived extraordinary downside risk in a particular asset class, movement outside the normal ranges should be avoided.

Investments in private assets are generally less liquid than investments in public markets

securities and are typically implemented via periodic commitments to funds with limited partnership structures. As a result, actual allocations to these asset classes may deviate from their strategic targets for extended periods. Actual vs. target deviations for these asset classes shall not be considered in violation of the Asset Allocation Guidelines. Under/over weights to these asset classes shall be invested in public markets securities with the most similar risk/return characteristics as a short-term proxy for the private asset classes.

In keeping with its responsibility as a Board and wherever consistent with its fiduciary responsibility, the Board encourages the investment of the System'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. Growth

##### US Equity

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, 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 Systems.

##### Non-US Equity

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 Non-US 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.

##### High Yield/Specialty Credit

High yield/specialty credit investments will be similar in type to those securities found in the Systems' high yield benchmarks and the characteristics of the portfolio will be similar to the Systems' high yield fixed income benchmarks. The high yield fixed income accounts may include, but are not limited to, the following fixed income securities: 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 ("EMD") including both sovereign EMD and corporate EMD, and asset class relevant ETF's.

Each individual high yield/specialty credit 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.

#### Private Equity Investments

Subject to specific approval of the Investment Committee, 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. Examples of such investments include, but are not limited to, private investments into venture capital, leveraged buyouts, special situations, distressed debt, private debt, timberland, oil and gas partnerships, infrastructure, commodities and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-US investments. These non-U.S. investments are not restricted by geography.

The private equity market is highly sophisticated and specialized with respect to variety and types of investment structures. There exists 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 and are critical to the economic incentives and ultimate net performance of the partnership.

#### **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 contract negotiations, appropriate sizes for investments, and the preferred alignment of interests.

*Investment Vehicles:* The Systems will gain exposure to private equity investments by hiring external investment managers either directly or through participation in secondary private equity markets. Typically, KRS will subscribe as a Limited Partner ("LP") to limited partnership vehicles sponsored by such specialty external investment managers. KRS will also at times structure separately managed accounts with specific investment objectives to be implemented by external investment managers. The Systems may also gain exposure by utilizing the following vehicles: limited liability companies and co-investments alongside KRS' 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, the Systems 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 overall Systems' Pension or Insurance Trust Fund total allocation to private equity investments may be committed to any one partnership, without the approval of the Board.

## B. Fixed Income/Liquidity

### Core Fixed Income

Core Fixed Income investments will be similar in type to those securities found in the Systems' core fixed income benchmark(s), and the characteristics of the Systems' core fixed income portfolio will be similar to the System' core fixed income benchmarks. The core 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, municipal bonds, non-U.S. sovereign debt, mortgages including residential mortgage backed securities, commercial mortgage backed securities, and whole loans, asset-backed securities, and asset class relevant ETF's.

Each individual core 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.

### 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 short-term investment funds ("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.

### C. Diversifying Strategies

#### Real Estate

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 real estate investment trusts ("REITs"), public real estate operating companies, and real estate related debt.

The Systems 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, the Systems can maximize their 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 the Systems to invest in unique opportunities that arise due to dislocations in markets that occur from time to time.

#### Real Return

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 Treasury Inflation-Protected Securities ("TIPs") (and other inflation linkers) or "real" stocks such as REITs, Master Limited Partnerships ("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 Systems' Real Return Portfolio may include, but is not limited to, the following:

- Global Tactical Asset Allocation (“GTAA”)/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. 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 Consumer Price Index (“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.
- 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 IPS, 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. 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' operations for cash, and which are held for their role in contributing directly to the business' 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.

### **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 System's liquidity needs, funding status, and allocation targets on an investment by investment basis.

#### **Opportunistic**

Opportunistic investments are intended to capitalize on opportunities outside of the asset classes targeted in the asset allocation guidelines. These allocations are intended to take advantage of market dislocations and unique opportunities and can be short-to-medium-term in nature. Opportunistic investments may be implemented through targeted portfolios or multi-asset approaches. Initial allocations are to be made following the same policies and procedures as all other investments as outlined previously in this IPS.

#### **D. Co-Investment Policy**

The CIO has discretion to make direct co-investments in companies alongside of current general partners. Any co-investment opportunity must also be part of the main account or fund into which the Systems has already invested before it can be considered. For purposes of this IPS, a direct co-investment is defined as a direct investment in a portfolio company alongside an existing Systems' partnership deemed in good standing.

The maximum investment in any co-investment vehicle shall not exceed 50 percent of the total

capital committed by all partners at the time of the final closing. The maximum investment in any single direct co-investment shall not exceed 20 percent of the original partnership commitment. Total investment in direct co-investments shall not exceed 20 percent of the asset class portfolio on a cost basis at the time of investment.

#### IV. Monitoring

##### Performance Measurement

The Systems overall fund performance is measured relative to the Systems' Pension or Insurance Total Fund Benchmark. The benchmark is calculated by means of a weighted average methodology. This method is consistent with the CFA Institute Global Investment Performance Standards (GIPS®), a set of standardized, industry-wide ethical principles that guide investment managers and asset owners on how to fairly calculate and present their investment results, with the goal of promoting performance transparency and comparability. 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.

The Systems 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 indexes 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 the Systems and the investment manager/advisor as the neutral position consistent with the underlying investor status. The Systems' investment consultant and Staff recommend the benchmarks and indexes. These measures shall be subject to the review and approval of the Investment Committee with ratification by the Board when asset allocation studies are performed, or when a change to existing benchmarks is recommended by Staff and the investment consultant. The current asset class benchmarks, effective as of July 1, 2018 with the adoption of the asset allocation, are as follows:

Asset Class	Benchmark
<b>Growth</b>	
US Equity	Russell 3000
Non US Equity	MSCI ACWI ex US IMI
Private Equity	Russell 3000 + 300 bps (lagged)
High Yield / Specialty Credit	50% Bloomberg Barclays US High Yield 50% S&P LSTA Leveraged Loan
<b>Liquidity</b>	
Core Fixed Income	Bloomberg Barclays US Aggregate
Cash	Citi Grp 3-mos Treasury Bill
<b>Diversifying</b>	
Real Estate	NCREIF ODCE
Opportunistic	Highest Assumed Discount Rate of Participating Plans

Real Return	US CPI + 3%
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The following descriptions represent general standards of measurement that will be used as guidelines for the various classes of investments and managers of the 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 a full 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 a full 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:

Private Equity

The Private Equity portfolio should also seek to achieve the following:

Short-term

- Alternative investments should earn a Net Internal Rate of Return (“IRR”) that place the investment above the median Net IRR of other similar funds, of the same vintage year.

Intermediate & Long-term

- The private equity portfolio should earn a return that meets or exceeds the Systems 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.

Real Estate

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, the Systems 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 Systems’ 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.

#### Real Return

The total Real Return allocation shall seek to:

- (1) Short-term benchmark: For periods less than five (5) 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 (5) 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.
- (3) Achieve a positive risk/reward trade-off when compared to similar style Real Return Investment Managers.

#### Opportunistic

The total Opportunistic allocation shall seek to:

- (1) Short-term benchmark: For periods less than five (5) years or a full market cycle, the allocation should achieve an annual rate of return that exceeds the highest assumed rate of return of the participating plans.
- (2) Strategic benchmark: For periods greater than five (5) years or a full market cycle, the allocation should achieve an annual rate of return that exceeds the highest assumed rate of return of the participating plans.

#### Performance Review

Not less than quarterly the Investment Committee will review the performance of the portfolio for determination of compliance with this IPS. 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 IPS. 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 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 Systems' international equity assets.
- ▶ The duration of the core fixed income portfolios combined shall not vary from that of the Systems' Fixed Income Index by more than +/- 25% duration as measured by effective duration, modified duration, or dollar duration except when the Investment Committee has determined a target duration to be used for an interim basis.
- ▶ 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 core fixed income assets must have stated liquidity that is trade date plus three days or better.

The CIO 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.

## V Additional Items

### **Derivatives Permitted Use:**

The Systems permits external managers and 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 the Systems agree to take physical delivery on a futures contract.

**Position Limits:**

Futures and options positions entered into by the Systems, 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 the Systems under the transactions. All ISDA Master Agreements entered into by or on behalf of the Systems by the 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 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, Opportunistic Diversifying Strategies 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 the Systems. Derivatives are considered speculative if their uses have no material relation to objectives and strategies specified by the IPS or applicable to the portfolio. Derivatives may not be used for circumventing any limitations or restrictions imposed by the 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 the Systems from borrowing to cover short-term cash flow needs nor prohibit the Systems from loaning securities in accordance with a securities lending agreement.*

The Board recognizes that the voting of proxies is an important responsibility in assuring the overall performance of the Systems 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 Systems' approved Proxy Voting Policy for all internally voted items. This policy is updated at least annually by ISS and hereby incorporated by this reference.

- A. Investment Procurement Policy, as amended, is hereby incorporated by reference.
- B. ~~KPPA-KRS~~ Investment Brokerage Policy, as amended, is hereby incorporated by reference.
- C. ~~KPPA-KRS~~ Transactions Procedures Policy, as amended, is hereby incorporated by reference.
- D. ~~KPPA-KRS~~ Securities Litigation Policy and Procedures, as amended, is hereby incorporated by reference.
- E. ~~KPPA-KRS~~ Investment Securities Lending Guidelines, as amended, is hereby incorporated by reference.
- F. ~~KPPA-KRS~~ Securities Trading Policy for Trustees and Employees, as amended, is hereby incorporated by reference.
- G. ~~KPPA-KRS~~ Manager and Placement Agent Statement of Disclosure Policy, as amended, is hereby incorporated by reference.
- H. ~~KPPA-KRS~~ Real Estate Policy as amended and hereby incorporated by reference.

- I. ~~KPPA-KRS~~ Proxy Voting Policy as amended and hereby incorporated by reference.

Signatories

As Adopted by the Investment Committee

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

C. Prewitt Lane

Chair, Investment Committee

As Adopted by the Board of Trustees

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Keith Peercy

Chair, Board of Trustees

**DRAFT**  
**Kentucky Retirement Systems**  
Investment Policy Statement  
Adopted ~~November 16, 2021~~ March 2, 2022

This Investment Policy Statement (“IPS”) is issued by the Board of Trustees (“Board” or “Trustees”) of the Kentucky Retirement Systems (“KRS”) in connection with investing the assets of the Kentucky Employees Retirement System (“KERS”) and the State Police Retirement System (“SPRS”), jointly referred to as “Systems.” This document supersedes all prior documents entitled Statement of Investment Policy or Investment Policy Statement.

## I. Introduction

### A. Purpose

The purpose of this IPS is to define the framework for investing the assets of the Systems. This IPS is intended to provide general principles for establishing the goals, the allocation of assets, employment of outside asset management, and monitoring the results of the Systems.

The pension plans administered by KRS are “Qualified Pension Plans” under Section 401(a) of the Internal Revenue Code. Additionally, Kentucky Revised Statutes 61.701 establishes health insurance benefits to recipients of KERS, and SPRS. Kentucky Revised Statutes 61.702 provides that all amounts necessary to provide for insurance benefits shall be paid to the insurance fund. The Board shall administer the insurance trust fund in the same manner as the pension plans.

### B. Philosophy

The Trustees of KRS recognize their fiduciary duty not only to invest the Systems' assets in formal compliance with the Prudent Person Rule, but also to manage those assets in continued recognition of the basic long-term nature of the Systems. The Trustees interpret this to mean, in addition to the specific guidelines and restrictions set forth in the law and 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 asset allocation is the primary driver of long-term investment performance, and will therefore review asset allocation and asset-liability studies on a regular basis as outlined in Section III of this document. The asset allocation guidelines represent a strategic decision, with the primary aim that the portfolios meet their performance objectives in the long-term while understanding that this may not necessarily occur in the short term.

The Trustees recognize that there is generally an inverse relationship between market efficiency, and the ability for active management to produce alpha. Therefore, investments in efficient markets will be made using index or index-like investments with the goal of replicating index returns with low management fees. Active management will be pursued in less efficient markets, accepting higher tracking error, and paying higher management fees with the expectation of producing excess returns over the long term. This focuses Office of Investments' (“Staff”) and consultant(s) efforts on identifying, selecting, and monitoring managers as well as the overall management fees paid, in the areas of the market most likely to produce excess returns.

The Trustees recognize that, commensurate with their overall objective of maximizing long-term returns 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, 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 Staff and multiple service providers.

KRS recognizes the importance of responsible investing. Accordingly, the Trustees acknowledge that integrating Environmental, Social, and Governance (ESG) policy principles that engages the issue from a risk, opportunity and fiduciary duty perspective will enhance investment results. The overriding consideration for the Trustees will continue to be investing to maximize the long-term returns for plan beneficiaries.

## II. Responsibilities

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 (Prudent Person Rule);
- (4) impartially;
- (5) incurring and paying appropriate and reasonable expenses of administration and management which may not necessarily be the lowest; and,
- (6) in accordance with a good faith interpretation of the laws, regulations and other instruments governing KRS and 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) - Prohibited Transactions.

### A. Board of Trustees

The Investment Committee is created by Kentucky Revised Statutes 61.650 and the Board as set forth in the Board's Statement of Bylaws and Committee Organization document. The Board Chair authorizes and appoints members to an Investment Committee with full power to act for the Board in the acquisition, sale and management of the assets of the Systems in accordance with the provisions of any applicable statutes, and policies of the Board. The Board shall review and ratify the actions of the Investment Committee at the Board meeting following the Investment Committee meeting where such action was taken.

### B. Investment Committee

The Investment Committee consists of at least three (3) Trustees appointed by the Governor to the Board pursuant to Kentucky Revised Statutes 61.645(1)(c). Additional members may be appointed by the Board Chair. The Investment Committee acts on behalf of the Board on investment related matters.

The Investment Committee has the following oversight responsibilities:

- A. Assure compliance with this IPS and all applicable laws and regulations.
- B. Approve the selection and termination of service providers. If the need arises to terminate a manager between Board meetings, the Chief Investment Officer (“CIO”) will have discretion to do so after receiving approval from either the Board Chair or the Investment Committee Chair. The Investment Committee and the Board must be notified of the manager termination at the next scheduled Investment Committee and Board meetings.
- C. Meet no less than quarterly to evaluate whether this IPS, the investment activities and management controls and processes continue to be consistent in meeting the Systems' goals. Mandate actions necessary to maintain the overall effectiveness of the investment program.
- D. Review assessment of investment program management processes and procedures, and this IPS relative to meeting stated goals.

### C. Staff

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

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

- i. Maintaining the diversification and risk exposure of the Systems consistent with policies and guidelines.
- ii. Assessing and reporting on the performance and risk exposure of the overall investment program relative to goals, objectives, policies and guidelines.
- iii. Monitoring and assessing service providers to assure that they meet expectations and conform to policies and guidelines.
- iv. Recommending changes to service providers, statutes, policies or guidelines as needed to maintain a productive relationship between the investment program and its goals; acting as liaison on all investment related matters.
- v. Identifying issues for consideration by the Investment Committee and preparing recommendations or reports regarding such matters.
- vi. Preparing, for each proposed investment, a memo to the Investment Committee covering the pertinent details of the investment, 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.

The Chief Investment Officer or designee is authorized to execute trades on fixed income and equity securities (including exchange-traded funds or “ETF’s”) and to execute proxies for the Board consistent with this IPS.

To carry out the IPS and any 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.

#### D. 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:

- i. Investment Managers shall be qualified by the Chief Investment Officer, agree to serve as a fiduciary to the Systems, and should be of institutional quality as deemed by Staff in consultation with the investment consultant(s).
- ii. Investment Managers shall manage assets in accordance with this IPS and any additional guidelines established by contract, as may be modified in writing from time to time.
- iii. 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.
- iv. The assets managed by any one active or passive investment manager shall not exceed 15% of the overall assets in the pension and insurance funds per KRS 61.650(5).
- v. All investment management services will be contracted according to the Investment Procurement Policy established by the Board.

#### E. Custody Bank

The ~~Board~~ KPPA 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, as well as other duties as agreed to by contract.

A process ~~shall~~ may implement portfolio accounting system that includes plan accounting and unitization methods. An investment related service provider(s) may be selected to execute the process in accordance with the Boards' selection process. The following is a brief description of our plan accounting processing:

Within the plan accounting structure there are two primary types of accounts Plan Accounts and Pool Accounts. Plan Accounts are the owners of the investment pool. An account is established for each plan and these accounts hold Units of Participation that represent the plan's/fund's invested value of the investment pool. Pool Accounts are accounts that hold the assets of the investment pool where all investment related activity and earnings occur. These accounts are the investment strategies of the pool. Units of Participation are bought and sold as each plan/fund contributes or withdraws cash or assets from the investment pool. The investment pool earnings are then allocated to plans utilizing a cost distribution method that allows for fluctuating prices experienced in capital markets. This involves earnings allocated to the plan accounts with an increase or decrease in cost on the Unit of Participation Holdings of the Plan Accounts. Correspondingly, the price of the Unit of Participation Holdings is updated to reflect change in market value in the investment pool. Earnings are allocated based on the daily weighted average of Master Trust Units held by each plan/fund account during the monthly earnings period. This method is commonly used when plans make multiple contributions or withdrawals from the investment pool throughout the month as it eliminates allocation distortion due to large end of month cash flows.

An institutional accounting system ~~may~~ shall support a method for determining the amount of monthly earnings are allocated to each plan account.

#### F. 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.

G. Selection

Qualified investment managers, ~~custody banks~~, investment consultants, and other investment related service providers shall be selected by the Investment Committee in accordance with the IPS. 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 a Request For Information (“RFI”), a Request For Proposals (“RFP”), third party proprietary software or databases, review of existing service provider capabilities, or any combination of these, or other methods to select a service provider.

**III. Asset Allocation Guidelines**

In establishing asset allocation guidelines the Board recognizes that each plan and any underlying fund\* have their own capacity to tolerate investment volatility, or risk. The asset allocation guidelines of each Fund will be reviewed annually.

Based on the November 2020 asset liability study and an Efficient Frontier analysis conducted in February 2022, which analyzes the expected returns, risk, and correlations of various asset classes, projected liabilities, liquidity, and the risks associated with alternative asset mix strategies, the Board has established the following Asset Allocation Guidelines, effective ~~November 12, 2020~~ April 1, 2022. The asset classes are ~~“bucketed” or~~ grouped together into macro-asset classes ~~es buckets (i.e. growth, liquidity and diversifying)~~ based on their expected correlations to one another in order to create a better understanding of risk and diversification, and based on asset class exposures to the economic factors of growth and inflation.

\*KERS Hazardous and Non-hazardous

<b>KERS Hazardous Pension Fund and the KRS Insurance Trust Fund - 6.25% Assumed Rate of Return</b>			
Asset Class	Target	Minimum	Maximum
<b><u>Growth</u>Equity</b>			
<u>Public</u> US Equity	<del>21.75</del> <u>13.5</u> %	<del>15.23</del> <u>3</u> %	<del>28.28</del> <u>5</u> %
Private Equity	<del>10.00</del> %	<del>7.00</del> %	<del>13.00</del> %
<b><u>Liquidity</u>Fixed Income</b>			
<u>Core</u> Fixed Income	<u>10</u> %	<u>8</u> %	<u>12</u> %
<u>Specialty</u> Credit**	<u>15</u> %	<u>10</u> %	<u>20</u> %
Cash	<del>1.50</del> %	<del>0.00</del> %	<del>3.00</del> %
<b><u>Diversifying</u>Inflation Protected</b>			
Real Estate	<del>10.00</del> %	<del>7.00</del> %	<del>13.00</del> %
Real Return	<del>10.00</del> %	<del>7.00</del> %	<del>13.00</del> %
<b><u>Opportunistic</u></b>	<b><u>0.00</u></b> %	<b><u>0.00</u></b> %	<b><u>5.00</u></b> %



\*\*includes High Yield Fixed Income

<b>KERS Non-Hazardous Pension Fund and SPRS Pension Plan - 5.25% Assumed Rate of Return</b>			
Asset Class	Target	Minimum	Maximum
<b><u>Growth Equity</u></b>			
<u>US Public Equity</u>	<u>46.2532.5%</u>	<u>11.3824%</u>	<u>21.1342%</u>
Private Equity	7.00%	4.905%	9.40%
<b><u>Liquidity Fixed Income</u></b>			
<u>Core Fixed Income</u>	<u>20.5%</u>	<u>16.5%</u>	<u>24.5%</u>
<u>Specialty Credit**</u>	<u>15%</u>	<u>10.5%</u>	<u>19.5%</u>
Cash	5.00%	0.00%	10.00%
<b><u>Diversifying Inflation Protected</u></b>			
Real Estate	10.00%	7.00%	13.00%
Real Return	10.00%	7.00%	13.00%
<b><u>Opportunistic</u></b>	<b><u>0.00%</u></b>	<b><u>0.00%</u></b>	<b><u>5.00%</u></b>

\*\*includes High Yield Fixed Income

The intent of the Board in allocating funds to the investment managers is for the investment managers to fully invest the funds. However, the Board 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 asset allocations of each Pension and Insurance ~~Trust Funds~~ 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.

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 the appropriate asset class target for open-end investments such as public equity, and public fixed income, ~~and Diversifying Strategies~~ managers. For those open-end funds where assets can be added or subtracted, the Chief Investment Officer will have discretion to reduce or increase an investment manager's allocation between 50% and 150% of the approved target. The target will not be raised 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. If the need arises to terminate an investment manager between Board meetings, the Chief Investment Officer will have discretion to do so after receiving approval from either the Board Chair or the Investment Committee Chair. The Investment Committee and the Board must be notified of the investment manager termination at the next scheduled Investment Committee and Board meetings.

Short-term market shifts may cause the asset mix to drift from the allocation targets. Should the target percentage fall out of the indicated range for a particular asset class, Staff shall direct rebalancing transactions to reallocate assets from the over-allocated asset class to the under-allocated asset class. Within the allowable ranges, Staff should use regular cash flows to

rebalance toward targets to avoid incurring additional trading costs to correct minor deviations from policy targets. Except when there is a perceived extraordinary downside risk in a particular asset class, movement outside the normal ranges should be avoided.

Investments in private assets are generally less liquid than investments in public markets securities and are typically implemented via periodic commitments to funds with limited partnership structures. As a result, actual allocations to these asset classes may deviate from their strategic targets for extended periods. Actual vs. target deviations for these asset classes shall not be considered in violation of the Asset Allocation Guidelines. Under/over weights to these asset classes shall be invested in public markets securities with the most similar risk/return characteristics as a short-term proxy for the private asset classes.

In keeping with its responsibility as a Board and wherever consistent with its fiduciary responsibility, the Board encourages the investment of the System'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. ~~Growth Equity~~

##### ~~US Public Equity~~

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, 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 Systems.

##### ~~Non-US Equity~~

~~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 Non-US 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.~~

##### ~~High Yield/Specialty Credit~~

~~High yield/specialty credit investments will be similar in type to those securities found in the Systems' high yield benchmarks and the characteristics of the portfolio will be similar to the Systems' high yield fixed income benchmarks. The high yield fixed income accounts may include, but are not limited to, the following fixed income securities: 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 ("EMD") including both sovereign EMD and corporate EMD, and asset class relevant ETF's.~~

~~Each individual high yield/specialty credit 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.~~

### Private Equity Investments

Subject to specific approval of the Investment Committee, 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. Examples of such investments include, but are not limited to, private investments into venture capital, leveraged buyouts, special situations, distressed debt, private debt, timberland, oil and gas partnerships, infrastructure, commodities and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-US investments. These non-U.S. investments are not restricted by geography.

The private equity market is highly sophisticated and specialized with respect to variety and types of investment structures. There exists 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 and are critical to the economic incentives and ultimate net performance of the partnership.

### 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 contract negotiations, appropriate sizes for investments, and the preferred alignment of interests.

Investment Vehicles: The Systems will gain exposure to private equity investments by hiring external investment managers either directly or through participation in secondary private equity markets. Typically, KRS will subscribe as a Limited Partner ("LP") to limited partnership vehicles sponsored by such specialty external investment managers. KRS will also at times structure separately managed accounts with specific investment objectives to be implemented by external

investment managers. The Systems may also gain exposure by utilizing the following vehicles: limited liability companies and co-investments alongside KRS' 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, the Systems 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 overall Systems' Pension or Insurance Trust Fund total allocation to private equity investments may be committed to any one partnership, without the approval of the Board.

## B. Fixed Income/~~Liquidity~~

### Core Fixed Income

Core Fixed Income investments will be similar in type to those securities found in the Systems' core fixed income benchmark(s), and the characteristics of the Systems' core fixed income portfolio will be similar to the System' core fixed income benchmarks. The core 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, municipal bonds, non-U.S. sovereign debt, mortgages including residential mortgage backed securities, commercial mortgage backed securities, and whole loans, asset-backed securities, and asset class relevant ETF's.

Each individual core 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.

### High Yield/Specialty Credit

High yield/Sspecialty credit investments will be similar in type to those securities found in the Systems' high yield benchmarks and the characteristics of the portfolio will be similar to the Systems' high yield fixed income benchmarks. The high yield fixed income accounts may include, but are not limited to, the following fixed income securities: 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 ("EMD") including both sovereign EMD and corporate EMD, and asset class relevant ETF's.

Each individual high yield/specialty credit 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.

## 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 short-term investment funds ("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.

C. ~~Diversifying Strategies~~Inflation Protected

## Real Estate

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 real estate investment trusts ("REITs"), public real estate operating companies, and real estate related debt.

The Systems 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, the Systems can maximize their 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 the Systems to invest in unique opportunities that arise due to dislocations in markets that occur from time to time.

## Real Return

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 Treasury Inflation-Protected Securities (“TIPs”) (and other inflation linkers) or “real” stocks such as REITs, Master Limited Partnerships (“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 Systems’ Real Return Portfolio may include, but is not limited to, the following:

- Global Tactical Asset Allocation (“GTAA”)/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. 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 Consumer Price Index (“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.
- 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 IPS, 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. 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' operations for cash, and which are held for their role in contributing directly to the business' 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.

### **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 System's liquidity needs, funding status, and allocation targets on an investment by

investment basis.

### Opportunistic

~~Opportunistic investments are intended to capitalize on opportunities outside of the asset classes targeted in the asset allocation guidelines. These allocations are intended to take advantage of market dislocations and unique opportunities and can be short to medium term in nature. Opportunistic investments may be implemented through targeted portfolios or multi-asset approaches. Initial allocations are to be made following the same policies and procedures as all other investments as outlined previously in this IPS.~~

#### D. Co-Investment Policy

The CIO has discretion to make direct co-investments in companies alongside of current general partners. Any co-investment opportunity must also be part of the main account or fund into which the Systems has already invested before it can be considered. For purposes of this IPS, a direct co-investment is defined as a direct investment in a portfolio company alongside an existing Systems' partnership deemed in good standing.

The maximum investment in any co-investment vehicle shall not exceed 50 percent of the total capital committed by all partners at the time of the final closing. The maximum investment in any single direct co-investment shall not exceed 20 percent of the original partnership commitment. Total investment in direct co-investments shall not exceed 20 percent of the asset class portfolio on a cost basis at the time of investment.

## IV. Monitoring

### Performance Measurement

The Systems overall fund performance is measured relative to the Systems' Pension or Insurance Total Fund Benchmark. The benchmark is calculated by means of a weighted average methodology. This method is consistent with the CFA Institute Global Investment Performance Standards (GIPS®), a set of standardized, industry-wide ethical principles that guide investment managers and asset owners on how to fairly calculate and present their investment results, with the goal of promoting performance transparency and comparability. 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.

The Systems 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 indexes 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 the Systems and the investment manager/advisor as the neutral position consistent with the underlying investor status.



The Systems' investment consultant and Staff recommend the benchmarks and indexes. These measures shall be subject to the review and approval of the Investment Committee with ratification by the Board when asset allocation studies are performed, or when a change to existing benchmarks is recommended by Staff and the investment consultant. The current asset class benchmarks, effective as of ~~July 1, 2018~~ April 1, 2022 with the adoption of the asset allocation, are as follows:

Asset Class	Benchmark
<del>Growth</del> <u>Equity</u>	
<del>US-Public</del> Equity	<del>MSCI ACWI</del> <u>Russell 3000</u>
Private Equity	Russell 3000 + 300 bps (lagged)
<del>High Yield / Specialty Credit</del>	50% Bloomberg Barclays US High Yield 50% S&P LSTA Leveraged Loan
<del>Liquidity</del> <u>Fixed Income</u>	
Core Fixed Income	Bloomberg Barclays US Aggregate
<del>Specialty Credit</del>	<del>50% Bloomberg Barclays US High Yield 50% S&amp;P</del>
Cash	<del>Citi Grp 3-mos Treasury Bill</del>
<del>Diversifying</del> <u>Inflation Protected</u>	
Real Estate	NCREIF ODCE
<del>Opportunistic</del>	<del>Highest Assumed Discount Rate of Participating Plans</del>
Real Return	US CPI + 3%

The following descriptions represent general standards of measurement that will be used as guidelines for the various classes of investments and managers of the 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 a full 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 a full 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:

Private Equity

The Private Equity portfolio should also seek to achieve the following:

Short-term

- Alternative investments should earn a Net Internal Rate of Return (“IRR”) that place the investment above the median Net IRR of other similar funds, of the same vintage year.

Intermediate & Long-term

- The private equity portfolio should earn a return that meets or exceeds the Systems 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.

Real Estate

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, the Systems 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 Systems’ 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.

Real Return

The total Real Return allocation shall seek to:

- (1) Short-term benchmark: For periods less than five (5) 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 (5) 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.
- (3) Achieve a positive risk/reward trade-off when compared to similar style Real Return Investment Managers.

~~Opportunistic~~

~~The total Opportunistic allocation shall seek to:~~

- ~~(1) Short term benchmark: For periods less than five (5) years or a full market~~

~~cycle, the allocation should achieve an annual rate of return that exceeds the highest assumed rate of return of the participating plans.  
(2) Strategic benchmark: For periods greater than five (5) years or a full market cycle, the allocation should achieve an annual rate of return that exceeds the highest assumed rate of return of the participating plans.~~

## Performance Review

Not less than quarterly the Investment Committee will review the performance of the portfolio for determination of compliance with this IPS. 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 IPS. 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 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 Systems' international equity assets.
- ▶ The duration of the core fixed income portfolios combined shall not vary from that of the Systems' Fixed Income Index by more than +/- 25% duration as measured by effective duration, modified duration, or dollar duration except when the Investment Committee has determined a target duration to be used for an interim basis.
- ▶ 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 core fixed income assets must have stated liquidity that is trade date plus three days or better.

The CIO 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.

Under the CIO's direction, Investment Staff shall perform site visits with all current investment

managers over 3-year rolling market cycles, with at least 1/3 of all current managers occurring on a yearly basis.

## V Additional Items

### **Derivatives Permitted Use:**

The Systems permits external managers and 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 the Systems agree to take physical delivery on a futures contract.

#### **Position Limits:**

Futures and options positions entered into by the Systems, 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 the Systems under the transactions. All ISDA Master Agreements entered into by or on behalf of the Systems by the 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 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, Opportunistic Diversifying Strategies 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 the Systems. Derivatives are considered speculative if their uses have no material relation to objectives and strategies specified by the IPS or applicable to the portfolio. Derivatives may not be used for circumventing any limitations or restrictions imposed by the 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 the Systems from borrowing to cover short-term cash flow needs nor prohibit the Systems from loaning securities in accordance with a securities lending agreement.*

The Board recognizes that the voting of proxies is an important responsibility in assuring the

overall performance of the Systems 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 Systems' approved Proxy Voting Policy for all internally voted items. This policy is updated at least annually by ISS and hereby incorporated by this reference.

- A. Investment Procurement Policy, as amended, is hereby incorporated by reference.
- B. KRS Investment Brokerage Policy, as amended, is hereby incorporated by reference.
- C. KRS Transactions Procedures Policy, as amended, is hereby incorporated by reference.
- D. KRS Securities Litigation Policy and Procedures, as amended, is hereby incorporated by reference.
- E. KRS Investment Securities Lending Guidelines, as amended, is hereby incorporated by reference.
- F. KRS Securities Trading Policy for Trustees and Employees, as amended, is hereby incorporated by reference.
- G. KRS Manager and Placement Agent Statement of Disclosure Policy, as amended, is hereby incorporated by reference.
- H. KRS Real Estate Policy as amended and hereby incorporated by reference.
- I. KRS Proxy Voting Policy as amended and hereby incorporated by reference.

Signatories

As Adopted by the Investment Committee

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

C. Prewitt Lane

Chair, Investment Committee

As Adopted by the Board of Trustees

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Keith Peercy

Chair, Board of Trustees



Kentucky Retirement Systems  
Investment Manager Onboarding Checklist  
Approved February 12, 2019

- Person(s) responsible for checklist item provides his or her initials in the box to the left of the item and saves the Checklist in the Contracts folder.
- Investment Committee approves new managers proceeding from the Investment Procurement Policy.
- CIO or the Director of the Asset class works with internal and outside legal counsel to negotiate contract details and ensures that internal legal counsel is copied on all correspondence during the negotiation process.
- Notify Investment Operations team of newly approved manager via email at [krsinvacctops@kyret.ky.gov](mailto:krsinvacctops@kyret.ky.gov). Save email correspondence in the Contracts folder.
- CIO or the Director of the Asset class provides the name of the manager/fund and the asset class to Investment Operations via email at [krsinvacctops@kyret.ky.gov](mailto:krsinvacctops@kyret.ky.gov). Save email correspondence in the Contracts folder.
- The Investment Operations team contacts KRS' Custodian bank (currently BNY Mellon) to obtain new account numbers via email at [BNYMellon\\_GCA\\_Client\\_Directions@BNYMellon.com](mailto:BNYMellon_GCA_Client_Directions@BNYMellon.com) and [stephen.mcguire@bnymellon.com](mailto:stephen.mcguire@bnymellon.com). Save email correspondence in the Contracts folder.
- The Investment Operations team, working with Investment staff, fills out and submits the BNY Mellon New Account Forms, which can be found at M:\Investment Operations\New Accounts Request Forms\New Account Forms\New Account Template.
- The Investment Operations team saves completed and signed New Account Request forms in the Opened Accounts folder at M:\Investment Operations\New Accounts Request Forms\New Account Forms\Opened Accounts and in the Contracts folder.
- The Investment Operations team sends notification to the Investment staff when the BNY Mellon accounts are open and ready to receive initial funding. Save email correspondence in the Contracts folder.
- During contract negotiations, the CIO or the Director of the Asset class must include a discussion with the manager about adherence to 2017's Senate Bill 2, which requires that KRS post all investment contracts to its website. A provision in Senate Bill 2 allows managers to redact material in the contract that it deems an exception per Kentucky Revised Statutes 61.878.

- Once all parties have finalized contract negotiations, the CIO or the Director of the Asset class executes two or three copies of all contracts depending on the manager's decision to redact information.
- The CIO or the Director of the Asset class mails all copies to the manager for their signature. Save email correspondence in the Contracts folder.
- The manager remits a signed, fully executed digital copy of the contract and, if necessary, a redacted copy to the Compliance Officer, Investment Operations team, and Investment staff. The Compliance Officer saves the digital copy(-ies) in the Contracts folder.
- KRS Compliance Officer emails the Investment staff and Investment Operations team and states that KRS is prepared to fund the new account. Save email correspondence in the Contracts folder.
- Investment Operations works in conjunction with the custodian and manager to set up wires and resources are transferred on a pre-determined date. Save final email correspondence regarding the wires in the Contracts folder.
- The Compliance Officer emails the redacted contract to the Communications Division to post on the KRS website. Save email correspondence in the Contracts folder.
- The manager remits a signed, fully executed original contract to the KRS Compliance Officer.
- Upon receipt of the signed documents, the KRS Compliance Officer codes any necessary compliance rules into the BNY Mellon Compliance system.
- The Compliance Officer files the contract in the fireproof Investment Contracts file cabinet.

Signatories

As Adopted by the Investment Committee

Date: 2-12-19

Signature: 

Mr. Neil P. Ramsey  
Chair, Investment Committee

As Adopted by the Board of Trustees

Date: 2-12-19

Signature: 

Mr. David L. Harris  
Chair, Board of Trustees



Kentucky Retirement Systems  
Securities Litigation Policy  
Approved [January 7, 2022](#)

A. Statement of Intent

This Securities Litigation Policy (Policy) is issued by the Investment Committee of the Board of Trustees of the Kentucky Retirement Systems (KRS) in connection with monitoring pending actions in which KRS is a named party or otherwise directly impacted.

KRS acknowledges that it has a duty to monitor and evaluate actions in which it may potentially be a member or participant. While KRS will take reasonable steps to monitor and evaluate the actions, it is also cognizant that most, if not all, of these claims will be prosecuted by securities lawyers specializing in representing investors, regardless of whether or not KRS takes an active role. Therefore, the decision regarding the degree of KRS direct involvement in a claim requires evaluating the potential of KRS to add value.

B. Identifying and Evaluating Potential Claims

Periodically, the [Kentucky Public Pensions Authority \(KPPA\)](#) Executive Director of the Office of Investments or other staff will identify actions that are filed in which KRS is a named party or otherwise directly impacted. A variety of sources may be used to identify the actions including, without limitation, a retained third party securities class action monitoring service, portfolio managers, the Internet, and the class action bar.

Upon identification of a potential claim, KRS trading activity will be examined by the retained securities class action monitoring firm to estimate the potential damages utilizing the average results of the two damage calculation methodologies recommended by the National Association of Public Pension Attorneys (NAPPA) in their working document *Calculation of Securities Litigation Damages* dated June 16, 2005, which is hereby incorporated by reference, or such other references and methods which may have particular application to a particular security and/or transaction.

If the potential damages are less than \$10 million, the [KPPA](#) Executive Director of the Office of Investments, or designee, shall monitor the class action suit and file a claim upon its conclusion to participate in the class settlement, unless unique circumstances warrant consideration of alternative approaches. If the potential damages exceed \$10 million, then the claim will be screened for more in-depth evaluation.

If further evaluation is warranted, the Executive Director of the Office of Investments shall, in conjunction with the Executive Director of Office of Legal Services and an external legal firm (“evaluation counsel”) that has a demonstrated expertise in securities class action legal matters, perform additional due diligence on the claim. The Executive Director of the Office of Investments

shall confer with the General Counsel and may utilize internal legal resources, along with the evaluation counsel, when appropriate. Additional due diligence may include, without limitation: assessment of the complaint; SEC filings and company disclosures; contacts with other investors; consideration of non-litigation alternatives; staffing, resources and other issues; impact of active claim management and; potential conflicts with other class members. If, based upon this additional due diligence it appears that KRS may add significant value by more active participation, then the Executive Director of the Office of Investments shall present this recommendation to the Investment Committee. Any firm, or its partners, that has been selected as evaluation counsel for a particular case is precluded, by this policy, from representing the Systems in any securities litigation matter for a period of three years upon completion of their assignment.

Recommendations to the Investment Committee shall take one of the three following forms:

1. Monitor the course of the class action suit and file a claim upon its conclusion to participate in the class settlement, giving appropriate consideration to objecting to one or more terms of the settlement including, but not limited to, the amount of attorneys' fees to be paid.
2. Seek to control a class action by seeking designation as lead plaintiff, either singly or with others.
3. Opting out of a class action suit and filing a separate suit, either singly or with others.

Based on the review of the potential claim, the Investment Committee will determine whether active involvement is warranted by KRS and the nature of such involvement, if any. If active involvement is deemed to be warranted, appropriate outside counsel will be sought at that time by the Investment Committee.

Notwithstanding the foregoing, managers delegated monitoring responsibilities may utilize their existing monitoring system. The manager shall prepare records, and from time to time, shall furnish information KRS may require in the discharge of its duties. KRS shall continue to monitor the claim notwithstanding the nature of its involvement.

C. Monitoring Claims

The KPPA Executive Director of the Office of Investments shall recommend the retention of an independent third-party securities class action monitoring firm to assist in the monitoring, filing and claims collection processes. The services of the retained firm shall be evaluated on a periodic basis and the results of the evaluation communicated to the Investment Committee. Any firm providing such monitoring services shall be precluded from representing the Systems in any litigation efforts undertaken by the Investment Committee.

Signatories

As Adopted by the Investment Committee

As Adopted by the Board of Trustees

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Mr. Prewitt Lane  
Chair, Investment Committee

Mr. Keith Percy  
Chair, Board of Trustees

DRAFT  
Kentucky Retirement Systems  
Brokerage Policy for Trustees and Employees  
Approved January 31, 2022

**Statement of Intent**

This policy documents the intent of the Investment Committee of the Kentucky Retirement Systems (KRS) related to brokerage direction.

**A. Objectives**

Brokerage direction shall result from a competitive process, with the objective of achieving the best execution by minimizing commission and market impact costs while maximizing value to KRS. The competitive bids/offers received should be documented on buy/sell orders.

Brokerage shall never be awarded on the basis of repayment for personal advice, favors or political patronage. Any attempts to solicit or direct business based upon these considerations shall be reported to the Investment Committee immediately.

**B. Criteria for Selecting Brokers**

Investment Directors shall be responsible for selecting brokers to execute their transactions. Investment Directors are also responsible for assuring the financial soundness in order to protect the Systems from failed trades or other liabilities.

Prior to executing the first trade, all of the appropriate documents must be executed and on file with the broker and the investment manager.

It is the desire of the Investment Committee that, whenever it is in the best interest of the FundPlans, brokerage will be directed within the Commonwealth of Kentucky, or full or partial credit will be assigned to a Kentucky-based broker.

**C. Monitoring**

Investment Staff shall monitor the brokerage and report findings periodically to the Investment Committee. Investment Directors shall report brokerage information to staff in a format acceptable to KRS.

The Investment Committee shall periodically monitor market impact and commission cost for stock trades versus the trading Universe maintained by a third party vendor.

Signatories

As Adopted by the Investment Committee

As Adopted by the Board of Directors

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Mr. Prewitt Lane  
Chair, Investment Committee

Mr. Keith Peercy  
Chair, Board of Trustees

**Kentucky Retirement Systems DRAFT**  
Investment Transaction Procedures Policy  
Date, 2022

This document is intended to identify the communications and procedures that are necessary to properly execute investment transactions for the Kentucky Retirement Systems (KRS).

The Kentucky Public Pensions Authority (KPPA) Executive Director of the Office of Investments is responsible for keeping a record of all official Investment Committee meetings. This record shall identify those subjects discussed during the meeting and shall make specific note of any formal action taken by the Investment Committee. This record will be retained by KRS as further documentation of Investment Committee actions.

Procedures for specific transaction classifications are discussed in the following paragraphs.

Equity Transactions

Equity transactions must be in compliance with the current Investment Policy Statement (IPS) and their written guidelines, therefore; approval of individual purchase and sale recommendations are not required as long as they are in conformance with the Investment Director's role, function and present strategy.

Investment Directors shall have discretion in implementing a trading strategy which may include, but is not limited to, utilizing: primary, secondary, over-the-counter, third or fourth markets; crossing networks, and; intermarket trading systems. It shall be the responsibility of the Director to ensure any necessary federal or state regulatory filing and document retention of the filings associated with the ~~securities~~ activities in which the Director chooses to engage ~~in~~.

It shall be the responsibility of the Directors to ascertain that funds will be available on settlement date before securities are purchased.

Fixed Income Transactions

Fixed income transactions must be in compliance with the current IPS and their written guidelines, therefore, approval of individual purchase and sale recommendations are not required as long as they are in conformance with the Investment Director's role function and present bond market strategy.

Directors may execute transactions through primary, secondary, over-the-counter, third or fourth markets. It shall be the responsibility of the Director to ensure any necessary federal or state regulatory filing and document retention of the filings associated with the securities activities in which the Director chooses to engage ~~in~~.

It shall be the responsibility of the Directors to ascertain that funds will be available on settlement date before securities are purchased.

## Repurchase Agreements

Short-term cash reserves are to be invested daily by the Division. Repurchase Agreements may be initiated only with those firms that have been approved by the Investment Committee and invested in compliance with the current Statement of Investment Policy.

## Investment Manager Selection, Due Diligence and Disclosure

All Investment Managers will be selected utilizing the procedures outlined in the IPS. All Investment Managers will be Registered Investment Advisors with the SEC or qualify for one of the exemptions spelled out in the Dodd-Frank Act and specifically discussed at the approving investment committee meeting and approved by the Investment Committee.

### Selection Criteria

- Experience of the firm in the management of institutional portfolios operated under the prudent person standard;
- Verifiable historical performance record of at least three years in the desired strategy (may be shortened or waived depending on the strategy considered);
- Qualifications and depth of the investment professionals;
- Soundness of the firm's investment philosophy and process;
- Adequacy of the firm's trading, back office, accounting, reporting and client service capabilities;
- Fees and other economic terms;
- Legal structure and terms; and
- Fit within the asset class.

### Due Diligence

- 1) When a prospective General Partner has been identified, Investment Staff shall have at least one meeting at KPPARS' offices and one on-site at the prospective General Partner's offices. The General Partner's presentation to the Investment Committee at the time of prospective approval may serve as the meeting at KRS'-KPPA offices if at no other time could it be arranged to have a meeting at KPPAKRS.
- 2) Investment Staff shall document any and all formal meetings with the prospective general partner and make that documentation available upon request.
- 3) Investment Staff shall retain its consultant to perform due diligence on any investments that go before the Investment Committee for approval. A formal write-up of the due diligence process shall be prepared and distributed to Investment Committee members prior to the date of prospective Investment Committee approval. This write-up shall generally detail the following components of the decision-making process:
  - a. Overview of the Firm
  - b. Investment Strategy
  - c. Organizational Structure and Key Personnel
  - d. Summary of Investment Performance
  - e. Investment Rationale
  - f. Investment Terms

- g. Whether any principles of the firm have been involved in any regulatory proceedings and, if so, the details concerning same,
  - h. Whether a placement agent has been involved and, if so, the identity of the agent and the details of the agreement, in accordance with the Kentucky Retirement KRS Statement of Disclosure, Placement Agents.
- 4) Investment Staff and Consultant shall make themselves available for questioning by the Investment Committee regarding any prospective investment. This time shall generally be made available to the Investment Committee at such a time a prospective investment is before the Investment Committee for approval. However, should additional time or materials be requested of knowledgeable parties, it shall be provided to the Investment Committee expeditiously.

#### Investment IMA, Guidelines, Side Letters

- Staff shall work with either approved outside legal counsel or internal ~~KRS-KPPA~~ legal counsel on all Investment Management Agreements, Limited Partnership Agreements, and Side Letters.
- Alignment of Interests: Staff shall actively negotiate partnership agreements on behalf of KRS to ensure that the interests of the general partner are aligned with those of KRS. Staff shall endeavor to ensure that the majority of senior investment professionals within each general partner firm make substantial investments of their own personal net worth within the partnerships in which KRS invests, and that the mix of management fees and carried interest is consistent with KRS' objectives of maximizing long-term returns from the asset class.
- Special Services: Due to the complex nature of alternative investment structures and partnership agreements, Staff will retain expert legal counsel on an as-needed basis. From time-to-time, during the due diligence process private investigators may be engaged to investigate general partner principals for integrity, ethical standards, tax-related issues, etc. prior to an investment commitment. Staff may retain a post-venture distribution manager to manage common stock and other public securities distributed by its general partners, consistent with the long-term objectives of the KRS.

#### Disclosure Policy

- Subject to the procedures and any other restrictions applicable under the Open Records Act and Kentucky Revised Statutes 61.650, the Executive Director of the Office of Investments or designee will disclose information such as the name of the funds, limited partnership investments, investment managers, and general partners that have been selected by the KRS to manage alternative investments. Additionally, aggregate portfolio returns will also be disclosed.
- In order to comply with the prohibition on disclosure of records that contain real estate appraisals, feasibility estimates, and evaluations relative to the investment in the Open Records Act, Kentucky Revised Statutes 61.650 and certain partnership agreements, KRS will not disclose the individual underlying investments and their performance.
- ~~KRS-KPPA~~ will make available to the public the management fee, performance fee or carried interest rate if applicable, and hurdle rates or preferred returns if applicable of all investment managers. It will be shown as a percentage rate and it will be based on the rate that was disclosed at the investment committee when the investment manager was approved. If staff is able to negotiate a better fee rate than what was approved at the investment committee meeting that rate



will not be shown.

Signatories

As Adopted by the Investment Committee

As Adopted by the Board of Directors

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Mr. Prewitt Lane  
Chair, Investment Committee

Mr. Keith Percy  
Chair, Board of Trustees

DRAFT  
Kentucky Retirement Systems  
Manager and Placement Agent Statement of Disclosure  
Approved Date +, 2022

A. Purpose

This Manager Statement of Disclosure (Policy) sets forth the disclosure requirements which must be satisfied prior to any Kentucky Retirement Systems (KRS) investment. This policy requires disclosure of conflicts of interest and/or political contributions with any new KRS investment. KRS shall require the disclosure of detailed information regarding any manager used, their services, and payments and fees in connection with all KRS investments. This Policy is intended to apply broadly to all of the types of investment advisors with whom KRS conducts or potentially conducts business with including general partners, managers, investment managers and sponsors of hedge funds, private equity funds, real estate funds, as well as investment managers retained pursuant to a contract.

The goal of this Policy is to bring transparency to our investment management relationships in connection with KRS' investments and to help ensure that KRS' investment decisions are made based solely on the merits of the investment opportunity and in a manner consistent with the responsibilities of the Board of Trustees and individuals who owe a fiduciary duty to KRS.

B. Objectives

The objectives of KRS' policy are:

1. To ensure that KRS' investment decisions are consistent with KRS' overall Investment Policy Statements;
2. To supplement the due diligence and information available to KRS Board members, staff, and consultants when evaluating an investment opportunity;
3. To prevent impropriety and/or the appearance of improprieties and to disclose conflicts of interest and/or the appearances of conflicts of interest;
4. Provide transparency and confidence in KRS investment decision-making and process; and
5. Establish procedures to comply with state and federal law.

C. Application

This Policy applies to all agreements with managers that are entered into after ~~the date this Policy is adopted~~ March 10, 2017. This Policy also applies to existing agreements with managers if, after the date this Policy is adopted, the term of the agreement is extended; there is any increased commitment of funds by KRS pursuant to the existing agreement; or there is a material amendment to the substantive terms of an existing agreement, including the fees or compensation payable to the manager.

D. Definitions

1. "KRS vehicle" means a partnership, limited liability company, account or other investment vehicle in which KRS is the investor.
2. "Consultant" refers to individuals or firms, and includes key personnel of consultant firms, who are contractually retained or have been contracted by KRS to provide investment advice to KRS but who do not exercise investment discretion.
3. "Manager" means an asset management firm that is seeking to be, or has been, retained by KRS or by a KRS vehicle to manage a portfolio of assets (including securities and or contracts, etc.) for a fee. The manager usually has full discretion to manage KRS assets, consistent with investment management guidelines provided by KRS and fiduciary responsibility.
4. "Executive Agency Lobbyist (EAL)" means any person engaged to influence executive agency decisions or to conduct executive agency lobbying activity as one of his main purposes on a substantial basis. An EAL does not include an elected or appointed officer or employee of a federal or state agency, state college, state university, or political subdivision who attempts to influence or affect executive agency decisions in his fiduciary capacity as a representative of his agency, college, university, or political subdivision.
5. "Executive Agency Lobbying Activity" includes any contact made to promote, oppose, or otherwise influence the outcome of an executive agency decision by direct communication with an elected executive official, the secretary of any cabinet listed in Kentucky Revised Statutes 12.250, any executive agency official, or a member of the staff of any one of the officials listed in this paragraph.
6. "Real Party-In-Interest (RPI)" is a person or organization on whose behalf the executive agency lobbyist is acting, if that person is not the employer. For example, if the ABC Corporation engages XYZ Consulting Company which, in turn, hires John Smith to influence decisions or conducts executive agency lobbying on behalf of ABC Corporation: (a) John Smith is the EAL; (b) XYZ Consulting Company is the employer; and (c) ABC Corporation is the "real party in interest".

## E. Responsibilities

### Manager's Responsibilities

Prior to KRS investing with any manager, KRS Staff shall obtain a signed Manager Disclosure Questionnaire from the investment manager. This form includes a statement as to whether or not the investment manager has used a placement agent in connection with the proposed KRS investment opportunity. It also includes conflict of interest disclosures and political contribution disclosures among other required information including but not limited to:

- The name of the placement agent;
- The fee paid or payable to the placement agent;
- Representation that the fee is the sole obligation of the investment manager and not that of KRS or the limited partnership;
- Current or former Kentucky officials (federal, state, and local government), KRS Board of Trustees members, KRS employees or consultants to KRS that are receiving any fees or compensation from the manager and/or placement agent;
- The names of any current or former Kentucky elected or appointed government officials (federal, state, and local government) KRS Board of Trustees members, employees, or

- consultants of KRS, or any other person, if any, who suggested the retention of the placement agent;
- Evidence of the regulatory agencies, if any, in any Federal, state or foreign jurisdiction the placement agent or any of its affiliates are registered with, such as the Securities and Exchange Commission (SEC), Financial Regulatory Agency (FINRA), or any similar regulatory agency;
- A résumé for each officer, partner or principal of the placement agent detailing the person's education, professional designations, regulatory licenses and investment and work experience;
- A description of the services to be performed by the placement agent;
- A statement whether the placement agent, or any of its affiliates, is registered as a lobbyist with any and all Kentucky state and local (county) governments; and
- A statement by the manager and/or placement agent representing and warranting the accuracy of the information provided to KRS regarding the Statement of Disclosure in any final written agreement with a continuing obligation to update any such information within 10 business days of any change in the information.

The manager shall notify the placement agent of his or her obligations under Kentucky Revised Statutes Chapter 11A.

Compliance with the following procedures is the responsibility of the manager, the EAL and the placement agent. KRS-KPPA staff is not responsible for ensuring compliance with the following procedures as staff is not a party to the process.

The following is a description of the process external persons must follow to comply with Kentucky's EAL registration procedures:

1. Prior to contact with KRS-KPPA personnel the placement agent, employer, and, if applicable, the RPI, is required to file jointly, the Initial Registration Statement Form\* with the Kentucky Executive Branch Ethics Commission (EBEC) and furnish a copy to KRSKPPA.

Questions as to the process or applicability should be addressed to:

Executive Branch Ethics Commission (502) 564-7954.

2. After Initial Registration, the placement agent, employer, and, if applicable, the RPI, is required to abide by the EBEC *Requirements After Registration* by filing an Updated Registration Statement\*\* annually (Due by July 31) with the EBEC and furnish a copy to KRSKPPA.
3. If the placement agent, employer, and, if applicable, the RPI, wishes to terminate their lobbying effort they must notify the EBEC within 30 days after the termination of engagement by filling out the Termination Notification Form\*\*\* attaching it to the EAL's final Updated Registration Statement form\*\* and furnishing a copy to KRSKPPA.

\* Initial Registration Statement Form is available at:  
<http://ethics.ky.gov/lobbying/Pages/Registration.aspx>

\*\* Updated Registration Statement Forms are available at:  
<http://ethics.ky.gov/lobbying/Pages/RequirementsAfterRegistration.aspx>

\*\*\* Termination Notification Form is Available at:

<http://ethics.ky.gov/lobbying/Pages/howToTerminate.aspx>

In the event a placement agent is expected to receive remuneration for a KRS investment, KRS-KPPA staff will notify the Investment Committee in the memorandum discussing the recommended/approved investment. If a manager breaches this policy, staff will notify the Investment Committee as soon as practicable.

#### KRS-KPPA Staff Responsibilities

KRS-KPPA staff are responsible for:

- Providing the public with disclosure by posting a copy of this policy on KRS-KPPA website;
- Implementing this policy on behalf of KRS with each Investment Director responsible for their specific asset class; and
- Providing regular disclosure updates to the KRS Investment Committee and the Board of Trustees.

All parties responsible for implementing, monitoring and complying with this Policy shall consider the spirit as well as the literal expression of the Policy.

#### F. Conflict of Interest

All persons and entities contracting with KRS shall certify that:

- they are legally capable of entering into a binding contract and authorized to do so;
- that they are not, nor shall be, in violation of any Kentucky law, statute or regulation pertaining to a conflict of interest including, but not limited to, Kentucky Revised Statutes 121.056; and
- that they are not, nor shall be, in violation of any provision of Kentucky Revised Statutes Chapter 11A or any regulation promulgated there under, or any law or regulation pertaining to the Kentucky Registry of Election Finance and the reporting requirements thereof.

All persons and entities seeking to or actually contracting with KRS shall disclose all relationships and potential conflicts of interest with any KRS-KPPA staff, KRS committee or Board Member. Any disclosed conflicts of interest will be discussed at the Investment Committee as to the severity of the conflict and the appropriate resolution. Options the Investment Committee might recommended include but are not limited to: no action required; conflicted party abstention; and refusal to invest. Subsequent discovery of any undisclosed conflict may be considered a breach of contract and may result in immediate termination of any agreements without penalty or fee to KRS.

Signatories

As Adopted by the Investment Committee

As Adopted by the Board of Directors

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Mr. Prewitt Lane  
Chair, Investment Committee

Mr. Keith Percy  
Chair, Board of Trustees

**Kentucky Retirement Systems DRAFT**

Investment Proxy Voting Policy

Approved DATE ~~May 2021~~

The Kentucky Retirement Systems (KRS) Board of Trustees (Board) appoints an Investment Committee with full authority to act for the Board in the acquisition, sale and management of the securities and funds of the Retirement Systems. The Board also authorizes the Investment Committee or designee, custodian, investment manager or agent to execute stock proxies for the Board. Said delegate(s) shall maintain detailed records of its performance of its duty and provide such records to the Board as may be requested by the Board from time to time.

This position paper is hereby adopted by the Investment Committee to provide a set of guidelines to be followed in order to execute proxies. The following statement reflects the general policy that shall be applied as proxy issues are considered:

To support management if management's position appears reasonable, is not detrimental to the long term equity ownership of the corporation and reflects consideration of the impact of societal values and attitudes on the long-term liability of the corporation and is in the best interest of the plan participants.

The following paragraphs shall be applied when considering the more specific proxy issues that are likely to be encountered on a more routine basis.

**A. Routine Business or Financial Matters**

Election of Directors

FOR

In a majority of instances, election of directors is a routine voting issue. Unless there is a proxy fight for seats on the Board, KRS will usually vote in favor of the Management-proposed slate of directors.

Appointment of Auditors

FOR

The selection of independent accountants to audit the company's financial records is a routine business matter and in most instances is submitted to shareholders for public relations reasons. Since the accounting firm selected to do the audit has no effect on the investment value of the company's securities, KRS will support Management's recommendation.

Increase Authorized Common Stock

FOR \*

KRS will support an increase in authorized common stock needed to implement a stock split when coupled with intent to immediately effect the split, or aid in a restructuring or acquisition or provide a sufficient number of shares for employee savings plans, stock option or executive compensation plans.

A satisfactory explanation for a company's plans for the stock must be disclosed in the proxy statement.

\* KRS will oppose increases in authorized common stock if we suspect that the shares are to be used to implement a poison pill or another form of anti-takeover device, or if the issuance of new shares could excessively dilute the value of the outstanding shares upon issuance.

Changes in Board Structure

FOR \*

Companies may propose various provisions related to the structure of the Board of Directors. These provisions may include changing the way Board vacancies are filled, directors are nominated or the number of directors. These provisions may include Majority Vote Director Elections and the Separation of the CEO and Chairman of Board. These proposals may be proposed amendments to the Charter or by-laws and need to be reviewed by the shareholders prior to voting. In most instances these proposals are not controversial nor an anti-takeover device. Therefore, KRS generally votes in favor of the proposal.

\* However, KRS is opposed to cumulative voting for members of the Board and attempts to limit term of Board of Directors based on tenure or age.

B. Non-Routine Business or Financial Matters

Considering Non-Financial Effects of a Merger Proposal

AGAINST

KRS will oppose proposals that require the Board of Directors to consider what impact a merger would have on certain groups other than a company's shareholders, such as employees, consumers, business partners, and the communities in which the company is located. We expect that a company's Board of Directors will act in the best interest of its shareholders at all times.

Director Liability and Indemnification

FOR \*

The Investment Committee believes that proposals concerning Liability and Indemnification, which limit the personal liability of directors for breaches of fiduciary duty of care and provisions for payment of expenses incurred by officials, directors and other representatives who become defendants in lawsuits, should be evaluated on a case by case basis with reasonable measures supported and extreme measures opposed.

Executive Compensation

FOR \*

Executive compensation can take various forms but should provide adequate compensation and incentives to management consistent with the long term interests of the shareholders of the company.

\* Management should have some assurance that they will not, in the event of a takeover, be terminated without motive and compensation. However, KRS is concerned that some compensation agreements provide excessive compensation in the event of a takeover. KRS does not oppose agreements which provide executives with a reasonable period of compensation after termination; however, they will oppose compensation plans which are excessive.

Stock Splits

FOR

KRS will vote in favor of a proposal to split the company's stock if there is an immediate intent to effect the split.



Employment Relations

FOR \*

The Board of Directors and Corporate Management have the responsibility for harmonious labor relations. This responsibility also includes conducting labor negotiations within the appropriate laws of the jurisdiction.

- \* Where efficient operation of the corporation requires plant closings or relocations, the corporation should give as much notice as possible and assist its employees in relocating or in seeking other employment. Resolutions of shareholders which seek to impose requirements on management in this regard will not be supported automatically. Support will be contingent upon whether or not managers can demonstrate that efforts have been made to retain good employment relations subject to the constraints encountered in the particular circumstances.

C. Anti-Takeover Issues

Blank Check Preferred Stock

AGAINST

A Blank Check Preferred Stock proposal is one that authorizes the issuance of certain preferred stock at some future point in time and allows the Board of Directors to establish voting, dividend, conversion, and other rights at the time of issuance. While Blank Check Preferred Stock can provide a corporation with the flexibility needed to meet changing financial conditions, it also may be used as the vehicle for implementing a poison pill defense, or it may be placed in friendly hands to help block a takeover bid. KRS' concern is that once this stock has been authorized, shareholders have no further power to determine how or when it will be allocated.

Classified Boards

AGAINST

A Classified Board is typically divided into three separate classes, each class to hold office for a term of two or three years. Only a portion of the Board of Directors can be elected or replaced each year. Since this type of proposal has fundamental anti-takeover implications, KRS opposes the adoption of Classified Boards.

Fair Price Provisions

AGAINST

A Fair Price provision in the company's charter or by-laws is designed to assure that, if the Corporation is acquired under a plan not agreed to by the Board of Directors, each shareholder's securities will be purchased at the same price. In most instances the provision requires that any tender offer made by a third party be made to all shareholders at the same price.

Fair pricing provisions attempt to limit the "two-tiered" pricing systems in which the interested party or would-be acquirer of the company initially offers a premium for a sufficient number of shares of the company to garner control. Thereafter, an offer at a much lower price is made to the remaining shareholders who have no choice at all but to accept the offer. The "two-tiered" approach is coercive in that it makes it easier for an outsider to gain control of a company because it provides an incentive to the shareholder to sell his shares immediately in order to receive the benefits of a higher price per share and avoid falling into the second tier, if the offer is successful. The coercive pressures associated with these offers have caused many states to adopt controlled share acquisition statutes which restrict this practice by law.

In theory this type of provision is acceptable standing alone, however, given the fact that the practice is in most aspects prohibited by law, and the fact that Fair Price Provisions are invariably linked with other

anti-takeover measures, such as supermajority voting requirements to approve certain transactions, KRS will vote against most Fair Price Provisions.

Limiting Shareholders' Right to Call Special Meetings

AGAINST

Companies contend that such limitations are necessary to prevent minority shareholders from taking control of the company's agenda. However, such limits also have anti-takeover implications such as preventing a shareholder who has acquired a significant stake in the company from forcing management to address the potential sale of the company. Additionally, a limitation on shareholder action makes it difficult for a large shareholder or group of shareholders to use this facility to force management to address issues that may be of urgent or utmost importance. Since, in most instances, state law prohibits shareholders from abusing or using this facility in certain manners. KRS sees no justifiable reason for management to eliminate this facility. KRS will oppose the elimination of this fundamental shareholder right.

Limiting Shareholders' Right to Act by Written Consent

AGAINST

Action by written consent enables a large shareholder or group of shareholders of a company to initiate and vote on corporate matters without having to wait until the date of the next annual meeting. KRS believes this is a fundamental shareholder right that is inherent in the concept of stock ownership and will oppose any proposals which may limit.

Supermajority Vote Requirements

AGAINST

A Supermajority Vote Requirement is a charter or by-law requirement that, when implemented, raises the percentage of shareholder votes needed to approve certain proposals such as mergers, changes of control, or proposals to amend or repeal a portion of the Articles of Incorporation.

Re-incorporation

AGAINST

For various reasons, a corporation may choose to reincorporate under the laws of a different state. Their reasoning may include taxation, the state's General Business Law and the level of corporate experience the state's court may have. However, in a majority of instances a re-incorporation proposal has its foundation in the ~~corporations's~~corporation's desire to incorporate in another state in order to take advantage of that state's laws governing corporations and corporate control and the state courts' views in interpreting laws that make it more difficult for unsolicited takeovers to occur. In such cases, KRS will oppose proposals for reincorporation.

Issuance of Stock with Unequal Voting Rights

AGAINST

Proposals of this nature are generally anti-takeover schemes which result in unequal voting rights among different classes of shareholders. The most frequent proposal of this type is a dual class capitalization plan which establishes two classes of stock. As an incentive to encourage shareholders to approve plans designed to concentrate voting power in the hands of insiders, some plans give higher dividends to shareholders willing to exchange shares with superior voting rights for shares with inferior voting rights.

Unequal voting rights plans are designed to reduce the voting power of existing shareholders and concentrate a significant amount of voting power in the hands of management. In the majority of instances, they serve as an effective safeguard against hostile takeovers. For these reasons, KRS deems these plans unacceptable and in most instances will vote against these proposals.

Elimination of Preemptive Rights

AGAINST

Preemptive Rights allow the shareholders of the company to buy newly issued shares before they are offered to the public in order to retain their then current percentage of ownership as well as to avoid ownership dilution by the issuance of additional stock. KRS believes this is fundamental right of a shareholder and barring a compelling reason should not be eliminated by management. KRS will oppose management proposals requesting eliminating these rights and will support shareholder proposals which request the restoration of Preemptive Rights.

D. Corporate Governance Shareholder Proposals

Submit Company's Shareholder Rights Plan Shareholder Vote

FOR \*

Most Shareholder Rights Plans (sometimes called poison pills) permit the shareholders of a target company involved in a hostile takeover to acquire shares of that company, the acquiring company, or both, at a substantial discount once a triggering event occurs. A triggering event is usually a hostile tender offer or the acquisition by an outside party of a certain percentage of the company's stock. Since most plans exclude the hostile bidder from the purchase, the effect in most instances, is to dilute the equity interest and the voting rights of the potential acquirer once the plan is triggered. Shareholder Rights Plans are designed to be so disadvantageous to potential acquirers that merely their existence could deter possible acquirers from making a hostile bid.

\* KRS will support shareholder proposals asking that the company submit their Shareholder Rights Plan to a shareholder vote. KRS will vote case-by- case on proposals to completely redeem Rights Plans.

Anti-Greenmail Proposal

FOR

Greenmail payments generally result when a potential hostile acquirer has accumulated a significant percentage of the company's stock and the company acquires the raider's stock at an aggregate price usually above the then current market value usually in exchange for an agreement that the raider would not attempt to acquire control within a certain number of years. The proposal that has been proposed most often to prevent greenmail is the adoption of charter amendments severely limiting the board's ability to acquire blocks of the company's stock in these situations and at above market prices. KRS will vote in favor of an anti-greenmail proposal standing alone provided the proposal has no other management initiated anti-takeover attributes.

E. Social and Policy Issues

We believe that most decisions of a policy nature, having either a direct or an indirect effect on the conduct of business and on corporate profitability should remain management responsibilities. As such, they should be subject only to their Board of Director's approval; therefore, we would support the position taken by management.

Signatories

As Adopted by the Investment Committee

As Adopted by the Board of Directors

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Mr. Prewitt Lane  
Chair, Investment Committee

Mr. Keith Peercy  
Chair, Board of Trustees

Kentucky Retirement Systems DRAFT  
Real Estate Policy  
Approved January 7, 2022

A. Role of Real Estate

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

- Invest in top tier, attractive risk adjusted returns through active management.
- Utilize access to managers with the expertise and capabilities to exploit market inefficiencies in the asset class.
- Manage interests through co-investment and incentive based compensation and maximize risk adjusted returns.
- Diversify 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 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.

B. Allocation to Real Estate Asset Class

KRS has approved a target Real Estate allocation of five percent (5%) of the total fund for real estate investments. KRS will endeavor to achieve the target allocation over a three to five-year period by averaging into the market and avoiding any concentrated vintage year risks.

C. Investment Policies

For purposes of this Investment Policy, the real estate investment universe is divided into the following sectors, with descriptive attributes to follow:

1. 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 7%-9% per year (net of fees and promoted interest), 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.

Commented [HS(1)]: Might need a consultant to update return assumption

2. 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 9% to 12% per year (net of fees and promoted interest).
- Leverage for value added investments is generally limited to approximately 65% loan to value.

Commented [HS(2)]: Might need a consultant to update return assumption

3. 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 generate returns in excess of 12% (net of fees and promoted interest) in order to compensate for the additional risk commensurate with the increased risk compared to core property investments.

Commented [HS(3)]: Might need a consultant to update return assumption

4. Public Securities

- Real estate public securities ("Public Securities") do not allow control over the assets or management.
- 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 approximately 9%-11% (net of fees) over a 10-year period and 11-13% (net of fees) for non-U.S. Public Securities.

Commented [HS(4)]: Might need a consultant to update return assumption

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

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

KRS seeks to maintain the flexibility to overweight or underweight any sector in order to capitalize on market opportunities.

#### D. 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 shall be limited to no more than 5% of the total real estate allocation.

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

#### E. Property Type 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. KRS will limit the amount committed to 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.

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.)

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 limit of 65% of the total portfolio placed on the use of leverage.

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

Signatories

As Adopted by the Investment Committee

As Adopted by the Board of Directors

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Mr. Prewitt Lane  
Chair, Investment Committee

Mr. Keith Percy  
Chair, Board of Trustees



**Kentucky Retirement Systems DRAFT**  
Investment Securities Lending Guidelines  
Approved ~~June 1~~, 201821

This document sets forth the investment policy for the securities lending program.

**A. Objectives**

To generate incremental income by lending securities to qualified borrowers. Borrowers provide collateral in exchange for the right to borrow securities. Collateral should follow the system's guidelines as set forth in the Securities Lending Authorization Agreement. Total return from securities lending should meet or exceed Risk Management Association's (RMA) Lending Composite on an annual basis.

**B. Responsibilities and Delegations**

The KRS Investment Committee have the following responsibilities and duties:

1. Approving the securities lending guidelines.
2. Reviewing the securities lending program performance annually with the Kentucky Public Pensions Authority (KPPA) Executive Director, Office of Investments, and ~~KRS~~ staff.

The ~~KRS-KPPA~~ investment staff duties include, but are not limited to, the following:

1. Reporting to the Investment Committee annually about the performance and compliance of the securities lending program.
2. Recommending guideline changes to the Investment Committee as needed.
3. Reviewing monthly reports from the Lending Agent.
4. Reviewing and evaluating quarterly reports from the Lending Agent. Furnishing the quarterly reports to the Investment Committee.
5. Monitoring the Lending Agent's compliance with the securities lending guidelines.

The Lending Agent's duties include:

1. At least annually, or more frequently if requested by KRS, the Lending Agent must present the Executive Director of the Office of Investments, with a list of potential borrowers and the applicable credit exposure.
2. The Lending Agent must immediately notify the KPPA Executive Director of the Office of Investments and ~~KRS~~ staff of any violation of the securities lending guidelines.
3. The Lending Agent must provide a quarterly report showing: historical net earnings; volume on loan, loanable base, percentage of loan, gross spread, net earnings and gross basis point return by class; comparable gross basis point return by class with the RMA Lending Composite, BNY Mellon and KRS; detailed performance comparison ~~with~~ RMA, BNY Mellon and KRS of percentage on loan, spread and gross basis point return by class, and; other information as reasonably requested by KRS.

C. Lending and Collateral Guidelines

The collateral guidelines are set forth in the Securities Lending Authorization Agreement. The Lending Agent shall follow these guidelines explicitly in conjunction with these policies. If, at anytime, a violation occurs, the Lending Agent shall immediately notify the Executive Director of the Office of Investments and ~~KRS~~ staff by e-mail; together all parties shall determine the action or actions needed to bring the portfolio back into compliance.

Signatories

As Adopted by the Investment Committee

As Adopted by the Board of Directors

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Mr. Prewitt Lane  
Chair, Investment Committee

Mr. Keith Percy  
Chair, Board of Trustees

Kentucky Retirement Systems DRAFT  
 Securities Trading Policy for Trustees and Employees  
 Approved DATE

The Kentucky Retirement Systems (KRS) is charged with the administration of pension and group health insurance funds held in trust for active, inactive and retired KRS members and their beneficiaries. Accordingly, its Trustees and Employees have fiduciary duties commonly associated with pension and other trusts. The principal purpose of the Securities Trading Policy (Policy) is to prevent an intentional or inadvertent violation of Federal securities laws as well as Kentucky's fiduciary and ethics standards. Further, this policy serves to act as an ethical guideline to ensure that KRS' Trustees and Employees conduct themselves in a manner that fosters public confidence. Since KRS is described by statute as a state agency, KRS Trustees and Employees have special responsibilities for honesty and integrity applicable to public servants. This Policy acknowledges certain standards of conduct expected of Trustees and Employees in view of these responsibilities.

Although many of the provisions of this Policy are based upon legal and fiduciary concepts, this Policy should not be interpreted as an exclusive and complete statement of legal and fiduciary responsibilities. The primary source of laws governing the legal and fiduciary conduct of Trustees and Employees are set forth in Kentucky Revised Statutes Chapter 11A, et seq., and Kentucky Revised Statutes [Sections 61.505](#), 61.645. This Policy does not limit or expand the scope of those laws.

This Policy is intended to provide specific requirements to Trustees and Employees regarding personal securities trading for KRS accounts and compliance with legal and fiduciary responsibilities as governed by the Commonwealth of Kentucky and KRS Board of Trustees. Personal securities trading and transactions in accordance with this policy should create a presumption of compliance with legal and fiduciary responsibilities by Trustees and Employees. Willful disregard of this Policy could result in disciplinary actions which include formal reprimands, adverse performance reviews, disgorgement of profits, removal from office, or termination of employment.

#### A. Definitions

In this Policy, the following definitions apply unless the context requires otherwise:

1. "KRS" means the Kentucky Retirement Systems.
2. "Board" means the Board of Trustees of KRS.
3. "Employee" means a person working for KRS or Kentucky Public Pensions Authority (KPPA) in an employer/employee relationship.
4. "Trustee" means a member of the Board of KRS.
5. "Covered Persons" are defined as ~~KRS~~employees and Trustees with access to material, non-public information about proposed trading, trading strategies, or holdings and the other investment funds held by KRS. This includes individuals involved in recommending or making investment decisions or who have access to systems containing investment information. It also includes those working with or in close proximity to persons involved in

decision making who regularly have the opportunity to see written information or hear discussions relating to investments. The following ~~KRS-E~~employees are, by virtue of their positions, conclusively presumed to be Covered Persons: KRS Chief Executive Officer, KPPA Executive Director, KPPA Executive Director of Operations, KPPA Executive Director Office of Investments, KPPA Executive Director Office of Legal Services, KPPA Executive Director Office of Benefits, General Counsel, Assistant General Counsel, all KPPA Investment Division staff, all KPPA Accounting Division staff, all KPPA Internal Audit Division staff, select KPPA Division Directors, and select positions within the Information Technology Division at KPPA.

6. "Personal securities transactions" means a discretionary transaction involving the purchase or sale of a security in which a person, or any member of such person's immediate family, had or gained directly or indirectly a financial interest and in which the person or any member of such person's immediate family had influence or control, directly or indirectly, over the timing of the trade of the security or derivative on a security.
7. "Family" means the Trustee's or Employee's spouse, their children under the age of 18, adult children financially dependent upon them or living in the same household and any other person(s) living in their household. This policy also applies to any relative of a Trustee or Employee, even if not living in their household, over whose investments the Trustee or Employee has discretionary authority.
8. "Federal Securities Laws" shall mean the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Company Act of 1940, the Investment Advisers Act of 1940, Title V of the Gramm-Leach-Bliley Act, the Sarbanes-Oxley Act of 2002 Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Jumpstart Our Business Startups Act of 2012 along with any rules adopted by the U.S. Securities and Exchange Commission ("SEC") and any rules adopted by the U.S. Department of the Treasury including sanction programs enforced by the Office of Foreign Assets Control (OFAC).
9. "Policy" means this Securities Trading Policy.
10. "Knowingly" means to do so with knowledge or awareness of the facts or situation, and not because of mistake, accident or some other innocent reason. An individual acts "knowingly" when he or she acts with awareness of the nature of his conduct and of probable consequences.

## B. General Ethical Standards

All KRS Trustees and Employees must comply with all applicable state and federal laws and ethical principles. They should specifically be aware of the following statutes and rules: KRS 11A, et seq., KRS [Sections 61.505](#), 61.645, 15 U.S.C. 78j, Section 10 of the Securities Exchange Act of 1934 (including rules 10b-5, 10b5-1, 10b5-2) and the Kentucky Retirement Systems Personnel and Investment Policies. The omission of any applicable statute from this list does not excuse violation of its provisions.

Federal securities laws also prohibit persons, including KRS Trustees and Employees, from trading securities or commodities using any manipulative or deceptive device or scheme to defraud. This includes misstating or omitting any material fact. Moreover, trading securities or commodities on the basis of material non-public information is prohibited. This prohibition covers both "insiders" (persons who acquire material, non-public information in the context of their employment or a

relationship of trust such as a fiduciary relationship) and “Tippees” (persons who misappropriate material, non-public information obtained from an insider). This Policy is designed to prevent KRS Trustees and Employees from misusing material, non-public information in a manner that might violate Federal securities laws or from otherwise engaging in inappropriate securities transactions such as front-running in KRS accounts as well as their personal and family accounts.

Accordingly, all KRS Trustees or Employees are prohibited from trading on material, inside and non-public information whether obtained in the course of their KRS duties or otherwise. Material, inside information is non-public information that a reasonable investor is likely to consider important in determining whether to purchase or sell a security. It is also information that, if made public, would likely affect the market price of a security. Information may be considered material even if it relates to future, speculative or contingent events and even if it is significant only when considered in combination with publically available information. Information is considered non-public unless it has been publically disclosed and adequate time has passed for securities markets to digest the information. Any instances or questions regarding possible inside information must be immediately brought to the attention of the [KPPA](#) Compliance Officer.

Federal laws also prohibit KRS Trustees, Employees or Investment Managers from transacting securities issued in countries subject to economic sanctions by the U. S. Department of Treasury OFAC. Additionally, KRS Trustees, Employees and Investment Managers should not conduct business or invest with individuals or entities connected with sanction targets or Specially Designated Nationals (SDNs).

### C. Personal Securities Transactions

#### Prohibited Transactions

All KRS Trustees or Employees are prohibited from engaging in the following personal securities transactions:

1. **Knowingly** conducting any securities transaction in any instrument KRS is actively trading until three (3) trading days after the buy/sell orders have been completed or canceled.
2. Purchasing stock in any Initial Public Offering (IPO) in order to prevent quid pro quo activity or conflicts of interest. Employees may accept IPO shares derived from a stock dividend on shares previously owned, from demutualization of an insurance company in which they are a policy holder or as the result of a Family member’s employment by an IPO issuer.
3. Front-running, which is defined as buying or selling a security in advance of the time such a transaction would be blocked by the pre-clearance procedure. Trustees and Employees who have actual knowledge of transactions that are being considered for implementation in KRS portfolios, even in securities exempted by this policy, are prohibited from acting in advance thereof even if such purchase or sale would not otherwise be barred by the pre-clearance procedure below.

#### Covered Accounts, Securities and Assets

Personal securities transactions covered by this policy include transactions in:

- Individual equity or equity-related instruments, including but not limited to stocks, convertibles, preferred stock, options and futures on individual stocks, warrants, rights, etc., for domestic and foreign securities, whether publicly traded or privately placed.
- Individual bonds, options and financial futures on individual bonds.
- Investments in real estate involving more than one individual or entity with a fiduciary duty to KRS, or otherwise subject to the requirements of this policy, must be disclosed thirty (30) days PRIOR to transaction consummation even if it falls under an exemption listed below.

#### **Exempted Accounts, Securities and Assets**

The following are exempt trades: (1) trades in units of open ended mutual funds, segregated funds, or pooled trust funds; (2) purchases made under automatic dividend reinvestment or share purchase plans, but not sales from these made at the direction of those covered under this Policy; (3) trades that result from corporation actions without any voluntary action by the person holding the security; and (4) trades in index products (ETF securities, options, futures, or other derivatives that track published indices). Exempt trade examples include the following:

- Stock splits,
- Stock dividends,
- Mutual funds,
- Index funds,
- Unit Investment Trusts,
- Master trusts,
- Covered call writing or protective put purchases on securities already owned by the Trustee or Employee,
- Real estate used for personal or recreational residence,
- Agricultural or real property with a value of less than \$250,000 and bona fide rental properties with two (2) or fewer units,
- Real estate held through a real estate investment trust for which the Trustee or Employee is not making individual property selections,
- Dividend Reinvestment Plans (DRIP) or Direct Stock Plans (DSP) purchases, and
- Discretionary, fee-based accounts where the account owner is not making individual security selections.
- Annuity or insurance contracts,
- Tangible personal property and hard assets,
- Money market instruments,
- Certificates of deposit,
- Commercial paper,
- Options and futures on indices.

#### **Pre-Clearance**

Covered Persons shall not enter into a non-exempt personal securities transaction without first complying with the pre-clearance process defined herein and receiving approval or clearance from the [KRS- KPPA](#) Compliance Officer or the [KPPA](#) Executive Director Office of Investments. The

~~KRS-KPPA~~ Compliance Officer shall be responsible for implementation of this policy and for establishing procedures to track Trustee and Employee compliance with this Policy.

A. Open Orders/Options

If a Covered person wants to place a “good until canceled” limit, which is the equivalent of an open order that specifies certain execution limits, or writing a covered call in a security that has not been defined as exempt in this policy, they must indicate the order type on their request for approval. If the order request is approved in accordance with pre-clearance procedures in this policy, a transactional disclosure form must be completed and submitted to the ~~KRS-KPPA~~ Compliance Officer within ten (10) calendar days of the order being executed. **If at any time between approval by the ~~KRS-KPPA~~ Compliance Officer and trade execution the Covered Person obtains actual knowledge of KRS or its external managers transacting in that security, then transacting in that option or open order is no longer approved.**

Employees may obtain pre-clearance for personal securities transactions by sending an e-mail to the ~~KRS-KPPA~~ Compliance Officer requesting a determination as to whether trading is allowed and must wait for approval from the ~~KRS-KPPA~~ Compliance Officer **before entering into the transaction**. In the absence of the ~~KRS-KPPA~~ Compliance Officer, the ~~KRS-KPPA~~ Executive Director Office of Investments may also consider the pre-clearance request of an Employee pursuant to the same procedure. In consultation with KRS investment managers and staff, the ~~KRS-KPPA~~ Compliance Officer may approve or deny pre-clearance approval or denial based on reasonable discretion that the transaction does not conflict with federal or Kentucky law or KRS policies.

Pre-clearance for Trustees and Employees will be documented in a personal securities transaction log, which will provide a record of all requests for approval of personal securities transactions. The ~~KRS-KPPA~~ Compliance Officer will provide pre-clearance and maintain the log. Unless otherwise noted by the Compliance Officer, pre-clearance approval for personal securities transactions is effective until market close on the first trading day following communication of pre-clearance approval, unless the Trustee or Employee has been approved for an open order. **Under no circumstances shall a KRS employee approve or clear their own transaction.**

A transactional disclosure form must be completed for personal securities transactions, except for those described above which are exempted from the disclosure requirement. Transactional disclosure forms must be fully completed and given to the ~~KRS-KPPA~~ Compliance Officer along with the trade confirmation from the broker (unless the transaction only involved real estate) within ten calendar days of the personal transaction trade date. A sample of the required form is attached to this policy.

The transactional disclosure form must be fully completed and contain information including:

- The name and amount of the security involved. If the asset is real estate not exempted by this policy, then the address of the property should also be included.
- The date and nature of the transaction.
- The price at which the transaction was effected.
- The name of the broker through whom the transaction was effected.

D. Certifications

1. Annual

Each year, at the request of the [KPPA](#) Compliance Officer, all Covered and Deemed Covered Persons shall submit to the [KPPA](#) Compliance Officer a certification of their understanding of the requirements of this policy. Additionally, unless they are a Trustee, all Covered and Deemed Covered persons should submit a brokerage statement disclosing the account title, their securities holdings and securities transactions for personal and family accounts where any non-exempt securities transactions may occur for the period ending the preceding December 31<sup>st</sup>.

2. New Hire/Appointment

All Covered Persons or Deemed Covered persons shall also be required to file with the [KPPA](#) Compliance Officer, in such a format as the [KPPA](#) Compliance Officer may require, a certification of their understanding of the requirements of this policy. Additionally, unless they are a Trustee, all Covered and Deemed Covered persons should disclose the account name and account for all personal and family accounts where non-exempt securities transactions may occur within fifteen business (15) days of becoming a Covered Person.

E. Violations and Remediation

KRS takes violations of securities laws and this policy very seriously. As mentioned previously, willful disregard of this Policy could result in disciplinary actions which include formal reprimands, adverse performance reviews, disgorgement of profits and termination of employment or removal from office. Failure to pre-clear non-exempt personal securities transactions shall be considered a willful violation of this policy and will subject that Covered Person to appropriate sanctions.

As such, KRS Trustees and Employees should promptly report any suspected violation of securities laws or this policy to the [KPPA](#) Compliance Officer. If any violation of this policy is determined to have occurred, the [KPPA](#) Compliance Officer will escalate the situation to the [KPPA](#) Executive Director and Chair of the Board of Trustees for action. No KRS Trustee or Employee shall participate in a determination of whether he or she has committed a violation of this policy or in the imposition of any sanction against himself or herself.

Signatories

As Adopted by the Investment Committee

As Adopted by the Board of Directors

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Signature: \_\_\_\_\_

Signature: \_\_\_\_\_

Mr. Prewitt Lane  
Chair, Investment Committee

Mr. Keith Peercy  
Chair, Board of Trustees





## KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

1260 Louisville Road • Frankfort, Kentucky 40601  
kyret.ky.gov • Phone: 502-696-8800 • Fax: 502-696-8822



To: Kentucky Retirement Systems Board of Trustees

From: Betty Pendergrass, CPA, CGFM  
Chair of Joint Audit Committee

Kristen N. Coffey, CICA *KNC*  
Division Director, Internal Audit Administration

Date: March 2, 2022

Subject: Summary of Joint Audit Committee Meeting

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The County Employees Retirement System (CERS) and Kentucky Retirement Systems (KRS) Joint Audit Committee held a regularly scheduled meeting on February 22, 2022. In addition to the KRS Board Election Policy, which will be presented separately, the following items were reviewed:

**1. These were presented for informational purposes only.**

- a. KPPA Archives Policy – *this task will remain with staff until such a time that updates are made that need approval from one or more Boards of Trustees.*
- b. Financial statements for the quarter ended December 31, 2021.
- c. Follow-up on the 2021 Annual Comprehensive Financial Report – *reviewed requested changes that were made to the report after it was presented to the various Boards of Trustees in December 2021.*
- d. Fiscal Year End June 30, 2021 End of Year Audit Requirements – *all items were submitted by the required deadline.*
- e. APA Approval Request for the Fiscal Year 2022 External Audit – *the APA will not be able to perform the audit for fiscal year 2023. There was a deadline of early October for the report, KPPA staff did follow-up and verify that we do not have to submit our report by that deadline since our GASB reports will not be ready until the end of October.*
- f. Information disclosures – *Eight disclosures identified, effecting eight members.*
- g. Anonymous Tips – *Two open cases.*

**2. The following items were deferred and will be presented at a Special Called Joint Audit Committee meeting:**

- a. Results of the GASB 68 and GASB 75 Proportionate Share audits for fiscal year ended June 30, 2022.
- b. Results of the Plan Liquidity Audit, Phase 1.
- c. Additions to the Current Audit Plan.
- d. Internal Audit Budget.
- e. Status of current internal audits.



## KENTUCKY PUBLIC PENSIONS AUTHORITY

David L. Eager, Executive Director

1260 Louisville Road · Frankfort, Kentucky 40601  
kyret.ky.gov · Phone: 502-696-8800 · Fax: 502-696-8822



**TO:** Members of the KRS Board of Trustees

**FROM:** Joint CERS & KRS Retiree Health Plan Committee

**DATE:** March 3, 2022

**SUBJECT:** Joint CERS & KRS Retiree Health Plan Committee Report

The Joint CERS & KRS Retiree Health Plan Committee met on Thursday, February 10, 2022 and reviewed an informational presentation from Humana regarding Account Management for 2021.

### 2021 Review:

- Σ Member Engagement
- Σ Call Center Report
- Σ Member Satisfaction
- Σ Net Promotor Score
- Σ Annual Member Study
- Σ Value Based Products

Humana Member Engagement, in partnership with KPPA Retiree Health Care staff, coordinated six (6) live online enrollment events during October open enrollment. The following Bringing Humana to You Events were also hosted online during 2021: Value Added Benefits; Partnering with Your Doctor; Decompressing from Stress; and Eating Healthy. The Humana Annual Enrollment Education video, which was accessible through the KPPA website, had 592 views with an average watch time of 24 minutes of the 36 minute recording.

The Call Center Report for 2021 was comparable to 2020, with a total of 63,125 calls answered for the year. The Member Satisfaction and Net Promotor Score are determined based on results of surveys that Humana issues and reviews to gather vital information for continuing opportunities for improvement on an ongoing basis. Humana was able to add additional members to the survey than in previous years totaling 4,361 vs. 491 in previous years. Retirees gave an overall satisfaction rating of higher than 90%.

Value Based Products is a partnership between providers and Humana which results in shared savings and enhanced quality care measures. This partnership has resulted in improved outcomes and higher quality in patient experience and satisfaction. Compared to original Medicare, there were 29% less hospital admissions and 10% less emergency room visits. The cost associated with these savings was \$4 billion for plan year 2020.

Finally, Connie Pettyjohn reported that due to a calculation error there was a premium reduction of \$1.26 on the Prescription Drug Plans for 2022 from what the Boards approved in September 2021.



## Combining Statement of Fiduciary Net Position - Pension Funds

As of December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Thousands)

ASSETS	KERS		SPRS	KRS TOTAL		Percentage of Change	Note
	Non-Hazardous	Hazardous		2022	2021		
<b>CASH AND SHORT-TERM INVESTMENTS</b>							
Cash Deposits	\$193	\$41	\$43	\$276	\$698	-60.42%	1
Short-term Investments	411,548	62,158	35,840	509,546	252,106	102.12%	2
<b>Total Cash and Short-term Investments</b>	<b>411,741</b>	<b>62,199</b>	<b>35,882</b>	<b>509,822</b>	<b>252,804</b>		
<b>RECEIVABLES</b>							
Accounts Receivable	13,339	3,409	8,711	25,458	64,967	-60.81%	3
Accounts Receivable - Investments	37,662	9,302	4,315	51,280	120,765	-57.54%	4
<b>Total Receivables</b>	<b>51,001</b>	<b>12,711</b>	<b>13,026</b>	<b>76,738</b>	<b>185,732</b>		
<b>INVESTMENTS, AT FAIR VALUE</b>							
Core Fixed Income	660,688	109,840	76,089	846,616	759,708	11.44%	5
Public Equities	1,070,417	410,893	127,196	1,608,507	1,361,488	18.14%	6
Private Equities	200,360	67,307	19,548	287,214	257,084	11.72%	7
Specialty Credit	513,740	151,685	60,324	725,750	653,310	11.09%	8
Derivatives	(422)	(80)	(46)	(547)	1,128	-148.51%	9
Absolute Return	-	-	-	-	35,300	-100.00%	10
Real Return	178,271	51,325	20,862	250,458	223,604	12.01%	11
Opportunistic	74,680	23,153	9,224	107,058	88,857	20.48%	12
Real Estate	143,572	40,768	17,565	201,905	147,801	36.61%	13
<b>Total Investments, at Fair Value</b>	<b>2,841,305</b>	<b>854,893</b>	<b>330,763</b>	<b>4,026,961</b>	<b>3,528,280</b>		
Securities Lending Collateral Invested	94,671	26,483	10,536	131,690	101,469	29.78%	14
<b>CAPITAL/INTANGIBLE ASSETS</b>							
Capital Assets	929	91	11	1,031	1,031	0.00%	
Intangible Assets	5,920	494	100	6,513	6,513	0.00%	
Accumulated Depreciation	(929)	(91)	(11)	(1,031)	(1,024)	0.69%	
Accumulated Amortization	(5,611)	(482)	(100)	(6,193)	(6,043)	2.49%	
<b>Total Capital Assets</b>	<b>309</b>	<b>11</b>	<b>-</b>	<b>320</b>	<b>477</b>		
<b>Total Assets</b>	<b>3,399,026</b>	<b>956,296</b>	<b>390,208</b>	<b>4,745,530</b>	<b>4,068,762</b>		
<b>LIABILITIES</b>							
Accounts Payable	1,585	159	31	1,775	1,937	-8.34%	
Investment Accounts Payable	73,453	17,228	8,650	99,332	169,136	-41.27%	15
Securities Lending Collateral	94,671	26,483	10,536	131,690	101,469	29.78%	16
<b>Total Liabilities</b>	<b>169,709</b>	<b>43,870</b>	<b>19,217</b>	<b>232,796</b>	<b>272,541</b>		
<b>Total Fiduciary Net Position</b>							
<b>Restricted for Pension Benefits</b>	<b>\$3,229,317</b>	<b>\$912,426</b>	<b>\$370,990</b>	<b>\$4,512,734</b>	<b>\$3,796,221</b>		

### NOTE - Variance Explanation

Differences due to rounding.

- 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 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 decrease in Accounts Receivable is due to the decrease in the month end employer contributions accrual for KERS (normal cost ERCON for KERS--AALC invoices are created and paid prior to month end).
- 4) The variance in Accounts Receivable is a result of pending trades.

NOTE - Variance Explanation continued on next page.

- 5) *The increase in Core Fixed Income is a result of a rebalance to move money to Core Fixed Income for KERS and SPRS as a result of the revised IPS.*
- 6) *The increase in Public Equities is due to positive market conditions resulting in increased market values.*
- 7) *The increase in Private Equity is a result of positive market conditions resulting in increased market values.*
- 8) *The increase in Specialty Credit is due to additional funding and positive market conditions increasing market values.*
- 9) *Variance is a result of hedging and arbitration of risk within the portfolios.*
- 10) *The decline in Absolute Return is a result of the merging of the Absolute Return asset class with the Real Return asset class.*
- 11) *The increase in Real Return is a result of the merging of the Absolute Return asset class with the Real Return asset class and positive market conditions resulting in increased market values.*
- 12) *The increase in Opportunistic is due to additional funding and positive market conditions increasing market values.*
- 13) *The increase in Real Estate is due to additional funding and positive market conditions increasing market values.*
- 14) *Variance is a result of the demands of the Securities Lending Program.*
- 15) *The variance in Accounts Receivables is a result of pending trades.*
- 16) *Variance is a result of the demands of the Securities Lending Program.*



## Combining Statement of Changes In Fiduciary Net Position - Pension Funds

For the fiscal year ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Thousands)

ASSETS	KERS		SPRS	KPPA Total		Percentage of Change	Note
	Non-Hazardous	Hazardous		2022	2021		
Member Contributions	\$44,991	\$10,096	\$2,426	\$57,513	\$56,805	1.25%	
Employer Contributions	468,396	30,165	30,519	529,080	539,570	-1.94%	
General Fund Appropriations	-	-	-	-	-	-	
Pension Spiking Contributions	8	0	-	8	45	-81.73%	1
Health Insurance Contributions (HB1)	6	2	-	8	(4)	275.45%	2
Employer Cessation Contributions	50,464	-	-	50,464	-	100.00%	3
<b>Total Contributions</b>	<b>563,865</b>	<b>40,263</b>	<b>32,945</b>	<b>637,073</b>	<b>596,416</b>		
<b>INVESTMENT INCOME</b>							
From Investing Activities							
Net Appreciation (Depreciation) in FV of Investments							
	81,138	31,330	9,829	122,297	400,378	-69.45%	4
Interest/Dividends	35,791	12,291	4,298	52,380	41,173	27.22%	5
Total Investing Activities Income	116,929	43,621	14,126	174,676	441,550		
Less: Investment Expense	3,959	1,811	535	6,304	6,256	0.77%	
Less: Performance Fees	8,531	3,187	967	12,685	4,889	159.47%	6
Net Income from Investing Activities	104,439	38,623	12,625	155,687	430,406		
From Securities Lending Activities							
Securities Lending Income	96	28	11	136	122		
Less: Securities Lending Borrower Rebates	(140)	(49)	(17)	(206)	(74)		
Less: Securities Lending Agent Fees	35	12	4	51	29		
Net Income from Securities Lending	201	65	24	290	166	74.54%	7
<b>Net Investment Income</b>	<b>104,640</b>	<b>38,689</b>	<b>12,649</b>	<b>155,978</b>	<b>430,572</b>		
<b>Total Additions</b>	<b>668,505</b>	<b>78,952</b>	<b>45,594</b>	<b>793,051</b>	<b>1,026,988</b>		
<b>DEDUCTIONS</b>							
Benefit Payments	512,550	38,190	32,039	582,780	572,406	1.81%	
Refunds	5,656	2,627	101	8,384	6,813	23.06%	8
Administrative Expenses	5,995	636	124	6,756	6,189	9.16%	
<b>Total Deductions</b>	<b>524,201</b>	<b>41,454</b>	<b>32,264</b>	<b>597,919</b>	<b>585,408</b>		
Net Increase (Decrease) in Fiduciary Net Position Restricted for Pension Benefits							
	144,303	37,498	13,330	195,132	441,581		
<b>Total Fiduciary Net Position Restricted for Pension Benefits</b>							
<b>Beginning of Period</b>	<b>3,085,014</b>	<b>874,928</b>	<b>357,660</b>	<b>4,317,602</b>	<b>3,354,640</b>		
<b>End of Period</b>	<b>\$3,229,317</b>	<b>\$912,426</b>	<b>\$370,990</b>	<b>\$4,512,734</b>	<b>\$3,796,221</b>		

### NOTE - Variance Explanation

### Differences due to rounding.

- 1) Pension Spiking contributions decreased due to a change in statute. Pension spiking is now the member's responsibility.
- 2) Health Insurance Contributions continue to fluctuate in the Pension accounts due to corrections being processed.
- 3) Employer Cessation payment received from Kentucky Housing Corporation.
- 4) The decrease in Net Appreciation in Fair Value of Investments is a result of less favorable market conditions resulting in unrealized losses in public equity for the first half of FY22 when compared to the first half of FY21.
- 5) The increase in Interest/Dividends is due to increased income from Private Equity, Core Fixed Income, and Specialty Credit asset classes.
- 6) The increase in Performance fees is due to realized and unrealized gains resulting in higher performance fees primarily within private equity.
- 7) Variance is a result of the demand of the Securities Lending Program.
- 8) The increase in Refunds is due to an increase in refunds taken by KERS and KERH members who terminated employment and were not eligible for a retirement benefit.



## Combining Statement of Fiduciary Net Position - Insurance Fund

As of December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ In Thousands)

ASSETS	KERS		SPRS	KPPA Total		Percentage of Change	Note
	Non-Hazardous	Hazardous		2022	2021		
<b>CASH AND SHORT-TERM INVESTMENTS</b>							
Cash Deposits	\$46	\$56	\$49	\$152	\$183	-16.97%	1
Short-term Investments	150,018	23,134	13,271	186,423	76,336	144.21%	2
<b>Total Cash and Short-term Investments</b>	<b>150,064</b>	<b>23,190</b>	<b>13,321</b>	<b>186,575</b>	<b>76,518</b>		
<b>RECEIVABLES</b>							
Accounts Receivable	5,150	426	807	6,384	17,301	-63.10%	3
Investment Accounts Receivable	14,776	6,743	2,578	24,097	58,059	-58.50%	4
<b>Total Receivables</b>	<b>19,927</b>	<b>7,169</b>	<b>3,385</b>	<b>30,481</b>	<b>75,360</b>	<b>-121.60%</b>	
<b>INVESTMENTS, AT FAIR VALUE</b>							
Core Fixed Income	168,107	73,644	28,899	270,650	273,463	-1.03%	
Public Equities	655,287	287,538	111,740	1,054,564	911,028	15.76%	5
Specialty Credit	227,541	117,414	42,344	387,298	340,929	13.60%	6
Private Equities	76,780	54,618	24,657	156,054	138,564	12.62%	7
Derivatives	(91)	(40)	(16)	(148)	590	-125.05%	8
Absolute Return	-	-	-	-	17,413	-100.00%	9
Real Return	75,850	38,240	14,658	128,748	116,607	10.41%	10
Opportunistic	36,869	22,920	8,463	68,252	56,649	20.48%	11
Real Estate	47,602	34,888	13,340	95,829	71,542	33.95%	12
<b>Total Investments, at Fair Value</b>	<b>1,287,944</b>	<b>629,220</b>	<b>244,085</b>	<b>2,161,249</b>	<b>1,926,784</b>		
Securities Lending Collateral Invested	38,094	17,324	6,833	62,252	46,586	33.63%	13
<b>Total Assets</b>	<b>1,496,029</b>	<b>676,904</b>	<b>267,624</b>	<b>2,440,556</b>	<b>2,125,249</b>		
<b>LIABILITIES</b>							
Accounts Payable	98	9	2	109	124	-11.63%	14
Investment Accounts Payable	27,280	12,333	4,737	44,349	80,930	-45.20%	15
Securities Lending Collateral	38,094	17,324	6,833	62,252	46,586	33.63%	16
<b>Total Liabilities</b>	<b>65,472</b>	<b>29,667</b>	<b>11,572</b>	<b>106,710</b>	<b>127,640</b>		
<b>Total Fiduciary Net Position Restricted for OPEB</b>	<b>\$1,430,557</b>	<b>\$647,237</b>	<b>\$256,052</b>	<b>\$2,333,846</b>	<b>\$1,997,609</b>		

### NOTE - Variance Explanation

Differences due to rounding.

- 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 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 decrease in Accounts Receivable is due to the decrease in the month end employer contributions accrual for KERS (normal cost ERCON for KERS--AALC invoices are created and paid prior to month end).
- 4) The variance in Investment Accounts Receivables is due to pending trades.
- 5) The increase in Public Equities is due to additional funding and positive market conditions resulting in increased market values.
- 6) The increase in Specialty Credit is due to additional funding and positive market conditions increasing market values.
- 7) The increase in Private Equity is due to positive market conditions resulting in increased market values
- 8) Variance is a result of hedging and arbitration of risk within the portfolios.

NOTE - Variance Explanation continued on next page.

- 9) *The decline in Absolute Return is a result of the merging of the Absolute Return asset class with the Real Return asset class.*
- 10) *The increase in Real Return is a result of the merging of the Absolute Return asset class with the Real Return asset class and positive market conditions resulting in increased market values.*
- 11) *The increase in Opportunistic is due to additional funding and positive market conditions increasing market values.*
- 12) *The increase in Real Estate is due to additional funding and positive market conditions increasing market values.*
- 13) *Variance is a result of the demands of the Securities Lending Program.*
- 14) *The variance in Accounts Payable is due to a decrease in outstanding employer reporting (insurance) invoices.*
- 15) *The variance In Investment Accounts Payable is due to pending trades.*
- 16) *Variance is a result of the demands of the Securities Lending Program.*





## Combining Statement of Changes In Fiduciary Net Position - Insurance Fund

For the fiscal year ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ In Thousands)

	KERS		SPRS	KRS Total		Percentage of Change	Note
	Non-Hazardous	Hazardous		2022	2021		
<b>ADDITIONS</b>							
Employer Contributions	\$58,234	\$1	\$4,386	\$62,620	\$81,824	-23.47%	1
Medicare Drug Reimbursement	-	1	-	1	-		
Insurance Premiums	89	5	(2)	92	98	-5.51%	
Humana Gain Share Payment	7,321	548	342	8,211	19,230	-57.30%	2
Retired Re-employed Healthcare	2,471	630	-	3,101	2,855	8.61%	
Health Insurance Contributions (HB1)	3,202	611	110	3,924	3,840	2.18%	
Northern Trust Settlement	-	-	-	-	-		
Employer Cessation Contributions	9,536	-	-	9,536	-	100.00%	3
<b>Total Contributions</b>	<b>80,852</b>	<b>1,797</b>	<b>4,836</b>	<b>87,485</b>	<b>107,847</b>		
<b>INVESTMENT INCOME</b>							
From Investing Activities							
Net Appreciation (Depreciation) in FV of Investments	45,727	26,472	10,844	83,043	236,277	-64.85%	4
Interest/Dividends	16,899	8,898	3,435	29,232	22,650	29.06%	5
Total Investing Activities Income	62,627	35,370	14,279	112,276	258,927		
Less: Investment Expense	2,959	1,581	621	5,161	4,320	19.49%	6
Less: Performance Fees	4,509	2,956	1,213	8,678	4,248	104.27%	7
Net Income from Investing Activities	55,159	30,832	12,445	98,436	250,359		
From Securities Lending Activities							
Securities Lending Income	42	19	7	68	60		
Less: Securities Lending Borrower Rebates	(66)	(30)	(12)	(108)	(44)		
Less: Securities Lending Agent Fees	16	7	3	26	16		
Net Income from Securities Lending	92	42	16	150	89	68.94%	8
<b>Net Investment Income</b>	<b>55,251</b>	<b>30,874</b>	<b>12,461</b>	<b>98,586</b>	<b>250,448</b>		
<b>Total Additions</b>	<b>136,103</b>	<b>32,671</b>	<b>17,298</b>	<b>186,072</b>	<b>358,295</b>		
<b>DEDUCTIONS</b>							
Healthcare Premiums Subsidies	57,412	10,218	7,206	74,836	80,870	-7.46%	
Administrative Expenses	414	63	37	514	486	5.72%	
Self-Funded Healthcare Costs	840	42	6	888	812	9.35%	
Excise Tax Insurance	3	-	-	3	-	0.00%	
<b>Total Deductions</b>	<b>58,669</b>	<b>10,324</b>	<b>7,249</b>	<b>76,242</b>	<b>82,169</b>		
Net Increase (Decrease) in Fiduciary Net Position Restricted for OPEB	77,435	22,347	10,048	109,830	276,126		
<b>Total Fiduciary Net Position Restricted for OPEB</b>							
<b>Beginning of Period</b>	<b>1,353,123</b>	<b>624,889</b>	<b>246,004</b>	<b>2,224,016</b>	<b>1,721,483</b>		
<b>End of Period</b>	<b>\$1,430,557</b>	<b>\$647,237</b>	<b>\$256,052</b>	<b>\$2,333,846</b>	<b>\$1,997,609</b>		

**NOTE - Variance Explanation** **Differences due to rounding**

- 1) Employer Contributions decreased due to lower contribution rates for KERS and SPRS, as well as a decline in covered payroll for KERS.
- 2) Humana Gain Share payments will fluctuate based on timing and actual claims paid.
- 3) Employer Cessation payment received from Kentucky Housing Corporation.
- 4) The decrease in Net Appreciation in Fair Value of Investments is a result of less favorable market conditions resulting in unrealized losses in public equity for the first half of FY22 when compared to the first half of FY21.
- 5) The increase in Interest/Dividends is due to increased income from Private Equity, Core Fixed Income, and Specialty Credit asset classes.
- 6) The increase in Investment Expense is a result of an increase in assets due to additional contributions and increase in market values.

**NOTE - Variance Explanation continued on next page.**

7) *The increase in Performance fees is due to realized and unrealized gains resulting in higher performance fees primarily within private equity.*

8) *Variance is a result of the demand of the Securities Lending Program.*

**KPPA ADMINISTRATIVE BUDGET 2021-2022**  
**SECOND QUARTER BUDGET-TO-ACTUAL ANALYSIS**  
**Fiscal Year 2022**

Account Name	Budgeted	Actual Expenses	Remaining	Percent Remaining	KERS NH	KHAZ	SPRS	KRS Total
					Actual Expense	Actual	Actual	
<b>PERSONNEL</b>					30.88%	3.41%	0.67%	
<b>Staff</b>								
Salaries	\$16,900,000	\$8,048,638	\$8,851,362	52.37%	\$2,485,419	\$274,459	\$53,926	\$2,813,804
Wages (Overtime)	342,000	107,186	234,814	68.66%	33,099	3,655	718	37,472
Emp Paid Retirement	14,478,107	6,422,459	8,055,649	55.64%	1,983,255	219,006	43,030	2,245,292
Emp Paid Health Ins	2,500,000	1,296,865	1,203,135	49.26%	400,472	44,223	8,689	453,384
Emp Paid Sick Leave	115,650	800	114,850	99.31%	247	27	5	280
Workers Compensation	77,100	75,163	1,937	2.51%	23,210	2,563	504	26,277
Unemployment	3,600	-	3,600	100.00%	-	-	-	-
Other Personnel	1,130,250	573,531	556,719	49.26%	177,106	19,557	3,843	200,506
Employee Training	18,400	4,843	13,557	73.68%	1,495	165	32	1,692
Bonds	-	41	(41)	0.00%	13	1	-	14
<b>Staff Subtotal</b>	<b>35,565,107</b>	<b>16,529,526</b>	<b>19,035,582</b>	<b>53.52%</b>	<b>5,104,317</b>	<b>563,657</b>	<b>110,748</b>	<b>5,778,721</b>
<b>LEGAL &amp; AUDITING SERVICES</b>								
Legal Hearing Officers	84,600	32,314	52,286	61.80%	9,979	1,102	217	11,297
Legal (Stoll, Keenon)	180,000	60,445	119,556	66.42%	18,665	2,061	405	21,132
Frost Brown (Tax Advisor)	173,000	1,464	171,536	99.15%	452	50	10	512
Reinhart	24,000	-	24,000	100.00%	-	-	-	-
Ice Miller	336,000	21,533	314,467	93.59%	6,649	734	144	7,528
Johnson, Bowman, Branco LLC	150,000	43,225	106,775	71.18%	13,348	1,474	290	15,111
Denton	150,000	-	150,000	100.00%	-	-	-	-
Legal Expense	12,000	-	12,000	100.00%	-	-	-	-
Auditing	118,350	85,655	32,695	27.63%	26,450	2,921	574	29,945
<b>CONSULTING SERVICES</b>								
Medical Reviewers	1,200,000	625,666	574,334	47.86%	193,206	21,335	4,192	218,733
Escrow for Actuary Fees	12,000	-	12,000	100.00%	-	-	-	-
<b>CONTRACTUAL SERVICES</b>								
Miscellaneous Contracts	22,750	12,079	10,671	46.91%	3,730	412	81	4,223
Human Resources Consulting	6,600	5,794	806	12.22%	1,789	198	39	2,026
Actuarial Services	700,000	147,747	552,253	78.89%	45,624	5,038	990	51,652
Facility Security Charges	112,000	38,862	73,138	65.30%	12,001	1,325	260	13,586
<b>PERSONNEL SUBTOTAL</b>	<b>\$38,846,407</b>	<b>\$17,604,310</b>	<b>\$21,242,099</b>	<b>54.68%</b>	<b>5,436,210</b>	<b>600,307</b>	<b>117,949</b>	<b>6,154,466</b>
<b>OPERATIONAL</b>								
Natural Gas	\$25,200	\$7,144	\$18,056	71.65%	\$2,206	\$244	\$48	2,498
Electric	138,000	55,442	82,558	59.82%	17,120	1,891	371	19,383
Rent-NonState Building	52,000	25,321	26,679	51.31%	7,819	863	170	8,852
Building Rental - PPW	1,100,000	481,016	618,984	56.27%	148,538	16,403	3,223	168,163
Copier Rental	122,587	31,247	91,340	74.51%	9,649	1,066	209	10,924
Rental Carpool	4,800	1,940	2,860	59.58%	599	66	13	678

**KPPA ADMINISTRATIVE BUDGET 2021-22  
SECOND QUARTER BUDGET-TO-ACTUAL ANALYSIS**

Account Name	Budgeted	Actual	Remaining	Percent Remaining	KERS NH	KHAZ	SPRS	KRS Total
					Actual Expense	Actual	Actual	
Vehicle/Equip. Mainten.	1,350	249	1,101	81.56%	77	8	2	87
Postage	610,000	150,771	459,229	75.28%	46,558	5,141	1,010	52,710
Freight	600	155	445	74.17%	48	5	1	54
Printing (State)	6,000	4,548	1,452	24.20%	1,404	155	30	1,590
Printing (non-state)	112,500	30,002	82,498	73.33%	9,265	1,023	201	10,489
Insurance	6,000	5,422	578	9.63%	1,674	185	36	1,896
Garbage Collection	6,000	2,647	3,353	55.88%	817	90	18	925
Conference Expense	25,750	9,052	16,699	64.85%	2,795	309	61	3,165
MARS Usage	52,800	13,550	39,250	74.34%	4,184	462	91	4,737
COVID-19 Expenses	168,000	6,171	161,829	96.33%	1,906	210	41	2,157
Office Supplies	42,600	25,767	16,833	39.51%	7,957	879	173	9,008
Furniture & Office Equipment	9,600	-	9,600	100.00%	-	-	-	-
Travel (In-State)	12,600	3,611	8,989	71.34%	1,115	123	24	1,262
Travel (Out of State)	45,150	382	44,768	99.15%	118	13	3	134
Dues & Subscriptions	61,600	32,839	28,761	46.69%	10,141	1,120	220	11,481
Miscellaneous	1,600	31,063	(29,463)	1841.44%	9,592	1,059	208	10,860
COT Charges	24,000	9,850	14,150	58.96%	3,042	336	66	3,444
Telephone - Wireless	5,400	2,817	2,583	47.84%	870	96	19	985
Telephone - Other	120,000	62,180	57,820	48.18%	19,201	2,120	417	21,738
Computer Equip./Software	2,640,000	1,397,212	1,242,788	47.08%	431,459	47,645	9,361	488,465
<b>OPERATIONAL</b>								
<b>SUBTOTAL</b>	<b>\$5,394,137</b>	<b>\$2,390,398</b>	<b>\$3,003,740</b>	<b>55.69%</b>	<b>\$738,155</b>	<b>\$81,513</b>	<b>\$16,016</b>	<b>\$835,683</b>
<b>SUBTOTAL</b>	<b>\$44,240,544</b>	<b>\$19,994,708</b>	<b>\$24,245,838</b>	<b>54.80%</b>	<b>\$6,174,365</b>	<b>\$681,819</b>	<b>\$133,964</b>	<b>\$6,990,149</b>
<b>Major Legislative Implementation</b>	<b>3,764,956</b>	<b>-</b>	<b>3,764,956</b>	<b>100.00%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>\$48,005,500</b>	<b>\$19,994,706</b>	<b>\$28,010,794</b>	<b>58.35%</b>	<b>\$6,174,365</b>	<b>\$681,819</b>	<b>\$133,964</b>	<b>\$6,990,149</b>



*Differences due to rounding.*

Fund	Budgeted	Actual Expense	% of Total KRS Actual Expense
<b>KERS Non-Hazardous</b>	<b>\$14,824,098</b>	<b>\$6,174,365</b>	<b>30.88%</b>
<b>KHAZ</b>	<b>\$1,636,988</b>	<b>\$681,819</b>	<b>3.41%</b>
<b>SPRS</b>	<b>\$321,637</b>	<b>\$133,965</b>	<b>0.67%</b>
<b>TOTAL</b>	<b>\$16,782,723</b>	<b>\$6,990,149</b>	

Fund - Specific Expenses	KERS	KERS	SPRS	Amount
	Non-Haz	Hazardous		
CERS Adjustment	\$-	\$-	\$-	\$57,097
CERS Actual	-	-	-	-
KERS Adjustment	-	-	-	61,550
KERS Actual	-	-	-	-
Subtotal Plan Specific	-	-	-	118,647
<b>Total Expenses</b>	<b>\$14,824,098</b>	<b>\$1,636,988</b>	<b>\$133,965</b>	



## Pension Fund Contribution Report

For the period ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Millions)

	Kentucky Employees Retirement System				State Police Retirement System	
	Non-Hazardous		Hazardous		FY22	FY21
	FY22	FY21	FY22	FY21		
 <b>KERS</b> Kentucky Employees Retirement System						
 <b>SPRS</b> State Police Retirement System						
Member Contributions	\$45.0	\$44.2	\$10.1	\$10.2	\$2.4	\$2.4
Employer Contributions	518.9	478.9	30.2	31.3	30.5	29.5
Net Investment Income	23.5	21.2	7.4	6.3	2.8	2.7
<b>Total Inflows</b>	<b>587.4</b>	<b>544.3</b>	<b>47.7</b>	<b>47.8</b>	<b>35.7</b>	<b>34.6</b>
Benefit Payments/ Refund	518.2	508.8	40.8	38.8	32.1	31.7
Administrative Expenses	6.0	5.5	0.6	0.6	0.1	0.1
<b>Total Outflows</b>	<b>524.2</b>	<b>514.3</b>	<b>41.4</b>	<b>39.4</b>	<b>32.2</b>	<b>31.8</b>
<b>NET Contributions</b>	<b>63.2</b>	<b>30.0</b>	<b>6.3</b>	<b>8.4</b>	<b>3.5</b>	<b>2.8</b>
Realized Gain/(Loss)	74.4	31.0	27.6	9.8	9.1	3.6
Unrealized Gain/(Loss)	6.7	243.1	3.7	83.5	0.7	29.4
<b>Change in Net Position</b>	<b>144.3</b>	<b>304.1</b>	<b>37.6</b>	<b>101.7</b>	<b>13.3</b>	<b>35.8</b>
<b>Beginning of Period</b>	<b>3,085.0</b>	<b>2,362.2</b>	<b>874.9</b>	<b>697.4</b>	<b>357.7</b>	<b>295.0</b>
<b>End of Period</b>	<b>\$3,229.3</b>	<b>\$2,666.3</b>	<b>\$912.5</b>	<b>\$799.1</b>	<b>\$371.0</b>	<b>\$330.8</b>

## Insurance Fund Contribution Report

For the period ending December 31, 2021, with Comparative Totals as of December 31, 2020 (\$ in Millions)

	Kentucky Employees Retirement System				State Police Retirement System	
	Non-Hazardous		Hazardous		FY22	FY21
	FY22	FY21	FY22	FY21		
 <b>KERS</b> Kentucky Employees Retirement System						
 <b>SPRS</b> State Police Retirement System						
Employer Contributions	\$67.8	\$77.1	\$0.0	\$0.0	\$4.4	\$4.7
Insurance Premiums	7.4	17.3	0.6	1.3	0.3	0.8
Retired Reemployed Healthcare	2.5	2.2	0.6	0.6	0.0	0.0
Health Insurance Contributions	3.2	3.2	0.6	0.6	0.1	0.1
Net Investment Income	9.5	8.9	4.4	3.9	1.6	1.4
<b>Total Inflows</b>	<b>90.4</b>	<b>108.7</b>	<b>6.2</b>	<b>6.4</b>	<b>6.4</b>	<b>7.0</b>
Healthcare Premiums	58.3	64.2	10.3	10.1	7.2	7.4
Administrative Expenses	0.4	0.4	0.1	0.1	0.0	0.0
<b>Total Outflows</b>	<b>58.7</b>	<b>64.6</b>	<b>10.4</b>	<b>10.2</b>	<b>7.2</b>	<b>7.4</b>
<b>NET Contributions</b>	<b>31.7</b>	<b>44.1</b>	<b>(4.2)</b>	<b>(3.8)</b>	<b>(0.8)</b>	<b>(0.4)</b>
Realized Gain/(Loss)	30.6	13.2	18.9	6.7	8.0	2.7
Unrealized Gain/(Loss)	15.1	127.5	7.6	61.6	2.8	24.5
<b>Change in Net Position</b>	<b>77.4</b>	<b>184.8</b>	<b>22.3</b>	<b>64.5</b>	<b>10.0</b>	<b>26.8</b>
<b>Beginning of Period</b>	<b>1,353.1</b>	<b>1,006.5</b>	<b>624.9</b>	<b>514.7</b>	<b>246.0</b>	<b>200.2</b>
<b>End of Period</b>	<b>\$1,430.5</b>	<b>\$1,191.3</b>	<b>\$647.2</b>	<b>\$579.2</b>	<b>\$256.0</b>	<b>\$227.0</b>



## KENTUCKY PUBLIC PENSIONS AUTHORITY

### Outstanding Invoices by Type and Employer

Invoice Type	12/31/2021	9/30/2021	Change H/(L)
Averaging Refund to Employer	\$(404,226)	\$(431,762)	-6%
Employer Free Military and Decompression Service	241,111	280,778	-14%
Member Pension Spiking Refund	(28,852)	(28,486)	1%
Monthly Reporting Invoice	448,761	(50,017)	-997%
Penalty – Monthly Reporting	263,726	249,807	6%
Reinstatement	173,602	275,235	-37%
Actuarially Accrued Liability Contribution	785,053	428,570	83%
<b>Total</b>	<b>\$1,479,175</b>	<b>\$724,125</b>	
Health Insurance Reimbursement	\$1,425,649	\$1,484,849	-4%
Omitted Employer	1,666,624	1,658,929	0%
Employer Pension Spiking*	1,370,393	1,371,944	0%
Standard Sick Leave	8,427,680	8,578,095	-2%
<b>Total</b>	<b>\$12,890,346</b>	<b>\$13,093,817</b>	<b>-2%</b>
<b>Grand Total</b>	<b>\$14,369,521</b>	<b>\$13,817,942</b>	<b>4%</b>

\*Pension Spiking invoices on this report are Employer Pension Spiking. By statute these invoices are due 12 months from the invoice date. Employer Pension Spiking is in effect only for retirements prior to July 1, 2018, therefore, unless there has been a recently created invoice for a backdated retirement, all of these invoices are greater than 12 months old.

Employer Name (Top Ten)	12/31/2021	9/30/2021	Change H/(L)
Kentucky State Police	\$7,719,865	\$7,398,671	4%
Kentucky River Regional Jail	979,925	979,925	0%
Kentucky River Community Care	724,328	361,582	100%
City of Covington	378,930	375,368	1%
Department for Community Based Services	336,126	370,767	-9%
Kenton County Airport Board	330,008	329,030	0%
City of Fort Thomas	228,635	224,422	2%
TARC - Transit Authority River City	213,106	209,713	2%
Henry County Fiscal Court	206,389	206,088	0%
Livingston County Fiscal Court	\$161,058	\$143	112528%

	Total Unpaid Balance	Number of Invoices
CERS	\$2,475,968	1,976
CERH	\$1,554,454	303
KERS	\$3,162,305	1,029
KERH	\$806,471	245
SPRS	\$6,364,310	139
<b>Grand Total:</b>	<b>\$14,363,508.00</b>	<b>3,692</b>

	Total Unpaid Balance	Number of Invoices
CERS/CERH	\$4,030,422	2,279
KERS/KERH	\$3,968,776	1,274
SPRS	\$6,364,310	139
<b>Grand Total:</b>	<b>\$14,363,508</b>	<b>3,692</b>



**KENTUCKY PUBLIC PENSIONS AUTHORITY**

**Penalty Waivers Report  
From: 10/1/2021 To: 12/31/2021**

**Note: Delinquent Interest amounts are included in the totals for the invoice**

Invoice Amount	Invoice Remaining Balance	Delinquent Interest	Invoice Status Date	Invoice Due Date	Invoice Status	Employer Classification	Comments
\$1,000	\$-	\$-	11/18/2021	7/17/2014	CANC	Master Commissioner	Agency inactive - no master commissioner
<b>Total</b>	<b>\$1,000</b>						
\$1,000	\$1,000	\$-	10/15/2021	11/14/2021	CRTD	Non-P1 State Agencies	
1000	1,000	-	10/21/2021	11/20/2021	CRTD	County Attorneys	
1,000	1,000	-	10/26/2021	11/25/2021	CRTD	Non-P1 State Agencies	
1,000	1,000	-	11/2/2021	12/2/2021	CRTD	Other Retirement Systems	
1,000	1,000	-	12/8/2021	1/7/2022	CRTD	County Attorneys	
1,000	1,000	-	12/28/2021	1/27/2022	CRTD	County Attorneys	
<b>Total</b>	<b>\$6,000</b>						
\$1,000	\$-	\$-	12/10/2021	12/16/2021	PAID	County Attorneys	
1000	-	-	12/28/2021	1/19/2022	PAID	Housing Authorities	
<b>Total</b>	<b>\$2,000</b>						

**Notes:**  
**Invoice Status:**  
 CANC - Cancelled  
 CRTD - Created  
 PAID - Paid



## House Bill 8 Final Staff Recommendation Statistics

Appeal Type	Number of Appeals	Number Approved	Percent Approved	Number Denied	Percent Denied
Not Last Employer	2,224	60	3%	2,164	97%
Contract with Executive Branch	404	78	19%	326	81%
Previous State Mental Health Facility	2,563	2,563	100%	0	0%
<b>Total</b>	<b>5,191</b>	<b>2,701</b>	<b>52%</b>	<b>2,490</b>	<b>48%</b>





# KPPA

Kentucky Public Pensions Authority

Office of Benefits  
Division of Member Services

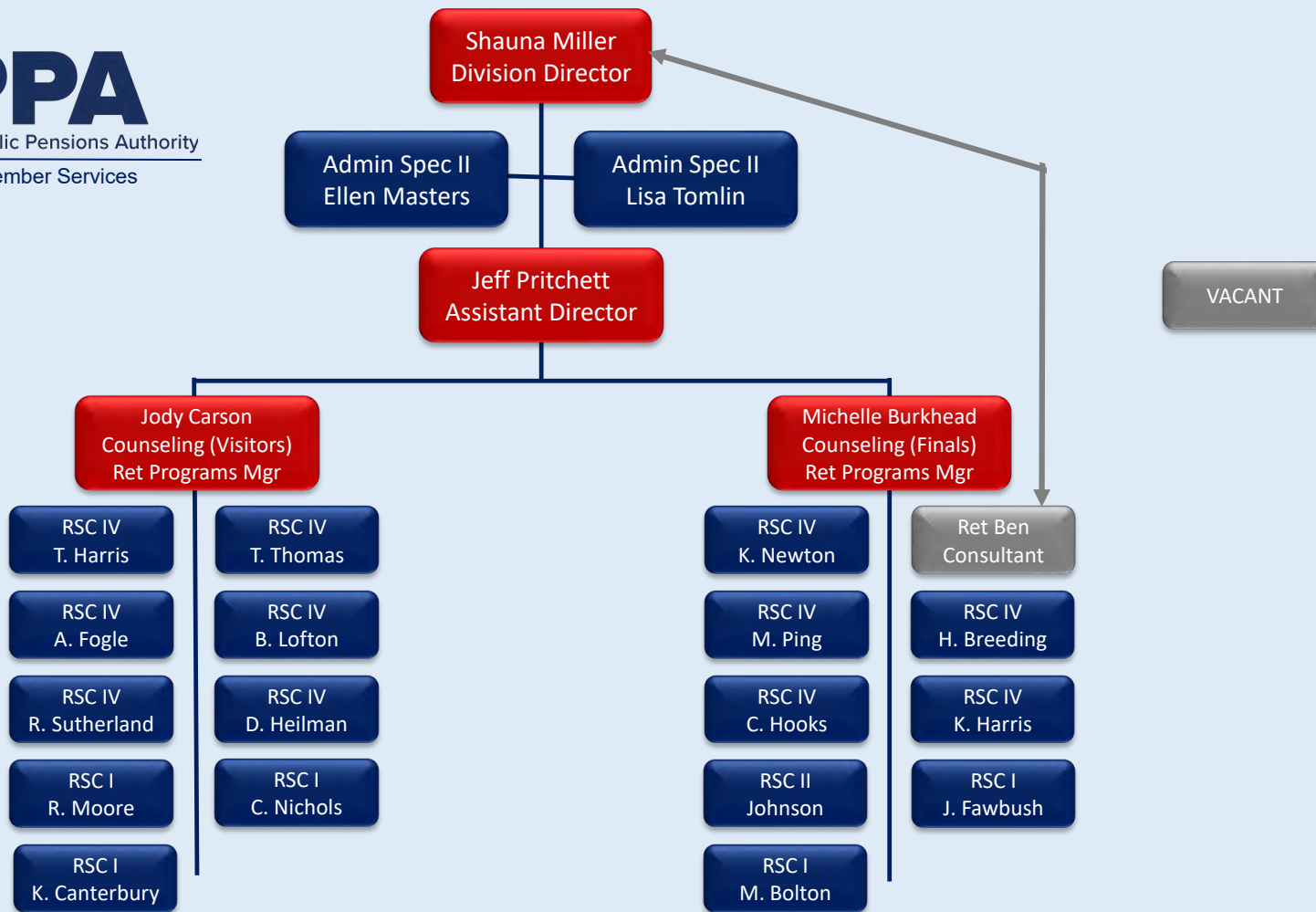
Shauna Miller, Division Director

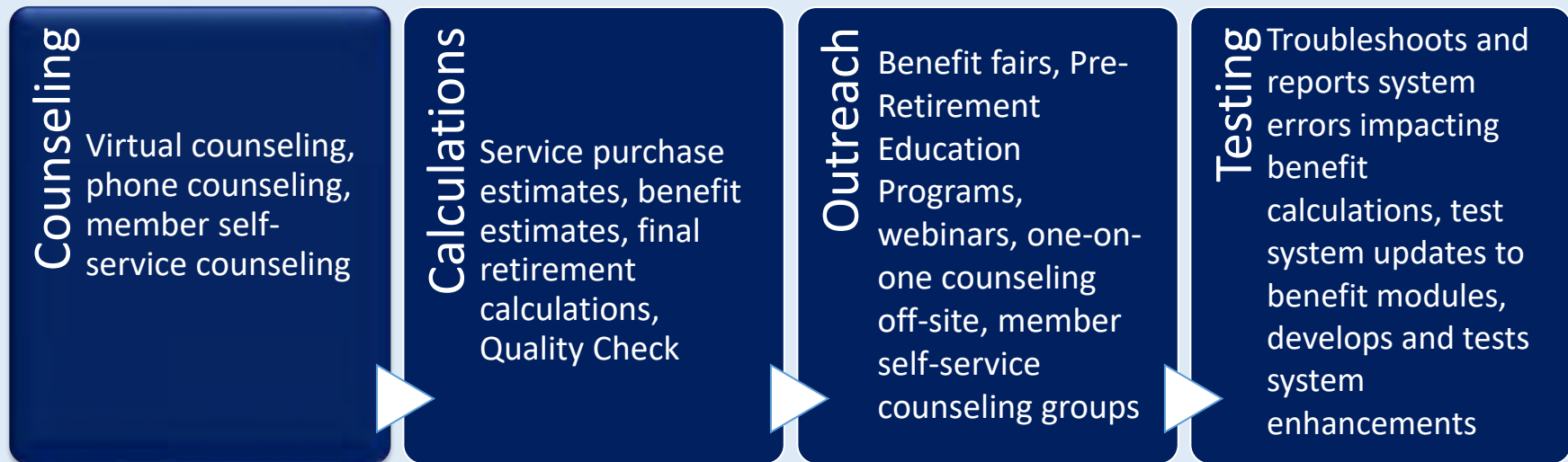


# KPPA

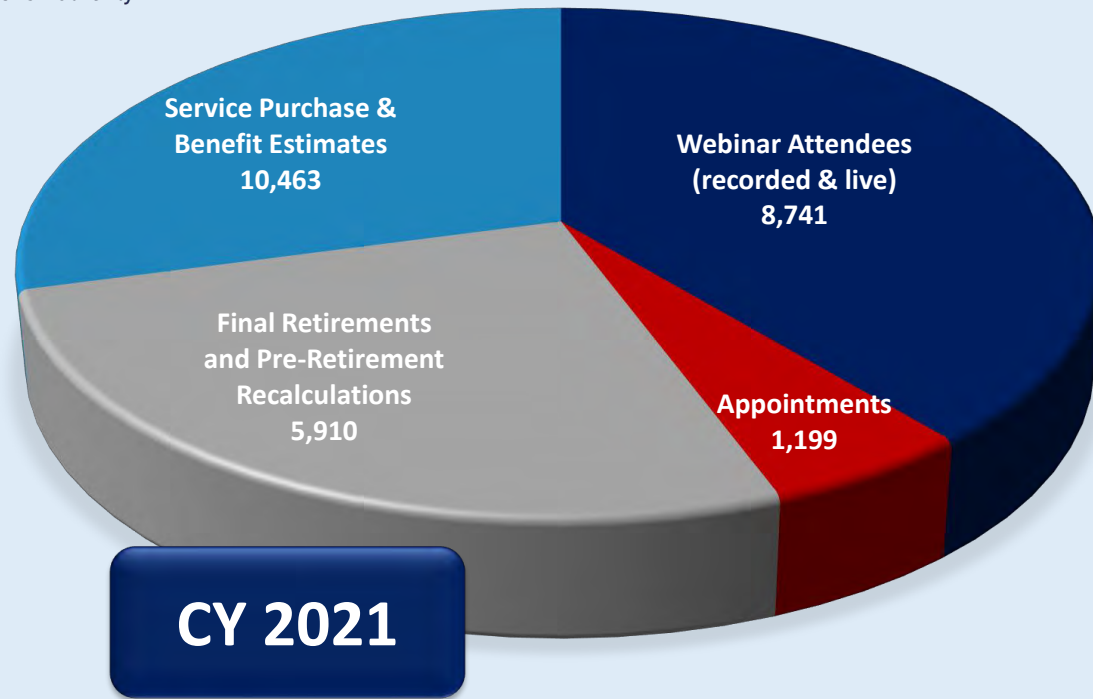
Kentucky Public Pensions Authority

Division of Member Services

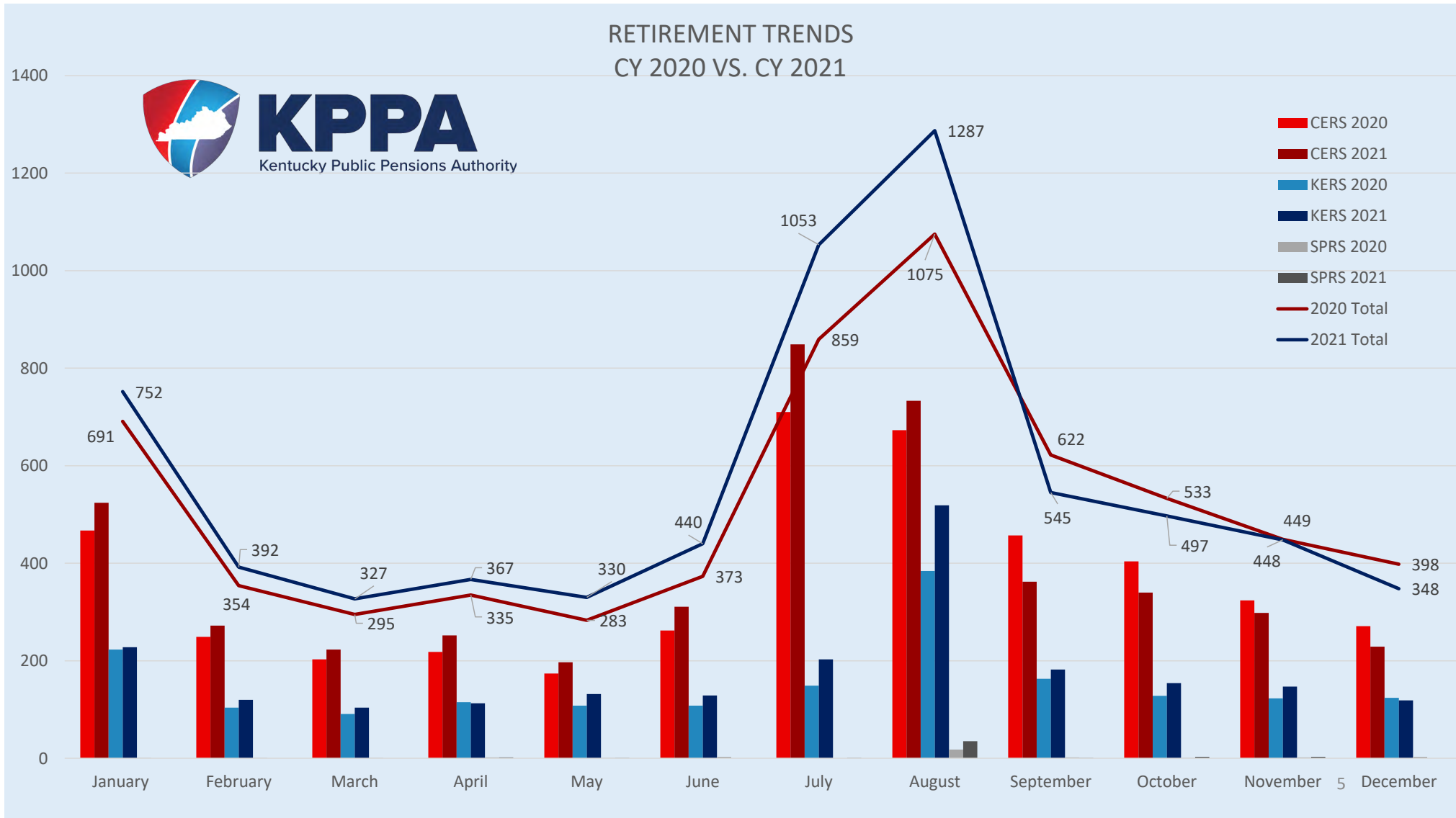




## Roles & Responsibilities



## Member Services Statistics





**KPPA**  
Kentucky Public Pensions Authority

#### Online Retirement

- Launched in MSS February 2020
- 2020- 2,228 members applied for retirement online (46% CY Feb 2020 to CYE)
- 2021- 3,975 members applied for retirement online (59% CY 2021)

#### Document Upload

- Launched in MSS February 2020
- Allows members to upload documents securely via Member Self Service

#### Benefit Estimates

- Benefit Estimate Calculator enhanced to encompass more specific member account info

#### Internal Messaging Center (IMC)

- Immediate and secure access to calculations via Member Self Service

## MSS Enhancements



- ✓ Continue to identify system and procedural improvements
- ✓ Retirement Benefit Consultant
- ✓ Update and expand retirement webinar topics
- ✓ Maintain a backlog response time of 2 weeks or less
- ✓ Reintroducing in-person services
- ✓ Additional MSS Enhancements
  - Service Purchase Calculator to generate cost calculations that payments can be applied to
  - Retirement documents in IMC

## Looking Forward



Our staff regularly receives positive comments from our membership. Here are a couple of our favorites:

“Here is a belated but heartfelt thank you for helping answer my questions about retirement in our phone session. You really focused on all of my concerns and even brought up some things I had not thought of. Your job can be challenging with so many policies and rules to remember, not to mention some difficult cases. Thanks for taking time to thoroughly help me.”

Member expressed his appreciation for offering virtual appointments stating that he had already scheduled his appointment when an opportunity to travel with his family came up. He was very thankful that he was able to keep his appointment while sitting in Tomorrowland outside of Space Mountain!

## Honorable Mentions



**2022 Kentucky General Assembly Regular Session Legislative Update**

Notable retirement-related legislation introduced during the 2022 Regular Session as of February 22, 2022 (Legislative Day 33):

1. **House Bill 49** (Rep Miller) amends KRS 61.598 to exempt the first 100 hours of mandatory overtime worked each fiscal year from the anti-pension spiking provisions for any overtime directly attributable to a local government emergency in which the Governor calls in the Kentucky National Guard; and make amendments retroactive to May 30, 2020.

By including the 100 hour exemption, GRS has determined there is no measurable impact to any of the pension funds maintained by KPPA.

**CURRENT STATUS:** The bill passed the full House 96-0 on February 16 and was assigned to the Senate State and Local Government committee on February 22.

2. **House Bill 76** (Rep Miller) requires the Systems to:
  - a. Perform an actuarial investigation of economic assumptions once every two years rather than once every five years;
  - b. Retain a review of demographic assumptions once every five years;
  - c. Require CERS to provide a projection/analysis over a 30-year period rather than a 20-year period regarding projections in the annual actuarial valuation and as it relates to experience studies, assumption changes, and other changes made by the boards of each system; and
  - d. Require the first actuarial investigation of economic assumptions to occur prior to 2023 actuarial valuations.

**CURRENT STATUS:** The bill passed the full House 97-0 on January 19 and was assigned to the Senate State and Local Government committee.

**KPPA HOUSEKEEPING BILL:**

3. **House Bill 297** (Rep Miller), the KPPA Housekeeping bill, provides needed cleanup of current statutes, such as:
  - a. Allowing KRS and CERS to provide health insurance coverage through the Kentucky Employees Health Plan for reemployed retirees who are Medicare-eligible and impacted by the federal Medicare Secondary Payer Act (MSPA). These retirees currently aren't receiving any insurance benefits.
  - b. Make various changes to disability statutes;
  - c. Require KPPA to conduct an annual performance evaluation of the executive director, pre-approve future unclassified positions, and approve an annual personnel report before submission to the Public Pension Oversight Board;
  - d. Authorizes KPPA to appoint no more than six unclassified employees of the Office of Investments whose positions shall be exempt from the personnel system's classified

- service and related salary limitations, but subject to a written salary and classification plan fixing a range of compensation and written terms of employment adopted by KPPA; and
- e. Requires KPPA to approve the biennial budget unit request before submission by the Authority.

The bill has an EMERGENCY clause, meaning it would take effect upon the signature of the Governor or its otherwise becoming law.

**CURRENT STATUS:** This bill passed the full House 97-0 on February 17, and was assigned to the Senate State and Local Government committee on February 22.

#### **STATE EXECUTIVE BRANCH BUDGET BILL**

4. **House Bill 1** (J. Petrie) is the State Executive Branch budget bill for Fiscal Years 2022-2024. Key retirement allocations in the current version of the bill include:
  - a. An additional \$415 million in General Fund dollars for FY 2021-2022, consisting of:
    - i. \$215 million for SPRS pension fund to be applied to the unfunded liability. The bill stipulates the KRS Board shall amend the 2021 Valuation to include this money, and report changes (including changes to the employer contribution rate) to LRC no later than June 1, 2022.
    - ii. \$200 million for KERS Nonhazardous pension fund to be applied to the unfunded liability.
  - b. KPPA will receive no additional General Fund dollars in FY 2022-2024, but is permitted to spend \$49,138,600 and \$50,049,700 in restricted funds in FY 2022-2023 and FY 2023-2024, respectively.
  - c. The bill includes salary increases for forensic laboratory personnel, state police telecommunicators, state troopers, and public defender attorneys and staff. KEY POINT: the salary increases are to be exempt from pension spiking restrictions.
  - d. Money from the State to assist with the anticipated increase in retirement costs over each employer's fiscal year 2019-2020 baseline contribution per House Bill 8 for:
    - i. County Attorneys (page 16)
    - ii. Quasi-State Agencies/Non-P-1 agencies (pages 98-99)
    - iii. Regional Mental Health Units and health departments (Pages 98-99)
    - iv. Universities (EKU, Kentucky State University, Morehead State Univ, Murray State Univ, WKU, KCTCS (Pages 105-109)
  - e. The contribution rates from July 1, 2022- June 30, 2024 are as follows:
    - i. KERS Hazardous: 31.82% (all to pension).
    - ii. SPRS: 99.43% (85.32% to pension, 14.11% to insurance).

- iii. KERS Nonhazardous rates will be determined by the State Budget Director by May 1, 2022. (From the bill: *The employer contribution rate shall include the normal cost contribution of 9.97 percent and be sufficient to adhere to the prorated amount of the actuarially accrued liability to each individual nonhazardous employer as determined by the Kentucky Employees Retirement System*).

**CURRENT STATUS:** House Bill 1 passed the full House 85-8 on January 20. It has been assigned to the Senate Appropriations and Revenue committee.

KPPA staff will continue to track legislation throughout the Session and post summaries of action taken each legislative day on the Systems' website.