

**KENTUCKY RETIREMENT SYSTEMS  
INVESTMENT PROCUREMENT POLICY  
[Adopted: February 2022]**

**INTRODUCTION**

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

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

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

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

**1. Definitions.**

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

nature.

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

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

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

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

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

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

Independent: not having conflicts of interest.

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

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

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

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

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

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

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

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

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

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

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

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

## **2. External Manager Selection.**

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

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

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

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

#### A. Determination of Screening Criteria

Screening criteria may include, but are not limited to: investment processes; investment fee schedule; investment products; dollar value and composition of assets under management; historical performance; years of experience; growth of firm; a manager's history with KRS; other client relationships (including experience with large public funds); ownership; the number and depth of investment professionals; research capabilities; structure of the proposed investment (separate account, commingled account, limited partnership, etc.); compliance with standard contractual provisions; compliance with the Chartered Financial Analyst (CFA) Institute Code of Ethics; compliance with Global Investment Performance Standards as administered by the CFA Institute; and reporting consistent with the Institutional Limited Partners Association standards. Other criteria may be added for any search.

#### B. Preliminary Screening

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

### C. Candidate Pool

- 1) KPPA staff and/or the investment consultant conduct a more in-depth interview with each candidate. The interviews may be in person or telephonic which allows for the interaction with and evaluation of the person or persons who will be investing on behalf of KRS. Interview topics may include:
  - a) Investment process;
  - b) Any action or investigation concerning a candidate by a regulatory or civil or criminal enforcement agency;
  - c) Any SEC forms, other similar agency reports or prospectuses;
  - d) Qualifications of the firm's representatives, including the portfolio management team;
  - e) A list of institutional references;
  - f) Communication with the firm;
  - g) Employee compensation and ownership structure;
  - h) Availability of the contact person and portfolio manager to meet with KPPA and responsiveness to board and staff concerns;
  - i) Validation of performance and the continued management by key individuals who will be responsible for fulfilling assignment;
  - j) Accommodation of KRS's priorities;
  - k) Experience with large public funds;
  - l) Fee discussions;
  - m) Conflicts of interest, including the appearance of conflicts of interest. Potential or actual conflicts of interest must be evaluated during due diligence and after engagement under the board's Conflict of Interest and Confidentiality Policy and applicable statutes and regulations. The investment staff will employ reasonable efforts to identify conflicts of interest affecting KRS trustees, employees and managers with respect to all investments.
  - n) Placement agents. Staff will employ reasonable due diligence to ensure that no fees or commissions are paid to a third party or firm banned, either by KRS 61.645(21) or board policies, from receiving fees or commissions incident to an investment by KRS.
- 2) Quantitative analyses also are conducted in addition to the qualitative analyses above. This analysis will include performance attribution and risk management.
- 3) Additional due diligence factors may be necessary in selecting general partners or

managers for alternatives (such as timberland, private equity and infrastructure) because of the long-term and illiquid nature of these types of investments. The additional factors include particular considerations such as risk management; diversification; and legal and business matters.

- a) KRS may engage independent specialized consultants to assist in the selection of these managers.
  - b) KPPA staff and/or consultants will narrow potential funds to seek best-in-class managers.
  - c) Any new fund offering by an existing manager (also known as a reup) will be evaluated consistent with the process described above (understanding that some of the materials and knowledge for conducting due diligence already may have been obtained based on the prior investment with the manager).
- 4) KPPA staff and - if involved in the process - the investment consultant (or, in the case of alternative investments, any engaged specialty investment consultant), will reach a consensus regarding a manager for the final written recommendation to the Investment Committee. Any approval by the Investment Committee is subject to the review by and ratification of the board, the completion of due diligence and the negotiation and execution of a contract.
- a) It is critical that the terms of the contract accurately reflect the terms and conditions of the authorization. The process may involve highly specialized contract provisions, including investment guidelines, and result in protracted negotiations. Staff may retain outside counsel to assist in the contract process.
  - b) The investment manager must certify that no fees or commissions are paid to a third party or firm banned, either by KRS 61.645(21) or board policies, from receiving fees or commissions incident to an investment by KRS.
- D. An approval of a manager by the Investment Committee is reported to the board no later than at its next quarterly meeting for review and ratification.

### **3. Co-Investment Opportunities.**

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

- 1) The co-investments may be made alongside an existing KRS General Partner, provided that the strategy and objective of the partnership investing in the transaction are consistent with those of the partnership in which KRS has an

existing commitment.

- 2) Co-investments shall be made on the same (or better) terms and conditions as provided to the partnership;

#### **4. External Investment Consultant Selection.**

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

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

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

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

##### **A. Determination of Screening Criteria.**

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



B. Preliminary Screening.

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

C. Analysis.

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

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

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

- A. Procurement of goods and services costing less than \$5,000 during a fiscal year will be determined by KPPA staff based upon best value comparing known vendors. In comparing vendors, staff will promote the highest level of competition.
- B. Procurement of goods and services costing from \$5,000 to \$24,999 during a fiscal year will be determined by any one of the KPPA Executive Director, KPPA Executive Director



Office of Operations, KPPA Executive Director Office of Investments, or any KPPA employee designated by KRS to act in their stead, based upon best value comparing at least three (3) known vendors, whose price quotations may be obtained by telephone, catalog, or internet.

- C. Procurement of goods and services equal to or greater than \$25,000 in cost during a fiscal year will be determined solely by the KPPA Executive Director, or any KPPA employee designated by KRS to act in his/her stead, based upon best value comparing at least three (3) known vendors, whose price quotations must be obtained in written form on the vendor's letterhead. The price quotations received and comments concerning the basis for placing the order shall be recorded in writing and shall be placed in a file to be maintained by KPPA. These records are retained by KPPA for record, audit, and review.
- D. KPPA may utilize a price contract established by the Commonwealth of Kentucky, the U.S. General Services Administration or U.S. Communities (a national government purchasing cooperative) so long as the vendor enters into a contract at or below the contract price and under the same terms and conditions.
- E. KPPA may publish a request for proposal (RFP), request for information (RFI) and/or request for quotation (RFQ) for goods or services. The request may be sent directly to known vendors; will be listed on the KPPA website; and may be advertised through other means, such as financial media, as appropriate to promote the highest level of competition. The request will describe the goods or services required, the type of information and data required of each vendor, the relative importance of qualifications and the evaluation factors to be used. After determining the best value of proposals received, KPPA may negotiate a contract for goods or services with a vendor. If contract terms cannot be agreed upon with the highest-ranking vendor, negotiations may be conducted with other vendor(s) in the order of ranking as defined by the request. The evaluation of best value will be documented by KPPA. The documentation will include specifics of the process used in selecting the vendor. Those specifics may include: price, the number of vendors considered, the number of vendors interviewed, any prior KRS history with the vendor, references checked and summaries of other qualitative and quantitative analyses.
- F. Exceptions to using the methods of procurement above include, but are not limited to: goods and services available only from one or two uniquely qualified sources; advertisements and public notices; and copyrighted computer software. The reason for the exception will be documented by the executive secretary or a deputy executive secretary.

#### **6. Contract Renewal.**

As applicable, contract renewals, whether they be annual or longer-term agreements, use criteria such as continued need of vendor and/or asset class; level of trust; continuity of ownership, leadership and process; long-term performance; and competitiveness of fees.

KPPA staff will submit a formal recommendation regarding the renewal of a contract to the Investment Committee for approval. The submission to the committee will include a description of the process used in making the recommendation to renew the contract. Any approval by the Investment Committee is subject to the review by and ratification of the board, the completion of due diligence and the negotiation and execution of a contract.

**7. Emergency Procurement.**

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

**8. Quiet Period.**

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

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

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

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


- A. Executive Branch Code of Ethics (KRS Chapter 11A);
- B. Board as fiduciary (KRS 61.650, 16.642);
- C. Pension Fund investment requirements (KRS 61.650);
- D. KRS conflict of interest prohibitions (KRS 61.655);
- E. KRS confidentiality requirement (KRS 61.661);

- F. Insurance Fund investment requirements (KRS 61.701 and 105 KAR 1:410); and
- G. Kentucky Retirement Systems Board of Trustees Election Policy and Procedure, Statement of Bylaws and Committee Organization, Trustees Education Program, Conflict of Interest and Confidentiality Policy, Policy and Procedures Regarding Open Records Request, CFA Code of Ethics and Standards of Professional Conduct, CFA Asset Manager Code of Professional Conduct, and CFA Code of Conduct for Members of a Pension Scheme Governing Body.

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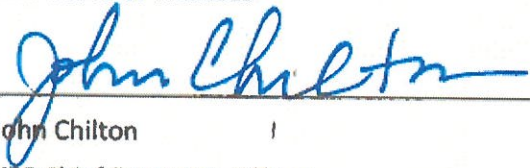
**CERTIFICATION OF ADOPTION BY BOARD OF TRUSTEES**

This is to certify that this Kentucky Retirement Systems Investment Procurement Policy was approved and adopted by the Board of Trustees of the Kentucky Retirement Systems.

  
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Keith Peercy, Chair  
KRS Board of Trustees

Date: 2-17-22

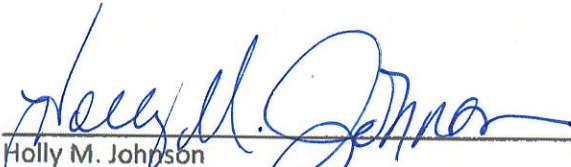
  
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John Chilton  
KRS Chief Executive Officer

Date: 2-23-22

**CERTIFICATION OF FINANCE AND ADMINISTRATION CABINET**

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

  
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Holly M. Johnson  
Secretary of the Finance and Administration  
Cabinet Commonwealth of Kentucky

Date: 3-28-22