

1 AN ACT relating to the fiduciary and ethical duties of the boards of trustees for the  
2 Kentucky Retirement Systems and the Teachers' Retirement System.

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

4 ➔Section 1. KRS 61.650 is amended to read as follows:

5 (1) (a) The board shall be the trustee of the several funds created by KRS 16.510,  
6 61.515, 61.701, and 78.520, notwithstanding the provisions of any other  
7 statute to the contrary, and shall have exclusive power to invest and reinvest  
8 such funds in accordance with federal law.

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

11 a. The six (6) trustees appointed by the Governor pursuant to KRS  
12 61.645(1)(e)5.; and

13 b. Three (3) trustees appointed by the board chair.

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

18 (c) A trustee, officer, employee, or other fiduciary shall discharge duties with  
19 respect to the retirement system:

20 1. Solely in the interest of the members and beneficiaries;

21 2. For the exclusive purpose of providing benefits to members and  
22 beneficiaries and paying reasonable expenses of administering the  
23 system;

24 3. With the care, skill, and caution under the circumstances then prevailing  
25 that a prudent person acting in a like capacity and familiar with those  
26 matters would use in the conduct of an activity of like character and  
27 purpose;

- 1           4. Impartially, taking into account any differing interests of members and  
2           beneficiaries;  
3           5. Incurring any costs that are appropriate and reasonable; and  
4           6. In accordance with a good-faith interpretation of the law governing the  
5           retirement system.

6           (d) In addition to the standards of conduct prescribed by paragraph (c) of this  
7           subsection~~[-,];~~:

8           1. All ***internal investment staff and investment consultants***~~[individuals~~  
9           ~~associated with the investment and management of retirement system~~  
10           ~~assets, whether contracted investment advisors, board members, or staff~~  
11           ~~employees,]~~ shall adhere to the Code of Ethics and Standards of  
12           Professional Conduct, ***and all board trustees shall adhere to***~~[the Asset~~  
13           ~~Manager Code of Professional Conduct if the individual is managing~~  
14           ~~retirement system assets, and]~~ the Code of Conduct for Members of a  
15           Pension Scheme Governing Body~~[ if the individual is a board member].~~  
16           All codes cited in this ***subparagraph***~~[paragraph]~~ are promulgated by the  
17           CFA Institute; ***and***~~[-]~~

18           2. ***Investment managers shall comply with all applicable provisions of***  
19           ***the federal Investment Advisers Act of 1940, as amended, and the***  
20           ***rules and regulations promulgated thereunder, and shall comply with***  
21           ***all other applicable federal securities statutes and related rules and***  
22           ***regulations that apply to investment managers.***

23           (2) All securities acquired under authority of KRS 61.510 to 61.705 shall be registered  
24           in the name "Kentucky Retirement Systems" or nominee name as provided by KRS  
25           286.3-225 and every change in registration, by reason of sale or assignment of such  
26           securities, shall be accomplished pursuant to written policies adopted by the board.

27           (3) The board, in keeping with its responsibility as trustee and wherever consistent with

1 its fiduciary responsibilities, shall give priority to the investment of funds in  
2 obligation calculated to improve the industrial development and enhance the  
3 economic welfare of the Commonwealth.

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

9 (5) Based upon market value at the time of purchase, the board shall limit the amount  
10 of assets managed by any one (1) active or passive investment manager to fifteen  
11 percent (15%) of the assets in the pension and insurance funds.

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

17 (a) On or before July 1, 2017, the board shall consult with the secretary of the  
18 Finance and Administration Cabinet or his or her designee to develop an  
19 investment procurement policy, which shall be written to meet best practices  
20 in investment management procurement;

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

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

27 (d) Upon adoption, the board shall tender the final investment procurement policy

1 to the secretary of the Finance and Administration Cabinet or his or her  
2 designee;

3 (e) No later than thirty (30) days after receipt of the investment procurement  
4 policy, the secretary or his or her designee shall certify whether the board's  
5 investment procurement policy meets or does not meet best practices for  
6 investment management procurement; and

7 (f) Any amendments to the investment procurement policy shall adhere to the  
8 requirements set forth by paragraphs (b) to (e) of this subsection.

9 ➔Section 2. KRS 61.655 is repealed, reenacted, and amended to read as follows:

10 (1) No trustee or employee of the Kentucky Retirement Systems board shall:

11 (a) Have any interest, direct or indirect, in the gains or profits of any investment  
12 or any other legal, business, or financial transaction made by the board, save  
13 insofar as any such trustee or employee may be a member, employee, or  
14 beneficiary of the retirement system;

15 (b) Directly or indirectly, for himself or as an agent, use the assets of the  
16 retirement system, except to make current and necessary payments authorized  
17 by the board;

18 (c) Become an endorser~~indorser~~ or surety or in any manner an obligor for  
19 moneys loaned by or borrowed from the board;

20 (d) Have a contract or agreement with the retirement system, individually or  
21 through a business owned by the trustee or the employee;

22 (e) Use his or her official position with the retirement system to obtain a financial  
23 gain or benefit or advantage for himself or herself or a family member;

24 (f) Use confidential information acquired during his or her tenure with the  
25 retirement system to further his or her own economic interests or that of  
26 another person; or

27 (g) Hold outside employment with, or accept compensation from, any person or

1 business with which he or she has involvement as part of his or her official  
2 position with the retirement system. The provisions of this subsection shall  
3 not prohibit a trustee from serving as an employee of an agency participating  
4 in one (1) of the systems administered by Kentucky Retirement Systems.

5 (2) No trustee or employee of the board of trustees, who has served as a trustee or  
6 employee of the board on or after July 1, 2017, shall have any interest, direct or  
7 indirect, in the gains or profits of any investment or any other legal, business, or  
8 financial transaction made by the board of trustees for a period of five (5) years  
9 following termination of his or her position, except that any such trustee or  
10 employee may be a member, employee, or beneficiary of the systems administered  
11 by Kentucky Retirement Systems.

12 (3) (a) No person who is serving as a member of the General Assembly or is a public  
13 servant as defined by KRS 11A.010(9) shall have any interest, direct or  
14 indirect, in the gains or profits of any investment or any other legal, business,  
15 or financial transaction made by the board of trustees, except that any such  
16 member~~trustee~~ or public servant may be a member, employee, or beneficiary  
17 of the systems administered by Kentucky Retirement Systems.

18 (b) No person who was serving as a member of the General Assembly on or after  
19 July 1, 2017, or was serving as a public servant as defined by KRS  
20 11A.010(9) on or after July 1, 2017, shall have any interest, direct or indirect,  
21 in the gains or profits of any investment or any other legal, business, or  
22 financial transaction made by the board of trustees for a period of five (5)  
23 years following termination of his or her position, except that any such  
24 member or public servant may be a member, employee, or beneficiary of the  
25 systems administered by Kentucky Retirement Systems.

26 ➔Section 3. KRS 161.430 is amended to read as follows:

27 (1) The board of trustees shall be the trustee of the funds of the retirement system and

1 shall have full power and responsibility for the purchase, sale, exchange, transfer, or  
2 other disposition of the investments and moneys of the retirement system. The  
3 board shall, by administrative regulation, establish investment policies and  
4 procedures to carry out their responsibilities. The board shall employ experienced  
5 competent investment counselors to advise it on all matters pertaining to  
6 investment, except the board may employ qualified investment personnel to advise  
7 it on investment matters not to exceed fifty percent (50%) of the book value of the  
8 system's assets. All **internal investment staff and investment**  
9 **consultants**~~[individuals associated with the investment and management of~~  
10 ~~retirement system assets, whether contracted investment advisors, board members,~~  
11 ~~or staff employees,]~~ shall adhere to the Code of Ethics and Standards of  
12 Professional Conduct, **and all board trustees shall adhere to**~~[ the Asset Manager~~  
13 ~~Code of Professional Conduct if the individual is managing retirement system~~  
14 ~~assets, and]~~ the Code of Conduct for Members of a Pension Scheme Governing  
15 Body~~[ if the individual is a board member]~~, promulgated by the CFA Institute.  
16 **Investment managers shall comply with all applicable provisions of the federal**  
17 **Investment Advisers Act of 1940, as amended, and the rules and regulations**  
18 **promulgated thereunder, and shall comply with all other applicable federal**  
19 **securities statutes and related rules and regulations that apply to investment**  
20 **managers.** Effective July 1, 1991, no investment counselor shall manage more than  
21 forty percent (40%) of the funds of the retirement system. The board may appoint an  
22 investment committee consisting of the executive secretary and two (2) trustees to  
23 act for the board in all matters of investment, subject to the approval of the board of  
24 trustees. The board of trustees, in keeping with their responsibilities as trustees and  
25 wherever consistent with their fiduciary responsibilities, shall give priority to the  
26 investment of funds in obligations calculated to improve the industrial development  
27 and enhance the economic welfare of the Commonwealth. Toward this end, the

1 board shall develop procedures for informing the business community of the  
2 potential for in-state investments by the retirement fund, accepting and evaluating  
3 applications for the in-state investment of funds, and working with members of the  
4 business community in executing in-state investments which are consistent with the  
5 board's fiduciary responsibilities. The board shall include in the criteria it uses to  
6 evaluate in-state investments their potential for creating new employment  
7 opportunities and adding to the total job pool in Kentucky. The board may  
8 cooperate with the board of trustees of Kentucky Retirement Systems in developing  
9 its program and procedures, and shall report to the Legislative Research  
10 Commission annually on its progress in placing in-state investments. The first  
11 report shall be submitted by October 1, 1991, and subsequent reports shall be  
12 submitted by October 1 of each year thereafter. The report shall include the number  
13 of applications for in-state investment received, the nature of the investments  
14 proposed, the amount requested, the amount invested, and the percentage of  
15 applications which resulted in investments.

16 (2) The board members and investment counselor shall discharge their duties with  
17 respect to the assets of the system solely in the interests of the active contributing  
18 members and annuitants and:

19 (a) For the exclusive purpose of providing benefits to members and annuitants  
20 and defraying reasonable expenses of administering the system;

21 (b) With the care, skill, prudence, and diligence under the circumstances then  
22 prevailing that a prudent person acting in a like capacity and familiar with  
23 these matters would use in the conduct of an enterprise of a like character and  
24 with like aims;

25 (c) By diversifying the investments of the plan so as to minimize the risk of large  
26 losses, unless under the circumstances it is clearly prudent not to do so; and

27 (d) In accordance with the laws, administrative regulations, and other instruments

1 governing the system.

2 (3) (a) In choosing and contracting for professional investment management services  
3 the board must do so prudently and in the interest of the members and  
4 annuitants. Any contract that the board makes with an investment counselor  
5 shall set forth policies and guidelines of the board with reference to standard  
6 rating services and specific criteria for determining the quality of investments.  
7 Expenses directly related to investment management services shall be  
8 financed from the guarantee fund in amounts approved by the board.

9 (b) An investment counselor appointed under this section shall acknowledge in  
10 writing his fiduciary responsibilities to the fund. To be eligible for  
11 appointment, an investment counselor must be:

- 12 1. Registered under the Federal Investment Advisors Act of 1940; or
- 13 2. A bank as defined by that Act; or
- 14 3. An insurance company qualified to perform investment services under  
15 the laws of more than one (1) state.

16 (4) No investment or disbursement of funds shall be made unless authorized by the  
17 board of trustees, except that the board, in order to ensure timely market  
18 transactions, shall establish investment guidelines, by administrative regulation, and  
19 may permit its staff and investment counselors employed pursuant to this section to  
20 execute purchases and sales of investment instruments within those guidelines  
21 without prior board approval.

22 (5) In discharging his or her administrative duties under this section, a trustee shall  
23 strive to administer the retirement system in an efficient and cost-effective manner  
24 for the taxpayers of the Commonwealth of Kentucky.

25 (6) Notwithstanding any other provision of KRS 161.220 to 161.716, no funds of the  
26 Kentucky Teachers' Retirement System, including fees and commissions paid to an  
27 investment manager, private fund, or company issuing securities, who manages



1 systems assets, shall be used to pay fees and commissions to placement agents. For  
2 purposes of this subsection, "placement agent" means a third-party individual, who  
3 is not an employee, or firm, wholly or partially owned by the entity being hired,  
4 who solicits investments on behalf of an investment manager, private fund, or  
5 company issuing securities.

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

11 (a) On or before July 1, 2017, the board shall consult with the secretary of the  
12 Finance and Administration Cabinet or his or her designee to develop an  
13 investment procurement policy, which shall be written to meet best practices  
14 in investment management procurement;

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

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

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

24 (e) No later than thirty (30) days after receipt of the investment procurement  
25 policy, the secretary or his or her designee shall certify whether the board's  
26 investment procurement policy meets or does not meet best practices for  
27 investment management procurement; and

1 (f) Any amendments to the investment procurement policy shall adhere to the  
2 requirements set forth by paragraphs (b) to (e) of this subsection.

3 ➔Section 4. KRS 161.460 is repealed, reenacted, and amended to read as follows:

- 4 (1) No trustee or employee of the board of trustees shall:
- 5 (a) Have any interest, direct or indirect, in the gain or profits of any investment or  
6 any other legal, business, or financial transaction made by the board, except  
7 that any such trustee or employee may be a member, employee, or beneficiary  
8 of the plans administered by the board or authority;
  - 9 (b) Directly or indirectly for himself or as an agent for another, use any of the  
10 assets of the retirement system in any manner except to make current and  
11 necessary payments authorized by the board;
  - 12 (c) Become an endorser, surety, or obligor for moneys loaned to or borrowed  
13 from the board;
  - 14 (d) Have a contract or agreement with the retirement system, individually or  
15 through a business owned by the trustee or the employee;
  - 16 (e) Use his or her official position with the retirement system to obtain a financial  
17 gain or benefit or advantage for himself or herself or a family member;
  - 18 (f) Use confidential information acquired during his or her tenure with the  
19 retirement system to further his or her own economic interests or that of  
20 another person; or
  - 21 (g) Hold outside employment with, or accept compensation from, any person or  
22 business with which he or she has involvement as part of his or her official  
23 position with the retirement system. The provisions of this subsection shall  
24 not prohibit a trustee from serving as an employee of an agency participating  
25 in the Kentucky Teachers' Retirement System.
- 26 (2) No trustee or employee of the board of trustees, who has served as a trustee or  
27 employee of the board on or after July 1, 2017, shall have any interest, direct or

1 indirect, in the gains or profits of any investment or any other legal, business, or  
2 financial transaction made by the board of trustees for a period of five (5) years  
3 following termination of his or her position, except that any such trustee or  
4 employee may be a member, employee, or beneficiary of the Teachers' Retirement  
5 System.

6 (3) (a) No person who is serving as a member of the General Assembly or is a public  
7 servant as defined by KRS 11A.010(9) shall have any interest, direct or  
8 indirect, in the gains or profits of any investment or any other legal, business,  
9 or financial transaction made by the board of trustees, except that any such  
10 member~~trustee~~ or public servant may be a member, employee, or beneficiary  
11 of the Teachers' Retirement System.

12 (b) No person who was serving as a member of the General Assembly on or after  
13 July 1, 2017, or was serving as a public servant as defined by KRS  
14 11A.010(9) on or after July 1, 2017, shall have any interest, direct or indirect,  
15 in the gains or profits of any investment or any other legal, business, or  
16 financial transaction made by the board of trustees for a period of five (5)  
17 years following termination of his or her position, except that any such  
18 member or public servant may be a member, employee, or beneficiary of the  
19 Teachers' Retirement System.