

SESSION OF 2012

**SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2461**

As Amended by House Committee of the Whole

**Brief\***

HB 2461, as amended, would allow a net annual commitment of up to 5.0 percent of the total market value of the Kansas Public Employees Retirement System (KPERS) portfolio investments to be made in assets identified as "alternative investments," which are non-traditional in nature. The 5.0 percent limitation annual limit on net investment commitments would be measured from the end of the preceding calendar year.

In addition, the bill was amended to allow up to a maximum of 15 percent of the total KPERS investment portfolio to be invested in alternative investments and a new definition for such alternative investments would replace the current definition. The new definition would redefine the term as including "a broad group of investments that are not one of the traditional asset types of public equities, fixed income, cash, or real estate. Alternative investments are generally made through limited partnerships or similar structures, are not regularly traded on nationally recognized exchanges, and, thus, are relatively illiquid, and exhibit lower correlations with more liquid asset types, such as stocks and bonds. Alternative investments generally include, but are not limited to, private equity, private credit, hedge funds, infrastructure, commodities, and other investments which have the above characteristics."

The bill also would require a review of the alternative investment policy change prior to January 1, 2016, and for the KPERS Board of Trustees to prepare a report to the Joint

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\*Supplemental notes are prepared by the Legislative Research Department and do not express legislative intent. The supplemental note and fiscal note for this bill may be accessed on the Internet at <http://www.kslegislature.org>

Committee on Pensions, Investments and Benefits with certain required information about alternative investments.

## **Background**

The original bill was requested by the KPERS Board of Trustees and introduced by the Joint Committee on Pensions, Investments and Benefits.

Proponents for the bill, as introduced, included testimony by the KPERS Acting Executive Director, who also is the Chief Investment Officer, and also by a member of the KPERS Board of Trustees. Both conferees indicated the 1.0 percent statutory limitation in current law restricted the KPERS Board of Trustees from having the flexibility to increase the alternative investments allocation and earn potentially higher returns on investments to help reach the 8.0 percent annual goal for the KPERS portfolio. A technical amendment also was included in the bill to clarify terms relative to the federal Securities Act of 1933.

No one opposed the bill as introduced.

The House Committee amended the bill by adding the new restriction that not more than 25.0 percent of the total portfolio can be held in alternative investments, and, at the suggestion of the Chief Investment Officer, by replacing the current definition of alternative investments with a new one.

The House Committee of the Whole reduced the total percentage from 25 to 15 percent that may be invested in alternative investments and also added the provision requiring a review and report prior to January 1, 2016, on the change in policy regarding alternative investments.

No fiscal note was available for the bill as amended. For the bill as introduced, the fiscal note indicated by raising the percentage to 5.0 for alternative investments, it is expected to increase the probability that KPERS will be able to achieve its 8.0 percent annual investment goal over the long term, while reducing the risk profile in the portfolio.