

SESSION OF 2012

SUPPLEMENTAL NOTE ON HOUSE BILL NO. 2461

As Amended by Senate Committee on Ways
and Means

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 annual limit on net investment commitments would be measured from the end of the preceding calendar year.

In addition, the bill would allow 15.0 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

*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 that 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.

At the direction of the Chair, the Senate Ways and Means Subcommittee on KPERS Issues was assigned the bill. There was only one conferee on the bill. A representative of KPERS testified in favor of the bill at the Subcommittee hearing and offered an amendment. The Subcommittee recommended the bill be amended to allow the agency to not have to divest if the 15.0 percent limitation on alternative investments was exceeded as the result of changes in market value. The Senate Committee on Ways and Means adopted

the KPERS Issues Subcommittee Report that recommended the bill be passed as amended..

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.