Kansas Legislative Research Department March 23, 1999

House Select Committee on Tobacco Settlement Funds

March 22, 1999
Room 527-S. Statehouse

Members Present

Representative David Adkins, Chairperson
Representative Garry Boston
Representative Marti Crow
Representative Phyllis Gilmore
Representative Henry Helgerson
Representative Ed McKechnie
Representative Melvin Neufeld
Representative Rocky Nichols
Representative Shari Weber

Staff Present

Alan Conroy, Kansas Legislative Research Department
Carolyn Rampey, Kansas Legislative Research Department
Jim Wilson, Office of the Revisor of Statutes

Conferees

Meredith Williams, Executive Secretary, Kansas Public Employees Retirement System
Scott Peppard, Assistant Investment Officer, Kansas Public Employees Retirement System

Presentation by Kansas Public Employees Retirement System (KPERS) Staff

Meredith Williams and Scott Peppard described general principles applicable to KPERS that might be applicable to the investment of tobacco funds. (Materials presented by Mr. Williams and Mr. Peppard are available in the Kansas Legislative Research Department.)

Part of Mr. Peppard's presentation was a description of differences and similarities between pension systems and endowment systems. He explained that the two types of systems could be compared on the basis of the following investment variables:

- **Returns from capital markets.** Neither a pension system nor an endowment system can control the return from capital markets.

- **Asset allocation.** Both pension and endowment systems can control asset allocation, but how they decide to allocate their assets may differ due to the different objectives of the two types of systems.

- **Objectives.** Pension systems and endowment systems differ in their objectives. The main objective of a pension system is to pay its contractual benefits, while the purpose of an endowment system is to generate a return sufficient to meet its spending policy.

- **Time horizon.** A pension system has a long-term investment horizon, but an endowment system is envisioned as being in perpetuity.

Mr. Peppard responded to a question about how KPERS managers are selected by saying that requests for proposals are sent to interested parties and attempts are made to advertize in trade publications. Qualified managers are invited to make a presentation to a subcommittee of the KPERS Board, which makes a recommendation to the full Board.

Contracts with managers include a statement of the investment philosophy of the firm and items negotiated, such as the management fee. The contract also identifies permissible investments and investment criteria and restrictions. Contracts contain a 30-day termination notice but are otherwise in perpetuity. Fees are not performance-based, although consideration is being given to entering into a performance-based fee agreement for one contract. Mr. Peppard told the Committee that the fee paid generally corresponds to the class of investment, with a higher fee being paid for those more volatile investments that have to be closely watched.

In response to a question about whether tobacco settlement money could be piggybacked with KPERS investments, the response was that it could and that the accounting feature would be relatively simple. Mr. Peppard explained that the tobacco money could be layered onto other investments and co-mingled for investment purposes in order to take advantage of declining fees for large amounts of money, but the books would be kept in such a way to keep track of the tobacco money separately.

Amendments to H.B. 2558

Jim Wilson reviewed proposed amendments to H.B. 2558. A copy of his draft is available in the Legislative Research Department.