

**SENATE BILL No. 34**

By Senator Bowser

1-16

1 AN ACT concerning retirement and pensions; relating to the Kansas public  
2 employees retirement system; authorizing the board of trustees to invest  
3 up to 10% of the moneys of the Kansas public employees retirement  
4 fund in bitcoin exchange-traded products; providing requirements,  
5 limitations and definitions regarding such investments; amending  
6 K.S.A. 2024 Supp. 74-4921 and repealing the existing section.  
7

8 *Be it enacted by the Legislature of the State of Kansas:*

9 Section 1. K.S.A. 2024 Supp. 74-4921 is hereby amended to read as  
10 follows: 74-4921. (1) There is hereby created in the state treasury the  
11 Kansas public employees retirement fund. All employee and employer  
12 contributions shall be deposited in the state treasury to be credited to the  
13 Kansas public employees retirement fund. The fund is a trust fund and  
14 shall be used solely for the exclusive purpose of providing benefits to  
15 members and member beneficiaries and defraying reasonable expenses of  
16 administering the fund. Investment income of the fund shall be added or  
17 credited to the fund as provided by law. All benefits payable under the  
18 system, refund of contributions and overpayments, purchases or  
19 investments under the law and expenses in connection with the system  
20 unless otherwise provided by law shall be paid from the fund. The director  
21 of accounts and reports is authorized to draw warrants on the state  
22 treasurer and against such fund upon the filing in the director's office of  
23 proper vouchers executed by the chairperson or the executive director of  
24 the board. As an alternative, payments from the fund may be made by  
25 credits to the accounts of recipients of payments in banks, savings and loan  
26 associations and credit unions. A payment shall be so made only upon the  
27 written authorization and direction of the recipient of payment and upon  
28 receipt of such authorization such payments shall be made in accordance  
29 therewith. Orders for payment of such claims may be contained on:

30 (a) A letter, memorandum, telegram, computer printout or similar  
31 writing; or

32 (b) any form of communication, other than voice, which is registered  
33 upon magnetic tape, disc or any other medium designed to capture and  
34 contain in durable form conventional signals used for the electronic  
35 communication of messages.

36 (2) The board shall have the responsibility for the management of the

1 fund and shall discharge the board's duties with respect to the fund solely  
2 in the interests of the members and beneficiaries of the system for the  
3 exclusive purpose of providing benefits to members and such member's  
4 beneficiaries and defraying reasonable expenses of administering the fund  
5 and shall invest and reinvest moneys in the fund and acquire, retain,  
6 manage, including the exercise of any voting rights and disposal of  
7 investments of the fund within the limitations and according to the powers,  
8 duties and purposes as prescribed by this section.

9 (3) Moneys in the fund shall be invested and reinvested to achieve the  
10 investment objective which is preservation of the fund to provide benefits  
11 to members and member beneficiaries, as provided by law and accordingly  
12 providing that the moneys are as productive as possible, subject to the  
13 standards set forth in this act. No moneys in the fund shall be invested or  
14 reinvested if any investment objective is for economic development or  
15 social purposes or objectives.

16 (4) In investing and reinvesting moneys in the fund and in acquiring,  
17 retaining, managing and disposing of investments of the fund, the board  
18 shall exercise the judgment, care, skill, prudence and diligence under the  
19 circumstances then prevailing, which persons of prudence, discretion and  
20 intelligence acting in a like capacity and familiar with such matters would  
21 use in the conduct of an enterprise of like character and with like aims by  
22 diversifying the investments of the fund so as to minimize the risk of large  
23 losses, unless under the circumstances it is clearly prudent not to do so,  
24 and not in regard to speculation but in regard to the permanent disposition  
25 of similar funds, considering the probable income as well as the probable  
26 safety of their capital.

27 (5) Notwithstanding subsection (4):

28 (a) Total investments in common stock may be made in the amount of  
29 up to 60% of the total book value of the fund;

30 (b) the board may invest or reinvest moneys of the fund in alternative  
31 investments if the following conditions are satisfied:

32 (i) The total of the annual net commitment to alternative investments  
33 does not exceed 5% of the total market value of investment assets of the  
34 fund as measured from the end of the preceding calendar year;

35 (ii) if in addition to the system, there are at least two other qualified  
36 institutional buyers, as defined by section (a)(1)(i) of rule 144A, securities  
37 act of 1933;

38 (iii) the system's share in any individual alternative investment is  
39 limited to an investment representing not more than 20% of any such  
40 individual alternative investment;

41 (iv) the system has received a favorable and appropriate  
42 recommendation from a qualified, independent expert in investment  
43 management or analysis in that particular type of alternative investment;

1 (v) the alternative investment is consistent with the system's  
2 investment policies and objectives as provided in subsection (6);

3 (vi) the individual alternative investment does not exceed more than  
4 2.5% of the total alternative investments made under this subsection. If the  
5 alternative investment is made pursuant to participation by the system in a  
6 multi-investor pool, the 2.5% limitation contained in this subsection is  
7 applied to the underlying individual assets of such pool and not to  
8 investment in the pool itself. The total of such alternative investments  
9 made pursuant to participation by the system in any one individual multi-  
10 investor pool shall not exceed more than 20% of the total of alternative  
11 investments made by the system pursuant to this subsection. Nothing in  
12 this subsection requires the board to liquidate or sell the system's holdings  
13 in any alternative investments made pursuant to participation by the  
14 system in any one individual multi-investor pool held by the system on the  
15 effective date of this act, unless such liquidation or sale would be in the  
16 best interest of the members and beneficiaries of the system and be  
17 prudent under the standards contained in this section. The 20% limitation  
18 contained in this subsection shall not have been violated if the total of such  
19 investment in any one individual multi-investor pool exceeds 20% of the  
20 total alternative investments of the fund as a result of market forces acting  
21 to increase the value of such a multi-investor pool relative to the rest of the  
22 system's alternative investments; however, the board shall not invest or  
23 reinvest any moneys of the fund in any such individual multi-investor pool  
24 until the value of such individual multi-investor pool is less than 20% of  
25 the total alternative investments of the fund;

26 (vii) the board has received and considered the investment manager's  
27 due diligence findings submitted to the board as required by subsection  
28 (6);

29 (viii) prior to the time the alternative investment is made, the system  
30 has in place procedures and systems to ensure that the investment is  
31 properly monitored and investment performance is accurately measured;  
32 and

33 (ix) the total of alternative investments does not exceed 25% of the  
34 total investment assets of the fund. The 25% limitation contained in this  
35 subsection shall not have been violated if the total of such alternative  
36 investments exceeds 25% of the total investment assets of the fund, based  
37 on the fund total market value, as a result of market forces acting to  
38 increase the value of such alternative investments relative to the rest of the  
39 system's investments. However, the board shall not invest or reinvest any  
40 moneys of the fund in alternative investments until the total value of such  
41 alternative investments is less than 25% of the total investment assets of  
42 the fund based on the market value. If the total value of the alternative  
43 investments exceeds 25% of the total investment assets of the fund, the

1 board shall not be required to liquidate or sell the system's holdings in any  
2 alternative investment held by the system, unless such liquidation or sale  
3 would be in the best interest of the members and beneficiaries of the  
4 system and is prudent under the standards contained in this section;

5 (c) for purposes of this section, "alternative investment" includes a  
6 broad group of investments that are not one of the traditional asset types of  
7 public equities, fixed income, cash or real estate. Alternative investments  
8 are generally made through limited partnership or similar structures, are  
9 not regularly traded on nationally recognized exchanges and thus are  
10 relatively illiquid, and exhibit lower correlations with more liquid asset  
11 types such as stocks and bonds. Alternative investments generally include,  
12 but are not limited to, private equity, private credit, hedge funds,  
13 infrastructure, commodities and other investments that have the  
14 characteristics described in this paragraph; ~~and~~

15 (d) except as otherwise provided, the board may invest or reinvest  
16 moneys of the fund in real estate investments if the following conditions  
17 are satisfied:

18 (i) The system has received a favorable and appropriate  
19 recommendation from a qualified, independent expert in investment  
20 management or analysis in that particular type of real estate investment;

21 (ii) the real estate investment is consistent with the system's  
22 investment policies and objectives as provided in subsection (6); and

23 (iii) the system has received and considered the investment manager's  
24 due diligence findings; *and*

25 (e) *the board may invest and reinvest moneys of the fund in bitcoin*  
26 *exchange-traded products issued by an investment company registered in*  
27 *Kansas. The total of bitcoin investments shall not exceed 10% of the total*  
28 *investment assets of the fund. The 10% limitation contained in this*  
29 *subsection shall not have been violated if the total of such bitcoin*  
30 *investments exceeds 10% of the total investment assets of the fund, based*  
31 *on the fund total market value, as a result of market forces acting to*  
32 *increase the value of such bitcoin investments relative to the rest of the*  
33 *system's investments. However, the board shall not invest or reinvest any*  
34 *moneys of the fund in bitcoin investments until the total value of such*  
35 *bitcoin investments is less than 10% of the total investment assets of the*  
36 *fund based on the market value. If the total value of the bitcoin*  
37 *investments exceeds 10% of the total investment assets of the fund, the*  
38 *board shall not be required to liquidate or sell the system's holdings in any*  
39 *bitcoin investment held by the system, unless such liquidation or sale*  
40 *would be in the best interest of the members and beneficiaries of the*  
41 *system and is prudent under the standards contained in this section;*

42 (f) *for purposes of this section:*

43 (i) *"Bitcoin" means the decentralized digital currency launched in*

1 2009 that is based on Satoshi Nakamoto's white paper entitled "bitcoin: a  
2 peer-to-peer electronic cash system" and includes the digital asset that is  
3 the basis of the bitcoin exchange-traded product regulated by the United  
4 States securities and exchange commission; and

5 (ii) "exchange-traded product" means a financial instrument that is  
6 approved by the United States securities and exchange commission, the  
7 commodities future trading commission or the office of the securities  
8 commissioner of Kansas, is traded on a United States regulated exchange  
9 and derives its value from an underlying pool of assets, including, but not  
10 limited to, stocks, bonds, commodities or indexes.

11 (6) (a) Subject to the objective set forth in subsection (3) and the  
12 standards set forth in subsections (4) and (5) the board shall formulate  
13 policies and objectives for the investment and reinvestment of moneys in  
14 the fund and the acquisition, retention, management and disposition of  
15 investments of the fund. Such policies and objectives shall include:

16 (i) Specific asset allocation standards and objectives;

17 (ii) establishment of criteria for evaluating the risk versus the  
18 potential return on a particular investment;

19 (iii) a requirement that all investment managers submit such  
20 manager's due diligence findings on each investment to the board or  
21 investment advisory committee for approval or rejection prior to making  
22 any alternative investment;

23 (iv) a requirement that all investment managers shall immediately  
24 report all instances of default on investments to the board and provide the  
25 board with recommendations and options, including, but not limited to,  
26 curing the default or withdrawal from the investment; and

27 (v) establishment of criteria that would be used as a guideline for  
28 determining when no additional add-on investments or reinvestments  
29 would be made and when the investment would be liquidated.

30 (b) The board shall review such policies and objectives, make  
31 changes considered necessary or desirable and readopt such policies and  
32 objectives on an annual basis.

33 (7) The board may enter into contracts with one or more persons  
34 whom the board determines to be qualified, whereby the persons undertake  
35 to perform the functions specified in subsection (2) to the extent provided  
36 in the contract. Performance of functions under contract so entered into  
37 shall be paid pursuant to rates fixed by the board subject to provisions of  
38 appropriation acts and shall be based on specific contractual fee  
39 arrangements. The system shall not pay or reimburse any expenses of  
40 persons contracted with pursuant to this subsection, except that after  
41 approval of the board, the system may pay approved investment related  
42 expenses subject to provisions of appropriation acts. The board shall  
43 require that a person contracted with to obtain commercial insurance

1 which provides for errors and omissions coverage for such person in an  
2 amount to be specified by the board, provided that such coverage shall be  
3 at least the greater of \$500,000 or 1% of the funds entrusted to such person  
4 up to a maximum of \$10,000,000. The board shall require a person  
5 contracted with to give a fidelity bond in a penal sum as may be fixed by  
6 law or, if not so fixed, as may be fixed by the board, with corporate surety  
7 authorized to do business in this state. Such persons contracted with the  
8 board pursuant to this subsection and any persons contracted with such  
9 persons to perform the functions specified in subsection (2) shall be  
10 deemed to be agents of the board and the system in the performance of  
11 contractual obligations.

12 (8) (a) In the acquisition or disposition of securities, the board may  
13 rely on the written legal opinion of a reputable bond attorney or attorneys,  
14 the written opinion of the attorney of the investment counselor or  
15 managers, or the written opinion of the attorney general certifying the  
16 legality of the securities.

17 (b) The board shall employ or retain qualified investment counsel or  
18 counselors or may negotiate with a trust company to assist and advise in  
19 the judicious investment of funds ~~as herein provided~~ *in accordance with*  
20 *the provisions of this section.*

21 (9) (a) Except as provided in subsection (7) and this subsection, the  
22 custody of money and securities of the fund shall remain in the custody of  
23 the state treasurer, except that the board may arrange for the custody of  
24 such money and securities as it considers advisable with one or more  
25 member banks or trust companies of the federal reserve system or with one  
26 or more banks in the state of Kansas, or both, to be held in safekeeping by  
27 the banks or trust companies for the collection of the principal and interest  
28 or other income or of the proceeds of sale. The services provided by the  
29 banks or trust companies shall be paid pursuant to rates fixed by the board  
30 subject to provisions of appropriation acts.

31 (b) The state treasurer and the board shall collect the principal and  
32 interest or other income of investments or the proceeds of sale of securities  
33 in the custody of the state treasurer and pay same when so collected into  
34 the fund.

35 (c) The principal and interest or other income or the proceeds of sale  
36 of securities as provided in this subsection shall be reported to the state  
37 treasurer and the board and credited to the fund.

38 (10) The board shall with the advice of the director of accounts and  
39 reports establish the requirements and procedure for reporting any and all  
40 activity relating to investment functions provided for in this act in order to  
41 prepare a record monthly of the investment income and changes made  
42 during the preceding month. The record will reflect a detailed summary of  
43 investment, reinvestment, purchase, sale and exchange transactions and

1 such other information as the board may consider advisable to reflect a  
2 true accounting of the investment activity of the fund.

3 (11) The board shall provide for an examination of the investment  
4 program annually. The examination shall include an evaluation of current  
5 investment policies and practices and of specific investments of the fund in  
6 relation to the objective set forth in subsection (3), the standard set forth in  
7 subsection (4) and other criteria as may be appropriate, and  
8 recommendations relating to the fund investment policies and practices  
9 and to specific investments of the fund as are considered necessary or  
10 desirable. The board shall include in its annual report to the governor as  
11 provided in K.S.A. 74-4907, and amendments thereto, a report or a  
12 summary thereof covering the investments of the fund.

13 (12) Any internal assessment or examination of alternative  
14 investments of the system performed by any person or entity employed or  
15 retained by the board which evaluates or monitors the performance of  
16 alternative investments shall be reported to the legislative post auditor so  
17 that such report may be reviewed in accordance with the annual financial-  
18 compliance audits conducted pursuant to K.S.A. 74-49,136, and  
19 amendments thereto.

20 Sec. 2. K.S.A. 2024 Supp. 74-4921 is hereby repealed.

21 Sec. 3. This act shall take effect and be in force from and after its  
22 publication in the statute book.