

SESSION OF 2024

**SUPPLEMENTAL NOTE ON SUBSTITUTE FOR HOUSE
BILL NO. 2103**

As Recommended by House Committee on
Financial Institutions and Pensions

Brief*

Sub. for HB 2103 would amend law governing the Kansas Public Employees Retirement Trust Fund and investment standards to remove a statutory limitation (“cap”) on alternative investments and instead delegate the selection of the overall cap to the Kansas Public Employees Retirement System (KPERs or Retirement System) Board of Trustees.

Under current law, enacted in 2012, the investment of alternative assets by the Board is limited to 15.0 percent of the total investment assets of the fund as a percentage of the Retirement System’s total investments. “Alternative investment” is defined in trust fund law to include a broad group of investments that are not one of the traditional asset types of public equities, fixed income, cash, or real estate (e.g., private equity, private credit, hedge funds, infrastructure, and commodities).

The bill would be in effect upon publication in the *Kansas Register*.

Background

The bill was introduced by the House Committee on Financial Institutions and Pensions at the request of

*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>

Representative Hoheisel. A companion bill, SB 23, has been introduced in the Senate.

[*Note:* SB 23 was introduced by the Joint Committee on Pensions, Investments and Benefits, which met in December 2022 and reviewed a request from the KPERS Board of Trustees to remove the alternative investments cap, while maintaining other statutory criteria placed on the investment of alternative assets. The Joint Committee recommended the introduction of this legislation. In its November 2023 meeting, the Joint Committee again considered the topic of SB 23 and HB 2103 and recommended passage of legislation addressing the statutory alternative investment cap and that such legislation be amended to make the change in Board authority effective on publication in the *Kansas Register*.]

House Committee on Financial Institutions and Pensions

In the House Committee hearing on February 8, 2023, the Executive Director and the Chief Investment Officer, KPERS, provided **proponent** testimony on behalf of the KPERS Board of Trustees, stating if KPERS were to reach the 15.0 percent alternative investments cap, new investments in private equity and infrastructure would stop and could not be resumed until exposure fell below the cap. The representatives indicated this restriction would limit KPERS' ability to diversify these investments across economic cycles, increasing risk, and could result in KPERS losing access to top-tier investment managers, potentially reducing return. No other testimony was provided.

The House Committee held a second hearing on the bill on January 22, 2024, where the KPERS Executive Director provided **proponent** testimony. The Executive Director indicated, with recent investment market volatility, the KPERS alternative investment portfolio reached 13.8 percent and, at the time of the hearing, is currently at 12.9 percent. No other testimony was provided.

The House Committee amended the bill to update statutory references to incorporate 2023 changes to pensions investment law and to change its effective date to be upon publication in the *Kansas Register*. The House Committee recommended a substitute bill.

Fiscal Information

According to the fiscal note prepared by the Division of the Budget on the bill, as introduced, KPERS indicates enactment of the bill would have no fiscal effect.

Retirement System; KPERS Board of Trustees; investment policy; alternative investments