



## TEACHERS' RETIREMENT SYSTEM of the State of Kentucky

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**GARY L. HARBIN, CPA**  
Executive Secretary

Regular Quarterly Meeting of the  
TRS Board of Trustees

### A G E N D A

September 17, 2018, 12:30 p.m.

Board Called to Order

Roll Call

#### 1. Reports for Consent

##### 1.1. Consideration/Approval of Minutes

1.1.1. Quarterly Meeting of the Board of Trustees, June 18, 2018

1.1.2. Special Meeting of the Governance and Audit Committee, June 14, 2018

1.1.3. Special Meeting of the Insurance Committee, June 18, 2018

1.1.4. Special Meeting of the Insurance Committee, August 9, 2018

1.1.5. Special Meeting of the Insurance Committee, August 22, 2018

##### 1.2. Applications for Retirement and Annuity

##### 1.3. Survivor Benefits

##### 1.4. Life Insurance Benefits

##### 1.5. Refunds

##### 1.6. Interim Financial Statements

#### 2. Report of the Investment Committee

#### 3. Report of the Insurance Committee

#### 4. Report of the Governance and Audit Committee

#### 5. Executive Secretary's Observations and Comments

General Discussion

Adjournment

The meeting will take place in the boardroom at the office of the  
Teachers' Retirement System of the State of Kentucky  
479 Versailles Road, Frankfort, Kentucky.

TO: Board of Trustees of the  
Teachers' Retirement System of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 17, 2018

SUBJECT: Reports for Consent

1.1. Consideration/Approval of Minutes

- 1.1.1. Quarterly Meeting of the Board of Trustees held June 18, 2018
- 1.1.2. Special Meeting of the Governance and Audit Committee held June 14, 2018
- 1.1.3. Special Meeting of the Insurance Committee held June 18, 2018
- 1.1.4. Special Meeting of the Insurance Committee held August 9, 2018
- 1.1.5. Special Meeting of the Insurance Committee held August 22, 2018

1.2. Applications for Retirement and Annuity

The lists of members who retired June, July and August 2018 will be available for examination at the meeting. Attached is a summary of the particular payments and a comparison to the same period last year. Initial retirements for the period included 1,564 retirees with monthly payments totaling \$5,226,563.70. During the same period last year, there were 1,460 retirements with monthly payments totaling \$4,841,114.18.

Recommendation: The board is requested to approve the initial payments listed in the report.

1.3. Survivor Benefits

The list of persons qualifying for survivor benefit payments for the quarter April 1, 2018, through June 30, 2018, will be available for examination at the meeting. During the period, there were two survivor benefits with a total monthly payment of \$380.

Recommendation: The board is requested to approve the survivor benefit payments for the period April 1, 2018, through June 30, 2018, as listed in the report.

1.4. Life Insurance Benefits

The list of payments of life insurance benefits due to death of active and retired teachers for the period April 1, 2018, through June 30, 2018, will be available for examination at the meeting. There were 11 payments to the estates or beneficiaries of active teachers and 279 payments to the estates or beneficiaries of retired teachers for total payments of \$1,417,000. During the same quarter in 2017, there were 258 payments in the amount of \$1,272,000.

Recommendation: The board is requested to approve the payment of life insurance benefits as listed in the report.

### 1.5. Refunds

The report of refunds for the quarter ended June 30, 2018, is also attached. There were 465 refunds for the quarter April 1, 2018, through June 30, 2018, and the amount refunded was \$4,350,198.09. The refunds are for the following categories:

Regular withdrawals	436	\$4,069,541.73
Deaths	<u>29</u>	<u>\$ 280,656.36</u>
Totals	465	\$4,350,198.09

During the same quarter in 2017 there were 397 refunds totaling \$3,722,435.68.

Recommendation: The board is requested to approve the payment of refunds as listed in the report.

### 1.6. Interim Financial Statements

Attached are the Interim Financial Statements for the quarter ended June 30, 2018.

Recommendation: The Interim Financial Statements are provided for informational purposes only and require no action by the board.

***Teachers' Retirement System of Kentucky***  
**Initial Applications for Retirement and Annuity**  
**2018**

	<b>June</b>	<b>July</b>	<b>August</b>	<b>Total</b>	<b>Same Period 2017</b>
<b>Handicapped Child</b>	<i>0</i> \$0.00	<i>0</i> \$0.00	<i>0</i> \$0.00	<i>0</i> \$0.00	<i>0</i> \$0.00
<b>Disability Retirement</b>	<i>8</i> \$21,328.71	<i>12</i> \$37,501.91	<i>22</i> \$63,133.54	<i>42</i> \$121,964.16	<i>55</i> \$151,787.65
<b>Service Retirement</b>	<i>391</i> \$1,295,074.43	<i>919</i> \$3,190,042.91	<i>211</i> \$617,758.80	<i>1,521</i> \$5,102,876.14	<i>1,405</i> \$4,689,326.53
<b>Beneficiary of Member Eligible to Retire</b>	<i>1</i> \$1,723.40	<i>0</i> \$0.00	<i>0</i> \$0.00	<i>1</i> \$1,723.40	<i>0</i> \$0.00
<b>TOTALS</b>	<i>400</i> \$1,318,126.54	<i>931</i> \$3,227,544.82	<i>233</i> \$680,892.34	<i>1,564</i> \$5,226,563.70	<i>1,460</i> \$4,841,114.18

**Reports for Consent**  
**Member Account Refunds**  
**For the period April 2018 - June 2018**

Active Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
April	188	819,107.64	204,776.90	1,081,536.35	2,105,420.89
May	168	736,155.04	179,816.00	639,151.75	1,555,122.79
June	83	229,493.61	57,373.43	122,131.01	408,998.05
Total	436				4,069,541.73

Deceased Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
April	14	100,055.52	24,900.19	0.00	124,955.71
May	13	149,634.10	1,579.67	0.00	151,213.77
June	2	3,637.73	849.15	0.00	4,486.88
Total	29				280,656.36

Total Refunds	Count	Net Refund	Taxes Withheld	Rollovers	Total
April	202	919,163.16	229,677.09	1,081,536.35	2,230,376.60
May	181	885,789.14	181,395.67	639,151.75	1,706,336.56
June	85	233,131.34	58,222.58	122,131.01	413,484.93
Total	465				4,350,198.09

# **TEACHERS' RETIREMENT SYSTEM**

## **OF THE STATE OF KENTUCKY**



### ***INTERIM FINANCIAL STATEMENTS***

**QUARTER ENDED JUNE 30, 2018**  
**(UNAUDITED)**

**Statements of Plan Net Assets**  
**as of June 30, 2018 and 2017**  
 ( Book Basis - Unadjusted )

	Defined Benefit Plan		Health Insurance Plans		Life Insurance Plan		Other Funds		TOTAL	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
<b>ASSETS</b>										
Cash	\$ 109,096,654	\$ 137,375,589	\$ 51,374,072	\$ 87,841,753	\$ 336,731	\$ 187,657	\$ 186,882	\$ 23,852	\$ 160,994,339	\$ 225,428,851
<b>Receivables</b>										
Contributions	26,323,795	28,779,827	21,489,548	18,456,779	109,429	105,264			47,922,772	47,341,870
State of Kentucky	15,337,037	13,640,427	10,277,791	5,580,025	35,965	32,617			25,650,793	19,253,069
Investment Income	44,151,888	40,623,372	2,061,568	1,685,597	732,657	1,036,228	3,043	2,693	46,949,156	43,347,890
Investment Sales Receivable	18,104,128	49,973,750	424,710	915,100	-	-			18,528,838	50,888,850
Installment Account Receivable	316,083	366,602							316,083	366,602
Other Receivables	45,263	71,701	18,331,333	17,944,004					18,376,596	18,015,705
Due from Other Funds	1,779,623	1,567,471							1,779,623	1,567,471
<b>Total Receivables</b>	<b>106,057,817</b>	<b>135,023,150</b>	<b>52,584,950</b>	<b>44,581,505</b>	<b>878,051</b>	<b>1,174,109</b>	<b>3,043</b>	<b>2,693</b>	<b>159,523,861</b>	<b>180,781,457</b>
<b>Investments at Book Value</b>										
Short Term Investments	403,309,782	521,348,979	56,993,633	46,008,716	3,724,034	4,150,027	373,549	398,093	464,400,998	571,905,815
Bonds and Mortgages	2,970,708,205	2,758,485,338	91,836,948	69,833,179	48,333,143	78,977,060	199,485	199,485	3,111,077,781	2,907,495,062
Stocks	8,356,898,562	8,089,204,832	419,642,622	343,056,259	29,468,151		185,574	185,574	8,806,194,909	8,432,446,665
Alternative Investments	973,687,555	853,371,797	62,439,233	34,118,194					1,036,126,788	887,489,991
Real Estate	961,183,947	906,726,070	55,946,546	38,850,944	541,107				1,017,671,600	945,577,014
Additional Categories	1,365,237,472	1,383,696,857	184,510,031	157,097,353	1,300,000				1,551,047,503	1,540,794,210
<b>Total Investments</b>	<b>15,031,025,523</b>	<b>14,512,833,873</b>	<b>871,369,013</b>	<b>688,964,645</b>	<b>83,366,435</b>	<b>83,127,087</b>	<b>758,608</b>	<b>783,152</b>	<b>15,986,519,579</b>	<b>15,285,708,757</b>
Capital Assets ( net of accumulated depreciation )	16,324,647	18,046,639							16,324,647	18,046,639
<b>Total Assets</b>	<b>15,262,504,641</b>	<b>14,803,279,251</b>	<b>975,328,035</b>	<b>821,387,903</b>	<b>84,581,217</b>	<b>84,488,853</b>	<b>948,533</b>	<b>809,697</b>	<b>16,323,362,426</b>	<b>15,709,965,704</b>
<b>LIABILITIES</b>										
<b>Liabilities</b>										
Accounts Payable	2,280,864	2,201,644	-	10,300					2,280,864	2,211,944
Investment Purchases Payable	14,927,782	76,193,228	1,446,969	3,043,724			-	-	16,374,751	79,236,952
Investment Fees Payable	14,103,336	15,983,153	1,046,539	796,350			-	-	15,149,875	16,779,503
Due to Other Funds	-	-	1,747,561	1,538,574	30,979	27,690	1,083	1,208	1,779,623	1,567,472
Revenues Collected in Advance	-	-	1,734,168	3,422,864					1,734,168	3,422,864
<b>Total Liabilities</b>	<b>31,311,982</b>	<b>94,378,025</b>	<b>5,975,237</b>	<b>8,811,812</b>	<b>30,979</b>	<b>27,690</b>	<b>1,083</b>	<b>1,208</b>	<b>37,319,281</b>	<b>103,218,735</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>										
	<u>\$ 15,231,192,659</u>	<u>\$ 14,708,901,226</u>	<u>\$ 969,352,798</u>	<u>\$ 812,576,091</u>	<u>\$ 84,550,238</u>	<u>\$ 84,461,163</u>	<u>\$ 947,450</u>	<u>\$ 808,489</u>	<u>\$ 16,286,043,145</u>	<u>\$ 15,606,746,969</u>

**Statements of Changes in Plan Net Assets**  
**For the Twelve Months Ended June 30, 2018 and 2017**  
 ( Book Basis - Unadjusted )

	Defined Benefit Plan		Medical Insurance Plan		Life Insurance Plan		Other Funds		TOTAL	
	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017
<b>ADDITIONS</b>										
Contributions										
Employer- State Paid	\$ 969,698,497	\$ 981,417,089	\$ 80,959,003	\$ 75,496,731	\$ 896,974	\$ 881,703	\$ -	\$ -	\$ 1,051,554,474	\$ 1,057,795,523
Employer- LSD, Other	78,972,705	79,302,904	106,143,410	104,879,255	161,355	167,980	325,950	220,001	185,603,420	184,570,140
Member- Active	319,127,087	313,625,434	130,452,747	128,697,000					449,579,834	442,322,434
Member- Retired			58,008,176	58,064,211					58,008,176	58,064,211
Recovery Income			78,735,567	54,650,586					78,735,567	54,650,586
<b>Total Contribution</b>	<b>1,367,798,289</b>	<b>1,374,345,427</b>	<b>454,298,903</b>	<b>421,787,783</b>	<b>1,058,329</b>	<b>1,049,683</b>	<b>325,950</b>	<b>220,001</b>	<b>1,823,481,471</b>	<b>1,797,402,894</b>
<b>Investment Income (at book value)</b>										
Net Gain/(Loss) on Investment Sales	822,504,024	721,670,366	3,947,280	13,071,369	2,125,681	557,704	-	-	828,576,985	735,299,439
Interest	138,027,758	153,207,310	6,195,753	5,777,776	2,446,305	3,011,187	14,895	10,920	146,684,711	162,007,193
Dividends	262,679,505	180,297,227	5,633,011	3,787,309	40,895		5,898	5,468	268,359,309	184,090,004
Rental Income, Net	29,957,783	30,477,797							29,957,783	30,477,797
Securities Lending, Net	3,992,410	2,559,933			7,611	2,584	273	162	4,000,294	2,562,679
<b>Gross Investment Income</b>	<b>1,257,161,480</b>	<b>1,088,212,633</b>	<b>15,776,044</b>	<b>22,636,454</b>	<b>4,620,492</b>	<b>3,571,475</b>	<b>21,066</b>	<b>16,550</b>	<b>1,277,579,082</b>	<b>1,114,437,112</b>
<b>Less Investment Expense</b>	<b>(55,590,088)</b>	<b>(57,836,050)</b>	<b>(3,942,742)</b>	<b>(3,170,868)</b>	<b>(105,847)</b>	<b>(10,478)</b>	<b>(16,346)</b>	<b>(114)</b>	<b>(59,655,023)</b>	<b>(61,017,510)</b>
<b>Net Investment Income</b>	<b>1,201,571,392</b>	<b>1,030,376,583</b>	<b>11,833,302</b>	<b>19,465,586</b>	<b>4,514,645</b>	<b>3,560,997</b>	<b>4,720</b>	<b>16,436</b>	<b>1,217,924,059</b>	<b>1,053,419,602</b>
<b>Total Additions</b>	<b>2,569,369,681</b>	<b>2,404,722,010</b>	<b>466,132,205</b>	<b>441,253,369</b>	<b>5,572,974</b>	<b>4,610,680</b>	<b>330,670</b>	<b>236,437</b>	<b>3,041,405,530</b>	<b>2,850,822,496</b>
<b>DEDUCTIONS</b>										
Benefits	2,004,617,334	1,918,612,128			5,452,920	5,151,013	190,626	224,628	2,010,260,880	1,923,987,769
Refunds of Contributions	31,072,421	26,305,240							31,072,421	26,305,240
Under 65 Insurance Expenses			114,648,560	124,079,802					114,648,560	124,079,802
Over 65 Insurance Expenses			192,959,377	167,013,299					192,959,377	167,013,299
Administrative Expense	11,388,493	10,313,715	1,747,561	1,538,574	30,979	27,690	1,083	1,208	13,168,116	11,881,187
<b>Total Deductions</b>	<b>2,047,078,248</b>	<b>1,955,231,083</b>	<b>309,355,498</b>	<b>292,631,675</b>	<b>5,483,899</b>	<b>5,178,703</b>	<b>191,709</b>	<b>225,836</b>	<b>2,362,109,354</b>	<b>2,253,267,297</b>
<b>Net Increase ( Decrease )</b>	<b>522,291,433</b>	<b>449,490,927</b>	<b>156,776,707</b>	<b>148,621,694</b>	<b>89,075</b>	<b>(568,023)</b>	<b>138,961</b>	<b>10,601</b>	<b>679,296,176</b>	<b>597,555,199</b>
<b>NET ASSETS HELD IN TRUST FOR PENSION BENEFITS</b>										
Beginning of year	14,708,901,226	14,259,410,299	812,576,091	663,954,397	84,461,163	85,029,186	808,489	797,888	15,606,746,969	15,009,191,770
Ending of period	\$ 15,231,192,659	\$ 14,708,901,226	\$ 969,352,798	\$ 812,576,091	\$ 84,550,238	\$ 84,461,163	\$ 947,450	\$ 808,489	\$ 16,286,043,145	\$ 15,606,746,969



TO: Board of Trustees of the  
Teachers' Retirement System of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 17, 2018

SUBJECT: Report of the Investment Committee

1. Investment Committee Meeting and Actions: The investments approved at the August 23, 2018, Investment Committee meeting are as follows: up to \$50 million from the TRS Retirement Annuity, up to \$10 million from the TRS Medical Trust and up to \$500,000 from the TRS Life Insurance account into Audax Private Equity Fund VI; up to \$50 million from the TRS Retirement Annuity pension fund, up to \$10 million from the TRS Medical Trust and up to \$1 million from the TRS Life Insurance account into Hellman and Friedman Capital Partners IX; and up to \$50 million from the TRS Retirement Annuity pension fund, up to \$10 million from the TRS Medical Trust and up to \$500,000 from the TRS Life Insurance account into KKR European Fund V. These investments are pending final due diligence and legal review. Additionally, outside managers Columbia Threadneedle Asset Management and Wellington Asset Management reported to the committee on their respective portfolios.

2. Purchases and Disposals: The Report of the Investment Committee for the quarter ended June 30, 2018, is presented for review and approval. During this quarter, there were 2,238 purchases amounting to \$2,605,818,312.77 and 2,404 disposals amounting to \$2,581,153,518.12. The disposals consisted of 2,054 sales, 306 principal payments and 44 redemptions. While the TRS investment office initiates each of these transactions, the custodian of securities is responsible for handling and securing each stock, bond or other type of investment. At the end of the quarter, the system's invested securities had a book value of \$15,052,243,660.95 and a market value of \$19,701,298,041.72.

3. Staff's Comments on Economic and Market conditions: The U.S. dollar strengthened significantly relative to a trade-weighted basket of currencies during the second quarter of 2018 putting significant pressure on non-U.S. assets. Emerging market equities fell 8 percent during the quarter, and local currency-denominated emerging market debt fell more than 10 percent. Developed international equities also declined, further exacerbating losses experienced in the first quarter of 2018. As has often been the case over the last several years, U.S. equities were a bright spot. Equity market volatility that characterized the first quarter of 2018 softened during the second quarter, as the S&P 500 produced three straight months of positive returns. U.S. high yield credit markets produced positive returns as well, though the investment grade market declined as the yield curve flattened.

Economic data released during the quarter continue to indicate a strong economic expansion in the United States. The labor market remains strong as well. Though unemployment rose to 4 percent during the quarter from its recent lows of 3.8 percent, the increase largely was tied to a rise in labor force participation. Non-farm payroll growth averaged 210,000 jobs per month

during the quarter. The Federal Open Market Committee (FOMC) raised the Federal Funds rate to a range between 1.75 percent and 2.00 percent during its June meeting. At quarter end, the market implied an over 50 percent probability of the FOMC raising the rate for a fourth time this year at its December meeting.

In other developed markets, the European Central Bank (ECB) projected slowing economic growth from 2.5 percent in 2017 to 1.7 percent by 2020, while the Bank of Japan forecasted growth of 1.5 percent for fiscal year 2019. Despite signs of slowing growth in Europe, the ECB confirmed its plan to reduce its bond buying with a target to halt purchases by December while likely keeping the deposit rate of -0.04 percent steady until mid-2019. The Bank of Japan also confirmed that its deposit rate would remain unchanged at -0.01 percent while committing to continued asset buying.

U.S. equity markets delivered positive results across all market caps and styles for the quarter. The S&P 1500 Index returned 3.65 percent, buoyed by strong performance in the energy sector as oil prices continued to rise throughout the quarter. Continuing a first quarter trend, the technology and consumer discretionary sectors also drove market performance as the S&P 500 Technology and Consumer Discretionary indices returned, respectively, 7.1 percent and 8.2 percent. Active large cap growth and value managers generally fared well as secular growth trends and continued strong corporate earnings provided a positive stock-picking environment. Value outperformed growth in small cap, while growth continued to outperform value in large cap. Further, momentum and growth continued their first quarter leadership, while low volatility and high dividend stocks notably reversed as the S&P 500 Low Volatility High Dividend Index returned 5.1 percent for the second quarter versus its first quarter return of -1.1 percent.

Developed international markets struggled again, ending the quarter in negative territory. While growth stocks were slightly positive, value stocks brought down the overall market due to reduced forward expectations for economic growth. Emerging markets had a challenging quarter, by far the worst performing equity asset class this year as a strengthening U.S. dollar rattled investor confidence. Growth stocks outperformed value, continuing the trend across most equity markets. China was one of the best performing countries within the space. From a sector perspective, technology stocks continued to dominate, now representing almost 30 percent of the MSCI Emerging Markets Index.

The Bloomberg Barclays Government/Credit Bond Index returned -0.33 percent as interest rates increased slightly and the Treasury yield curve flattened during the quarter. The spread over Treasuries for long BBB-rated investment grade corporate bonds increased from 1.62 percent to 1.87 percent. Conversely, high yield bonds, which have a higher concentration toward energy issuers, saw spreads narrow slightly as oil prices continued to rise. Accordingly, the Bloomberg Barclays U.S. Corporate Investment Grade Index declined 1 percent for the quarter and underperformed the Bloomberg Barclays Corporate High Yield Index, which increased 1 percent. for the second quarter.

The core private real estate index, NCREIF-ODCE, returned 2.05 percent during the quarter, evenly split between income and appreciation. Real estate valuations remain elevated, supported by continued strength in the overall economy with increases from personal consumption and

business investment. The potential for increased discretionary spending by consumers due to the recent tax reform has been cited as additional support for valuations in this asset class. During the quarter, investors in private real estate continued to see modest returns and are placing increasing importance on the income component of total return. Outside of the continued expansion in the industrial sector, valuation improvements are expected to be driven by assets that can improve net operating income results rather than relying on cap rate compression to drive property valuation.

4. Performance: Investment performance was positive for the quarter ended June 30, 2018. The Retirement Annuity Trust Fund's total assets returned 1.39 percent for the quarter, slightly outperforming the Policy Index, which returned 1.33 percent. The system's domestic stocks increased 3.33 percent, in line with the S&P 1500 Stock Index, which increased 3.65 percent during the quarter. TRS's international stocks fell 1.33 percent, outperforming the MSCI All Country ex U.S. Index, which declined 2.39 percent for the quarter. Alternatives and additional categories were positive contributors as Private Equity gained 3.01 percent, while additional categories returned 0.85 percent. The system's bonds returned -0.08 percent, outperforming the Bloomberg Barclays Gov/Credit Bond Index, which returned -0.33 percent for the quarter. Real Estate provided strong returns for the quarter gaining 2.25 percent.

Recommendation: The executive secretary recommends that the board accept and ratify the Report of the Investment Committee.

**Teachers' Retirement System of the State of Kentucky**  
**Retirement Annuity Trust**  
**Quarterly Investment Performance**  
**Gross Returns**  
**For the Period Ended June 30 2018**

FINAL

	Market Value	Last Qtr	FYTD	1-Year	3-Year*	5-Year*	10-Year*	20-Year*
<b>TOTAL PLAN</b>	\$ 19,802,684,099.37	1.39	10.81	10.81	8.16	9.44	8.02	6.27
<i>Policy Benchmark</i>		1.33	9.30	9.30	8.15	8.98	7.48	-
<b>Total Equity</b>	\$ 12,667,737,702.06	1.62	14.08	14.08	9.87	11.90	8.98	6.35
<b>Domestic Equity</b>	\$ 8,164,946,090.05	3.33	14.74	14.74	10.92	13.44	10.40	7.00
<i>S&amp;P 1500 Index</i>		3.65	14.50	14.50	11.90	13.40	10.29	-
<b>All-Cap Equities</b>	\$ 260,570,117.75	2.42	11.76	11.76	-	-	-	-
<i>Russell 3000</i>		3.89	14.78	14.78	-	-	-	-
<b>Large-Cap Equities</b>	\$ 6,714,678,931.13	3.01	14.45	14.45	10.75	13.34	10.24	-
<i>S&amp;P 500 Index</i>		3.43	14.37	14.37	11.93	13.42	10.17	6.45
<b>Mid-Cap Equities</b>	\$ 718,936,928.84	4.16	16.74	16.74	12.35	14.22	10.56	-
<i>S&amp;P 400 Index</i>		4.29	13.50	13.50	10.89	12.69	10.78	-
<b>Small-Cap Equities</b>	\$ 470,760,112.33	7.21	17.77	17.77	12.75	14.37	12.39	-
<i>S&amp;P 600 Index</i>		8.77	20.50	20.50	13.84	14.60	12.25	-
<b>International Equity</b>	\$ 4,502,791,612.01	-1.33	13.07	13.07	7.52	8.44	4.95	-
<i>MSCI AC World Ex US</i>		-2.39	7.79	7.79	5.56	6.48	3.01	-
<b>Fixed Income</b>	\$ 3,036,033,540.36	-0.08	0.08	0.08	2.32	2.78	4.73	5.28
<i>Barclay's Govt./Credit Index</i>		-0.33	-0.63	-0.63	1.83	2.29	3.78	4.74
<b>Real Estate</b>								
<b>TRS Real Estate Equity</b>	\$ 420,940,001.06	1.82	15.30	15.30	11.18	9.59	9.01	9.05
<i>CPI plus 2%</i>		1.06	4.85	4.85	3.86	3.57	3.47	4.18
<b>Core Real Estate:</b>	\$ 417,556,034.19	2.27	8.08	8.08	10.04	11.60	4.27	-
<i>NCREIF ODCE (VW)</i>		2.05	8.44	8.44	9.37	11.04	5.29	-
<b>Non-Core Real Estate:</b>	\$ 312,198,246.68	2.81	14.71	14.71	14.95	16.40	-	-
<i>NCREIF Property Index</i>		1.81	7.19	7.19	8.25	9.77	-	-
<b>Alternative Investments</b>								
<b>Private Equity</b>	\$ 1,095,289,505.62	3.01	20.74	20.74	12.29	13.39	10.91	-
<b>Mature Private Equity</b>	\$ 428,356,407.94	2.49	18.56	18.56	9.11	11.25	-	-
<i>S&amp;P 500 plus 3%</i>		4.20	17.81	17.81	15.29	16.82	-	-
<b>Private Equity &lt; 5 Years</b>	\$ 666,933,097.68	3.37	23.15	23.15	15.08	14.72	11.95	-
<b>Timberland:</b>	\$ 187,540,819.58	1.86	-5.39	-5.39	0.76	3.21	3.27	-
<i>NCREIF Timberland Index</i>		0.48	3.57	3.57	3.43	6.00	4.01	-
<b>Additional Categories:</b>	\$ 1,428,742,753.40	0.85	4.28	4.28	4.25	4.83	-	-
<i>B of A Merrill Lynch High Yield Master II</i>		1.00	2.53	2.53	5.55	5.51	-	-
<b>Cash (Unallocated)</b>	\$ 236,645,496.42	0.49	1.44	1.44	0.75	0.48	0.40	2.15
<i>90 Day T-Bill</i>		0.45	1.36	1.36	0.64	0.40	0.33	1.86

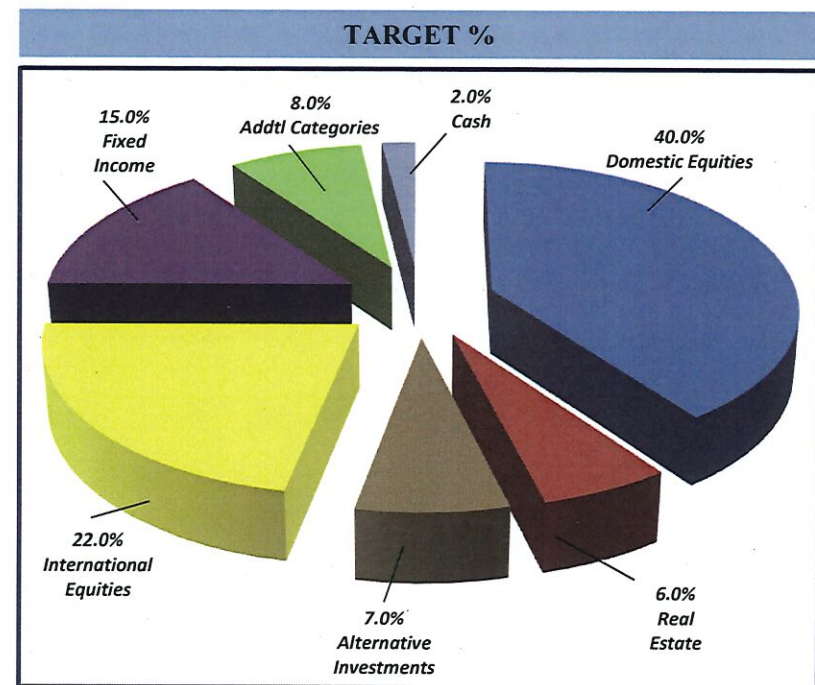
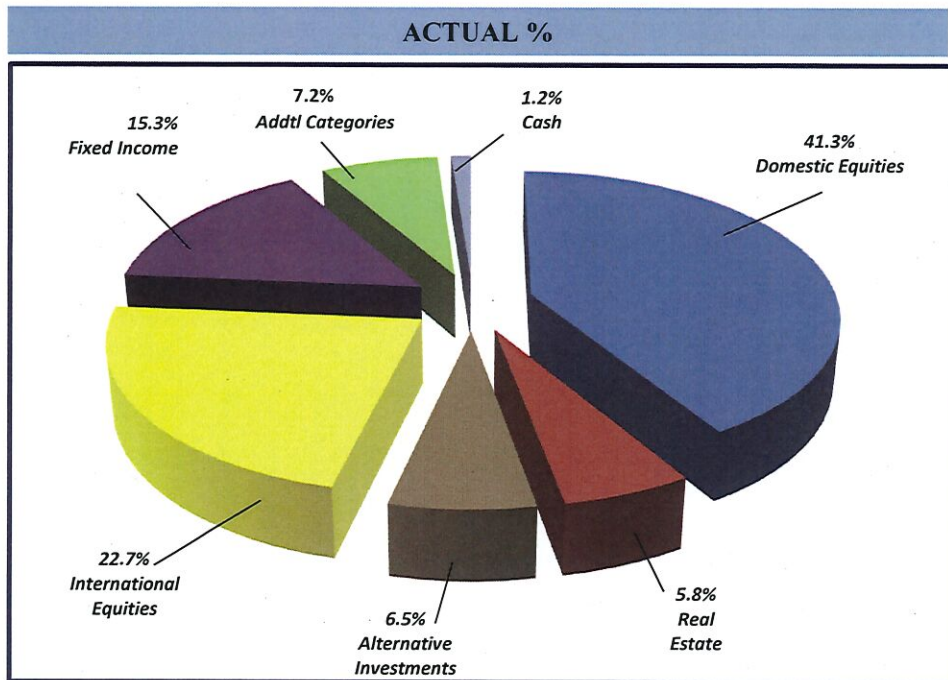
**Total Plan Gross Return for 30-year period\* 8.39**

\*Returns are annualized for periods longer than one year

\*\* Prior to July 1, 2008, TRS did not benchmark overall fund performance. Effective July 1, 2008, the Board of Trustees approved a Policy Index that represents the returns of appropriate benchmarks for the various asset classes weighted by the mid-point of the strategic range for the current fiscal year.

**Teachers' Retirement System of Kentucky**  
**Quarterly Investment Update**  
*For the period ended June 30, 2018*

(\$ in millions)	\$'s	Actual %	Target %	Strategic Ranges
Domestic Equities	\$8,164.9	41.3%	40.0%	34.0 - 48.0%
Real Estate	1,150.7	5.8%	6.0%	4.0 - 8.0%
Alternative Inv.	1,282.8	6.5%	7.0%	4.0 - 10.0%
International Equities	4,502.8	22.7%	22.0%	18.0 - 25.0%
Fixed Income	3,036.0	15.3%	15.0%	12.0 - 19.0%
Addtl Categories	1,428.8	7.2%	8.0%	5.0 - 11.0%
Cash	\$236.7	1.2%	2.0%	1.0 - 3.0%
<b>Total</b>	<b>\$19,802.7</b>	<b>100.0%</b>	<b>100.0%</b>	





**Teachers' Retirement System of the State of Kentucky**  
**Health Insurance Trust**  
**Quarterly Investment Performance**  
**Gross Returns**  
**For the Period Ended June 30, 2018**

FINAL

	<u>Market Value</u>	<u>Last Qtr</u>	<u>FYTD</u>	<u>1-Year</u>	<u>3-Year*</u>	<u>5-Year*</u>
<b><u>TOTAL PLAN</u></b>	\$ 1,061,293,216.94	0.96	8.86	8.86	7.10	7.56
<i>Policy Benchmark</i>		0.83	8.70	8.70	7.61	-
<b><u>Total Equity</u></b>	\$ 607,134,943.05	0.99	11.53	11.53	8.60	9.95
<b><u>All Cap Equities</u></b>	\$ 35,488,410.42	2.38	11.66	11.66	-	-
<i>Russell 3000</i>		3.89	14.78	14.78	-	-
<b><u>Global Equities</u></b>	\$ 571,646,532.63	0.91	11.54	11.54	8.76	10.05
<i>MSCI AC World IMI (Net)</i>		0.72	11.14	11.14	8.34	9.60
<b><u>Fixed Income</u></b>	\$ 92,417,014.24	0.03	-0.60	-0.60	1.48	1.24
<i>Barclays Government Credit</i>		-0.33	-0.63	-0.63	1.83	2.29
<b><u>Core Real Estate</u></b>	\$ 28,142,914.33	1.97	7.24	7.24	-	-
<i>NCREIF ODCE (VW)</i>		2.05	8.44	8.44	-	-
<b><u>Non-Core Real Estate</u></b>	\$ 34,819,650.29	3.28	13.95	13.95	15.34	-
<i>NCREIF Property Index</i>		1.81	7.19	7.19	8.25	-
<b><u>Private Equity</u></b>	\$ 81,232,638.01	1.90	19.76	19.76	17.03	16.12
<b><u>Mature Private Equity</u></b>	\$ 8,214,217.00	0.46	13.64	13.64	15.29	14.15
<i>S&amp;P 500 plus 3%</i>		4.20	17.81	17.81	15.29	16.82
<b><u>Private Equity &lt; 5 Years</u></b>	\$ 73,018,421.01	2.32	20.86	20.86	17.44	16.37
<b><u>Additional Categories:</u></b>	\$ 188,639,146.71	0.46	3.12	3.12	3.92	4.52
<i>B of A Merrill Lynch High Yield Master II</i>		1.00	2.53	2.53	5.55	5.51
<b><u>Cash (Unallocated)</u></b>	\$ 28,906,910.31	0.48	1.41	1.41	0.72	0.46
<i>90 Day T-Bill</i>		0.45	1.36	1.36	0.64	0.40

\*Returns are annualized for periods longer than one year

\*\* Prior to July 1, 2015, TRS did not benchmark overall fund performance. Effective July 1, 2015, the Board of Trustees approved a Policy Index that represents the returns of appropriate benchmarks for the various asset classes weighted by the mid point of the strategic range for the current fiscal year.

# Teachers' Retirement System of Kentucky

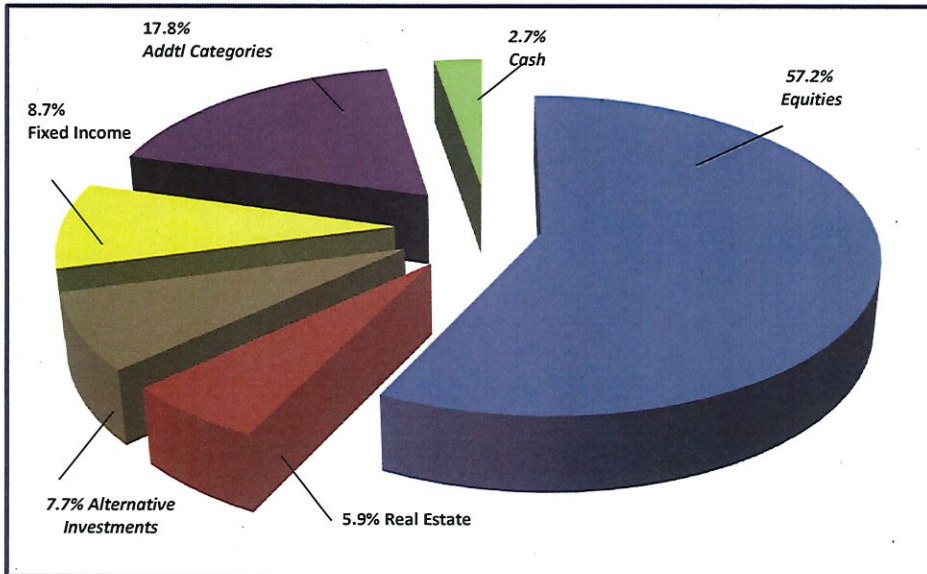
## Insurance Trust Fund

### Quarterly Investment Update

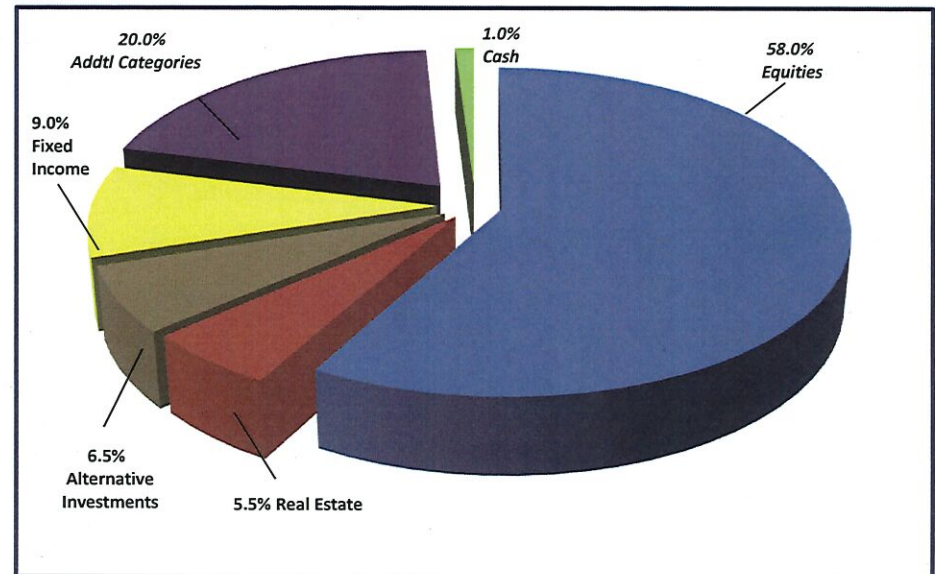
For the period ended June 30, 2018

(\$ in thousands)	\$'s	Actual %	Target %	Strategic Ranges
Equities	\$607,135.0	57.2%	58.0%	51.0 - 64.0%
Real Estate	62,962.6	5.9%	5.5%	3.0 - 10.0%
Alternative Inv.	81,232.6	7.7%	6.5%	3.0 - 11.0%
Fixed Income	92,417.0	8.7%	9.0%	6.0 - 12.0%
Addtl Categories	188,639.1	17.8%	20.0%	16.0 - 25.0%
Cash	\$28,906.9	2.7%	1.0%	0.0 - 4.0%
<b>Total</b>	<b>\$1,061,293.2</b>	<b>100.0%</b>	<b>100.0%</b>	

ACTUAL %



TARGET %



TOTAL BV INVESTED AT 3/31/18 \$ 15,027,578,866.30

April Activity

Purchases	905,742,049.65	
Disposals	(819,099,257.40)	
Paydowns	(1,219,110.23)	
Redemptions	(50,531,683.88)	
Short-Term Pool Net	<u>43,083,790.30</u>	77,975,788.44

May Activity

Purchases	424,378,298.68	
Disposals	(350,633,585.15)	
Paydowns	(950,762.52)	
Redemptions	(46,276,162.02)	
Short-Term Pool Net	<u>(97,840,148.79)</u>	(71,322,359.80)

June Activity

Purchases	388,760,370.94	
Disposals	(361,767,367.99)	
Paydowns	(1,761,514.66)	
Redemptions	(13,943,700.45)	
Short-Term Pool Net	<u>6,723,578.17</u>	18,011,366.01

TOTAL BV INVESTED AT 6/30/18 \$ 15,052,243,660.95

\* TRS recognizes investment transactions on the date they occur. Transaction settlements, generally, occur days following transactions. The interim period between transaction date and settlement date represents a "pending period". At the time this statement was produced, \$3,176,351 in net transactions had occurred but had not settled. The statement does not include either expected cash receipts or disbursements associated with these pending trades. Upon settlement of these pending transactions, the net effect would be as follows:

Total Short Term	424,527,543
- Pending Payable	<u>3,176,351</u>
Net	<u><u>427,703,894</u></u>



## INVESTMENT ACTIVITY

### April 1, 2018 -- June 30, 2018

**Total Book Value Invested @ 4/1/18** \$ 15,027,578,866.30

**Purchases:**

400	Cash Equivalents	\$ 886,937,593.50	
144	Fixed Income Securities	753,942,858.75	
1469	Equity Securities	710,718,806.72	
23	Real Estate	43,227,577.92	
74	Alternative Investments	68,772,040.85	
128	Additional Categories	142,219,435.03	
2238	Total Purchases		\$ 2,605,818,312.77

**Disposals:**

306	Cash Equivalents	\$ 933,868,644.57	
122	Fixed Income Securities	688,963,352.90	
306	Principal Paydowns	3,931,387.41	
37	Redemptions / Maturities	107,513,928.42	
1319	Equity Securities	611,127,742.12	
31	Real Estate	24,514,707.63	
122	Alternative Investments	59,857,761.25	
154	Additional Categories	148,138,375.89	
0	Additional Principal Paydowns	-	
7	Additional Redemptions / Maturities	3,237,617.93	
2404	Total Disposals		\$ 2,581,153,518.12

**Total Book Value Invested @ 6/30/18** \$ 15,052,243,660.95

**Total Par Value Invested @ 6/30/18** \$ 15,050,804,990.80

**Total Market Value Invested @ 6/30/18** \$ 19,802,684,099.37

\* TRS recognizes investment transactions on the date they occur. Transaction settlements, generally, occur days following transactions. The interim period between transaction date and settlement date represents a "pending period". At the time this statement was produced, \$3,176,351 in net transactions had occurred but had not settled. The statement does not include either expected cash receipts or disbursements associated with these pending trades. Upon settlement of these pending transactions, the net effect would be as follows:

Total Short Term	424,527,543
- Pending Payable	3,176,351
Net	<u>427,703,894</u>

TO: Board of Trustees  
Teachers' Retirement System of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 17, 2018

SUBJECT: Report of the Insurance Committee

On August 9, the Insurance Committee met and reviewed information regarding the 2018-2020 budget and its impact on the TRS medical insurance trust fund and members. Information reviewed included the history of the non-single subsidy, a breakdown of insurance accounts, the medical benefit cash flow and a timeline for retiree insurance discussions with member groups. The reports were for the information of the committee, and no action was taken.

On August 22, the Insurance Committee met and voted to recommend the following to the board:

1. TRS MEHP 2019: a rate up to \$226 per month for the 2019 TRS MEHP (combined United Healthcare Medicare Advantage and Express Scripts Medicare Part D) for those retirees fulfilling the necessary service requirements;
2. KEHP 2019: a medical insurance benefit supplement up to \$660.04 per month for those retirees fulfilling the necessary service requirements and an administrative fee of \$7.44 PPPM. (The state budget may increase the administrative fee beginning in July 2019. Staff will report to the committee any increase in the administrative fee for plan year 2019.); and
3. Non-single Subsidy for KEHP: reducing the non-single subsidy supplement from 100% to 66.3% for plan year 2019 and then to 33.3% for plan year 2020 (with further action possibly needed for the second six months of 2020 based upon the budget decisions of the 2020 legislature) as authorized by the legislature and/or mandated by law.

The Insurance Committee also received a report on the Coriell personalized medicine pharmacogenomics project. Staff will be available at the board meeting to report on the project.

Executive Secretary's Recommendation: The board should accept and ratify the actions of the Insurance Committee.

TO: Board of Trustees of the  
Teachers' Retirement System of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 17, 2018

SUBJECT: Report of the Governance and Audit Committee

The Governance and Audit Committee will have a special meeting on September 17, 2018, prior to the regular quarterly meeting of the board. The committee will present a report to the board during the regular quarterly meeting.

TO: Board of Trustees of the  
Teachers' Retirement System of Kentucky

FROM: Gary L. Harbin, CPA  
Executive Secretary

DATE: September 17, 2018

SUBJECT: Executive Secretary's Observations and Comments

1. Trustee Education Program: The Board of Trustees of TRS has always been devoted to gaining timely and relevant training on matters related to the proper administration of the retirement system. The board expressed its dedication to continuing education on November 17, 2008, when it adopted the Teachers' Retirement System Trustee Education Program in accordance with KRS 161.250(3)(c). Chapter 3, subparagraph 6 of the program provides that the executive secretary will report concerning this program each year at the September meeting of the board.

From July 2017 through June 2018, trustees attended 231 hours of combined approved training in accordance with the program. The approved training activities included a mix of programs and activities presented by national retirement associations, TRS staff and TRS service providers with particular expertise in investments, law and actuarial concepts. Topics covered a broad range of subjects including pension and medical benefits administration, investment concepts, legal compliance and fiduciary duty and other matters that enhance the effectiveness of trustees in fulfilling their role and satisfying their duties under law.

TRS staff also has assisted with providing specific training to trustees. TRS staff presented a one-day workshop in Frankfort that focused primarily on investment concepts, ethics and governance matters.

2. The November 2018 Trustee Workshop: TRS staff is planning a one-day trustee workshop in Frankfort that will focus on current issues in the administration of the retirement system. Staff anticipates presentations on funding, plan design, actuarial issues, investment concepts, ethics, governance and other matters. The trustee workshop has been scheduled tentatively for Monday, November 19, 2018.

3. GASB Statement Nos. 67 and 68: In June 2012, the GASB approved two statements concerning the accounting and financial reporting of pensions by state and local governments and pension plans. Statement No. 67, *Financial Reporting for Pension Plans*, addresses financial reporting for state and local government pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with pensions. While the two statements were being developed, TRS took an active role in communicating issues and concerns to GASB through a consortium of similarly situated public pension plans.

Statement No. 67 took effect for the fiscal year ending June 30, 2014. Statement No. 68 took effect for the state and universities for the fiscal year ending June 30, 2015.

There has been some concern as to how these new accounting standards apply to Kentucky school districts, particularly whether these new accounting standards would affect the budgets of the districts. In response, there are two important points to note.

Two Points Regarding the New Standards: First, as a critical reminder, GASB standards in general apply only to financial reporting. They do not mandate how a governmental pension plan is to be funded. In Kentucky, the commonwealth has a statutory obligation to provide pension funding through the employer retirement contributions it makes on behalf of teachers and administrators. As such, the responsibility for making employer contributions and addressing the unfunded liability of TRS rests with the commonwealth, not the local school districts. The new GASB accounting standards do not change the funding responsibility. GASB accounting standards do not require school districts to make employer contributions to TRS.

Second, it is true that the new GASB accounting standards do impose financial reporting standards on governmental employers regarding pension liability. However, Kentucky is very different from other states in the respect that Kentucky teachers and administrators are generally treated as employees of the commonwealth for pension and other purposes. Given this circumstance, GASB has confirmed that the commonwealth is responsible for reporting the annual required contributions and pension liabilities. Furthermore, GASB has also confirmed that Kentucky school districts will not be required to report a share of the pension liability in their financial statements.

TRS GASB 67 and 68 Reports: TRS published the accounting information required under Statement No. 67 in TRS's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2017.

On August 7, 2018, TRS published the "GASB Statement No. 68 Report... Prepared as of June 30, 2017" for use by the state and other TRS employers. TRS's report was audited by the external auditor, which expressed the opinion that the schedules present fairly, in all material respects, the employer allocation and other matters addressed.

GASB Statement Nos. 74 and 75: In June 2015, the GASB approved two statements concerning the accounting and financial reporting of other postemployment benefits (OPEB) by state and local governments and benefit plans. Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*, addresses financial reporting for OPEB plans. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments that provide their employees with OPEB.

TRS GASB 74 and 75 Reports: TRS published the accounting information required under Statement No. 74 in TRS's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2017.

On August 15, 2018, TRS published the “GASB Statement No. 75 Report... Prepared as of June 30, 2017” for use by the state and other TRS employers. TRS’s report was audited by the external auditor, which expressed the opinion that the schedules present fairly, in all material respects, the employer allocation and other matters addressed.

Recommendation: The GASB Statement Nos. 68 and 75 reports and the external audit reports are available for review by the board.

4. Board of Trustees Governance Manual: The Board of Trustees Governance Manual was adopted on March 16, 2009. Since adoption, the manual has been amended and updated several times to conform to changes to state law and accounting standards. Following passage of SB 2 (RS 2017), the manual and related standards were updated consistent with the law.

Attached is copy of my communication to the board concerning the CFA Institute’s Code of Conduct for Members of a Pension Scheme Governing Body. TRS has acknowledged the code of conduct as a best practice reference for several years. Staff will review at the meeting this best practice reference and the other fiduciary obligations of the board. Copies of the CFA Institute’s Codes referenced in KRS 161.430 are included in Appendix 11 of the manual.

Attached is an updated copy of Appendix 19 of the manual, which is a list of information and reports that TRS must produce under state law. Appendix 19 has been updated to include additional reporting requirements from recent legislation.

Recommendation: Comments on the Board of Trustees Governance Manual are for the information of the board and require no action.

5. Executive Secretary’s Meetings: The executive secretary has had meetings with several groups recently and will report to the board concerning the following:

June 22, 2018	Meeting with former TRS trustee
June 27, 2018	Attended KRTA Fall Workshop planning meeting
July 10, 2018	New Trustee Orientation with Dr. Patterson
July 16, 2018	Meeting with Tim Fyffe, Public Pension Oversight Board
July 25, 2018	Presentation to KEDC Board of Directors
July 26, 2018	Meeting with KEA-R President
August 2, 2018	Meeting with KEA-R President
August 3, 2018	Meeting with Todd Asset Management
August 9, 2018	Conference call with NKU administrators
August 13, 2018	Presentation to Calloway County RTA
August 17, 2018	Meeting with JCTA
August 17, 2018	Meeting with Mac Jefferson, Public Pension Oversight Board

August 20, 2018	Meeting with KRTA Executive Committee
August 24, 2018	Presentation to KRTA Fall Workshop-Jefferson County
August 30, 2018	Meeting with public relations manager
September 10, 2018	Presentation to Boyle County RTA

6. Next Meeting: The next quarterly meeting of the board will be December 17, 2018.



## TEACHERS' RETIREMENT SYSTEM of the State of Kentucky


### BOARD OF TRUSTEES

RON SANDERS  
Chair, Hodgenville  
ALISON WRIGHT  
Vice Chair, Georgetown  
JOHN BOARDMAN  
Lexington  
FRANK COLLECCHIA  
Louisville  
HOLLIS GRITTON  
Union  
BRENDA MCGOWN  
Bowling Green  
LYNN PATTERSON, Ed.D.  
Murray  
LAURA SCHNEIDER  
Walton  
JOSH UNDERWOOD  
Tollesboro  
ALLISON BALL  
State Treasurer  
WAYNE LEWIS, Ph.D.  
Education Commissioner

GARY L. HARBIN, CPA  
Executive Secretary

### MEMORANDUM

**TO:** Board of Trustees  
Teachers' Retirement System of Kentucky

**FROM:** Gary L. Harbin, CPA  
Executive Secretary 

**DATE:** September 7, 2018

**SUBJECT:** Code of Conduct for Members of a Pension Scheme  
Governing Body

The TRS Board Governance Manual (Manual) incorporates the Code of Conduct for Members of a Pension Scheme Governing Body (Code) that is promulgated by the CFA Institute. This Code contains ethical principles that are included within the broader TRS ethics policies covered by the Manual and that constitute a portion of the ethics training provided annually at the Trustee Workshop. As an additional procedural measure, TRS has acknowledged on the website of the CFA Institute its compliance with the Code. Enclosed for your records is the most recent version of the Code.

Please review and let me know if you have any questions.

Enclosure

GLH/flp



# CODE OF CONDUCT FOR MEMBERS OF A PENSION SCHEME GOVERNING BODY



CFA Institute



# **CODE OF CONDUCT FOR MEMBERS OF A PENSION SCHEME GOVERNING BODY**

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CFA Institute is the global association of investment professionals that sets the standards for professional excellence. We are a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community.

Our mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

ISBN: 978-1-932495-86-7  
September 2015 (reprint)

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<b>Code of Conduct</b>	<b>3</b>
<b>Code of Conduct Guidance</b>	<b>4</b>
1. Act in good faith and in the best interest of the scheme participants and beneficiaries.	4
2. Act with prudence and reasonable care.	5
3. Act with skill, competence, and diligence.	7
4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty.	8
5. Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents.	10
6. Deal fairly, objectively, and impartially with all participants and beneficiaries.	11
7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.	11
8. Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries.	12
9. Maintain confidentiality of scheme, participant, and beneficiary information.	13
10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.	14
<b>Appendix A. Definitions</b>	<b>15</b>

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## Preamble

The conduct of those who govern **pension schemes**<sup>1</sup> significantly impacts the lives of millions of people around the world who are dependent on pensions for their retirement income. Consequently, it is critical that **pension plans**, also known as systems, schemes, or funds, are overseen by a strong, well-functioning **governing body** in accordance with fundamental ethical principles of honesty, integrity, independence, fairness, openness, and competence.

Codes of conduct addressing professional activities are standard practice for many successful investment firms and have become increasingly common among public and private pension schemes. Such codes are established to improve the performance of schemes sponsored by private enterprise and public pension schemes alike. Just as there is no one-size-fits-all governance structure for investment firms, there is no single governance structure that can be universally applied to pension schemes. Varying goals, restrictions, political environments, market conditions, manager/**trustee** competencies, regulatory schemes, and many other factors will affect the appropriate governance structure for any pension scheme.

This *Code of Conduct for Members of a Pension Scheme Governing Body* (the code) represents best practice for members of the pension governing body when complying with their duties to the pension scheme. Whether public or private, each pension scheme board that adopts the code will demonstrate its commitment to serving the best interests of **participants** and **beneficiaries**.

The code provides guidance to those *individuals* overseeing the management of the scheme regarding their individual duties and responsibilities and is not meant to replace the overall policies and procedures established for the governance of the pension scheme. However, to reflect best ethical practice, incorporating the fundamental ethical principles embodied in this code will enhance those policies and procedures.

Depending on the nature and type of pension scheme, members of the governing body may have responsibility for overseeing the administration of benefits as well as the scheme's investment decision-making process. All of the principles outlined in this code apply equally to the officials' duties in each of these roles.

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<sup>1</sup>Bold indicates terms defined in Appendix A.

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Code of Conduct for Members of a Pension Scheme Governing Body

For the purposes of this document, pension plans, systems, and funds are referred to collectively as “plans” or “schemes” and the individuals who serve on the governing body of the plans, schemes, or funds are referred to as “trustees.”

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# Code of Conduct

## Pension trustees

1. Act in good faith and in the best interest of the scheme participants and beneficiaries.
2. Act with prudence and reasonable care.
3. Act with skill, competence, and diligence.
4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty.
5. Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents.
6. Deal fairly, objectively, and impartially with all participants and beneficiaries.
7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.
8. Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries.
9. Maintain confidentiality of scheme, participant, and beneficiary information.
10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.

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# Code of Conduct Guidance

## 1. Act in good faith and in the best interest of the scheme participants and beneficiaries.

The overriding objective of the pension scheme is to serve as a secure source of retirement income. Pension scheme trustees have a primary duty to act for the benefit of the scheme participants and beneficiaries. Trustees comply with this duty by striving to safeguard and grow the assets of the pension scheme to provide maximum benefit to the scheme participants and beneficiaries.

To act in the participants' and beneficiaries' best interest, an effective trustee will

- Consider the different types of beneficiaries relevant to each pension scheme, including **deferred beneficiaries** and pensioners. Trustees often engage in a delicate balancing act of taking sufficient risk to generate long-term returns high enough to support real benefit increases for active participants who will become future beneficiaries while avoiding a level of risk that jeopardizes the safety of the payments to existing pensioners.
- Place the benefit of the scheme participants and beneficiaries above that of the **sponsor** of the pension scheme even if the trustee is employed by or appointed to the board of the pension scheme by the scheme's sponsor.
- Consider whether the position of the scheme is enhanced by any investment or action and will not be swayed by other considerations, such as the interests of the employer sponsor of the pension or other external institutions (e.g., trade unions or political parties).

However, trustees who exclusively seek to enhance the position of participants and beneficiaries cannot discount additional considerations, such as the effect of the trustees' decisions on the financial health and viability of the scheme sponsor or their impact on scheme investments.



In carrying out their responsibilities, effective trustees will

- Consider the additional objectives of ensuring an adequate match between plan assets and liabilities, maintaining stable funding costs over time, keeping management costs down, and paying benefits upon the death, disability, retirement, or other special circumstances of plan members.
- Carry out the scheme activities in a way that does not impose an unnecessary financial burden on the plan sponsor and serves the interests of plan members well but without excessive burden to the plan sponsor.
- Consider the position of other stakeholders when carrying out their duties to the fund. If appropriate under applicable law, it is acceptable for a trustee to consider the impact that the investment of scheme assets may have—for example, creating jobs or stimulating industry in the local area—so long as the interests of the participants and beneficiaries remain paramount.
- Consider all relevant risk and value factors deemed appropriate when designing the scheme's investment strategy. In addition to typical financial measures, these factors may include environmental, social, and corporate governance issues.

## 2. Act with prudence and reasonable care.

Effective trustees will exhibit the care and prudence necessary to meet their obligations to pension scheme participants and beneficiaries. The exercise of prudence requires acting with the appropriate levels of care, skill, and diligence that a person acting in a like capacity and familiar with such matters would use under the same circumstances.

In the context of serving as a trustee, prudence requires

- Acting in a judicious manner to avoid harming scheme participants and beneficiaries.
- Acting in good faith, without improper motive or purpose.
- Exercising power and discretion consistently.
- Following the investment parameters set forth by the scheme documents and applicable regulation.

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Code of Conduct for Members of a Pension Scheme Governing Body

- Having appropriate knowledge of and skill in balancing risk and return by seeking appropriate levels of diversification.

Pension schemes typically employ experts to advise, direct, and implement the decisions of their trustees. Both internal staff and **external consultants** are retained for this purpose. These “designees” thereby partner with the trustees in carrying out the responsibilities set forth in this code. However, external third-party service providers and professional consultants may have less accountability or vested interest in the outcome of actions resulting from their advice.

Trustees can rely on external third-party service providers and professional consultants provided that the trustees have made reasonable and diligent effort to

- Determine that the service providers act with appropriate skill, competence, and diligence.
- Determine that third-party experts are independent and free of conflicts of interest and have the proper incentives to act in the best interests of the fund participants.
- Ensure that the designees’ decisions have a reasonable and adequate basis and that the decision process is adequately documented.

Trustees may also consider

- Appointing expert trustees.
- Hiring internal staff with investment expertise who may act as an internal consultant.
- Developing an internal investment team to manage the fund directly.

However, although the delegation of certain trustee responsibilities to experts is a prudent option, the trustees retain the ultimate fiduciary duty and responsibility to monitor the experts and to ensure that the delegated responsibilities are carried out appropriately.

### 3. Act with skill, competence, and diligence.

Skill and diligence require trustees to be knowledgeable about the matters and duties with which they have been entrusted. Ignorance of a situation or an improper course of action on matters for which the trustee is responsible or should at least be aware is a violation of this code. Improper or ill-advised decisions can be costly to the pension scheme and detrimental to the scheme's participants and beneficiaries. Prior to taking action on behalf of the scheme, effective trustees and/or their designees analyze the potential investment opportunities and act only after undertaking due diligence to ensure they have sufficient knowledge about specific investments or strategies.

Effective trustees will have knowledge and understanding of

- Trust and pension laws.
- Pension scheme funding and liabilities.
- The policies of the scheme.
- The strategies in which the scheme is investing.
- Investment research and will consider the assumptions used—such as risks, inflation, and rates of return—as well as the thoroughness of the analysis performed, the timeliness and completeness of the information, and the objectivity and independence of the source.
- The basic structure and function of the selected investments and securities in which the scheme invests.
- How investments and securities are traded, their liquidity, and any other risks (including counterparty risk).

The level of such analysis will depend on the investment style and strategy employed by the scheme. Certain types of investments, such as hedge funds, private equity, or more sophisticated derivative instruments, necessitate more thorough investigation and understanding than do fundamental investments, such as straightforward and transparent equity, fixed-income, or mutual fund products. Trustees may seek appropriate expert or professional guidance if they believe themselves lacking the expertise necessary to make an informed decision.

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Code of Conduct for Members of a Pension Scheme Governing Body

Trustees should not act—or fail to act—for the beneficiaries if lacking appropriate understanding or knowledge.

- Trustees are expected to take any training or educational opportunities necessary to ensure that their level of knowledge and understanding about pensions and investments remains current.
- Incumbent trustees and the pension scheme sponsor have a responsibility to ensure that new trustees receive proper training and education to fulfill their duties.

#### **4. Maintain independence and objectivity by, among other actions, avoiding conflicts of interest, refraining from self-dealing, and refusing any gift that could reasonably be expected to affect their loyalty.**

Effective trustees endeavor to avoid actual and potential conflicts of interest between their work with the pension scheme and other personal or outside interests. Conflicts of interest are many and varied, but the interests of pension scheme participants and beneficiaries are paramount.

Effective trustees

- Strive to avoid even the appearance of impropriety. Outside duties or responsibilities should not influence decisions because the trustee acts primarily for the beneficiaries and participants of the scheme.
- Take great care to put their duties to the pension scheme before their loyalty to the sponsoring entity that appointed them (such as a company plan sponsor or labor union).
- Do not solicit political contributions from service providers to the fund, either personally or on behalf of another.
- Do not allow political interests, philosophy, or political party loyalty to influence decisions made on behalf of the scheme.

- Do not put themselves in a position where their interests and the interests of the pension scheme conflict. Trustees who also are pension scheme participants or beneficiaries should take precautions to avoid any personal profit at the expense of the scheme.
- Do not use the prestige or influence of their position for private gain or advantage.
- Avoid any employment or contractual relationship with, or any interest in, firms that provide services to the pension scheme.
- Are not involved in any retention or termination decisions of such firms or otherwise vote on matters related to the trustees' firms.
- Refuse any gift or benefit that could reasonably be expected to affect their independence, objectivity, or loyalty.
- Do not receive or accept, directly or indirectly, any gift, service, favor, entertainment, or any other thing of value from anyone currently engaged by or seeking business from the pension scheme if it could reasonably be expected to influence a decision or be considered a reward. The governing body should establish a written policy limiting the acceptance of gifts and entertainment in a variety of contexts.
- Refuse to accept gifts or entertainment of more than a minimal value from service providers, consultants, potential investment targets, or other business partners. Pension scheme governing bodies should define what the minimum value is and should consult applicable regulations, which may help establish limits as well. The governing body should also create a reporting mechanism for disclosure of gifts and consider creating limits (e.g., amount per time period, per vendor) for accepting gifts and prohibit the acceptance of any cash gifts.

To the extent conflicts may not be avoided, effective trustees recognize and take appropriate measures to deal with and manage the conflict, such as

- Disclosing all real or perceived conflicts of interests.
- Abstaining from a vote or excluding themselves from any deliberations in which they are in direct conflict.
- Ensuring that the pension scheme has procedures in place to manage and disclose any such conflicts. Policies should be appropriate to the circumstances and level of control that the trustees have over trading decisions of the fund.

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Code of Conduct for Members of a Pension Scheme Governing Body

- Documenting and disclosing to the pension scheme the acceptance of any gift or entertainment.

The overriding principle is that trustees should act in the best interests of the participants of the pension scheme and disclose any conflicts of interest.

The personal and business relationships that are built among the trustees or between trustees and outside experts, such as **investment managers**, are an intangible asset to be leveraged for the benefit of the scheme. The scheme should adopt policies to prohibit former trustees from using information gained about the scheme or relationships with incumbent trustees, investment managers, or other experts for personal benefit.

## 5. Abide by all applicable laws, rules, and regulations, including the terms of the scheme documents.

The pension scheme governing body, having been vested with the power to manage and administer the pension scheme, is responsible for ensuring adherence to the terms of the arrangement, statutes, bylaws, contract, trust instrument, or other associated governing documents. As a general matter, pension schemes operate in a complex, varied, and rapidly changing regulatory environment. Generally, trustees are not expected to master the nuances of technical, complex law or become experts in compliance with pension regulation.

### Effective trustees

- Consult with professional advisers retained by the scheme to provide technical expertise on applicable law and regulation.
- Regularly investigate and ensure that the pension scheme has adopted and updated compliance policies and procedures designed to maintain compliance with laws and regulations that govern the pension scheme.
- Report any suspected illegal, unethical, or financial irregularities to the appropriate parties, including the scheme's internal auditor.

Policies and procedures are critical tools to ensure that pension schemes meet their legal and ethical requirements. Specific policies and procedures of the pension scheme

supplement the fundamental principle-based ethical concepts embodied in this code. Documented compliance procedures will assist trustees in fulfilling the responsibilities enumerated in this code.

## 6. Deal fairly, objectively, and impartially with all participants and beneficiaries.

To maintain the trust that beneficiaries of the pension scheme place in them, trustees deal with all scheme participants and beneficiaries in a fair and objective manner. Effective trustees do not give preferential treatment to beneficiaries within a particular class of members or otherwise favor one class over the others. Many schemes have different types of participants: **active members** who are making contributions and accruing benefits, deferred members who have left employment but have not transferred their assets and will draw future benefits when reaching retirement age, and **retirees**, including spouses of deceased members, who are currently drawing retirement benefits. Effective trustees balance the interests of all types of members, treating each category of member fairly.

## 7. Take actions that are consistent with the established mission of the scheme and the policies that support that mission.

Effective trustees develop and implement comprehensive written investment policies that set forth the mission, beliefs, and strategic investment plans that guide the investment decisions of the scheme (the “policies”).

### Trustees

- Draft written policies that include a discussion of risk tolerances, return objectives, liquidity requirements, liabilities, tax considerations, and any legal, regulatory, or other unique circumstances.
- Review and approve the scheme’s investment policies as necessary, but at least annually, to ensure that the policies remain current.

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Code of Conduct for Members of a Pension Scheme Governing Body

- Only take investment actions that are consistent with the stated objectives and constraints of these established scheme policies.
- Consider the suitability of investments given the needs of the pension scheme, its future (or projected) liabilities, risk tolerance, and diversification goals.
- Select investment options within the context of the stated mandates or strategies and appropriate asset allocation.
- Establish policy frameworks within which to allocate risk for both asset mix policy risk and active risk as well as frameworks within which to monitor performance of the asset mix policies and the risk of the overall pension fund.
- Work to achieve the proper investment blend to reflect the sometimes competing interests among the different classes of scheme members while focusing on long-term stability and growth.
- Carry out the terms of the scheme while abiding by any supplemental legal or regulatory requirements.

## 8. Review on a regular basis the efficiency and effectiveness of the scheme's success in meeting its goals, including assessing the performance and actions of scheme service providers, such as investment managers, consultants, and actuaries.

Effective trustees have the knowledge and understanding to critically review and verify the performance of the scheme's investment managers.

### Trustees

- Develop disciplined decision rules for hiring, firing, and retaining investment managers that foster a long-term investment focus and are consistent with the scheme's investment policy statement. Hiring and firing decisions should be made by



considering well-reasoned criteria that may include performance, organizational or operational strength, personnel quality, and other considerations.

- Ensure that the investment entity managing scheme assets employs qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.
- Ensure that investment managers and consultants retained by the scheme adopt and comply with adequate compliance and professional standards.
- Ensure that the pension scheme has in place proper monitoring and control procedures for investment managers.
- Review investment manager performance assessments relative to the scheme's investment policy statement on a regular basis, generally quarterly but at least annually.

Trustees may delegate the selection and monitoring of investment managers to an investment committee or professional staff as long as the trustees maintain essential oversight and policy-setting responsibilities.

## 9. Maintain confidentiality of scheme, participant, and beneficiary information.

Effective trustees hold strictly confidential all information communicated to them in the context of their duty to the scheme, and they take all reasonable measures to preserve this confidentiality. This discretion applies to information related to individual scheme participants and beneficiaries as well as any information that may affect the scheme's competitive ability (e.g., detailed security transactions, investment holdings, private equity transactions, and merger and acquisition information). Effective trustees ensure that the scheme has in place a privacy policy that addresses how confidential pension scheme information will be collected, used, stored, and protected and should ensure that this policy extends to external agents and delegates.

## 10. Communicate with participants, beneficiaries, and supervisory authorities in a timely, accurate, and transparent manner.

Full and fair disclosure of relevant information is a fundamental ethical principle of capital markets and the investment services industry. Developing and maintaining clear, timely, and thorough communication practices is critical to providing high-quality financial services to scheme participants and beneficiaries.

Trustees have a responsibility to

- Ensure that the information they provide to scheme participants and beneficiaries is accurate, pertinent, and complete.
- Not misrepresent any aspect of their services or activities in any communications, including oral representations, electronic communications, or written materials (whether publicly disseminated or not).

Communication with participants and beneficiaries is generally provided on a regular timetable and by the pension scheme, not by individual trustees. Nevertheless, effective trustees work to ensure that all communications with scheme participants and beneficiaries are timely, relevant, complete, and accurate. If the pension scheme is considering significant changes, such as mandating a later retirement age, lowering the percentage of future benefits, or closing the scheme to new members, trustees will communicate this information well in advance to allow affected parties the opportunity to provide input. Among other disclosures, trustees have a duty to present performance information that is a fair representation of the scheme's investment record and that includes all relevant factors. Trustees have a responsibility to comply with the scheme's disclosure policies by submitting any requested information in a timely manner. To be effective, disclosures of information must be made in plain language and in a manner designed to effectively communicate the information.

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## Appendix A. Definitions

**Active member.** See **Participants**.

**Beneficiaries.** Those persons who are no longer making contributions to the pension scheme but who are receiving benefits.

**Deferred member or Beneficiary.** Those persons who are eligible for benefits in the future but who are no longer making contributions.

**External consultant.** An individual or entity outside the pension plan retained to provide professional services to the plan, including assisting the plan in selecting investment managers.

**Governing body.** The group of persons or legal entity responsible for managing and safeguarding the assets of the pension scheme.

**Investment manager.** An individual or entity retained by the pension scheme to invest the assets of the plan.

**Participants.** Those persons who are participating in the pension scheme by making contributions but who are not yet receiving benefits.

**Pension plan or Pension scheme.** An arrangement whereby a public or private employer, such as a corporation, labor union, or government agency, provides income through deferred compensation to its employees after retirement.

**Plan sponsor.** The entity that establishes the pension scheme and employs the members of the scheme.

**Retirees.** Those persons who are receiving pension benefits from the scheme.

**Trustee.** An individual who serves on the governing body of a pension plan, scheme, or fund.



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The Code of Conduct for Members of a Pension Scheme Governing Body (the code) is a joint effort to develop and promote a code of professional conduct for individuals who sit on the governing bodies of pension funds. The CFA Institute Centre for Financial Market Integrity invited representatives from a number of industry organizations to participate in a working group that guided the creation of the initial draft of the code. We are grateful to the following groups who contributed to the working group's efforts: the Council of Institutional Investors (United States), the National Association of Pension Funds (United Kingdom), the Dutch Association of Industry-wide Pension Funds, the Swiss Pension Funds Association, the Hong Kong Retirement Schemes Association, and the Organisation for Economic Co-operation and Development. We are also thankful for the efforts of individuals and organizations who reviewed the document and sent in their contributions during the public comment period.

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**BOARD GOVERNANCE MANUAL****APPENDIX 19****INFORMATION AND REPORTS REQUIRED BY STATE LAW****INTRODUCTION**

State law requires publication of certain information and reports on operations of the retirement system. For ease of reference, the following is a list of state laws, a description of the required reports, due dates and method of publication.

Law	Description of Report	Deadline	Method of Publication
KRS 161.250	Board of Trustees meeting notice and agenda	72 hours before meeting	Website and posting at business office
KRS 161.250; KRS 161.320	Comprehensive Annual Financial Report	By January 1	Website
KRS 161.250; KRS 161.370	External audits	Annually after the close of the fiscal year	Website within 72 hours of adoption or ratification by board; copy delivered to Legislative Research Commission within 10 days of receipt by board
KRS 161.250	<ul style="list-style-type: none"> <li>Board minutes or other materials adopted or ratified</li> <li>Board bylaws, policies or procedures adopted or ratified</li> <li>Law book</li> <li>Listing of the members of the Board and committee assignments</li> </ul>		Website within 72 hours of adoption or ratification by board

KRS 161.250	Investment holdings and commissions, including fees, carried interest, other partnership incentive arrangements and other information	Quarterly	Website
KRS 161.250	Investment returns, asset allocations and the performance of the funds	Quarterly	Website
KRS 161.400	Valuations; five-year actuarial experience investigations; other actuarial analysis	Valuations annually by November 15 and others as required within ten days of receipt by the board	Website and forwarded electronically to the LRC
KRS 161.430	In-state investments	October 1	Copy to LRC
KRS 161.430	Investment procurement policy		Website, Finance and Administration Cabinet secretary and PPOB
KRS 161.580 and KRS 161.250	Summary plan description; supplements; newsletters	Covering two-year period of statutory changes	Website or newsletter
KRS 161.580 and 102 KAR 1:270	Active member annual statement	Each year	Mail delivery or secure electronic means
KRS 48.040	Preliminary projection of actuarially required contribution rates for the next budget biennium	August 15 of each odd numbered year	Letter to State Budget Director and LRC
KRS 48.040	Revised projection of actuarially required contribution rates for the next budget biennium	November 15 of each odd numbered year	Letter to State Budget Director and LRC
KRS 7A.255(1)	Data on each member or recipient of a retirement benefit	November 15	Report to PPOB
KRS 7A.255(2)	Percentage of system assets and managers for which fees and commissions are being reported	November 15	Report to PPOB

KRS 7A.255(3)	Investment procurement policy	Within 60 days of adoption if amended	Report to PPOB
2018 RS HB 265	Cost of dependent subsidy for under 65 retirees who retired before July 1, 2010 and the cost for those who retired on or after July 1, 2010 and providing the effect on the actuarial unfunded liability of the system	December 1	Letter to LRC Interim Joint Committee on Appropriations and Revenue

Adopted March 20, 2017; amended September 17, 2018