



1 FINANCE AND ADMINISTRATION CABINET
2 KENTUCKY TEACHERS' RETIREMENT SYSTEM
3 (Amendment)
4 102 KAR 1:175 Investment policies.
5 RELATES TO: KRS 161.430.
6 STATUTORY AUTHORITY: KRS 161.310, 161.430(1).
7 CERTIFICATION STATEMENT: This is to certify that this administrative regulation complies
8 with the requirements of 2025 RS HB 6, Section 8. The Governor's signature is included after
9 the body of the regulation to indicate his acknowledgement of this certification.
10 NECESSITY, FUNCTION, AND CONFORMITY: KRS 161.310 requires the Teachers'
11 Retirement System Board of Trustees to promulgate administrative regulations for the
12 administration of the funds of the retirement system and for the transaction of business. KRS
13 161.430(1) requires the board of trustees to promulgate administrative regulations to establish
14 investment policies and procedures to carry out its responsibilities and provides that the board of
15 trustees shall have full power and responsibility for the purchase, sale, exchange, transfer, or
16 other disposition of the investments and money of the Teachers' Retirement System. This
17 administrative regulation establishes investment policies and procedures to carry out these
18 responsibilities.

19 Section 1. Investment Committee. (1)(a) The board of trustees shall appoint an investment
20 committee in accordance with the provisions of KRS 161.430(1). The trustees shall be named at
21 the beginning of each fiscal year.

22 (b) The executive secretary shall act on behalf of the investment committee in administering
23 the investment policies and procedures established in this administrative regulation.

24 (c) To ensure a timely market transaction, the executive secretary and the chief investment
25 officer may make a purchase or sale of an investment instrument without prior board approval
26 if the action conforms to the provisions established in this administrative regulation.

27 (2) The staff investment personnel employed by the board under KRS 161.430(1) may be
28 delegated transaction responsibilities under the supervision of the chief investment officer and
29 the executive secretary.

30 (3) (a) Contracts with contracted investment counselors employed under KRS 161.430(1) shall
31 be on a fiscal year basis for twelve (12) month periods, except that contracts entered into on or
32 after the start of a fiscal year shall not extend beyond the end of the fiscal year in which the
33 contract is entered.

34 (b) The system may invest in either separately-managed accounts or commingled funds.

35 (c) The investment committee shall make recommendations to the board regarding
36 employment of investment counselors and the renewal or nonrenewal of contracts.

37 (d) 1. The system may utilize the services of a consultant to advise the investment committee,
38 as well as to assist in evaluating the effectiveness of investment counselors.

39 2. A consultant may advise the investment committee with regard to asset class allocation
40 and the combined effect of the various portfolios on the system's overall risk and expected
41 long-term return.

(e) Investment counselors shall provide reports documenting their results at least quarterly and meet with the investment committee if requested.

(f) An annual report on the performance and service of each investment counselor shall be provided to the board with recommendations from the investment committee.

(4) The following procedures shall be followed with regard to all investment transactions, whether internally or externally managed:

(a) The board shall be provided a quarterly report reflecting a complete record of each investment transaction that occurred during that quarter;

(b) The investment committee shall be provided a complete record of each investment transaction or holding;

(c) The staff shall maintain a file of investment directives that indicates the committee's separate review of each specific long-term investment; and

(d) An "authorization for investment" shall be approved or denied by the executive secretary or the chief investment officer.

Section 2. Asset Allocation.

(1) In order to preserve the assets of the system and produce the required rate of return while minimizing risk, assets shall be prudently diversified among various classes of investments.

(2) In determining asset allocation policy, the investment committee and the board shall be mindful of the system's liquidity and its capability of meeting both short and long-term obligations. The limitations established in this subsection shall apply to the asset classes in which funds are invested.

(a) There shall not be a limit on the amount of investments owned by the system if the investments are guaranteed by the United States government.

(b) The amount invested in corporate debt obligations shall not equal more than thirty-five (35) percent of the assets of the system.

(c) The amount invested in common stocks or preferred stocks shall not equal more than sixty-five (65) percent of the assets of the system.

(d) The amount invested in a stock portfolio designed to replicate a general stock index shall not equal more than twenty-five (25) percent of the assets of the system.

(e) More than thirty (30) percent of the assets of the system shall not be invested in the stocks of companies domiciled outside of the United States. An amount of this type if invested shall be included in the sixty-five (65) percent limitation established under this subsection.

(f) The amount invested in real estate shall not equal more than ten (10) percent of the assets of the system. Real estate shall include real estate equity, real estate lease agreements, and shares in real estate investment trusts.

(g) The amount invested in alternative investments shall not equal more than ten (10) percent of the assets of the system. This category may include private equity, venture capital, timberland, and infrastructure investments.

(h) 1. The amount invested in an additional category or categories of investments shall not equal more than fifteen (15) percent of the assets of the system.

2. The board shall approve or deny by resolution any additional category or categories of investments.

Section 3. Fixed Income Investments. The specific guidelines associated with a fixed income investment shall be established in this section.

(1) Unless the issuer is the United States government or a government sponsored enterprise (GSE), the amount invested in the securities of a single issuer shall not equal more than five (5) percent of the assets of the system.

(2) (a) A fixed income investment shall be rated at the time of purchase as investment grade by at least one (1) of the major rating services.

(b) A private placement debt investment shall be subject to the same credit qualifications as each fixed income investment.

(c) The fixed income investment portfolio as a whole shall maintain an average rating of investment grade by at least one (1) of the major rating services.

(3) Investments in mortgages or mortgage-backed securities shall consist of first mortgages on property located in the United States unless the mortgage is guaranteed by the United States government.

(4) A foreign debt purchase shall comply with all other fixed income restrictions in this section. Foreign debt shall not in aggregate equal more than ten (10) percent of the assets of the system.

Section 4. Equity and Real Estate Investments. The requirements established in this section shall apply to equity and real estate investments.

(1) (a) The system's position in a single stock shall not exceed two and one-half (2.5) percent of the system's assets.

(b) The system's position in a single stock shall not exceed five (5) percent of the outstanding stock for that company unless the investment is part of a venture capital program.

(2) ~~[A real estate purchase that is conducted on a triple net lease basis shall involve a company that at the initial agreement generates one (1) of the three (3) highest credit ratings by a national credit rating service.~~

109 ~~(3)~~] (a) A real estate investment shall be judged on its total return potential.
110 (b) The system shall not acquire undeveloped land unless development plans are imminent.
111 (c) This provision shall not preclude investment in timberland.
112 (3) [~~(4)~~] The system shall not buy bullion, stamps, rare coins, or other collectibles, unless
113 approved by the board as an additional category of investment. The board shall approve these
114 assets as an additional category of investment only in exceptional circumstances if there is a
115 potential investment in these assets that provides a high value opportunity and lowers the risk
116 of the portfolio overall.

102 KAR 1:175. Investment policies.

This administrative regulation has been reviewed and approved by the Board of Trustees,
Teachers' Retirement System of the State of Kentucky on June 16, 2025.

A handwritten signature in cursive script, reading "Brenda McGown", is written over a horizontal line.

Brenda McGown, Chair
Teachers' Retirement System of the State of Kentucky

102 KAR 1:175. Investment policies.

Certified pursuant to 2025 RS HB 6, Section 8:

No signature pursuant to current litigation 25-CI-00269 in Franklin Circuit Court

Andy Beshear, Governor

Date





Brenda McGown, Chair
Teachers' Retirement System of the State of Kentucky

Date

PUBLIC HEARING AND PUBLIC COMMENT PERIOD

A public hearing on this administrative regulation shall be held on September 26, 2025, at 9:00 a.m. at the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky. Individuals interested in being heard at this hearing shall notify this agency in writing by five (5) workdays prior to the hearing, of their intent to attend. If no notification of intent to attend the hearing was received by that date, the hearing may be cancelled. A transcript of the public hearing will not be made unless a written request for a transcript is made. If you do not wish to be heard at the public hearing, you may submit written comments on the proposed administrative regulation. Written comments shall be accepted through September 30, 2025. Send written notification of intent to be heard at the public hearing or written comments on the proposed administrative regulation to the contact person.

CONTACT PERSON: Robert B. Barnes, Deputy Executive Secretary of Operations and General Counsel, Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601, telephone (502) 848-8508, facsimile (502) 573-0199, email at Beau.Barnes@trs.ky.gov.

REGULATORY IMPACT ANALYSIS AND TIERING STATEMENT

102 KAR 1:175

Contact Person: Robert B. Barnes

Phone: (502) 848-8508

Email: Beau.Barnes@trs.ky.gov

(1) Provide a brief summary of:

(a) What this administrative regulation does: This administrative regulation establishes the investment policies and procedures that the board of trustees shall use to purchase, sell, exchange, transfer, or otherwise dispose of the investments and money of the Teachers' Retirement System. This administrative regulation provides, in regulatory format, the retirement system's investment policies and procedures.

(b) The necessity of this administrative regulation: KRS 161.430(1) requires the Board of Trustees to establish investment policies and procedures by administrative regulation to carry out its responsibilities.

(c) How this administrative regulation conforms to the content of the authorizing statutes: This administrative regulation provides the investment policies and procedures required to be established by the board of trustees by KRS 161.430. This administrative regulation conforms to the content of the authorizing statute by establishing investment policies and procedures in regulatory format for investment of the retirement system's funds and assets.

(d) How this administrative regulation currently assists or will assist in the effective administration of the statutes: This administrative regulation sets forth the investment policies and procedures that govern the board of trustees investment transactions. This administrative regulation assists in the effective administration of the statutes by providing the statutorily required regulatory format for the retirement system's investment policies and procedures.

(2) If this is an amendment to an existing administrative regulation, provide a brief summary of:

(a) How the amendment will change this existing administrative regulation: This amendment to this administrative regulation will delete the language in Section 4 to allow the Board of Trustees to conduct a real estate purchase on a triple net lease basis with the assistance of agency staff instead of an outside contractor. This amendment also allows the Board of Trustees to remove the reference to credit ratings so that properties may be evaluated on the total return potential as otherwise required by the administrative regulation.

(b) The necessity of the amendment to this administrative regulation: The amendment of this administrative regulation is required to allow the Board of Trustees to conduct a real estate purchase on a triple net lease basis with the assistance of agency staff instead of an outside contractor. This amendment of this administrative regulation is necessary to remove the reference to credit ratings so that properties may be evaluated on the total return potential as otherwise required by the administrative regulation.

(c) How the amendment conforms to the content of the authorizing statutes: The amendment of this administrative regulation conforms to the authorizing statute by providing an updated description of the policies and procedures the Board of Trustees will use to conduct investment transactions. The amendment conforms to the authorizing statute by continuing to provide in

regulatory format investment policies and procedures as required by the statute.

(d) How the amendment will assist in the effective administration of the statutes: The amendment of this administrative regulation will carry out the requirements of KRS 161.430 by providing an updated description of the policies and procedures the board of trustees will use to conduct investment transactions. Investment policies and procedures are required by statute to be promulgated in an administrative regulation.

(3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation: This amendment applies to the Board of Trustees and the investment committee.

(4) Provide an analysis of how the entities identified in question (3) will be impacted by either the implementation of this administrative regulation, if new, or by the change, if it is an amendment, including:

(a) List the actions that each of the regulated entities identified in question (3) will have to take to comply with this administrative regulation or amendment: Kentucky Teachers' Retirement System will continue to follow the investment policies and procedures set forth in the administrative regulation.

(b) In complying with this administrative regulation or amendment, how much will it cost each of the entities identified in question (3): There will be no cost to Kentucky Teachers' Retirement System other than the normal costs of investing.

(c) As a result of compliance, what benefits will accrue to the entities identified in question (3): The retirement system will continue to be in compliance with the statute that requires investment policies and procedures to be established in administrative regulation.

(5) Provide an estimate of how much it will cost the administrative body to implement this administrative regulation:

(a) Initially: The only cost to implement this administrative regulation will be the normal costs of investing.

(b) On a continuing basis: The only continuing costs would be the normal costs of investing.

(6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation: Administrative and investment management expenses of the retirement system are paid by trust and agency funds.

(7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new, or by the change if it is an amendment: There is no increase in fees or funding required.

(8) State whether or not this administrative regulation establishes any fees or directly or indirectly increases any fees: This administrative regulation does not establish any fees or directly or indirectly increase any fees.

(9) TIERING: Is tiering applied? Tiering is not applied, as all members are treated the same.

FISCAL IMPACT STATEMENT

102 KAR 1:175

Contact Person: Robert B. Barnes

Phone: (502) 848-8508

Email: Beau.Barnes@trs.ky.gov

(1) Identify each state statute, federal statute, or federal regulation that requires or authorizes the action taken by the administrative regulation: KRS 161.310, 161.430.

(2) State whether this administrative regulation is expressly authorized by an act of the General Assembly, and if so, identify the act: Yes, KRS 161.430, Amended 2025 Ky. Acts ch. 138, sec. 6, effective March 31, 2025. -- Amended 2023 Ky. Acts ch. 94, sec. 8, effective June 29, 2023. -- Amended 2019 Ky. Acts ch. 72, sec. 3, effective March 25, 2019. -- Amended 2017 Ky. Acts ch. 12, sec. 8, effective March 10, 2017. -- Amended 2012 Ky. Acts ch. 75, sec. 13, effective April 11, 2012. -- Amended 2008 (1st Extra. Sess.) Ky. Acts ch. 1, sec. 32, effective June 27, 2008. -- Amended 2004 Ky. Acts ch. 121, sec. 5, effective July 1, 2004. -- Amended 2002 Ky. Acts ch. 275, sec. 9, effective July 1, 2002. -- Amended 1994 Ky. Acts ch. 369, sec. 5, effective July 1, 1994. -- Amended 1992 Ky. Acts ch. 192, sec. 4, effective July 1, 1992. -- Amended 1990 Ky. Acts ch. 442, sec. 18, effective July 1, 1990; and ch. 476, Pt. V, sec. 499, effective July 13, 1990. -- Amended 1988 Ky. Acts ch. 363, sec. 4, effective July 1, 1988. -- Amended 1984 Ky. Acts ch. 253, sec. 7, effective July 1, 1984. -- Amended 1980 Ky. Acts ch. 246, sec. 10, effective July 15, 1980. -- Amended 1978 Ky. Acts ch. 152, sec. 4, effective March 28, 1978. -- Amended 1972 Ky. Acts ch. 82, sec. 8. -- Amended 1968 Ky. Acts ch. 136, sec. 3. -- Amended 1966 Ky. Acts ch. 16, sec. 2. -- Amended 1964 Ky. Acts ch. 43, sec. 5. -- Amended 1962 Ky. Acts ch. 64, sec. 4. -- Amended 1960 Ky. Acts ch. 44, sec. 7. -- Amended 1958 Ky. Acts ch. 8, sec. 2. -- Amended 1954 Ky. Acts ch. 215, sec. 1. -- Recodified 1942 Ky. Acts ch. 208, sec. 1, effective October 1, 1942, from Ky. Stat. sec. 4506b-21..

(3)(a) Identify the promulgating agency and any other affected state units, parts, or divisions: Kentucky Teachers' Retirement System of the State of Kentucky

(b) Estimate the following for each affected state unit, part, or division identified in (3)(a):

1. Expenditures:

For the first year: The only cost is the normal cost of investing.

For subsequent years: The only cost will be the normal cost of investing.

2. Revenues:

For the first year: This administrative regulation contains investment policies and procedures and the purpose of the proposed amendment is to maintain flexibility under future market conditions.

For subsequent years: This administrative regulation contains investment policies and procedures and the purpose of the proposed amendment is to maintain flexibility under future market conditions.

3. Cost Savings:

For the first year: This administrative regulation contains investment policies and procedures and the purpose of the proposed amendment is to maintain flexibility under future market conditions.

For subsequent years: This administrative regulation contains investment policies and procedures and the purpose of the proposed amendment is to maintain flexibility under future market conditions.

(4)(a) Identify affected local entities (for example: cities, counties, fire departments, school districts): None.

(b) Estimate the following for each affected local entity identified in (4)(a):

1. Expenditures:

For the first year: N/A.

For subsequent years: N/A.

2. Revenues:

For the first year: N/A.

For subsequent years: N/A.

3. Cost Savings:

For the first year: N/A.

For subsequent years: N/A.

(5)(a) Identify any affected regulated entities not listed in (3)(a) or (4)(a): N/A.

(b) Estimate the following for each regulated entity identified in (5)(a):

1. Expenditures:

For the first year: N/A.

For subsequent years: N/A.

2. Revenues:

For the first year: N/A.

For subsequent years: N/A.

3. Cost Savings:

For the first year: N/A.

For subsequent years: N/A.

(6) Provide a narrative to explain the following for each entity identified in (3)(a), (4)(a), and (5)(a):

(a) Fiscal impact of this administrative regulation: The fiscal impact of this administrative regulation should be negligible because this administrative regulation is already being administered as written.

(b) Methodology and resources used to reach this conclusion: This administrative regulation is already being administered as written.

(7) Explain, as it relates to the entities identified in (3)(a), (4)(a), and (5)(a):

(a) Whether this administrative regulation will have a "major economic impact", as defined by KRS 13A.010(13): This administrative regulation will not have a major economic impact as it is already being administered as written.

(b) The methodology and resources used to reach this conclusion: This administrative regulation is already being administered as written.