

CONFERENCE COMMITTEE REPORT

MR. SPEAKER and MR. PRESIDENT: Your committee on conference on Senate amendments to **HB 2711** submits the following report:

The House accedes to all Senate amendments to the bill, and your committee on conference further agrees to amend the bill as printed with Senate Committee of the Whole amendments, as follows:

On page 1, following line 16, by inserting:

"New Section 1. The provisions of sections 1 through 7, and amendments thereto, shall be known and may be cited as the countries of concern divestment act.

New Sec. 2. As used in this act:

- (a) "Act" means the countries of concern divestment act.
- (b) "Company" means any:
 - (1) For-profit corporation, partnership, limited partnership, limited liability partnership, limited liability company, joint venture, trust, association, sole proprietorship or other organization, including any:
 - (A) Subsidiary of such company, a majority ownership interest of which is held by such company;
 - (B) parent company that holds a majority ownership of such company; and
 - (C) other affiliate or business association of such company whose primary purpose is to make a profit; or
 - (2) nonprofit organization.
- (c) (1) "Country of concern" means the following:
 - (A) People's republic of China, including the Hong Kong special administrative region;
 - (B) republic of Cuba;

- (C) islamic republic of Iran;
- (D) democratic people's republic of Korea;
- (E) Russian federation; and
- (F) Bolivarian republic of Venezuela.

(2) "Country of concern" does not include the republic of China (Taiwan).

(d) "Covered transaction" means the same as defined in 31 C.F.R. § 800.213, as in effect on July 1, 2024.

(e) "Covered control transaction" means the same as defined in 31 C.F.R. § 800.210, as in effect on July 1, 2024.

(f) "Domicile" means the country where:

- (1) A company is organized;
- (2) a company completes a substantial portion of its business; or
- (3) a majority of a company's ownership interest is held.

(g) "Person" means an individual.

(h) "Person owned or controlled by or subject to the jurisdiction or direction of a country of concern" means any:

(1) Person, wherever located, who is a citizen of a nation-state controlled by a country of concern, unless such person is a lawful permanent resident of the United States; or

(2) corporation, partnership, association or other organization organized under the laws of a nation-state controlled by a country of concern.

(i) "State agency" means any department, authority, bureau, division, office or other governmental agency of this state.

(j) "State-managed fund" means:

- (1) The Kansas public employees retirement fund managed by the board of trustees of

the Kansas public employees retirement system in accordance with K.S.A. 74-4921, and amendments thereto;

(2) the pooled money investment portfolio managed by the pooled money investment board in accordance with article 42 of chapter 75 of the Kansas Statutes Annotated, and amendments thereto; and

(3) any other fund that is sponsored or managed by a state agency.

New Sec. 3. (a) (1) Notwithstanding the provisions of K.S.A. 74-4921, and amendments thereto, or any other statute to the contrary, and except as provided in paragraph (2), a state-managed fund shall sell, redeem, divest or withdraw all publicly traded securities of any country of concern or person owned or controlled by or subject to the jurisdiction or direction of a country of concern in accordance with the following schedule:

(A) At least 50% of such assets shall be removed from the state-managed fund's assets under management not later than July 1, 2025, or one year from the date section 2, and amendments thereto, is amended to include such country of concern if amended after July 1, 2024, unless the state-managed fund determines that a later date is more prudent based on a good faith exercise of the state-managed fund's fiduciary discretion and subject to subparagraph (B); and

(B) 100% of such assets shall be removed from the state-managed fund's assets under management not later than January 1, 2026, or one year from the date section 2, and amendments thereto, is amended to include such country of concern if amended after July 1, 2024.

(2) If a country of concern takes action to prohibit or restrict the selling, redeeming, divesting or withdrawing of publicly traded securities of any country of concern or person owned or controlled by or subject to the jurisdiction or direction of a country of concern beyond the scheduled removal dates provided in paragraph (1), the state-managed fund shall remove 100%

of such assets from the state-managed fund's assets not later than one year from the date that such action is ended by such country of concern.

(b) A state-managed fund shall not knowingly acquire securities of any country of concern or person owned or controlled by or subject to the jurisdiction or direction of a country of concern.

(c) A state-managed fund shall not invest or make a deposit in any bank that is domiciled in a country of concern.

New Sec. 4. (a) Notwithstanding the provisions of K.S.A. 74-4921, and amendments thereto, or any other statute to the contrary, a state-managed fund shall divest from any indirect holdings in actively or passively managed investment funds containing publicly traded securities of any country of concern or person owned or controlled by or subject to the jurisdiction or direction of a country of concern. Such state-managed fund may submit letters to the managers of each investment fund containing publicly traded securities of any country of concern or person owned or controlled by or subject to the jurisdiction or direction of a country of concern requesting that they remove such publicly traded securities from the fund or create a similar actively or passively managed fund with indirect holdings devoid of such publicly traded securities. If a manager creates a similar fund with substantially the same management fees and substantially the same level of investment risk and anticipated return, the state-managed fund may replace all applicable investments with investments in the similar fund in a time frame consistent with prudent fiduciary standards but not later than the 450th day after the date the fund is created. If a manager does not create such similar fund, the state-managed fund shall divest from such indirect holdings in actively or passively managed investment funds.

(b) (1) The provisions of this act shall not apply to any real estate or private equity investment commitment made by a state-managed fund prior to July 1, 2024, or to a real estate or

private equity investment commitment made by a state-managed fund prior to the date that section 2, and amendments thereto, is amended to include a country of concern, if amended after July 1, 2024.

(2) On and after July 1, 2024, a state-managed fund shall not make any new real estate or private equity investment commitment in a person owned or controlled by or subject to the jurisdiction of a country of concern.

New Sec. 5. Not later than the first day of the regular session of the legislature, each year, each state-managed fund shall file a report with the legislature and the Kansas public employees retirement system shall also file such report with the joint committee on pensions, investments and benefits that:

(a) Identifies all securities sold, redeemed, divested or withdrawn in compliance with section 3(a), and amendments thereto;

(b) identifies amendments to section 2, and amendments thereto, that add or remove a country of concern after the later of July 1, 2024, or the last date such information was reported under this section; and

(c) summarizes any changes made under section 4, and amendments thereto.

New Sec. 6. In a cause of action based on an action, inaction, decision, divestment, investment, report or other determination made or taken in compliance with this act, without regard to whether the person performed services for compensation, the state shall indemnify and hold harmless for actual damages, court costs and attorney fees adjudged against members of a state-managed fund or any other officers of such state-managed fund related to the act or omission on which the damages are based and defend the state-managed fund and any of such state-managed fund's current and former employees.

New Sec. 7. (a) The provisions of this act shall expire on July 1, 2029.

(b) On or after July 1, 2028, but before July 15, 2028, the Kansas public employees retirement system shall notify the speaker of the house of representatives, the president of the senate and the chairperson of the joint committee on pensions, investments and benefits that this act is scheduled to expire on July 1, 2029.";

On page 12, following line 40, by inserting:

"Sec. 10. K.S.A. 2023 Supp. 74-4921 is hereby amended to read as follows: 74-4921.

(1) There is hereby created in the state treasury the Kansas public employees retirement fund. All employee and employer contributions shall be deposited in the state treasury to be credited to the Kansas public employees retirement fund. The fund is a trust fund and shall be used solely for the exclusive purpose of providing benefits to members and member beneficiaries and defraying reasonable expenses of administering the fund. Investment income of the fund shall be added or credited to the fund as provided by law. All benefits payable under the system, refund of contributions and overpayments, purchases or investments under the law and expenses in connection with the system unless otherwise provided by law shall be paid from the fund. The director of accounts and reports is authorized to draw warrants on the state treasurer and against such fund upon the filing in the director's office of proper vouchers executed by the chairperson or the executive director of the board. As an alternative, payments from the fund may be made by credits to the accounts of recipients of payments in banks, savings and loan associations and credit unions. A payment shall be so made only upon the written authorization and direction of the recipient of payment and upon receipt of such authorization such payments shall be made in accordance therewith. Orders for payment of such claims may be contained on:

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

(b) any form of communication, other than voice, which is registered upon magnetic tape, disc or any other medium designed to capture and contain in durable form conventional

signals used for the electronic communication of messages.

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

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

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

(5) Notwithstanding subsection (4):

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

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

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

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

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

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

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

(vi) the individual alternative investment does not exceed more than 2.5% of the total alternative investments made under this subsection. If the alternative investment is made pursuant to participation by the system in a multi-investor pool, the 2.5% limitation contained in this subsection is applied to the underlying individual assets of such pool and not to investment in the pool itself. The total of such alternative investments made pursuant to participation by the system in any one individual multi-investor pool shall not exceed more than 20% of the total of alternative investments made by the system pursuant to this subsection. Nothing in this subsection requires the board to liquidate or sell the system's holdings in any alternative

investments made pursuant to participation by the system in any one individual multi-investor pool held by the system on the effective date of this act, unless such liquidation or sale would be in the best interest of the members and beneficiaries of the system and be prudent under the standards contained in this section. The 20% limitation contained in this subsection shall not have been violated if the total of such investment in any one individual multi-investor pool exceeds 20% of the total alternative investments of the fund as a result of market forces acting to increase the value of such a multi-investor pool relative to the rest of the system's alternative investments; however, the board shall not invest or reinvest any moneys of the fund in any such individual multi-investor pool until the value of such individual multi-investor pool is less than 20% of the total alternative investments of the fund;

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

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

(ix) the total of alternative investments does not exceed ~~15%~~ 25% of the total investment assets of the fund. The ~~15%~~ 25% limitation contained in this subsection shall not have been violated if the total of such alternative investments exceeds ~~15%~~ 25% of the total investment assets of the fund, based on the fund total market value, as a result of market forces acting to increase the value of such alternative investments relative to the rest of the system's investments. However, the board shall not invest or reinvest any moneys of the fund in alternative investments until the total value of such alternative investments is less than ~~15%~~ 25% of the total investment assets of the fund based on the market value. If the total value of the alternative investments exceeds ~~15%~~ 25% of the total investment assets of the fund, the board

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

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

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

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

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

(iii) the system has received and considered the investment manager's due diligence findings.

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

- (i) Specific asset allocation standards and objectives;
 - (ii) establishment of criteria for evaluating the risk versus the potential return on a particular investment;
 - (iii) a requirement that all investment managers submit such manager's due diligence findings on each investment to the board or investment advisory committee for approval or rejection prior to making any alternative investment;
 - (iv) a requirement that all investment managers shall immediately report all instances of default on investments to the board and provide the board with recommendations and options, including, but not limited to, curing the default or withdrawal from the investment; and
 - (v) establishment of criteria that would be used as a guideline for determining when no additional add-on investments or reinvestments would be made and when the investment would be liquidated.
- (b) The board shall review such policies and objectives, make changes considered necessary or desirable and readopt such policies and objectives on an annual basis.
- (7) The board may enter into contracts with one or more persons whom the board determines to be qualified, whereby the persons undertake to perform the functions specified in subsection (2) to the extent provided in the contract. Performance of functions under contract so entered into shall be paid pursuant to rates fixed by the board subject to provisions of appropriation acts and shall be based on specific contractual fee arrangements. The system shall not pay or reimburse any expenses of persons contracted with pursuant to this subsection, except that after approval of the board, the system may pay approved investment related expenses subject to provisions of appropriation acts. The board shall require that a person contracted with to obtain commercial insurance which provides for errors and omissions coverage for such person in an amount to be specified by the board, provided that such coverage shall be at least

the greater of \$500,000 or 1% of the funds entrusted to such person up to a maximum of \$10,000,000. The board shall require a person contracted with to give a fidelity bond in a penal sum as may be fixed by law or, if not so fixed, as may be fixed by the board, with corporate surety authorized to do business in this state. Such persons contracted with the board pursuant to this subsection and any persons contracted with such persons to perform the functions specified in subsection (2) shall be deemed to be agents of the board and the system in the performance of contractual obligations.

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

(b) The board shall employ or retain qualified investment counsel or counselors or may negotiate with a trust company to assist and advise in the judicious investment of funds as herein provided.

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

(b) The state treasurer and the board shall collect the principal and interest or other income of investments or the proceeds of sale of securities in the custody of the state treasurer

and pay same when so collected into the fund.

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

(10) The board shall with the advice of the director of accounts and reports establish the requirements and procedure for reporting any and all activity relating to investment functions provided for in this act in order to prepare a record monthly of the investment income and changes made during the preceding month. The record will reflect a detailed summary of investment, reinvestment, purchase, sale and exchange transactions and such other information as the board may consider advisable to reflect a true accounting of the investment activity of the fund.

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

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

On page 21, in line 10, by striking the third "and" and inserting a comma; also in line 10, after "74-4914" by inserting "and 74-4921";

And by renumbering sections accordingly;

On page 1, in the title, in line 1, by striking "retirement and pensions" and inserting "state-managed funds"; also in line 1, after "to" by inserting "investment procedures, standards and requirements therefor and certain retirement benefits therefrom; enacting the countries of concern divestment act; requiring divestment from investments with countries of concern and providing exceptions therefor; prohibiting investments and deposits with any bank or company domiciled in a country of concern; indemnifying state-managed funds with respect to actions taken in compliance with such act; providing an expiration date for such act; relating to"; in line 2, after the semicolon by inserting "Kansas public employees retirement fund; increasing the statutory alternative investment percentage limit to 25%; increasing the"; in line 14, by striking the first "and" and inserting a comma; also in line 14, after "74-4914" by inserting "and 74-4921";

And your committee on conference recommends the adoption of this report.

Conferees on part of Senate

Conferees on part of House