

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: Affirmative Action Plan

Pursuant to Section 3.03 of the Kentucky Retirement Systems Personnel Policies, the Kentucky Retirement Systems has implemented an Affirmative Action Plan to promote and assure equitable treatment of all persons who are now employed, being considered for employment, seeking employment, and who will be recruited for employment in the future. The Kentucky Retirement Systems has already taken substantial steps towards fulfilling the requirements of the Affirmative Action Plan, as described in Section 3.03(3) of the Personnel Policy.

The Kentucky Retirement Systems provides periodic training to its leadership team to ensure compliance with federal and state laws. Such training covers harassment based on all legally protected categories (race, color, sex, religion, national origin, age, and disability), anti discrimination laws in general, and reasonable accommodation and inquiries under the ADA.

The Kentucky Retirement Systems continues to seek appropriate recruitment sources for females and minorities.

The current employment statistics for the Kentucky Retirement Systems show that as of March 31, 2016, there are 256 full-time employees. There are 153 female employees, representing 59.77% of the staff, and 24 employees who are members of minority groups, representing approximately 9.38% of the staff. Females make up 55.77% of the leadership positions in the Kentucky Retirement Systems, while employees who are members of minority groups hold 5.77% of the leadership positions in the Kentucky Retirement Systems.

In order to establish clear long term-hiring goals for minorities and females, Kentucky Retirement Systems will follow the goals provided by the Commonwealth of Kentucky's Personnel Cabinet.

RECOMMENDATION: This memorandum is presented for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

OVERALL AND MINORITY FULL TIME EMPLOYMENT
BY TYPE OF EMPLOYMENT AND DIVISION
AS OF MARCH 31, 2016

KRS AREA/DIVISION	KRS EMPLOYMENT CATEGORY											
	<u>LEADERSHIP</u>			<u>PROFESSIONAL</u>			<u>SUPPORT</u>			<u>TOTALS</u>		
	<u>Total</u>	<u>Minor.</u>	<u>(%)</u>	<u>Total</u>	<u>Minor.</u>	<u>(%)</u>	<u>Total</u>	<u>Minor.</u>	<u>(%)</u>	<u>Total</u>	<u>Minor.</u>	<u>(%)</u>
Executive Staff	5	0	0.0%	0	0	0.0%	2	0	0.0%	7	0	0.0%
Communications	1	0	0.0%	4	0	0.0%	0	0	0.0%	5	0	0.0%
Legal	3	1	33.3%	7	0	0.0%	5	0	0.0%	15	1	6.7%
Human Resources	1	0	0.0%	3	1	33.3%	0	0	0.0%	4	1	25.0%
Internal Audit	1	0	0.0%	2	1	50.0%	0	0	0.0%	3	1	33.3%
Administration	11	1	9.1%	16	2	12.5%	7	0	0.0%	34	3	8.8%
Accounting	3	0	0.0%	10	1	10.0%	0	0	0.0%	13	1	7.7%
Disability & Death	5	0	0.0%	15	1	6.7%	4	0	0.0%	24	1	4.2%
Employer Reporting Compliance & Education	3	0	0.0%	19	3	15.8%	0	0	0.0%	22	3	13.6%
Enterprise & Technology Services	6	0	0.0%	30	5	16.7%	4	0	0.0%	40	5	12.5%
Investments	4	0	0.0%	1	0	0.0%	1	0	0.0%	6	0	0.0%
Member Services	3	0	0.0%	18	1	5.6%	2	0	0.0%	23	1	4.3%
Membership Support	4	1	25.0%	19	1	5.3%	5	1	20.0%	28	3	10.7%
Procurement & Office Services	4	1	25.0%	0	0	0.0%	11	2	18.2%	15	3	20.0%
Quality Assurance	4	0	0.0%	18	1	5.6%	0	0	0.0%	22	1	4.5%
Retiree Health Care	3	0	0.0%	16	1	6.3%	2	0	0.0%	21	1	4.8%
Retiree Services (Payroll)	2	0	0.0%	6	2	33.3%	0	0	0.0%	8	2	25.0%
TOTALS	52	3	5.77%	168	18	10.71%	36	3	8.33%	256	24	9.38%

KENTUCKY RETIREMENT SYSTEMS

OVERALL AND MINORITY (FEMALE) FULL TIME EMPLOYMENT
BY TYPE OF EMPLOYMENT AND DIVISION
AS OF MARCH 31, 2016

KRS AREA/DIVISION

KRS EMPLOYMENT CATEGORY

	<u>LEADERSHIP</u>			<u>PROFESSIONAL</u>			<u>SUPPORT</u>			<u>TOTALS</u>		
	<u>Total</u>	<u>Female</u>	<u>(%)</u>	<u>Total</u>	<u>Female</u>	<u>(%)</u>	<u>Total</u>	<u>Female</u>	<u>(%)</u>	<u>Total</u>	<u>Female</u>	<u>(%)</u>
Executive Staff	5	2	40.0%	0	0	0.0%	2	2	100.0%	7	4	57.1%
Communications	1	1	100.0%	4	3	75.0%	0	0	0.0%	5	4	80.0%
Legal	3	2	66.7%	7	4	57.1%	5	5	100.0%	15	11	73.3%
Human Resources	1	1	100.0%	3	3	100.0%	0	0	0.0%	4	4	100.0%
Internal Audit	1	1	100.0%	2	2	100.0%	0	0	0.0%	3	3	100.0%
Administration	11	7	63.6%	16	12	75.0%	7	7	100.0%	34	26	76.5%
Accounting	3	2	66.7%	10	8	80.0%	0	0	0.0%	13	10	76.9%
Disability & Death	5	4	80.0%	15	12	80.0%	4	4	100.0%	24	20	83.3%
Employer Reporting Compliance & Education	3	2	66.7%	19	12	63.2%	0	0	0.0%	22	14	63.6%
Enterprise & Technology Services	6	2	33.3%	30	10	33.3%	4	0	0.0%	40	12	30.0%
Investments	4	0	0.0%	1	0	0.0%	1	1	0.0%	6	1	16.7%
Member Services	3	2	66.7%	18	12	66.7%	2	2	100.0%	23	16	69.6%
Membership Support	4	1	25.0%	19	8	42.1%	5	5	100.0%	28	14	50.0%
Procurement & Office Services	4	2	50.0%	0	0	0.0%	11	7	63.6%	15	9	60.0%
Quality Assurance	4	3	75.0%	18	9	50.0%	0	0	0.0%	22	12	54.5%
Retiree Health Care	3	3	100.0%	16	7	43.8%	2	2	100.0%	21	12	57.1%
Retiree Services (Payroll)	2	1	50.0%	6	6	100.0%	0	0	0.0%	8	7	87.5%
TOTALS	52	29	55.77%	168	96	57.14%	36	28	77.78%	256	153	59.77%

KENTUCKY RETIREMENT SYSTEMS

Board Meeting Public Participation Policy

The Kentucky Retirement Systems (KRS) Board of Trustees has adopted the following policies regarding public participation at meetings of the KRS Board:

1. Public comments may be allowed at meetings of the KRS Board of Trustees. Public comments will not be accepted at KRS Board committee meetings.
2. The Board shall only accept comments regarding items that are included on the meeting agenda.
3. Public comments will only be accepted during the portion of the meeting set aside for public comments. The portion of the meeting set aside for public comments, if any, will be noted on the agenda of each meeting.
4. The Board shall allot no more than a total of thirty (30) minutes for public comments at any regular or special meeting. **No individual presentation shall exceed three (3) minutes.** The Board Chair shall have the authority to limit or extend the amount of time for public or individual comments set forth in this section, unless determined by a majority vote of the full Board. Statements shall be timed by the Board Chair or designee and time limits will be strictly enforced.
5. A person who desires to speak to the Board shall register at the Board meeting room on the day of the meeting. Registration sheets shall customarily be available at least thirty (30) minutes prior to the scheduled start of the Board meeting, and registration shall close five (5) minutes before the scheduled start of the meeting. Required registration information shall include the name and address of the person providing the comments, the name of the organization (if any) the person represents, the topic(s) to be discussed, and, if the person is a pension system member, the name of the pension system in which the person participates.
6. **Public comments are subject to the following rules:**
 - a. **A person who has registered to speak shall, at the appropriate time, be acknowledged by the Board Chair. The person shall state his/her first and last name before speaking and state the topic to be addressed.**
 - b. **Written comments may be submitted to the Board Chair by a speaker and copies shall be distributed to the full Board following the meeting.**
 - c. **No person may speak more than once on the same topic.**
 - d. **Comments shall be directed to the Board, not to individual Board members. Questions to the Board or individual board members will not be entertained.**
 - e. **Statements shall not be abusive or argumentative. No profane or vulgar language will be tolerated.**
7. The Board chair shall enforce these rules and may, subject to appeal to the full Board, take actions necessary to maintain order at the Board meeting. Such actions may include, but are not limited to:
 - a. interrupting a person making a statement, if the statement is too lengthy, unduly repetitive or otherwise violates these rules; and
 - b. limiting the total amount of time devoted to public statements based on the number of persons wishing to make statements and the length of the Board's agenda.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen
Executive Director
DATE: May 19, 2016
SUBJECT: Quarterly Reports of the Audit Committee

The Audit Committee held its quarterly meeting on May 5, 2016. The purpose of the meeting was to review and discuss, among other miscellaneous audit related items, the following:

The Audit Committee approved the February 4, 2016, Audit Committee meeting minutes.

- *Review of IBM FileNet Contract Audit*

Please see the attached spreadsheet with findings, recommendations, and management's corrective action.

The Audit Committee approved the IBM FileNet Contract Audit Report.

- *Review of Maintenance Contract Audit*

Please see the attached spreadsheet with findings, recommendations, and management's corrective action.

The Audit Committee approved the Maintenance Contract Audit Report.

- *Review of Death Audit Utilizing Lexis Nexis*

Please see the attached spreadsheet with findings, recommendations, and management's corrective action.

The Audit Committee approved the Death Audit Utilizing Lexis Nexis Report.

- *Review of Monthly Payroll and Processing Service Retirement Audit*

Please see the attached spreadsheet with findings, recommendations, and management's corrective action.

The Audit Committee approved the Monthly Payroll and Processing Service Retirement Audit Report.

- *Review of Alternative Due Diligence Process*

Please see the attached spreadsheet with findings, recommendations, and management's corrective action.

The Audit Committee approved the Alternative Due Diligence Process Report.

- *Dean, Dorton, PLLC*
 - *Fiscal Year End 2015 GASB 68 Audit*
 - *Fiscal Year End 2016 Financial Statement Audit Plan and Contract*

The Audit Committee approved the draft Fiscal Year End 2015 GASB 68 Audit Report.

- *Review of Quarterly Financial Statements 3/31/2016*
- *Statewide Single Audit of the Commonwealth of Kentucky got the Fiscal Year Ended June 30, 2015*
- *Review of Outstanding Invoices*
- *Review of Management Follow up on Audit Findings and Recommendations Summary Dashboard*
- *Review of Information Disclosure Incidents, 1st Quarter Calendar Year 2016*
- *Review of Internal Audit Budget 3/31/2016, and approval of FYE 2017 Internal Audit Budget*

The Audit Committee approved the FYE 2017 Internal Audit Budget.

- *Review of Anonymous Reporting Spreadsheet*
- *Review of Investment Compliance Report*

- *Annual Audit Plan for Fiscal Years 2017, 2018, & 2019*
 - *Status of Current Audits Memoranda*

The Audit Committee approved the Annual Audit Plan for Fiscal Years 2017, 2018, & 2019 with the removal of the annual Death Audit – Lexis Nexis, and the Annual Refund Payments to a three to five year rotation depending on the Internal Audit Division determining the need for the audits. Also, the Committee approved adding the following audits to the plan in place of the Death Audit, and the Refund Payments Audit, the Financial Accuracy Review; 1099R Process Review; Manage SSA/WC Audit, Offset & Overpayment; Employer Invoices; Imaging Process; and Backlog Post Retirement Audit.

- *County Employees Retirement System Board Election Memoranda*

RECOMMENDATION: The Audit Committee requests that the Board ratify the actions taken by the Audit Committee.

Draft

IBM FileNet Contract Audit Finding

Finding #	Rating	Exception/Recommendation	Management Response	Date Completed	Date Verified
1	Medium	<p>Exception: Invoice number 6515782 was paid on July 6, 2015. However, the invoice amount was not posted to the Capital Project Capital Outlay Account in Great Plains until February 1, 2016.</p> <p>Recommendation: Accounting should record transactions properly and perform monthly reconciliations to verify all items are recorded properly and in the right period.</p>	<p>Concur with the recommendation. The Accounting Division will ensure that monthly reconciliations are performed on the Capital Project Capital Outlay Account to verify that all transactions are properly recorded in the Great Plains General Ledger System.</p>	*	*
2	Low	<p>Exception: Invoice number 7522079 was approved by the Division Director, but not by the Chief Operations Officer, or the Executive Director.</p> <p>Recommendation: Accounting should only pay invoices that are appropriately approved for payment.</p>	<p>Concur with the recommendation. The Division of Accounting will continue to ensure that all invoices are properly approved prior to submission for payment.</p>	*	*

Draft

Maintenance Contract Finding					
Finding #	Rating	Exception/Recommendation	Management Response	Date Completed	Date Verified
1a	High	<p>Exception: KRS does not have documented procedures for the tracking and monitoring of contracts and lease agreements.</p> <p>Recommendation: KRS should have a complete listing of all contracts and agreements with expenditures paid.</p>	<p>The Accounting Division will create a spreadsheet detailing the term of each contract to which KRS is a party. This information will include the responsible party, name of the vendor, vendor's address, service provided, dates of contract, total contract amount, terms of payment, and amount of payment frequency. In addition, Enterprise Project Management (EPMO) IT has compiled its contracts/agreements which are monitored by an EPMO staff member. Please note that the contract/agreement review will continue to be the responsibility of the Legal Division.</p>	*	*
1b	High	<p>Exception: KRS does not have documented procedures for the tracking and monitoring of contracts and lease agreements.</p> <p>Recommendation: The contract tracking and monitoring procedures should be documented and distributed to all parties responsible for this task.</p>	<p>The Accounting Division will update its policies and procedures manual to include the contract listing and will distribute to all parties responsible for monitoring contracts.</p>	*	*
1c	High	<p>Exception: KRS does not have documented procedures for the tracking and monitoring of contracts and lease agreements.</p> <p>Recommendation: Training should be provided to all parties responsible for monitoring contracts.</p>	<p>The Accounting Division will provide this training.</p>	*	*
1d	High	<p>Exception: KRS does not have documented procedures for the tracking and monitoring of contracts and lease agreements.</p> <p>Recommendation: The accounting payment tracking log description should reference the contract and responsible party.</p>	<p>See response to 1a.</p>	*	*

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Finding #	Rating	Exception/Recommendation	Management Response	Date Completed	Date Verified
2a	Medium	<p>Exception: The lease agreement for the copiers from one vendor does not contain renewal language and appear to have expired.</p> <p>Recommendation: KRS should ensure terms and conditions are included with the contracts/agreements.</p>	All copiers now have current contracts with terms and conditions detailed.	*	*
2b	Medium	<p>Exception: The lease agreement for the copiers from one vendor does not contain renewal language and appear to have expired.</p> <p>Recommendation: All contracts/agreements should be reviewed on a regular basis to ensure they are renewable or a new contract/agreement is in place prior to the expiration date.</p>	All contracts contain a terms clause making the lease renewable on a month to month basis.	*	*
3	Low	<p>Exception: Lease and maintenance agreements on file do not include the vendor's signature.</p> <p>Recommendation: Management should ensure that signed copies of all KRS contract/agreements are on file.</p>	All contracts and agreements now include vendor signatures.	*	*
4	Low	<p>Exception: KRS overpaid a lease agreement.</p> <p>Recommendation: All contract/agreement related expenses should be reconciled to the contract/agreement before approved for payment.</p>	KRS concurs with this recommendation.	*	*

Draft

Death Audit Utilizing Lexis Nexis

Finding #	Rating	Exception/Recommendation	Management Response	Date Completed	Date Verified
1	Low	<p>Exception: During the FY 15 & FY 16 Death Audit the auditor found no exceptions, resulting in no findings. The Disability and Death Division have been reviewing and verifying all member deaths. Internal controls are operating effectively and in compliance with applicable requirements.</p> <p>Recommendation Due to no audit findings for the last two years for the Death Audit, the auditor recommends that this audit be put on a two or three year audit cycle rotation.</p>	Monthly audits of the exception and probable match reports will continue with the death branch and we agree with the recommendation to put this audit on a two or three year cycle rotation.	*	*

Monthly Payroll & Processing Service Retirements Finding

Finding #	Rating	Exception/Recommendation	Management Response	Date Completed	Date Verified
1	Medium	<p>Exception: For July 2015 the wrong amount was drawn down from KRS's custodial bank (BNY Mellon). Recommendation: That the drawdown amount be thoroughly reviewed for accuracy before approval.</p>	The Division Of Accounting has updated its policies and procedures manual for approving and processing drawdowns to ensure controls are in place to prevent this situation in the future.	3/31/2016	*
2	Medium	<p>Exception: For July 2015 the depository bank (JP Morgan Chase) plan accounts were over the balance limit. Recommendation: That the accounting division ensure procedures are in place and working effectively to ensure account balance limits do not exceed the limits set, as referenced in the accounting procedure manual.</p>	The Division of Accounting has updated its procedures manual to include a monthly review to ensure that the payroll accounts are within set limits.	3/31/2016	*

Draft

Finding #	Rating	Exception/Recommendation	Management Response	Date Completed	Date Verified
3	Medium	<p>Exception: Four employee's with non-counselor roles have access to process and approve retirements.</p> <p>Recommendation: That these four employee's access levels be reviewed and that access to processing and approving retirements be removed.</p>	<p>It is agreed that the administrative assistants and document processing specialists do not need access to process final retirements in order to perform the duties of the front desk. The two document processing specialists are no longer assisting at the front desk and no longer need the roles associated with these job duties. I have inquired to ensure that they no longer have those permissions.</p> <p>I (Shauna Miller) have reached out to IT in order to better understand the permissions provided by these roles and to make the necessary changes to accommodate the specific duties required of those who regularly work or assist with the front desk operations. Once I obtain the appropriate documentation it will be forwarded immediately.</p>	4/19/2016	*
4a	Low	<p>Exception: Three former employees still have open accounts in START to process and approve retirements.</p> <p>Recommendation: That these three accounts be removed immediately.</p>	<p>Enterprise & Technology Services staff members facilitate a semi-annual review by KRS division directors of employee access to KRS network resources. In an effort to improve process and procedures involving this issue, staff began meeting monthly in January 2016 to review procedures, streamline and document the process, and ensure the accuracy of the data provided to the division directors. New procedures are being developed to ensure appropriate account review and management. As indicated in the audit report, the AD accounts for these three former employees had previously been disabled and none of them had current access to KRS resources. In addition, the LOB security roles for one of the former employees were ended 1/27/16 after review by DETS staff. LOB access for the remaining two former employees was ended on 3/30/16 as recommended by the internal audit report. The issue will be addresses further as staff members continue to enhance the existing account review and management process.</p>	3/30/2016	4/5/2016
4b	Low	<p>Exception: Three former employees still have open accounts in START to process and approve retirements.</p> <p>Recommendation: A process be developed and documented to ensure all access is removed promptly when employment is terminated.</p>		3/30/2016	*

Draft

Alternative Investment Due Diligence Audit Finding					
Finding #	Rating	Exception/Recommendation	Management Response	Date Completed	Date Verified
A	High	<p>Exception: KRS staff executed a Real Return investment manager agreement that had not been reviewed by either KRS’s external counsel, or its internal legal counsel.</p> <p>Recommendation: KRS’ General Counsel should review this contract and work with investment staff on any concerning items. All subsequent investment legal agreements should be reviewed by KRS’ General Counsel and external investment counsel prior to execution of these agreements by investment staff.</p>	<p>Investment: The Chief Investment Officer agrees with the finding. A mitigating circumstance in this situation is that KRS has a template Investment Management Agreement that has been approved by Legal, which was used as the starting document, and minimal changes were made to that template.</p> <p>Legal: Legal Department Management agrees with the recommendation and will review the Real Return investment manager agreement and work with investment staff regarding any items of concern.</p>	*	*
B.1	High	<p>Exception: KRS staff did not disclose six regulatory actions initiated against the parent company and CEO of a fund when recommending an investment.</p> <p>Recommendation: Investment staff should review and disclose any regulatory proceeding, involving principles or affiliates of a recommendation.</p>	<p>Investment staff agrees that all relevant past regulatory findings and any ongoing investigations by regulatory agencies should be made known in the recommendation memo and at Investment Committee by staff and consultant. Due to the staff member who recommended this investment no longer being a KRS employee, it’s not clear whether this information was known and there were mitigating circumstances or if these regulatory items were overlooked. Regardless, Investment Manager regulatory issues are something staff takes very seriously and does not intentionally overlook.</p>	*	*
B.2	Low	<p>Exception: A KRS staff fixed income recommendation did not note whether any principals of the firm have been involved in any regulatory proceedings. Recommendation: Investment staff should review and disclose any regulatory proceeding, involving principles or affiliates of a recommendation.</p>	<p>Investment staff agrees that all relevant past regulatory findings and any ongoing investigations by regulatory agencies should be made known in the recommendation memo and at Investment Committee by staff and consultant. Due to the staff member who recommended this investment no longer being a KRS employee, it’s not clear whether this information was known and there were mitigating circumstances or if these regulatory items were overlooked. Regardless, Investment Manager regulatory issues are something staff takes very seriously and does not intentionally overlook.</p>	*	*

Draft

Finding #	Rating	Exception/Recommendation	Management Response	Date Completed	Date Verified
C	Low	<p>Exception: The due diligence checklist for a Real Return private fund contained information relating to a different fund.</p> <p>Recommendation: A due diligence checklist be completed for each alternative investment being recommended and that the Chief Investment Officer make sure the correct checklist is included in the executive summary to the investment committee.</p>	The correct checklist was likely completed and signed, but it was not attached to the correct memo. Due to this staff member no longer being employed at KRS, staff was unable to locate the correct checklist. It should also be noted that staff started doing the checklists on its own and it is not a formal requirement of the investment committee.	*	*
D	Low	<p>Exception: An investment consultant had an E&O deductible higher than the amount contractually agreed upon.</p> <p>Recommendation: Investment personnel should work with the consultant to ensure the deductible is reduced at the next insurance renewal opportunity and regularly review insurance coverage.</p>	Investment staff agrees this needs to be reviewed and the best opportunity to do so is annually when staff is reviewing the E&O insurance for investment managers in preparation for asset class annual reviews.	*	*
E	Low	<p>Exception: Written conflict of interest statements have not been obtained from any of KRS investment consultants and an Absolute Return manager. Recommendation: The legal department obtain written conflict of interest statements from investment vendors as it does for non-investment vendors.</p>	The Legal Department Management plans to propose an update to the Conflict of Interest and Confidentiality Policy at the May 2016 Board Meeting. The Legal Department Management agrees with the recommendation that the written conflict of interest statement be obtained from both non-investment and investment vendors.	*	*

Legend:

* Date completed and verified are not included. Corrective action documents have not been delivered to the auditor.



KENTUCKY RETIREMENT SYSTEMS

William A. Thielen, Executive Director

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TO: Members of the Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: Proposed Amendments to KRS' Conflict of Interest and Confidentiality Policy

Pursuant to a recommendation adopted by the Audit Committee following the Alternative Investment Due Diligence Process audit for the period ending December 31, 2015, KRS' Conflict of Interest and Confidentiality Policy was reviewed and amended to incorporate the recommendation. Additionally, amendments have been proposed to conform the policy to updated agency structure, clarify ambiguities, and correct errors.

A "red-line" copy of the proposed Conflict of Interest and Confidentiality Policy as well as an amended External Conflict of Interest form have been provided along with this memorandum.

RECOMMENDATION: KRS Staff requests that the Board adopt the following amendments:

1. Recommend that KRS' Board of Trustees adopt changes to Kentucky Retirement Systems Conflict of Interest and Confidentiality Policy **as presented**; or
2. Recommend that KRS' Board of Trustees adopt changes to Kentucky Retirement Systems Conflict of Interest and Confidentiality Policy **with changes as discussed**.

KENTUCKY RETIREMENT SYSTEMS CONFLICT OF INTEREST AND CONFIDENTIALITY POLICY

Approval Date: August 17, 2006

Amended Date: August 18, 2011; May 19, 2016

INTRODUCTION

Adoption of Conflict of Interest and Confidentiality Policy:

Pursuant to the provisions of KRS 61.645, the Board of Trustees (“Board”) of the Kentucky Retirement Systems (“KRS”) is permitted to adopt procedures necessary to conduct the business of the Retirement Systems as needed. The law shall control if any inconsistency exists between the law and this policy.

Statement of Conflict of Interest and Confidentiality Policy:

KRS recognizes the need to maintain the public’s confidence and trust in the integrity of KRS and the Commonwealth of Kentucky. Individuals associated with KRS must not engage in activities that have the potential to become a conflict of interest with their association with KRS. Likewise, individuals associated with KRS must not release information about KRS or any of its members that would breach any duty to protect such information. KRS recognizes the need to establish procedures to prevent such conflicts or breaches.

Purpose:

The purpose of this Conflict of Interest and Confidentiality Policy is to: a) establish what individuals are subject to conflict of interest provisions of KRS; b) establish the specific standards of conduct with regard to conflict of interest; c) establish standards with regard to the confidentiality of information; and d) establish procedures for the obtaining of written conflict of interest statements and confidentiality agreements from certain individuals.

PROCEDURES REGARDING CONFLICTS OF INTEREST AND CONFIDENTIALITY

Section 1: Application of Policy

1. This policy shall apply to all individuals who have a statutory, contractual or working relationship with KRS.
2. Individuals affected by this policy shall include, but are not limited to:
 - a. Employees of KRS;
 - b. ~~The Board~~KRS Trustees;

- c. Independent contractors of KRS; and
- d. Vendors of KRS.

Section 2: Standards of Conduct Regarding Conflicts of Interest

1. Individuals have an obligation to diligently identify, disclose, avoid, and manage conflicts of interest.
2. Potential conflicts of interest exist when an individual or an individual's family may be directly or indirectly financially impacted, whether favorably or detrimentally, by a decision made by KRS in which the individual participates.
3. Individuals and their family members should not enter into any contract with KRS or any agency doing business with KRS, for financial gain, apart from an employment contract, without full disclosure and satisfactory management of any potential conflict of interest in accordance with the Executive Branch Code of Ethics.
4. Individuals should not be involved in the decision to hire or in the supervision of any member of their immediate family.
5. Individuals should not conduct business or participate in decisions with a company or agency in which the individual or family member is employed or is actively seeking employment.
6. Individuals should not accept gifts, loans, gratuities, discounts, favors, hospitality, services, or other compensation under circumstances from which it could reasonably be inferred that a major purpose of the donor is to influence the individual in the performance of their duties.
7. Individuals must avoid all conduct which in any way might lead the public to believe that the individual is using his or her position with KRS to further a professional or private interest.
8. Individuals not covered by the conflict of interest provisions under KRS Chapter 11A must not violate any conflict of interest statute or principle by the performance of their duties with KRS. These individuals must not engage directly or indirectly in any financial or other transaction with a trustee or employee of KRS that would violate the standards of the Executive Branch Ethics provisions, as set forth in KRS Chapter 11A.

Section 3: Standards of Conduct Regarding Confidentiality

1. Individuals associated with KRS may be granted access to confidential information in the course of ~~an~~ employment, KRS Trustee Board, or within a contractual relationship with KRS.
2. This information may include, but is not limited to, individual member information, including but not limited to, Social Security numbers, names, addresses, phone numbers, birth dates, beneficiaries, health insurance information, Personal Identification Numbers (PIN), as well as documents, records, programs, files, scientific or technical information, or other information made available to individuals for purposes of completing their obligations to KRS.
3. These individuals have a duty to keep confidential the information to which they are granted access as a result of their association with KRS.
4. KRS and these individuals shall also recognize that confidential member information is protected under KRS 61.661.

Section 4: Written Statements of Conflict of Interest and Confidentiality

1. Conflict of Interest: On an annual basis, the Executive Director, Chief Investment Officer, Chief Operations Officer, Chief Benefits Officer, all employees of the Division of Investments and Investment Operations, the General Counsel, Assistant General Counsel, the Senior Advisor for Retiree Health Care, all Division Directors, ~~and all the Members of the Board~~ KRS Trustees, shall file a written conflict of interest statement on the form(s) provided by KRS and adopted by the Board of Trustees.
- ~~1.2.~~ Conflict of Interest: ~~and any~~ All independent contractors and vendors of KRS shall file a written conflict of interest statement on the form(s) provided by KRS and adopted by the Board of Trustees that shall remain effective during their relationship with KRS and thereafter.
- ~~2.3.~~ Confidentiality: Upon proposal for contract that requires the exchange or disclosure of confidential KRS information, and continuing on an annual basis, the proposer any independent contractors and vendors of KRS shall file a written confidentiality agreement on the form provided by KRS ~~and adopted by the Board of Trustees~~. This form confidentiality agreement may be amended to conform to specific needs of the proposed contract as well as individual vendor or contractor, ~~as deemed necessary~~.

~~3.4.~~ Conflict of Interest and Confidentiality: Other individuals or entities~~employees of covered by this Policy~~ ~~KRS~~ may also be requested to file a written conflict of interest or confidentiality statement as needed or requested by the Board.

~~4.5.~~ Individuals or entities covered by this Policy ~~An individual~~ who abstains from involvement in ~~a~~ an official ~~KRS~~ decision because of ~~a~~ personal or private interests must disclose that fact. KRS employees, vendors, and independent contractors must disclose the conflict in writing to KRS' Executive Director or his or her designee. KRS Trustees who abstain from an official KRS decision because of personal or private interests shall disclose that fact in the minutes for the meeting where the recusal or abstention occurs. ~~supervisor or contact person at KRS.~~

Section 5: Violations of Conflict of Interest and Confidentiality Policy

1. Any person who suspects that an employee of KRS, a member of the Board of KRS, or an outside vendor has violated the Kentucky Retirement Systems Conflict of Interest and Confidentiality Policy, the Bylaws, or any board policy may file a complaint in writing with the Board.
2. The written complaint shall be in the form of a letter addressed to the Chair of the Board and the Internal Auditor. If the complaint is about the Chair of the Board, the complaint shall be addressed to the Vice Chair of the Board and the Internal Auditor. If the complaint is against the Internal Auditor, the complaint shall be addressed to the Chair of the Board and the Chair of the Audit Committee of the Board.
3. A complaint may be filed anonymously. Employees of KRS filing a complaint may be protected by the Kentucky Whistleblower Statute, KRS 61.102.
4. A complaint shall include the name of the person or organization against whom the allegations are made and a detailed description of the violation including the time, date, and place, if known. The person should attach to the complaint all evidence in his or her possession regarding the alleged violation.
5. If the complaint is against an employee of KRS, the Chair and the Internal Auditor shall send the complaint to the Executive Director for investigation as provided by the Kentucky Retirement Systems Personnel Policies. If the allegations are found to be true, the employee shall be disciplined as provided by the Kentucky Retirement Systems Personnel Policies.

6. If the complaint is against a vendor of KRS, the Chair and the Internal Auditor shall send the complaint to the Executive Director to be investigated. If the allegations are found to be true, any action taken shall be consistent with the contract between KRS and the vendor.
7. If the allegations are against a member of the Board of Trustees, the Executive Director, the Internal Auditor, or the Chief Investment Officer, the complaint shall be added to the agenda of the next regularly scheduled or special Audit Committee meeting. The Chair shall send a copy of the complaint to the member of the Board of Trustees, the Executive Director, or the Chief Investment Officer against whom the allegations are made. The member of the Board of Trustees, the Executive Director, the Internal Auditor, or the Chief Investment Officer may file a written response to the allegations. The member of the Board of Trustees, the Executive Director, the Internal Auditor, or the Chief Investment Officer should attach to the response all evidence in his or her possession regarding the alleged violation.
8. The Audit Committee shall determine how the investigation of the complaint is to proceed. The Audit Committee may assign staff to investigate the allegations made in the complaint or may engage a third party to investigate the allegations made in the complaint.
9. If the results of the investigation indicate that there is no basis for the allegations or the allegations are not a violation of this policy, a report shall be presented to the Board at the next regular or special Board meeting. If the Board decides to take no action, the investigator shall prepare an explanation of the decision to take no action and shall maintain a copy of the complaint and the explanation. A copy of the explanation shall be sent to the member of the Board of Trustees, the Executive Director, the Internal Auditor, or the Chief Investment Officer against whom the allegations were made.
10. If the results of the investigation indicate that there is a basis for the allegations, the Chair shall place the matter on the agenda for the next regular or special Board meeting. The Board shall determine whether or not a violation of this policy occurred and whether to impose disciplinary action under the terms of this policy.
11. The discussion of the disciplinary action shall be conducted in closed session pursuant to KRS 61.810(f). The decision regarding disciplinary action shall be made in open session as required by KRS 61.815(1)(c). The complaint and all evidence shall be recorded in the minutes of the meeting.

12. The determination that the Executive Director, the Internal Auditor, or the Chief Investment Officer violated this policy shall require a vote of two thirds of the total membership of the Board.
13. The determination that a member of the Board violated this policy shall require a vote of two thirds of the total membership of the Board. If there are not sufficient members of the Board present at a meeting, the Chair may pass the matter to the next regular or special meeting of the Board.
- ~~15.~~14. If the Executive Director, the Internal Auditor, or the Chief Investment Officer is found to have violated this policy, the Board may impose one of the following disciplinary actions:
 - a. Verbal Reprimand;
 - b. Written reprimand, which will be added to the minutes and placed in the personnel file of the Executive Director, Internal Auditor, or Chief Investment Officer;
 - c. Suspension without pay for a period of time; or
 - d. Termination of employment.
- ~~16.~~15. The Executive Director, the Internal Auditor and the Chief Investment Officer shall not have the right to appeal to the Kentucky Personnel Board.
- ~~17.~~16. If the member of the Board is found to have violated this policy, the Board may impose any or all of the following disciplinary actions:
 - a. Remove the member of the Board from any or all committees of the Board to which the member is assigned;
 - b. Verbal public reprimand; and/or
 - c. Written public reprimand.
- ~~18.~~17. The Board may also direct staff to report the violation to the Executive Branch Ethics Commission, Kentucky Attorney General, or other appropriate entity.
18. The determination of the disciplinary action to be taken shall require a vote of two thirds of the total membership of the Board.
19. If KRS becomes aware of violations of its Conflict or Interest and Confidentiality Policy, no provision of this policy shall be interpreted to

limit KRS' remedies provided pursuant to the terms of the contract, State, or Federal Law.

ETHICS AND CONFIDENTIALITY

Individuals as set forth above shall conform to the Executive Branch Code of Ethics with regard to conflicts of interests as set forth in KRS Chapter 11A. Individuals as set forth above shall conform to the confidentiality requirements of KRS 61.661.

CERTIFICATION

We, the Chair of the Board of Trustees and the Executive Director, do hereby certify that this Board of Trustees Conflict of Interest and Confidentiality Policy was amended by the Board of Trustees on this the ~~18th~~-19th day of ~~August~~May, 20116.

Chair of the Board of Trustees

Date

William A. Thielen, Executive Director

Date

KENTUCKY RETIREMENT SYSTEMS EXTERNAL CONFLICT OF INTEREST STATEMENT

I, _____, acting in my capacity as an - **individual**
(Individual or Authorized Representative's Name)
or **authorized representative of** _____ during the
(Entity Name)
relationship with Kentucky Retirement Systems ("KRS"), recognize the need to maintain the public's confidence and trust in the integrity of KRS and the Commonwealth of Kentucky by conforming individual and entity representative conduct to comply with the following:

- Diligently identify, disclose, avoid and manage conflicts of interest that may arise through my relationship with KRS.
- Other than the benefits expressly provided for by my relationship with KRS, conduct activities with KRS so not to advance or protect my own interests or the private interests of other with whom I have a relationship, in a way that is detrimental to the interests of KRS.
- Conduct activities in a manner to best promote the interests of KRS.
- Other than the benefits expressly provided for by my relationship with KRS, abstain from all decisions that may favorably or detrimentally impact my own financial interests or the financial interests of others with whom I have a relationship, reveal that relationship, and abstain from involvement in the official decision.
- Upon discovery of a conflict of interest or potential conflict of interest, disclose that conflict or potential conflict of interest to my supervisor or contact person at KRS and seek resolution of that issue.
- To not engage directly or indirectly in any financial or other transactions with a trustee or employee of KRS that would violate the standards of the Executive Branch Ethics provisions, as set forth in KRS Chapter 11A.

Agreed this the _____ day of _____, 20____

Signature

Name

Title

Company (if applicable)

MEMORANDUM

Date: April 26, 2016

To: Connie Davis
Director of Internal Audit

From: Karen Roggenkamp
Chief Operations Officer

Re: **Financial Highlights – Quarter 3 FY 2016**

KENTUCKY RETIREMENT SYSTEMS						
Net Position Comparison – Pension Fund (Period Ending March 31, 2016)						
	KERS	KHAZ	CERS	CHAZ	SPRS	TOTAL
FY 16 Net Position (NP)	\$2,040,074,259	\$528,022,996	\$6,129,156,995	\$2,000,903,824	\$221,506,768	\$10,919,664,843
FY 2015 End of Period (6/30/2015)	\$2,327,783,171	\$552,467,903	\$6,440,799,858	\$2,078,201,686	\$247,227,583	\$11,646,480,202
Change in Net Position	(\$287,708,912)	(\$24,444,907)	(\$311,642,863)	(\$77,297,862)	(\$25,720,815)	(\$726,815,359)

Total Pension Net Assets were \$11.65 Billion at the beginning of FY 2016 and decreased by 6.24% to \$10.92 Billion at March 31, 2016. The decrease of \$726.8 Million was comprised of the following:

- Total **Contributions** were \$964.8 Million (\$14.5M less than same period last year) primarily due to the one-time \$23M Bank of American settlement recorded last year.
- Overall **Investment Income** was negative \$216.1M compared to a positive \$109.9M reported for the 3rd Quarter of last year. The major drivers of the decline in Investment Income were:
 - Q3 FY 2016 Pension Investment performance was 4.36% compared to 0.05% for Q3 last year, but negative year-to-date.
 - Higher realized gains in 2015 versus 2016.
 - Asset sales in KERS and SPRS to cover cash outflows slightly offset by asset increases in CERS and KHAZ.
 - Derivatives used by individual managers were able to assist in gaining some ground as the hedging investments offset the strong USD.
 - Interest and Dividends earned during this reporting period declined by \$104M from prior year to \$107.9M related to decreased income from Absolute Return of \$51.1M and Private Equity of \$35.8M. Fixed income investments are impacted by the low interest rate environment.
- **Investment expenses** were \$52.1M compared to \$65.3M for the prior reporting period. Investment expenses declined for FY 2016 as a result of less performance fees from Private Equity and a lower asset base.
- Total **Deductions** were \$1.48B (an increase of \$44.96M). Benefits/Refunds totaled \$1.45B. The 3.5% increase was comparable to prior years. Administrative expenses were \$29.1M (\$3.7M lower than same period last year).

KENTUCKY RETIREMENT SYSTEMS						
Net Position Comparison – Insurance Fund (Period Ending March 31, 2016)						
	KERS	KHAZ	CERS	CHAZ	SPRS	TOTAL
FY 16 Net Position (NP)	\$658,709,746	\$431,391,257	\$1,885,150,814	\$1,042,115,424	\$159,698,166	\$4,177,065,406
FY 2015 End of Period (6/30/2015)	\$665,637,927	\$439,112,712	\$1,920,944,927	\$1,056,480,313	\$164,714,559	\$4,246,890,439
Change in Net Position	(\$6,928,181)	(\$7,721,455)	(\$35,794,113)	(\$14,364,889)	(\$5,016,393)	(\$69,825,033)

Total Insurance Net Assets were \$4.25 Billion at the beginning of FY 2016 and decreased by 1.64% to \$4.18 Billion for the period ending March 31, 2016. The decrease of \$69.8 Million was comprised of the following:

- Total **Contributions** were \$258.9M for the 3rd Quarter compared to \$264.8M for the same period last year. The change was due to a decrease in required employer contributions across all plans.
- Overall **Investment Income** was negative \$65.1M compared to positive \$49.4M for the same period last year. The major drivers of Investment Income were:
 - Q3 Insurance Trust Investment performance was 4.7% compared to 0.06% for Q3 last year, but negative year-to-date.
 - Higher realized gains in 2015 versus 2016.
 - Interest and Dividends were \$42.9M (decrease of \$25.5M from the prior year) due to lower inflows from Private Equity, Absolute Return, and Real Return.
 - Similar to Pension Funds, derivatives used by individual managers were able to assist in gaining some ground as the hedging investments offset the strong USD.
 - Private Equity had a strong performance for the quarter.
- Total **Deductions** were \$264.5M (higher by \$15.5M compared to same period last year). Healthcare premiums accounted for the increase.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF NET POSITION
PENSION FUNDS
As of March 31, 2016
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2016	2015		
ASSETS									
Cash and Short-term Investments									
Cash Deposits	\$ 1,116,409	\$ 1,553,878	\$ 113,052	\$ 145,674	\$ 103,499	\$ 3,032,511	\$ 1,310,106	131%	1
Short-term Investments	\$ 65,063,014	\$ 142,540,248	\$ 5,220,570	\$ 48,956,762	\$ 10,976,864	\$ 272,757,457	\$ 412,164,344	-34%	2
Total Cash and Short-term Investments	\$ 66,179,422	\$ 144,094,126	\$ 5,333,622	\$ 49,102,435	\$ 11,080,363	\$ 275,789,968	\$ 413,474,451		
RECEIVABLES									
Accounts Receivable	\$ 58,977,977	\$ 43,454,706	\$ 10,068,211	\$ 14,995,067	\$ 5,277,333	\$ 132,773,293	\$ 124,175,199	7%	
Accounts Receivable - Investments	\$ 55,906,729	\$ 145,428,764	\$ 5,309,545	\$ 47,859,450	\$ 12,288,885	\$ 266,793,373	\$ 271,714,202	-2%	
Accounts - Alternate Participation				\$ 101,245		\$ 101,245	\$ 107,629	-6%	
Total Receivables	\$ 114,884,706	\$ 188,883,470	\$ 15,377,756	\$ 62,955,762	\$ 17,566,218	\$ 399,667,911	\$ 395,997,030		
INVESTMENTS, AT FAIR VALUE									
Fixed Income	\$ 323,399,458	\$ 545,703,041	\$ 28,941,263	\$ 180,360,367	\$ 46,643,249	\$ 1,125,047,379	\$ 2,781,917,803	-60%	3
Public Equities	\$ 767,693,514	\$ 3,287,090,157	\$ 97,782,815	\$ 1,068,924,016	\$ 277,363,551	\$ 5,498,854,053	\$ 5,203,360,867	6%	
Private Equities	\$ 348,514,287	\$ 658,815,308	\$ 26,711,253	\$ 222,900,374	\$ 62,938,082	\$ 1,319,879,305	\$ 1,314,194,188	0%	
Derivatives	\$ 2,384,347	\$ 9,681,805	\$ 285,619	\$ 3,204,241	\$ 816,852	\$ 16,372,864	\$ 8,912,735	84%	4
Absolute Return	\$ 221,172,981	\$ 653,318,626	\$ 23,715,683	\$ 207,024,030	\$ 54,813,372	\$ 1,160,044,691	\$ 1,301,855,320	-11%	5
Real Return	\$ 167,136,358	\$ 494,189,113	\$ 17,428,450	\$ 161,124,578	\$ 42,568,243	\$ 882,446,743			
Real Estate	\$ 75,528,438	\$ 286,301,255	\$ 10,905,903	\$ 91,761,931	\$ 26,991,544	\$ 491,489,071	\$ 580,798,453	-15%	6
Total Investments, at Fair Value	\$ 1,905,829,382	\$ 5,935,099,305	\$ 205,770,988	\$ 1,935,299,538	\$ 512,134,892	\$ 10,494,134,105	\$ 11,191,039,367		
FIXED/INTANGIBLE ASSETS									
Fixed Assets	\$ 824,547	\$ 1,523,100	\$ 8,845	\$ 138,126	\$ 82,433	\$ 2,577,051	\$ 2,569,251	0%	
Intangible Assets	\$ 5,919,584	\$ 9,960,922	\$ 100,005	\$ 826,734	\$ 493,581	\$ 17,300,826	\$ 16,254,290	6%	
Accumulated Depreciation	\$ (775,980)	\$ (1,429,576)	\$ (8,579)	\$ (129,373)	\$ (77,277)	\$ (2,420,786)	\$ (2,380,816)	2%	
Accumulated Amortization	\$ (3,040,553)	\$ (5,050,784)	\$ (60,260)	\$ (423,240)	\$ (244,553)	\$ (8,819,390)	\$ (7,154,990)	23%	7
Total Fixed Assets	\$ 2,927,597	\$ 5,003,663	\$ 40,011	\$ 412,247	\$ 254,184	\$ 8,637,701	\$ 9,287,735		
Total Assets	\$ 2,089,821,106	\$ 6,273,080,563	\$ 226,522,376	\$ 2,047,769,983	\$ 541,035,657	\$ 11,178,229,685	\$ 12,009,798,582		
LIABILITIES									
Accounts Payable	\$ 2,877,207	\$ 4,984,306	\$ 377,523	\$ 1,458,990	\$ 2,099,389	\$ 11,797,415	\$ 9,837,426	20%	8
Investment Accounts Payable	\$ 46,869,640	\$ 138,939,259	\$ 4,638,095	\$ 45,407,169	\$ 10,913,274	\$ 246,767,437	\$ 325,479,886	-24%	9
Total Liabilities	\$ 49,746,847	\$ 143,923,565	\$ 5,015,618	\$ 46,866,159	\$ 13,012,662	\$ 258,564,851	\$ 335,317,311		
Total Plan Net Assets	\$ 2,040,074,259	\$ 6,129,156,998	\$ 221,506,758	\$ 2,000,903,824	\$ 528,022,995	\$ 10,919,664,834	\$ 11,674,481,271		

NOTE - Variance Explanation

- 1 Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.
- 2 Short Term Investments is primarily comprised of the cash that is on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow
- 3 Reduction in Fixed Income is primarily a result of the reallocation of assets with the creation of the Real Return Account for Financial Reporting
- 4 Derivatives include currency forwards/futures as permitted by KRS investment policy. Derivative income increases as the hedging investment offsets the strong USD.
- 5 The reduction in Absolute Return is a result of undesirable market conditions
- 6 The reduction in Real Estate has been a result of approximately \$170M in distributions in FY 2016
- 7 Additional Capitalization of intangible assets.
- 8 The increase in Accounts Payable is due to a rise in credit invoices generated for employers as well as an increase in our leave liability accrual.
- 9 Variance is a result of transactions activity which is based on each individual manager.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF CHANGES IN NET POSITION
PENSION FUNDS
For the Nine Months Ended March 31, 2016
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2016	2015	
ADDITIONS								
Member Contributions	\$ 76,071,005	\$ 99,496,203	\$ 4,027,710	\$ 37,855,731	\$ 11,094,822	\$ 228,545,471	\$ 221,834,848	3%
Employer Contributions	\$ 389,102,807	\$ 215,503,223	\$ 19,200,944	\$ 80,592,168	\$ 19,017,106	\$ 723,416,248	\$ 723,419,895	0%
Pension Spiking Contributions	\$ 313,922	\$ 876,937	\$ 41,704	\$ 674,830	\$ 42,317	\$ 1,949,710	\$ 1,766,792	10% 1
Bank of America Settlement							\$ 23,000,000	
Health Insurance Contributions (HB1)	\$ 3,583,584	\$ 5,698,922	\$ 85,153	\$ 1,051,726	\$ 506,945	\$ 10,926,330	\$ 9,324,575	17% 2
Total Contributions	\$ 469,071,318	\$ 321,575,285	\$ 23,355,511	\$ 120,174,455	\$ 30,661,191	\$ 964,837,759	\$ 979,346,109	
INVESTMENT INCOME								
From Investing Activities								
Net Appreciation in FV of Investments	\$ (56,703,917)	\$ (154,103,161)	\$ (7,994,758)	\$ (44,882,934)	\$ (10,987,978)	\$ (274,672,748)	\$ (38,265,264)	-618% 3
Interest/Dividends	\$ 18,203,712	\$ 62,231,791	\$ 2,152,336	\$ 20,060,020	\$ 5,218,246	\$ 107,866,104	\$ 211,838,135	-49% 4
Total Investing Activities Income	\$ (38,500,205)	\$ (91,871,370)	\$ (5,842,422)	\$ (24,822,914)	\$ (5,769,732)	\$ (166,806,643)	\$ 173,572,871	
Investment Expense	\$ 7,790,978	\$ 30,293,821	\$ 956,317	\$ 10,379,864	\$ 2,658,777	\$ 52,079,758	\$ 65,296,241	-20% 5
Net Income from Investing Activities	\$ (46,291,183)	\$ (122,165,191)	\$ (6,798,739)	\$ (35,202,779)	\$ (8,428,509)	\$ (218,886,401)	\$ 108,276,630	
From Securities Lending Activities								
Securities Lending Income	\$ 639,456	\$ 1,891,641	\$ 65,605	\$ 608,664	\$ 155,660	\$ 3,361,028	\$ 2,178,113	
Securities Lending Expense								
Security Lending Borrower Rebates	\$ 60,009	\$ (21,755)	\$ (764)	\$ (7,587)	\$ (1,663)	\$ 28,239	\$ 291,193	
Security Lending Agent Fee	\$ 86,917	\$ 287,011	\$ 9,955	\$ 92,437	\$ 23,598	\$ 499,918	\$ 290,218	
Security Lending Commission Expense								
Net Income from Securities Lending	\$ 492,531	\$ 1,626,385	\$ 56,415	\$ 523,814	\$ 133,726	\$ 2,832,871	\$ 1,596,702	77% 6
Total Investment Income	\$ (45,798,652)	\$ (120,538,806)	\$ (6,742,324)	\$ (34,678,965)	\$ (8,294,784)	\$ (216,053,531)	\$ 109,873,332	
Total Additions	\$ 423,272,666	\$ 201,036,479	\$ 16,613,186	\$ 85,495,490	\$ 22,366,407	\$ 748,784,228	\$ 1,089,219,441	
DEDUCTIONS								
Benefit Payments	\$ 691,494,431	\$ 484,981,531	\$ 42,144,804	\$ 159,239,459	\$ 44,308,915	\$ 1,422,169,140	\$ 1,370,799,828	4%
Refunds	\$ 9,613,191	\$ 10,540,815	\$ 11,237	\$ 2,236,341	\$ 1,667,506	\$ 24,069,089	\$ 26,066,341	-8%
Administrative Expenses	\$ 9,789,092	\$ 17,013,687	\$ 176,150	\$ 1,305,333	\$ 827,727	\$ 29,111,989	\$ 32,772,953	-11% 7
Capital Project Expenses	\$ 84,864	\$ 143,308	\$ 1,811	\$ 12,219	\$ 7,166	\$ 249,368	\$ 996,684	-75% 8
Total Deductions	\$ 710,981,577	\$ 512,679,341	\$ 42,334,002	\$ 162,793,353	\$ 46,811,314	\$ 1,475,599,587	\$ 1,430,635,806	
Net Increase(Decrease) in Plan Net Assets	\$ (287,708,912)	\$ (311,642,863)	\$ (25,720,816)	\$ (77,297,862)	\$ (24,444,907)	\$ (726,815,359)	\$ (341,416,365)	
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS								
Beginning of Period	\$ 2,327,783,171	\$ 6,440,799,858	\$ 247,227,583	\$ 2,078,201,686	\$ 552,467,903	\$ 11,646,480,202	\$ 12,015,897,645	
End of Period	\$ 2,040,074,259	\$ 6,129,156,995	\$ 221,506,768	\$ 2,000,903,824	\$ 528,022,996	\$ 10,919,664,843	\$ 11,674,481,280	

NOTE - Variance Explanation

- 1 Pension Spiking contributions will continue to rise as KRS continues to generate Pension Spiking invoices.
- 2 The increase in Health Insurance Contributions is due to the increase in the number of employees contributing to HIC.
- 3 The decrease in Net Appreciation in Fair Value of Investments was a result less realized losses of \$3.4M versus realized gains from the prior year of \$473M, accompanied by unrealized losses in FY 2016 of \$269.4 and \$489.3 in FY 2015.
- 4 Interest/Dividends experienced a decline due to a drop in Partnership Income primarily from Absolute Return of \$51.1M and Private Equity of \$35.8M.
- 5 Investment Expense has decreased as result of less performance fees from Private Equity as less distributions have been received and a continual decline in asset base creating less fees across most asset classes.
- 6 Securities Lending Activity varies depending on the demands of the market
- 7 Decrease is due to a change in processing of Insurance Admin Fees.
- 8 Capital Project expenses continue to decline as project winds down. Remaining balance is less than \$510,000

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF NET POSITION
INSURANCE FUNDS
As of March 31, 2016
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2016	2015	
ASSETS								
Cash and Short-Term Investments								
Cash Deposits	\$ 190,289	\$ 277,228	\$ 3,977	\$ 8,768	\$ 19,585	\$ 499,847	\$ 284,370	76% 1
Short-term Investments	\$ 21,557,641	\$ 54,830,220	\$ 3,808,474	\$ 29,843,064	\$ 8,797,978	\$ 118,837,378	\$ 150,186,298	-21% 2
Medicare Drug Deposit								
Total Cash and Short-term	\$ 21,747,930	\$ 55,107,447	\$ 3,812,451	\$ 29,851,832	\$ 8,817,564	\$ 119,337,225	\$ 150,470,668	
RECEIVABLES								
Accounts Receivable	\$ 12,741,808	\$ 11,469,706	\$ 824,695	\$ 5,856,214	\$ 1,529,036	\$ 32,421,459	\$ 33,785,695	-4%
Investment Accounts Receivable	\$ 17,770,448	\$ 51,418,054	\$ 4,401,420	\$ 28,344,743	\$ 11,804,410	\$ 113,739,075	\$ 103,270,551	10% 3
Total Receivables	\$ 30,512,256	\$ 62,887,760	\$ 5,226,116	\$ 34,200,957	\$ 13,333,446	\$ 146,160,534	\$ 137,056,246	
INVESTMENTS, AT FAIR VALUE								
Fixed Income	\$ 127,660,330	\$ 371,678,561	\$ 31,569,366	\$ 205,300,749	\$ 85,131,083	\$ 821,340,088	\$ 1,364,932,893	-40% 4
Public Equities	\$ 304,381,478	\$ 802,160,565	\$ 67,499,274	\$ 442,077,302	\$ 194,472,968	\$ 1,810,591,587	\$ 1,691,645,981	7%
Private Equities	\$ 44,426,483	\$ 211,143,543	\$ 18,324,595	\$ 118,063,947	\$ 41,023,544	\$ 432,982,111	\$ 336,158,074	29% 5
Derivatives	\$ 959,899	\$ 2,742,474	\$ 234,123	\$ 1,516,611	\$ 617,924	\$ 6,071,030	\$ 3,291,964	84% 6
Absolute Return	\$ 69,153,703	\$ 196,280,922	\$ 17,206,729	\$ 109,940,060	\$ 45,890,458	\$ 438,471,872	\$ 447,721,364	-2%
Real Return	\$ 52,010,018	\$ 150,325,366	\$ 12,775,814	\$ 83,162,017	\$ 34,445,432	\$ 332,718,648	\$ 221,804,558	-12% 7
Real Estate	\$ 27,631,195	\$ 90,186,840	\$ 7,924,040	\$ 49,456,542	\$ 20,812,727	\$ 196,011,343	\$ 221,804,558	
Total Investments, at Fair Value	\$ 626,223,105	\$ 1,824,518,270	\$ 155,533,941	\$ 1,009,517,228	\$ 422,394,136	\$ 4,038,186,680	\$ 4,065,554,834	
Total Assets	\$ 678,483,291	\$ 1,942,513,477	\$ 164,572,508	\$ 1,073,570,017	\$ 444,545,145	\$ 4,303,684,438	\$ 4,353,081,748	
LIABILITIES								
Accounts Payable	\$ 5,995	\$ 5,451		\$ 8,471		\$ 19,918	\$ 27,859	-29% 8
Investment Accounts Payable	\$ 19,767,540	\$ 57,357,210	\$ 4,874,343	\$ 31,446,122	\$ 13,153,889	\$ 126,599,104	\$ 132,736,052	-5%
Total Liabilities	\$ 19,773,535	\$ 57,362,662	\$ 4,874,343	\$ 31,454,593	\$ 13,153,889	\$ 126,619,022	\$ 132,763,912	
Total Plan Net Assets	\$ 658,709,756	\$ 1,885,150,815	\$ 159,698,165	\$ 1,042,115,424	\$ 431,391,257	\$ 4,177,065,416	\$ 4,220,317,836	

NOTE - Variance Explanation

- 1 Variance is a result of continuous fluctuation of deposits and transactions that flow through the cash account.
- 2 Short Term Investments is primarily comprised of the cash that is on hand with the custodial bank along with any small amounts of cash managers and brokers may have; therefore, the variance is driven by cash flow
- 3 Variance is a result of transactions activity which is based on each individual manager
- 4 Reduction in Fixed Income is primarily a result of the reallocation of assets with the creation of the Real Return Account for Financial Reporting
- 5 The increase is due to positive performance and additional funding of managers.
- 6 Derivatives include currency forwards/futures as permitted by KRS investment policy. Derivative income increases as the hedging investment offsets the strong USD
- 7 The reduction in Real Estate as been a result of approximately \$48M in distributions in FY 2016
- 8 Reduction due to change in processing of Insurance Admin Fees.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF CHANGES IN NET POSITION
INSURANCE FUNDS
For the Nine Months Ended March 31, 2016
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2016	2015	
ADDITIONS								
Employer Contributions	\$ 99,854,823	\$ 81,604,560	\$ 7,753,784	\$ 50,351,944	\$ 11,890,459	\$ 251,455,570	\$ 257,407,630	-2%
Insurance Premiums	\$ 188,281	\$ 490,198	\$ (29,434)	\$ (106,183)	\$ (13,454)	\$ 529,408	\$ 667,984	-21% 1
Retired Reemployed Healthcare	\$ 2,901,045	\$ 2,740,310	\$ 6,402	\$ 660,852	\$ 616,923	\$ 6,925,531	\$ 6,769,791	2%
Total Contributions	\$ 102,944,149	\$ 84,835,068	\$ 7,730,752	\$ 50,906,612	\$ 12,493,928	\$ 258,910,509	\$ 264,845,405	
INVESTMENT INCOME								
From Investing Activities								
Net Appreciation in FV of Investments	\$ (17,708,518)	\$ (36,937,678)	\$ (3,006,424)	\$ (18,101,363)	\$ (9,377,694)	\$ (85,131,677)	\$ 2,949,640	-2986% 2
Interest/Dividends	\$ 6,842,580	\$ 19,480,826	\$ 1,615,519	\$ 10,541,830	\$ 4,461,563	\$ 42,942,318	\$ 68,434,576	-37% 3
Total From Investing Activities	\$ (10,865,938)	\$ (17,456,852)	\$ (1,390,904)	\$ (7,559,533)	\$ (4,916,132)	\$ (42,189,360)	\$ 71,384,215	
Investment Expense	\$ 2,194,688	\$ 11,279,738	\$ 930,775	\$ 6,340,243	\$ 2,198,969	\$ 22,944,413	\$ 21,968,351	4%
Net Income from Investing Activities	\$ (13,060,626)	\$ (28,736,590)	\$ (2,321,679)	\$ (13,899,776)	\$ (7,115,101)	\$ (65,133,772)	\$ 49,415,865	
From Securities Lending								
Securities Lending Income	\$ 179,750	\$ 515,339	\$ 42,435	\$ 281,048	\$ 119,283	\$ 1,137,854	\$ 710,923	
Securities Lending Expense								
Security Lending Borrower Rebates	\$ 10,720	\$ 37,878	\$ 2,617	\$ 20,202	\$ 8,641	\$ 80,058	\$ (73,398)	
Security Lending Agent Fees	\$ 25,355	\$ 71,618	\$ 5,973	\$ 39,127	\$ 16,597	\$ 158,669	\$ 97,935	
Net Income from Securities Lending	\$ 143,675	\$ 405,843	\$ 33,845	\$ 221,720	\$ 94,045	\$ 899,126	\$ 686,387	31% 4
Total Net Income from Investments	\$ (12,916,951)	\$ (28,330,748)	\$ (2,287,835)	\$ (13,678,056)	\$ (7,021,056)	\$ (64,234,646)	\$ 50,102,251	
Total Additions	\$ 90,027,198	\$ 56,504,320	\$ 5,442,917	\$ 37,228,556	\$ 5,472,872	\$ 194,675,863	\$ 314,947,656	
DEDUCTIONS								
Healthcare Premiums Subsidies	\$ 94,923,935	\$ 88,698,621	\$ 10,399,706	\$ 51,280,843	\$ 13,097,857	\$ 258,400,962	\$ 244,508,506	6%
Administrative Expense	\$ 482,514	\$ 418,571	\$ 37,431	\$ 200,208	\$ 57,267	\$ 1,195,991	\$ 1,195,991	
Self Funded Healthcare Costs	\$ 1,546,044	\$ 3,175,693	\$ 22,131	\$ 112,173	\$ 39,068	\$ 4,895,110	\$ 4,512,903	8%
Excise Tax Insurance	\$ 2,886	\$ 5,549	\$ 42	\$ 220	\$ 135	\$ 8,832	\$ 9,194	-4%
Total Deductions	\$ 96,955,379	\$ 92,298,433	\$ 10,459,311	\$ 51,593,445	\$ 13,194,327	\$ 264,500,895	\$ 249,030,603	
Net Increase(Decrease) in Plan Net Assets	\$ (6,928,181)	\$ (35,794,113)	\$ (5,016,393)	\$ (14,364,890)	\$ (7,721,456)	\$ (69,825,033)	\$ 65,917,053	
NET PLAN ASSETS HELD IN TRUST FOR INSURANCE BENEFITS								
Beginning of Period	\$ 665,637,927	\$ 1,920,944,927	\$ 164,714,559	\$ 1,056,480,313	\$ 439,112,712	\$ 4,246,890,439	\$ 4,154,400,773	
End of Period	\$ 658,709,746	\$ 1,885,150,814	\$ 159,698,166	\$ 1,042,115,424	\$ 431,391,257	\$ 4,177,065,406	\$ 4,220,317,826	

NOTE - Variance Explanation

- 1 The increase in Insurance Premiums is due to an increase in retirees.
- 2 The decrease in Net Appreciation in Fair Value of Investments was a result less realized losses of \$41.1M in FY 2016 versus realized gains from the prior year of \$107.4M, accompanied by unrealized losses in FY 2016 of \$43.1 and \$104.8 in FY 2015.
- 3 Interest/Dividends experienced a decline due to a drop in Partnership Income primarily from Absolute Return of \$18.9M, Real Return of \$5.8M and Private Equity of \$6.1M.
- 4 Securities Lending Activity varies depending on the demands of the market



KENTUCKY RETIREMENT SYSTEMS

William A. Thielen, Executive Director

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MEMORANDUM

Date: May 5, 2016

To: Mike Cherry, Chair
Audit Committee of the Board of Trustees

From: Connie A. Davis, CIA, CGAP, CRMA, *CAD*
Internal Audit Director

Re: Review of Quarterly Financial Statements
For the Quarter Ended March 31, 2016

The quarterly financial statements for the quarter ended March 31, 2016, are attached. Please note that the financial highlights of the financial statements are also included. This information is presented for review and discussion.

No action is required of the Committee.

Enclosure

CC: David Rich, Vice Chair
Audit Committee of the Board of Trustees

Dr. Daniel L. Bauer, Member
Audit Committee of the Board of Trustees

Mary Helen Peter, Member
Audit Committee of the Board of Trustees

Keith Peercy, Member
Audit Committee of the Board of Trustees

Randy K. Stevens, Member
Audit Committee of the Board of Trustees

William A. Thielen, Esq.
Executive Director

Karen D. Roggenkamp
Chief Operations Officer

Brian C. Thomas, Esq.
General Counsel

File

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KENTUCKY RETIREMENT SYSTEMS

William A. Thielen, Executive Director

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MEMORANDUM

Date: April 26, 2016

To: Audit Committee of the Board of Trustees

From: Ann M. Case, CGAP, CRMA
Director of Investment Operations

Re: **Investment Fees and Expenses**

Attached you will find an Investment Fees and Expenses Report for the nine month period ending March 31, 2016. Effective March 2015, KRS implemented a financial statement change to report investment fees separate from net asset values. This change helps KRS better monitor fees by manager and provides further transparency in Investment Operations. The fees are shown by asset class and fiscal year for comparative purposes. The following highlights provide additional variance explanations:

- Absolute Return, Real Estate, and Real Return expenses show a year over year increase. However, this change (shift from net asset value to gross investment fees) is the result of continued improvement in data sent to our custodial bank during 2016 compared to the 2015 implementation period.
- Fixed Income expenses have decreased as a result of a smaller asset base.
- Private Equity experienced a decrease in fees in the Pension Plans while fees increased in the Insurance Plans. The decrease in the Pension Plans was due to a decline in overall asset base and less distributions. On the Insurance Plans, Private Equity has increased as a result of additional investments in this asset class.
- Public Equity has seen an increase in internally managed funds for the period resulting in less management fees.

KENTUCKY RETIREMENT SYSTEMS
Investment Fees and Expenses
For the Nine Months Ended March 31, 2016-2015

Pension Fund				Insurance Fund												
	2016 FYTD Fees	% of MV	Market Value	FY Returns	2015 FYTD Fees	% of MV	Market Value	FY Returns	2016 FYTD Fees	% of MV	Market Value	FY Returns	2015 FYTD Fees	% of MV	Market Value	FY Returns
Absolute Return	\$ 5,336,364	0.46%	\$ 1,160,044,692	-6.68%	3,974,083	0.32%	1,251,418,424	2.72%	1,963,576	0.45%	438,471,872	-6.60%	1,368,204	0.32%	432,655,954	2.78%
Investment Advisory Fees	\$ 5,007,475				3,974,083				1,846,341				1,368,204			
Performance Fees	\$ 112,622								32,610							
Other Fees and Expenses	\$ 216,267								84,625							
Fixed Income	\$ 4,920,101	0.35%	1,396,092,135	2.21%	7,413,467	0.34%	2,200,094,955	2.22%	1,792,577	0.38%	473,917,370	2.29%	2,600,393	0.31%	829,734,317	0.98%
Investment Advisory Fees	\$ 4,179,921				7,140,249				1,474,343				2,485,939			
Performance Fees	\$ 736,535				243,745				315,658				104,462			
Other Fees and Expenses	\$ 3,645				29,472				2,577				9,992			
Private Equity	\$ 19,348,701	1.77%	1,095,180,573	4.52%	34,991,307	3.09%	1,131,499,460	4.76%	10,602,489	3.31%	320,708,580	7.75%	9,633,119	3.65%	263,713,573	8.73%
Investment Advisory Fees	\$ 7,277,229				10,283,010				3,003,531				3,770,470			
Performance Fees	\$ 9,034,546				22,185,720				6,623,901				5,184,487			
Other Fees and Expenses	\$ 3,036,925				2,522,578				975,057				678,162			
Public Equity	\$ 7,337,669	0.13%	5,533,715,876	-4.79%	9,774,947	0.19%	5,028,719,742	0.26%	2,752,366	0.12%	2,291,418,490	-4.33%	3,990,025	0.20%	1,965,617,771	0.59%
Investment Advisory Fees	\$ 7,321,591				8,886,361				2,744,203				3,646,346			
Other Fees and Expenses	\$ 16,078				888,586				8,163				343,679			
Real Estate	\$ 8,801,614	1.71%	513,239,160	7.11%	5,147,136	0.88%	581,643,793	5.67%	3,202,758	1.54%	208,268,697	7.67%	2,164,924	0.95%	226,925,861	6.42%
Investment Advisory Fees	\$ 4,041,425				2,632,241				1,647,491				1,022,344			
Performance Fees	\$ 3,356,701				455,678				1,414,552				266,719			
Other Fees and Expenses	\$ 1,403,488				2,059,217				140,715				875,862			
Real Return	\$ 4,591,355	0.52%	881,209,230	-4.35%	2,267,636	0.20%	1,108,700,252	-3.57%	1,803,352	0.54%	332,180,733	-3.62%	1,542,425	0.39%	392,483,193	-3.38%
Investment Advisory Fees	\$ 3,510,424				1,769,720				1,363,715				1,105,992			
Performance Fees	\$ 576,078				485,891				232,333				195,961			
Other Fees and Expenses	\$ 504,853				12,025				207,304				240,472			
Cash	\$ 156,509	0.08%	200,387,033	0.20%	53,702	0.02%	240,299,904	0.11%	58,019	0.07%	79,360,341	0.20%	18,928	0.03%	75,293,970	0.16%
Other Fees and Expenses	\$ 156,509				53,702				58,019				18,928			
Total Investment Mgmt Fees	\$ 50,492,313	0.47%	10,779,868,699		63,622,277	0.55%	11,542,376,531		22,175,138	0.54%	4,144,326,083		21,318,018	0.51%	4,213,508,928	
Other Investment Fees	\$ 2,115,606				1,524,842				1,008,003				668,963			
Consulting	\$ 917,304				916,846				342,035				322,915			
Trustee	\$ 670,144				469,324				427,240				333,472			
Securities Lending Fees	\$ 499,918				340,947				158,669				118,737			
Securities lending Rebate	\$ 28,239				(202,274)				80,058				(106,160)			
Manual Accruals																
Total Investment Expenses	\$ 52,607,919	0.49%	10,779,868,699		65,147,118	0.56%	11,542,376,531		23,183,140	0.56%	4,144,326,083		21,986,981	0.52%	4,213,508,928	

Definitions

Other Fees and Expenses	
Investment Advisory Fees	Fees charged by managers to administer the investment of funds.
Performance Fees	Fees that are allowed when managers exceed contracted returns.
Consulting	Fees paid to outside investment consultants
Trustee	Fees Paid to Custodial Bank
Securities Lending Fees	Fees Paid on Securities Lending transactions
Securities Lending Rebates	Rebates Paid on or Received from Securities Lending transactions
Manual Accruals	Manual Accruals or adjustments made at Year End



KENTUCKY RETIREMENT SYSTEMS

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MEMORANDUM

Date: April 26, 2016

To: Audit Committee of the Board of Trustees

From: Ann M. Case, CGAP, CRMA
Director of Investment Operations

Re: **Financial Analysis of the Pension Fund**

Attached are two spreadsheets (Asset Trends and Cash Flows) for the nine months ending March 31, 2016-2015. This analysis is intended to assist the Investment Committee in understanding the asset allocations and cash inflows/outflows of the plans.

For the period noted above, while all plans are experiencing a decline in assets due to unrealized losses driven by the current market conditions, the following key points should be noted:

- Asset Trends – CERS, CHAZ and KHAZ saw a slight increase in assets over the last two quarters, despite the overall reduction in assets due primarily due to unrealized gains/losses. Unfortunately, KERS and SPRS continued to experience a loss as additional assets are needed to cover benefit payments
- Cash inflows have experienced a decline from FY 2015 due to realized losses on the sale of investments and reduced interest/dividends. Even though KERS had realized gains of \$48.3M, they were less than the prior year of \$98.7M.
- Cash outflows saw a slight increase across all systems as benefit payments continue to grow ranging from KERS growing by 2% to CHAZ with an increase of 7%.

KENTUCKY RETIREMENT SYSTEMS
Asset Trends by Plan
Pension Fund
As of March 31, 2016

	KERS			KHAZ			CERS			CHAZ			SPRS		
	3/31/2016	12/31/2015	9/30/2015	3/31/2016	12/31/2015	9/30/2015	3/31/2016	12/31/2015	9/30/2015	3/31/2016	12/31/2015	9/30/2015	3/31/2016	12/31/2015	9/30/2015
ASSETS															
Cash Deposits	1,116,409	2,692,490	2,240,981	103,499	23,469	40,080	1,553,878	763,800	531,852	145,674	489,912	615,263	113,052	164,405	206,001
Short-term Investments	65,063,014	55,433,587	89,152,389	10,976,864	23,934,277	22,703,667	142,540,248	157,518,336	170,512,911	48,956,762	61,757,283	69,752,732	5,220,570	7,215,861	8,486,853
Receivables	114,884,706	122,709,423	110,438,750	17,566,218	20,019,287	18,210,524	188,883,470	215,790,631	186,477,637	62,955,762	71,470,289	63,718,423	15,377,756	15,981,523	15,269,128
Fixed Income	323,399,458	368,832,970	506,193,611	46,643,249	86,431,022	113,512,445	545,703,041	1,014,521,586	1,367,803,628	180,360,367	329,491,154	441,029,101	28,941,263	33,440,328	45,157,749
Public Equities	767,693,514	817,062,079	816,222,466	277,363,551	226,174,489	225,404,012	3,287,090,157	2,760,205,444	2,737,230,389	1,068,924,016	893,335,478	877,258,856	97,782,815	97,675,708	98,981,626
Private Equities	348,514,287	317,985,103	331,951,690	62,938,082	60,481,871	64,555,878	658,815,308	626,125,619	666,085,642	222,900,374	210,733,984	222,583,737	26,711,253	24,597,257	26,997,962
Derivatives	2,384,347	2,529,330	2,580,818	816,852	589,964	581,274	9,681,805	7,021,206	6,978,440	3,204,241	2,261,050	2,243,686	285,619	267,387	262,808
Absolute Return	221,172,981	216,737,262	228,650,177	54,813,372	53,714,066	56,090,631	653,318,626	640,216,042	665,494,134	207,024,030	202,872,075	211,007,490	23,715,683	23,240,055	24,459,078
Real Return	167,136,358	167,906,666	N/A	42,568,243	38,707,259		494,189,113	507,187,432		161,124,578	160,259,285		17,428,450	17,230,917	
Real Estate	75,528,438	101,674,358	112,086,503	26,991,544	30,578,328	32,291,752	286,301,255	335,078,843	357,350,443	91,761,931	107,841,497	114,912,197	10,905,903	13,111,077	13,884,430
Fixed/Intangible Assets	2,927,597	3,036,686	3,200,319	254,184	263,516	277,514	5,003,663	5,189,017	5,467,049	412,247	428,015	451,667	40,011	42,263	45,642
Payables	(49,746,847)	(60,545,137)	(42,966,518)	(13,012,662)	(15,228,581)	(11,956,373)	(143,923,565)	(162,589,283)	(119,472,709)	(46,866,159)	(52,857,883)	(38,565,413)	(5,015,618)	(5,871,561)	(4,491,317)
Total Assets at Fair Value	2,040,074,261	2,116,054,817	2,159,751,206	528,022,995	525,688,967	521,711,403	6,129,156,999	6,107,028,672	6,044,459,416	2,000,903,824	1,988,082,138	1,965,007,740	221,506,759	227,095,221	229,259,960
Change in Assets from Prior Qtr	(75,980,557)	(43,696,389)	(168,030,794)	2,334,029	3,977,563	(30,756,597)	22,128,327	62,569,256	(396,340,584)	12,821,686	23,074,398	(113,194,260)	(5,588,462)	(2,164,739)	(17,969,040)

Asset Concentration

	KERS			KHAZ			CERS			CHAZ			SPRS		
	3/31/2016	12/31/2015	9/30/2015	3/31/2016	12/31/2015	3/31/2016	3/31/2016	12/31/2015	9/30/2015	3/31/2016	12/31/2015	9/30/2015	3/31/2016	12/31/2015	9/30/2015
Cash Deposits	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
Short-term Investments	3.2%	2.6%	4.1%	2.1%	4.6%	4.4%	2.3%	2.6%	2.8%	2.4%	3.1%	3.5%	2.4%	3.2%	3.7%
Fixed Income	15.9%	17.4%	23.4%	8.8%	16.4%	21.8%	8.9%	16.6%	22.6%	9.0%	16.6%	22.4%	13.1%	14.7%	19.7%
Public Equities	37.6%	38.6%	37.8%	52.5%	43.0%	43.2%	53.6%	45.2%	45.3%	53.4%	44.9%	44.6%	44.1%	43.0%	43.2%
Private Equities	17.1%	15.0%	15.4%	11.9%	11.5%	12.4%	10.7%	10.3%	11.0%	11.1%	10.6%	11.3%	12.1%	10.8%	11.8%
Derivatives	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.2%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Absolute Return	10.8%	10.2%	10.6%	10.4%	10.2%	10.8%	10.7%	10.5%	11.0%	10.3%	10.3%	10.7%	10.7%	10.2%	10.7%
Real Return	8.2%	7.9%		8.1%	7.4%		8.1%	8.3%		8.1%	8.1%		7.9%	7.6%	
Real Estate	3.7%	4.8%	5.2%	5.1%	5.8%	6.2%	4.7%	5.5%	5.9%	4.6%	5.4%	5.8%	4.9%	5.8%	6.1%
	97%	97%	97%	99%	99%	99%	99%	99%	99%	99%	99%	99%	95%	96%	95%

NOTES:

Private Equity - since 2011 KERS, KHAZ and SPRS have not made additional investments into PE; therefore, the asset base will continue to decline as payouts are made.

KENTUCKY RETIREMENT SYSTEMS
Cash Flow
Pension Fund
For the Nine Months Ended March 31, 2016-2015

	KERS		KHAZ		CERS		CHAZ		SPRS	
	3/31/2016	3/31/2015	3/31/2016	3/31/2015	3/31/2016	3/31/2015	3/31/2016	3/31/2015	3/31/2016	3/31/2015
INFLOWS										
Member Contributions	\$76,071,005	\$75,924,487	\$11,094,822	\$9,388,618	\$99,496,203	\$98,384,451	\$37,855,731	\$34,574,609	\$4,027,710	\$3,562,683
Employer Contributions	\$389,102,807	\$387,265,413	\$19,017,106	\$16,642,718	\$215,503,107	\$219,148,528	\$80,019,666	\$81,320,681	\$19,773,561	\$19,042,554
Pension Spiking Contributions	\$313,922	\$519,409	\$42,317	\$130,916	\$876,937	\$579,276	\$674,830	\$302,764	\$41,704	\$234,427
Bank of America Settlement		\$8,442,347		\$767,141		\$10,280,391		\$2,865,365		\$644,756
Health Insurance Contributions (HB1)	\$3,583,584	\$3,117,761	\$506,945	\$395,699	\$5,698,922	\$4,956,175	\$1,051,726	\$787,260	\$85,153	\$67,680
Sale on Investments	\$48,379,317	\$95,710,967	(\$1,776,145)	\$20,754,783	(\$38,880,808)	\$246,762,682	(\$12,504,556)	\$78,291,450	(\$449,612)	\$9,556,338
Interest/Dividends	\$18,203,712	\$48,111,180	\$5,218,246	\$9,856,209	\$62,231,791	\$113,255,130	\$20,060,020	\$36,029,455	\$2,152,336	\$4,586,161
Securities Lending Income	\$639,456	\$424,666	\$155,660	\$99,508	\$1,891,641	\$1,218,402	\$608,664	\$392,001	\$65,605	\$43,535
Total Inflows	\$536,293,803	\$619,516,230	\$34,258,951	\$58,035,592	\$346,817,793	\$694,585,035	\$127,766,082	\$234,563,585	\$25,696,458	\$37,738,134
OUTFLOWS										
Investment Expense	\$7,790,978	\$14,445,970	\$2,658,777	\$3,219,066	\$30,293,821	\$35,075,691	\$10,379,864	\$11,163,821	\$956,317	\$1,391,693
Securities Lending Borrower Rebates	\$60,009	\$69,073	(\$1,663)	\$13,281	(\$21,755)	\$153,498	(\$7,587)	\$49,237	(\$764)	\$6,104
Security Lending Agent Fee	\$86,917	\$48,820	\$23,598	\$13,415	\$287,011	\$168,387	\$92,437	\$53,746	\$9,955	\$5,850
Benefit Payments	\$691,494,431	\$678,839,692	\$44,308,915	\$42,436,512	\$484,981,531	\$459,349,590	\$159,239,459	\$149,159,782	\$42,144,804	\$41,014,251
Refunds	\$9,613,191	\$10,996,159	\$1,667,506	\$2,097,915	\$10,540,815	\$10,499,451	\$2,236,341	\$2,418,066	\$11,237	\$54,749
Administrative Expenses	\$9,789,092	\$11,220,509	\$827,727	\$865,042	\$17,013,687	\$18,751,489	\$1,305,333	\$1,605,799	\$176,150	\$330,113
Capital Project Expenses	\$84,864	\$342,859	\$7,166	\$27,907	\$143,308	\$569,107	\$12,219	\$48,838	\$1,811	\$7,973
Total Outflows	\$718,919,481	\$715,963,083	\$49,492,026	\$48,673,138	\$543,238,419	\$524,567,214	\$173,258,067	\$164,499,290	\$43,299,510	\$42,810,733
Net Cash Flows	(\$182,625,678)	(\$96,446,853)	(\$15,233,075)	\$9,362,454	(\$196,420,626)	\$170,017,821	(\$45,491,986)	\$70,064,295	(\$17,603,052)	(\$5,072,599)
Unrealized Gains/Losses	(\$105,083,234)	(\$109,279,570)	(\$9,211,832)	(\$23,245,434)	(\$115,222,353)	(\$263,232,145)	(\$32,378,378)	(\$82,237,074)	(\$7,545,146)	(\$11,347,261)
Net Increase (Decrease) in Plan Net Position	(\$287,708,912)	(\$205,726,423)	(\$24,444,907)	(\$13,882,980)	(\$311,642,979)	(\$93,214,323)	(\$77,870,364)	(\$12,172,779)	(\$25,148,198)	(\$16,419,860)

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: KRS Administrative Budget-to-Actual Expenditure Update

Accompanying this memorandum, you will find the spreadsheets showing KRS Administrative budget-to-actual expenditures for the third quarter (Q3) of Fiscal Year 2015-16. Key informational items for this period include:

- Total expenditures through March 31, 2016 totaled \$24.54 million with 41% of budget remaining.
- Overall, all expenditures including salaries and benefits remained below or on target with the budget.
- Technology expenses were higher in Q3 compared to prior quarter related to disaster recovery implementation, required server upgrades for .net versions, and contractor expenses.
- We anticipate that our FY 2016 actual expenses will be below budget (greater than 10%).
- Additional information includes two ancillary reports showing the split out of Internal Audit and Investments actual expenses (both within budgeted targets).

RECOMMENDATION: None. This item is presented for information purposes only.

**KRS ADMINISTRATIVE BUDGET 2015-2016
THIRD QUARTER BUDGET-TO-ACTUAL ANALYSIS**

For the Month Ended March 2016

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
	PERSONNEL				
111	Salaries	\$14,600,000	\$11,696,631	\$2,903,369	20%
120	Benefits	\$9,000,000	\$7,163,355	\$1,836,645	20%
131	Workers Compensation	\$34,000	\$32,365	\$1,635	5%
132	Unemployment	\$10,000	\$9,019	\$981	10%
133	Tuition Assistance	\$35,000	\$22,206	\$12,794	37%
133I	Investment Tuition Assistance	\$5,000	\$4,440	\$560	11%
133T	Audit Tuition Assistance	\$2,500	\$0	\$2,500	100%
135	Bonds	\$3,000	\$0	\$3,000	100%
141	LEGAL & AUDITING SERVICES				
141A	Legal Hearing Officers	\$344,000	\$140,674	\$203,326	59%
141B	Legal (Stoll, Keenon)	\$225,000	\$60,610	\$164,390	73%
141C	Polsinelli Shugart	\$100,000	\$0	\$100,000	100%
141E	Reinhart	\$350,000	\$83,320	\$266,680	76%
141F	Ice Miller	\$1,200,000	\$50,992	\$1,149,008	96%
142	Auditing	\$100,000	\$61,325	\$38,675	39%
146	CONSULTING SERVICES				
146A	Medical Reviewers	\$380,000	\$219,840	\$160,160	42%
146B	Medical Reports	\$10,000	\$0	\$10,000	100%
146C	Medical Exams	\$25,000	\$33,722	(\$8,722)	-35%
150	CONTRACTUAL SERVICES				
150C	Miscellaneous Contracts	\$270,000	\$91,514	\$178,486	66%
150D	Health Consultant	\$125,000	\$9,730	\$115,270	92%
150E	Banking	\$9,000	\$0	\$9,000	100%
150F	PBI	\$9,000	\$0	\$9,000	100%
150G	Human Resources Consulting	\$100,000	\$0	\$100,000	100%
150H	Health Insurance Admin Fee	\$2,200,000	\$1,536,943	\$663,057	30%
150I	Investment Consulting	\$600,000	\$189,103	\$410,897	68%
150J	Medical Claims TPA	\$2,941,997	\$0	\$2,941,997	100%
150K	Pharmacy Claims TPA	\$3,073,453	\$0	\$3,073,453	100%
159	Actuarial Services	\$600,000	\$390,810	\$209,190	35%
162	Facility Security Charges	\$3,000	\$1,034	\$1,967	66%
	PERSONNEL SUBTOTAL	\$36,354,950	\$21,797,633	\$14,557,317	40%

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
	OPERATIONAL				
211	Natural Gas	\$25,000	\$10,206	\$14,794	59%
212	Electric	\$190,000	\$125,793	\$64,207	34%
221	Rent-NonState Building	\$33,500	\$24,516	\$8,984	27%
222	Rent -State Owned Building	\$705,000	\$523,751	\$181,249	26%
223	Equipment Rental	\$5,000	\$897	\$4,103	82%
224	Copier Rental	\$86,000	\$52,394	\$33,606	39%
226	Rental Carpool	\$0	\$0	\$0	
232	Vehicle/Equip. Mainten.	\$29,000	\$1,790	\$27,210	94%
241	Postage	\$525,000	\$226,384	\$298,616	57%
242	Freight	\$1,200	\$546	\$654	54%
251	Printing (State)	\$1,000	\$0	\$1,000	100%
252	Printing (non-state)	\$300,000	\$132,851	\$167,149	56%
254	Insurance	\$85,000	\$2,650	\$82,350	97%
256	Garbage Collection	\$15,000	\$9,956	\$5,044	34%
259	Conference Expense	\$40,000	\$18,982	\$21,018	53%
259I	Conference Exp. Investment	\$12,600	\$3,608	\$8,992	71%
259T	Conference Exp. Audit	\$1,500	\$1,665	(\$165)	-11%
300	MARS Usage	\$31,000	\$20,325	\$10,675	34%
321	Office Supplies	\$96,300	\$36,241	\$60,059	62%
331	Data Processing Supplies	\$45,000	\$4,332	\$40,668	90%
343	Motor Fuels & Lubricants	\$3,000	\$1,422	\$1,578	53%
346	Furniture & Office Equipment	\$50,000	\$620	\$49,380	99%
361	Travel (In-State)	\$109,000	\$60,892	\$48,108	44%
361I	Travel (In-State) Investment	\$1,500	\$495	\$1,005	67%
361T	Travel (In-State) Audit	\$500	\$136	\$364	73%
362	Travel (Out of State)	\$40,000	\$3,323	\$36,677	92%
362I	Travel (Out of State) Invest	\$51,050	\$12,793	\$38,257	75%
362T	Travel (Out of State) Audit	\$2,500	\$1,424	\$1,076	43%
381	Dues & Subscriptions	\$48,000	\$28,776	\$19,224	40%
381I	Dues & Subscriptions Invest	\$42,000	\$5,297	\$36,703	87%
381T	Dues & Subscriptions Audit	\$1,000	\$530	\$470	47%
399	Miscellaneous	\$20,000	\$15,362	\$4,638	23%
399I	Miscellaneous Investment	\$16,700	\$4,293	\$12,407	74%
399T	Miscellaneous Audit	\$500	\$266	\$234	47%
601	Capital Outlay	\$300,000	\$0	\$300,000	100%
802	COT Charges	\$90,000	\$64,300	\$25,700	29%
814	Telephone - Wireless	\$8,000	\$4,676	\$3,324	42%
815	Telephone - Other	\$150,000	\$69,333	\$80,667	54%
847	Computer Equip./Software	\$1,600,000	\$1,271,524	\$328,476	21%
847I	Comp. Equip./Software Invest	\$190,000	\$0	\$190,000	100%
847T	Comp. Equip./Software Audit	\$1,000	\$0	\$1,000	100%
	OPERATIONAL SUBTOTAL	\$4,951,850	\$2,742,352	\$2,209,498	45%
	TOTALS	\$41,306,800	\$24,539,985	\$16,766,815	41%

KRS ADMINISTRATIVE BUDGET 2015-16

INTERNAL AUDIT - BUDGET-TO-ACTUAL ANALYSIS

For the Month Ended March 2016

Acc't #	Account Name	Budgeted	Actual Expense	Remaining	% Remaining
	PERSONNEL (1)				
133T	Audit Tuition Assistance	\$2,500	\$0	\$2,500	100%
	PERSONNEL SUBTOTAL	\$2,500	\$0	\$2,500	100%
	OPERATIONAL				
259T	Conference Exp. Audit	\$1,500	\$1,665	(\$165)	-11%
361T	Travel (In-State) Audit	\$500	\$136	\$364	73%
362T	Travel (Out of State) Audit	\$2,500	\$1,424	\$1,076	43%
381T	Dues & Subscriptions Audit	\$1,000	\$530	\$470	47%
399T	Miscellaneous Audit	\$500	\$266	\$234	47%
847T	Comp. Equip./Software Audit	\$1,000	\$0	\$1,000	100%
	OPERATIONAL SUBTOTAL	\$7,000	\$4,021	\$2,979	43%
	TOTALS	\$9,500	\$4,021	\$5,479	58%

INVESTMENT AUDIT - BUDGET-TO-ACTUAL ANALYSIS

For the Month Ended March 2016

Acc't #	Account Name	Budgeted	Actual Expense	Remaining	% Remaining
	PERSONNEL (1)				
133I	Investment Tuition Assistance	\$5,000	\$4,440	\$560	11%
	CONTRACTUAL SERVICES				
141E	Reinhart	\$350,000	\$83,320	\$266,680	76%
150I	Investment Consulting (2)	\$600,000	\$189,103	\$410,897	68%
	PERSONNEL SUBTOTAL	\$955,000	\$276,863	\$678,137	71%
	OPERATIONAL				
259I	Conference Exp. Investment	\$12,600	\$3,608	\$8,992	71%
361I	Travel (In-State) Investment	\$1,500	\$495	\$1,005	67%
362I	Travel (Out of State) Investment	\$51,050	\$12,793	\$38,257	75%
381I	Dues & Subscriptions Invest	\$42,000	\$5,297	\$36,703	87%
399I	Miscellaneous Investment	\$16,700	\$4,293	\$12,407	74%
847I	Comp. Equip./Software Investment	\$190,000	\$0	\$190,000	100%
	OPERATIONAL SUBTOTAL	\$313,850	\$26,486	\$287,364	92%
	TOTALS	\$1,268,850	\$303,349	\$965,501	76%

(1) Staff salaries are included in total KRS Budget reporting.

(2) Management Consulting Fees were expensed to the Trusts for Investment Fee Transparency.

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KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Chief Investment Officer

DATE: May 19, 2016

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on May 3, 2016. The purpose of the meeting was to evaluate investment activities, program structure, management, controls, and performance results of the Pension and Insurance Funds, for the quarter ending March 31, 2016, along with various other subjects.

The meeting began by voting Mary Helen Peter as the Acting Chair followed by Staff and the Investment Committee members welcoming the newest member of the Board of Trustee, Dave Eager, who was sworn in as a trustee. The Investment Committee then approved the minutes for the previous Investment Committee meeting held on February 2, 2016.

Erica Bradley, Compliance Officer, presented the Quarterly Compliance Report. It was noted that the ten year annualized return is below its benchmark. It was also noted that the policy regarding fixed income securities that settle trade date plus one day was not in compliance. The Investment Committee voted to suspend this policy until the November Investment Committee meeting where updated policies regarding fixed income liquidity will be presented.

The Management Update was given by David Peden, CIO, which included a review of some of the standard quarterly reports. These reports included the: Monthly Performance Update, Investment Division Budget Report, the quarterly Manager Meeting and Related Expense Tracking Report, the Internally Managed Portfolio Asset Report, Internally Managed Portfolio Transactions Report, Securities Lending Report, Domestic Equity Commissions Report, Global Equity Commissions Report, and the Securities Litigation Report were provided for informational purposes.

The Standing Quarterly Committee Topics, Potential Future Topics List, and an overview of the supplied articles of interest were reviewed. Questions were encouraged and addressed throughout the reports.

Staff and Consultant RV Kuhns presented a recommendation to increase the size of the mandate managed by River Road Asset Management to a 2.25% position of the aggregate portfolio. This mandate will be split between River Road's Dividend All Cap. strategy and Focused Absolute

Value strategy. The new strategy and target allocation were approved by the investment committee. All five pension systems and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents.

KRS Investment Staff, Prisma Capital Partners, and consultant Albourne recommended an initial investment of approximately \$20 million to Anchorage Capital Partners, \$30 million to BlackRock Global Alpha Opportunities fund, and \$25 million to Finisterre Global Opportunity fund. This recommendation was approved by the KRS Investment Committee. All five pension systems and all five insurance systems will participate in this investment. The investment managers in the marketing and due diligence process used no placement agents.

KRS Investment Staff recommended increasing the target allocation for the Prisma Daniel Boone portfolio to 5% of aggregate portfolio assets from its current target of 3.33%. This recommendation was approved by the Investment Committee.

KRS Investment Staff and consultant ORG recommended an initial investment of approximately 50 million EURO to Patron Capital V, L.P. All five pension systems and all five insurance systems would receive allocations to this investment. The investment managers in the marketing and due diligence process used no placement agents. This recommendation was approved by the Investment Committee.

The Investment Committee listened to educational presentation on investing in Farmland. The topic specifically focused on how such a strategy could be implemented in Kentucky. This presentation was for educational and informational purposes only and was not a recommendation. Committee members did encourage staff to continue to research and work with appropriate consultants to review the opportunity further.

Erica Bradley, Compliance Officer, presented the results of an Alternative Due Diligence Audit and the attached comments from the Investment staff. This was for information purposes only and no action was taken.

Ann Case, Director of Investment Operations, presented reporting on investment fees and expenses. Ann also reported a financial trend and cash flow analysis. This was for informational purposes only and no action was taken.

Members of the Investment Committee made a motion to make Dave Eager the Chair of the Investment Committee and the motion was approved unanimously.

Please see the next page for a summary of the Pension and Insurance performance information ending March 31, 2016.

Pension Funds Performance Overview								
Rates of Return (%) as of March 31, 2016								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	-4.39	-5.59	5.47	4.93	5.09	4.98	4.20	3.91
Fixed Income	1.43	1.92	2.63	2.56	4.80	4.08	5.23	5.09
Private Equity	9.35	9.35	13.16	13.16	13.11	14.47	7.50	9.92
Real Estate	9.31	13.95	8.51	12.77	9.22	12.60	6.15	5.55
Absolute Return	-4.16	-4.96	3.30	2.23	4.12	1.48	N/A	
Real Return	-4.76	-3.12	-1.86	0.40	N/A		N/A	
Cash Equivalents	0.26	0.08	0.35	0.05	0.33	0.06	1.64	1.07
Total Fund	-1.00	-1.08	4.86	5.53	5.38	5.71	4.82	5.21

Insurance Funds Performance Overview								
Rates of Return (%) as of March 31, 2016								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	-4.00	-5.47	5.63	4.94	5.10	5.02	4.09	3.79
Fixed Income	1.46	1.92	2.01	2.56	4.37	4.19	5.36	5.21
Private Equity	13.53	13.53	15.77	15.77	13.85	14.42	8.86	9.22
Real Estate	9.06	13.95	8.44	12.77	8.93	12.60	N/A	
Absolute Return	-4.08	-4.96	3.31	2.23	4.10	1.48	N/A	
Real Return	-4.15	-2.68	-1.85	0.68	N/A		N/A	
Cash Equivalents	0.24	0.08	0.23	0.05	0.27	0.06	1.41	1.07
Total Fund	-0.88	-0.58	4.56	5.87	4.55	5.76	4.03	4.66

RECOMMENDATION: The Board is requested to ratify the actions of the Investment Committee.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: Fiduciary Liability Insurance Policy – UPDATE from April 21 Meeting

Based on the Board’s direction from the April 21 meeting, KRS extended coverage for 30 days with our current carrier. Ullico has declined further extensions or an annual renewal and the policy expires May 24, 2016.

On May 10, we received a proposal that aggregates to \$5M in coverage provided by two carriers – Lloyd’s of London on the first \$2.5M and QBE Specialty on the excess \$2.5M. This comes with a \$2.5M limit and a \$250,000 deductible/retention (the retention does increase to \$500,000 for any claims arising out of the KERS plans and any investment in any alternative investments – including any private equity funds or hedge funds). The quote also contains specific litigation event exclusions pertaining to the City of Fort Wright v KRS and the Seven Counties Services Bankruptcy matter. There is NO Prior Acts Exclusion or an Absolute Underfunding Exclusion (these are 2 endorsements both Ironshore and AIG wanted on their policies). They are also attaching a Pending & Prior Litigation Date of 4/25/16 to exclude coverage from events that have litigation prior to 4/25/16.

The annual premium for the period of April 25, 2016 – April 24, 2017 is \$246,375 compared to our current expense of \$79,623 (over 300% increase) for \$5M in coverage.

COVERAGE	CARRIER	ANNUAL PREMIUM
Fiduciary – First Layer	ANV Global Services Inc	\$135,000.00
Surplus Lines Tax, Ky Surcharge Tax & Broker Fee		\$6,680.00
Fiduciary – Excess Layer	QBE Specialty Ins Co.	\$99,900.00
Surplus Lines Tax, Ky Surcharge tax		\$4,795.20
Total Proposed Premium		\$246,375.20

This is the only viable option the marketplace was willing to provide. Ironshore and AIG were the only other carriers to release indications - both with premiums of nearly \$250,000, limits of only \$3M, retentions of \$1M and each would contain exclusions pertaining to prior acts, underfunding, criminal allegations and specific investments relating to hedge funds/private equity/real estate.

The Carriers that declined to offer terms include Ullico, CHUBB, RSUI, Great American, Euclid Specialty, HCC, Beazley, RLI, Travelers, Liberty, Endurance and CV Starr.

Based on the current information, the Board's options include:

(1) Obtain coverage at the terms provided by Lloyd's of London and QBE Specialty. This coverage, which carries a high premium cost, also has \$250,000/\$500,000 deductibles (KERS and specified Investments), coverage exclusions for City of Fort Wright, Seven Counties, and other litigation prior to 4/25/2016.

(2) The Board could decide to self-insure the fiduciary liability risk for the next 11 months and seek new bids in early 2017.

RECOMMENDATION: None. Open for Board Discussion.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: Initial Retirement Cases, Third Quarter, 15-16

The tables below show the distribution of new retirees who retired during this quarter of the fiscal year by retirement mode and the retirees with 27 or more years of service.

DISTRIBUTION BY RETIREMENT MODE

<u>MODE</u>	<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>	<u>PERCENT</u>
Normal Retirement	156	319	1	476	30.0%
Early Retirement	346	584	3	933	59.0%
Disability Retirement	16	56	1	73	5.0%
Retirement Eligible Refund	14	32	0	46	3.0%
Death of Members Eligible to Retire	18	28	0	46	3.0%
Grand Totals	550	1019	5	1574	100%

RETIREES WITH 27 OR MORE YEARS OF SERVICE

	<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
Under Normal Retirement Age	122	164	2	288
At and Over Normal Retirement Age	10	26	0	36
Grand Totals	132	190	2	324

RECOMMENDATION: This report is provided for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen
Executive Director
DATE: May 19, 2016
SUBJECT: Death Benefit Payments, Third Quarter, 15-16

The table below reflects the number of deceased retired members whose death benefit was paid during this quarter of the fiscal year and the total amount paid by each system.

DEATH BENEFIT PAYMENTS

	<u>Number of Deceased Retirees</u>	<u>Total Amount Paid</u>
KERS	288	\$1,440,000.00
CERS	325	\$1,625,000.00
SPRS	3	\$15,000.00
TOTALS	616	\$3,080,000.00

RECOMMENDATION: This report is provided for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: Refund of Member Contributions for Quarter Ended March 2016

The summary by system, age, and service credit of each person who received a refund during the third quarter of this fiscal year is attached.

There were 1,170 refunds totaling \$7,166,689 paid to former members of the systems during the third quarter. Refund payments during the past (12) twelve quarters were as follows:

Quarter Ended	Amount	Number of Refunds
03/03/2016	\$7,166,689	1,170
12/31/2015	\$7,546,369	1,219
09/30/2015	\$9,457,518	1,967
06/30/2015	\$7,830,169	1,334
03/31/2015	\$8,735,671	1,393
12/31/2014	\$7,953,236	1,338
09/30/2014	\$11,208,677	2,465
06/30/2014	\$8,829,317	2,167
03/31/2014	\$8,595,267	1,605
12/31/2013	\$8,063,089	1,696
09/30/2013	\$9,525,226	1,791
06/30/2013	\$7,892,029	1,986
03/31/2013	\$8,854,181	1,592

RECOMMENDATION: This report is provided for informational purposes only.

Kentucky Retirement Systems
Refund Distribution by Age and Service

Start Date: 1/1/2016 End Date: 3/31/2016

<u>Age</u>	<u>Years of Services</u>					<u>CERSHZ</u>
	<u>0 < 5</u>	<u>5 < 10</u>	<u>10 < 15</u>	<u>15 < 20</u>	<u>20 - Up</u>	<u>Totals</u>
<u>0 - 19</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>20 - 29</u>	7	7	2	1	1	18 37.50% 156649.08 20.62%
<u>30 - 39</u>	8	3	3	3	3	20 41.67% 354454.22 46.66%
<u>40 - 49</u>	2	0	1	1	6	10 20.83% 248531.22 32.72%
<u>50 - 59</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>60 - Up</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>CERSHZ</u>						
<u>Totals</u>	17	10	6	5	10	48
	35.42%	20.83%	12.50%	10.42%	20.83%	100.00%
	57066.71	80875.14	121540.84	160372.57	339779.26	759634.52
	7.51%	10.65%	16.00%	21.11%	44.73%	100.00%

Kentucky Retirement Systems
Refund Distribution by Age and Service

Start Date: 1/1/2016 End Date: 3/31/2016

<u>Age</u>	<u>Years of Services</u>					<u>CERSNHZ</u>
	<u>0 < 5</u>	<u>5 < 10</u>	<u>10 < 15</u>	<u>15 < 20</u>	<u>20 - Up</u>	<u>Totals</u>
<u>0 - 19</u>	0	0	1	1	0	2 0.32% 24686.76 0.75%
<u>20 - 29</u>	32	22	5	1	0	60 9.60% 178092.64 5.40%
<u>30 - 39</u>	53	48	21	13	11	146 23.36% 862778.41 26.17%
<u>40 - 49</u>	55	47	22	19	28	171 27.36% 1168702.2 35.45%
<u>50 - 59</u>	45	47	15	6	20	133 21.28% 794086.24 24.09%
<u>60 - Up</u>	67	33	12	1	0	113 18.08% 268440.67 8.14%
<u>CERSNHZ</u>						
<u>Totals</u>	252 40.32% 293836.48 8.91%	197 31.52% 857733.72 26.02%	76 12.16% 576612.68 17.49%	41 6.56% 493284.66 14.96%	59 9.44% 1075319.38 32.62%	625 100.00% 3296786.92 100.00%

**Kentucky Retirement Systems
Refund Distribution by Age and Service**

Start Date: 1/1/2016 End Date: 3/31/2016

<u>Age</u>	<u>Years of Services</u>					<u>KERSHZ</u>
	<u>0 < 5</u>	<u>5 < 10</u>	<u>10 < 15</u>	<u>15 < 20</u>	<u>20 - Up</u>	<u>Totals</u>
<u>0 - 19</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>20 - 29</u>	16	6	2	1	1	26 39.39% 113754.94 33.25%
<u>30 - 39</u>	15	2	1	2	3	23 34.85% 152433.73 44.56%
<u>40 - 49</u>	8	3	3	0	0	14 21.21% 66017.04 19.30%
<u>50 - 59</u>	2	1	0	0	0	3 4.55% 9907.29 2.90%
<u>60 - Up</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>KERSHZ</u>						
<u>Totals</u>	41	12	6	3	4	66 100.00%
	62.12%	18.18%	9.09%	4.55%	6.06%	100.00%
	68820.52	66251.65	80140.92	44852.66	82047.25	342113
	20.12%	19.37%	23.43%	13.11%	23.98%	100.00%

Kentucky Retirement Systems Refund Distribution by Age and Service

Start Date: 1/1/2016 End Date: 3/31/2016

<u>Age</u>	<u>Years of Services</u>					<u>KERSNHZ</u>
	<u>0 < 5</u>	<u>5 < 10</u>	<u>10 < 15</u>	<u>15 < 20</u>	<u>20 - Up</u>	<u>Totals</u>
<u>0 - 19</u>	1	0	0	0	0	1 0.23% 354.02 0.01%
<u>20 - 29</u>	23	24	6	0	0	53 12.33% 193134.53 6.99%
<u>30 - 39</u>	44	58	21	12	9	144 33.49% 987125.190000001 35.71%
<u>40 - 49</u>	35	40	21	13	6	115 26.74% 875267.19 31.66%
<u>50 - 59</u>	29	20	6	5	6	66 15.35% 521110.98 18.85%
<u>60 - Up</u>	32	14	3	0	2	51 11.86% 187538.86 6.78%
<u>KERSNHZ</u>						
<u>Totals</u>	164	156	57	30	23	430
	38.14%	36.28%	13.26%	6.98%	5.35%	100.00%
	258941.08	895221.62	553796.6	529349.21	527222.26	2764530.77
	9.37%	32.38%	20.03%	19.15%	19.07%	100.00%

Kentucky Retirement Systems Refund Distribution by Age and Service

Start Date: 1/1/2016 End Date: 3/31/2016

<u>Age</u>	<u>Years of Services</u>					<u>SPRSHZ</u>
	<u>0 < 5</u>	<u>5 < 10</u>	<u>10 < 15</u>	<u>15 < 20</u>	<u>20 - Up</u>	<u>Totals</u>
<u>0 - 19</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>20 - 29</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>30 - 39</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>40 - 49</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>50 - 59</u>	1	0	0	0	0	1 100.00% 3624.12 100.00%
<u>60 - Up</u>	0	0	0	0	0	0 0.00% 0 0.00%
<u>SPRSHZ</u>						
<u>Totals</u>	1	0	0	0	0	1 100.00% 3624.12 100.00%
	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%
	3624.12	0	0	0	0	3624.12
	100.00%	0.00%	0.00%	0.00%	0.00%	100.00%

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen
Executive Director
DATE: May 19, 2016
SUBJECT: Report of Decisions by the Medical Examiners

DISABILITY

During the third quarter of the fiscal year, the Medical Examiners reviewed a total of 170 applicants for disability retirement. There were 69 (40.59%) recommended for approval and 101 (59.41%) recommended for denial.

Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
18	50	1	69

Duty Related Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	0	0	0

Denials

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
30	71	0	101

HAZARDOUS DISABILITY

During the third quarter of the fiscal year, the Medical Examiners reviewed a total of 9 applicants for hazardous disability retirement. There were 2 (22.22%) recommended for denial and 7 (77.78%) recommended for approval.

Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	3	0	3

In the Line of Duty Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	3	1	4

Total and Permanent Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
0	0	0	0

ANNUAL REVIEW OF DISABILITY RECIPIENTS

During the third quarter of the fiscal year, the Medical Examiners made final decisions on a total of 180 annual reviews of disability recipients. The disability benefits of 176 recipients (97.78%) were continued and the disability benefits of 4 recipients (2.22%) were terminated.

RECOMMENDATION: This is for informational purposes only. No action is required by the board.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: Disability Appeals Committee Quarterly Report

The Disability Appeals Committee held meetings on January 25, February 24 and March 28, 2016. A total of 32 disability claims were acted upon during the quarter resulting in 14 denials, 13 approvals, 2 remands and 3 dismissals.

Denials

KERS 8	CERS 6	SPRS 0
-----------	-----------	-----------

Approvals

KERS 6	CERS 7	SPRS 0
-----------	-----------	-----------

Dismissals

KERS 1	CERS 2	SPRS 0
-----------	-----------	-----------

Remands

KERS 2	CERS 0	SPRS 0
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RECOMMENDATION: This is for informational purposes only. No action is required by the Board.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: Administrative Appeals Committee Quarterly Report

The Administrative Appeals Committee held meetings on February 24 and March 28, 2016. A total of 6 cases were acted upon in the quarter resulting in 1 denial, 3 not bona fide and 2 dismissals.

<u>Denials</u>		
KERS	CERS	SPRS
0	1	0

<u>Continuances</u>		
KERS	CERS	SPRS
0	0	0

<u>Discontinuances</u>		
KERS	CERS	SPRS
0	0	0

<u>Reinstatements</u>		
KERS	CERS	SPRS
0	0	0

<u>Not Bona Fide</u>		
KERS	CERS	SPRS
1	2	0

<u>Remands</u>		
KERS	CERS	SPRS
0	0	0

<u>Dismissals</u>		
KERS	CERS	SPRS
1	1	0

RECOMMENDATION: This is for informational purposes only. No action is required by the Board.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: May 19, 2016

SUBJECT: Participation of Additional Agencies and Hazardous Positions

PARTICIPATION—NONHAZARDOUS

Petitioning Agency: Red River Wastewater Authority Inc.

Red River Wastewater Authority Inc. (Red River Waste) is inquiring about participation in the County Employees Retirement System non-hazardous plan. Red River Waste has submitted Articles of Incorporation, By-Laws and a 2015 Budget for review. A summary of some of the key provisions of the submitted documents follows:

Articles of Incorporation:

- Red River Waste is a Kentucky Revised Statue Chapter 273 non-profit corporation.
- Red River Waste was created by the City of Clay City, City of Stanton, and the Powell County Fiscal Court pursuant to KRS 58.180¹ and an Interlocal Cooperation Agreement pursuant to KRS 65.210 to 65.300² and KRS 76.232³.
- Red River Waste is a “joint sewer agency, instrumentality, and constituted authority of the City of Clay City, the City of Stanton, and the Powell County Fiscal Court.
- Red River Waste may be dissolved at any time by joint action of its creators, but any indebtedness should be discharged or provisions made for discharge. If dissolved, the Red River Waste’s property and assets will vest in the City of Clay City and the City of Stanton.

¹ Creation of nonprofit corporation to act as an instrumentality of governmental agency in the financing of public projects.

² General Provisions Applicable to Counties, Cities, and Other Local Units.

³ Establishment of joint sewer agency by city with population of less than 20,000 to less than 100,000 with county or sanitation district.

- Red River Waste's five (5) Board of Directors are appointed by the Mayor of Clay City, Mayor of Stanton, Powell County Judge Executive.

RECOMMENDATION: The Executive Director has no recommendation at this time in regard to the eligibility of the Red River Water Authority.

THE FOLLOWING AGENCIES ARE ASKING FOR HAZARDOUS DUTY COVERAGE ON POSITIONS FOR EMPLOYEES WHO HAVE A PARTICIPATION DATE PRIOR TO SEPTEMBER 1, 2008.

The City of Bardstown has requested hazardous duty coverage for the following positions with an effective date of June 1, 2016:

Police Major	Police Captain
Police Lieutenant	Detective
Police Officer	
Major – Assistant Fire Chief	Captain – Fire Marshal
Lieutenant – Training	Lieutenant – Shift Commander
Firefighter EMT	

There are no new employees to be covered under hazardous duty coverage at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

The City of Fort Mitchell has requested hazardous duty coverage for the following position with a **retroactive** date of **May 1, 2015**:

Police Specialist

The Board of Trustees also approved the position of Assistant Fire Chief at the May 21, 2015 Board Meeting with an effective date of 6/1/2015. The agency at that time failed to ask for a retroactive date. The City of Fort Mitchell is asking for the following position to be hazardous **retroactively** to **December 2014**:

Assistant Fire Chief

There are no new employees to be covered under hazardous duty coverage at this time under the Police Specialist. There is one (1) employee currently covered under the position of Assistant Fire Chief. Attached are copies of the Position Questionnaires and Job Descriptions.

The City of Oak Grove has requested hazardous duty coverage for the following positions with a **retroactive** date of **March 1, 2016**:

Chief of Emergency Medical Services **Paramedic**
EMT

There are seven (7) new employees to be covered under hazardous duty coverage at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

HAZARDOUS POSITIONS (FOR EMPLOYEES HIRED 9/1/08 OR AFTER)

The City of Bardstown has requested hazardous duty coverage for the following positions with an effective date of June 1, 2016:

Police Chief	Police Major
Police Captain	Police Lieutenant
Police Sergeant	Detective
Fire Chief	Major – Assistant Fire
Chief	
Captain – Fire Marshal	Lieutenant – Training
Lieutenant – Shift Commander	Firefighter EMT

There are no new employees to be covered under hazardous duty coverage at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

The City of London has requested hazardous duty coverage for the following position with a **retroactive** date of **October 1, 2015**:

Firefighter/Maintenance Man

There are eight (8) new employees to be covered under hazardous duty coverage at this time. Attached is a copy of the Position Questionnaire and Job Description.

The City of Oak Grove has requested hazardous duty coverage for the following positions with a **retroactive** date of **March 1, 2016**:

Chief of Emergency Medical Services **Paramedic**
EMT

There are seven (7) new employees to be covered under hazardous duty coverage at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

City of West Buechel has requested hazardous duty coverage for the following positions with a **retroactive** date of **March 1, 2016**:

Police Chief

Police Officer

There are no new employees to be covered under hazardous duty at this time. Attached are copies of the Position Questionnaires and Job Descriptions.

HAZARDOUS POSITIONS - KERS AGENCIES

Eastern Kentucky University has requested hazardous duty coverage for the following positions with their Public Safety Department with an effective date of June 1, 2016:

Lieutenant – Public Safety Support Services

Lieutenant - Administration

Police Officer

Sergeant – University Fire Marshal

Sergeant

Chief of Police

Lieutenant – Police Operations

There are twenty-three (23) employees to be covered under hazardous duty at this time. Attached are the Position Questionnaires and Job Descriptions.

The Office of the Attorney General requests the transfer of hazardous duty to the title **HDR Executive Staff Assistant** position from the originally approved title of **Executive Assistant**, which has been considered hazardous duty and coded as such since 2013. Agency did not have a class spec on this position, but did complete the Position Questionnaire, which is attached. The letter from the Office of the Attorney General in regard to the title change of this position is also attached. The retroactive date of this title change is December 1, 2015.

RECOMMENDATION: The positions for which hazardous duty has been requested are presented for discussion.