

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: September 11, 2014

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 June 30, 2014, there are 258 full-time employees. There are 158 female employees, representing 61.24 % of the staff, and 26 employees who are members of minority groups, representing approximately 10.08% of the staff. Females make up 58.82% of the leadership positions in the Kentucky Retirement Systems, while employees who are members of minority groups hold 3.92% 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 previously published by the Commonwealth of Kentucky's Personnel Cabinet. The long-term hiring goal for minorities is 10 percent with a long-term female hiring goal of 52.42 percent.

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 JUNE 30, 2014

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%	3	0	0.0%	8	0	0.0%
Communications	1	0	0.0%	4	1	25.0%	0	0	0.0%	5	1	20.0%
Legal	3	1	33.3%	7	0	0.0%	5	1	20.0%	15	2	13.3%
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%
Information Security	1	0	0.0%	2	0	0.0%	0	0	0.0%	3	0	0.0%
Administration	12	1	8.3%	18	3	16.7%	8	1	12.5%	38	5	13.2%
Accounting	5	0	0.0%	12	0	0.0%	0	0	0.0%	17	0	0.0%
Disability & Death	4	0	0.0%	18	0	0.0%	4	0	0.0%	26	0	0.0%
Employer Reporting Compliance & Education	2	0	0.0%	17	1	5.9%	2	0	0.0%	21	1	4.8%
Information Technology	4	0	0.0%	26	4	15.4%	5	0	0.0%	35	4	11.4%
Investments	4	0	0.0%	3	0	0.0%	0	0	0.0%	7	0	0.0%
Member Services	7	0	0.0%	31	3	9.7%	2	0	0.0%	40	3	7.5%
Membership Support	4	0	0.0%	20	3	15.0%	6	2	33.3%	30	5	16.7%
Procurement & Office Services	4	1	25.0%	0	0	0.0%	12	4	33.3%	16	5	31.3%
Retiree Health Care	3	0	0.0%	15	1	6.7%	2	0	0.0%	20	1	5.0%
Retiree Services (Payroll)	2	0	0.0%	6	2	33.3%	0	0	0.0%	8	2	25.0%
TOTALS	51	2	3.92%	166	17	10.24%	41	7	17.07%	258	26	10.08%

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	<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%	3	0	0.0%	8	0	0.0%
Communications	1	0	0.0%	4	1	25.0%	0	0	0.0%	5	1	20.0%
Legal	3	1	33.3%	7	0	0.0%	5	1	20.0%	15	2	13.3%
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%
Information Security	1	0	0.0%	2	0	0.0%	0	0	0.0%	3	0	0.0%
Administration	12	1	8.3%	18	3	16.7%	8	1	12.5%	38	5	13.2%
Accounting	5	0	0.0%	12	0	0.0%	0	0	0.0%	17	0	0.0%
Disability & Death	4	0	0.0%	18	0	0.0%	4	0	0.0%	26	0	0.0%
Employer Reporting Compliance & Education	2	0	0.0%	17	1	5.9%	2	0	0.0%	21	1	4.8%
Information Technology	4	0	0.0%	26	4	15.4%	5	0	0.0%	35	4	11.4%
Investments	4	0	0.0%	3	0	0.0%	0	0	0.0%	7	0	0.0%
Member Services	7	0	0.0%	31	3	9.7%	2	0	0.0%	40	3	7.5%
Membership Support	4	0	0.0%	20	3	15.0%	6	2	33.3%	30	5	16.7%
Procurement & Office Services	4	1	25.0%	0	0	0.0%	12	4	33.3%	16	5	31.3%
Retiree Health Care	3	0	0.0%	15	1	6.7%	2	0	0.0%	20	1	5.0%
Retiree Services (Payroll)	2	0	0.0%	6	2	33.3%	0	0	0.0%	8	2	25.0%
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KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen
Executive Director
DATE: September 11, 2014
SUBJECT: Quarterly Reports of the Audit Committee

The Audit Committee held its quarterly meeting on August 7, 2014. The purpose of the meeting was to review and discuss, among other miscellaneous audit related items, the following:

➤ *Review of Remote Access System*

FINDINGS

Remote access account to KRS' system for a medical examiner no longer with KRS is still open.

Level of Severity: High

During the review of the remote access listing of users the auditor noted that one user id is still open for a medical examiner that no longer maintains a contract with KRS. This medical examiner stopped working for KRS as of July 2012 and returned the KRS issued laptop at that time. The account has not been disabled or removed, but the account is no longer accessible due to the automatic expiration of the password. The typical employee departure process includes Human Resources (HR) requesting the removal of access rights for the departing employee through a service desk ticket. However, the same process does not appear to be used for ensuring medical examiners are removed from the system.

Good internal control over the remote access system dictates that all user ids for individuals no longer working for KRS be removed promptly.

RECOMMENDATIONS

Internal audit recommends that this account be removed immediately.

Internal audit also recommends that the IT division develop a procedure for identifying user ids for third party vendors or contractors no longer under contract to KRS and remove them promptly based on their end date. The IT division should ensure that all other departments involved in this procedure are aware of their responsibility for notifying IT of the departure.

MANAGEMENT'S COMMENTS

(Mr. Jeffrey F. Luckett, Division Director of Information Technology)

The IT Division has disabled the inappropriate account.

Active accounts for terminated employees and third parties were also noted in the 2013 APA audit. New security account procedures to address this issue will be developed by March 31, 2014.

FINDINGS

Staff remote access request/approvals are not always documented.

Level of Severity: Medium

During testing of staff remote access request/approval documentation the auditor found that no documentation was on file for eight of the 18 staff selected. Two of the eight were new employees and should have been documented under the current process and the other six employees were already in the system before the 2009 process was implemented. A Front Range ticket was provided as documentation for the other 10 staff members.

Good internal control over remote access dictates that staff request/approval documentation be maintained to ensure all access is appropriate for KRS business purposes.

RECOMMENDATIONS

Internal audit recommends:

- a. That all staff remote access request/approval documentation be maintained on file. Proper documentation could include a Front Range ticket or email request.*
- b. IT should verify the accuracy of the current remote access listing by having management in each division verify that current employees listed from their department are approved for remote access. This process should be documented.*
- c. IT should consider verifying the accuracy of the remote access listing with divisional management at least twice a year.*

MANAGEMENT'S COMMENTS

(Mr. Jeffrey F. Luckett, Division Director of Information Technology)

Similar issues were also noted in the 2013 APA audit. New security account procedures being developed by March 31, 2014 will include documentation requirements for new accounts. In addition, the IT Division initiated a quarterly review of START, FileNet, and Great Plains accounts as part of the APA audit corrective actions. IT management will include a review of remote access users starting with the Q2 2014 quarterly review.

FINDINGS

System access log reviews are not documented and do not contain the required information as stated in the remote access policy.

Level of Severity: Medium

During the FYE 6/30/2013 external audit performed by the Auditor of Public Accounts (APA), it was noted that KRS is not documenting the review of access logs to the KRS' systems. The IT department is currently in the process of

developing a checklist for this review. Internal audit also noted that the current logs being reviewed are for after normal business hours only and does not contain all the information required by the remote access policy. According to the remote access policy section 1 #4, "Remote sessions shall be logged and reviewed regularly. The log(s) shall include the user name/UserID, data accessed, duration of session and unsuccessful login attempts." The current logs reviewed do not show the data accessed or duration of session.

Good internal control over remote access dictates that access logs contain sufficient information and be reviewed on a regular basis to determine access is being used appropriately for KRS business.

RECOMMENDATIONS

Internal audit recommends that the remote access logs contain all the information as noted in the remote access policy section 1 #4 and a documented review of the log be filed.

Internal audit also recommends that remote access entries for all times of the day be reviewed and documented, not just for after normal business hours.

MANAGEMENT'S COMMENTS

(Mr. Jeffrey F. Luckett, Division Director of Information Technology)

New security account procedures being developed by March 31, 2014 will include instructions for provisioning of accounts with temporary access.

FINDINGS

Proper vendor documentation was not obtained prior to remote access being granted.

Level of Severity: Medium

During review of documentation for a vendor granted remote access to KRS' system it was noted that this vendor is missing the Business Associate Agreement (BAA) as required by HIPAA for contracted vendors with potential access to private health information. This vendor was procured through a state wide contract/master agreement, which does not cover the HIPAA BAA requirements. Therefore, KRS needs to maintain their own BAA for this vendor. The Information Security Division has turned over a request for this documentation to the Legal Division, but at the time of the audit the BAA had not been obtained.

Good internal control over remote access dictates that all required vendor documentation be signed and documented prior to access being granted.

RECOMMENDATIONS

Internal audit recommends that the proper documentation be obtained for this vendor and for all vendors going forward.

MANAGEMENT'S COMMENTS

(Mr. Brian C. Thomas, General Counsel)

A request to complete a Business Associate Agreement ("BAA") has been forwarded to the vender identified in the audit. Management agrees that proper documentation should be obtained prior to allowing vender access to KRS systems and plans to work closely with Information Technology to determine the situation where access to KRS systems will occur.

FINDINGS

Access log contains inaccurate failed log on attempts on the remote access server.

Level of Severity: Low

During review of the failed logons after normal business hours report it was noted that there were 111 failed logons for one account. This account is not noted as an open account on the remote access listing obtained by the auditor from IT and IT confirmed that this account does not have remote access permissions. This account is not locking after three failed attempts because it's not a true attempt to login, even though it is showing up on this particular report. IT has been researching this issue. However, due to this issue we cannot be sure that this report is running correct information for the intended purpose of ensuring all failed attempts to the remote access server are legitimate log in attempts.

Good internal control over remote access dictates that access be monitored and reviewed to ensure only appropriate personnel is accessing KRS information.

RECOMMENDATIONS

Internal audit recommends that IT work to resolve this issue to ensure that this monitoring report is accurate for the review of remote access.

MANAGEMENT'S COMMENTS

(Mr. Jeffrey F. Luckett, Division Director of Information Technology)

The account with the failed logins is a service account that is used for starting programs in the background. The account is not used for interactive logins by any person. These accounts are configured for non-expiring passwords due to the level of effort required to change the password and the increased risk of operational problems by requiring password expiration.

IT Division management will review service account policies and procedures by April 30, 2014. Appropriate corrective action will be taken based on the results of the review.

FINDINGS

Security exemption safeguards have not been adhered to.

Level of Severity: Low

During the Remote Access System Audit, it was noted that the additional security safeguards of an access termination date and monitoring of login times for a contractor/vendor were not adhered to. A contractor/vendor was granted remote access to KRS' system for implementation of a new system with an access termination date of December 31, 2013. However, access has not been disabled for this vendor. Some issues with the implementation of this system have occurred requiring an extension period. The extension period had been discussed with the Information Security Officer (ISO), but was not documented as approved by the ISO at the time of the audit. The processing of the security exemption approval was delayed until January 28, 2014 due to the start of the new IT Director in early January 2014. Since there are issues with access logs as noted in finding #3, it has been determined that the monitoring of the vendors login times have not been fully reviewed.

Good internal control over vendor remote access dictates that supporting documentation is obtained to verify security safeguards are in place for vendor remote access to KRS' systems.

RECOMMENDATIONS

Internal audit recommends:

- a. That security exemption termination dates be adhered to unless an extension exemption has been approved and documented.*
- b. That vendor access logs be thoroughly reviewed and documented.*
- c. That the Information Security department continue tracking exemptions and ensure all access for expiring exemptions are removed or updated exemption forms are on file.*

MANAGEMENT'S COMMENTS

(Mr. Mark McChesney, CISM, CISA, CISSP, CGEIT, CRISC, Information Security Officer)

The Information Security Office will continue to track all security exemptions. The division requesting an exemption is responsible for requesting new exemptions if necessary. The Information Security Office performs random audits of exemptions.

(Mr. Jeffrey F. Luckett, Division Director of Information Technology)

IT Division management in conjunction with Information Security management will define a remote access log review process by April 30, 2014. These procedures will address remote access during normal business hours.

- *Review of Refund Payments (Inactive Members)*

FINDING

Badge access to the safe room is not limited.
Level of Severity: High

During the refund payment audit the auditor inquired about the returned and held check process and found that these checks are stored in the safe when not being worked for correction. The auditor noticed that the safe is left unlocked and open during the working day, but there is a compensating control of badge access to this room. However, the auditor inquired about who had access to this room and found out that all staff except the legal support team, medical examiners, janitors, board members, and hearing officers have access. When examining the badge access level log the auditor noted eight vendors with 12 badges and 11 temporary badges are included as having access to the safe room. While KRS does not retain any cash on hand, this safe is used as a control mechanism for securing checks and other sensitive information. So, access to the safe should be limited.

Good internal control over access to the safe dictates that the safe be secured and access limited.

RECOMMENDATION

Internal audit recommends that badge access to the safe room be limited to only those that require access to complete their job.

MANAGEMENT'S COMMENTS

(Ms. Ann Case, CGAP, CRMA, Deputy Controller)

Until the audit was performed, Management was unaware of the unlimited access. Management had the understanding that only Accounting Staff and IT staff had access to the safe room. The audit found that the access to the safe room was unlimited. The Controller has submitted a request to Human Resources for access to be updated accordingly.

FINDING

Returned and held checks are not secured in a locked box when they are out of the safe.

Level of Severity: High

During the review of the returned checks process the auditor noted that returned and held checks are secured in a lock box in the safe. During the day when the checks are being worked they are held in the lock box at the workstation. However, the lock box is not locked as the key is no longer available.

Good internal control over access to returned or held checks requires that they be secured with limited access.

RECOMMENDATION

Internal audit recommends that the lock box be stored in a locked drawer or the safe when the employee is away from their workstation.

MANAGEMENT'S COMMENTS

(Rebecca W. Stephens, Director Division of Retiree Payroll)

Agree with findings and recommendation.

FINDING

Inactive account refunds with address changes are processed through supplemental payroll without verification of address change.

Level of Severity: Medium

During the Supplemental Payroll Audit for FYE 6/30/2013, it was noted inactive refunds with address changes are processed without verification. Counselors can process a refund and change an address at the same time. The risk here is that a counselor could change the address and process a refund to be delivered to an address of their choice. This could go undetected because the member may be unaware they are owed a refund. The recommendation was that business rules be added to START to hold refunds that have had an address change in the last thirty days, have been inactive for a year or more, and the refund is over \$500 for verification of the address. Management's response was that PIR 28766 would be logged to correct this issue.

Follow-up to this Supplemental Payroll finding was performed in this refund audit. The auditor inquired about the status of PIR 28766 and found that the PIR had been logged, but has not been implemented yet. So, this finding has been repeated in this refund payments audit.

Good internal control over refund payments dictates that supporting documentation be obtained to verify address changes with inactive account refunds.

RECOMMENDATION

Internal audit recommends that PIR 28766 be implemented as soon as possible.

MANAGEMENT'S COMMENTS

(Ms. Shauna Miller, Director Member Services)

Agree with finding and recommendation. Problem Incident Report (PIR) 28766 which implements the recommended procedural changes is scheduled for the September 2014 build.

FINDING

Negative contributions and interest (C&I) noted on the refund report.

Level of Severity: Medium

During the review of the refund report it was noted that one member's C&I showed up as a negative balance. This member had previously taken a refund in September 1979. Then the member received credit for August 1979 and those contributions have been sitting in the account since then. There were no mechanisms in place at that time to refund additional contributions unless someone just happened to come across them. The member returned to work in March 1987 and began contributing and earning service credit, which just added to the month that was hanging out there. When the member filed for retirement, the pre-retirement account auditor saw the additional refund due and determined the member was not entitled to credit for that month or contributions. So, the

additional funds plus interest were refunded to the member and the service credit was removed.

An adjustment was necessary to move those contributions to the refunded membership and then a refund was processed in the refund module to refund the additional C&I. All of this had to be done before the final was processed, so that the account details would be correct. When the member retired his contributions and interest should have been transferred to the retired account. However, they were transferred to the refunded membership instead of the retired membership causing the negative balance. This issue had already been detected prior to the audit and PIRs 30458 for the code and 30459 for the data were in place to correct this issue. The account referenced above was corrected prior to the conclusion of this audit. However, 10 other accounts with this negative balance issue were identified and are in the process of being corrected.

Good internal control over refund payments dictates that contributions and interest be properly transferred to ensure all accounts are accurate and no negative balances are recorded.

RECOMMENDATION

Internal audit recommends that:

- a. PIR 30458 for the code be implemented in a timely manner to ensure this issue does not continue to occur.*
- b. The 10 remaining negative account balances are corrected in a timely manner.*

MANAGEMENT'S COMMENTS

(Ms. Shauna Miller, Director, Member Services)

Agree with finding and recommendation. Reference PIR 34058 and 34059.

FINDING

Prior year refund audit finding for negative contributions and interest (C&I) balances has not been completely corrected.

Level of Severity: Low

During the prior year refund audit the auditor found three refunds with negative C&I instead of a zero balance in the member profile. This issue occurred because after the refund was issued to the member the system allowed the agency to submit a negative adjustment. This caused an overpayment to the members. Two PIRs 25159 and 23661 were logged to correct this issue. The PIRs have been resolved. However, one of the three negative C&I balances noted in last year's finding has not been corrected. The over refunded amount not corrected is \$8.26. The other two accounts with over refunded amounts of \$124.14 and \$37.08 have been corrected and show a zero balance in the member profile.

Good internal control over refund payments dictates that contribution and interest are properly recorded to ensure no over payment is made.

RECOMMENDATION

Internal audit recommends that the negative balance member's account be corrected in a timely manner.

MANAGEMENT'S COMMENTS

(Ms. Shauna Miller, Director, Member Services)

Agree with finding and recommendation. Employer Reporting staff has logged PIR 31045 for this issue.

FINDING

The contributions recorded on the refund report in START are inaccurate.
Level of Severity: Low

During the refund payments audit it was noted that the refund report in START is not recording the accurate contributions total. The START refund report does not document the amount paid to each refunded member, so the auditor thought she could add the contributions and interest columns together and subtract any applicable tax deduction to get the amount paid. However, when the auditor used this calculation to determine the amount paid and compared it to the member's account the amounts did not always agree. Further investigation by the Member Services and Information Technology divisions found that the report contributions row is adding all of the rows in the contributions detail, including error corrections. PIR 30718 was logged for this issue.

Good internal control over refund payments dictates that the refund report contain accurate contribution totals to ensure the amount paid is correct in START.

RECOMMENDATION

Internal audit recommends that the refund report contributions column calculations be resolved through PIR 30718 in a timely manner.

MANAGEMENT'S COMMENTS

(Ms. Shauna Miller Director, Member Services)

Agree with finding and recommendation. Reference PIR 30718.

➤ *Review of General Manger Risk – Public Equity and Fixed Income Report*

A. Insurance Coverage

Professional Liability or Error and Omissions (E&O) insurance protects investment companies, its officers, directors and employees if they are sued by clients for negligence, errors or omissions or breach of fiduciary duty by covering litigation and/or settlement costs, even in instances of baseless claims. There is currently no regulatory requirement for investment companies to have E&O insurance, but it is a prudent business practice to ensure there is enough business insurance coverage so that the business does not go out of business in the event of a catastrophic loss. In determining the appropriate amount of insurance coverage and deductible, companies tend to consider their assets under

management, how much they can absorb from a loss perspective, their historical lawsuit experience and the industry-wide regulatory climate. Market conditions also will come into play because, in a downturn, companies should anticipate more claims. “Increased regulatory activity by the Securities and Exchange Commission, including investigative sweeps, subpoenas and Wells Notices, also promise the RIA industry continued legal worries for the foreseeable future”.

As a result of the current regulatory environment, suitability litigation has been increasing. As such, E&O carriers are likely to raise rates on coverage companies with poor credit histories, tax liens, recent bankruptcies or having employees under heightened regulatory supervision. This provides an incentive for companies to maintain higher credit ratings and perform background checks for investment personnel. KRS investment personnel contracts for a certain level of insurance coverage and deductible with each public equity and fixed income manager. It is imperative that these managers comply with these terms as noncompliance could be an indication of the company’s business or employee issues and in the event KRS or any other client or regulator took legal action, the company may not be able to cover damages or even avoid bankruptcy.

1. Public Equity

During the period of review there were two Public Equity Managers who have Professional Indemnity or Errors and Omissions deductibles higher than the amount contractually agreed upon. Each of the managers agreed to deductible limits of one million dollars. One manager’s deductible is ten million dollars while the other one’s is fifty million dollars. Please see recommendation in part 3 of this section.

2. Fixed Income

During the period of review there was one Fixed Income manager who was found to not have sufficient Errors and Omissions insurance coverage. That manager’s contract stated that the manager would maintain twenty-five million dollars of Errors and Omissions insurance. The Manager currently only maintains ten million dollars in Errors and Omissions insurance. Please see recommendation in part 3 of this section.

RECOMMENDATION

3. Recommendation

The insurance contracts renew annually. Investment personnel should work with managers to ensure deductibles on the renewed policies are reduced and that additional coverage is obtained for the manager that needs it. Furthermore, insurance coverage should be reviewed as a regular function of the KRS Investment Directors’ annual manager review.

MANAGEMENT’S COMMENTS

(Mr. David Peden, Interim Chief Investment Officer)

Investment Staff agrees that the review of the E&O insurance policies of each manager should be part of the annual review process and should be documented in the annual reviews.

FINDING

Assets Invested

1. Public Equity

During the period of review there were three Public Equity managers who reported assets invested by KRS higher than the amount approved by the investment committee.

- ❖ *One Manager was approved by the investment committee with a \$275,000,000 investment and as of December 31, 2013, KRS had invested \$317,900,000 of the pension and insurance portfolios with this manager.*
- ❖ *The second manager was approved by the investment committee with a \$55,000,000 investment and as of December 31, 2013, KRS had invested \$67,000,000 of the pension and insurance portfolios with this manager.*
- ❖ *The Third manager was approved by the investment committee with a \$215,000,000 investment and as of December 31, 2013, KRS had invested \$279,100,000 of the pension and insurance portfolios with this manager.*

Please see recommendation in part 3 of this section.

2. Fixed Income

During the period of review there were three Fixed Income managers who reported assets invested by KRS higher than the amount approved by the investment committee.

- ❖ *One Manager was approved by the investment committee with a \$135,000,000 investment and as of December 31, 2013 KRS had invested \$148,707,525 of the pension and insurance portfolios with this manager.*
- ❖ *The second manager was approved by the investment committee with a \$215,000,000 investment and as of December 31, 2013 KRS had invested \$216,383,942 of the pension and insurance portfolios with this manager.*
- ❖ *The Third manager was approved by the investment committee with a \$150,000,000 investment and as of December 31, 2013 KRS had invested \$151,800,000 of the pension and insurance portfolios with this manager.*

Please see recommendation in part 3 of this section.

RECOMMENDATION

3. Recommendation

Compliance noted that while KRS had over invested with some managers on December 31, 2013, Fixed Income allocations were all within the range approved by the Investment Committee and Board. Domestic Public Equity was actually under range in one pension plan, but it was above the target range in three insurance plans. Given the nature of securities market fluctuations, it would be a better practice to have the investment committee approve investments with external managers as a percentage of portfolio rather than a set monetary figure to provide Interim CIO and Directors the flexibility needed to maintain approved asset allocation for the total portfolio. Additionally, investment personnel should maintain a list of managers with their approved investment percentages and monitor the assets KRS invests with each manager.

MANAGEMENT'S COMMENTS

(Mr. David Peden, Interim Chief Investment Officer)

The Investment Staff agrees that as part of the initial approval process for a manager by the KRS Investment Committee, that a percentage of total fund be approved and not a specific dollar amount for each manager. This is because of the time lag between approval and the actual funding date and the value of the total portfolio may have significantly changed. The investment staff currently does maintain a list of targets for each investment manager and uses that to assist in the rebalancing process. The Investment Staff does not agree that this approved percentage should apply in the future. Given the nature of the rebalancing process at the asset class and manager level, there needs to be more flexibility than a static percentage. This responsibility has always fallen to the CIO to manage the ongoing exposures of each manager.

FINDING

MFN

Unless KRS' investment with the manager is in a commingled product, KRS has contracted for Most Favored Nation (MFN) terms in all Public Equity and Fixed Income manager agreements. These provisions put the onus on the investment manager to inform KRS if they ever contract with a similar client for terms more favorable than the terms KRS agreed to. A similar client is determined by considering the client's size, investment strategy and duration of the agreement. Upon notification, KRS has the option to automatically receive the benefit of the more favorable term. To the extent MFN protection has been extended the manager will need to establish a method for reviewing the subsequent contracts and informing clients. Since KRS cannot know the terms of each of their manager's contracts with other clients, it is imperative that the manager has sufficient controls around the MFN process. Most of KRS' managers have review panels consisting of Legal, Compliance and/or Investment personnel for new contracts along with period contract reviews.

RECOMMENDATION

One Fixed Income manager would not explain their MFN controls process and informed the Compliance Officer that the provision was not applicable to them. This manager has a MFN provision in their KRS contract. Investment personnel should work with this manager to ensure they establish and maintain a sufficient control around MFN review.

MANAGEMENT'S COMMENTS

(Mr. David Peden, Interim Chief Investment Officer)

It is difficult to force a manager to adopt an internal process after we have invested. Investment staff can incorporate into its due diligence process a question regarding how a manager tests for compliance with MFN provisions it has agree to with other clients. Investment Staff will also require a specific statement from each manager to be included in annual compliance letters stating the manager is in compliance with the MFN provision as spelled out in the IMA.

CONCLUSION

Based on the review of KRS' external Public Equity and Fixed Income managers, it was concluded that overall, the majority of the managers are complying with the terms of the contracts and have adequate controls established given legal and regulatory obligations. The deficiencies noted in this review create a concern regarding the monitoring of contracts and their terms with external investment managers. It is recommended that investment personnel work with the managers to ensure the managers are compliant with contracted provisions and establish appropriate controls over insurance and MFN coverage. It is recommended that controls be established at KRS so that contracts with external investment managers are continually monitored.

MANAGEMENT'S COMMENTS

(Mr. David Peden, Interim Chief Investment Officer)

The Investment Staff receives a compliance letter from most, if not all, equity and fixed income managers annually. The content and format of those letters vary from each manager. Staff will work with the managers to develop an annual compliance letter that specifically addresses items such as E&O insurance and MFN status among other key items addressed in the IMAs. Staff will also put in place a process for ensuring receipt of said compliance letters from each public equity and fixed income manager.

➤ *Review of Investment Policies Report*

FINDINGS

Certain investment policies could be improved to provide better guidance and compliance on pertinent investment issues. In additions to the recommendations below, the Board should consider adjusting the policy headings to be uniform, containing the policy title and date adopted by the full Board.

RECOMMENDATIONS

A. Statement of Investment Policy

Along with grammatical corrections Compliance recommends the following revisions to the Statement of Investment Policy (See Exhibit 1):

1. Senate Bill 2

Kentucky Revised Statute section 61.645(1) was amended by 2013 Kentucky Senate Bill 2 (SB 2), effective July 1, 2013, to increase the Board from nine to thirteen members. This change among others in SB 2 should be reflected in the language in section I. of the Statement of Investment Policy.

2. Investment Managers Limitations

Kentucky Retirement Systems Investment Transaction Procedures Policy restricts total assets assigned to any external manager to twenty-five percent (25%) of that external manager's total asset under management. Additionally this policy confines assets invested in public markets to forty percent (40%) of the external manager's total assets in that strategy, unless specifically waived by the investment committee. Even though this policy is incorporated by

reference in section XI of the Investment Policy, this language should be reiterated in section IV (A.) of the Investment Policy pertaining to Investment Managers. The Investment Policy is generally included with contract documents and provided to external managers, while other policies are not. This language should be expressly provided to external managers so that they are clearly aware of an investment restriction KRS is bound to uphold.

Kentucky Revised Statutes section 61.650(5) requires the Board to limit the amount of assets managed by an investment manager to fifteen percent (15%) of the assets in the pension and insurance funds. This statutory restriction is not mentioned in any of the KRS investment policies and should also be added to section IV(A.) of the Investment Policy pertaining to Investment Managers.

During the due diligence process, investment department directors specifically review and discuss these limitations. Furthermore, as part of asset class reviews, investment department directors periodically verify assets assigned to managers do not violate these parameters. Additionally, Compliance did not find any instances where these parameters were being violated but Compliance maintains that the language addition would strengthen the policy.

3. Governing Plan

KRS has two internally managed domestic equity index accounts. One is managed for pension assets while the other is managed for insurance assets. Section VIII (A.) of the investment policy provides that these accounts are to be consistent with governing plan documents. Currently there are no governing plan documents for internally managed index accounts. Compliance recommends that the Chief Investment Officer, Deputy Chief Investment Officer and Director of Equity work together to develop formal, written governing plan documents for internally managed domestic equity index accounts. This plan should include the investment objective of the accounts, as well as any legal restraints, tax considerations, liquidity requirements and benchmark requirements that are expected of the internal managed accounts. The governing plan should also set out the authorized personnel with respect to trading and cash movement that should be congruent with documents signed with KRS' custodian, Bank of New York Mellon. Alternative or back-up procedures and procedures for supervisory review of trading activity should be established.

MANAGEMENT'S COMMENTS

(Mr. David Peden, Interim Chief Investment Officer)

1. Investment staff has attempted to update the IPS in prior updates with the SB2 language and if further changes need to be made to fully update with SB2 changes staff will make those changes.
2. The fifteen percent limit to any money manager is a state statute that investment staff is aware of and monitors. Staff has no problem adding it to the IPS. Staff is supportive of a twenty five percent limit to an external manager's total assets under management and a twenty five percent limit to any comingled investment vehicle, such as a mutual fund, comingled fund, or

limited partnership. Investment staff would prefer to not have a limit at the manager's strategy level if KRS's assets are held in a separate account at BNY Mellon because of the customization process between the external manager and KRS regarding those relationships.

3. *The Chief Investment Officer and the asset class Director will be responsible for developing internal guidelines for any strategies managed in-house and getting those approved by the Investment Committee. Those guidelines will be included in the Investments Transactions Policy and a reference to that policy will be included in all appropriate places in the IPS. It should be noted that both strategies currently managed in-house are passive mandates with full replication being the primary strategy, but investment staff agrees this is a good policy change and appropriate for any active portfolio management that may occur in the future.*

RECOMMENDATION

B. Securities Trading Policy for Trustees and Employees

Along with grammatical corrections Compliance recommend the following revisions to the Securities Trading Policy for Trustees and Employees Policy (see Exhibit 2):

1. OFAC

Compliance recommends adding language to the policy to address OFAC considerations. The Office of Foreign Assets Control (OFAC) is a branch of the U.S. Department of Treasury and maintains country specific economic sanction programs as well as prohibitions on transactions with individuals and companies connected with sanction targets known as Specially Designated Nationals (SDNs). OFAC prohibitions pertain to financial institutions including employee benefit plans, including public pension plans. The financial institution's OFAC compliance program must be specifically tailored to that institutions operations and risk of engaging in unlawful transactions. Accordingly, public retirement compliance programs must ensure internal investment programs as well as external managers and custodians screen transactions for involvement with sanctioned countries or SDNs. Furthermore, benefit payments to SDNs or for beneficiaries who reside in sanctioned countries should be avoided unless a "license" from OFAC has been obtained for that beneficiary. As a best practice the entity should have training in place so that employees are informed on situations that may be suspicious and know who to report potential suspicious activity to.

KRS has a stable, well known payee base in that all payees have worked for a KRS employer and gone through the employer's background check, if any, or they are the beneficiary of such person. There has only been one non-resident alien payee. Currently there are fourteen payees with foreign addresses, none of whom reside in a country sanctioned by OFAC. Additionally, if any payee plans to transfer funds to a foreign bank, electronic funds transfer is not available. With respect to internal investment management, the internal account is passively managed to follow the S&P 500 index. Accordingly, all investments within this account should be in

entities that appear on the S&P 500 index. The internally managed account as well as investments of external managers is screened monthly for investments in OFAC sanctioned countries by KRS' custodian and reviewed the Compliance Officer. Screening for SDNs is not done for the internally managed account, due to limitations with the custodian. At Compliance's suggestion, the Division Director of Retiree Services recently screened KRS payees for connections with the SDN list and she plans to perform an annual SDN screen. For external investments, certain external managers investing in global markets have OFAC procedures in place. All of these factors, along with KRS not having a history of OFAC action gives KRS a low risk profile for encountering OFAC issues. In addition to strengthening overall federal securities language, Compliance recommend adding language to this policy to prohibit OFAC violations. Additional training pertaining to OFAC requirements for KRS Trustees and Employees may be beneficial. As a best practice, an OFAC compliance program, tailored to KRS' risk profile should be established that would include specific, cohesive policies, procedures and controls. The policy should also clearly identify KRS Trustees or Employees with authority and accountability for OFAC compliance.

2. Open Orders

Compliance recommends adding language to address KRS employees and trustees placing open orders in their personal trading accounts. The current policy does not address a KRS Trustee or Employee establishing a "good until canceled", limit or open order. Given that the majority of KRS funds are managed externally by managers with investment discretion without conferring with KRS Trustees or Employees for each specific security transaction, the conflict of interest in an open order is mitigated. As long as the KRS Employee or Trustee does not have actual knowledge of a manager's transaction in a security, there should be the option to have the open order approved in pre-clearance.

3. Remediation

Compliance recommends language surrounding remediation be strengthened. The policy provides for appropriate sanctions for violation of Pre-Clearance. There should be language that violating any portion of the policy is taken seriously and consequences may occur. Since the policy provides that the KRS Compliance Officer is responsible for implementing this policy, possible policy violations should be reported to the Compliance Officer.

A central theme to this policy is the avoidance of conflicts of interest, language should also be added to clearly state that KRS Trustee or Employee cannot participate in a determination of whether he or she violated this policy. Furthermore the policy should clearly state that KRS Employees and Trustees cannot pre-clear their own transactions.

4. Pre-Clearance

Given the ethical principles of KRS Chapter 11A and fiduciary obligations of KRS as explained above, every trustee should remain committed to the following general fiduciary principles by placing the interests of KRS members before his or her personal interests, conducting all personal securities transactions in a manner consistent with Kentucky and federal laws,

in an effort to avoid any actual, or potential, conflicts of interest or an abuse of a position of trust and responsibility and to not take any inappropriate advantage of any KRS relationship or information obtained from his or her association with KRS.

KRS trustee's duty of loyalty requires the fiduciary to be impartial among differing interest of participants and beneficiaries. The duty of loyalty also prevents the application or appropriation of trust property for personal use, self-dealing, competition with the trust, or receiving improper benefits from the trust.

Due to the nature of KRS' business and its trustee's fiduciary responsibility to members and beneficiaries, the policies of KRS must guard against potential conflicts of interest, front running and insider trading with respect to its trustees and employees' personal securities transactions. Accordingly, KRS' Securities Trading Policy for Trustees and Employees Policy should set forth procedures to satisfy fiduciary obligations of trustees and certain employees and to prevent intentional or inadvertent violations of federal trading laws, Kentucky ethical standards or fiduciary duties.

This policy currently only requires pre-clearance for trustees when transacting in a non-exempt security or asset if the trustee has "actual knowledge of investment recommendations or decisions regarding purchases, sales, or other acquisitions or dispositions of KRS assets". This language is narrow enough to possibly exclude investment committee members who are new to the committee, or who may have missed part or all of a committee meeting. As stated above, the investment committee is responsible for implementing investment policies and acting on behalf of the Board on all investment related matters. Accordingly, there is risk of actual or perceived inadvertent breaches of fiduciary and ethical duties as well as federal laws if all members of the investment committee are not required to pre-clear personal transactions in non-exempt securities or assets.

All trustees are excluded from the requirement to provide brokerage statements within fifteen days of being sworn in as a trustee and each January thereafter. Within fifteen days of employment, KRS employees are to provide brokerage statements disclosing the names and type of each of their securities holdings and holdings of family members. Furthermore, by the end of each January, employees subject to pre-clearance procedures currently provide the brokerage statement for their personal or family accounts to the KRS Compliance Officer for the period ending the preceding December 31st. This allows the Compliance Officer to look for possible violations of law or KRS policies. Without monitoring personal securities transactions there is no independent process to review activity for inadvertent or intentional possible violations of law or KRS policies.

While KRS does participate in real estate and private equity deals, the majority of KRS assets are managed externally by managers with discretion. Accordingly, KRS is not necessarily involved in the daily investment decision making for those assets. The assets that are managed internally are treasuries indexed to inflation or equities on the S&P 500 index possibly

reducing the incentive for front running or insider trading. Accordingly, statements are not required monthly, but annually. The monitoring of annual statements does not guarantee the detection of all legal or policy violations, but it is the first-line of defense to identifying potentially problematic trading behavior.

MANAGEMENT'S COMMENTS

(Mr. David Peden, Interim Chief Investment Officer)

- 1. Investment staff is supportive of incorporating OFAC compliance into the personal trading policy.*
- 2. Investment staff is supportive of the recommendation regarding personal Good-Until-Canceled orders.*
- 3. Investment staff is supportive of the recommendations regarding self pre-clearing trades and remediation if a violation occurs.*
- 4. Investment staff is supportive of any person that has possible direct knowledge of trading activity in the KRS portfolio being covered by the Personal Trading Policy. If the Investment Committee defines trustees as those with possible knowledge of trading activity, then investment staff is supportive of KRS Trustees being covered in the Personal Trading Policy.*

RECOMMENDATION

C. Investment Transaction Procedures Policy

In addition to updating "Investment Manager" to "Investment Director" to align with KRS job titles, Compliance recommends adding language assigning responsibility for regulatory filings to Investment Directors (See Exhibit 3). Investment Director's should stay abreast of regulatory obligations associated with the investment activities they engage in and should be responsible for compliance with these requirements. Currently, given federal regulations and KRS holdings and activities, KRS files SEC forms 13F and 13H. The Director of Equity was assigned this filing responsibility in 2013 and has created procedures around this process. While procedures are in place, there are no KRS policies that address regulatory filing.

MANAGEMENT'S COMMENTS

(Mr. David Peden, Interim Chief Investment Officer)

Investment staff is supportive of adding language to the Investment Transaction Policy defining responsibility for regulatory filings and agrees to the use of the title Investment Director when referring to those with specific asset class responsibilities.

CONCLUSION

Based on the review of KRS' investment policies, it was concluded that overall, most of the investment policies are adequate to cover federal and Kentucky laws. The policies do not conflict with each other and provide appropriate guidance to KRS employees, consultants and external investment managers. Still, certain

investment policies could be improved to better adhere to laws and provide guidance and compliance on pertinent investment issues.

MANAGEMENT'S COMMENTS

(Mr. David Peden, Interim Chief Investment Officer)

Investment staff agrees that better coordination with all of the investment policies and state statutes will improve the governance of the investment program and reduce the possibility of staff or an external manager overlooking a compliance item. It should be noted that in every investment management agreement that staff references all policies and state statutes as a requirement for the manager to comply with, in addition to the specific language in each investment management agreement.

- *Review of Quarterly Financial Statements – 6/30/2014 (Unaudited)*
- *Review of Management Follow up on Audit Findings and Recommendations Summary Dashboard*
- *Review of Employer Penalty/Waiver List*
- *Review of Internal Audit Budget 6/30/2014*
- *Review of Anonymous Reporting*
- *Review of Investment Compliance Report*
- *Review of Annual Audit Plan for Fiscal Years 2015, 2016, 2017*
- *State Police Employee Retirement System Board Election Memoranda*
- *KRS Auditor Independence Statements*
- *Kentucky Retirement Systems Travel Policy and Procedures (Amendment)*
- *KRS Disaster Recovery Planning*

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

Kentucky Retirement Systems—Pension Fund
 Quarterly Investment Policy Compliance Checklist
 June 30, 2014

TOTAL FUND OBJECTIVES:

*All returns are reported gross of fees

Long Term:

- KRS 30-Year Return: 9.80% vs. Actuarial Assumed Rate of Return: 7.75% Above Target
- KRS 10-Year Return: 6.86% vs. Actuarial Assumed Rate of Return: 7.75% Below Target
- KRS 10-Year Return: 6.86% vs. 10-Year KRS Blended Index Return: 6.84% Above Target

Short Term: Annual Returns of Asset Classes should exceed the returns of comparable unmanaged market indices.

- See individual portfolio information included in monthly update.

ASSET ALLOCATION:

Out of Range

Asset Class	Range	KERS	Target	KHAZ	Target	SPRS	Target	CERS	Target	CHAZ	Target	Combined	Target
Domestic Equity	+/- 5.0%	16.31%	22.00%	21.10%	20.00%	20.63%	20.00%	23.23%	20.00%	23.15%	20.00%	20.88%	20.50%
International Equity	+/- 5.0%	19.97%	20.00%	20.15%	20.00%	20.13%	20.00%	19.91%	20.00%	19.86%	20.00%	20.00%	20.00%
Emerging Market	+/- 2.0%		0.00%	4.13%	4.00%	4.21%	4.00%	4.15%	4.00%	4.15%	4.00%	3.33%	2.90%
Fixed Income												18.41%	19.30%
Core Bonds	+/- 3.0%	11.41%	10.00%	8.99%	9.00%	9.57%	8.00%	9.30%	9.00%	10.23%	9.00%		
Global Bonds	+/- 2.0%	3.87%	5.00%	3.47%	5.00%	3.62%	5.00%	3.45%	5.00%	3.45%	5.00%		
High Yield	+/- 2.0%	5.11%	5.00%	4.80%	5.00%	4.80%	5.00%	5.05%	5.00%	4.95%	5.00%		
Real Estate	+/- 3.0%	3.48%	3.00%	4.18%	5.00%	3.84%	5.00%	3.96%	5.00%	3.91%	5.00%	3.87%	4.50%
Absolute Return	+/- 3.0%	11.20%	10.00%	10.44%	10.00%	10.83%	10.00%	10.14%	10.00%	10.05%	10.00%	10.53%	10.00%
Private Equity	+/- 5.0%	15.21%	10.00%	9.95%	10.00%	10.03%	10.00%	8.36%	10.00%	8.53%	10.00%	10.42%	10.00%
Real Return	+/- 3.0%	10.20%	10.00%	9.93%	10.00%	9.20%	10.00%	10.06%	10.00%	10.02%	10.00%	9.88%	10.00%
Cash Equivalent	+/-2.0%	3.18%	5.00%	2.58%	2.00%	3.00%	3.00%	2.38%	2.00%	1.61%	2.00%	2.55%	2.80%
Other-PPW		0.07%		0.28%		0.14%		0.03%		0.09%		0.12%	

NOTES:

- ❖ The allocation for public equity within KERS is typically maintained toward the lower end of the allowable range to offset a higher allocation in Private Equity. The allocation has now fallen below the allowable range. Private equity in KERS continues to be above target range.

Portfolio Guidelines

- The amount of stock in the domestic or international equity allocation in any single corporation shall not exceed 5% of the aggregate market value of the System's assets. In Compliance
- The amount of stock held in the domestic or international equity allocation shall not exceed 3% of the shares outstanding of any single corporation. In Compliance
- The amount of stock in any one industry in the domestic equity allocation shall not exceed 10% of the aggregate market value of the System's assets. In Compliance
- Investment in "frontier" markets shall not exceed 10% of the System's international equity assets. In Compliance
- The duration of the total fixed income portfolio shall not deviate from the Barclays Aggregate Index by more than 25%. In Compliance
- The duration of the TIPS portfolio shall not deviate from the Barclays TIPS Index by more than 10%. In Compliance
- The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of the Systems' assets. In Compliance

Portfolio Guidelines Cont.

- No public fixed income manager shall invest more than 5% of the market value of assets held in any single issue short term instrument, with the exception of U.S. Government issued, guaranteed or agency obligations. In Compliance
- The amount invested in SEC Rule 144a securities shall not exceed 15% of the market value of the aggregate market value of the Systems' fixed income investments (*see Note below*): In Compliance

NOTE:

- ❖ While the pension portfolio was in compliance with the 144a securities limitation on June 30, 2014, as of July 15, 2014, 144a securities comprised 15.888% of the pension fixed income portfolio. This is a result of the growing high yield and global exposures in the fixed income portfolio.

INDIVIDUAL MANAGED PORTFOLIO COMPLIANCE:

Individual portfolios with at least three years of returns were found in compliance with their respective standards of measurements, unless noted below. **Any accounts shown below were found to have an exception with at least one standard of measurement.**

Total Domestic Equity Allocation					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its KRS U.S. Equity Blended Index.	3-yr	15.81	16.46	Below Target	4 of 4
<u>Long-Term: (5 - 10 Years)</u>	5-yr	18.89	19.40	Below Target	4 of 4
• Return should exceed its KRS U.S. Equity Blended Index.	10-yr	8.24	8.28	Below Target	4 of 4
• Return should compare favorably to the Benchmark on a risk-adjusted basis.	5-yr	18.89	19.60	Below Target	4 of 4
	10-yr	8.24	8.18	Above Target	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	18.89	19.53	Below Target	4 of 4
	10-yr	8.24	8.12	Above Target	-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	14.15	14.00	Within Range	-
	10-yr	15.23	15.44	Within Range	-

Internal S&P 500 Index					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed the S&P 500 Index.	3-yr	16.49	16.59	Below Target	1 of 4
<u>Long-Term: (5 - 10 Years)</u>	5-yr	19.07	19.26	Below Target	4 of 4
• Return should exceed the S&P 500 Index.	10-yr	8.17	8.14	Above Target	-
• Return should compare favorably the Benchmark on a risk-adjusted basis.	5-yr	19.07	19.03	Above Target	-
	10-yr	8.17	7.94	Above Target	-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to that of the Index within a 10 percent range.	5-yr	13.33	13.49	Within Range	-
	10-yr	14.47	14.91	Within Range	-

INVESCO Structured CORE – Large Capitalization Core Equity					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its S&P 500 Index.	3-yr	17.82	16.59	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>	5-yr	18.81	18.84	Below Target	3 of 4
• Return should exceed its S&P 500 Index.	10-yr	N/A	N/A		-
• Return should compare favorably to the Benchmark on a risk-adjusted basis	5-yr	18.81	19.77	Below Target	3 of 4
	10-yr	N/A	N/A		-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	18.81	19.11	Below Target	4 of 4
	10-yr	N/A	N/A		-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	14.07	13.40	Within Range	-
	10-yr	N/A	N/A		-

Northern Trust – Small/Mini Capitalization Fund					
Standard of Measurement		KRS	Index	Result	Past 4 Tars
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its Russell 2000 Index.	3-yr	16.39	14.57	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>	5-yr	22.23	20.21	Above Target	-
• Return should exceed its Russell 2000 Index.	10-yr	9.91	8.70	Above Target	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis.	5-yr	22.23	19.16	Above Target	-
	10-yr	9.91	8.45	Above Target	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	22.23	21.82	Above Target	-
	10-yr	9.91	10.32	Below Target	4 of 4
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	17.29	18.23	Within Range	-
	10-yr	19.05	19.73	Within Range	-

Total International Equity Allocation					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, the Total International Equity Allocation should exceed the returns of the KRS International Equity Blended Index.	3-yr	5.77	6.21	Below Target	4 of 4
<u>Long-Term: (5 - 10 Years)</u>	5-yr	11.35	11.73	Below Target	3 of 4
• Total Intl Equity Allocation return should exceed the KRS International Blended Equity Index.	10-yr	7.43	7.40	Above Target	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis.	5-yr	11.35	11.61	Below Target	2 of 4
	10-yr	7.43	7.25	Above Target	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	11.35	12.83	Below Target	4 of 4
	10-yr	7.43	8.51	Below Target	4 of 4
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	16.75	16.92	Within Range	-
	10-yr	17.95	18.42	Within Range	-

Pyramis International Growth Investments – Active International Equity					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its KRS MSCI Blended Index.	3-yr	6.81	6.51	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>	5-yr	12.05	11.21	Above Target	-
• Return should exceed its KRS MSCI Blended Index.	10-yr	7.53	6.91	Above Target	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis.	5-yr	12.05	11.16	Above Target	-
	10-yr	7.53	6.90	Above Target	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	12.05	14.01	Below Target	4 of 4
	10-yr	7.53	8.64	Below Target	4 of 4
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	16.68	16.75	Within Range	-
	10-yr	18.09	18.13	Within Range	-

NTGI International Small Cap					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its MSCI ACWI ex US SM Cap ND Index.	3-yr	7.40	6.90	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>	5-yr	14.24	14.49	Below Target	3 of 4
• Return should exceed its KRS MSCI ACWI ex US SM Cap ND Index.	10-yr	N/A	N/A	-	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis.	5-yr	14.24	14.22	Above Target	-
	10-yr	N/A	N/A	-	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	14.24	12.23	Above Target	-
	10-yr	N/A	N/A	-	-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	17.08	17.40	Within Range	-
	10-yr	N/A	N/A	-	-

The Boston Company – Active International Equity					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its KRS MSCI Blended Index.	3-yr	5.71	6.51	Below Target	4 of 4
<u>Long-Term: (5 - 10 Years)</u>	5-yr	9.62	11.21	Below Target	3 of 4
• Return should exceed its KRS MSCI Blended Index.	10-yr	N/A	N/A	-	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis,	5-yr	9.62	11.21	Below Target	3 of 4
	10-yr	N/A	N/A	-	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	9.62	13.08	Below Target	4 of 4
	10-yr	N/A	N/A	-	-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	16.75	16.75	Within Range	-
	10-yr	N/A	N/A	-	-

Wellington Asset Management – Active Emerging Market Equity					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its MSCI Emerging Markets Index.	3-yr	0.92	-0.06	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>	5-yr	8.28	9.57	Below Target	4 of 4
• Return should exceed its MSCI Emerging Markets Index.	10-yr	N/A	N/A	-	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis	5-yr	8.28	9.34	Below Target	4 of 4
	10-yr	N/A	N/A	-	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	8.28	10.92	Below Target	4 of 4
	10-yr	N/A	N/A	-	-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	18.68	19.15	Within Range	-
	10-yr	N/A	N/A	-	-

Total Fixed Income Allocation					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed the KRS Fixed Blended Index	3-yr	6.21	4.22	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>	5-yr	7.27	5.42	Above Target	-
• Return should exceed the KRS Fixed Blended Index	10-yr	5.57	5.20	Above Target	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis	5-yr	7.27	6.06	Above Target	-
	10-yr	5.57	5.50	Above Target	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	7.27	7.15	Above Target	-
	10-yr	5.57	5.88	Below Target	4 of 4
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	3.26	2.91	Outside Range	4 of 4
	10-yr	4.00	3.73	Within Range	-

Shenkman					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, the Total Fixed Income Allocation should exceed the returns of the Shenkman Blended Index.	3-yr	6.96	7.49	Below Target	3 of 4
<u>Long-Term: (5 - 10 Years)</u>	5-yr	N/A	N/A		-
• Total Fixed Income Allocation return should exceed the Shenkman Blended Index.	10-yr	N/A	N/A		-
• Return should compare favorably to the Benchmark on a risk-adjusted basis.	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-

Stone Harbor					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
<ul style="list-style-type: none"> For periods less than five years or a full market cycle, the Total Fixed Income Allocation should exceed the returns of the JP Morgan Emerging Markets Bond Index GD. 	3-yr	6.11	7.40	Below Target	2 of 4
<u>Long-Term: (5 - 10 Years)</u>	5-yr	N/A	N/A		-
<ul style="list-style-type: none"> Total Fixed Income Allocation return should exceed the JP Morgan Emerging Markets Bond Index GD. 	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Return should compare favorably to the Benchmark on a risk-adjusted basis. 	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Allocation should generate returns that rank above the median return of a relevant peer group. 	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index. 	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-

NISA					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
<ul style="list-style-type: none"> For periods less than five years or a full market cycle, the Total Fixed Income Allocation should exceed the returns of the BC US Aggregate Index. 	3-yr	3.85	3.67	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>	5-yr	5.11	4.86	Above Target	-
<ul style="list-style-type: none"> Total Fixed Income Allocation return should exceed the BC US Aggregate Index. 	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Return should compare favorably to the Benchmark on a risk-adjusted basis. 	5-yr	5.11	5.00	Above Target	-
	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Allocation should generate returns that rank above the median return of a relevant peer group. 	5-yr	5.11	6.08	Below Target	2 of 4
	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index. 	5-yr	2.93	2.85	Within Range	-
	10-yr	N/A	N/A		-

PIMCO					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
<ul style="list-style-type: none"> For periods less than five years or a full market cycle, the Total Fixed Income Allocation should exceed the returns of the PIMCO Blended Index 	3-yr	4.11	4.27	Below Target	4 of 4
<u>Long-Term: (5 - 10 Years)</u>	5-yr	N/A	N/A		-
<ul style="list-style-type: none"> Total Fixed Income Allocation return should exceed the PIMCO Blended Index 	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Return should compare favorably to the Benchmark on a risk-adjusted basis 	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Allocation should generate returns that rank above the median return of a relevant peer group. 	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-
<ul style="list-style-type: none"> Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index. 	5-yr	N/A	N/A		-
	10-yr	N/A	N/A		-

Total Cash Allocation					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
<ul style="list-style-type: none"> For periods less than five years or a full market cycle, return should exceed the Citigroup 3-Month Treasury Bill Index 	3-yr	0.38	0.04	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>	5-yr	0.58	0.08	Above Target	-
<ul style="list-style-type: none"> Return should exceed the Citigroup 3-Month Treasury Bill Index 	10-yr	2.12	1.54	Above Target	-
<ul style="list-style-type: none"> Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index. 	5-yr	0.21	0.02	Outside of Range	4 of 4
	10-yr	0.62	0.54	Outside of Range	4 of 4

Kentucky Retirement Systems—Insurance Fund
 Quarterly Investment Policy Compliance Checklist
 June 30, 2014

TOTAL FUND OBJECTIVES:

*All returns are reported gross of fees

Long Term:

- KRS ITD Return: 7.90% vs. Actuarial Assumed Rate of Return: 7.75% Above Target
 (4/1/87)
- KRS 10-Year Return: 6.35% vs. Actuarial Assumed Rate of Return: 7.75% Below Target
- KRS 10-Year Return: 6.35% vs. 10-Year KRS Blended Index Return: 6.50% Below Target

Short Term: Annual Returns of Asset Classes should exceed the returns of comparable unmanaged market indices.

- See individual portfolio information included in monthly update.

ASSET ALLOCATION:

Out of Range

Asset Class	Range	KERS	Target	KHAZ	Target	SPRS	Target	CERS	Target	CHAZ	Target	Combined	Target
Domestic Equity	+/- 5.0%	24.02%	20.00%	24.66%	20.00%	23.17%	20.00%	24.72%	20.00%	24.53%	20.00%	24.22%	20.00%
International Equity	+/- 5.0%	19.57%	20.00%	19.81%	20.00%	19.90%	20.00%	19.95%	20.00%	19.91%	20.00%	19.83%	20.00%
Emerging Market	+/- 2.0%	3.88%	4.00%	3.94%	4.00%	3.96%	4.00%	3.96%	4.00%	3.96%	4.00%	3.94%	4.00%
Fixed Income												20.20%	20.00%
Core Fixed	+/- 3.0%	10.69%	10.00%	11.22%	10.00%	11.26%	10.00%	10.91%	10.00%	10.89%	10.00%		
Global Bonds	+/- 2.0%	4.49%	5.00%	4.31%	5.00%	4.65%	5.00%	4.32%	5.00%	4.30%	5.00%		
High Yield	+/- 2.0%	4.77%	5.00%	4.78%	5.00%	4.73%	5.00%	4.85%	5.00%	4.84%	5.00%		
Real Estate	+/- 3.0%	3.77%	5.00%	4.13%	5.00%	4.16%	5.00%	4.13%	5.00%	4.12%	5.00%	4.06%	5.00%
Absolute Return	+/- 3.0%	10.29%	10.00%	9.98%	10.00%	10.04%	10.00%	9.76%	10.00%	10.04%	10.00%	10.02%	10.00%
Private Equity	+/- 5.0%	5.45%	10.00%	5.35%	10.00%	6.51%	10.00%	5.71%	10.00%	5.78%	10.00%	5.76%	10.00%
Real Return	+/- 3.0%	9.62%	10.00%	10.08%	10.00%	9.89%	10.00%	10.25%	10.00%	10.49%	10.00%	10.07%	10.00%
Cash Equivalent	+/- 2.0%	3.46%	1.00%	1.77%	1.00%	1.72%	1.00%	1.46%	1.00%	1.14%	1.00%	1.91%	1.00%

NOTES:

- ❖ Cash was higher than the target range in the KERS plan. The Investments department is aware of this over allocation and has since been making investments to get allocations closer to the approved range.

Portfolio Guidelines

- The amount of stock in the domestic or international equity allocation in any single corporation shall not exceed 5% of the aggregate market value of the System's assets. In Compliance
- The amount of stock held in the domestic or international equity allocation shall not exceed 3% of the shares outstanding of any single corporation. In Compliance
- The amount of stock in any one industry in the domestic equity allocation shall not exceed 10% of the aggregate market value of the System's assets. In Compliance
- Investment in "frontier" markets shall not exceed 10% of the System's international equity assets. In Compliance
- The duration of the total fixed income portfolio shall not deviate from the Barclays Aggregate Index by more than 25%. In Compliance
- The duration of the TIPS portfolio shall not deviate from the Barclays TIPS Index by more than 10%. In Compliance
- The amount invested in the debt of a single corporation shall not exceed 5% of the total market value of the Systems' assets. In Compliance

Portfolio Guidelines Cont.

- No public fixed income manager shall invest more than 5% of the market value of assets held in any single issue short term instrument, with the exception of U.S. Government issued, guaranteed or agency obligations. In Compliance
- The amount invested in SEC Rule 144a securities shall not exceed 15% of the market value of the aggregate market value of the Systems' fixed income investments In Compliance

NOTE:

- ❖ While the insurance portfolio was in compliance with the 144a securities limitation on June 30, 2014, as of July 15, 2014, 144a securities comprised 15.482% of the insurance fixed income portfolio. This is a result of the growing high yield and global exposures in the fixed income portfolio.

INDIVIDUAL MANAGED PORTFOLIO COMPLIANCE:

Individual portfolios were found in compliance with their respective standards of measurements, unless noted below. **Any accounts shown below were found to have an exception with at least one standard of measurement.**

Total Domestic Equity Allocation					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its Russell 3000 index.	3-yr	15.61	16.46	Below Target	4 of 4
<u>Long-Term: (5 - 10 Years)</u>					
• Return should exceed its blended index Russell 3000 Index	5-yr	18.60	19.18	Below Target	4 of 4
	10-yr	8.00	8.10	Below Target	4 of 4
• Return should compare favorably the Benchmark on a risk-adjusted basis	5-yr	18.60	19.42	Below Target	3 of 4
	10-yr	8.00	7.93	Above Target	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	18.60	19.53	Below Target	4 of 4
	10-yr	8.00	8.12	Below Target	4 of 4
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index	5-yr	13.98	13.81	Within Range	-
	10-yr	14.74	15.06	Within Range	-

Internal S&P 500 Index					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed the S&P 500 Index	3-yr	16.58	16.58	On Target	-
<u>Long-Term: (5 - 10 Years)</u>					
• Return should exceed the S&P 500 Index	5-yr	19.12	19.25	Below Target	2 of 4
	10-yr	8.24	8.14	Above Target	-
• Return should compare favorably the Benchmark on a risk-adjusted basis	5-yr	19.12	19.08	Above Target	-
	10-yr	8.24	7.90	Above Target	-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to that of the Index within a 10 percent range.	5-yr	13.37	13.49	Within Range	-
	10-yr	14.46	14.91	Within Range	-

International Equity Allocation

Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
<ul style="list-style-type: none"> For periods less than five years or a full market cycle, the Total International Equity Allocation should exceed the returns of the MSCI All Country World ex US Index 	3-yr	5.09	6.22	Below Target	4 of 4
<u>Long-Term: (5 - 10 Years)</u>					
<ul style="list-style-type: none"> Total Intl Equity Allocation return should exceed the MSCI All Country World ex US Index 	5-yr	10.28	11.36	Below Target	4 of 4
	10-yr	7.35	7.03	Above Target	-
<ul style="list-style-type: none"> Total Intl Equity Allocation return should compare favorably the Benchmark on risk-adjusted basis 	5-yr	10.28	10.51	Below Target	1 of 4
	10-yr	7.35	6.78	Above Target	-
<ul style="list-style-type: none"> Allocation should generate returns that rank above the median return of a relevant peer group 	5-yr	10.28	12.83	Below Target	4 of 4
	10-yr	7.35	8.51	Below Target	4 of 4
<ul style="list-style-type: none"> Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index 	5-yr	15.66	16.93	Within Range	-
	10-yr	17.74	18.39	Within Range	-

Pyramis International Growth Investments – Active International Equity

Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
<ul style="list-style-type: none"> For periods less than five years or a full market cycle, return should exceed its KRS MSCI ACWI Ex USA GD Index. 	3-yr	6.50	6.52	Below Target	1 of 4
<u>Long-Term: (5 - 10 Years)</u>					
<ul style="list-style-type: none"> Return should exceed its KRS MSCI ACWI Ex USA GD Index. 	5-yr	11.81	11.21	Above Target	-
	10-yr	7.41	6.91	Above Target	-
<ul style="list-style-type: none"> Return should compare favorably to the Benchmark on a risk-adjusted basis 	5-yr	11.81	9.58	Above Target	-
	10-yr	7.41	6.89	Above Target	-
<ul style="list-style-type: none"> Allocation should generate returns that rank above the median return of a relevant peer group. 	5-yr	11.81	14.01	Below Target	4 of 4
	10-yr	7.41	8.64	Below Target	4 of 4
<ul style="list-style-type: none"> Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index. 	5-yr	16.63	16.75	Within Range	-
	10-yr	18.07	18.13	Within Range	-

The Boston Company

Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
<ul style="list-style-type: none"> For periods less than five years or a full market cycle, return should exceed its KRS MSCI ACWI Ex USA GD. 	3-yr	5.63	6.52	Below Target	4 of 4
<u>Long-Term: (5 - 10 Years)</u>					
<ul style="list-style-type: none"> Return should exceed its KRS MSCI ACWI Ex USA GD Index 	5-yr	9.65	11.21	Below Target	3 of 4
	10-yr	N/A	N/A		
<ul style="list-style-type: none"> Return should compare favorably to the Benchmark on a risk-adjusted basis 	5-yr	9.65	11.22	Below Target	3 of 4
	10-yr	N/A	N/A		
<ul style="list-style-type: none"> Allocation should generate returns that rank above the median return of a relevant peer group. 	5-yr	9.65	13.08	Below Target	3 of 4
	10-yr	N/A	N/A		
<ul style="list-style-type: none"> Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index. 	5-yr	16.76	16.75	Within Range	-
	10-yr	N/A	N/A		

Wellington Asset Management – Active Emerging Market Equity					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its MSCI EAFE Index.	3-yr	0.94	-0.07	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>					
• Return should exceed its MSCI EAFE Index	5-yr	8.29	9.57	Below Target	4 of 4
	10-yr	N/A	N/A		
• Return should compare favorably to the Benchmark on a risk-adjusted basis	5-yr	8.29	9.33	Below Target	4 of 4
	10-yr	N/A	N/A		
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	8.29	10.92	Below Target	4 of 4
	10-yr	N/A	N/A		
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	18.67	19.15	Within Range	-
	10-yr	N/A	N/A		

Total Fixed Income Allocation					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed the KRS Fixed Blended Index	3-yr	6.00	4.22	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>					
• Return should exceed the KRS Fixed Blended Index	5-yr	6.86	5.87	Above Target	-
	10-yr	5.98	5.41	Above Target	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis	5-yr	6.86	6.21	Above Target	-
	10-yr	5.98	5.36	Above Target	-
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	6.86	7.15	Below Target	3 of 4
	10-yr	5.98	5.88	Above Target	-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	3.85	3.64	Within Range	-
	10-yr	5.64	5.71	Within Range	-

PIMCO					
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs
<u>Short-Term: (3 Years)</u>					
• For periods less than five years or a full market cycle, return should exceed its PIMCO Blended Index.	3-yr	4.26	4.30	Below Target	1 of 4
<u>Long-Term: (5 - 10 Years)</u>					
• Return should exceed its PIMCO Blended Index	5-yr	N/A	N/A		
	10-yr	N/A	N/A		
• Return should compare favorably to the Benchmark on a risk-adjusted basis	5-yr	N/A	N/A		
	10-yr	N/A	N/A		
• Allocation should generate returns that rank above the median return of a relevant peer group.	5-yr	N/A	N/A		
	10-yr	N/A	N/A		
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.	5-yr	N/A	N/A		
	10-yr	N/A	N/A		

Internal Managed TIPS – Treasury Inflation Protected Securities						
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs	
<u>Short-Term: (3 Years)</u>						
• For periods less than five years or a full market cycle, return should exceed its Barclays US TIPS Index.		3-yr	3.87	3.56	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>						
• Return should exceed its Barclays US TIPS Index		5-yr	5.74	5.56	Above Target	-
		10-yr	5.42	5.25	Above Target	-
• Return should compare favorably to the Benchmark on a risk-adjusted basis		5-yr	5.74	6.91	Below Target	3 of 4
		10-yr	5.42	5.89	Below Target	3 of 4
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.		5-yr	5.03	5.22	Within Range	-
		10-yr	6.15	6.28	Within Range	-

Total Cash Allocation						
Standard of Measurement		KRS	Index	Result	Past 4 Qtrs	
<u>Short-Term: (3 Years)</u>						
• For periods less than five years or a full market cycle, return should exceed the Citigroup 3-Month Treasury Bill Index		3-yr	0.31	0.05	Above Target	-
<u>Long-Term: (5 - 10 Years)</u>						
• Return should exceed the Citigroup 3-Month Treasury Bill Index		5-yr	0.29	0.08	Above Target	-
		10-yr	1.97	1.56	Above Target	-
• Volatility, as measured by the standard deviation of monthly returns, should be comparable to the Index within a 10 percent range of the Index.		5-yr	0.09	0.02	Outside of Range	4 of 4
		10-yr	0.64	0.53	Outside of Range	4 of 4

**KENTUCKY RETIREMENT SYSTEMS
TRAVEL POLICY AND PROCEDURES**

Approval Date: May 20, 2004
Amended Dates: August 19, 2004; February 15, 2007;
February 19, 2009; August 18, 2011, September 11, 2014

Section 1: Scope

- A. This policy is enacted pursuant to KRS 61.645(9)(c)(4), which provides that employees of Kentucky Retirement Systems (“KRS”) are to be reimbursed for all reasonable and necessary travel expenses and disbursements made in the performance of their official duties. Additionally, this policy is enacted pursuant to the Bylaws of the Board of Trustees of KRS, which provides for reimbursement of travel expenses of KRS Board of Trustee members which have been incurred in the performance of their official duties. Pursuant to Kentucky Revised Statute 61.645(13), the expenses incurred on or behalf of KRS and the Board during the fiscal year shall be paid from the retirement allowance account.
- B. Pursuant to the provisions of KRS 61.645, the Board of Trustees is permitted to conduct the business of KRS as necessary, limited only by its fiduciary obligations.
- C. Pursuant to KRS Chapter 11A, all actual and necessary reimbursements for any Traveler shall be consistent with the requirements of the Kentucky Executive Branch Code of Ethics.
- D. Employees of KRS are entitled to the minimum protections provided in KRS Chapter 45, but the Board of Trustees may expand upon those provisions under KRS 61.645.
- E. The term “Traveler” as used in this policy shall be construed to mean all ~~Retirement Systems~~KRS Board of Trustees members, employees, or contractors eligible for reimbursement, authorized to conduct business on behalf of the Retirement System.

Section 2: Authorization and Reimbursement

- A. Reimbursement under this policy shall only be made for expenses incurred by KRS’ Travelers who have been authorized to conduct business on behalf of KRS. Reimbursement shall be made only for those types of expenses specifically authorized by the terms of this policy. KRS will not pay for or reimburse for a Traveler’s personal expenses; however, if personal expenses are inadvertently paid for or reimbursed by KRS, the Traveler who receives the reimbursement shall repay the amount of personal expense to KRS within ten (10) business days after notice to do so. If the Traveler fails to reimburse KRS, the failure shall be grounds for disciplinary action up to and including dismissal.

- B. Reimbursement under this policy shall only be made up to the most reasonably economical, standard accommodation and transportation available. Reimbursement of expenses without prior authorization shall be at the discretion of the Executive Director, his ~~or~~ her designee, or in the case of travel by the Executive Director, the Chair of the Retirement Systems Board of Trustees or the Trustee designated by the Chair.
- C. Requests for reimbursement shall be made within thirty (30) days of the Traveler's returning from travel. Additionally, requests for reimbursement for travel occurring within the thirty day period prior to the end of the fiscal year, shall be submitted within five (5) business days of the Traveler's return from travel. Approval of requests submitted outside of the reimbursement request submission period may be approved at the discretion of the Executive Director, his ~~or~~ her designee, or in the case of travel by the Executive Director, the Chair of the Board of Trustees, or the Trustee designated by the Chair.
- D. Prior to travel, a KRS Traveler shall obtain authorization to travel on official business of KRS by a Division Director, Chief Officer and/or the Executive Director, or his ~~or~~ her designee. Prior to or after travel, ~~the~~ Executive Director shall obtain authorization to travel on official business of KRS outside the Commonwealth of Kentucky by the Chair of the Board of Trustees, or the Trustee designated by the Chair to approve travel reimbursements.
1. In the event of travel outside of Franklin County, but within the Commonwealth of Kentucky, the Traveler shall obtain pre-authorization through e-mail documentation, ~~on or~~ a Request for Travel ~~form~~Form.
 2. In the event of travel outside the Commonwealth of Kentucky, the Traveler shall obtain prior written authorization on a ~~request~~Request for ~~travel~~Travel ~~form~~Form.
 3. The Request for Travel ~~form~~Form shall contain the following information:
 - a) Name and Title of the Traveler requesting travel authorization;
 - b) Purpose of the travel;
 - c) Vicinity and length of time of travel;
 - d) Estimated cost of travel;
 - e) Signature and date of signature of person requesting authorization;
 - f) Signature and date of signature of Division Director;
 - g) Signature and date of signature of Chief Officer; and
 - h) Signature and date of signature of the Executive Director or person authorized by the Executive Director; or
 - i) If the Traveler is KRS' Executive Director, the signature and date of signature of the Chair of the Board of Trustees or Trustee authorized by the Chair.

- E. A Traveler's "official workstation" shall be the street address of the Retirement System, unless otherwise designated by the Executive Director, his ~~or~~ her designee, or in the case of travel by the Executive Director, the Chair of the Retirement Systems Board of Trustees, or Trustee designated by the Chair. The "official workstation" for contractors eligible for reimbursement shall be their principal place of business as designed in the contract, unless otherwise designated by the Executive Director.
- F. The "home" of a ~~travel~~ Traveler shall be the Traveler's principal place of residence, unless otherwise designated by the Executive Director.
- G. A Traveler may add vacation days prior to or after travel, but reimbursement shall be limited to the expenses incurred over the time periods and distances required for Agency business.
- H. A Traveler may travel with a companion; however, reimbursement shall be limited to the expenses attributable to the Traveler, excluding the companion, over the time periods and distances required for Agency business.
- I. The Executive Director, his ~~or~~ her designee, or in the case of travel by the Executive Director, the Chair of the Retirement Systems Board of Trustees, or Trustee authorized by the Chair, shall make a final determination regarding any controversy over travel reimbursement, including approval of travel without prior written authorization.

Section 3: Transportation

- A. *Economy required.*
 - (1) Travelers traveling on official business of KRS shall use the most economical, standard transportation reasonably available and take the most practicable direct and usually traveled routes. Additional expenses incurred by use of other transportation or routes shall be assumed by the Traveler.
 - (2) Round-trip, excursion or other negotiated reduced-rate rail or plane fares shall be obtained, if practicable.
 - (3) Tickets prepaid by KRS shall be purchased through agency business travel accounts provided by a major charge card company or commercial travel agencies.
 - (4) Tickets purchased through the Internet, a travel company, or a travel agency shall be paid by the traveler and reimbursed on a Travel Payment Voucher ("Voucher") or purchased with a ProCard issued under the KRS ProCard Policy.
 - (5) Change fees shall only be reimbursed to the Traveler if determined necessary by the Executive Director, his ~~or~~ her designee, or in the case of travel by the Executive Director, the Chair of the Retirement Systems Board of Trustees, or Trustee

authorized by the Chair. Items considered change fees shall include, but not be limited to, fees for upgraded seat selection, priority boarding, or upgraded class.

(6) Exceptions may be made at the discretion of the Executive Director, or in the case of travel by the Executive Director, the Chair of the Board of Trustees, or the Trustee designated by the Chair, if other arrangements will be in the best interest of KRS.

B. *State vehicles.*

State-owned vehicles with their credit cards may be used for KRS business travel when available and feasible. Mileage payment shall not be claimed if state-owned vehicles are used.

C. *Privately owned vehicles.*

Mileage claims for use of privately owned vehicles shall be allowed if a state vehicle was not available or feasible.

D. *Buses, shuttles, subways, taxis.*

For city travel, travelers are encouraged to use buses, shuttles, and subways. Taxi fare shall be allowed when more economical transportation is not feasible.

E. *Airline travel.*

Commercial airline travel shall be the lowest negotiated coach or tourist class. Additional expense for first-class, business-class, or similar upgrades shall not be reimbursed or paid for by KRS. Payment shall be made in accordance with subsection (A) of this section.

F. *Special Transportation.*

(1) *Rental vehicles,*

a. The cost of rental vehicles, hiring cars, or other special conveyances in lieu of ordinary transportation shall be allowed if written justification from the traveler prior to travel is submitted and approved by the Executive Director, his ~~or~~ her designee. The Executive Director shall not be subject to the prior written approval requirement of this subsection.

b. The cost of renting a vehicles shall be purchased with a KRS ProCard, pursuant to the KRS ProCard Policy

c. Exceptions may be made to the required pre-approval and method of payment at the discretion of the Executive Director, or in the case of travel by the Executive Director, the Chair of the Board of Trustees, or the Trustee designated by the Chair, if other arrangements will be in the best interest of KRS.

~~(2)~~ (2) Privately owned aircraft may be used if, prior to travel, it is determined to be to the advantage of KRS, measured both by travel costs and travel time.

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G Mileage

- (1) KRS employees and contractors shall not be reimbursed for mileage from his or her home to workstation/workstation to home.
- (2) KRS Board of Trustee members shall be eligible to receive reimbursement for mileage for the commute between his or her home and workstation.
- (3) If the Traveler's point of origin for travel is the Traveler's home, mileage shall be paid for the shorter of mileage between: the home and travel destination, or workstation and travel destination. Vicinity travel and authorized travel within the area of a Traveler's workstation shall be listed on separate lines on the Voucher document

Section 4: Accommodations

- A. Lodging shall be the most reasonably economical, as determined by considering the reason for the travel as well as the location, state of repair, and amenities of the lodging.
- B. Facilities providing special government rates or commercial rates shall be used, if feasible.
- C. State-owned facilities shall be used for meetings and lodging if available, practicable and economical.
- D. Cost for lodging within forty (40) miles of the Traveler's official workstation or home shall be reimbursed only if approved by the Executive Director, his or her designee, or in the case of travel by the Executive Director, the Chair of the Board of Trustees, or Trustee designated by the Chair.
- E. *Group lodging, by contract.*
 - (1) KRS may contract with hotels, motels and other establishments for four (4) or more travelers to use rooms on official business. Government rates shall be requested.
 - (2) The contract may also apply to meals and gratuities. The contract rates and the cost of rooms and meals per person shall not exceed limits set in these policies and procedures.
 - (3) ~~The~~ A Traveler shall not claim reimbursement or subsistence for room and meals paid directly to an establishment providing these services.
 - (4) Payment shall be made directly to the contracted vendor and shall not include personal charges of travelers or others in the official service of KRS.

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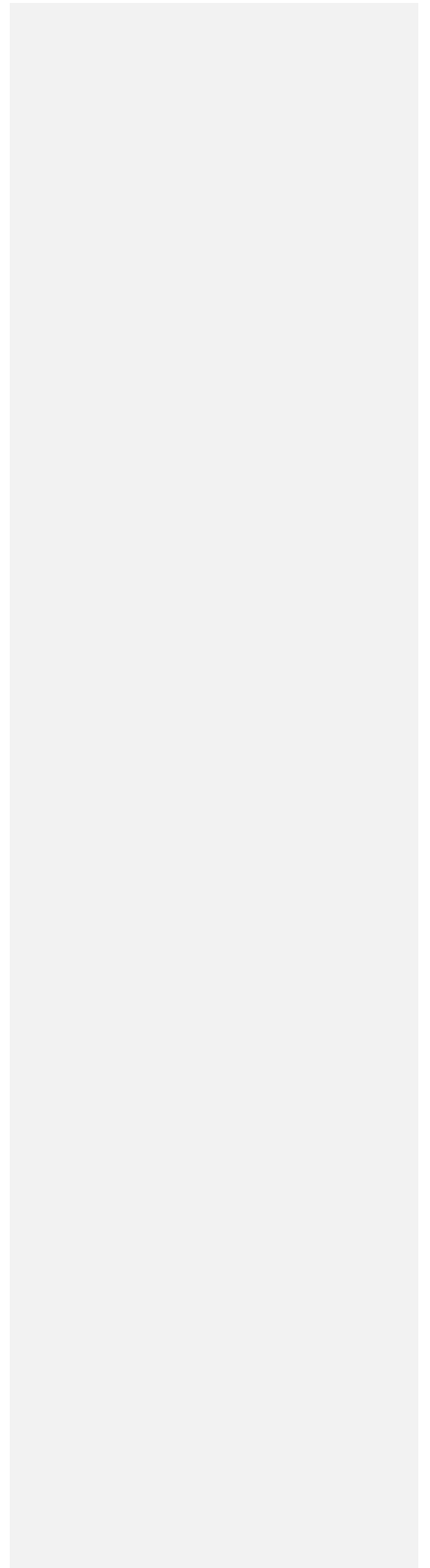
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- (5) Contracted group meeting rooms and lodging and meal charges are exempt from Kentucky sales tax. The KRS sales-use tax number assigned by the Revenue Cabinet shall be specified on the payment document.
- (6) Tax exempt numbers shall not be used by individual travelers to avoid point of sale payment of Kentucky sales tax connected with lodging costs. Sales tax payments shall be reimbursed on a travel voucher.
- (7) When using state park facilities, reimbursement for rooms and meals may be made by an Interaccount Document subject to the limits of these policies and procedures.

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Section 5: Reimbursement Rates.

- A. The following persons may be exempt from the provisions of this section, subject to the provisions of Section 6:
- (1) Executive Director;
 - (2) Board of Trustees members;
 - (3) Chief Officers and the General Counsel;
 - (4) Investment Division Directors; and/or
 - (5) A KRS Traveler, traveling on assignment with the Executive Director, Board of Trustees members, the General Counsel or Chief Officers.
- B. *Lodging.*
- (1) A traveler traveling on official KRS business shall be reimbursed for the actual cost of lodging, if the lodging is determined by KRS Controller or Chief Operations Officer to be the most economical; and the traveler has provided the hotel, motel, or other establishment's receipts to be reimbursed for the travel expenses. Reimbursement for lodging shall not exceed the cost of a single room rate or one-half the double rate.
 - (2) The request for travel form, if required, the lodging receipts, and any other relevant documentation, shall be attached to the travel voucher for reimbursement. All reasonable and necessary travel expenses shall be reimbursed if the travel was pre-approved as evidenced by a signed and dated request for travel form. Reimbursements shall not be limited by the estimates included on the request for travel form. If the employee or Board member fails to have the travel pre-approved, travel expenses shall not be reimbursed unless it is determined by the Executive Director, his^s/_{or} her designee, or in the case of travel by the Executive Director, the Chair of the Retirement Systems Board of Trustees, or Trustee authorized by the Chair, that the travel expenses were reasonable and necessary and should be reimbursed.
- C. *Subsistence.*
- (1) A Traveler traveling on official KRS business shall be eligible for subsistence for breakfast, lunch, or dinner expenses while traveling in or outside Kentucky, but within the United States, its possessions or Canada, at the rates established in these policies and procedures, if his or her authorized work requires travel during the mealtime hours established by this policy. Unless otherwise noted below, a Traveler eligible for subsistence reimbursement may request reimbursement of the applicable per diem amount or reimbursement of actual expenses up to the per diem amount.

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~~(1)~~(2) Under no circumstances shall a KRS Traveler be reimbursed for the cost of alcoholic beverages or other substances prohibited by the Kentucky Retirement Systems' Personnel Policy, Kentucky Revised Statutes, or applicable administrative regulation.

~~(2)~~(3) A Traveler shall be eligible for reimbursement if he is in travel status during the entire mealtime. For example, to be eligible for breakfast reimbursement, a traveler shall begin travel at or before 6:30 a.m. and return at or after 9 a.m. This requirement shall apply to all meals. To be eligible for lunch reimbursement, a traveler shall begin travel before 11:00 a.m. and return at or after 2:00 p.m. To be eligible for dinner reimbursement, a Traveler shall begin travel before 5:00 p.m. and return at or after 9:00 p.m.

~~(3)~~(4) A Traveler shall be eligible for reimbursement for subsistence while traveling in Kentucky, if ~~his-the~~ authorized work requires overnight travel or authorized travel to a destination more than (40) miles from ~~his-the~~ Traveler's work station or home, and ~~requires~~ the Traveler ~~to~~ remains in travel status during the mealtime hours established in this policy.

(5) Mealtime hours and Per diem subsistence mealtime reimbursement rates are as follows:

~~(4)~~a. ~~R~~ates for **non-high rate areas:**

Breakfast: authorized travel 6:30 a.m. through 9 a.m. -- \$8;

Lunch: authorized travel 11 a.m. through 2 p.m. -- \$10;

Dinner: authorized travel 5 p.m. through 9 p.m. -- \$18.

~~(5)~~ Per diem mealtime reimbursement rates for **high rate areas:**

b. Rates for **high rate areas:**

Breakfast: authorized travel 6:30 a.m. through 9 a.m. -- \$10;

Lunch: authorized travel 11 a.m. through 2 p.m. -- \$12;

Dinner: authorized travel 5 p.m. through 9 p.m. -- \$24.

For the purposes of this Travel Policy, "High rate areas" means the city, state, or metropolitan areas designated by the Secretary of the Finance and Administration Cabinet as a high rate area, and included in the Cabinet's policies and procedures manual incorporated by reference in 200 KAR 5:021 in effect at the time of travel are defined by the Finance Cabinet's Office of the Controller. A Traveler is eligible for reimbursement at the "high rate area" reimbursement rate, if the Traveler was located within the high rate area for no less than one (1) hour of the applicable mealtime hours, and may generally be found on their web site at:

<http://www.state.ky.us/agencies/adm/mars/travelinfo.htm>

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(6) Travelers authorized to travel outside the United States, its territories, or Canada shall be reimbursed for their actual and necessary expenses for subsistence.

(7) If a registration fee entitles the registrant to subsistence or subsistence is otherwise covered by KRS, no claims for reimbursement for those meals shall be submitted or paid.

(8) Subsistence reimbursement for a Traveler who does not travel overnight is a taxable fringe benefit, according to the Internal Revenue Service. For this reimbursement, KRS will withhold the applicable federal employment taxes and report this fringe benefit on the traveler's W-2 Form. A separate designated travel voucher shall be submitted for subsistence reimbursement for travelers who do not travel overnight.

D. *Transportation Rates.*

(1) Reimbursement for authorized use of a privately owned vehicle shall be made at the IRS established standard mileage rate which changes periodically; and shall not exceed the cost of commercial coach fare. The mileage reimbursement rate includes reimbursement for vehicle use, gas, maintenance, registration, and any personal automobile insurance coverage required by law.

(2) Calculation for mileage for travel shall be based on the calculation from a generally accepted mapping software or web-based mileage program.

(3) Reimbursement for the actual cost of commercial transportation shall be made upon submission of receipts with the travel voucher.

(4) Reimbursement for use of privately owned aircraft shall be made if, prior to use, written justification was submitted to and approved by the Executive Director, or a designated representative.

E. *Other Reimbursement.*

(1) Actual costs for parking, or bridge and highway toll charges shall be reimbursed upon submission of receipts with a completed travel voucher.

(2) Reimbursement shall be made for reasonable charges for baggage handling; delivery of baggage to or from a common carrier, lodging or storage, and overweight baggage charges, if the charges directly relate to official business.

(3) Registration fees required for admittance to approved meetings or conventions shall be reimbursed.

(4) Telephone, fax or electronic device connection costs for necessary official business shall be reimbursed. However, if KRS has provided reasonable access to telephone, fax or electronic device connection for the Traveler, additional unnecessary charges for similar access shall not be reimbursed.

(5) Telephone calls to KRS offices shall be made through the KRS toll free number, or lowest available service.

~~(5)~~(6) Reasonable gratuities for baggage handling, parking, taxi/shuttle transportation, or concierge services not to exceed \$3.00 per occurrence, unless otherwise reimbursed pursuant to this policy.

~~(6)~~(7) Receipts for numerical paragraphs one (1) through ~~six~~five (56), for each cost less than ten dollars (\$10.00), shall not be required; however, the Traveler shall provide written explanation of the items for which he or she is requesting reimbursement, including a brief description item, the date incurred, and the ~~approximate~~ amount of the expense

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Section 6: Actual and Necessary Expenses

- A. The following persons are eligible for actual and necessary expenses, subject to the provisions of this Section:
- (1) Executive Director;
 - (2) Board of Trustees members;
 - (3) Chief Officers;
 - (4) Investment Division Directors; and/or
 - (5) A KRS Traveler traveling on assignment with the Executive Director, Board of Trustees members, the General Counsel or Chief Officers.
- B. Upon return from travel, travelers specified above must elect to receive either actual and necessary expense reimbursement or the per diem amount for meals as set out in Section 5 above for the entirety of the travel.
- C. Actual and necessary expenses of official business travel, shall only be reimbursed upon submission of receipts. . Receipts shall contain a line item description of the items or services purchased. It is the Traveler's burden to produce adequate documentations to support a request for actual and necessary expenses. A credit card statement, unsupported by additional documentation, shall not be considered a valid receipt.
- D. Actual and necessary expenses for official business travel shall include:
- (1) Lodging;
 - (2) Meals, (not to exceed twice the amounts provided in Section 5 above);
 - (3) Commercial transportation;
 - (4) Taxes related to actual and necessary expenses; and
 - (5) Reasonable gratuities, not to exceed 15% of the total cost of the service.
- ~~E. Reimbursement for authorized use of a privately owned vehicle shall be made at the IRS established standard mileage rate which changes periodically; and shall not exceed the cost of commercial coach fare. KRS shall not reimburse expenses resulting from parking tickets, fines for moving violations, towing charges, repairs, or maintenance.~~

Section 7: Mileage

- ~~A. Mileage commuting between home and workstation shall not be paid. If the traveler's point of origin for travel is the traveler's residence, mileage shall be paid for the shorter of mileage between: residence and travel destination, or work station and travel destination.~~
- ~~B. Vicinity travel and authorized travel within a Traveler's workstation shall be listed on separate lines on the Voucher document.~~

Section 87: Reimbursement documents

- A. Reimbursement for authorized travel as outlined in these policy and procedures shall be requested for reimbursement on the approved travel voucher by all KRS Board of Trustees members and employees. The travel voucher should include the name of the Traveler, a detailed description of the travel, the amounts to be reimbursed, a description of the expenses to be reimbursed, and the date of preparation of the voucher.
- ~~A.B. Contractors, authorized to conduct business on behalf of the Retirement System and eligible for reimbursement for authorized travel as outlined in this policy and the applicable contractual agreement, shall submit the approved travel voucher or other documentation that includes the name of the Traveler, a detailed description of the travel, the amounts to be reimbursed, a description of the expenses to be reimbursed, and expense receipts.~~
- ~~B.C. A separate designated travel voucher shall be submitted for subsistence reimbursement for all KRS Board of Trustees members and employees travelers who do not travel overnight.~~
- ~~C.D. The Traveler shall indicate whether the reimbursement should be in the form of check or direct deposit.~~
- ~~D.E. The Traveler, the Traveler's supervisor, and the Executive Director, his or her designee, or in the case of travel by the Executive Director, the Chair of the Board of Trustees, or Trustee designated by the Chair, shall sign the travel voucher prior to reimbursement.~~
- ~~E. Necessary travel expenses incurred by a Traveler as a result of circumstances outside of the Traveler's control. Such expenses shall be accompanied by receipts and other relevant documentation, a written detailed explanation or the circumstances resulting in the expenses, and attached to a completed designated travel voucher. These expenses may be reimbursed to the Traveler by the Retirement System at the discretion of the Executive Director, his or her designee, or in the case of travel by the Executive Director, the Chair of the Retirement Systems Board of Trustees, or Trustee authorized by the Chair.~~
- ~~F.~~

Comment [bct2]: Karen and I were talking about vendors who are subject to the travel policy. While we want them to be subject to the travel policy, we don't want them to submit travel vouchers. Thus the additional sentence.

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CERTIFICATION

We, the Chair of the Board of Trustees and the Executive Director, do hereby certify that this Board of Trustees Travel Policy and Procedures was amended by the Board on this the 11th day of September 2014.

Thomas K. Elliott, Chair

Date

William A. Thielen, Executive Director
~~Executive Director~~

Date

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KENTUCKY RETIREMENT SYSTEMS

TO: Kentucky Retirement Systems Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: September 11, 2014

SUBJECT: SPRS Board Member 2015 Election

The term of office for Mr. Randy J. Overstreet, who is the trustee elected by the SPRS members, expires March 31, 2015. Kentucky Revised Statute 61.645(4)(a) provides that “[f]or each trustee to be elected, the board may nominate, not less than six (6) months before a term of office of a trustee is due to expire, three (3) constitutionally eligible individuals.” The statute further provides that the elected Trustee representing SPRS must be a “member or retired from the State Police Retirement System.”

Pursuant to Kentucky Revised Statute 61.645(6)(c), an individual who is currently serving as an employee, or has been a former employee of the Kentucky Retirement Systems, is ineligible to run for the election. Individuals who are currently serving as an elected or appointed city, county, or district officer should also be aware of the constitutional and statutory provisions that may prevent them from simultaneously serving on the Board of Trustees. Kentucky Revised Statute 61.645 and Section 165 of the Constitution of Kentucky establish when a constitutional incompatibility may exist between a position currently held and membership on the KRS Board of Trustees. A person who has served three (3) consecutive terms on the board is ineligible to apply unless there has been at least four years since his or her last term ended [KRS 61.645(3)(a)].

Nomination Procedure

The Spring 2014 KRS newsletter, and the KRS web page contained a request for resumes from members interested in being nominated as a candidate. The deadline assigned for the receipt of resumes was on or before July 31, 2014. Attached to this memorandum are the resumes of Mr. Keith Aaron Peercy and Ms. Lisa Marie Rudzinski, who have indicated interest in serving on the Board. Mr. Peercy is an active member of SPRS, and Ms. Rudzinski is a retiree of SPRS.

Nominations for the election of the SPRS representative Trustee shall be made by a vote of the Board from a list of all members from whom an application and a resume were submitted and from any members proposed for nomination by the Board (collectively, the “potential nominees”) during the quarterly Board meeting. Each Board member shall have one (1) vote for the position to be elected on the initial and all subsequent ballots. If a potential nominee receives no votes on any given ballot, that potential nominee’s name shall be removed from all subsequent ballots. If the Board’s voting on any given ballot results in a list of more than three (3) potential nominees, all potential nominees receiving at least one (1) vote shall be listed for consideration on the immediately succeeding ballot, with each board member again having one (1) vote. The balloting shall continue in this manner until no more than three (3) potential candidates remain, and these shall be the Candidates placed on the Official Ballot to be distributed to the qualified membership. In the event that the Board members’ balloting results in fewer than three (3) potential candidates, the Board members may, by affirmative majority vote, choose to allow only those remaining potential candidates to be placed on the official Ballot, or may nominate additional individuals from the original list of potential nominees until there is a total of three (3) candidates on the Official Ballot.

KRS will distribute another newsletter, and post to the web page following the September 11, 2014, Board Meeting notifying members of the candidates nominated by the Board of Trustees. The newsletter and web page will also contain information on how members may be nominated by petition from the SPRS membership.

After nominations by the Board, SPRS members may nominate candidates by filing a petition with the Executive Director, or his designee, no later than November 30, 2014, or four (4) months prior to the expiration of the term of office. The petition must bear the names, last four (4) digits of the members' Social Security numbers, and signatures of not less than one-tenth of the number of members voting in the SPRS election (545 ballots were counted and certified by the Board's contracted external auditing firm in 2011; therefore, in accordance with KRS 61.645(4)(b), at least 55 signatures are required to nominate a candidate by petition). Petitions may only contain the name of one (1) candidate. Names and Social Security numbers on petitions shall be verified by the Internal Auditor. The certification of additional candidates shall become part of the official minutes of the Board.

Election Procedure

After the deadline for petitions is past, the Executive Director, or his designee, is required to prepare an official ballot. The ballot will contain the name of each individual nominated by the Board and by petition. An optional photograph of each candidate and biographical information shall be included with the ballot. Candidates' position on the ballot shall be determined by random lottery. The candidates' biographical information will follow the same order as the candidates' positions on the ballot. The ballot also allows for write – in votes. The ballot will be distributed to the eligible voters as of December 31, 2014, by mail to their last known address. ***Only one (1) ballot will be mailed to each eligible voter. Duplicate ballots will not be produced or mailed.*** Eligible voters will return the ballots to a post office box accessible by the Board's external auditor, who will count the ballots and document the results. The candidate receiving the most votes for the position to be elected shall be designated as the winner.

Election Timetable

DATE	EVENT	STATUTORY or POLICY REFERENCE
September 11, 2014	Quarterly Board Meeting. The Board will nominate up to 3 candidates to be placed on the election ballot for the SPRS position on the Board of Trustees.	KRS 61.645(4)(a)
November 30, 2014	Last day to file a petition to be placed on the election ballot.	KRS 61.645(4)(b)
December 31, 2014	Ballots prepared.	KRS 61.645(4)(c)
January 20, 2015	Ballots mailed to SPRS membership.	KRS61.645(4)(h)
March 1, 2015	Last day to postmark ballots.	KRS.61.645(4)(f)
March 15, 2015	Election results certified by External Auditor.	KRS.61.645(4)(e)(g)

RECOMMENDATION: The Executive Director recommends the Board conduct the nomination process for the one (1) trustee position for the SPRS election.



**Kentucky Retirement Systems
APPLICATION FOR TRUSTEE**

KENTUCKY RETIREMENT SYSTEMS
Perimeter Park West • 1260 Louisville Rd. • Frankfort KY 40601-6124
Phone: (502) 696-8800 • Fax: (502) 696-8801 • kyret.ky.gov
Deaf/Hard of Hearing TTY (502)564-4306

Application for Trustee

Information provided on this form will be used in your biography for the ballot if you are selected as a candidate.

Trustee Information

Social Security No.	<input type="text"/>	Today's Date	Jul 25, 2014
Home Phone No.	+1 (859) 200-2453		(mm/dd/yyyy)
Work Phone No.	+1 (502) 782-1800	Date of Birth (for identification purposes only)	12/01/1974
			(mm/dd/yyyy)

Peercy	Keith	Aaron	
Last Name	First Name	Middle Name	Other Name (if any)

584 Leverton Place	Richmond	KY	40475	Madison
Address (Street, R.F.D. or Box No.)	City	State	Zip Code	County

E-mail Address (if available) kpeercy@gmail.com

Background

Yes No Have you ever been convicted of or plead guilty to a felony? If yes, list offense(s), date(s) of offense(s), date(s) of conviction(s) or plea(s), and jurisdiction(s) in which the offense(s) occurred. Conviction is not an automatic rejection of application.

Conflict of Interest

Yes No Are you a constitutionally eligible individual, which means a prospective candidate who does not have a conflict of interest on the basis of holding a constitutionally elected or appointed position pursuant to KRS 61.645 and Kentucky Constitution Section 165? If no, please list any elected or appointed position you currently hold that you believe may be constitutionally incompatible with serving as a trustee.

Yes No Do you or any member(s) of your immediate family own a controlling interest in an entity that does business or might seek to do business with KRS? If yes, please list below.

Yes No Do you or any member(s) of your immediate family serve in a leadership or fiduciary capacity with an entity that does business or might seek to do business with KRS? If yes, please list below.

Yes No Do you have any other actual or potential conflicts of interest that may hinder or prevent you from serving as a Trustee? If yes, please list below.

Name: Peercy, Keith

Social Security No.

Date 07/25/2014

Education/Training: Complete accurately and provide highest grade or year completed at all levels of school below.

School	Name and Address of School	Dates Attended		Date of Graduation	Number of Hours		Fields of Study		Degree, Diploma, or Certificate Earned
		To	From		Earned	Now Carrying	Major	Minor	
High School	Model Richmond, KY	8/1990	5/1993	5/1993					Diploma: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No or GED: <input type="checkbox"/> Yes <input type="checkbox"/> No
Under Graduate College or University	EKU Somerset Comm. College	8/1993	12/1995	mo/yr	**	**	PAD		AAS, Criminal Justice
		1/2008	8/2009	8/2009			Criminal Justice		
Graduate College or University		mo/yr	mo/yr	mo/yr	**	**			
Vocational, Business, Technical		mo/yr	mo/yr	mo/yr	***	***			
Apprenticeship		mo/yr	mo/yr	Length of Program: 1 2 3 4 5		Journeyman: <input type="checkbox"/> Yes <input type="checkbox"/> No			

Please indicate if college hours are semester or quarter OR * indicate number of vocational / technical school clock hours.

If you need additional space to list employment, please print additional pages.

Employment History

A.	Employed From	5/1991	To	9/1994
		(mm/dd/yyyy)		(mm/dd/yyyy)
	Title of Position	Bagger/Checker		
	Name of Employer	Kroger		
	City	Richmond	State	KY
Type of Business	Grocery Store			
B.	Employed From	9/1994	To	2/1996
		(mm/dd/yyyy)		(mm/dd/yyyy)
	Title of Position	Dispatcher		
	Name of Employer	Kentucky State Police Post 7		
	City	Richmond	State	KY
Type of Business	State Police			
C.	Employed From	2/1996	To	Present
		(mm/dd/yyyy)		(mm/dd/yyyy)
	Title of Position	Trooper		
	Name of Employer	Kentucky State Police		
	City	Frankfort	State	KY
Type of Business	State Police			

Name: Peercy, Keith

Social Security No. [REDACTED]

Date 07/25/2014

Ballot Information: Please provide information as you would like it to appear with the printed election ballot.

Note: The education section is limited to institutions where a degree was granted and associations must have a relationship to service on the KRS Board.

Submit: One 5X7 color photo in PDF or JPG Format along with your application.

Name: Keith Peercy

Position: Lt. Colonel, Director of Commercial Vehicle Enforcement Division



Education, Certifications & Associations

SPACE IS LIMITED TO VISIBLE AREA ONLY

AAS, Criminal Justice

Residence: Richmond, KY

ATTENTION: Information in the box above will appear exactly as submitted with the printed election ballot.

Sample: This is how your information will be displayed with the ballot.



Jacob Doe

SPRS Position Retired Captain / Special Operations
Louisville Metro Police Department

Education, Certifications & Associations Certification as a law enforcement officer,
KSPD

LL.M degree, Columbia Law School

Residence Louisville, KY - Jefferson County

A background check conducted by the Kentucky State Police showed no felony conviction.

-IMPORTANT- THIS SECTION MUST BE COMPLETED-

Signature - Please read and sign the following statement:

I certify, under penalty of law, that the information given in this application is correct and complete to the best of my knowledge.

Date: 7.25.14

Signature:

584 Leverton Place
Richmond, KY 40475
(859)200-2453
kpeercy@gmail.com

KEITH PEERCY

EXPERIENCE

BAGGER/CHECKER, KROGER
5/1991-9/1994
Bagged groceries & ran cash register

DISPATCHER, KENTUCKY STATE POLICE POST 7
9/1994-2/1996
Dispatched for 11 county Post area, took administrative & emergency calls

TROOPER, KENTUCKY STATE POLICE POST 7
7/1996-9/2001

SERGEANT, KENTUCKY STATE POLICE POST 7
West Squad Sergeant

SERGEANT, COMPUTER TECHNOLOGIES BRANCH
9/2002-9/2003

LIEUTENANT, CRIMINAL ID & RECORDS BRANCH
9/2003-6/2005

LIEUTENANT, FINANCIAL & GRANTS MANAGEMENT BRANCH
6/2005-8/2006

CAPTAIN, FINANCIAL & GRANTS MANAGEMENT BRANCH
8/2006-2/2008

MAJOR, CHIEF INFORMATION OFFICER, TECHNICAL SERVICES DIVISION
2/2008-2/2012

LIEUTENANT COLONEL, DIRECTOR, COMMERCIAL VEHICLE ENFORCEMENT DIVISION
2/2012-Present

EDUCATION

MODEL HIGH SCHOOL, RICHMOND, KY
Graduated 5/1993

EASTERN KENTUCKY UNIVERSITY, RICHMOND, KY
8/1993-2/1996

SOMERSET COMMUNITY COLLEGE, SOMERSET, KY
1/2008-8-2009 AAS, Criminal Justice



Criminal Identification and Records Branch
Criminal Records Dissemination Section
1266 Louisville Road
Frankfort, KY 40601
Phone (502) 227-8700 or via Web @ www.kentuckystatepolice.org

Requesting Agency:
KENTUCKY RETIREMENT SYSTEMS
1260 LOUISVILLE ROAD
FRANKFORT, KY 40601

Report Date: July 28, 2014

Subject of Criminal Record Check:

Name: PEERCY, KEITH AARON
Search Type: Employment

Criminal History Search Results:

A Criminal History record was NOT found on the above individual.

Sex Offender Registry Search Results:

The above individual is not currently listed on the Dru Sjodin National Sex Offender Public Website.

The Kentucky State Police Criminal Records Section has conducted a search of the Kentucky Computerized Criminal History (CCH) Repository on the individual listed above. The Repository does not necessarily contain all arrest data, but only that which has been reported to the Kentucky CCH and is available for the dissemination under state and federal law.

Certified By: _____

A handwritten signature in blue ink, appearing to read "Josh Clark", written over a horizontal line.





**Kentucky Retirement Systems
APPLICATION FOR TRUSTEE**

KENTUCKY RETIREMENT SYSTEMS
Perimeter Park West • 1260 Louisville Rd. • Frankfort KY 40601-6124
Phone: (502) 696-8800 • Fax: (502) 696-8801 • kyret.ky.gov
Deaf/Hard of Hearing TTY (502)564-4306

*Rec.
7-31-14
1:51pm
CAD*

Application for Trustee

Information provided on this form will be used in your biography for the ballot if you are selected as a candidate.

Trustee Information

Social Security No. Today's Date 07/30/2014
 Home Phone No. +1 (859) 619-5121 (mm/dd/yyyy)
 Work Phone No. Date of Birth 04/24/1968
 (for identification purposes only) (mm/dd/yyyy)

Rudzinski	Lisa	Marie	n/a	
Last Name	First Name	Middle Name	Other Name (if any)	

3216 Putter Lane	Lexington	KY	40509	Fayette
Address (Street, R.F.D. or Box No.)	City	State	Zip Code	County

E-mail Address (if available) Lisa.Rudzinski@TWC.com

Background

Yes No Have you ever been convicted of or plead guilty to a felony? If yes, list offense(s), date(s) of offense(s), date(s) of conviction(s) or plea(s), and jurisdiction(s) in which the offense(s) occurred. Conviction is not an automatic rejection of application.

Conflict of Interest

Yes No Are you a constitutionally eligible individual, which means a prospective candidate who does not have a conflict of interest on the basis of holding a constitutionally elected or appointed position pursuant to KRS 61.645 and Kentucky Constitution Section 165? If no, please list any elected or appointed position you currently hold that you believe may be constitutionally incompatible with serving as a trustee.

Yes No Do you or any member(s) of your immediate family own a controlling interest in an entity that does business or might seek to do business with KRS? If yes, please list below.

Yes No Do you or any member(s) of your immediate family serve in a leadership or fiduciary capacity with an entity that does business or might seek to do business with KRS? If yes, please list below.

Yes No Do you have any other actual or potential conflicts of interest that may hinder or prevent you from serving as a Trustee? If yes, please list below.

Name: Rudzinski, Lisa M.

Social Security No.

ate July 30, 2014

Education/Training: Complete accurately and provide highest grade or year completed at all levels of school below.

School	Name and Address of School	Dates Attended		Date of Graduation	Number of Hours		Fields of Study		Degree, Diploma, or Certificate Earned
		To	From		Earned	Now Carrying	Major	Minor	
High School	Warren Central Bowling Green, KY	8/82	6/86	6/86					Diploma: <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No or GED: <input type="checkbox"/> Yes <input type="checkbox"/> No
Under Graduate College or University	University of Kentucky Lexington, KY	01/07	8/12	8/12	**	**	Comm & Leadership Dev		BS Community Comm. & Leadership Dev.
Graduate College or University					**	**			
Vocational, Business, Technical	Kentucky State Police Training Academy Frankfort, KY	04/93	9/93	9/93	***	***			Basic Police Science
Apprenticeship				Length of Program: 1 2 3 4 5		Journeyman: <input type="checkbox"/> Yes <input type="checkbox"/> No			

Please indicate if college hours are semester or quarter OR * indicate number of vocational / technical school clock hours.

If you need additional space to list employment, please print additional pages.

Employment History

A.	Employed From	04/04/1993	To	07/31/2014
		(mm/dd/yyyy)		(mm/dd/yyyy)
	Title of Position	Captain		
	Name of Employer	Kentucky State Police		
	City	Frankfort	State	Kentucky
Type of Business	Law enforcement			
B.	Employed From	8/1988	To	04/01/1993
		(mm/dd/yyyy)		(mm/dd/yyyy)
	Title of Position	Restaurant Manager		
	Name of Employer	McDonald's of Columbia		
	City	Columbia	State	Kentucky
Type of Business	Restaurant			
C.	Employed From	08/1985	To	07/1988
		(mm/dd/yyyy)		(mm/dd/yyyy)
	Title of Position	Assistant Store Manager		
	Name of Employer	Waldenbooks		
	City	Nashville / Bowling Green	State	Tennessee / Kentucky
Type of Business	retail book store			

Name: Rudzinski, Lisa M.

Social Security No. []

Date July 30, 2014

Licenses or Certificates: Please list any professional licenses or certifications you currently hold.

License or Certification Title & Number	Original Issue Date	Current Expiration Date	Name, Address & Phone of Licensing Agency
KY POPs Certification	September 1993	December 2014	Kentucky State Police Frankfort, KY 502-782-1800
KLEC Certified Law Enforcement Instructor	December 2002		Kentucky Law Enforcement Council Richmond, Kentucky

Membership in Organizations: Indicate current membership in professional organizations, if you wish for the organization to be listed in your biography.

ORGANIZATION	TITLE	DATE MEMBERSHIP EXPIRES
Kentucky Women's Law Enforcement Network	Treasurer	December 31, 2014 (annual renewal)
Kentucky State Police Retiree's Organization	Member	August 2015 (annual renewal)

Please provide any additional information about your qualifications to serve as a trustee that you wish to be considered by the Board of Trustees.

After 21+ years of active service as a sworn member of the Kentucky State Police, I am retiring July 31, 2014.

I have served over 15 years in various positions of leadership within the department.

Making sound decisions that affected a large number of employees, and citizens, were a normal function of my daily duties.

I have served on a variety of boards during my state police tenure-at the local, regional and statewide level.

I have held various board positions in addition to member—including treasurer (multiple) and chairperson.

I understand and operate well in the critical aspects of a governing body.

My reputation is that of a fair, impartial, informed leader who considers multiple points of view and then acts decisively as needed.

I obtained my Bachelor of Science in Community Communication and Leadership Development from the University of Kentucky in 2012.

I am excited about the opportunity to be placed on the ballot for the trustee election representing SPRS membership.

I welcome and encourage future dialogue regarding my desire to serve as a trustee representing retired, active, and

future members of the department.

Name: Rudzinski, Lisa M.

Social Security No. []

Date July 30, 2014

Ballot Information: Please provide information as you would like it to appear with the printed election ballot.

Note: The education section is limited to institutions where a degree was granted and associations must have a relationship to service on the KRS Board.

Submit: One 5X7 color photo in PDF or JPG Format along with your application.

Name: Lisa M. Rudzinski

Position: Retired Captain / various assignments
Kentucky State Police

Submit
5X7 or Larger
Color Photo
PDF or JPG Format

Education,
Certifications &
Associations

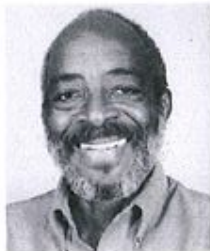
SPACE IS
LIMITED TO
VISIBLE
AREA
ONLY

Ky certified peace officer
KSP Academy
BS, University of Kentucky

Residence Lexington, Kentucky (Fayette County)

ATTENTION: Information in the box above will appear exactly as submitted with the printed election ballot.

Sample: This is how your information will be displayed with the ballot.



Jacob Doe

SPRS Position Retired Captain / Special Operations
Louisville Metro Police Department

Education, Certifications & Associations Certification as a law enforcement officer,
KSPD

LL.M degree, Columbia Law School

Residence Louisville, KY - Jefferson County

A background check conducted by the Kentucky State Police showed no felony conviction.

-IMPORTANT- THIS SECTION MUST BE COMPLETED-

Signature - Please read and sign the following statement:

I certify, under penalty of law, that the information given in this application is correct and complete to the best of my knowledge.

Date: July 30, 2014

Signature: Lisa M. Rudzinski

Lisa M. Rudzinski

Objective: To utilize my highly-developed and proven skill set to successfully motivate, coach, develop and lead personnel while advancing the mission of the organization.

Experience: **Kentucky State Police April 1993 – July 2014**

CAPTAIN {June 2004 – July 2014} Multiple Assignments

- Post Commander-directed entire post operation
- Formulate post goals, objectives and strategies
- Evaluate all departmental offices for policy and procedure compliance
- Assess all departmental office for best practices
- Command major operational details/events
- Lead internal investigations regarding policy violations
- Spearheaded creation of regional E-911 center for multiple counties/agencies
- Develop personnel and grow team-based service delivery
- Oversight of comprehensive investigative casework files
- Enhance morale and strengthen organizational culture
- Collaborate with entities across the spectrum of public safety
- Coordinated federal funding for statewide traffic safety programs

MAJOR {November 2005 – February 2008} Administrative Division

- Deputy Division Director and member of KSP Command Staff
- Supervised all agency Human Resources Branch functions
- Directed creation/modification of agency policies and procedures
- Department legislative liaison
- Implement large scale recruitment/retention strategies
- Administer creation/production of agency publications
- Served as department spokesperson (Feb 2005-July 2006)

LIEUTENANT {Sept. 2001 – May 2004} Comm. Relations / Academy

- Commander of Community Relations Branch 9/01 – 10/03
- Official agency spokesperson/Liaison between agency and media
- Coordinate all agency public information activities
- Publish agency newsletter
- Produce articles regarding agency to numerous publications
- Assistant Commander of Academy Branch 11/04 – 05/04
- Coordinator of cadet (recruit) training
- Certified Law Enforcement Instructor
- Supervise instructional and support staff
- Oversee curriculum development

SERGEANT {November, 1999 – Sept. 2001} Bowling Green Post

- Quality control of all documents
- Comprehensive review of investigative case files of staff
- Responsible for post property and evidence integrity
- Field Training Officer Coordinator
- Supervise and evaluate civilian personnel

DETECTIVE {August, 1995 – November, 1999} Columbia Post

- Primary Child Abuse Investigator for 11 counties
- Thorough and accurate case investigations and reports
- Effective court testimony
- Assisted in prosecution of cases resulting in a high rate of convictions
- Conducted child abuse-related training for medical personnel
- Excellent working relationships with court officials
- Coordinated flow of information between courts and victims
- 1998 Post 15 Trooper of the Year

TROOPER {September, 1993 – August, 1995} Columbia Post

- Provided traffic and criminal law enforcement service
- Developed rapport with community leaders and citizens
- Secondary Child Abuse Investigator
- Received Commissioner's Commendation for homicide investigation

RESTAURANT MANAGER 1988-1993 McDonald's Columbia, KY

- Responsible for hiring & training all management and crew members
- Accountable for entire store operations
- Implemented training program for new employees, increasing productivity
- Delivery of strong and consistent brand message
- Achieved and maintained superior ratings in all evaluated areas
- Strong leadership directly related to business growth

ASSISTANT MANAGER

1985-1988 Waldenbooks Nashville, TN

Education/Training:

- BS-Communications & Leadership Development---University of Kentucky '12
- Northwestern University Center for Public Safety School of Police Staff and Command-Class 198 (Class President) 2004
- Kentucky Law Enforcement Council Instructor Development Course---Richmond, KY (Certificate #1233) 2002
- New Manager's Survival School---Frankfort, KY 2000
- New Sergeant's In-service---Frankfort, KY 1999
- Interviewing, interrogation, and investigation training (Multiple)
- Various child abuse training 1993-1999
- Advanced Interviewing Training---Frankfort, KY 1996
- McDonald's Advanced Leadership Training-Oak Brook, IL 1992

Job Related Skills:

- Excellent interpersonal skills
- Comprehensive investigative expertise
- Enthusiastic team builder
- Detailed Human Resources experience
- Top-level confidentiality experience
- Service as board member-wide array of organizations
- Solid oral and written communication
- Successful instructor
- Able to build strong relationships
- Sharp attention to detail skill set
- Motivational speaker
- Skilled project manager
- Proven multi-task abilities
- Demonstrated fiscal responsibility

References Available Upon Request



Criminal Identification and Records Branch
Criminal Records Dissemination Section
1266 Louisville Road
Frankfort, KY 40601
Phone (502) 227-8700 or via Web @ www.kentuckystatepolice.org

Requesting Agency:
KENTUCKY RETIREMENT SYSTEMS
1260 LOUISVILLE ROAD
FRANKFORT, KY 40601

Report Date: July 31, 2014

Subject of Criminal Record Check:

Name: RUDZINSKI, LISA M
Search Type: Employment

Criminal History Search Results:

A Criminal History record was NOT found on the above individual.

Sex Offender Registry Search Results:

The above individual is not currently listed on the Dru Sjodin National Sex Offender Public Website.

The Kentucky State Police Criminal Records Section has conducted a search of the Kentucky Computerized Criminal History (CCH) Repository on the individual listed above. The Repository does not necessarily contain all arrest data, but only that which has been reported to the Kentucky CCH and is available for the dissemination under state and federal law.

Certified By: _____

A handwritten signature in black ink, appearing to read "Josh Clark", written over a horizontal line.



KENTUCKY RETIREMENT SYSTEMS

Unaudited Financial Statements as of June 30, 2014

Summary Comments

Pension Trusts

Plan Net Position: Year ending 2013-14 Total Plan Assets = \$12.0 billion vs. \$11.2 billion from prior year (increase of 7%)

- Cash Deposits decreased from \$5.7 million to \$3.7 million from the prior year due to enhancements of Cash Management Strategy with Depository Bank
- Investment Accounts Receivable increased from \$33.7 million to \$642.1 million from the prior year due to the enhanced reporting capability with the new Custodial Bank. In the prior year receivables were limited to investment income, a full accrual process is now used.
- Accounts Receivable - Alternate Participation decreased from \$153,000 to \$114,000 due to agencies paying down the balance due.
- Fixed Income Investments decreased from \$3.6 billion to \$3.1 billion due to changes in investment strategy to enhance overall portfolio performance.
- Public Equities decreased from \$6.5 billion to \$5.4 billion due to changes in investment strategy to enhance overall portfolio performance.
- Securities Lending Collateral Invested decreased from \$1.4 million to \$882 million due to change in market needs.
- Private Equities, Derivatives, and Absolute Return increased 100% from prior year due to the creation of new asset classes to better represent the portfolio.
- Mortgages decreased by \$372.9 million from prior year due to the creation of new asset classes to better represent the portfolio.
- Real Estate increased from \$174.9 million to \$427.1 million from prior year related to changes in investment strategy to enhance overall portfolio performance.
- Total Fixed Assets decreased from \$16.1 million to \$10.6 million from prior year due to a change in the capitalization policy of fixed assets and due to the increase in accumulated depreciation and amortization. The fixed asset policy was updated to include only those items that exceeded the \$3,000 threshold with the exception of specific IT equipment.
- Accounts Payable increased from \$4.4 million to \$9 million due to an increase in outstanding employer credit invoices.
- Investment Accounts Payable increased \$612 million due to move to a full accrual process implemented with new custodial bank.

Changes Plan Net Position: Year ending 2013-14 Total Income less Expenses = \$862.1 million compared to \$399.1 million for prior year (+116%)

- Health Insurance Contributions increased from \$9.2 million to \$12.4 million due to an increase in the number of reported employees that are subject to an additional 1% health contribution withholding (those hired after 9/1/2008)
- Net Appreciation in the Fair Value of Investments increased from \$890.6 million to \$1,361.4 million due improved market conditions overall.
- Interest and Dividends increased from \$285.9 million to \$323.6 million due to improved market conditions.
- Investment Expense increased from \$41.1 million to \$45.8 million due to an increase in the market value of investments held; higher market values generate higher investment expenses.
- Securities Lending Income decreased from \$5.9 million to \$4.1 million due to changing market needs.
- Security Lending Borrower Rebates increased from (\$224) million to (\$433) million due to changing market needs.
- Security Lending Agent Fee decreased from \$865 million to \$675 million due to changing market needs.

KENTUCKY RETIREMENT SYSTEMS
Unaudited Financial Statements as of June 30, 2014
Summary Comments

Insurance Trusts

Plan Net Position - Year ending 2013-14 Total Plan Assets = \$4.2 billion vs. \$3.5 billion from prior year (increase of 20%)

- Cash Deposits decreased from \$1.4 million to \$354 thousand from the prior year due to improvements in making cash available for investments.
- Short Term Investments decreased from \$163.3 million to \$138.7 million due to change in investment strategy to enhance overall portfolio performance.
- Investment Accounts Receivable increased from \$10.1 million to \$252.7 million from the prior year due to the enhanced reporting capability with the new Custodial Bank to include sale proceeds net of purchases in addition to investment income.
- Securities Lending Collateral Invested decreased from \$511 million to \$293.4 million due to change in market needs.
- Fixed Income Investments increased from \$1.2 billion to \$1.4 billion due to changes in investment strategy to enhance overall portfolio performance.
- Public Equities decreased from \$1.9 billion to \$1.7 billion due to changes in investment strategy to enhance overall portfolio performance.
- Private Equities, Derivatives, and Absolute Return increased 100% from prior year due to creation of new asset classes to represent better portfolio assets held.
- Mortgages decreased by \$103.4 million from prior year due to changes in investment strategy to enhance overall portfolio performance.
- Real Estate increased from \$53.3 million to \$151 million from prior year due to changes in investment strategy to enhance overall portfolio performance.
- Accounts Payable decreased from \$8.2 million to \$47 thousand due to the move from the self funded health insurance plan.
- Investment Accounts Payable increased 100% to \$234 million due to move to a full accrual process implemented with new custodial bank.

Changes Plan Net Position -Year ending 2013-14 Total Income less Expenses = \$632.4 million compared to \$432.6 million for prior year (+46%)

- Employer contributions decreased from \$447 million to \$397 million due to reduced employer contribution rates for both CERS and CHAZ.
- Medicare Drug Reimbursement decreased from \$11.1 million to \$14 thousand due to a move from the self funded plans to the premium based plans.
- Insurance Premiums decreased from \$26 million to \$2.4 million due to a move from the self funded plans to the premium based plans.
- Net Appreciation in the Fair Value of Investments increased from \$232.9 million to \$445.7 million due improved market conditions overall.
- Investment Expense increased from \$9.6 million to \$15.7 million related to an increase in the market value of investments held; higher market values generate higher investment expenses.
- Securities Lending Income decreased from \$2 million to \$1.4 million due to changing market needs.
- Security Lending Borrower Rebates increased from \$15,000 in income to (\$112,000) in expense due to changing market needs.
- Security Lending Agent Fee decreased from \$282,000 to \$222,000 due to changing market needs.
- Health Care Premiums Subsidies increased from \$283.1 million to \$292.2 million from prior year due to the move from the self funded plan to the premiums based plan.
- Administrative Expense decreased from \$9.8 million to \$1.6 million due to the move from the self funded plan to the premiums based plan.
- Self funded health care costs decreased from \$78.9 million to \$6.2 million due to the move from the self funded plan to the premiums based plan.

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF PLAN NET ASSETS
PENSION FUNDS
As of June 30, 2014
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2014	2013	Variance	
ASSETS									
Cash and Short-term Investments									
Cash Deposits	\$1,408,274	\$1,724,114	\$273,391	\$221,763	\$116,765	\$3,744,308	\$5,712,394	-34%	1
Short-term Investments	\$109,678,065	\$238,110,921	\$10,979,712	\$60,761,649	\$21,452,912	\$440,983,259	\$419,180,889	5%	
Total Cash and Short-term Investments	\$111,086,339	\$239,835,035	\$11,253,103	\$60,983,412	\$21,569,677	\$444,727,566	\$424,893,283		
RECEIVABLES									
Accounts Receivable	\$36,521,142	\$51,683,157	\$2,683,467	\$12,650,715	\$4,397,789	\$107,936,270	\$102,149,183	6%	
Accounts Receivable - Investments	\$153,767,938	\$334,388,484	\$14,139,901	\$110,363,367	\$29,441,413	\$642,101,102	\$33,757,163	1802%	2
Accounts - Alternate Participation				\$113,526		\$113,526	\$153,227	-26%	3
Total Receivables	\$190,289,079	\$386,071,641	\$16,823,368	\$123,127,608	\$33,839,202	\$750,150,898	\$136,059,573		
INVESTMENTS, AT FAIR VALUE									
Fixed Income	\$702,248,472	\$1,616,383,422	\$62,595,917	\$534,433,719	\$135,640,444	\$3,051,301,974	\$3,569,365,690	-15%	4
Public Equities	\$932,372,399	\$3,072,451,795	\$116,524,230	\$982,307,094	\$254,624,857	\$5,358,280,375	\$6,464,253,603	-17%	5
Private Equities	\$394,631,843	\$605,579,480	\$28,452,752	\$197,409,041	\$61,393,111	\$1,287,466,227			6
Derivatives	\$811,454	\$2,232,593	\$88,647	\$722,725	\$194,864	\$4,050,284			7
Absolute Return	\$302,079,036	\$690,882,772	\$29,497,233	\$219,359,615	\$61,378,525	\$1,303,197,181			8
Mortgages							\$371,938,956	-100%	9
Real Estate	\$89,558,217	\$230,960,661	\$9,454,871	\$74,546,215	\$22,585,774	\$427,105,738	\$174,943,810	144%	10
Total Investments, at Fair Value	\$2,421,701,421	\$6,218,490,723	\$246,613,650	\$2,008,778,409	\$535,817,576	\$11,431,401,780	\$10,580,502,059		
Security Lending Collateral Invested	\$184,071,268	\$482,685,196	\$18,959,641	\$154,899,178	\$41,481,695	\$882,096,979	\$1,426,438,520	-38%	11
FIXED/INTANGIBLE ASSETS									
Fixed Assets	\$821,864	\$1,518,647	\$8,782	\$137,744	\$82,214	\$2,569,251	\$6,752,838		
Intangible Assets	\$5,559,575	\$9,363,350	\$91,632	\$775,454	\$464,278	\$16,254,290	\$16,254,290		
Accumulated Depreciation	(\$802,376)	(\$1,344,909)	(\$12,998)	(\$120,551)	(\$67,221)	(\$2,348,055)	(\$2,856,799)		
Accumulated Amortization	(\$2,054,930)	(\$3,398,032)	(\$38,450)	(\$281,950)	(\$162,558)	(\$5,935,919)	(\$4,059,389)		
Total Fixed Assets	\$3,524,133	\$6,139,056	\$48,967	\$510,697	\$316,714	\$10,539,568	\$16,090,941	-34%	12
Total Assets	\$2,910,672,242	\$7,333,221,651	\$293,698,729	\$2,348,299,304	\$633,024,865	\$13,518,916,791	\$12,583,984,376		
LIABILITIES									
Accounts Payable	\$2,137,841	\$3,340,340	\$282,058	\$1,185,479	\$1,990,068	\$8,935,787	\$4,363,512	105%	13
Investment Accounts Payable	\$146,223,357	\$319,006,767	\$13,487,753	\$105,207,051	\$28,061,461	\$611,986,389			14
Securities Lending Collateral	\$184,071,268	\$482,685,196	\$18,959,641	\$154,899,178	\$41,481,695	\$882,096,979	\$1,426,438,520	-38%	15
Total Liabilities	\$332,432,467	\$805,032,304	\$32,729,452	\$261,291,709	\$71,533,224	\$1,503,019,155	\$1,430,802,033		
Total Plan Net Assets	\$2,578,239,775	\$6,528,189,347	\$260,969,277	\$2,087,007,595	\$561,491,641	\$12,015,897,636	\$11,153,182,343		

NOTE - Variance Explanation

- 1 Enhancement of Cash Management Strategy with Depository Bank
- 2 Enhanced Reporting with New Custodian Bank (previously only income was accrued, now a full accrual process is used)
- 3 Pay down of Agency participating in the Alternate Participation Plan
- 4 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 5 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 6 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 7 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 8 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 9 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 10 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 11 Varies depending on Market Needs of the Securities Lending Program
- 12 Review of Fixed Asset Policy required changes (All Inventory was being classified as a Fixed Asset - Adjusted FA to be only those items > \$3,000)
- 13 Increase in outstanding Credit Invoices
- 14 Enhanced Reporting with New Custodian Bank (Investment Expenses are now accrued)
- 15 Varies depending on Market Needs of the Securities Lending Program

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS
PENSION FUNDS
For the Twelve Months Ending June 30, 2014
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2014	2013	Variance	
ADDITIONS									
Member Contributions	\$92,941,239	\$122,458,867	\$5,005,155	\$42,631,114	\$11,995,301	\$275,031,676	\$276,340,661	0%	
Employer Contributions	\$296,836,047	\$324,231,245	\$20,279,448	\$115,239,556	\$11,670,477	\$768,256,773	\$741,763,072	4%	
Health Insurance Contributions (HB1)	\$4,545,763	\$6,108,983	\$70,018	\$1,091,257	\$550,968	\$12,366,990	\$9,187,367	35%	1
Total Contributions	\$394,323,049	\$452,799,096	\$25,354,620	\$158,961,927	\$24,216,746	\$1,055,655,439	\$1,027,291,100		
INVESTMENT INCOME									
From Investing Activities									
Net Appreciation in FV of Investments	\$265,262,321	\$756,974,534	\$30,901,344	\$241,830,607	\$66,453,744	\$1,361,422,550	\$890,640,776	53%	2
Interest/Dividends	\$80,939,380	\$161,830,005	\$10,398,605	\$54,124,019	\$16,334,905	\$323,626,914	\$285,999,321	13%	3
Total Investing Activities Income	\$346,201,701	\$918,804,539	\$41,299,949	\$295,954,627	\$82,788,648	\$1,685,049,464	\$1,176,640,098		
Investment Expense	\$9,027,387	\$25,418,202	\$1,008,772	\$8,138,568	\$2,239,838	\$45,832,766	\$41,127,244	11%	4
Net Income from Investing Activities	\$337,174,315	\$893,386,337	\$40,291,178	\$287,816,058	\$80,548,810	\$1,639,216,698	\$1,135,512,854		
From Securities Lending Activities									
Securities Lending Income	\$852,211	\$2,243,738	\$86,976	\$701,254	\$181,913	\$4,066,093	\$5,922,491	-31%	5
Securities Lending Expense									
Securities Lending Borrower Rebates	(\$30,451)	(\$276,585)	(\$10,400)	(\$91,061)	(\$24,664)	(\$433,161)	(\$223,543)	94%	6
Security Lending Agent Fee	\$134,168	\$376,044	\$14,636	\$118,766	\$31,274	\$674,888	\$865,230	-22%	7
Security Lending Commission Expense									
Net Income from Securities Lending	\$748,495	\$2,144,280	\$82,741	\$673,548	\$175,303	\$3,824,366	\$5,280,804		
Total Investment Income	\$337,922,810	\$895,530,616	\$40,373,918	\$288,489,607	\$80,724,113	\$1,643,041,063	\$1,140,793,658		
Total Additions	\$732,245,859	\$1,348,329,712	\$65,728,538	\$447,451,534	\$104,940,859	\$2,698,696,502	\$2,168,084,758		
DEDUCTIONS									
Benefit Payments	\$889,936,676	\$582,850,170	\$53,025,585	\$189,634,937	\$54,320,196	\$1,769,767,564	\$1,706,218,607	4%	
Refunds	\$13,627,058	\$14,286,218	\$213,540	\$2,663,896	\$2,830,410	\$33,621,122	\$32,163,025	5%	
Administrative Expenses	\$11,196,198	\$18,571,546	\$219,925	\$1,715,664	\$889,196	\$32,592,529	\$30,580,083	7%	
Capital Project Expenses									
Total Deductions	\$914,759,932	\$615,707,934	\$53,459,050	\$194,014,497	\$58,039,801	\$1,835,981,214	\$1,768,961,715		
Net Increase(Decrease) in Plan Net Assets	(\$182,514,074)	\$732,621,778	\$12,269,489	\$253,437,037	\$46,901,058	\$862,715,288	\$399,123,043		
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS									
Beginning of Period	\$2,760,753,848	\$5,795,567,567	\$248,699,799	\$1,833,570,558	\$514,590,584	\$11,153,182,356	\$10,754,059,311		
End of Period	\$2,578,239,775	\$6,528,189,345	\$260,969,287	\$2,087,007,595	\$561,491,642	\$12,015,897,645	\$11,153,182,353		

NOTE - Variance Explanation

- 1 Back fill of positions due to turnover and retirements
- 2 Positive Market Conditions
- 3 Positive Market Conditions
- 4 Expenditures are based on Market Value - Increased Market Value results in Higher Expenditures
- 5 Varies depending on Market Needs of the Securities Lending Program
- 6 Varies depending on Market Needs of the Securities Lending Program
- 7 Varies depending on Market Needs of the Securities Lending Program

KENTUCKY RETIREMENT SYSTEMS
COMBINING STATEMENTS OF PLAN NET ASSETS
INSURANCE FUNDS
As of June 30, 2014
(Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2014	2013	Variance	
ASSETS									
Cash and Short-Term Investments									
Cash Deposits	\$100,953	\$100,890	\$100,058	\$1,875	\$50,370	\$354,145	\$1,422,780	-75%	1
Short-term Investments	\$31,821,483	\$57,967,165	\$5,467,448	\$28,645,242	\$14,787,361	\$138,688,699	\$163,336,293	-15%	2
Medicare Drug Deposit	\$19,906	\$42,335	\$4,613	\$22,705	\$10,481	\$100,039	\$100,691	-1%	
Total Cash and Short-term Invest	\$31,942,342	\$58,110,390	\$5,572,118	\$28,669,821	\$14,848,212	\$139,142,883	\$164,859,764		
RECEIVABLES									
Accounts Receivable	\$14,397,673	\$13,616,648	\$1,237,500	\$5,222,017	\$2,193,752	\$36,667,589	\$38,994,812	-6%	
Investment Accounts Receivable	\$39,255,914	\$113,965,247	\$9,968,519	\$62,179,033	\$27,307,828	\$252,676,542	\$10,122,333	2396%	3
Total Receivables	\$53,653,587	\$127,581,895	\$11,206,019	\$67,401,051	\$29,501,580	\$289,344,131	\$49,117,145		
INVESTMENTS, AT FAIR VALUE									
Security Lending Collateral Investe	\$66,344,577	\$169,211,176	\$4,629,529	\$44,714,222	\$8,470,083	\$293,369,587	\$511,107,721	-43%	4
Fixed Income	\$224,945,748	\$652,955,469	\$57,458,475	\$359,809,425	\$150,261,085	\$1,445,430,202	\$1,213,919,176	19%	5
Public Equities	\$243,661,750	\$760,918,171	\$64,358,357	\$417,006,572	\$175,794,003	\$1,661,738,853	\$1,945,362,098	-15%	6
Derivatives	\$111,598	\$404,760	\$35,866	\$224,535	\$91,375	\$868,135			7
Private Equities	\$39,790,681	\$123,385,628	\$12,155,464	\$68,506,870	\$27,002,578	\$270,841,221			8
Absolute Return	\$67,749,401	\$191,586,510	\$17,269,822	\$108,162,237	\$45,241,014	\$430,008,984			9
Mortgages							\$103,487,723	-100%	10
Real Estate	\$21,458,941	\$69,292,954	\$6,138,548	\$38,075,686	\$16,038,844	\$151,004,974	\$53,302,498	183%	11
Total Investments, at Fair Value	\$597,718,119	\$1,798,543,493	\$157,416,534	\$991,785,325	\$414,428,899	\$3,959,892,369	\$3,316,071,495		
Total Assets	\$749,658,625	\$2,153,446,953	\$178,824,200	\$1,132,570,419	\$467,248,774	\$4,681,748,971	\$4,041,156,125		
LIABILITIES									
Accounts Payable	\$9,290	\$27,654	\$2,155	\$5,571	\$2,348	\$47,017	\$8,159,601	-99%	12
Investment Accounts Payable	\$36,400,566	\$105,496,942	\$9,235,486	\$57,546,737	\$25,251,753	\$233,931,484			13
Securities Lending Collateral	\$66,344,577	\$169,211,176	\$4,629,529	\$44,714,222	\$8,470,083	\$293,369,587	\$511,107,721	-43%	14
Total Liabilities	\$102,754,432	\$274,735,772	\$13,867,170	\$102,266,530	\$33,724,184	\$527,348,088	\$519,267,321		
Total Plan Net Assets	\$646,904,193	\$1,878,711,181	\$164,957,031	\$1,030,303,889	\$433,524,589	\$4,154,400,883	\$3,521,888,803		

NOTE - Variance Explanation

- 1 Enhancement of Cash Management Strategy with Depository Bank
- 2 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 3 Enhanced Reporting with New Custodian Bank (previously only income was accrued, now a full accrual process is used)
- 4 Varies depending on Market Needs of the Securities Lending Program
- 5 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 6 Variance due to the movement of assets to newly created classes to better represent the portfolio
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- 8 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 9 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 10 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 11 Variance due to the movement of assets to newly created classes to better represent the portfolio
- 12 The movement from Self funded Insurance significantly reduced
- 13 Enhanced Reporting with New Custodian Bank (Investment Expenses are now accrued)
- 14 Varies depending on Market Needs of the Securities Lending Program

KENTUCKY RETIREMENT SYSTEMS
 COMBINING STATEMENTS OF CHANGES IN PLAN NET ASSETS
 INSURANCE FUNDS
 For the Twelve Months Ending June 30, 2014
 (Unaudited)(In Whole Dollars)

	KERS	CERS	SPRS	CHAZ	KHAZ	2014	2013	Variance	
ADDITIONS									
Employer Contributions	\$164,175,785	\$121,160,833	\$14,497,726	\$74,265,051	\$23,336,030	\$397,435,426	\$447,338,122	-11%	1
Medicare Drug Reimbursement	\$7,601	\$5,964	\$208	\$96	\$426	\$14,295	\$11,187,629	-100%	2
Insurance Premiums	\$917,622	\$1,449,453	\$10,592	\$31,780	\$37,260	\$2,446,707	\$26,345,775	-91%	3
Retiree Reemployed Healthcare	\$2,433,807	\$2,117,196	(\$4,484)	\$526,568	\$537,937	\$5,611,023	\$5,815,554	-4%	
Total Contributions	\$167,534,815	\$124,733,446	\$14,504,042	\$74,823,495	\$23,911,653	\$405,507,451	\$490,687,080		
INVESTMENT INCOME									
From Investing Activities									
Net Appreciation in FV of Investments	\$83,783,198	\$195,952,339	\$17,168,595	\$105,345,595	\$43,410,542	\$445,660,269	\$232,860,731	91%	4
Interest/Dividends	\$14,723,673	\$43,177,767	\$3,936,617	\$23,682,039	\$10,293,065	\$95,813,160	\$88,645,181	8%	
Total From Investing Activities	\$98,506,871	\$239,130,106	\$21,105,212	\$129,027,634	\$53,703,606	\$541,473,429	\$321,505,912		
Investment Expense	\$1,929,107	\$7,387,530	\$647,239	\$4,075,256	\$1,621,522	\$15,660,653	\$9,598,631	63%	5
Net Income from Investing Activities	\$96,577,764	\$231,742,576	\$20,457,973	\$124,952,378	\$52,082,085	\$525,812,776	\$311,907,282		
From Securities Lending									
Securities Lending Income	\$176,115	\$637,278	\$53,485	\$354,126	\$143,984	\$1,364,988	\$2,008,157	-32%	6
Securities Lending Expense									
Security Lending Borrower Rebates	(\$14,272)	(\$53,467)	(\$5,127)	(\$27,941)	(\$11,163)	(\$111,969)	\$15,306	-832%	7
Security Lending Agent Fees	\$29,846	\$102,875	\$8,792	\$56,796	\$23,236	\$221,544	\$281,922	-21%	8
Net Income from Securities Lending	\$160,541	\$587,870	\$49,820	\$325,272	\$131,911	\$1,255,414	\$1,710,930		
Total Net Income from Investments	\$96,738,306	\$232,330,446	\$20,507,793	\$125,277,650	\$52,213,996	\$527,068,190	\$313,618,211		
Total Additions	\$264,273,121	\$357,063,891	\$35,011,835	\$200,101,145	\$76,125,649	\$932,575,641	\$804,305,291		
DEDUCTIONS									
Healthcare Premiums Subsidies	\$111,051,229	\$92,636,317	\$12,584,958	\$60,521,507	\$15,447,005	\$292,241,016	\$283,116,881	3%	
Administrative Expense	\$718,646	\$488,164	\$56,812	\$272,684	\$76,584	\$1,612,889	\$9,757,408	-83%	9
Self Funded Healthcare Costs	\$1,620,422	\$4,167,889	\$102,572	\$320,690	(\$42,258)	\$6,169,315	\$78,850,850	-92%	10
Excise Tax Insurance	\$16,958	\$19,790	\$621	\$2,084	\$887	\$40,340			11
Total Deductions	\$113,407,256	\$97,312,160	\$12,744,964	\$61,116,964	\$15,482,217	\$300,063,561	\$371,725,139		
Net Increase(Decrease) in Plan Net Assets	\$150,865,865	\$259,751,731	\$22,266,871	\$138,984,181	\$60,643,432	\$632,512,080	\$432,580,152		
NET PLAN ASSETS HELD IN TRUST FOR INSURANCE BENEFITS	\$496,038,318	\$1,618,959,449	\$142,690,161	\$891,319,708	\$372,881,157	\$3,521,888,793	\$3,089,308,641		
	\$646,904,183	\$1,878,711,180	\$164,957,032	\$1,030,303,889	\$433,524,589	\$4,154,400,873	\$3,521,888,793		

NOTE - Variance Explanation

- 1 Reduction in the Insurance Rate for CERS and CHAZ
- 2 Move from Self Funding Insurance Program to Premiums Based Program
- 3 Move from Self Funding Insurance Program to Premiums Based Program
- 4 Favorable Market Conditions
- 5 Addition of Managers and Increase in FMV of Investments creating higher manager fees
- 6 Varies depending on Market Needs of the Securities Lending Program
- 7 Varies depending on Market Needs of the Securities Lending Program
- 8 Varies depending on Market Needs of the Securities Lending Program
- 9 Move from Self Funding Insurance Program to Premiums Based
- 10 Move from Self Funding Insurance Program to Premiums Based
- 11 Excise Tax introduced in FY 2014

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: September 11, 2014

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 Fiscal Year 2013-14. Key informational items include:

- Total 2013-14 Annual Budget = \$38.9 million
- Expenditures for the year totaled \$33.0 million, which were \$5.9 million better than plan.
- Legal expenses were higher than budget reflecting the litigation impact of Seven Counties and similar cases. Other more significant negative variances included investment contracts, actuarial expenses, and audit fees. Lower than expected expenses for self-funded medical administration and facilities' rent offset these variances.
- Additional information includes two ancillary reports showing the split out of Internal Audit and Investments.

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

KRS ADMINISTRATIVE BUDGET 2013-2014

FISCAL YEAR BUDGET-TO-ACTUAL ANALYSIS

As of June 30, 2014

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
PERSONNEL					
111	Salaries	\$14,300,000	\$14,110,540	\$189,460	1.32%
120	Benefits	\$6,920,400	\$6,866,906	\$53,494	0.77%
131	Workers Compensation	\$34,000	\$32,393	\$1,607	4.73%
132	Unemployment	\$10,000	(\$405)	\$10,405	104.05%
133	Tuition Assistance	\$32,000	\$32,800	(\$800)	-2.50%
133I	Investment Tuition Assistance	\$5,000	\$0	\$5,000	100.00%
133T	Audit Tuition Assistance	\$2,500	\$0	\$2,500	100.00%
135	Bonds	\$1,000	\$255	\$746	74.55%
LEGAL & AUDITING SERVICES					
141A	Legal Hearing Officers	\$200,000	\$195,967	\$4,033	2.02%
141B	Legal (Stoll, Keenon)	\$125,000	\$135,604	(\$10,604)	-8.48%
141C	Polsinelli Shugart	\$50,000	\$27,485	\$22,515	45.03%
141E	Reinhart	\$90,000	\$449,261	(\$359,261)	-399.18%
141F	Ice Miller	\$100,000	\$1,609,664	(\$1,509,664)	-1509.66%
142	Auditing	\$50,000	\$76,164	(\$26,164)	-52.33%
CONSULTING SERVICES					
146A	Medical Reviewers	\$320,000	\$241,188	\$78,812	24.63%
146B	Medical Reports	\$10,000	\$467	\$9,533	95.33%
146C	Medical Exams	\$25,000	\$16,583	\$8,417	33.67%
CONTRACTUAL SERVICES					
150C	Miscellaneous Contracts	\$110,000	\$196,264	(\$86,264)	-78.42%
150D	Health Consultant	\$100,000	\$62,688	\$37,313	37.31%
150E	Banking	\$68,000	\$0	\$68,000	100.00%
150F	PBI	\$10,000	\$2,126	\$7,874	78.74%
150G	Human Resources Consulting	\$0	\$0	\$0	#DIV/0!
150H	Health Insurance Admin Fee	\$1,801,500	\$1,800,985	\$515	0.03%
150I	Investment Consulting	\$1,105,000	\$1,489,962	(\$384,962)	-34.84%
150J	Medical Claims TPA	\$5,018,500	\$0	\$5,018,500	100.00%
150K	Pharmacy Claims TPA	\$3,800,000	\$4,500	\$3,795,500	99.88%
159	Actuarial Services	\$300,000	\$520,693	(\$220,693)	-73.56%
162	Facility Security Charges	\$3,000	\$3,084	(\$84)	-2.80%
PERSONNEL SUBTOTAL		\$34,590,900	\$27,875,172	\$6,715,728	19.41%
OPERATIONAL					
211	Natural Gas	\$30,000	\$21,778	\$8,222	27.41%
212	Electric	\$180,000	\$191,663	(\$11,663)	-6.48%
221	Rent-NonState Building	\$32,600	\$31,488	\$1,112	3.41%
222	Rent -State Owned Building	\$1,131,100	\$674,406	\$456,694	40.38%
223	Equipment Rental	\$5,000	\$9,626	(\$4,626)	-92.52%
224	Copier Rental	\$86,000	\$74,477	\$11,523	13.40%
226	Rental Carpool	\$2,000	\$0	\$2,000	100.00%
232	Vehicle/Equip. Mainten.	\$7,000	\$2,498	\$4,502	64.31%
241	Postage	\$525,000	\$543,926	(\$18,926)	-3.60%
242	Freight	\$3,000	\$758	\$2,242	74.75%
251	Printing (State)	\$2,000	\$0	\$2,000	100.00%
252	Printing (non-state)	\$300,000	\$358,783	(\$58,783)	-19.59%
254	Insurance	\$76,000	\$67,021	\$8,979	11.81%
256	Garbage Collection	\$8,000	\$11,238	(\$3,238)	-40.48%
259	Conference Expense	\$40,000	\$25,843	\$14,157	35.39%
259I	Conference Exp. Investment	\$12,600	\$6,845	\$5,755	45.68%
259T	Conference Exp. Audit	\$1,500	\$2,314	(\$814)	-54.27%
300	MARS Usage	\$20,000	\$19,400	\$600	3.00%
321	Office Supplies	\$98,000	\$80,884	\$17,116	17.47%
331	Data Processing Supplies	\$45,000	\$7,591	\$37,409	83.13%
343	Motor Fuels & Lubricants	\$5,000	\$3,252	\$1,748	34.97%
346	Furniture & Office Equipment	\$50,000	\$33,585	\$16,415	32.83%
361	Travel (In-State)	\$110,000	\$114,143	(\$4,143)	-3.77%
361I	Travel (In-State) Investment	\$1,500	\$1,350	\$150	10.03%
361T	Travel (In-State) Audit	\$500	\$184	\$316	63.24%
362	Travel (Out of State)	\$40,000	\$18,789	\$21,211	53.03%
362I	Travel (Out of State) Invest	\$45,000	\$52,720	(\$7,720)	-17.16%
362T	Travel (Out of State) Audit	\$2,500	\$1,733	\$767	30.68%
381	Dues & Subscriptions	\$33,000	\$46,967	(\$13,967)	-42.32%
381I	Dues & Subscriptions Invest	\$35,000	\$34,013	\$987	2.82%
381T	Dues & Subscriptions Audit	\$1,500	\$1,090	\$410	27.33%
399	Miscellaneous	\$2,500	\$21,109	(\$18,609)	-744.37%
399I	Miscellaneous Investment	\$15,000	\$6,939	\$8,061	53.74%
399T	Miscellaneous Audit	\$500	\$141	\$359	71.78%
601	Capital Outlay	\$211,200	\$0	\$211,200	100.00%
802	COT Charges	\$32,000	\$93,864	(\$61,864)	-193.32%
814	Telephone - Wireless	\$8,000	\$6,781	\$1,219	15.24%
815	Telephone - Other	\$126,000	\$115,883	\$10,117	8.03%
847	Computer Equip./Software	\$750,000	\$2,267,593	(\$1,517,593)	-202.35%
847I	Comp. Equip./Software Invest	\$190,000	\$168,509	\$21,491	11.31%
847T	Comp. Equip./Software Audit	\$1,000	\$500	\$500	50.00%
OPERATIONAL SUBTOTAL		\$4,265,000	\$5,119,682	(\$854,682)	-20.04%
TOTALS		\$38,855,900	\$32,994,854	\$5,861,046	15.08%

KRS AUDIT BUDGET 2013-2014
FISCAL YEAR BUDGET-TO-ACTUAL ANALYSIS

As of June 30, 2014

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
	PERSONNEL				
133T	Tuition Assistance	\$2,500	\$0	\$2,500	100.00%
	PERSONNEL SUBTOTAL	\$2,500	\$0	\$2,500	100.00%
	OPERATIONAL				
259T	Conference Exp	\$1,500	\$2,314	(\$814)	-54.27%
361T	Travel (In-State)	\$500	\$184	\$316	63.24%
362T	Travel (Out of State)	\$2,500	\$1,733	\$767	30.68%
381T	Dues & Subscriptions	\$1,500	\$1,090	\$410	27.33%
399T	Miscellaneous	\$500	\$141	\$359	71.78%
847T	Comp. Equip./Software	\$1,000	\$500	\$500	50.00%
	OPERATIONAL SUBTOTAL	\$7,500	\$5,962	\$1,538	20.51%
	TOTALS	\$10,000	\$5,962	\$4,038	40.38%

KRS INVESTMENT BUDGET 2013-2014

FISCAL YEAR BUDGET-TO-ACTUAL ANALYSIS

As of June 30, 2014

Acc't #	Account Name	Budgeted	Actual Expenditures	Remaining	% Remaining
	PERSONNEL				
133I	Tuition Assistance	\$5,000	\$0	\$5,000	100.00%
	CONTRACTUAL SERVICES				
141E	Legal	\$90,000	\$449,260	(\$359,260)	-399.18%
150I	Consulting	\$1,105,000	\$1,489,962	(\$384,962)	-34.84%
	PERSONNEL SUBTOTAL	\$1,200,000	\$1,939,222	(\$739,222)	-61.60%
	OPERATIONAL				
259I	Conference Exp	\$12,600	\$6,845	\$5,755	45.68%
361I	Travel (In-State)	\$1,500	\$1,104	\$396	26.40%
362I	Travel (Out of State)	\$45,000	\$38,632	\$6,368	14.15%
381I	Dues & Subscriptions	\$35,000	\$33,931	\$1,069	3.05%
399I	Miscellaneous	\$15,000	\$6,938	\$8,062	53.75%
847I	Comp. Equip./Software	\$190,000	\$168,509	\$21,491	11.31%
	OPERATIONAL SUBTOTAL	\$299,100	\$255,959	\$43,141	14.42%
	TOTALS	\$1,499,100	\$2,195,181	(\$696,081)	-46.43%



KENTUCKY RETIREMENT SYSTEMS INVESTMENTS



TO: Kentucky Retirement System Board of Trustees

FROM: David Peden, Interim Chief Investment Officer

DATE: September 11, 2014

SUBJECT: Investment Committee Quarterly Report

The Investment Committee held its regularly scheduled meeting on August 5, 2014. 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 June 30, 2014, along with various other subjects.

The meeting began with approval of the minutes for the previous Investment Committee meeting held on May 6, 2014.

KRS Investment Staff and consultant Albourne recommended an investment of \$65 million in Taurus Mining Finance Fund for the KRS real return asset class. All five pension systems and all five insurance systems will receive an allocation to this investment. This recommendation was approved by the KRS Investment Committee. No placement agents were used to source this investment.

KRS Investment Staff and consultant Albourne recommended an investment of \$50 million in BTG Pactual Timberland Fund I, LP for the KRS real return asset class. All five pension systems and all five insurance systems will receive an allocation to this investment. This recommendation was approved by the KRS Investment Committee. No placement agents were used to source this investment.

KRS Investment Staff and consultant Albourne recommended an investment of \$50 million in Oberland Capital Healthcare LP for the KRS real return asset class. All five pension systems and all five insurance systems will receive an allocation to this investment. This recommendation was approved by the KRS Investment Committee. No placement agents were used to source this investment.

KRS Investment Staff and consultant RV Kuhns recommended changing the benchmark for the Internally Managed TIPS portfolio to the Barclays 1-10 Year TIPS Index from the Barclays 30 Year TIPS index. This recommendation was approved by the KRS Investment Committee and the portfolio will be appropriately rebalanced to match the new benchmark.

KRS Investment Staff and consultant PCA recommended an investment of \$60 million in Crestview Partners III LP for the KRS private equity asset class. All pension systems except KERS Non Hazardous and all five insurance systems will receive an allocation to this investment. This recommendation was approved by the KRS Investment Committee. No placement agents were used to source this investment.

KRS Investment Staff and consultant PCA recommended an investment of \$100 million in Duetsche Bank Secondary Opportunities Fund III LP for the KRS private equity asset class. CERS Non Hazardous and CERS Hazardous Pension and all five insurance systems will receive an allocation to this investment. This recommendation was approved by the KRS Investment Committee. No placement agents were used to source this investment.

KRS Investment Staff and consultant PCA recommended an investment of \$50 million in Vista Equity Partners V LP for the KRS private equity asset class. All pension systems except KERS Non Hazardous and all five insurance systems will receive an allocation to this investment. This recommendation was approved by the KRS Investment Committee. No placement agents were used to source this investment.

KRS Investment Staff and consultant Albourne discussed the termination of an investment with MKP Capital Management, which was an absolute return manager. No action was needed by the investment committee.

KRS Investment Staff and consultant RV Kuhns discussed the termination of an investment management agreement with Geneva Capital Management. Geneva was a manager with a mid cap equity growth mandate. No action was needed by the investment committee.

RV Kuhns presented a formal proposal to conduct an asset liability study for all five pension systems and all five insurance systems and the proposal was approved by the investment committee.

Erica Bradley, the KRS Compliance Officer, presented two audits, which she had completed and presented to both the investment committee and the audit committee. The first was a public equity and fixed income manager audit. Refer to the memo attached to this summary document for the audit recommendations and the investment staff's response. The investment committee heard the audit recommendations and staff's response, but had no further comment for the audit committee. Investment staff will discuss and work with the investment committee to incorporate the changes recommended by the audit committee. The second audit presented was an audit of the Statement of Investment Policy, the Investment Transaction Procedures Policy, and the Securities Trading Policy for Trustees and Employees. Refer to the memo attached to this summary document for the audit recommendations and the investment staff's response. The investment committee heard the audit recommendations and staff's response and had no further comment for the audit committee. Investment staff will discuss and work with the investment committee to incorporate the changes recommended by the audit committee.

Erica Bradley presented the Quarterly Compliance Report. The investment performance for the fiscal year end was discussed by David Peden, Interim CIO. It was also noted that all the standard

reports were included in the board books and that if there were any questions, staff was available anytime via phone or email to discuss those reports. The standard quarterly reports include the Monthly Performance Update, Investment Division Budget Report, quarterly Manager Meeting and Related Expense Tracking Report, Internally Managed Portfolio Asset Report, Internally Managed Portfolio Transactions Report, Securities Lending Report, Domestic Equity Commissions Report, Global Equity Commissions Report, and Securities Litigation Report.

One addition to the Approved Broker Dealer List was reviewed and approved by the Investment Committee.

At various points throughout the meeting each consultant present was given an opportunity to describe their due diligence process, explain what a consultant recommendation actually means, and give details of their on-going manager monitoring process.

Staff gave the investment committee an update on the status of Camelot Acquisition Partners LP. The fund formerly known as Camelot Acquisition Partners LP is now known as CN Growth Partners I, LP and is managed by Ken Latz of Conway MacKenzie.

The investment committee also discussed if it's possible to reduce the length of the investment committee meetings. No conclusions were reached and the topic will be discussed further.

Please see the next page for a summary of the Pension and Insurance performance information ending June 30, 2014.

Pension Funds Performance Overview								
Rates of Return (%) as of June 30, 2014								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	22.45	22.96	10.06	10.43	14.66	15.18	7.17	7.03
Fixed Income	7.05	5.20	5.85	4.22	7.16	5.42	5.52	5.21
Private Equity	22.71	22.71	15.43	15.43	17.18	20.20	10.79	9.99
Real Estate	8.06	12.74	9.16	11.99	9.11	6.31	N/A	
Absolute Return	8.46	5.08	7.03	2.71	N/A		N/A	
Real Return	8.99	5.67	6.62	4.91	N/A		N/A	
Cash Equivalents	0.61	0.04	0.38	0.05	0.58	0.08	2.12	1.54
Total Fund	15.55	14.91	8.59	8.84	11.97	11.91	6.78	6.84

Insurance Funds Performance Overview								
Rates of Return (%) as of June 30, 2014								
	One Year		Three Years		Five Years		Ten Years	
	Fund	Index	Fund	Index	Fund	Index	Fund	Index
Equity	22.25	23.05	9.84	10.34	14.21	14.79	6.94	6.71
Fixed Income	6.52	5.20	5.62	4.22	6.57	5.88	5.84	5.41
Private Equity	22.07	22.07	14.60	14.60	17.88	20.36	8.95	9.35
Real Estate	7.07	12.74	8.34	11.99	9.11	6.31	N/A	
Absolute Return	8.37	5.08	6.95	2.71	N/A		N/A	
Real Return	8.56	5.65	6.10	4.90	N/A		N/A	
Cash Equivalents	0.22	0.04	0.30	0.05	0.29	0.08	1.94	1.54
Total Fund	14.89	15.03	7.48	8.71	12.10	13.02	6.28	6.50

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



KENTUCKY RETIREMENT SYSTEMS
INVESTMENTS



To: Erica Bradley, Compliance Officer
Connie A. Davis, CIA, Director, Director of Internal Audit

From: David Peden, Interim Chief Investment Officer

Date: August 5, 2014

Subject: Audit Response: Public Equities and Fixed Income Audit

I have reviewed the Public Equities and Fixed Income Audit Report referenced in the subject line and have responded to the three recommendations as follows.

Findings and Recommendations

Recommendation 1:

The insurance contracts renew annually. Investment personnel should work with managers to ensure deductibles on the renewed policies are reduced and that additional coverage is obtained for the manager that needs it. Furthermore, insurance coverage should be reviewed as a regular function of the KRS Investment Director's annual manager review.

Response: Investment Staff agrees that the review of the E&O insurance policies of each manager should be part of the annual review process and should be documented in the annual reviews.

Recommendation 2:

The Compliance Officer noted regarding target allocations at the manager level; given the securities market fluctuations, it would be a better practice to have the investment committee approve investments with external managers as a percentage of total portfolio rather than a set dollar figure. Additionally, investments staff should maintain a list of managers with their approved investment percentages and monitor the assets KRS invests with each manager.

Response: The Investment Staff agrees that as part of the initial approval process for a manager by the KRS Investment Committee, that a percentage of total fund be approved and not a specific dollar amount for each manager. This is because of the time lag between approval and the actual funding date and the value of the total portfolio may have significantly changed. The investment staff currently does maintain a list of targets for each investment manager and uses that to assist in the rebalancing process. The

Investment Staff does not agree that this approved percentage should apply in the future. Given the nature of the rebalancing process at the asset class and manager level, there needs to be more flexibility than a static percentage. This responsibility has always fallen to the CIO to manage the ongoing exposures of each manager.

Recommendation 3:

Investment personnel should work with managers to make certain they establish and maintain sufficient controls around the “most favored nation” provision review.

Response: It is difficult to force a manager to adopt an internal process after we have invested. Investment staff can incorporate into its due diligence process a question regarding how a manager tests for compliance with MFN provisions it has agree to with other clients. Investment Staff will also require a specific statement from each manager to be included in annual compliance letters stating the manager is in compliance with the MFN provision as spelled out in the IMA.

Audit’s Conclusion

Based on the review of KRS’ external Public Equity and Fixed Income managers, it was concluded that overall, the majority of the managers are complying with the terms of the contracts and have adequate controls established given legal and regulatory obligations. The deficiencies noted in this review create a concern regarding the monitoring of contracts and their terms with external investment managers. It is recommended that investment personnel work with the managers to ensure the managers are compliant with contracted provisions and establish appropriate controls over insurance and MFN coverage. It is recommended that controls be established at KRS so that contracts with external investment managers are continually monitored.

Response: The Investment Staff receives a compliance letter from most, if not all, equity and fixed income managers annually. The content and format of those letters vary from each manager. Staff will work with the managers to develop an annual compliance letter that specifically addresses items such as E&O insurance and MFN status among other key items addressed in the IMAs. Staff will also put in place a process for ensuring receipt of said compliance letters from each public equity and fixed income manager.



KENTUCKY RETIREMENT SYSTEMS
INVESTMENTS



To: Erica Bradley, Compliance Officer
Connie A. Davis, CIA, Director, Director of Internal Audit

From: David Peden, Interim Chief Investment Officer

Date: August 5, 2014

Subject: Audit Response: Investment Policy, Personal Trading Policy, Investment Transaction Policy

I have reviewed the Audit Report referenced in the subject line and have responded to the three recommendations as follows.

Findings and Recommendations

Recommendation 1 – Statement of Investment Policy:

- A. Language be amended or added to the policy to reflect the impact that 2013 Kentucky Senate Bill 2 had on the governance of Kentucky Retirement Systems.
- B. Language should be added to this policy specifying the statutory language pertaining to limiting investment manager to fifteen percent (15%) of the assets in the pension and insurance funds. Additionally, it is recommended that language be added to state the total assets assigned to any external manager shall not exceed twenty-five percent (25%) of that external manager's total asset under management and the assets invested in public markets shall not exceed forty percent (40%) of the external manager's total assets in that strategy, unless specifically waived by the investment committee.
- C. The Chief Investment Officer, Deputy Chief Investment Officer and Director of Equity work together to develop formal, written governing plan documents for internally managed domestic equity index accounts.

Response:

A) Investment staff has attempted to update the IPS in prior updates with the SB2 language and if further changes need to be made to fully update with SB2 changes staff will make those changes.

B) The fifteen percent limit to any money manager is a state statute that investment staff is aware of and monitors. Staff has no problem adding it to the IPS. Staff is supportive of a twenty five percent limit to an external manager's total assets under management and a

twenty five percent limit to any comingled investment vehicle, such as a mutual fund, comingled fund, or limited partnership. Investment staff would prefer to not have a limit at the manager's strategy level if KRS's assets are held in a separate account at BNY Mellon because of the customization process between the external manager and KRS regarding those relationships.

C) The Chief Investment Officer and the asset class Director will be responsible for developing internal guidelines for any strategies managed in-house and getting those approved by the Investment Committee. Those guidelines will be included in the Investments Transactions Policy and a reference to that policy will be included in all appropriate places in the IPS. It should be noted that both strategies currently managed in-house are passive mandates with full replication being the primary strategy, but investment staff agrees this is a good policy change and appropriate for any active portfolio management that may occur in the future.

Recommendation 2 – Securities Trading Policy for Trustees and Employees:

- A. Language should be added to the policy to address OFAC considerations and prohibit OFAC violations. It is also recommended that an OFAC compliance program, tailored to KRS' risk profile should be established that would include specific, cohesive policies, procedures and controls. The program should implement policies that clearly identify KRS Trustees or Employees with authority and accountability for OFAC compliance.
- B. Language should be added to address KRS employees and trustees establishing a "good until canceled", limit or open order in their personal trading accounts. It is recommended that as long as the KRS Employee or Trustee does not have actual knowledge of a manager's transaction in a security, there should be the option to have the open order approved in pre-clearance.
- C. Language surrounding remediation should be strengthened so that it clearly state that KRS Employees and Trustees cannot participate in a determination of whether he or she violated this policy, that KRS Employees and Trustees cannot pre-clear their own transactions and that violating any portion of the policy is taken seriously and consequences may occur.
- D. Language surrounding pre-clearance should be amended to require all investment committee members to pre-clear personal transactions in non-exempt securities and require Trustees subject to pre-clearance to provide brokerage statements disclosing the names and type of each of their securities holdings and holdings of family members as a first-line of defense to identifying potentially problematic trading behavior.

Response:

- A) Investment staff is supportive of incorporating OFAC compliance into the personal trading policy.
- B) Investment staff is supportive of the recommendation regarding personal Good-Until-Canceled orders.
- C) Investment staff is supportive of the recommendations regarding self pre-clearing trades and remediation if a violation occurs.

D) Investment staff is supportive of any person that has possible direct knowledge of trading activity in the KRS portfolio being covered by the Personal Trading Policy. If the Investment Committee defines trustees as those with possible knowledge of trading activity, then investment staff is supportive of KRS Trustees being covered in the Personal Trading Policy.

Recommendation 3- Investment Transaction Policy:

Language should be added to assigning responsibility for regulatory filings to Investment Directors along with updating “Investment Manager” to “Investment Director” to align with KRS job titles language.

Response: Investment staff is supportive of adding language to the Investment Transaction Policy defining responsibility for regulatory filings and agrees to the use of the title Investment Director when referring to those with specific asset class responsibilities.

Conclusion:

Certain investment policies could be improved to better adhere to laws and provide guidance and compliance on pertinent investment issues.

Response: Investment staff agrees that better coordination with all of the investment policies and state statutes will improve the governance of the investment program and reduce the possibility of staff or an external manager overlooking a compliance item. It should be noted that in every investment management agreement that staff references all policies and state statutes as a requirement for the manager to comply with, in addition to the specific language in each investment management agreement.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen
Executive Director
DATE: September 11, 2014
SUBJECT: Excess Benefit Payroll, Fourth Quarter, 13-14

The table below reflects the number of excess benefit payments established during this quarter of the fiscal year and the total payments paid from each system.

EXCESS BENEFIT PAYMENTS

	<u>Number of Excess Payments</u>	<u>Total Amount Paid</u>
KERS	52	\$319,719.54
<u>CERS</u>	<u>7</u>	<u>\$ 32,903.42</u>
TOTALS	59	\$352,622.96

RECOMMENDATION: This report is provided for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board
FROM: William A. Thielen
Executive Director
DATE: September 11, 2014
SUBJECT: Death Benefit Payments, Fourth Quarter, 13-14

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	242	\$1,209,000.00
CERS	284	\$1,420,000.00
SPRS	3	\$15,000.00
TOTALS	529	\$2,644,000.00

RECOMMENDATION: This report is provided for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: September 11, 2014

SUBJECT: Refund of Member Contributions for the Quarter Ended June 30, 2014

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

There were 2,176 refunds totaling \$8,829,317 paid to former members of the system during the 4th quarter. Refund payments during the past (11) eleven quarters were as follows:

Quarter Ended	Amount	Number of Refunds
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
12/31/2012	\$7,712,097	1,241
09/30/2012	\$7,781,898	1,493
06/30/2012	\$8,203,562	1,596
03/31/2012	\$6,767,703	1,384
12/31/2011	\$8,541,223	2,147

RECOMMENDATION: This report is provided for informational purposes only.

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the Board

FROM: William A. Thielen
Executive Director

DATE: September 11, 2014

SUBJECT: Report of Decisions by the Medical Examiners

DISABILITY

During the fourth quarter of the fiscal year, the Medical Examiners reviewed a total of 163 applicants for disability retirement. There were 93 (57.06%) recommended for denial and 70 (42.94%) recommended for approval.

Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
19	51	0	70

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>
28	65	0	93

HAZARDOUS DISABILITY

During the fourth quarter of the fiscal year, the Medical Examiners reviewed a total of 10 applicants for hazardous disability retirement. There were 4 (40.00%) recommended for denial and 6 (60.00%) recommended for approval.

Approvals

<u>KERS</u>	<u>CERS</u>	<u>SPRS</u>	<u>TOTAL</u>
2	3	0	5

In the Line of Duty Approvals

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

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 fourth quarter of the fiscal year, the Medical Examiners made final decisions on a total of 163 annual reviews of disability recipients. The disability benefits of 155 recipients (95.09%) were continued and the disability benefits of 8 recipients (4.91%) 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: September 11, 2014

SUBJECT: Disability Appeals Committee Quarterly Report

The Disability Appeals Committee held meetings on April 29, May 27 and June 24, 2014. A total of 50 disability claims were acted upon during the quarter resulting in 25 denials, 15 approvals and 10 dismissals.

Denials

KERS	CERS	SPRS
5	20	0

Approvals

KERS	CERS	SPRS
5	10	0

Dismissals

KERS	CERS	SPRS
2	8	0

Remands

KERS	CERS	SPRS
0	0	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: September 11, 2014

SUBJECT: Administrative Appeals Committee Quarterly Report

The Administrative Appeals Committee held meetings on April 29, May 27 and June 24, 2014. A total of 6 cases were acted upon in the quarter resulting in 4 continuances and 2 dismissals.

Denials

KERS	CERS	SPRS
0	0	0

Continuances

KERS	CERS	SPRS
2	2	0

Discontinuances

KERS	CERS	SPRS
0	0	0

Reinstatements

KERS	CERS	SPRS
0	0	0

Remands

KERS	CERS	SPRS
0	0	0

Dismissals

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
DATE: September 11, 2014
SUBJECT: Participation of Additional Agencies and Hazardous Positions

PARTICIPATION—NONHAZARDOUS

There are no new agencies electing to participate with CERS at this time.

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 Erlanger has requested hazardous duty coverage for the following positions with an effective date of October 1, 2014:

Police Patrol Officer	Fire/EMS Asst. Chief
Fire/EMS Captain-Fire Marshall	Fire/EMS Captain-Operations
Fire/EMS Lieutenant	Firefighter
Fire/EMS Captain Training Coordinator	

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

The City of Murray has requested hazardous duty coverage for the following positions with an effective date of **December 1, 2014**:

Code Enforcement Officer/Police Officer
School Resource Officer/Police Officer

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

The City of Shelbyville has requested hazardous duty coverage for the following positions with a retroactive date of **July 1, 1987**:

Police Officer I

Police Officer II

Firefighter

There is one (1) employee to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaires and Job Descriptions.

The Pleasure Ridge Park Fire Protection District has requested hazardous coverage for the following positions with an effective date of October 1, 2014:

Director of Personnel & Training

Director of Operations & Safety

District Chief

Fire Captain

Training Officer – Captain

Training Technician – Sergeant

Firefighter/EMT

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

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

The Pleasure Ridge Park Fire Protection District has requested hazardous coverage for the following positions with an effective date of October 1, 2014:

Director of Personnel & Training

Director of Operations & Safety

District Chief

Fire Captain

Training Officer – Captain

Training Technician – Sergeant

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

The City of Bowling Green has requested hazardous duty coverage for the following positions with an effective date of October 1, 2014:

**Police Sergeant
Asst. Police Chief
Police Captain**

**Police Chief
Deputy Police Chief**

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

The City of Clay City has requested hazardous duty coverage for the following position with a **retroactive** date of **March 1, 2014**:

Police Officer

There is one (1) employee to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and the Job Description.

The City of Ludlow has requested hazardous duty coverage for the following positions with a **retroactive** date of **November 1, 2013**:

Police Chief

There is one (1) employee to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and the Job Description.

The City of Murray has requested hazardous duty coverage for the following positions with an effective date of **December 1, 2014**:

**Code Enforcement Officer/Police Officer
School Resource Officer/Police Officer**

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

The City of Shelbyville has requested hazardous duty coverage for the following position with an effective date of October 1, 2014:

Police Officer

There are no employees to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and Job Description

Murray State University (KERS agency) has requested hazardous coverage for the following position with an effective date of October 1, 2014:

Assistant to the Chief/Major

There are no employees to be covered under hazardous duty at this time. Attached is a copy of the Position Questionnaire and Job Description

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

KENTUCKY RETIREMENT SYSTEMS

TO: Members of the KRS Board of Trustees

FROM: William A. Thielen
Executive Director

DATE: September 11, 2014

SUBJECT: Proposed Procurement Policy Amendment

It is KRS' policy to obtain supplies, materials, equipment and contractual services for its operation in the most effective manner consistent with quality, service and price. To this end, we are proposing an amendment to the KRS' Procurement Policy that will allow KRS to make purchases through U.S. Communities, a national government purchasing cooperative, in addition to making purchases from price contracts established by the federal General Services Administration (GSA) and the Commonwealth of Kentucky.

U.S. Communities was founded in 1996 as a partnership between the Association of School Business Officials, the National Association of Counties, the National Institute of Governmental Purchasing, the National League of Cities and the United States Conference of Mayors. Below you will find a description, taken from the U.S. Communities website (www.uscommunities.org), of how purchasing from the organization works.

How It Works

U.S. Communities aggregates the purchasing power of more than 90,000 public agencies nationwide by offering Participating Public Agencies the ability to make purchases through existing, competitively solicited contracts between a supplier and a lead public agency.

- Each lead public agency awards its contract to a supplier after a competitive solicitation process designed to ensure that Participating Public Agencies receive the highest quality products and services at the lowest possible prices.*
- Once the lead public agency has awarded a contract with the supplier, the lead public agency allows other Participating Public Agencies in need of similar products and services to make purchases through the existing contract through U.S. Communities. This ensures that all Participating Public Agencies have access to the same terms and conditions of the existing competitively solicited contract.*

- *U.S. Communities does not issue the solicitation for the contracts or participate in the bid selection process with suppliers. However, once the contract is in place it works with both the lead public agency and the supplier to ensure that the contract is administered properly through routine audits as well as additional oversight measures to ensure Participating Public Agencies are receiving the quality products and services of the highest quality and at the lowest prices.*
- *Through U.S. Communities, all contracts are available to state and local government agencies, public and private K-12 school districts and higher education organizations, and nonprofit businesses.*

Authority to Use

When a Lead Public Agency issues a solicitation, it contains language based on the lead jurisdiction “Joint Powers Authority” or “Cooperative Procurement” program. Applying these competitive principles satisfies the competitive bid requirements for most state and local government agencies.

State statutes and, if applicable, local ordinances generally allow one government agency to purchase from contracts competitively solicited by another government agency. This requires the consent of the supplier, the Lead Public Agency and government agency purchasing from the Lead Public Agency contract. U.S. Communities contracts are established to meet both the competitive solicitation and consent requirements. Public agencies accessing U.S. Communities consent to a Master Intergovernmental Cooperative Purchasing Agreement (MICPA).

No Cost to Use

*Public agencies pay no costs and are charged no fees to participate. The suppliers pay a minimum administrative fee to participate through U.S. Communities. This pays for operating expenses and offsets costs incurred by national and state sponsors. *

Best Government Pricing

U.S. Communities does not have a most favored customer requirement. Suppliers are required to match pricing lower than U.S. Communities only for agencies that would otherwise be eligible for lower pricing through another contract vehicle. This requirement ensures that agencies are offered the best

government pricing through U.S. Communities. Contracts are non-exclusive and discretionary, so an agency can choose to use any contract that, in their sole discretion, is in their best interest.

Several Kentucky state agencies purchase through U.S. Communities including: the Legislative Research Commission, the Kentucky Attorney General's Office and the Kentucky Bar Association.

A redlined copy of the KRS Procurement Policy showing the proposed amendment on page 5 is attached to this memorandum.

RECOMMENDATION: The Executive Director recommends that the KRS Board approve the proposed Procurement Policy amendment.

KENTUCKY RETIREMENT SYSTEMS PROCUREMENT POLICY

Approval Date: November 20, 2003

Amended Date: August 19, 2004; February 17, 2005; August 18, 2011; August 15, 2013

INTRODUCTION

Adoption of Procurement 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.

Statement of Procurement Policy:

KRS recognizes the fundamental fiduciary principle that goods and services needed to support the operations and mission of KRS should be acquired at the lowest evaluated cost. It is KRS' policy to obtain supplies, materials, equipment and contractual services for its operation in the most effective manner consistent with quality, service and price. Competition shall be the primary method for acquiring those goods and services. KRS reserves the right to award contracts in the best interest of KRS after considering all factors.

Any costs incurred by offerors in preparing or submitting a bid or proposal are the offeror's sole responsibility and KRS will not be liable for such costs. When justified, KRS may require a bid bond when advertising for bids as surety that a bidder will hold his offer firm for a specified period of time. Additionally, a performance bond may be required from the successful bidder.

Purchases shall not be made from KRS staff or entities controlled directly or indirectly by KRS staff or family members as defined by Kentucky Revised Statute 11A.010 (4).

Goods and services that are eligible for purchase under the KRS Procurement Card Policy, and investment related goods and services (including, but not limited to, asset custodians, investment managers, brokerage services, information and technology services, etc.) are excluded from this policy.

Purpose:

The purpose of this Procurement Policy is to: a) provide for the fair and equitable treatment of all persons involved in purchasing by KRS; b) maximize the purchasing value of KRS funds; and c) provide safeguards for maintaining a procurement system of quality and integrity.

DEFINITIONS

The following definitions and terms used in this Policy shall be applicable whenever used herein:

1. "Best Value" means a procurement in which the decision is based on the primary objective of meeting the specific business requirements and best interests of the KRS. These decisions shall be based on objective and quantifiable criteria that shall include price and that have been communicated to the offerors as set forth in the invitation for bids.

2. "Business" means any corporation, partnership, individual, sole proprietorship, joint stock company, joint venture, or any other legal entity through which business is conducted.
3. "Business day" means any day that KRS is regularly open for business, not to include a Saturday, Sunday, or state or federal holiday.
4. "Contract" means all types of KRS agreements, regardless of the title, for the procurement of supplies, services, or construction.
5. "Contractor" means any person having a contract with KRS.
6. "Emergency condition" means a situation that creates a threat or impending threat to public health, welfare or safety. These may arise by reason of fires, floods, tornadoes, other natural or man-caused disasters, epidemics, riots, enemy attack, sabotage, explosion, power failure, energy shortages, transportation emergencies, equipment failures, state or federal legislative mandates or similar events.
7. "Family member" means a spouse and children, as well as a person who is related to a public servant as any of the following, whether by blood or adoption: parent, brother, sister, grandparent, grandchild, father-in-law, mother-in-law, brother-in-law, sister-in-law, son-in-law, daughter-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half brother, or half sister.
8. "Person" means any business, individual, organization or group of individuals.
9. "Personal service contract" means an agreement where an individual, firm, partnership or corporation is to perform certain professional or other duties for a specific period of time for an agreed-upon price.
10. "Procurement" means the purchasing, buying, renting, leasing, or otherwise obtaining of any supplies, services, or construction. It also includes all functions that pertain to the obtaining of any supply, service, or construction item, including description of requirements, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration.
11. "Request for Proposal" means all documents, whether attached or incorporated by reference, utilized for soliciting proposals in accordance with this policy.
12. "Responsible bidder or offeror" means a person who has the capability in all respects to perform fully the contract requirements and the integrity and reliability, which will assure good faith performance.
13. "Responsive bidder" means a person who has submitted a bid under this policy which conforms in all material respects to the invitation for bids, so that all bidders may stand on equal footing with respect to the method and timeliness of submission and as to the substance of any resulting contract.
14. "Services" means the rendering, by a contractor, of its time and effort rather than the furnishing of a specific end product, other than reports which are merely incidental to the required performance of services.

METHODS OF PURCHASING

All contracts shall be awarded as provided by this policy and by one of the following methods:

- (1) Memorandum of Agreement;
- (2) Personal Service Contracts;
- (3) Emergency Purchases;
- (4) Small Purchase Procedures;
- (5) Price Contracts; or
- (6) Sealed Bidding.

I. MEMORANDUM OF AGREEMENT

KRS may enter into an agreement with any agency or subdivision of the Commonwealth. Such agreements shall be finalized by executing a Memorandum of Agreement. A Memorandum of Agreement shall be approved by the Board and may be filed with the Government Contract Review Committee of the Legislative Research Commission prior to the effective date of the contract if the contract amount exceeds \$50,000.

A Memorandum of Agreement may be used only when the agreement or contract is between KRS and the following:

- A. A state college or university, or
- B. A state agency, or
- C. A political subdivision.

The Memorandum of Agreement must be limited to KRS' fiscal year but may provide KRS with an option to extend or renew for succeeding fiscal years.

The agreement shall contain a provision that either party may cancel the contract or agreement at any time for cause or may cancel without cause on 30 days' written notice and such other provisions as prescribed by the General Counsel.

II. PERSONAL SERVICE CONTRACTS

The Executive Director shall determine that the need for a Personal Service Contract exists.

- A. KRS shall issue a Request For Proposal ("RFP") for Personal Service Contracts that are reasonably expected to exceed \$40,000 annually and that are not otherwise exempt as emergency purchases under part III of this policy. The RFP shall describe the services

required, list the type of information and data required of each offeror, state the relative importance of particular qualifications and the evaluation factors to be used. In addition, each bid document shall state that it is the property of KRS and may not be sold or copied without the written consent of KRS.

- B. KRS may conduct discussions with any offeror submitting a proposal to determine the offeror's qualifications for further consideration, but such discussions shall not disclose information derived from other offerors.
- C. KRS will review the proposals received and record written determinations of the qualification rankings of the offerors based on the evaluation factors set forth in the RFP.
- D. After determining the best proposal received, KRS may negotiate a fair and reasonable compensation with the selected offeror. If compensation cannot be agreed upon with the best-qualified offeror, negotiations may be conducted with other offeror(s) in the order of their respective qualification ranking. The Board must approve all Personal Service Contracts.
- E. Although not subject to any of the provisions or limitations set forth in KRS Chapters 45, 45A, 56 and 57, after selecting the provider, KRS may file Personal Service Contracts with the Personal Service Contract Review Subcommittee of the Legislative Research Commission for informational purposes prior to the effective date of the contract.

Contact the Legal Department for further guidance in procuring and filing Personal Service Contracts.

III. EMERGENCY PURCHASES

- A. An emergency condition is defined as a situation that creates a threat or impending threat to public health, welfare or safety. These may arise by reason of fires, floods, tornadoes, other natural or man-caused disasters, epidemics, riots, enemy attack, sabotage, explosion, power failure, energy shortages, transportation emergencies, equipment failures, state or federal legislative mandates or similar events. The existence of the emergency condition creates an immediate and serious need for services or items of tangible personal property that cannot be met through normal procurement methods. The lack of these items would seriously threaten the functioning of KRS, the preservation or protection of property, vital data or the health or safety of any person.
- B. An emergency condition is also defined as a situation where KRS has an immediate need for professional services, such as legal services, which make it infeasible to engage in a competitive bidding process.
- C. To implement the above provisions, it is the policy of KRS that:
 - 1. Applying the above definitions, the determination that an emergency condition exists is to be made by the Executive Director of KRS. This decision must be documented in writing at the time of the procurement, if feasible, or as soon as possible thereafter.

2. In bona fide emergencies, the purchase of contractual services, supplies, materials or equipment may be through direct negotiations regardless of estimated costs. Where practical, standard specifications shall be used in making the purchase and every effort should be made to effect a competitively established price.

IV. SMALL PURCHASE PROCEDURE

The purchase of items of less than a specified dollar amount may be purchased through the small purchase procedure. The threshold amounts are specified in the chart below.

- A. Procurement requirements shall not be artificially divided so as to constitute a small purchase under this section.
- B. KRS shall informally obtain and document price quotations (see chart below) from qualified sources of supply for small purchases within specified limits. The price quotations received and comments by KRS concerning the basis for placing the order shall be recorded in writing and shall be placed in a file to be maintained by KRS. These records are retained by KRS for record, audit and review.

Number of Quote Requests Required	FOR Contracts Costing
One (1)	Less Than \$9,999
At Least Three (3) which may be obtained by phone, catalog, or internet	Between \$10,000 & \$19,999
At Least Three (3) which must be written on vendor's letterhead. KRS shall make every reasonable effort to publicize its desire to make a purchase under this provision on its website and other media.	Between \$20,000 & \$39,999

V. PRICE CONTRACTS

- A. KRS may utilize any Price Contract established by the Commonwealth of Kentucky, so long as the holder sells to KRS at or below the contract price and under the same terms and conditions.
- B. KRS may utilize any contract established by the General Services Administration of the United States of America or any agency thereof, so long as the holder sells to KRS at or below the contract price and under the same terms and conditions.
- C. KRS may make purchases through U.S. Communities, a national government purchasing cooperative.
- D. Any such purchases shall be authorized by a chief officer and approved by the Executive Director.

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VI. COMPETITIVE SEALED BIDDING

A. Formal Bid Requirement

Competitive sealed bids must be solicited on a Request for Proposal (“RFP”) form. Formal sealed bidding is required in all cases, except when the purchase is made in accordance with a separate procedure as set out herein.

B. Notice

KRS will make reasonable efforts to foster the highest possible level of competition among vendors interested in doing business with KRS. KRS will advertise bid openings estimated to exceed \$40,000 on the KRS web site. The RFP will state that awards will be made on the basis of best value. Any amendments to the RFP or other addenda shall also be posted. KRS will mail to known vendors and advertise in a least one newspaper of general circulation in the state to be designated by KRS. The announcement of bids to be published in the newspaper shall contain not less than the following information:

1. KRS name and address.
2. General description of items to be purchased.
3. The date, time and place at which bids will be opened.
4. Place from which the list of items, terms and specifications can be obtained.

C. Advertising Time

The number of required calendar days between the bid notice and bid due date is a minimum of ten (10) business days when the estimated cost of the bid item(s) exceeds \$40,000. No amendments shall be made within ten (10) business days of the due date.

D. Submission of Bids

Bidders shall adhere to the requirements of the RFP and submit a single response to KRS’ invitation; multiple or alternate responses shall be cause for rejection unless specifically waived by KRS in its sole discretion.

E. Bid Changes or Withdrawals

A vendor may withdraw or change his bid provided the request is made before the time set for receiving bids. Withdrawal of a bid after opening is permitted only if clear and convincing evidence indicates that a bidder has made a bona fide error in the preparation of his bid and such error will result in substantial loss to the vendor. Proof in writing must be submitted to substantiate error and loss to the reasonable satisfaction of KRS. The withdrawal of any bid under this paragraph must be done on a method of award basis as set forth by the RFP, e.g., line item, subtotal, total requisition, etc. All decisions to permit the correction or withdrawal of bids, or to cancel awards to contracts based on bid mistakes, shall be supported by a written determination by a chief officer of KRS.

F. Receipt of Bids

All formal bids are “time and date stamped” by KRS upon receipt of the bid. All bids are filed by Invitation Number in a secure place to protect the integrity of the bid process. No information is disclosed as to the number of bids received or the identity of the bidders.

G. Opening of Bids

At the time designated for opening, the bids are removed from the files and opened. All timely bids received in response to each invitation are opened and read aloud in an office designated by the RFP. A bid received after the specified time has passed (for receiving bids) will be noted but not considered, unless no other applicable bids are received. In that case, KRS may, but is not obligated to, consider any late bids.

H. Contract Award and Notification

The contract will be awarded to the responsive and responsible bidder whose bid offers the best value. The successful bidder will be notified in writing.

VII. EXCEPTIONS TO SEALED BIDDING

A. By specific law or regulation, the following purchases are exempt from competitive bidding:

1. Contractual services where no competition exists, such as electrical energy, telephone service and other public utility services.
2. Services of visiting speakers and expert witnesses.
3. Where rates are fixed by law or ordinance.
4. Copyrighted material for which only one source of supply is available. Items commonly covered under this section include: books, maps, periodicals, technical pamphlets.
5. Cooperative purchases made between state agencies, political subdivisions, state universities, and agencies of other states or agencies of the federal government.
6. Any other purchase requirements that are exempt from competitive bidding by a specific statute or regulation.

B. KRS has found through experience that certain specific types of procurements are not practicable or feasible for competitive sealed bidding. Therefore, KRS exempts from competitive sealed bidding the following specific items:

1. Transcripts. Purchases of court reporter services to furnish originals and copies of transcriptions of court proceedings, depositions, hearings and other legal proceedings or public stenographer for public forums and meetings where minutes or verbatim records are required.

2. Deaf interpreters. Purchases of the services of deaf interpreters for public meetings, training sessions or as needed to meet the requirements of the Americans with Disabilities Act.
 3. Other non-competitive arrangements as provided for in other policies adopted by the Board.
- C. Some procedures are exempt from competitive bidding when there is only one (1) known capable supplier of a commodity or service, occasioned by the unique nature of the requirement, supplier or market condition. The following types of items have been determined to be exempt from bidding. However, a chief officer of KRS must authorize any procurement under this exemption in writing, including his or her basis for making such a determination:
1. Instructional materials, equipment, supplies or services for which only one uniquely qualified source of supply is available.
 2. Patented equipment for which a single source of supply is available.
 3. Proprietary equipment and supplies. Items that must be compatible with existing equipment or systems and which are available from one source only.
 4. Equipment lease or rental for which a single source of supply is available (excluding passenger vehicles).
 5. Proprietary service and maintenance agreements. Preventative, scheduled and unscheduled maintenance or service agreements with the product manufacturer and/or authorized service agent.
 6. Advertisements and public media. Dissemination of information advertisements or promotional items (includes newspaper, periodical, highway, public transit, etc., advertising).
 7. Dues and organizational fees. Fees payable to a professional society or national organization engaged in established activities related to KRS' function.
 8. Computer software which is copyrighted.
 9. Other commodities, equipment and services available from only one uniquely qualified source.
 10. Insurance and bonds, when the Board elects not to contract with vendors approved by the Department of Insurance.

VENDOR REQUIREMENTS

Pre-qualification of Vendors:

KRS may provide for pre-qualification of vendors as responsible, prospective providers of particular types of supplies, services or construction items. Pre-qualification may be made through a vendor application or personal knowledge of the vendor's product or service.

Responsibility of Bidders and Offerors:

An offeror or bidder may be disqualified and its offer automatically rejected for any one or more of the following reasons:

1. Proof of collusion, in which case, all offers involved in the collusive action will be rejected and any participant to such collusion will be barred from future solicitations until reinstated;
2. For any indication of conflict as defined in the Ethics section on this policy;
3. Offeror's lack of responsibility and cooperation as shown by past work or services;
4. Offeror's being in arrears on existing contracts with KRS or having defaulted on previous contracts;
5. Offeror's lack of proper equipment and or sufficient experience to perform the work contemplated;
6. Offeror does not possess proper license to cover the type of work contemplated, if required;
7. Offeror's delivery of the offer after the deadline specified in the public notice calling for offers;
8. Offeror's failure to pay, or satisfactory settle, all bills overdue for labor and material on former contracts;
9. Offeror's failure to follow directions and instructions in the solicitation; or
10. Offeror's placing conditions, limitations or restrictions on its offer that KRS deems objectionable.

Right to Inspect/Right to Audit:

KRS shall, where appropriate, include contract provisions allowing for inspection of contractors' books, records or facilities involved in the product or service offered.

Reporting of Anti-Competitive Practices:

When for any reason collusion is suspected among any bidders or offerors, the Executive Director or designee will transmit a written notice of the facts giving rise to such suspicions to the Attorney General. All documents involved in the procurement in which collusion is suspected will be retained until the Attorney General gives notice that they may be released. All such documents will be made available to the Attorney General or a designee of such officer upon request.

Utilization of State Contracts:

KRS is encouraged to obtain required supplies, services or construction items pursuant to existing state contracts or through the Department of Corrections, Division of Prison Industries and the Department for the Blind, where the best value for KRS is achieved through such utilization. Attempts to evaluate and/or utilize existing state contracts, the Department of Corrections Division of Prison Industries, and the Department for the Blind should be documented.

RESOLUTION OF BID PROTESTS

Bid Protests:

The Executive Director or his designee shall have the authority to resolve bid protests. A protester who remains unsatisfied may appeal the Executive Director's decision to the appropriate Board Committee.

ETHICS

Ethics in contracting shall conform to the Executive Branch Code of Ethics as set forth in KRS Chapter 11A.

CERTIFICATION

We, the Chair of the Board of Trustees and the Executive Director, do hereby certify that this Kentucky Retirement Systems Procurement Policy was amended by the Board on this the 15th day of August 2013.

Randy Overstreet, Chair

Date

William A. Thielen
Executive Director

Date